Silver Crown Royalties (NE: SCRI)

An emerging pure-play silver royalty company

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Current Price (C$)*	**8.1**
Fair Value	**31.2**
Projected Upside	**285%**
Action Rating	**BUY**
Perceived Risk	**HIGH**

Shares Outstanding	**2,340,576**
Market Cap. (C$)	**18.7**

P/B	**NA**
YoY Return	**NA**
YoY TSXV Return	**NA**

* Note: all $ amounts are C$ unless otherwise stated

Investment Highlights

- **Silver Crown Royalties** ("SCRI", or "Company") is a recently listed royalty company that focuses exclusively on silver. It is currently the only listed royalty company to do so, giving it a first-mover advantage.
- **Recently listed and generating cashflow:** Listed in July 2024, the company already boasts cash flow generating silver royalties. It is likely to add new acquisitions in the near future, growing its cash flow base.
- **Clearly formulated growth strategy:** SCRI targets projects and operations where silver contributes a small portion to overall revenue. The company has identified a vast opportunity set of 2,200 operating mines and over 33,000 projects where this is the case.
- **Company Management:** The team has already delivered its first successes in implementing the formulated strategy. SCRI management has the relevant industry experience to drive the company's growth and success.
- **We are initiating coverage with a BUY rating for the company over the next 12-month period.**

The basic royalty concept and what makes Silver Crown Royalties stand out

With the royalty and streaming business model, the royalty/streaming company provides funds to an operation (exploration, mining, mill, autoclave) in need of capital and, in return, either receive a portion of future revenue generated by an operation (royalty) or a portion of the physical metal produced (streaming). Royalties often cover multiple minerals or metals and offer no investor protection but are generally registered on title. Streams offer minimal protection for investors, are generally not registered on title, tend to cover a single element/mineral, and are considered a secured debt instrument. Registered on title means that, a royalty/streaming agreement is legally recognized and attached to the property itself. This ensures that the rights to receive proceeds from any production remain intact if the property is transferred or sold.

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Figure 1: Map showing SCRI royalties

Source: SCRI corporate presentation

Silver Crown Royalties combines the best attributes of the streaming and the royalty model into one business. A key feature of SCRI is that it focuses only on silver royalties (90% silver only), setting it apart from other companies that pursue the royalty business model. It increases investor protection by ensuring all royalties are always registered on title, tying a minimum delivery obligation to funding, and spreading out investments in tranches contingent on certain milestones being achieved. The royalties should be mutually beneficial to both parties involved. SCRI's strategy involves acquiring silver royalties in projects and operations where silver's contribution to overall expected revenue is small (usually under 2%). This is important because it allows operators to derive value for a by-product or co-product of an asset without having a hefty royalty or streaming agreement reducing the profits from the main economic driver of a mine.

A growing silver royalty portfolio

Gold Mountain Royalty (12th & 24th May and June 13th, 2023)

SCRI's royalty on the project entitles it to 90% NSR of the cash equivalent aggregate net proceeds of silver produced annually, with a minimum of 6,000 ounces of silver cash equivalent due annually. Payments are based on quarterly average prices and are paid to SCRI on a quarterly basis. The total cost was $2.5 million in cash up front, 250k share units of SCRI (valued at $0.2 at the time) and 125k warrants at $0.4 valid for two years. Additionally, there is a schedule for bonus payments contingent on production targets being met. If all bonuses are paid, the total cash consideration will be $4 million.

The initial royalty agreement was for a 45% NSR with a $1.25 million cash payment due up front, some shares (250k @ $0.2), and warrants (125k @ $0.4 for two years). Additionally, SCRI would pay production bonuses of $250k to Gold Mountain if half-yearly silver production levels achieved are above a certain threshold. The agreement outlined a top-up option exercisable within one year to acquire an additional 45% NSR for a total of 90% NSR, for an additional $1.25 million in cash and doubling the 'production

Figure 2: Operations at the Elk Gold property

Source: Gold Mountain website

bonuses' from $250k to $500k. SCRI exercised the top-up agreement on the 25th of May 2023 and paid the first production bonus of $500k in July 2023.

The Elk Gold project has 2,210,000 Ag ounces in the indicated and inferred resource categories according to a technical report from January 2022. If a revised technical report is issued with a greater silver resource, Silver Crown Royalties would pay Gold Mountain the lesser of $1 or 20% of the silver price for each additional contained ounce.

The contingent payment structure serves as investor protection by not paying the entire agreed sum for a royalty up front, as there is no guarantee that any given royalty will perform as intended. Paying a minimal additional price for extra resource ounces can set an incentive for the operating company to optimize its resource model and explore for additional resources.

On July 26th 2024, SCRI reached an agreement regarding the Gold Mountain Royalty, wherein the operator made an initial cash payment of $10,000 and agreed to pay $121k outstanding under the royalty agreement by September 30, 2024. After that date, regular royalty payments should resume again on October 30, 2024. Currently, the operators of the Elk Gold mine are addressing issues about satisfying creditor demands for payment, and operations at the mine continue.

