



Mercenary Alert: This Royalty Company is Ready to Rock and Roll

**A Special Alert Musing from Mickey the Mercenary Geologist
For Subscribers Only**

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I recently wrote that Nevada is the best destination for gold explorers in the world ([Mercenary Musing, January 29, 2018](#)). Today I follow that missive with a new Nevada-based stock pick.

[Ely Gold Royalties \(ELY.V; ELYGF.OTC\)](#) is a recently re-branded royalty company holding over 70 precious metals projects and/or royalties mainly in Nevada but also surrounding western states. The company runs a unique, hybrid royalty and prospect generator business model and has been very active acquiring both over the past two years.

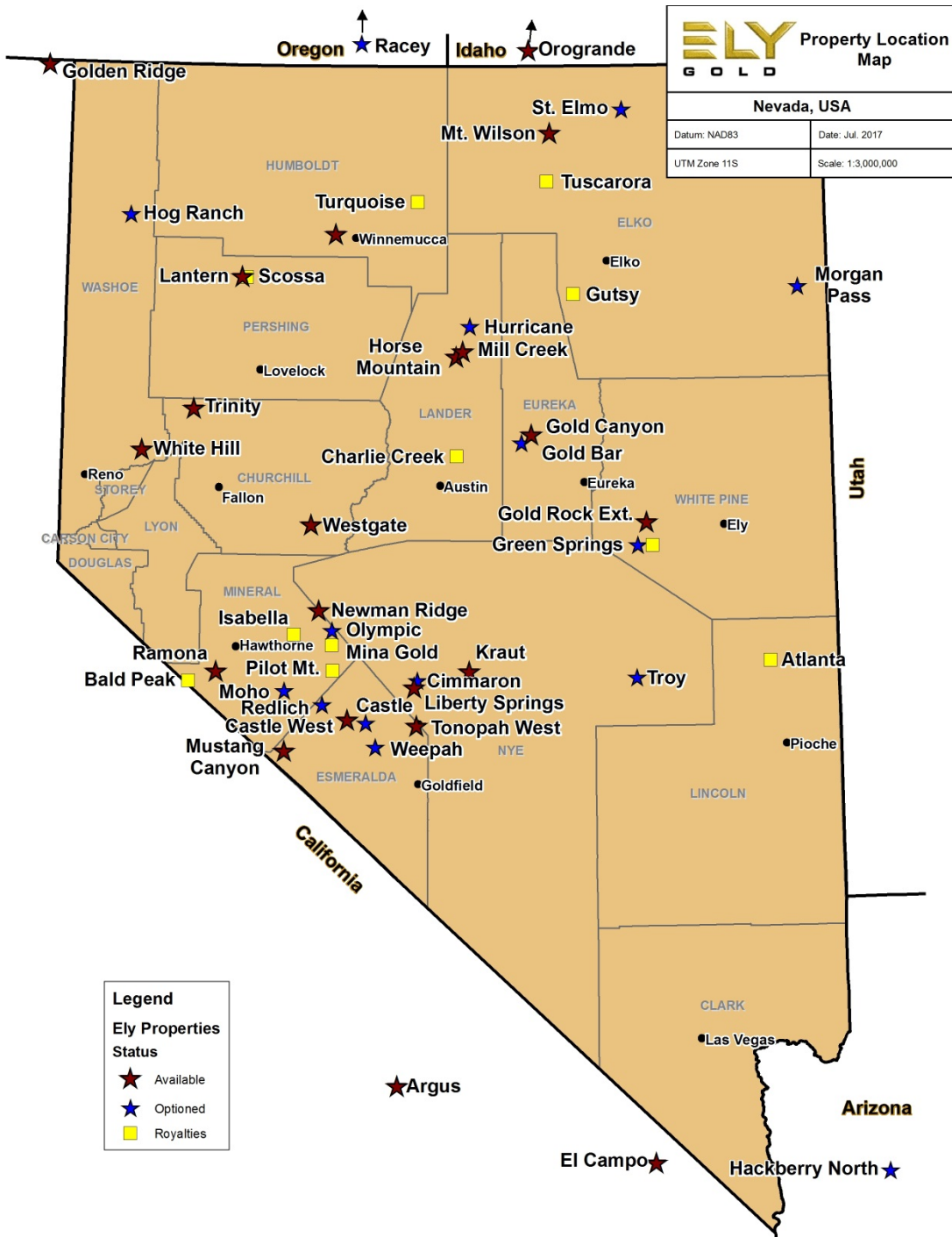
Since going public in 2008, ELY has focused on exploration and development of gold properties in Nevada. The Mount Hamilton project was purchased, developed, and fully permitted via a joint venture. In mid-2015, the company sold its interest for US\$6.0 million to a Waterton Precious Metals Fund.

