Thursday, August 8, 2024

HALLGARTEN + COMPANY

Initiation of Coverage

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Gold Royalty

(NYSE: GROY)

Strategy: LONG

Key Metrics

Price (USD)	$1.22			
Target Price (USD)	$2.50			
12mth high-low	$1.18-$2.21			
Market Cap CAD mn)	$206.18			
Shares Outstanding (mns)	169.0			
Fully diluted	199.3			
	FY23	**FY24e**	**FY25e**	**FY26e**
Hallgarten EPS		($0.018)	$0.001	$0.024
Actual EPS	($0.180)			
Dividend per Share (cts)	2.0	0.0	2.0	4.0
Yield	1.6%	n/a	1.6%	$0.03

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Gold Royalty

The Quality End of the Mid-Tier Royalty Space

- \+ The company has corralled some of the best gold royalty assets not owned by "major" royalty companies (e.g. Franco Nevada)
- \+ The company has shown that the best mode of collecting has been via acquisition of smaller players
- \+ The purchase of the Copper stream on the Vares project in Serbia of Adriatic Metals represents a dramatic diversification of metals exposure for GROY
- \+ Revenues have started to steeply rise from the beginning of this fiscal year and shall be further boosted by strong copper revenues from the Vares deal
- \+ The company has an additional silo as a project generator for juniors (stripping out the royalties to keep for itself) and this proved lucrative in 1Q24
- \+ The first-tier nature of the producing, and most of the developing, assets make GROY an attractive target for a major
- ✘ The company suspended its dividend in mid-2023 to not strain cashflows, but intends to reinstate this when it has strengthened its balance sheet
- ✘ GROY suffered a writedown of $22mn on NAV of assets in 2023 due to one (temporary) mine closure and one bankruptcy of an operator
- ✘ Companies in the royalty space (and their investors) can still be mugged by obscure or non-performing assets suddenly becoming writeoffs due to the travails of their owners
- ✘ The field of manouevre for an aggressive acquirer such as GROY has been made tougher by the rationalization in the number of names available, <u>and bite-sized enough,</u> for GROY's appetite

Executive Summary

Gold Royalty (NYSE: GROY) appeared on the scene in the white-hot season for royalty companies in 2019-2021. It swiftly became an aggregator of assets through acquisition of smaller competitors. A long period of quiescence in precious metals led to static, or lower, valuations for the sector. Now the gold & silver prices have rebounded strongly pulling royalty companies higher.

GROY has continued to expand, adding a very important Copper stream and creative deals, like that with Borborema, are contributing a rising tide of revenues. More conventional royalties, such as Côté, should also show a rising tide of cashflow from mid-2024 onwards. Rationalisation of the space continues, and will possibly accelerate, as the mining space itself looks to M&A to boost efficiencies and returns. GROY will play its role as either predator or prey. The quality of the GROY portfolio and its weighting towards gold royalties in the Americas put it above its mid-tier competitors. A rerating is likely as revenues accelerate higher and more projects move into producing status.

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A New World for Royalty Aggregators

After a surge in the number of mining royalty companies in public markets in 2019-2021, there has been a period of digestion and consolidation. Valuations are substantially lower than in that heyday and the resurgent gold price while lifting royalty company (very repetitive of the exec summary) revenues seems to have done more for the financing prospects of producers and developers. Ironically, that also empowers those favoured companies to move towards production, which in turn is to the benefit of the royalty holders.

The period 2019-21 was one in which royalty stories were the only game in town, but now the worm has turned. Moreover, investors now want to examine the granularity of the portfolios of the royalty aggregators and "quality over quantity" is becoming the mantra.

Besides having secured one of the best corporate "names" in the royalty space, the company appears to punch above its weight in the royalty space being somewhat of an apex predator.

In this Initiation we shall look at progress in the first years of the company's existence, its prime assets, possible growth strategies and future revenue progression.

Background

In June of 2020, it was announced that a NYSE-listed gold royalty company would be created by the demerger of a portfolio of gold royalties from GoldMining Inc. (TSX: GOLD | OTCQX: GLDLF) to create an entity called Gold Royalty Corp. The portfolio, at that time, consisted of 14 newly created net smelter return (NSR) royalties on GoldMining's extensive gold-focused asset portfolio in the Americas.

The rationale behind this was to give existing shareholders exposure to an additional and distinct form of value enhancement. At the time there was also a very strong demand for royalty companies with very attractive valuations being given by the market to extant entities. The portfolio consisted of:

- 14 newly created royalties comprised of 2% NSRs on two gold projects, 1% NSRs on 11 gold projects, and a 0.5% NSR on one gold project
- 11 of the 14 NSRs are associated with advance-stage resource and development projects with exposure to aggregated resources of 11.4mn oz gold (14.3mn oz gold equivalent) in the measured and indicated categories and 13.8mn oz gold (16.6mn oz gold equivalent) in the inferred category

It was also noted at the time that there might be additional opportunities to expand royalty portfolio through buy-backs of existing NSR royalties ranging from 0.5% to 2% from third-party holders on up to five of the 14 projects.

The Acquisitions

In recent years, Gold Royalty has shown itself to be the great consolidator in the royalties space. The paradox here is that GROY used the high valuation it achieved upon listing to become an alpha predator. Others such as Metalla (going after Nova) and Elemental moving on Altus were transactions forged in the much cooler atmosphere that the royalty companies have found themselves in since the first gleam went off the royalty story in 2022.

So, while one might paint the Gold Royalty transactions as upscale nuptials, the later transactions by others had the appearance of shotgun weddings.

Abitibi Royalties/Golden Valley

This was a three-way combination in November of 2021 which involved Gold Royalty simultaneously subsuming the businesses of Abitibi Royalties (a business that brought along Rob McEwan as a major shareholder to the Gold Royalty register) and Golden Valley Mines & Royalties. The latter was a business focused on project- and royalty-generation. Golden Valley had operated on a model of growing its assets by way of partner-funded option/joint ventures and through its shareholdings in related entities.

Abitibi Royalties, which we had first encountered several years ago, owned various royalties at the Canadian Malartic Mine near Val-d'Or, Québec. Additionally, it was building a portfolio of royalties on early-stage properties near producing mines and generating mineral projects for option or sale.

The three-way deal involved Gold Royalty issuing 4.6119 of its common shares to each Abitibi Royalties' shareholder and acquiring Golden Valley by issuing 2.1417 Gold Royalty shares to each of its shareholders. Post-merger existing Gold Royalty, Abitibi Royalties and Golden Valley shareholders owned stakes of approximately 54%, 23% and 23%, respectively, in Gold Royalty. This excludes Golden Valley's ownership in Abitibi Royalties.

The main assets brought to the deal by Abitibi/Golden Valley were four royalties (1.5% NSR, 2% NSR, 3% NSR, 15% NPI) on portions of the Canadian Malartic complex and a royalty (2.5-4.0% NSR) on Cheechoo, proximate to Newmont's Eleonore Mine in Québec.

Ely Royalty

In late August of 2021, the takeover closed of Ely Royalty by Gold Royalty Corp. This takeover took the combined portfolio to four producing royalties, 57 royalties on development and advanced exploration stage assets and 45 royalties on early exploration stage assets.

GRC acquired all of the issued and outstanding Ely Gold common shares. After pro-rationing and adjustments in accordance with the Arrangement, each Ely Share was acquired by GRC in exchange for 0.2450 of a GRC common share, plus $0.0001 for Ely Gold shareholders who elected, or were deemed to have elected to receive the share alternative under the Arrangement; and 0.099166 of a GRC Share, plus $0.869053 for Ely Gold shareholders who elected to receive the cash alternative.
Thus, the consideration paid by GRC on closing of the transaction consisted of an aggregate of 30,902,176 GRC Shares and CAD$84mn in cash.

Elemental – the Fish that Got Away

On the 20th of December of 2021, Gold Royalty mooted a hostile bid to acquire all of the outstanding common shares of Elemental Royalties (TSX: ELE) and then a hostile bid was launched on the 11th of January of 2022. Elemental board's unanimously recommended that shareholders reject the hostile bid. On May 12, 2022, Elemental announced that the hostile bid was unsuccessful as a result of failing to meet the statutory minimum tender condition.

Later, Elemental went on to merge with Altus Strategies and has since seen the La Mancha group effectively take control of the entity via a creeping takeover of the board and the departure of key founder shareholders and directors.