Pilar Gold Royalty (23rd August 2023)

Silver Crown Royalties receives the greater of 90% of the silver produced from the PGDM complex and the cash equivalent of 16,000 oz of silver over a 10-year period for an upfront cash payment of $2 million. If Pilar Gold manages to increase annual production to 32,000 oz, an additional $1.5 million will be payable in cash or shares, in SCRI's option. Pilar Gold uses the upfront cash payment to upgrade its mining equipment and hopefully increase production above the 32,000 oz threshold in the future. At an assumed average silver price of US$25/oz, the total cash equivalent value of the agreement amounts to $4.8 million if 16,000 ounces are produced annually over the period.

Figure 3: Pilar Gold's processing facility at PGDM and map of deposit locations

Source: Pilar Gold website

This example demonstrates SCRI's business model well. The company provided funding to an ongoing operation, which carries much less risk than an exploration stage project, as the asset is already known to produce gold and silver. This is favourable for investor protection. Also, Pilar Gold's silver revenue is very small compared to gold and hence does not impose a big economic burden on the company.

Pilar Gold's PGDM mining complex in Brazil encompasses three underground mines and one open-pit development project. The resource base exceeds 4 Moz of gold, the gold processing facility has a capacity of 4,500 t per day, and the medium-term production target is 125 koz of gold per year.

Tucano Royalty

SCRI has a royalty agreement with Tucano Gold, wherein SCR receives 90% of the payable silver produced annually but no less than 7,000 oz. Deliveries are set to start at the beginning of 2025 and will continue for ten years.

Figure 4: Tucano Gold's Brazilian operation

Source: Tucano Gold website

Tucano Gold has 1.8 Moz of M, I & I gold resources, 656 koz of P&P gold reserves and 100koz gold medium-term production target with an expected AISC of US$1,400/oz of gold in Brazil. Tucano Gold anticipates starting operations underground later this year. When searching the corporate presentation for the word 'silver', nothing can be found. This is because silver represents a tiny fraction, roughly 0.1%, of Tucano Gold's revenue. Assuming a US$2,050 gold price at the time of the news release, we can infer around US$205 million in revenue from 100 koz of gold production from Tucano Gold. 0.1% of that is US$205,000, equating to just over 8,200 oz of Silver. Hence, the deal limits the downside to SCRI on the deal while providing it with some upside. From the gold miner's perspective, they are creating value for their shareholders by giving up a minute portion of the project's revenue in return for a sizeable stake (around 7%) in an emerging royalty company. The royalty was acquired pre-IPO in exchange for shares (2,500,000 @ $0.4) and warrants (1,250,000 @ $0.8) equating to a total consideration of $1 million. If the project delivers 10 koz annually, the payment is increased by another $0.5 million. The cash flow from this operation is expected to help SCRI to achieve a breakeven point on a free cash flow basis later this year, according to company guidance.

PPX Mining Corp:

A letter of intent was signed in March 2024 for SCRI to finance a 350tpd carbon-in-leach (CIL) and flotation plant which PPX Mining Corp intends to build at its Callanquitas Mine (Igor Project) in Peru. PPX is in the final stages of receiving the construction permit. The deal envisages US$2.5 million to be paid in cash for a 15% royalty covering four mining concessions of the Igor Project. As of June 1, 2025, a minimum of 50,000 oz of silver is due annually, subject to the royalty, and the royalty expires once 250,000 ounces have been delivered or within five years from the closing of the deal. SCRI has the option to increase the cap to 500,000 oz for an additional US$2.5 million in SCRI shares. The agreement is still being finalized, and we estimate it will be concluded in Q4 2024.

Figure 5: Outcrop and core storage near PPX's Callanquitas mine in Peru

Source: PPX Mining Corp website

Recently listed and already generating cash flow

Silver Crown Royalties only started trading on July 25th, 2024, and it is already generating cash flows from its royalty portfolio. The amount of funds received from royalties is set to grow strongly through 2025 and 2026 and remain close to US$2 million annually until 2029, assuming no further royalties are added, and the price of silver remains at the US$25/oz mark. This inflow of cash will allow the company to become cash flow positive in due course, with funds left over to reinvest in additional royalties. This is a solid base on which to expand.

Table 1: SCRI Royalties and probable royalties with associated cash flows

Royalty	Unit	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Tucano Gold	Ag [oz]		7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	
	Royalty [k US$]		140	140	140	140	140	140	140	140	140	140	
Pilar Gold	Ag [oz]	5,333	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	10,667	
	Royalty [k US$]	107	320	320	320	320	320	320	320	320	320	213	
Gold Mountain	Ag [oz]	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
	Royalty [k US$]	120	120	120	120	120	120	120	120	120	120	120	120
PPX Mining Corp.	Ag [oz]		25,000	50,000	50,000	50,000	50,000	25,000					
	Royalty [k US$]		500	1,000	1,000	1,000	1,000	500					
Total silver	**Ag [oz]**	**11,333**	**54,000**	**79,000**	**79,000**	**79,000**	**79,000**	**54,000**	**29,000**	**29,000**	**29,000**	**23,667**	**6,000**
Total payments	**Royalty [k US$]**	**227**	**1,080**	**1,580**	**1,580**	**1,580**	**1,580**	**1,080**	**580**	**580**	**580**	**473**	**120**