With acquisition of a large project portfolio in February 2016, Ely Gold Royalties began to develop recurring cash flow streams thru acquisition, consolidation, enhancement, and resale of un-encumbered North American precious metals projects and purchase of third-party royalties. The current portfolio is held by wholly owned US subsidiary Nevada Select Royalty, Inc:

- 20 are deeded royalties with exploration partners. Some are paying advanced royalty streams.
- 17 properties are currently leased or optioned and generating cash flow from annual payments.
- 25 drill-ready properties with data packages are available for lease-option or outright sale.
- There are 12 projects where additional ground is being acquired and/or data is being assembled.

According to management, 2018 revenue is projected at C\$2 million with free cash flow of around C\$1 million.

This map shows ELY's properties in Nevada and nearby states:



The following tables show the company's holdings classified by both type and status.

Firstly, a list of 20 properties with retained royalty interests and advanced royalty payments due for 2018:

Project Name	Interest	County	Royalty	AMR Payment	Owner/ Operator	Type	Historic Resource
Gold Rock	100%	White Pine	0.50%	None	Fiore Exploration	Development	43-101 Resources
Isabella	100%	Mineral	2.50%	None	Gold Resource	Development	
Mina Gold	100%	Mineral	3.00%	None	Gold Resource	Development	97,000 Oz.
Mt Hamilton	100%	White Pine	1.00%	None	Waterton Global	Development	43-101 Resources
Atlanta	100%	Lincoln	3.00%	None	Meadow Bay Gold	Exploration	
Bald Peak	100%	Mineral	3.00%	\$25,000	Radius Gold	Exploration	
Danbo	100%	Nye	3.00%	None	VR Resources	Exploration	
Gilbert South	100%	Esmeralda	1.00%	None	Renaissance	Exploration	
Green Springs	100%	White Pine	0.50%	\$5,000	Colorado Resources	Exploration	Historic Resources
Gutsy	100%	Elko	0.50%	None	Eurasian Minerals	Exploration	
Kismet	100%	White Pine	2.00%	None	Eurasian Minerals	Exploration	
Pilot Mountain	100%	Mineral	2.00%	\$40,000	Thor Mining	Development	Historic Resources
Quartz Mountain	100%	Lake	0.25%	None	Alamos Gold	Development	43-101 Resources
Maggie Creek	100%	Eureka	1.00%	None	Renaissance	Exploration	
New Boston	100%	Mineral	2.00%	None	VR Resources	Exploration	
Rosial	100%	Pershing	1.50%	None	Rye Patch Gold	Exploration	
Scossa	100%	Pershing	2.00%	None	Romios Gold	Exploration	
Troy	100%	Nye	Au,Ag	\$15,000	Brocade Metals	Exploration	
Turquoise	100%	Humboldt	2.00%	None	Barrick	Exploration	
Tuscarora	100%	Elko	2.00%	\$4,000	Novo Resources	Exploration	

Secondly, this table shows 17 currently optioned properties with scheduled payments in 2018:

Project Name	Interest	County	Metals	2018 Payment	Partner/ Operator	Historic Resources
NEVADA PROPERTIES						
Castle/Black Rock	100%	Nye	Au,Ag	\$35,000	Allegiant	272,153 oz.
Cimmaron	100%	Nye	Au,Ag	\$25,000	Ridgestone Mining	Historic Resources
Gold Bar	100%	Eureka	Au,Ag	\$150,000	Fremont Gold	170,514 oz.
Gold Canyon	100%	Eureka	Au,Ag	\$187,500	Fremont Gold	Historic Resources
Green Springs	100%	White Pine	Au,Ag	\$200,000	Colorado Resources	Historic Resources
Gilbert South	100%	Esmeralda	Au,Ag	\$20,000	Renaissance Exploration	
Hog Ranch	50%	Washoe	Au,Ag	\$40,000	Hog Ranch Minerals Inc	Historic Resources
Hurricane	100%	Lander	Au,Ag	\$15,000	Fremont Gold	
Moho	100%	Mineral	Au,Ag	\$25,000	Hochschild Mining	
Morgan Pass	100%	Elko	Au,Ag	\$25,000	Wright Parks	
Olympic	100%	Mineral	Au,Ag	\$20,000	Hochschild Mining	
Redlich Gold	100%	Esmeralda	Au,Ag	\$25,000	Hochschild Mining	
Rudi	100%	Pershing	Au,Ag	\$10,000	Pershing Gold	
Tonopah West	100%	Esmeralda	Au,Ag	\$125,000	Coeur Mining	
Weepah	100%	Esmeralda	Au,Ag	\$100,000	Valterra Resources	
OTHER US PROPERTIES						
Hackberry North	100%	Mohave	Ag,Au	\$30,000	Bitterroot Resources	
Racey	100%	Malheur	Au,Ag	0	Aurion Resources	Historic Resources

Thirdly, these 20 properties are currently available; note that **red** indicates a deal is pending:

Project Name	Interest	County	Metals	Comments
NEVADA PROPERTIES				
Aphro	100%	Nye	Au,Ag	Surrounded by King Soloman
Castle West	100%	Esmeralda	Au,Ag	Adjacent to Renaissance
Charlie Creek	100%	Lander	Au,Ag	Carlin-type gold system
County Line/Newman	100%	Nye	Au,Ag	Adjacent to Paradise Peak
Dyke Hot Springs	100%	Humboldt	Au,Ag	High Grade Vein/Bulk target
Gold Shears	100%	Humboldt	Au,Ag	High Grade Vein Target
Gold Note	100%	Pershing	Au, Ag	High Grade Vein Target
Gold Rock Extension	100%	White Pine	Au,Ag	Surrounded by GRP Minerals
Kings River	100%	Humboldt	Au,Ag	Conceptual Target
Kraut	100%	Nye	Au,Ag	High Grade Vein/Bulk Target
Lantern	100%	Pershing	Au,Ag	Historic Resource
Liberty Springs	100%	Nye	Au,Ag	High Grade Vein Target
Mt Tobin	100%	Pershing	Au,Ag	Conceptual Target
Mt Wilson	100%	Elko	Au,Ag	Surrounds Contact Gold
Mustang Canyon	100%	Esmeralda	Au,Ag	High Grade Vein Target
Nevada Rand	100%	Mineral	Au, Ag	High Grade Vein Target
Ramona	100%	Mineral	Au,Ag	Adjacent to Borealis
Rossi North	100%	Elko	Au, Ag	Carlin-type gold system
Silver Dyke	100%	Mieral	Au, Ag	Adjacent to Camp Douglas
St Elmo	100%	Elko	Au,Ag	High Grade VeinTarget
Trinity	100%	Churchill	Au,Ag	High Grade Vein Target
Westgate	100%	Churchill	Au,Ag	High Grade Vein/Bulk Target
Olinghouse NE	100%	Washoe	Au,Ag	Adjacent to Olinghouse
White Hill	100%	Mineral	Cu, Au, Ag	Copper Gold Porphyry
Yankee	100%	Lander	Au, Ag	Carlin-type gold system

Finally, here are the development properties with mineral resources or that are part of current mine projects (43-101 qualified resources in **red**):

Project Name	Operator	Type	Royalty	AMR Payment	Status	Resource MI&I
Gold Rock	Fiore Exploration	Royalty	0.50%	None	Permitting	341,000 Oz Au
Isabella	Gold Resource	Royalty	2.50%	None	Permitting	None
Mina Gold	Gold Resource	Royalty	3.00%	None	Drilling	97,000 Oz Au
Mt Hamilton	Waterton Global	Royalty	1.00%	None	Permitted	875,000 Oz Au
Castle/Eastside	Allegiant	Option	2.00%	\$35,000	Drilling	272,000 Oz Au
Gold Bar	Fremont Gold	Option	2.00%	\$150,000	Drilling	170,514 Oz Au
Gold Canyon	Fremont Gold	Option	2.00%	\$187,500	Permitting	27,000 Oz Au
Pilot Mountain	Thor Mining	Royalty	2.00%	\$40,000	Tungsten Development	11.73 MT
Quartz Mountain	Alamos Gold	Option	0.25%	None	Permitting	1.5M Oz Au