A shift from Corporate M&A to Asset Level Transactions

With Gold Royalty seeing a deterioration in its valuation and multiple after the attempted Elemental hostile takeover, the company has shifted its focus from corporate M&A to individual asset acquisitions through third party deals or royalty financings on advanced assets with a more immediate line of sight to cash flow. These recent acquisitions will be discussed in more detail later on in this report but include:

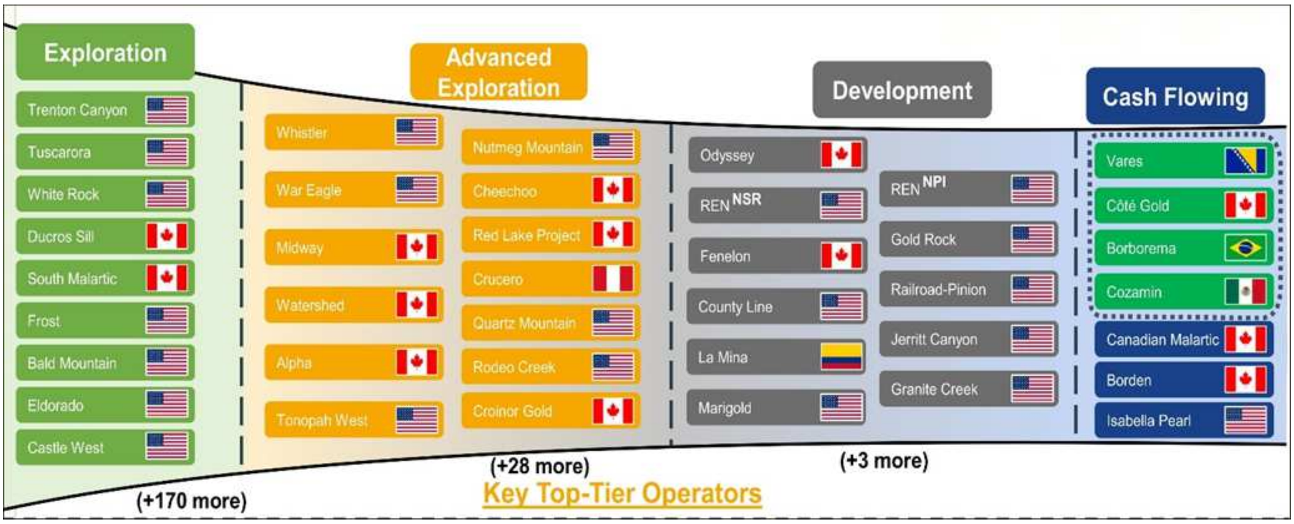
- March 2022: Côté Royalty – 3rd Party Acquisition from a prospector
- September 2022: Granite Creek Royalty – 3rd Party Acquisition from Nevada Gold Mines
- August 2023: Cozamin Royalty – 3rd Party Acquisition from Endeavour Silver
- December 2023: SOQUEM Royalty Portfolio – 3rd Party Acquisition with Quebec Government
- December 2023: Boborema Royalty – Structured Financing with Aura Minerals
- June 2024: Vares Copper Stream – 3rd Party Acquisition from Orion Mine Finance

The Portfolio

The portfolio of GROY with some 240 royalties/streams/NPIs, like most royalty entities, can be divided into three parts. The producing assets (currently Canadian Malartic, Cozamin, Borden & Vares), developing assets (essentially under construction or with a construction decision made) and then a wider portfolio of more formative projects.

Importantly, in developing our valuation we focus primarily on the cash flowing and development stage assets where we have a strong degree of conviction on the potential of future cash flows from these interests. The 200+ early exploration stage royalties in Gold Royalty's portfolio contribute little to the company's NAV, expected future cash flows, or our price target, yet these interests run in perpetuity, have no holdings costs and provide investors free optionality to a vast collection earlier stage properties. It also holds a portfolio of exploration-stage projects, which are under active management for farming out (and thus conversion into royalty prospects in the third category, above). This latter activity proved to be particularly profitable in 1Q24.

While many royalty companies also engage in the latter activity, GROY had moved towards a position where it is the royalty gleaned from these transactions that is most important, rather than ending up with equity positions in listed (or pre-listing) junior explorers.



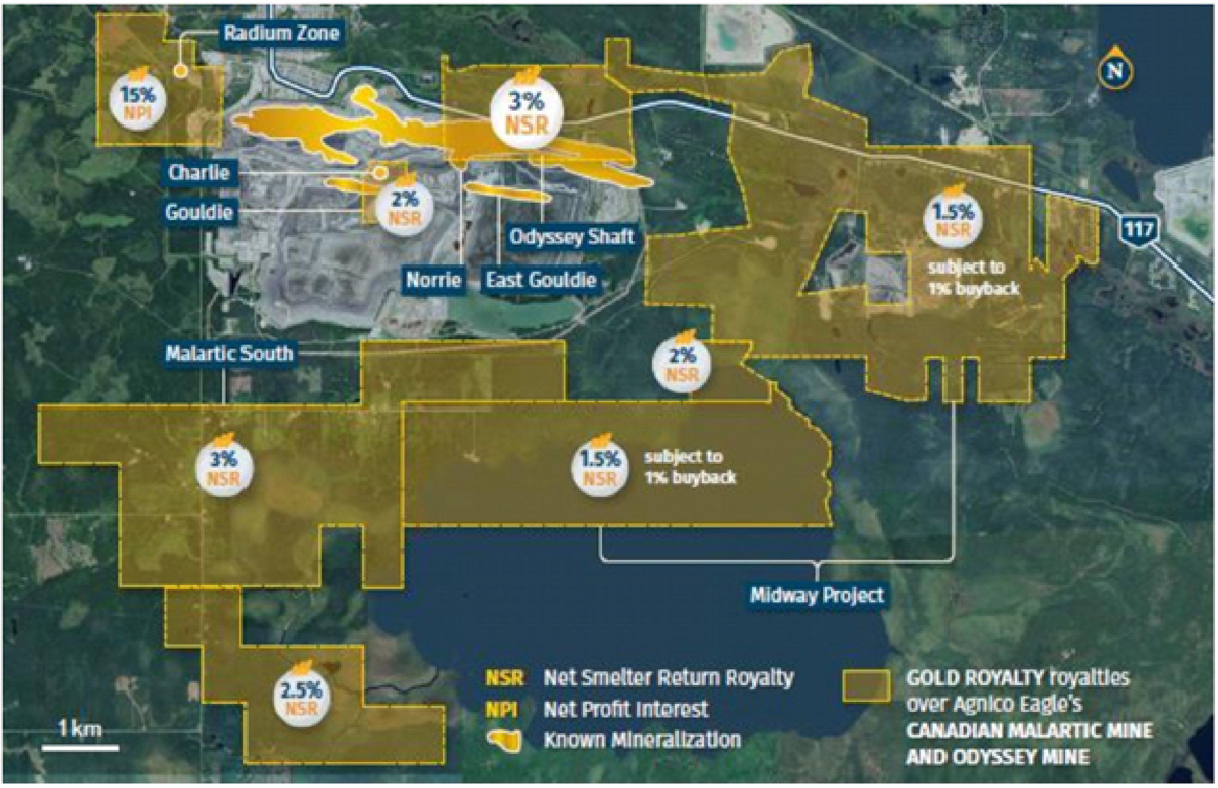
The Producing Assets

Canadian Malartic – A Case Study in Royalty Nuances

Agnico Eagle Mines (TSX: AEM | NYSE: AEM) owns and operates the Canadian Malartic Complex that is one of the world's largest gold mining operations and is comprised of the open-pit Canadian Malartic mine and its underground extension, the Odyssey mine. The Canadian Malartic complex will progressively transition from open pit to underground mining between 2023 and 2028.

GROY holds a 3% NSR over the northern portion of the Odyssey mine.

Above can be seen an overview on the zone around the Canadian Malartic/Odyssey mines in Quebec with the territory over which GROY holds NSRs or NPIs shown in yellow. As is evident this is a complex situation which shows the various ways that GROY has the primary mine hemmed in, with upside and expansion of the mining area ultimately being to GROY's benefit.



Odyssey and Internal Zones (3.0% NSR):

- Odyssey South production commenced in March 2023 with expected production of 50,000 ounces in 2023
- Infill drilling has provided strong exploration results for Odyssey South and Internal Zones with potential to further expand resource base
- Increased Mineral Reserves of 150,000 gold ounces attributed to Odyssey South
- Agnico Eagle highlights the potential for the Internal Zones to supplement the production plan during the transition period from 2023 to 2028
- Odyssey North expected to commence in 2028, ramping up to 3,500 tpd.