Source: SCRI News releases and corporate documents

Table 2: SCRI hypothetical royalty potential

Royalty	Unit	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Tucano Gold	Ag [oz]		7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	
	Royalty [k US$]		140	140	140	140	140	140	140	140	140	140	
Pilar Gold	Ag [oz]	5,333	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	10,667	
	Royalty [k US$]	107	320	320	320	320	320	320	320	320	320	213	
Gold Mountain	Ag [oz]	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
	Royalty [k US$]	120	120	120	120	120	120	120	120	120	120	120	120
PPX Mining Corp.	Ag [oz]		25,000	50,000	50,000	50,000	50,000	25,000					
	Royalty [k US$]		500	1,000	1,000	1,000	1,000	500					
2025 Addition	Ag [oz]			25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
	Royalty [k US$]			500	500	500	500	500	500	500	500	500	500
2026 Addition	Ag [oz]				30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
	Royalty [k US$]				600	600	600	600	600	600	600	600	600
2027 Addition	Ag [oz]					35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000
	Royalty [k US$]					700	700	700	700	700	700	700	700
Total silver	**Ag [oz]**	**11,333**	**54,000**	**104,000**	**134,000**	**169,000**	**169,000**	**144,000**	**119,000**	**119,000**	**119,000**	**113,667**	**96,000**
Total payments	**Royalty [k US$]**	**227**	**1,080**	**2,080**	**2,680**	**3,380**	**3,380**	**2,880**	**2,380**	**2,380**	**2,380**	**2,273**	**1,920**

Source: Couloir Capital projections

Since starting to establish a public track record with its first royalty agreement in May 2023, the company has added three further royalties (for one the final agreement is pending) in the space of 16 months. While the track record is short, it shows that SCRI can source and add new royalties to its portfolio with some consistency. Furthermore, the size of the royalties, in terms of average annual ounces under each agreement, seems to be increasing (22 koz in 2023, 57 koz in 2024). If we make the assumption that SCRI continues to add new royalties each year for a gradually increasing number of ounces, the projected cash flows grow accordingly and are well above the projected overheads estimated for 2024/2025, which are roughly US$620 k and include professional fees, management salary and investor relations costs. This simplified example shows that given the recent track record of adding royalties to the portfolio, SCRI is likely to start generating significant cash flows in the coming years and having free cash flow available for reinvestment.

The example also demonstrates that SCRI's business model is working. Over time, accumulating multiple royalties of a few thousand ounces and more per year adds up to big cash flows. With a steady stream of royalty payments coming in from multiple different sources come advantages that SCRI will benefit from in the future. In the following paragraph, we outline what we think those are.

What's next for Silver Crown Royalties?

In Silver Crown Royalties' listing statement, we find a schedule of how the funds raised in the recent IPO will be used over the coming year. The biggest portion of the funds is earmarked for corporate development, i.e., adding more royalties to the company's existing portfolios and continuing to grow its revenue base.

Table 3: Planned use of funds 2024 (H2) /2025 (H1)

Use of funds	Amount
Corporate development	1,750,000
Professional fees	200,000
Preliminary transactions costs/other exchange costs	250,000
Management	500,000
Investor relations	150,000
Working capital	350,000
Total estimated funds required	**3,200,000**
Total estimated funds available	**3,298,277**

Source: SCR listing document

As the company adds more silver-only royalties to its business, it will help cement its position in the royalties industry as the only silver royalty company. Being the first mover in the silver royalty space comes with three distinct advantages, in our view.

First, as SCRI carries on building its track record and reputation in the industry, over time, it will become a well-known brand in the mining sector, and importantly, it will become known as a credible source of funding for mining operations that derive a minor portion of their revenue from silver. Becoming a well-known source of funding in the industry will help bring more opportunities to SCRI, as operators may start to approach the company directly for funding. Having greater access to deals is an advantage, as the company can select the highest-return investments from a given portfolio of opportunities.

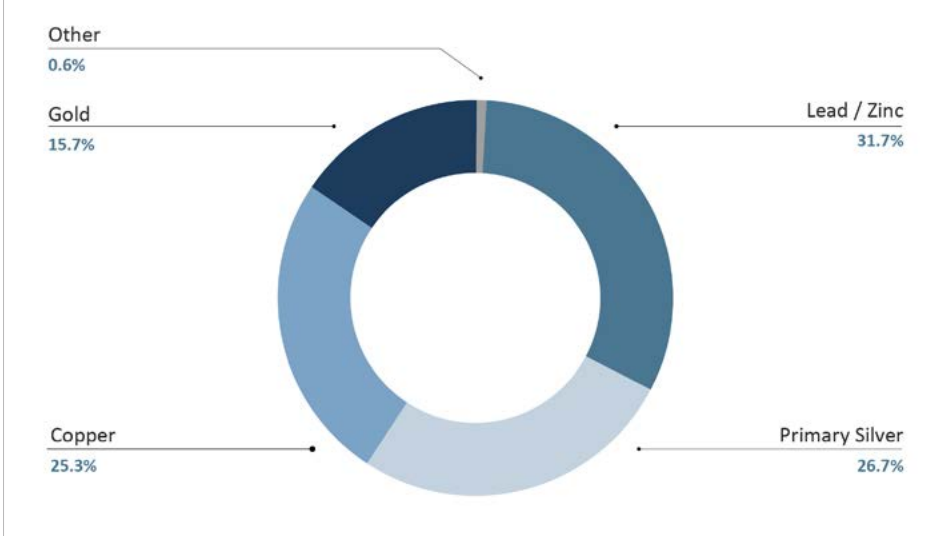
Second, as the company starts to build its portfolio of cash flow-returning investments, its access to capital will improve. For example, long-established companies such as Wheaton Precious Metals enjoy access to a sustainability-linked revolving credit facility of $2 billion tied to certain covenants. It can draw funds at either the Secured Overnight Financing Rate plus 1.1% to 2.15% or the Bank of Nova Scotia's base rate plus 0.00% to 1.05%. These terms offer low funding costs and a lot of flexibility for the borrower. A key point as to why these low funding costs are so important is that they are generally much below what a mining company gets charged when it borrows funds from lending from banks directly. It is usually also much lower than the cost of capital for a mining company compared to issuing debt or equity. Having access to a credit facility gives a royalty company a big advantage in acquiring new royalties because it can be a very cost-competitive source of funding for mining companies while simultaneously generating returns on its borrowed funds in excess of its borrowing costs.

