



Mercenary Alert: Ely Gold Royalties Delivers a Double

A Special Alert Musing from Mickey the Mercenary Geologist

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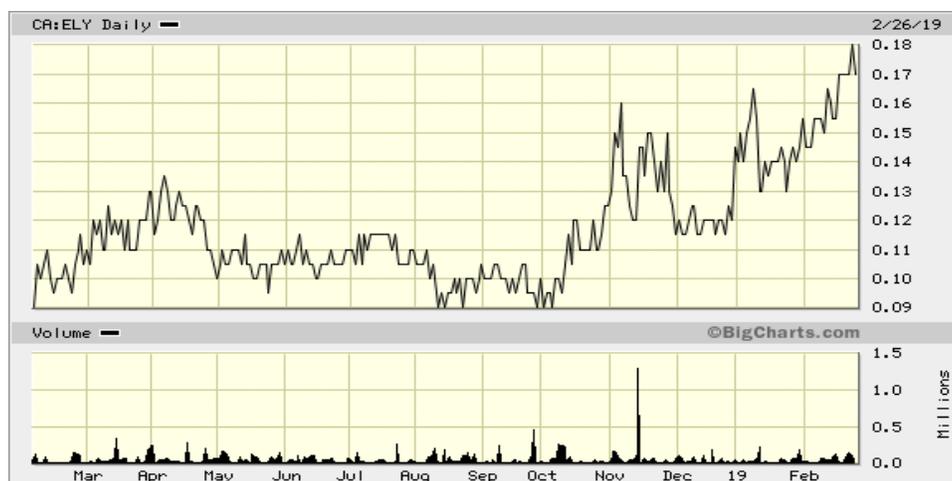
February 26, 2019

I initiated coverage on [Ely Gold Royalties Inc \(ELY.TSXV; ELYGF.OTCQB\)](#) just over one year ago at its 52-week low of 9 cents. As you know, that is exactly what we try to do with my contrarian business model: Buy junior stocks when they are unknown, unloved, unwanted, and undervalued.

ELY certainly fit the bill at the time. Management has worked hard over the past several months getting the word out by presenting at investment conferences, road shows, and webinars, and soliciting newsletter coverage. I am pleased to be part of this ongoing effort.

The company continues to execute its business model as a hybrid royalty owner and prospect generator. Since my last update four months ago ([Mercenary Musing, October 29, 2018](#)), Ely Gold Royalties has bought royalties and acquired and optioned new properties. An update is provided below.

But first, here is the chart since coverage was initiated in early February 2018 showing ELY's 52-week high at 18 cents at the close yesterday. It also touched that level intraday over the past three trading days. The recent performance illustrates the company's strong leverage to a rising gold price:



Now let's review the company's news flow since I last reported. November was a busy month with the following property deals consummated:

- ELY sold its Gold Rock Extension claims, White Pine County, Nevada to Fiore Gold and retains a 1.5 to 2.0 % NSR. Fiore operates the nearby Pan mine and is developing the adjacent Gold Rock deposit where ELY holds a 0.5 % NSR.
- The company vended the Rodeo Creek claims, Elko County, Nevada to Premier Mines, which operates the adjacent South Arturo mine with joint venture partner Barrick Gold. It retains a 2.0% NSR.
- It optioned the Frost claims in Malheur County, Oregon to Paramount Gold, which is developing the past-producing Grassy Butte mine, and retains a 2.0% NSR.
- In January, it optioned a state lease of 551 acres in the Delamar district, Owyhee County, Idaho to Integra Resources with a retained 1.0% NSR. Integra controls and is exploring the district's past-producing Delamar and Florida Mountain mines.

On the aforementioned royalty front:

- In mid-October, ELY acquired the Fenelon 1% NSR in northwestern Quebec. Wallbridge Mining has completed mining a 35,000 tonne bulk sample underground. So far, it has produced 14,000 oz gold from a regional toll mill. ELY expects a six-figure royalty payment from this mine in 2019.
- Construction is proceeding rapidly at Gold Resources Corp's Isabella-Pearl property where ELY holds a 0.75% NSR. The Isabella-Pearl mine is expected to commence production in June 2019 and produce 153,000 ounces of gold over a four-year mine life.

And finally, a significant business development:

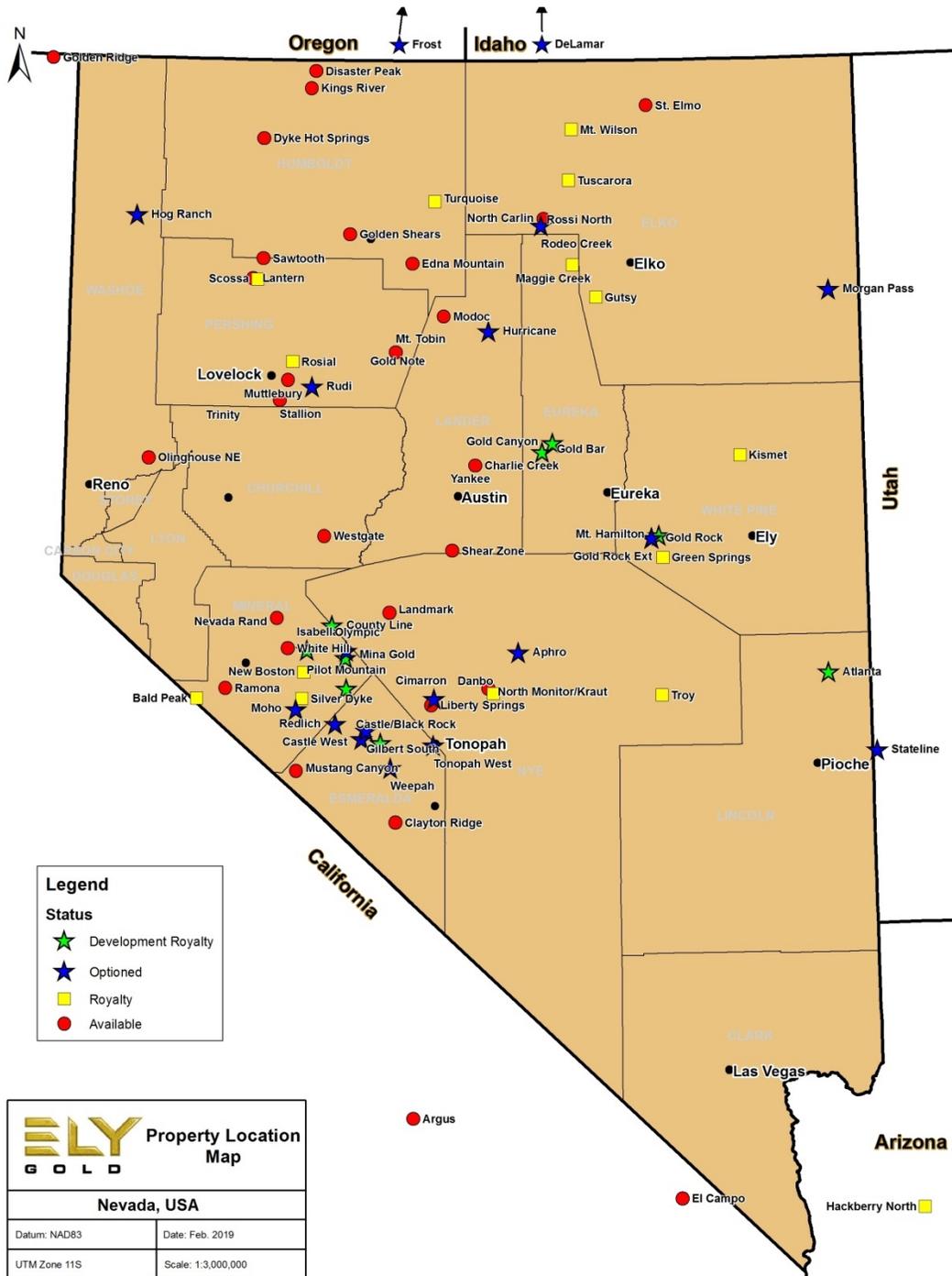
Ely Gold Royalties completed its first private placement in the past eight years in mid-January. It was designed to top off the treasury after recent cash outlays for royalty acquisitions. ELY raised \$1.43 million at a price of 11 cents; most went to place a strategic investor, Exploration Capital Partners Limited Partnership, in the company. This private entity is part of the Sprott-Rule group, which now controls 9.7% of company shares and holds a substantial number of warrants.

At this juncture, ELY has 70-plus properties with 50 currently undergoing exploration by partners: 31 properties with deeded royalties and 19 under option. The company's projects are continuously generated from one of the largest geological databases in the Western US. It is focused on Nevada, arguably the best gold jurisdiction in the world ([Mercenary Musing, January 29, 2018](#)). Over 20 properties are currently available for option.

Over the past couple of years, the company has increasingly concentrated on the royalty aspect of its business strategy by growing income from its option portfolio via advance royalty payments and purchasing royalties at reasonable cost from third parties.

Two royalties that were acquired in late 2018 will produce income in 2019: the Isabella-Pearl in Esmeralda County, Nevada with Gold Resources Corp; and the previously mentioned Fenelon royalty in northwestern Quebec with Wallbridge Mining.

This map of Nevada shows the company's property holdings:



The company operates with low overhead, is highly leveraged to the price of gold, and remains severely undervalued with respect to its peers in junior royalty space. Its business model restricts share dilution, the bane of most juniors. ELY currently projects 2019 revenue to exceed US\$1.2 million; note this number does not include any royalty income from the two producers. It expects to be cash flow positive this year.

The share structure remains relatively tight for a junior company that is nearly nine years old. There are 93.1 million shares outstanding and 115.6 million fully diluted including 6.9 million options and 15.5 million warrants. In-the-money warrants total 2.6 million, are priced at 10 to 14 cents, and expire from mid- to late 2020. There are 13 million warrants at 22 cents with expiry in December 2023 and January 2024.

Management controls 11% of the shares, another 25% are tightly held by family and friends, and the Sprott-Rule fund owns almost 10%. With today's close at 17 cents, market capitalization is about \$16 million.

For updates on ELY's exploration and development results, please refer to the [company website](#). I also urge you to sign up for its email list.

Over the past year, Ely Gold Royalties has significantly grown its royalty and property portfolios. The company is quickly transitioning into junior royalty space but remains significantly undervalued with respect to its peers. With a recent 52-week high at a double from the low, we are starting to see the predicted re-rating from a project generator to an emerging royalty company.

I look forward to additional upside in ELY's share price given the chances for a continuing bull market for gold in the short term. World economic weakness, geopolitical events, central bank buying, lower US Treasury bond rates, an increasingly dovish Federal Reserve, and ongoing Q1 seasonal demand are all positive factors.

In my opinion, catalysts are in place for a higher gold price and in turn, a higher price for ELY stock.

Note that I have a financial interest in Ely Gold Royalties as it is a paying sponsor of my website and I am a shareholder. Please do your own due diligence before speculating in any junior resource stock.

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [Mercenary Geologist Michael S. "Mickey" Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-

altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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