East Malartic (3.0% NSR):

- Expected capital expenditure of ~$140M to access the East Malartic deep area
- Production expected to commence in 2030, ramping up to 3,200 tpd and currently planned until 2042, with potential to further extend the life of mine through higher resource inclusion

Midway (0.5% NSR):

- First-stage exploration program will outline potential emerging targets from the

Canadian Malartic, Rand Malartic, Camflo and Midway properties
- Planned expenditures of $7.5M to drill 34,500 metres across key targets including the Midway zone.

On April 25, 2024, Agnico Eagle announced its first quarter 2024 results, including an update that construction at the Odyssey mine is progressing well. Ramp development continued to exceed Agnico Eagle's target and shaft sinking improved during the quarter. The shaft is expected to provide hoisting capacity by mid-2025, six months earlier than previously planned and will provide added development and production flexibility. As at March 31, 2024 the shaft has reached a depth of approximately 452 meters and Agnico Eagle expects to complete excavation of the shaft in 2027.

Agnico Eagle further outlined a summary of its first quarter operating results at the Odyssey mine. At the Barnat pit, good equipment availability and productivity, drove solid operational performance despite challenging weather conditions. At Odyssey South, the mining rate and production were slightly below plan at approximately 3,300 tpd and 17,700 ounces of gold, respectively. The underground operations are expected to gain additional flexibility in the second quarter of 2024, with the start of a second mining front and the addition of four 65 tonnes haulage trucks. Stope reconciliation at Odyssey South remains positive, primarily from the contribution of the internal zones, which resulted in approximately 16% more gold ounces produced than anticipated.

Isabella Pearl & County Line

The Isabella Pearl royalty came to GROY's portfolio in August 2021 via the acquisition of Ely Gold Royalties. The Isabella Pearl mine is a high-grade gold and silver producing open-pit heap leach mine located within the Walker Lane Mineral Belt in Nevada, USA. The mine is wholly-owned and operated by Fortitude Gold (OTC: FTCO). It is a high-grade gold and silver producing open-pit heap leach mine located within the Walker Lane Mineral Belt in Nevada.

The 0.375% GRR covers roughly half the Isabella open pit, with the Isabella Pearl Extension 2.5% NSR royalty covering key targets such as the high-grade Scarlet zone, Civic Cat NW, Twin Hills, Copper Cliffs, Prospect Mt, Silica Knob, and Elvira, all found near the active pit, as well as targets further down the mineralized trend such as Corridor, Civic Cat, and Wildhorse.

Fortitude first produced gold from the mine on April 2019, just over 10 months from initial ground-breaking on the project. The mine consists of four deposits: Isabella, Pearl, Civic Cat North, and Scarlet South all being accessed from a single open pit operation, with the Isabella and Pearl deposits being the most significant contributors for the total resource estimate.

In March 2022, Fortitude announced that Isabella Pearl mine production was exceeding expectations due to higher-than-expected grades, averaging 3.76 g/t Au. Fortitude also outlined an increase in grade of the remaining mineral reserves at Isabella Pearl, which extended the life of mine to 2026 at a target rate of 40,000 gold ounces per year.

Fortitude has stated that the next steps for exploration at the Isabella Pearl mine will be testing targets along the mineralized trend and structural corridor such as Crimson, Scarlet South, and Silica Knob zones. Results will be used to update mineral resource estimates and associated mine plan to incorporate any new mineral reserves.

The County Line project of Fortitude Gold is located approximately 26 kilometers northwest of the company's operating flagship Isabella Pearl Mine via paved Nevada State Route 361.
GROY holds a 3% NSR on production from this project.

County Line seeks to exploit existing infrastructure at Fortitude's Isabella Pearl mine complex which is running down over the next three years.

The East Pit is located approximately 500 meters southeast of the main County Line historic open pit. The company is targeting near-term County Line gold production from both pits.
The resource (dated from the end of December of 2022) is made up of Measured and Indicated: 37,400 ounces @ 0.97 g/t Au Inferred: 12,200 ounces @ 0.87 g/t Au. Drilling is ongoing to expand and update this MRE.

Fortitude Gold is targeting County Line ore feed for its Isabella Pearl complex. The proximity of the two properties is expected to allow the trucking of ore from the County Line property to Isabella Pearl with its existing heap leach pad and gold processing facilities. The company filed a Plan of Operations with the Bureau of Land Management in 2023 and targets the County Line project as its second Nevada gold mine.

The Borden Mine

The Borden gold mine (formerly the Borden Lake Project) is located near Chapleau, Ontario and is part of the larger Porcupine complex near Timmins. It is owned and operated by Newmont (NYSE: NEM| TSX: NGT). It was originally discovered by Probe Mines and the mine was acquired by Goldcorp in March 2015.

GROY holds an NSR of 0.5% that covers several unpatented claims, including a claim over the southeast portion of the Borden underground mine workings. The royalty also covers prospective land between one and three kilometers to the northwest of the Borden Mine.

Development of the mine commenced in the fourth quarter of 2018 and was inaugurated in September 2019. Commercial gold production at Borden began in October 2019. The project was expected to have a mine life of seven to 15 years.

The mine runs all year round, with an ore production capacity of 4,000t/d. GROY reported in July of 2022 that it had started to receive royalty flows on this asset.

Cozamin

This is a copper-silver underground mine with a surface milling facility operated by Capstone Copper (TSX: CS). The mine is located 3.6 km north-northwest of Zacatecas City in the state of Zacatecas, Mexico. The mine has been continuously operated by Capstone since late 2006, when it commenced commercial production at a rate of 1,000 tpd. The mine plan at Cozamin is based on a combination of longhole stoping and cut-and-fill mining methods.

This royalty was purchased from Endeavour Silver in August of 2023 for US$7.5mn in cash. GROY holds a 1% NSR over a portion of two concessions (Calicanto and Vicochea) at the Cozamin mine. As part of the deal GROY received the option to acquire a 1% NSR royalty on five additional concessions, if such royalties are granted to Endeavour in the future. In which case, GROY may acquire such additional royalties, subject to existing rights of first refusal, in exchange for US$300,000 (in the case of the Mise concession) and US$50,000 in the case of each other concession.

Originally, in 2006, it was forecast that the mine had a three-year mine life in reserve and yet successful exploration has extended the life of the mine to 2030.

From 2023 to 2030, average annual production is forecast at 20,000 tonnes and 1.3 million ounces of silver at average C1 costs of $1.51 per payable pound of copper. Between the five-year period 2023 to 2027, average projected annual production is higher at 24,000 tonnes of copper and 1.7 million ounces of silver, at lower average projected C1 costs of $1.46 per payable pound of copper.

The mine plan contemplates using 10.2 million tonnes of ore from 2023 to 2030 (only Mineral Reserves included in the plan). Construction of the new paste backfill plant was completed late in 2022 and ramped up in 2023.

In early January of 2024, Capstone reported that production from Cozamin in 2024 is anticipated to be similar to that in 2023 at 22,000 to 24,000 tonnes of copper on a 100% basis. Operating costs in 2024 were forecast to be higher than those in 2023 driven by a higher proportion of cut-and-fill mining methods, compared to longhole stoping, along with a stronger Mexican peso.

In early May of 2024, Capstone announced its 1Q24 results which outlined that quarterly production was 15% higher than the 1Q23 due to higher grades, consistent with the mine plan.

The Côté Gold Project

Côté Mine is located within the Sudbury District, in northeastern Ontario. The mine at Côté is being developed by a JV between IAMGOLD (TSX: IAG), as the operator, and Sumitomo Metal Mining Co., with IAMGOLD effectively owning a 64.75% interest in the associated land package.

GROY holds a 0.75% NSR royalty over the southern portion of the mine. On the last day of March, IAMGOLD announced the first gold pour at the Côté Gold Mine. It stated that its next step is to focus on ramp-up towards commercial production in the third quarter of 2024, with the goal of achieving a 90% throughput rate at year end. IAMGOLD maintained its production guidance for the project for the year at 220,000 to 290,000 ounces of gold (100% basis), assuming the remaining milestones are achieved. Once operating at nameplate capacity, Côté is expected to be the third largest gold mine in Canada with annual production of approximately 500 k ozs per year over the first 6 years of the mine life.

Importantly, Gold Royalty's interest covers the southern portion of the mine where higher-grade mineralization occurs near surface and is incorporated into phase 1 of the mine plan. This results in earlier attributable production reporting into Gold Royalty's coverage area.