Third, as SCRI gains momentum and grows as a company, it will become increasingly popular for investors seeking exposure to silver for several reasons. By investing in SCRI, investors gain exposure to silver via a diverse portfolio of operations located in different geographies, and they even mine different metals as their main economic driver. This offers a much-improved risk profile as opposed to investing in a company with a single operating asset while maintaining direct exposure to the price of silver, as revenues will rise and fall along with the price of the metal.

A world of opportunity

Silver Crown Royalties has identified over 2,200 mining operations that produce silver as a by-product and over 30,000 exploration projects involving silver. With over 800 million ounces of silver produced annually from mining operations, SCRI has a large opportunity to pursue. With only about one-quarter of the silver mine supply coming from primary silver mines, over 600 million ounces of silver are produced each year as a by-product of mining other metals. And where silver constitutes a by-product, the chances for securing a royalty are better. If SCRI manages to secure royalties on even a tiny percentage of the annually produced ounces, that means significant cash flows for the company. At current prices, just 0.5 % would already equate to 3 million ounces of silver royalties or around US$75 million in revenue. That would be a very sizeable amount of revenue for a type of company that traditionally has low overheads.

Figure 6: Silver production by primary metal produced



Source: Global X ETF / Metals Focus

Peer comparison and valuation

We have identified fourteen companies in the peer group of precious metals royalties including Silver Crown Royalties itself. Royalty companies where the majority of revenue (>70%) stems from commodities other than precious metals were not included in the peer group. Wheaton Precious Metals, Franco-Nevada, Royal Gold, and Sandstorm Gold all had their IPO in the 2000s and are the royalty companies with the longest-standing operating history. Osisko Gold Royalties IPOd in 2014, with the balance of the companies (9) going public after 2015. SCRI is the most recent listing in the peer group with the only financial reporting currently available being its listing document. Given the short operating history of SCRI, we believe a comparison on the grounds of cash flows, revenue, and book values with its peers is premature. Rather, we propose a relative valuation based on enterprise value to equity capital raised. In the royalty business and the junior mining business, we believe this is an easily understandable metric to demonstrate how much value a company was able to create for its shareholders with the funds it raised, which is commonly done through equity, at least in the early stages of operation.

Table 4: Key relative valuation metrics

Company	MCAP	TD	C	EV	Equity [USD]	EV/ equity	Shares	Period	IPO/RTO date
Silver Crown Royalties	**13.4**	**0.14**	**0.10**	**13.5**	**11.0**	**1.22**	**2,224,666**	**IPO**	**25-07-2024**
Wheaton Precious Metals	27,508	87.4	540	27,055	2,523	10.72	453,742,407	Q2	14-07-2004
Franco-Nevada	23,671	240	1352	22,558	1,757	12.84	192,426,697	Q1	20-12-2007
Royal Gold	9,056	288	74.2	9,270	111	83.30	65,740,856	Q2	01/01/2001*
Sandstorm Gold	1,646	432.1	4.7	2,074	246	8.43	297,387,780	Q2	10-08-2007
Osisko Gold Royalties	3,224	181	48.2	3,357	562	5.97	186,229,186	Q2	16-06-2014
Triple Flag Precious Metals	3,262	39.971	21.1	3,281	274	11.98	201,481,707	Q2	26-05-2021
Empress Royalty	32.1	7.7	1.1	38.7	14.9	2.60	118,580,418	Q1	29-12-2020
Gold Royalty	232	166	1.8	396	NA	NA	169,069,079	Q1	08-03-2021
Elemental Altus Royalties	145	28.6	9.0	164	47.6	3.45	195,176,071	Q1	16-08-2022
Orogen Royalties	205	1.4	7.1	199	22.4	8.88	201,508,022	Q1	20-08-2020
Sailfish Royalty	65.1	5.2	2.3	68.0	13.7	4.96	70,818,437	Q1	03-10-2017
Metalla Royalty & Streaming	256	17.8	11.0	263	97.8	2.69	91,748,790	Q1	05-01-2017
Vox Royalty	127	8.2	7.8	128	23.2	5.52	50,227,341	Q2	25-05-2020
Average excluding outliers						**7.09**			
Average excluding 2000s						**4.87**			
Average including outliers						**12.51**			

Source: Couloir Capital, CapitalIQ, SEDAR

When looking at the ratio of enterprise value (EV) to equity raised, there is a notable gap in multiple between some of the royalty companies. The companies that have been in operation longer have higher multiples (Wheaton Precious Metals, Franco-Nevada, Royal Gold). This is possibly due to those companies having improved access to capital and a higher ability to fund growth organically through cash flows from their existing royalty portfolios. Improved access to capital is reflected in the credit facilities these companies can tap, which exceed $1 billion in funds. As these companies mature, they are no longer reliant on raising equity to fund growth, which can improve their multiple.