Ely Gold Royalties has 76.1 million shares outstanding and 91.5 million fully diluted. There are a total of 9.0 million warrants with 3.0 million at 7 cents expiring in May 2018; 5.0 million with a strike price of 20 cents expiring in October 2018; and 1.0 million at 12.5 cents expiring in May 2020. There are 6.4 million options from 6 to 15 cents with expiries from 2021 to 2027.

Management and insiders own about 11% of the stock; another 28% or so is tightly held by family and friends. Based on these estimations, the retail public float is around 30 million shares.

ELY trades in a range of 9.0 to 11.5 cents and has shown little volatility since another newsletter writer issued a sell recommendation in early 2017. The 52-week high is 18 and 9 cents is the low. Liquidity is generally low, averaging 125,000 shares per day in combined Canadian and US markets over the past year.



The company has C\$2.6 million in cash, \$1.26 million in marketable securities, and C\$426,000 in debt owed to a principal and to a director for property acquisitions. With today's close at its 52-week low of 9 cents, Ely Gold has a market capitalization less than \$6.9 million; note that over 55 % of that is held in working capital of \$3.9 million in cash and securities.

Management is experienced and successful, and I have known most of the principals for a number of years. I met ex-broker, financier, and CEO Trey Wasser in 2008 when he was running mining tours for analysts in Mexico. Jerry Baughman is a fellow geologist-pro prospector who has spent much of his career acquiring and vending properties in Nevada; our paths have crossed many times since the early 2000s.

I was involved with CFO Scott Kelly and Director / QP Steve Kenwood in various deals and junior companies from the late 1990s to mid-2000s. Other directors include geologist Bill Sheriff and financier Tom Wharton, both of whom have wide-ranging experience in the junior resource sector.

Ely's business model is to acquire properties thru staking or from prospectors and private companies then lease-optioning or selling them outright to other exploration and mining companies with a retained royalty interest. Its partners include major, mid-tier, and junior gold miners and exploration companies. It also actively pursues and purchases individual royalties and royalty packages.

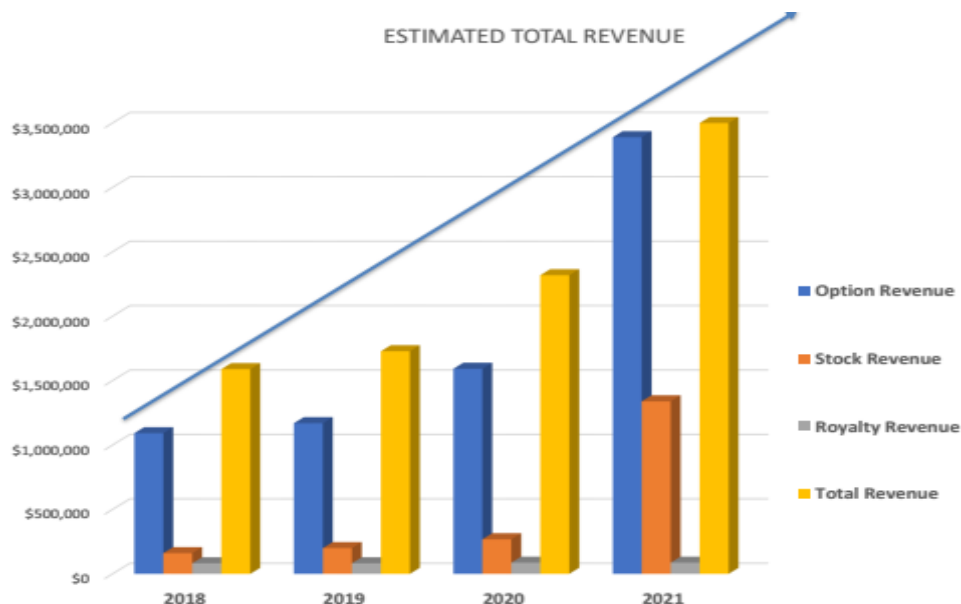
General deal guidelines are as follows:

- There are no joint ventures; partners always have the option of acquiring 100%.
- It maintains data packages on all available properties.
- A typical contract is for four years with escalating payments via option and/or advanced royalties.
- Term sheets with binding terms and exclusivity allow for risk-free due diligence.
- Delayed payments eliminate permitting risk.
- Equity is accepted as payment from select partners.
- There are no work commitments.
- It retains a significant royalty interest with a portion generally available for buy-out.

Current partners include Alamos Gold, Barrick Gold, Coeur Mining, Gold Resource Corp, Hochschild Mining, Waterton Precious Metals Fund, Allegiant Gold, Aurion Resources, Bitterroot Resources, Brocade Metals, Colorado Resources, EMX Royalty, Fiore Exploration, Fremont Gold, Hog Ranch Minerals, Meadow Bay Gold, Novo Resources, Pershing Gold, Radius Gold, Renaissance Gold, Ridgestone Mining, Romios Gold, Rye Patch Gold, Thor Mining, Valterra Resources, VR Resources, and investor Wright Parks.

Ely Gold last raised money via an equity financing in October 2016. Given its current working capital and management’s projected revenue streams, it should not have to access the financial markets for the foreseeable future:

Guidance from management indicates ELY’s burn rate is about C\$1 million per year and they intend to maintain low expense levels going forward.



Note that these revenue projections do not assume any production revenues over the next four years.

My current views on the junior prospect generator model are ambivalent at best and have changed dramatically since the late 2000s. In hindsight, very few junior prospect generators have rewarded shareholders since the previous bull market for commodities began in 2003. In fact, most have failed, rolled back, had a reverse takeover, or have miniscule market caps with highly diluted share structures.

However, there are some notable exceptions:

- A couple of companies made a major discovery and sold to a mining company.
- A couple of companies have spun-out flagship projects into new vehicles, i.e., dividends to shareholders, and continued with the original company and business model.
- A couple of others have adopted a hybrid business model that generates significant revenues from royalties in addition to cash flow from the vending of prospects.

The latter is Ely Gold's model for success: It is an emerging royalty company that also generates and vends good prospects to good partners in the world's best venue for gold mining and exploration.

ELY's two principals are savvy businessmen. Jerry Baughman is aggressive and opportunistic and has a long track record of success in Nevada as a geologist-pro prospector-landman. Trey Wasser is a former broker, financier, and the deal guy. Recent acquisition terms for both project and royalty packages indicate he is a shrewd negotiator.

Together, these two make a top-notch team. I am impressed with how quickly they have advanced the company in less than two years, and I expect more deal flow in 2018.

That said, Ely Gold Royalties has a problem. Even though it was re-branded in November, it still retains a low-ball market valuation in line with its former prospect generating peers. Compared to its new peer group, i.e., the junior royalty companies, ELY is substantially undervalued. These would include Abitibi Royalties, Almadex Minerals, EMX Royalty, and Metalla Royalty, which have market caps 7 to 15 times higher than Ely Gold Royalties' current valuation of less than \$7 million.

The market has not yet recognized the company's change in business model, the current and future value of its prospect and royalty portfolios, and its projected revenue-generating streams going forward.

I currently view Ely Gold to be in a sweet spot for contrarians: unknown, unwanted, unloved, and *undervalued*. It is trading at its 52-week low so in my opinion, downside is limited.

And that is why I have been judiciously accumulating shares in the open market for the past four months. My cost basis is slightly above the current share price.

I am convinced the junior market will recognize ELY's value sooner than later, and I think a double or better is likely in 12 months or less. I also feel it will garner the attention of larger, more established royalty companies as its portfolio matures.

Check out Ely Gold Royalties' share structure, people, projects, and cash flow and see if you agree with my assessment. Note the company pays to sponsor my website and I have plenty of skin in the game.

So please do not rely on my opinions; do your own due diligence.

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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