The Ren Project

The REN Project is an underground, high-grade deposit currently being developed as the northern, underground extension of the Goldstrike Mine, along the Carlin Trend in Nevada. The backstory to this is that, in 2022, Nevada Gold Mines, a joint venture between Barrick (TSX: GOLD) with 61.5% and Newmont Gold (NEM) with 38.5%, consolidated the northern extension of its Carlin complex by acquiring 100% of the South Arturo and Rodeo Creek properties through an asset swap with i-80 Gold Corp. The project is operated by Barrick Gold.

GROY holds a 1.5% NSR royalty and a 3.5% NPI on this project.

Nevada Gold Mines has enunciated a strategy to incorporate REN into the Carlin complex production plan in the near term. At a grade of approximately 7 g/t, REN represents attractive supplemental feed to the Carlin complex which produced at an average grade of 3.6 g/t in 2022.

In its management's discussion and analysis for the year ended December 31, 2023, Barrick highlighted continued exploration success at the Ren deposit. The step-out surface drilling program intercepted the targeted Corona dike at a depth of approximately 900 meters downhole and returned 4.7 meters at 24.90 g/t Au, which it stated confirmed the continuity of high-grade mineralization and paving the way for underground platform development in the future to convert more material to the west.

In its management's discussion and analysis for the three months ended March 31, 2024, Barrick included an update on growth and exploration projects. At Carlin, underground conversion drilling commenced across all sites in the first quarter, with step-out growth drilling expected to commence early in the second quarter at a few key project areas.

Granite Creek Mine Project

This asset is located in Humboldt County, Nevada at the intersection of the Getchell and Battle Mountain Trends proximal to the Twin Creeks and Turquoise Ridge mining operations of Nevada Gold Mines. The mine is wholly owned and operated by i-80 Gold (TSX: IAU | NYSE: IAUX) since its acquisition from Waterton Global Resource Management Inc. in April 2021. The company expects to complete a Feasibility Study in 2024.

GROY holds a 10.0% NPI on this project. In early February of 2024, i-80 Gold provided a summary of 2023 activities and 2024 exploration and development plans, including ongoing initiatives at the Granite Creek Mine Project. The South Pacific Zone (SPZ) is a priority area of development for i-80 and, and they have announced plans to advance a development plan that will include extending a decline in order to provide access to the SPZ allowing it to become part of Granite Creek mine plan in 1H24. Mineralization remains open at depth and along strike to the north with the average intercept grade in the northern extension definition program of approximately 15 g/t gold with true widths ranging up to 15 metres.

i-80 also announced in early May of 2024 that the work being conducted in 2024 at Granite Creek is expected to include definition and expansion drilling, underground development and test mining of the South Pacific Zone, and a Feasibility Study.

The Vares Copper Streaming Deal

In a major move in late May of 2024, GROY finally diversified away from its previously almost exclusive focus on precious metals royalties when it acquired a stream over 100% of the copper production from the mining area over the Rupice deposit of the Vares mine being developed by Adriatic Metals plc (LSE: ADT1) in Bosnia. All mineral reserves and resources within the current Vares mine plan are from the Rupice deposit and are subject to the stream agreed with GROY.

While GROY had previously invested in the Cozamin copper-silver mine, this was a much more meaningful investment and bet on copper.

With this latest transaction GROY entered into a binding agreement with OMF Fund III (Cr) Ltd., an entity managed by Orion Mine Finance Management LP to acquire a copper stream on the Vares Mine. In consideration GROY paid Orion US$50mn, consisting of US$45mn in cash and US$5mn to be satisfied by the issuance of 2,906,977 GROY shares, in the process bringing Orion onto the share register at GROY while being materially accretive to GROY's cash flow.

The stream comes with ongoing payments back to Adriatic equal to 30% of the LME spot copper price, with the effective payable copper fixed at 24.5%. The streaming deal applies to certain areas of Vares, including the Rupice area of the project.

The Vares Silver Project

The Vares Silver (and base metals) project is located in Bosnia & Herzegovina and is operated by a subsidiary of Adriatic Metals. The project consists of 41 km2 of concession area, which is centered around the town of Vares, a 50-minute drive from Sarajevo, the capital of Bosnia & Herzegovina. The Vares Operation is one of the largest investments thus far into Bosnia & Herzegovina. First concentrate production at Vares occurred in February 2024, with commercial production expected in the 4Q24.

Vares is a polymetallic project with the majority of expected production to be silver and zinc, in addition to smaller components of lead, gold, copper, and antimony. Current development and near-term production are expected from the high-grade polymetallic Rupice underground mine. The company's most recent guidance is targeting a mine life of 18 years.

The processing plant at Vares has a nominal capacity of 800,000 tonnes per annum, and applies three-stage crushing, grinding, flotation and filtration to produce two saleable concentrates: silver-lead and zinc concentrates are expected to be transported via rail to the Port of Ploče for shipment to smelters. The silver-lead concentrate contains payable silver, lead, zinc, copper and gold.

Studies are underway to increase annual production rates to one million tonnes of ore per year by 2026, while Adriatic has stated that the project remains open for further exploration within the existing Vares concessions.

The Copper Component

The mine plan is built upon the aforementioned Rupice deposit, with copper expected to comprise only 2% of the life of mine revenue. Adriatic has provided production guidance of 240-300 kt of ore mined from Vares with copper grades of 0.5-0.6% in 2024. Adriatic forecasts 750-850 kt and 800-900 kt of ore mined in 2025 and 2026 respectively at grades of 0.5-0.7% Cu.

In January of 2024, Adriatic announced its maiden production guidance for 2024, 2025 and 2026 of:

Vares Copper Grades				
	2024	2025	2026	2027-2040
Copper (%)	0.5-0.6	0.5-0.7	0.5-0.7	0.4-0.5

Developing Assets

In the company's definition a project is considered to be "Developing" when the project has sufficiently initiated or completed economic studies (e.g., Preliminary Economic Assessment, Pre-Feasibility Study or Feasibility Study) or where the operator has otherwise disclosed an active plan or decision to construct mine workings including a reasonable estimate with projected costs and timeline to commence development which will lead to eventual production. In most cases, the project will have a Mineral Resource Estimate and, in some cases, there may also be a Mineral Reserve Estimate. Generally, those categorized as Developing projects will be in active construction or development towards production, while others are sufficiently advanced and will be based upon sufficient confidence of the operator that construction and development towards production will occur.

The company also includes in the Developing category those assets which previously produced and have been placed on Care & Maintenance, or assets that are currently producing but the company's royalty does not cover the producing part of the mine.

There are 15 main developing assets at the current, of which two are related to existing producing assets (Côté and the Odyssey underground extension to the Canadian Malartic mine).

Borborema Mine

This asset appears to fall into the development category as it's not producing yet but, interestingly, it will be cash-flowing from the get-go due to the pre-payment terms attached to the deal GROY crafted with the owners.

This gold-mine development asset is in Rio Grande do Norte, Brazil, and is held by Aura Minerals (TSE: ORA). There is a feasibility study on the Borborema project and full construction at the mine requiring a $188mn investment. The initial operating life of the mine is 11.3 years, with the weighted average annual gold production at the mine estimated to come in at around 65k oz, based on the mineral reserves estimate.

In mid-December of 2023, GROY acquired a 2% net smelter return royalty on the project. It also issued a royalty-convertible gold-linked loan to Borborema Inc. (a wholly-owned subsidiary of Aura Minerals). In this transaction, GROY acquired the royalty for US$21mn and the royalty-convertible gold-linked loan for US$10mn in cash consideration.

It is worth expanding upon the details of this transaction as there are other features that make this different from a plain vanilla royalty. Amongst these are:

- the royalty will decrease to a 0.5% NSR royalty after 725,000 ounces of payable gold are produced from the project

- the remaining 0.5% NSR will be subject to a US$2.5mn buyback (at Aura's option, exercisable by the mine's owner) after the earlier of 2,250,000 ounces of payable gold being produced at the project, or 2050
- Borborema Inc. will make quarterly pre-production payments to GROY of 250 ounces of gold (1,000 ounces per year). The pre-production payments will cease upon the earlier of:
    - commencement of commercial production at the Borborema Project, being the mine achieving 75% of its planned mill throughput of 2,000,000 metric tonnes per year on average for 60 consecutive days; or
    - 10 years from the closing of the transaction.