The average ratio across the entire peer group is 12.51, largely due to the outlier Royal Gold. Royal Gold was initially not formed as a royalty company but rather as a mining company. Omitting the top and bottom outliers smooths the data and gives an average ratio of 7.09. If we group SCRI together in a sub-peer group of companies listed after 2010, omitting the top (Triple Flag) and bottom (SCRI) outliers, the average ratio is 4.87. We believe this last ratio should serve as the applicable peer group ratio for a relative valuation.

The peer group average ratio of EV to equity is 4.87, and SCRI's is currently only 1.22. This implies that on a relative value basis, SCRI has considerable upside potential to improve its valuation to be more in line with the selected group of peers. We see a number of possible reasons for this. One is that the company is still an emerging story that has not yet caught the attention of the wider precious metals investment community. SCRI, over time, will become a more well-known company and a go-to investment for investors seeking a well-diversified exposure to silver, which should help to narrow the valuation differential. Another reason we see this is the current size of the company. As SCRI has just started to build out its royalty portfolio, cash flows are starting to grow from a low base, and the market capitalization is the smallest in the peer group. In a cautious market setting where many of the smaller market capitalization resource stocks have seen share prices dwindle despite high commodity prices, some companies with smaller market capitalizations can be unjustly undervalued in our view. Based on the relative valuation metric and the positive outlook for the continued growth of cash flows to the company, we see the current target price in 12 months at $31.2, representing an upside of 285% to the current share price (29th August 2024).

Share structure and ownership

Share structure

The company was incorporated in Ontario, Canada on August 23, 2021. Since then, SCRI has issued share capital for a nominal value of $11.82 million to implement its strategy of acquiring silver royalties. During the amalgamation announced in May 2024 and the subsequent IPO, there was a share consolidation of 20:1. The share prices and warrant strikes in the tables below are converted to post-IPO values. There are only 2.3 million shares outstanding, which is amongst the lowest number of shares outstanding in the peer group of royalty companies.

Table 5: Shares structure summary

Instrument	Number
Common Shares	2,340,576
$8 Warrants	474,863
$16 Warrants	757,108
RSUs	66,250
Fully diluted	**3,638,797**

Source: SCR corporate presentation. Total shares outstanding differ slightly from figures reported on CapitalIQ.

As common for companies starting up in the resource sector, shares are often issued with warrants. The weighted average strike of the outstanding warrants is $12.26, with about 39% of all warrants having a strike of $8.0 which is close to the current share price. While a slight warrant overhang may act as a dampener on upward price movement due to the potential for shareholder dilution, it will also bring fresh capital to the company if the warrants are exercised. If all warrants with a strike of $8.0 are exercised, SCRI receives an additional $3.8 million into its treasury. The grand total received if all warrants are exercised is $15.8 million.

Table 6: Warrant schedule

Date	Type	Strike	Amount	Expiry
01-08-2024	Warrant	16	115,912	28-07-2027
27-06-2024	Broker Warrant	16	7,140	27-06-2026
27-06-2024	Warrant	16	370,430	27-06-2027
14-05-2024	Warrant	16	18,675	14-05-2027
25-04-2024	Warrant	16	18,906	25-04-2027
22-11-2023	Warrant	16	34,281	21-11-2026
06-10-2023	Warrant	16	45,031	05-10-2026
21-07-2023	Warrant	16	31,250	20-07-2026
-	Warrant	16	115,483	
16-06-2023	Warrant	8	45,625	15-06-2025
16-06-2023	Warrant	8	36,138	15-06-2025
30-05-2023	Warrant	8	12,500	29-05-2025
19-05-2023	Warrant	8	137,438	18-05-2025
11-05-2023	Warrant	8	12,500	10-05-2025
05-05-2023	Warrant	8	226,938	04-05-2025
-	Warrant	8	3,726	
Restricted share units			**66,250**	
Total			**1,298,222**	

Source: SCR IPO document and news release; figures adjusted from Capital IQ to match figures in corporate presentation (lines '-')

Ownership

Company insiders and management maintain a 21% stake in the outstanding SCRI shares through direct ownership. Insider ownership by management aligns management's interests with those of shareholders, which is a desirable attribute. With SCRI, the insider holdings are relatively high, giving the company management a very strong incentive to generate shareholder value, as they are large shareholders themselves and stand to benefit a lot from share price appreciation.