Then, there is the US$10mn Royalty-Convertible Gold-Linked Loan. This loan is secured against certain mining concessions relating to the Borborema Project and a pledge of the shares of the Borborema Project's operating entity, with GROY's interests thereunder subordinated to senior project financing lenders. The loan is also guaranteed by Aura.

The main terms of note are:

- the loan will mature 6 years from closing of the transaction
- there will be quarterly coupon payments of 110 ounces of gold (440 ounces per year). Coupon payments can be made via cash settlement or physical delivery of gold.

Conversion: Upon maturity, Gold Royalty has the option to be:

- repaid $10mn cash; or
- repaid $5mn cash, plus a 0.5% NSR royalty over the Borborema Project.

In the event that GROY elects to retain a 0.5% NSR upon Conversion, the resulting 0.5% NSR will be subject to a $2.5mn buyback at Aura's option after the earlier of 2,250,000 ounces of payable gold being produced at the Borborema Project, or 2050.

Both of these call for investors' attention as the pre-production payments mean GROY will be paid in gold irrespective of Aura's progress towards production at the mine and the gold-linked loan already started contributing to earnings in 1Q24 to the tune of US$639K.

Finally, there is a novel ESG twist in that, upon commercial production being achieved, GROY will provide Borborema Inc. with a rebate of $30 per AuEq ounce payable from the royalty. These funds are earmarked for ESG-related investments by Borborema Inc., up to a maximum of $300,000.

In early May of 2024, Aura announced its 1Q24 results including an update on construction at the Borborema project. Following commencement of construction in the third quarter of 2023, Aura announced that construction is well underway with 25% completed to date, and production expected to start in early 2025. GROY has stated that it expects to receive 1,440 AuEq ozs in 2024 from Aura through fixed pre-production payments associated with the 2.0% NSR royalty and gold-linked coupon payments associated with the gold-linked royalty-convertible loan.

Jerritt Canyon

We have followed the fortunes of this asset as far back as 2009-2012 when it was owned by Yukon Nevada Gold. This is a past-producing underground gold mine located in Elko County, northeastern Nevada, that is wholly owned and operated by First Majestic Silver (TSX: AG). GROY also holds a 0.5% NSR royalty and an incremental per ton royalty interest on the Jerritt Canyon processing facility.
On the 20th of March 2023, First Majestic announced that it was temporarily suspending all mining activities and reducing its work force at the Jerritt Canyon Mine, citing inflationary cost pressures, contractor inefficiencies, lower than expected head grades and multiple extreme weather events. It disclosed that during the suspension it intended to process approximately 45,000 tonnes of aboveground stockpiles through its plant and that exploration activities were expected to continue throughout 2023, including with respect to additional plans to explore for new regional discoveries and expand current known reserves and resources.

This event and continued suspension of operations, with no update on the resumption date of mining activities as of December 31, 2023. As a result, GROY recognized an impairment charge of US$8.3mn ($6.5mn, net of tax) on the Jerritt Canyon royalty.

On mid-January of 2024, First Majestic disclosed its planned drill program at Jerritt Canyon for 2024 with a focus on drilling the open ends of inferred mineralization (which is regarded as having large volume potential) as well as testing projections of ore-controlling structures below outcropping Upper Plate (cover rock). Then, in early February of 2024, First Majestic announced encouraging exploration drilling results at the project. Drilling was designed to expand the Javelin target identified in July 2023. Drilling of the Purple Haze exploration target also intersected new gold mineralization located up to 100m away from existing developments of the SSX mine. First Majestic claims the mineralization remains open in multiple directions.

The impairment charge here goes to show that even long-lived mines, in a fairly sound gold price environment, can surprise if the economics deteriorate (or climactic events intervene) and cause disruption, and in this case, closure of the mine. Should the mine return to production then the impairment would be reversed in whole, or part, with advantageous effects for the bottom-line of GROY, even though it is a non-cash item.

The Taurus Deal

In late April of 2024 it was announced that Gold Royalty had entered into a three-year mutual cooperation agreement with Taurus Mining Royalty Fund L.P. that provides each party the ability to coinvest in certain precious metals royalties and streams sourced by the other party. The agreement provides a framework for cooperation and communication amongst the parties in the identification and evaluation of potential co-investment opportunities. The agreement grants each party the right but not the obligation to invest between 25% and 50% in select asset transactions with a value of US$30 million or more.

Future dispositions of interests acquired by a co-investment partner through the arrangement will be subject to rights of first offer to the other co-investment partner.

Financings

The main financings in recent times were the Convertible issue in December of 2023 and a bought-deal in late May of 2024. As mentioned earlier, GROY became a creditor of an Aura subsidiary by extending a gold-linked loan to the mine owner.

We mentioned earlier the Convertible issue that was linked to the Borborema deal in December of 2023. In that transaction, Queens Road Capital and Taurus subscribed for US$30mn and US$10mn of debentures, respectively. The debentures are unsecured and carry a 10% coupon over a five-year term, of which 70% (equal to 7% per annum) is payable in cash and 30% (equal to 3% per annum) is payable in common shares of GROY issuable at a price equal to the 20-day VWAP, calculated at each interest payment date.

These debentures will be convertible at the holder's option into common shares of GROY at $1.90.

GROY is entitled to redeem the debentures at par within a period of fourteen days from the third anniversary of the date of the issuance of the debentures. In such a circumstance, the holders are entitled to convert all of the outstanding debentures at a conversion price of US$1.75. This makes it rather attractive for GROY to redeem at that point.

In late May of 2024, the company announced a financing to fund the aforementioned acquisition of the copper on the Vares Silver Project. To this end it entered into an agreement with National Bank Financial and BMO Capital Markets, as joint book-runners, for a bought deal issuing 17,442,000 units of at a price of US$1.72 per unit for gross proceeds of approximately US$30mn. Each unit consists of one common share and one share purchase warrant (exercisable for a period of thirty-six months at an exercise price of US$2.25). GROY granted the underwriters an over-allotment option which was exercised resulting in a total of 20.058mn shares being issued for a total raise of US$34.5mn.

In early June, the company announced an amendment to its credit agreement with the Bank of Montreal and the National Bank of Canada, expanding its existing secured revolving credit facility by US$5mn. The facility now consists of a US$30 million secured revolving credit facility, with an accordion feature providing for an additional US$5mn of availability subject to certain conditions.

Shareholders

The company has an A-list of shareholders but only really Van Eck (managers of the ETF GDXJ) and

Barrick Gold (Nevada Gold Mines) are large enough to impress. Other holders of note include: Orion, Commodity Capital, and the aforementioned Taurus and Queens Road Capital.

GoldMining Inc., from which GROY was originally carved out remains the major shareholder with a 13% stake and Insiders (Management, Directors, and Advisors) hold an additional 5% share of the company.

The current shareholder distribution is shown in the table below:

Shares Outstanding (M)	Free Float (M)	Free Float %	Strategic Entities Ownership %	Market Capitalization ($, M)
169.07	123.82	73.24%	26.76%	250.22

Latest Holders		
Holder	**Common Stock Equivalent Held**	**% Of CSO**
GoldMining Inc. (TSX:GOLD)	21,533,125	12.75
Barrick Gold Corporation (TSX:ABX)	9,393,681	5.562
Van Eck Associates Corporation	5,953,677	3.525
BMO Asset Management Corp.	2,492,850	1.476
Gilman, Warren Philip (Lead Independent Director)	1,284,454	0.761
Commodity Capital AG	1,000,000	0.592
Queen's Road Capital Investment Ltd. (TSX:QRC)	641,381	0.38
Garofalo, David A. (CEO, President & Chairman)	530,146	0.314

After recent financings the company has 169mn ordinary shares outstanding with some 7.7mn options on issue, plus RSUS of 1.9mn and 20.7mn warrants. The warrants are largely from recent financings though some 600,000 relate back to Ely.

Project Generation

Some of the acquisitions that Gold Royalty has done have brought on board pure projects, rather than royalties. The company has appointed an officer in its Nevada office to manage the disposition of these projects and in a small way this generates cash (and equity holdings) but also sets up future potential royalties should these projects prosper. They are by their very nature smaller in scale (and very early-stage) as the projects are in that category.

This division continues to generate positive results with one new royalty added in the three months ended March 31, 2024. The company has generated 40 royalties since the acquisition of Ely through this model.

GROY currently has 31 properties subject to land agreements and six properties under lease generating land agreement proceeds. The model has low operating costs with only $0.002 million spent on maintaining the mineral interests in the 1Q24 while in that quarter, the project (and royalty) generation module of the company added US$2.1mn in land agreement proceeds to revenues.