Private corporations own 6% and institutions own 16%. Having the support of private corporations and institutions is a positive signal to retail investors. First, entities specializing in investing in stocks related to natural resources are adept at screening investments for their firm before investing. Therefore, retail investors can rest assured that SCRI has been rigorously examined by professional investors and was deemed a good investment. Second, institutional support is key when raising more funds for acquiring royalties, as corporate and institutional supporters often take a long-term view of their investments and are willing to support a company through multiple funding rounds, giving SCRI access to crucial capital when it needs it.

Table 7: Ownership of shares outstanding

Type	Stock	% of Outstanding
Management	491,521	21.0%
Friends and family	234,058	10.0%
Corporate	140,435	6.0%
Insitutions	374,492	16.0%
Retail	1,100,071	47.0%
	2,340,576	

Float summary	% or number
Employees / inisders	491,521
Strategic corporate investors	159,450
Excluded from float %	27.81%
Warrants outstanding	**1,298,222**
Fully diluted	**3,638,798**

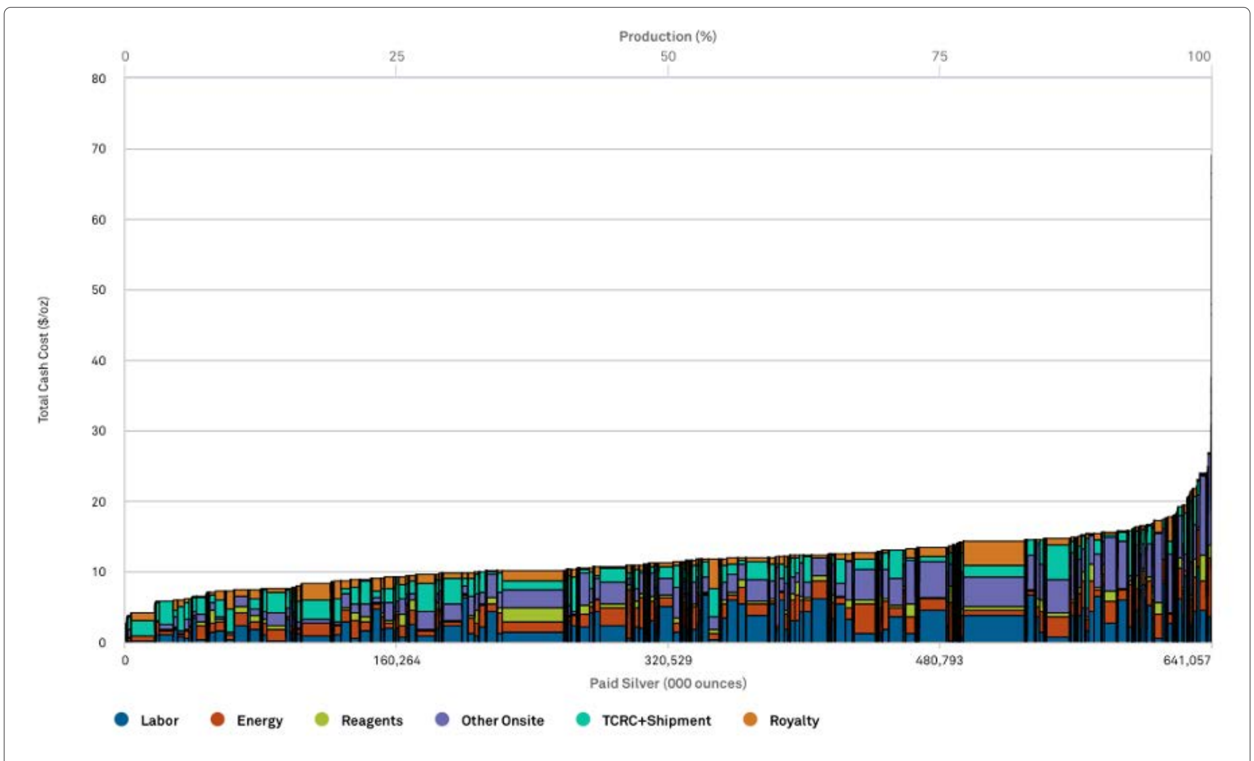
Source: Capital IQ

Silver supply and demand

Supply

The supply side of silver is heavily concentrated geographically and fairly fragmented across numerous producing companies. Mexico (23.9%), China (13.7%), and Peru (13.1%) make up just over half of global production. The geographic concentration increases the risk to mine supply through civil action, such as striking or political unrest, which would be supportive of the silver price. Sustained weakness in silver

Figure 7: Silver production cash cost curve



Source: CapitalIQ

prices will put financial pressure mainly on primary producers. However, operations where silver is a by-product will be less affected by price swings, which can slow down the demand destruction that would further support the silver price.