Financials

On the following page can be seen our earnings projections through to FY27. It should be noted that while Côté, and then Borborema, should start to contribute within this period, meaningful contributions from the Odyssey component of Canadian Malartic do not begin until FY28.

The Vares deal has been transformational to near term cash flow with its contribution making up between 50% to 45% of gross revenues in FY25-FY27. Recent acquisitions did not come for free with higher finance costs due to the issuance of the convertible debenture in relation to the Borborema acquisition and drawing upon the company's revolving credit facility for the Cozamin and Vares acquisitions, but the net positive effect after finance costs is between $2-$4mn per annum over the coming years. It is viewed by us that this net effect will strengthen EBITDA and thus free cashflow and in turn whittling down the debt (i.e. the revolving facility).

The Vares revenues are accounted via the gross amount shown as revenue line and then lower down in the model the 30% "rebate" linked to the LME copper price is deducted.

As mentioned earlier, the project (and royalty) generation module of the company added US$2.1mn in land agreement proceeds in 1Q24. These revenues going forward are extremely difficult to project as the activities of junior explorers (the most common takers of the opportunities in the revenue generation portfolio) are themselves dependent on the state of the markets for their ability to cultivate new projects that were hitherto held on GROY's books. The current malaise in this space prompts us to take a more conservative view on potential revenues beyond the excellent performance in 1Q24.

Tax

The company's tax bill has been minimal in FY23. This is due to the substantial (around CAD$25mn) in tax credits that the company holds in Canada. The outside deferred tax recovery in FY23 was due to the substantial writedowns on specific assets (i.e. the Monarch assets and Jerritt Canyon). These impairments are discussed anon.

The 1Q24 results however showed a substantial tax hit which was almost entirely due to an assessment by the Mexican government on the income from Cozamin. As an element of this was anticipatory the tax to be paid on Cozamin royalties should be positively impacted going forward. Most other revenues shall see their tax minimized or eliminated by the substantial tax credit.

We are told that the Vares stream is held by the Canadian entity so not subject to tax elsewhere.

Gold Royalty Corp

USD '000s	FY27e	FY26e	FY25e	FY24e	1Q24	FY23	4Q23	3Q23	2Q23	1Q23	FY22
	End Dec	End Dec	End Dec	End Dec	End Mar	End Dec					End Sept
Revenue	35,849	33,422	27,615	20,093	2,894	3,048	1,106	797	468	767	3,944
Of which - Canadian Malartic	8,542	7,059	4,722	3,705	632	709	429	204	58	18	
Of which - Cozamin	1,012	597	807	761	252	438	224	214			
Of which - Côté Mine	5,081	5,048	4,812	4,589							
Of which - Borborema	6,442	5,299	3,464	3,341							
Of which - County Line	575	1,116	677	0							
Of which - Borden	1,447	1,953	1,482	1,448	179	520	165	130	225		63
Of which - Jerritt Canyon						201	3		78	120	
Of which - Project Generation et al.	1,350	1,350	1,350	2,150	1,831	1,180	258	249	107	566	
Of which - Vares	11,400	11,000	10,300	4,100							
Depletion	-11,472	-10,695	-8,837	-6,430	-520	-943	-249	-373	-204	-117	-1,756
Gross profit	24,377	22,727	18,778	13,664	2,374	2,105	857	424	264	650	2,188
General and administrative costs	-9,800	-9,700	-9,550	-9,870	-2,856	-10,401	-1,165	-2,195	-2,304	-3,251	-14,032
Rebate of Vares copper stream	-3,420	-3,300	-3,090	-1,230							
Project evaluation costs	-60	-70	-70	-100	-19	-479				-173	-5,593
Share of loss in associate	0	0	0	-60	-52	172	172			-128	-296
Dilution gain in associate	90	70	50	40	9	12	—			—	100
Impairments of Royalties						-22,379	-22,379				-3,821
Operating profit (loss) for the period	11,187	9,727	6,118	2,444	-544	-30,970	-24,257	-1,771	-2,040	-2,902	-21,454
Change in fair value of derivative liabilities					—	242	—	3	9	230	4,588
Change in fair value of gold-linked loan	100	150	200	970	639	172	—			—	—
Change in fair value of short-term investments	50	50	100	150	101	-264	-45	-142	-135	58	-569
Change in fair value of embedded derivative	300	300	300	300	191	30	30			—	—
Foreign exchange gain/(loss)					87	-132	-55	30	-59	-48	54
Net finance costs	-5,700	-6,100	-6,600	-6,800	-1,784	-1,839	-814	-403	-328	-294	-633
Loan modification gain/(loss)	0	0	0	330	310	-249	—			-249	316
Other income	90	90	90	90	21	121	6	2	79	34	337
Net Income (loss) before income taxes	6,027	4,217	208	-2,516	-979	-32,889	-24,963	-2,281	-2,474	-3,171	-17,361
Current tax expense	-140	-140	-140	-800	-789	-50	—			—	-114
Deferred tax recovery	100	100	100	420	363	6,183	5,603	464	-22	88	129
Net loss after income taxes for the period	5,987	4,177	168	-2,896	-1,405	-26,756	-19,360	-1,817	-2,496	-3,083	-17,346
Other comprehensive income											
Foreign currency translation differences	30	30	30	-40	-37	38	29	-44	35	4	-145
Total comprehensive loss for the period	6,017	4,207	198	-2,936	-1,442	-26,718	-19,331	-1,861	-2,461	-3,079	-17,491
Net profit/loss per share (cts)	0.03	0.02	0.00	-0.02	-0.01	-0.18	-0.133	-0.013	-0.017	-0.02	-0.14
Weighted av. common shares outstanding	178,000,000	174,000,000	171,000,000	165,836,698	145,778,698	144,729,662	145,086,763	144,970,285	144,560,621	144,289,573	128,232,364
EBITDA (D = Depletion)	17,499	14,912	9,045	3,913	-459	-9,567	-2,335	-1,908	-2,270	-3,054	-15,605
Gold	$2,300	$2,350	$2,360	$2,320							
Copper	$5.10	$4.70	$4.40	$4.22							

Impairments

While not explicitly stated Royalty companies should come with a warning message that states, “the value of your investment can go down as well as up”. GROY’s accounting net income was rather whiplashed in FY23 by two sizeable writedowns in book value on assets, one hopefully temporary and the other permanent.

In late September of 2022, Monarch Mining (TSX: GBAR), the owner of the Beaufor, Croinor, McKenzie Break and Swanson projects announced that it had suspended its operations at the Beaufor Mine due to financial and operational challenges. In mid-November of 2023 Monarch filed for creditor protection. We considered the suspension of operations at the Beaufor Mine an indicator of impairment and conducted an impairment analysis to estimate the recoverable amount at that time. GROY resolved to write down the carrying value of the royalties relating to Beaufor, McKenzie Break and Swanson to zero value, thus generating a non-cash impairment charge of $10mn in FY23.

Subsequently, in March 2023, the Superior Court of Quebec issued approval and vesting orders in respect of each of the Beaufor, McKenzie Break and Swanson projects in the CCAA proceedings, whereby they would be acquired by a third-party and existing royalties thereon would not survive.

The Croinor project was sold by Monarch to Probe in November 2023 and GROY continues to hold its royalty interest in that project.

As mentioned earlier the second largest part of the $22mn impairment charge in FY23 was the recognition of an impairment of $8.3 million ($6.5 million, net of tax) on the Jerritt Canyon royalty. Should this return to production then the impairment should be partially or entirely reversed.

Company Guidance for 2024

Looking at the company’s guidance we might note that, in the wake of the Vares transaction, it uplifted significantly its expected revenues from its previously disclosed forecast of between approximately 5,000 and 5,600 AuEq ozs in 2024. This revised figure represents between approximately 6,500 and 7,000 AuEq ozs in 2024, equating to between approximately US$13mn to $14mn in Total Revenue, Land Agreement Proceeds and Interest at the company’s assumed gold price of $2,000 per ounce. This represents a midpoint increase in forecasted 2024 Total Revenue, Land Agreement Proceeds, and Interest of approximately 27% from the prior outlook announced in late March 2024 and a 160% increase relative to 2023.

These latest forecasts were based upon the production guidance published to date by the operators of the properties underlying the existing royalties held by GROY and the Vares Stream with an assumed gold price of US$2,000 per ounce and copper price of US$4.25 per pound.