Table 8: Supply and demand figures for silver

	Quantities indicated in million ounces									
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**% of total**
Mine supply	882	896.8	899.8	863.6	850.3	836.6	782.2	827.6	822.4	81.9%
Recycling	160.4	146.9	145.6	147	148.5	148	166	175.3	180.6	18.0%
Net hedging supply	10.7	2.2				13.9	8.5			
Net official sector sales	1.2	1.1	1.1	1	1.2	1	1.2	1.5	1.7	
Total supply	**1,054.3**	**1,047**	**1,046.5**	**1,011.6**	**1,000**	**999.5**	**957.9**	**1,004.4**	**1,004.7**	
Industrial (total)	440.9	443.4	477.4	515.3	511.2	509.7	488.6	528.2	556.5	44.8%
Electrical & electronics	269.8	272.3	308.9	339.7	331	327.3	321.8	351	371.5	29.9%
of which photovoltaics	48.4	54.1	93.7	101.8	92.5	97.8	100	110	140.3	11.3%
Brazing alloys & solders	53.3	51	49	50.8	51.9	52.3	47.4	50.4	49	3.9%
Other industrial	117.8	120.1	119.5	124.8	128.3	130.1	119.4	126.8	136	10.9%
Photography	41	38.2	34.7	32.4	31.4	30.7	26.9	27.7	27.5	2.2%
Jewellry	193.5	202.5	189.1	196.2	203.1	201.4	150.5	181.5	234.1	18.8%
Silverware	53.5	58.3	53.5	59.4	67.1	61.3	31.2	40.7	73.5	5.9%
Net physical investment	283	309.3	212.9	155.8	165.5	187	204.8	274	332.9	26.8%
Net hedging demand			12	1.1	7.4			3.5	17.9	1.4%
Total demand	**1,011.9**	**1,051.7**	**979.6**	**960.2**	**985.7**	**990.1**	**902**	**1,055.6**	**1,242.4**	
Market balance (MB)	42.4	-4.7	66.9	51.4	14.3	9.4	55.9	-51.2	-237.7	
MB as % of total supply	4.0%	-0.4%	6.4%	5.1%	1.4%	0.9%	5.8%	-5.1%	-23.7%	
Net investment in ETPs	-0.3	-17.1	53.9	7.2	-21.4	83.3	331.1	64.9	-125.8	
Market balance less ETPs	42.7	12.4	13	44.2	35.7	-73.9	-275.2	-116.1	-111.9	
Silver price	**19.08**	**15.68**	**17.14**	**17.05**	**15.71**	**16.21**	**20.55**	**25.14**	**21.73**	

Source: Metals Focus / Silver Institute

Demand

Silver and gold are both considered monetary metals, generating demand from the investment community and from citizens seeking to purchase a safe haven asset to protect their wealth. Silver also has significant demand from the investment community (~27%) and demand from jewelry (~19%) and silverware (~6%) as a store of wealth (and for aesthetic reasons as well), which in this report are grouped together as investment demand. One key differentiator between the two is that silver also has a large demand from industrial applications (~45%) while gold does not (~8%). Silver, hence, has two big drivers of demand: industrial applications and investment.

Industrial demand has seen fairly steady growth for a number of years, where demand from electrical devices and electronics, as well as brazing alloys and solders, has stayed rather stable. The increased demand from photovoltaics has been the main driver for demand growth for industrial applications in recent years. As governments and companies continue to push the energy transition agenda, the outlook for continued strong demand from the solar power industry is encouraging, with forecasts from the International Energy Agency (IEA) predicting continued additions to solar capacity on a global scale.

The silver cash cost curve depicted above covers around 84% of global silver production and indicates that a vast majority of operations are able to cover their cash costs at a price level of around 20 USD/oz. The chart comprises both primary and secondary producers of silver, whereas some studies indicate that primary silver mines have slightly higher per-ounce cost of production, usually around 20% higher in recent years. Therefore a price floor of around 20 USD/oz appears to be a reasonable estimate at current cash cost levels.

Conclusion

Silver Crown Royalties is the first royalty company to focus on building a portfolio of silver-only royalties. The company has added the first producing silver royalties to its holdings and is generating cash flow. Based on the large opportunity set of silver royalties available and SCRI's first mover advantage, we believe the company is well-positioned to grow rapidly and become a household name in the silver royalty space. The team at SCR has a well-formulated strategy and plenty of relevant experience, and they have demonstrated their ability to execute the company's growth plans. **We are initiating coverage with a BUY recommendation with a target price of $31.2 per share over a 12-month horizon.** The company has numerous features that should be supportive of the share price:

- The potential for near-term upside from more royalties being added to the portfolio and increasing near-term cash flow. Given SCRI's unique strategy of targeting operations where silver is a by-product, the opportunity set is very large, and the chances of acquiring more attractive royalties are good.
- Being the only royalty company to focus exclusively on silver, brings with it important advantages to this first-mover company:
  - SCRI will become the go-to firm for mining companies with silver as a by-product seeking non-dilutive means of funding. As the company's track record grows in the industry, so will its reputation as a reliable funding partner.
  - SCRI will emerge to be the ideal investment vehicle for retail and institutional investors looking to gain exposure to silver without the risks associated with investing in individual silver mining companies directly.
- Strong institutional and corporate support will help SCRI secure additional capital to pursue attractive royalty investments when acquisition opportunities arise. The rigorous vetting process conducted on SCRI by institutional investors is a quality signal to retail investors.
- Based on relative valuation metrics of the peer group, there is ample upside implied based on the current share price of SCRI.
- The price environment for silver is supportive with ongoing wars, political instability in many parts of the world, shaky economies across the globe, and a FED poised to lower interest rates later this year.