The company had earlier estimated that its recurring Cash Operating Expenses were expected to be consistent with 2023 and thus management expected to achieve positive operating cash flow in 2024. They ascribed this to a number of its growth projects coming into production, including the long-life cornerstone mines at Côté and Odyssey and a full year of cash inflows from Cozamin and Borborema royalties.

The 2024 outlook of GROY regarding total AuEq ounces is based on public forecasts, expected development timelines and other disclosure by the owners and operators of the properties in the portfolio overlaid with GROY's own assessment of these statements.

Our Outlook

Looking at this from our perspective, we would note the low prices used by GROY in its revenue estimates, i.e. US$2,000 for gold when the current price is $2,360 and $4.25 per lb for Copper when the current price is $4.50 per lb. Our model employs an average price for Gold of $2,320 in FY24 and copper of $4.22. This correspondingly, using the midpoint of 6,800 AuEq ozs (from the company's guidance), would signify topline revenues of around $20mn (of which $2.15mn from project generation sources).

Dividends

The proliferation of royalty companies from 2019 onwards was an interesting development as it flew in the face of generalized investor disinterest in the gold miners themselves. Of course, in the Australian and UK mining markets investors expect a dividend if the company is cash-flowing or strongly cash-flowing. In the Canadian market though there has been a historical parsimony on the parts of managements with regard to dividend policy. We interpreted the relative preponderance of royalty companies in North American markets, over the ASX, to this factor. Dividends matter in the royalty space.

GROY was a dividend payer (at the rate of 4 cts per annum) until, on July 31, 2023, with the completion of the Cozamin royalty acquisition, that it was suspending dividend payments to focus capital on executing its strategic priority of growing cash flow and net asset value per share through accretive acquisitions.

The Vares transaction does not herald an immediate return to the dividend paying lists, but we can envisage scenarios in which it might return to paying status in 2H25 or FY26.

On NAV vs Real Earnings Measures

Opinions are divided on the best measurement for valuing royalty companies. One of the most perplexing usages is that of NAV. This measure has several possible origins:

- The underlying mine owners' valuation, which may be cost plus value added, minus depletion (if any), or a valuation from a PEA or PFS
- The royalty company's own assessment of what the NAV is worth (presumably an extrapolation from a PEA or PFS)

But what is the NAV of an unbuilt mine? What is the value of the royalty/stream off that asset is the production is several years in the future and the metals prices prevailing at the time are an utter unknown. Is one setting oneself up for failure/error?

The other main category of listed entities that is oriented towards some other value metric besides one based on earnings is the ETF, but even there the analyst is not trying to determine the underlying NAV for a holding but rather the proportional value of its market cap on a given day or moment and the ETFs premium or discount to that value. Both are moving numbers. NAVs, in contrast, are one of the least dynamic measures.

Better measures for royalty companies in our opinion are the universal measures for any cash-flowing business such as EPS or EBITA per share or, dare we say it, dividend per share.

Ultimately, by playing the game of valuation by NAV, one is allowing oneself to be measured against miners that are not developed, and/or not cashflowing, and that does the royalty company a disservice because it is their revenue generating nature that is the attraction to investors.

In the absence of other measures, potential acquirers might like to employ NAV as a marketing measure to justify their transactions.

Financing in Recent Times

In connection with the Borborema transaction last December, GROY undertook a private placement of $40mn of unsecured convertible debentures with Queen's Road Capital Investment Ltd. and Taurus Mining Royalty Fund L.P., a fund managed by Taurus Funds Management Pty Limited. The debentures are unsecured and bear interest at 10% per annum over a five-year term, interest of which some 70% is payable in cash and 30% in common shares issuable at a price equal to the 20-day volume-weighted average trading price calculated at each interest payment date. The conversion price on these is US$1.90.

Most recently, at the end of May 2024, the company closed a public offering, on a bought deal basis, of 20,058,300 Units, including 2,616,300 Units resulting from the full exercise of the over-allotment option, at a price of US$1.72 per unit for gross proceeds of US$34.5mn. Each unit consists of one common share of the company and one common share purchase warrant exercisable at US$2.25 for a period of 36 months. The warrants will trade on the NYSE American under the symbol: GROY.WS.

M & A – Still on the Prowl?

Gold Royalty has shown it can grow through multiple means, whether that be corporate M&A, third party acquisitions, financing transactions, and its royalty generation arm. With that said, competition for individual asset deals is often fierce and returns can be difficult to rationalize.

Thus, the takeover/merger with a listed player looks like the least complicated course of action. This area, however, is not abundant with potential candidates, largely because GROY itself has been so successful as a predator and thinned the ranks of the wildebeest gazing on the savannah.

The universe of potential targets was thinned in late 2022 when Triple Flag and Maverix merged, effectively moving them out of GROY's target range.

Then in recent weeks Trident Royalties PLC agreed a GBP£144 million takeover approach from Perth-based Deterra Royalties (ASX: DRR) with a then market capitalisation of around AUD$2.4 billion. The cash bid valued each share in Trident, the diversified mining royalty company, at 49 pence each, a 23% premium to Trident's closing share price of 40p pre-announcement.

The attractions of this deal were stated to be Trident's Thacker Pass lithium asset, with other assets being the La Preciosa Silver royalty and Mimbula copper royalty.

After these deals, this leaves Vox (TSX: VOXR) and Elemental Altus still within reach. However Elemental bulking up with Altus makes the deal as originally envisioned less attractive as Altus brought a strong element of "project generator" to that marriage. In addition, La Mancha now have themselves installed at Elemental and seemingly have "other fish to fry" with the vehicle now being firmly in their orbit.

Vox, with a market cap of around $120mn, is more bite-sized for GROY's appetite. Despite Vox promoting itself as precious metals weighted its portfolio of producing assets is half composed of iron ore and diamond mines. These might act as poison pills for GROY becoming inclined to make a bid.
Beyond these names there is Metalla (TSX-V: MTA), which is fundamentally unattractive from our point of view. Altius Minerals owns a 18.15% stake in Orogen Royalties, thus making that company somewhat "out of bounds".

M&A works both ways and thus a bid for GROY, with a substantial premium to prevailing prices, might be difficult to resist if it came from one of the significantly larger players in the royalty space, with Triple Flag being an obvious candidate to stalk GROY. Such a move might have a chance of success only with an overwhelming premium or if the market returns to an extended period of stasis in the gold price, which is not the case at the current time.

PE Funds in the Space

The role of Orion in the Vares transaction is notable. This is an excellent example of the emergence of PE funds deploying the royalties within their financings to developers. This leads to a new pipeline of cash following royalties. PE funds do not intend to hold such royalties and instead use them as an asset to sell on to established names such as GROY. These have become common practice now, meaning that a relatively new supply of new royalty assets will become available before such PE funds come to the end of their fund life (typically 7 – 10 years). The PE players are already four years at least into this process, and one might predict that deals with groups such as Orion will become the new norm.

Risks

There are several potential risks that should be taken into consideration:

- That the Gold price rally goes into reverse
- That Copper prices weaken
- The financial health of underlying mine owners/operators is a point of vulnerability for all royalty owners as evidenced by the Monarch bankruptcy
- Dividends fail to materialise
- Slowness in debt reduction

Gold Royalty has made its leverage to the gold price into one of its main attractions. That works as long as the gold price is moving in a favorable direction (and as long as it was almost entirely gold-oriented). The current gold firmness has been good for the company's stock price, but the risk of retracement is always there. Our premise is for gold to stay roughly in a band between US$2,300 and $2,500 for several years to come.

The copper price has been stellar in recent months but disappointing for over a year before that. It was caught in the downdraft from the fallacious argument that it was somehow linked inextricably with the evolution of EVs. The correct argument is long-term under-investment, long term-deterioration in grades mined and the absence on the horizon of the type of mega-deposits that made Chile a global leader in copper production. Our premise is for the copper price to move in the range from $4.20 per lb to $5.30 per lb.

The underlying financial status of mine owners/operators are the feet of clay of royalty companies. Assets not even shown in the producing or developing categories can suddenly come to grief due to excessive debt, or other events, necessitating substantial impairment charges.

The company has a policy of issuing dividends when it can, but these were suspended in mid-2023 to enable acquisitions, cash-rebuild and to mitigate interest costs. A quick return to paying status should mitigate fears that the company is, in traditional Canadian mining mode, “dividend-shy”.

Conclusion

Royalty companies have gone from being the hottest flavour in the mining equity markets from 2020 to 2022 to being somewhat of a becalmed puddle in 2024. What caused the market to love them then and yet ignore them now? When we think about it this is because, firstly, there is little generalist capital; and then there is a much reduced appetite for exploration exposure, However, exploration optionality has no cost to GROY and when the mining sector has more love, we view this as the torque to the commodity price that other royalty companies do not have, when they are solely reliant on their core development stage and cash flowing assets.

Even the least of them are in better conditions than when they were first launched (a rare feat in the mining space) as more of their assets have moved from development into cashflowing, the underlying gold (and copper) price has gone up, the scarcity value of quality assets has been accentuated and their dividends have tended to rise.
Of all of the new arrivals it was Gold Royalty that realised that nothing is forever in the mining space (probably a reflection of its board heavyweighted towards sector veterans) and thus the high valuations of those early years should be used for consolidation via acquisition, rather than just more equity issuances. As a result, it became a main driver in consolidation before bulking up became an imperative.
Then the Vares copper-stream transaction needs consideration. This diversified the company’s revenue stream meaningfully towards Copper, even if the portfolio and NAV of GROY is still preponderantly Gold-focused. The revenue-accretive aspect should cover all the financing cost of GROY leaving revenues from all other royalty (or generation) sources (net of GS&A) to largely sink to the bottom line.

The result of the accumulation policy is that GROY has, by far, the best portfolio of top-tier royalty assets in a non-top tier royalty company. This implies that it will either make the move to the top-tier or shall become prey for one of the royalty majors that are finding it increasingly difficult to lay their hands on a portfolio of such quality.

We see the GROY share price bottoming out, and returning to an upwards trajectory, as the very positive implications of the Vares stream start to appear from the announcement of 2Q24 onwards, but with major force from the beginning of 4Q24. Cote is expected to achieve commercial production in 4Q24 as well and the advance revenues from Borborema will also contribute favorably to improved perceptions.

We are Initiating Gold Royalty with a **LONG** rating and a 12-month target price of US$2.50.


GROY Daily
8/07/24
2.4
2.3
2.2
2.1
2.0
1.9
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
Volume
©BigCharts.com
10
8
6
4
2
0
Millions
Sep
Oct
Nov
Dec
24
Feb
Mar
Apr
May
Jun
Jul
Aug

Appendix I:
Board & Management

David Garofalo, Chairman, CEO and Director, has served in those roles since August 2020. He has worked in various leadership capacities in the natural resources sector over the last 30 years. Prior to joining the company, he served as President, Chief Executive Officer and a director of Goldcorp Inc., a gold production company headquartered in Vancouver, until its sale to Newmont Corporation in April 2019. Prior to that, he served as President, CEO and a director of Hudbay Minerals from 2010 to 2015, where he presided over that company's emergence as a leading metals producer. Previously, he held various senior executive positions with mining companies, including Senior Vice President, Finance and Chief Financial Officer and a director of Agnico-Eagle Limited from 1998 to 2010 and as treasurer and other various finance roles with Inmet Mining Corporation from 1990 to 1998. He holds a Bachelor of Commerce from the University of Toronto and is a Fellow of the Chartered Professional Accountants in Canada and a Certified Director of the Institute of Corporate Directors.

Warren Gilman, a non-executive Director since August 2020. He is the Founder, Chairman and Chief Executive Officer of Queen's Road Capital Investment Ltd. (TSX: QRC), a financier to the global resource sector. From 2011 to 2019, he was the Chairman and CEO of CEF Holdings, a global mining investment company owned 50% by the Canadian Imperial Bank of Commerce, and 50% by CK Hutchison Holdings Ltd., the Hong Kong-listed flagship company of Li Ka-shing. Prior to joining CEF, he was the Vice Chairman of CIBC World Markets. He was previously the Managing Director and Head of the Asia Pacific Region at CIBC for 10 years, where he was responsible for all of CIBC's activities across Asia. He is a mining engineer and co-founded CIBC's Global Mining Group. During his 26 years with CIBC, he ran the mining teams in Canada, Australia and Asia and worked in its Toronto, Sydney, Perth, Shanghai and Hong Kong offices. He has also acted as advisor to large mining companies, including BHP, Rio Tinto, Anglo American, Noranda, Falconbridge, Meridian Gold, China Minmetals, Jinchuan and Zijin. He obtained a Bachelor of Science in mining engineering from Queen's University and an MBA from the Ivey Business School at Western University.

Alan Hair, non-executive Director, is a mineral engineer and senior executive with over 37 years of international experience in the mining and metals industry. Mr. Hair is the former President and Chief Executive Officer of Hudbay Minerals Inc., a public company he joined in 1996 as a Senior Operations Manager and at which he served in a series of progressively senior roles culminating in the position of President and Chief Executive Officer from 2016 to July 2019. During his tenure at Hudbay, he oversaw the acquisition, construction, and development of the Constancia Mine in Peru. He is a Director of Bear Creek Mining Corporation and Great Panther Mining Limited. He holds a Bachelor of Science degree in Mineral Engineering from the University of Leeds.

Ken Robertson, non-executive Director, was previously a partner and Global Mining & Metals Group Leader with Ernst & Young. During his career at EY in Canada and the United Kingdom, Ken developed extensive experience in initial public offerings, financings, governance and securities regulatory compliance. He is a CPA and he serves on the boards of Mountain Province Diamonds Inc., and Silvercorp Metals. He holds a Bachelor of Commerce degree from McMaster University.

Karri Howlett, non-executive Director, has 20 years of experience in corporate strategy, mergers and acquisitions, financial due diligence, and risk analysis. She has been the principal of Karri Howlett Consulting, which provides environmental, social and governance and business consulting services to businesses, since 2006. She is also a director of the Saskatchewan Trade and Export Partnership, NexGen Energy. and March Consulting Associates Inc. From 2013 to 2021 she served as a director of SaskPower, where she chaired its Safety, Environment and Corporate Responsibility Committee and led the development and implementation of net zero carbon emissions strategies. She was also previously the President and a director of RESPEC Consulting Inc., a geoscience and engineering consulting company based in Saskatoon, Saskatchewan.

She holds a B. Comm. (Hon.) in finance from the University of Saskatchewan, is a CFA charterholder and holds the Chartered Director designation.

Angela Johnson, non-executive Director, is a diversified mining and exploration professional with over 12 years of experience holding numerous technical, operational, and corporate level leadership roles for junior and intermediate producers across North and South America. She has been the VP Corporate Development & Sustainability at Faraday Copper (TSX: FDY | OTCQX: CPPKF), since April 2022. From December 2020 to March 2022, she was the Corporate Development Manager at Silvercorp, (TSX: SVM | NYSE: SVM), where she led the assessment and evaluation of international precious and base metal projects for potential acquisition or strategic investment.

Prior to that, she held the role of Exploration Manager at Calibre Mining (TSX: CXB), from 2019 to 2020, where she led the operational exploration teams and managed near mine drilling activities at the company's operations in Nicaragua. She was a geologist from 2012 to 2015, then Project Geologist from 2015 to 2018 and Sustainability Coordinator in 2019 of SSR Mining (TSX: SSRI | NASDAQ: SSRM), where she co-developed the company's inaugural Sustainability Report and specialized in launching or advancing numerous exploration efforts at projects in the U.S., Canada, Mexico and Argentina, with a focus on building local teams, and community and stakeholder engagement. She holds a B.Sc. in Geology from the University of Alberta, an M.Sc. in Geology/Geochemistry from the University of Victoria and an MBA in Financial Services from Dalhousie University.

Andrew Gubbels, Chief Financial Officer, joined from Aris Gold Corporation where he was a founding executive and held the position of Senior Vice President, Corporate Development. Prior to Aris Gold, he was in charge of Investment Management in the Americas for Eurasian Resources Group and previously was Head of Americas Metals & Mining at UBS Investment Bank and an executive in the Mergers & Acquisitions department at CIBC World Markets.

He graduated from Queen's University with an Honours Bachelor of Commerce and the University of Toronto with a Master of Finance.

John W. Griffith, Chief Development Officer, has been the Chief Development Officer of the Company since September 2020. He is a former Managing Director and the Head of Americas Metals & Mining Investment Banking for Bank of America, where he worked from 2006 to May 2020. He brings nearly 30 years of financial services sector experience spanning three continents, including 26 years of global investment banking expertise. He has advised senior management and executive board members in M&A, capital markets, investor relations, risk management and general advisory in the global mining industry. He represented Goldcorp Inc. in its merger with Newmont Mining in 2019. He holds a Bachelor of Commerce from the University of Cape Town.

Important disclosures

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