Risks

The following points outline some of the key risk considerations that investors should keep in mind when evaluating SCRI as an investment opportunity:

- **Operational risk:** Acquired royalties may not perform as desired when the royalty vendor encounters difficulties in production or exploration.
- **Commodity price risk:** The rise and fall of natural resource stocks, including royalty companies, is usually tied to some degree to the price of the underlying commodity. In the case of SCRI, the principal underlying commodity is silver for which we have outlined a long-term price floor in this report. The reader is cautioned, however, that prices may fall well below that level in the short and intermediate term.
- **Wider market risk:** Like most other equities, SCRI will be at the mercy of wider market fluctuations and will be affected by FED tapering, changes to the outlook for rate hikes, inflation, and the wider economy.
- **Dilution of existing shareholders:** If non-dilutive funding options are not available, the company may have to issue further shares to cover expenditures and investments. Hence, existing shareholders may face some degree of dilution. If market developments are favourable, the impact may be diminished; if the market developments are adverse, the impact may be accentuated.

Appendix 1 — Management & board of directors

Peter Bures — Founder, Chairman and CEO

Peter Bures is a seasoned Geological and Mineral Engineer with over 25 years of expertise in mining and metals capital markets. His recent roles include serving as CEO at C2C Gold, Co-Founder and Chief Business Development Officer at Star Royalties, and Director of Global Mining Sales at BMO Capital Markets in New York. He also managed portfolios at Sentry Investments, co-managing several top-ranked funds. Peter has held various equity research positions, including Vice President and Analyst roles at Canaccord Genuity, HSBC in New York and Toronto, and Orion Securities. He began his career as a mining engineer at Placer Dome and holds a BASc in Geological Engineering from the University of Toronto.

Hassnain Raza, CPA, FCA, FCCA, MBA, CIA — CFO

Hassnain Raza is a CPA with over 20 years of financial expertise across Canada, the USA, Europe, Asia, and the Caribbean, serving both public and private sector clients. He is the founding partner of a boutique consulting firm specializing in CFO advisory services for startups and SMEs. Previously, he held senior management and leadership roles at Namaste Technologies and served as a Senior Manager at KPMG. Hassnain is also the founder and patron of the Allama Iqbal Model School in Pakistan, which provides free education from kindergarten through grade 10.

Patrick Sullivan, LLP — Corporate Secretary

Patrick Sullivan is a Mining, M&A, and Securities lawyer at Osler, Hoskin & Harcourt LLP. With over a decade of experience in the mining sector, he has advised a wide range of clients on joint ventures, options, mineral property acquisitions, royalty and streaming agreements, and mineral tenure issues. Patrick has played a key role in several of Canada's most significant mining transactions, including South32 Limited's $2.1 billion acquisition of Arizona Mining, Washington Companies' $1.2 billion acquisition of Dominion Diamond Corp, and Hudbay Minerals' $555 million acquisition of Augusta Resource Corporation.

Zachary Kotowych — VP, Corporate Development

Zachary Kotowych is a geophysicist with nearly five years of experience in the mining and metals capital markets. His previous roles include equity research positions at Haywood Securities and Red Cloud Securities. Additionally, he has worked as an exploration geologist with Solstice Gold, Great Bear Resources (now part of Kinross Gold Corp.), and Carlisle Goldfields (now part of Alamos Gold). Zachary holds an MSc in Geophysics and an HBSc in Mathematics and Geology, both from the University of Toronto.

Philip van der Berg — Independent Director

Philip van den Berg has over 35 years of capital markets experience in Europe, specializing in managing capital market transactions, public listings, and mergers and acquisitions. His past roles include serving as an investment analyst, head of research, and member of an investment policy committee. Much of Philip's sell-side experience was gained at Goldman Sachs, where he joined the European equities division in London in 1987, and at Deutsche Morgan Grenfell in 1995, where he played a key role in re-establishing its European equities division. In 1997, he transitioned to the buy-side as co-founder of Olympus Capital

Management and later Taler Asset Management in Gibraltar in 2006. Since 2014, he has been an active investor in various startup companies in Europe and the US, serving in director and CFO roles. Philip graduated cum laude in economics from the University of Amsterdam in 1985.

Peter Simeon, LLP — Independent Director

Peter Simeon is a seasoned lawyer with over 20 years of experience specializing in securities, corporate finance, and mergers and acquisitions. Since February 2015, he has been a partner at Gowling WLG (Canada) LLP, where he has gained extensive expertise in corporate commercial and securities law. Prior to this, he was a partner at a boutique corporate law firm in Toronto. Peter holds a Bachelor of Arts from Queen's University and a law degree from Osgoode Hall at York University. He also serves as an independent director for several publicly traded companies in Canada.

Peter Schloo, CPA, CA, CFA — Independent Director

Peter Schloo is a CPA, CA, and CFA with over 10 years of experience in capital markets, operations, and assurance. He is also a licensed prospector in Ontario, Canada. Currently, Peter serves as the CEO of Heritage Mining Ltd. and is a Director at Pacific Empire Minerals Corp. (PEMC). He has held senior executive roles in several private companies, predominantly within the precious metals sector, including Ion Energy Ltd. and Spirit Banner Capital Corp. Peter's accomplishments include involvement in capital raising efforts totaling over C$85 million for both public and private companies.

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