Marin Katusa:

Hi, everyone. It's Marin here. I want to bring my good friend and special guest, back because in our business there's many who say, and then there's those that do. And David, I want to thank you for making time for all my viewers, because what you're doing is just flat out awesome. As a shareholder, I want everyone to know, I am talking my book because I believe in this. You just announced a dividend. You just went public less than 12 months ago. You raised just under a hundred million US. And look what you've done. Transaction after transaction. You've grown your base to the fastest growing royalty company in the world when it comes to major assets. In politically stable jurisdictions, meaning low risk jurisdictions. Jurisdictions that I can take my family to the mine site in a rented car and not worry about security and all these issues.

Marin Katusa:

So first off congrats because I like getting paid dividends. Thank you for that. But most importantly, you're paying the sector average in the mean, and you have a much bigger growth profile. So first question, why did you decide to do a dividend so early in the growth of the company compared to other guys that took five or 10 years before they announced dividend?

David Garofalo:

Well, we were very busy in the last year in terms of rolling up some of our peer companies. We bought three companies in the last year and went from 17 royalties at our IPO to 191 royalties today. Six of which are meaningfully providing cash to us today. Seven are in construction. So we feel we have a strong, upward trajectory in our revenues over the next three to five years and beyond with some foundational chunky assets. Canada's biggest gold mine, Canadian Alaric. We have a royalty on that. We have a royalty on the underground extension of Gold Strike, the US' biggest gold mine in a very prolific operation for Barrick and Newman over many, many decades.

David Garofalo:

So we have that foundational element. We have multi-decade deposits. We have annuities within our portfolio. So we have a high degree of confidence that we can set the dividend at the level we have now, which is just short of a 1% yield, but we think we can meaningfully grow it over time as our cash flow ramps up over the next several years. So this is an exciting development for us. We've gone from zero to sustainable cash flow from a very diversified portfolio, entirely focused in the Americas. And 75% of our business is focused on the two best jurisdictions in the world, Nevada and Quebec, as judged by the Fraser Institute for mineral potential, low political risk, low regulatory risk.

Marin Katusa:

I want to expand on that. For the first decade of my career, I prided myself. I lived on the road, literally lived the score. Scars physically went through it to make it, right? I paid my dues and then I started realizing like, wow, the goal posts are changing in these emerging market areas, and many of them are AK-47 areas and just a political risk. And there's just jurisdictions that my friends are in that I just don't... Great assets, great structure, but the government is going to steal from you. And as a foreign shareholder, as a... Who are they going to go after? The locals or the foreigners? You know who's going to lose that trade.

Marin Katusa:

I really want to emphasize something here that everyone should understand. Three quarters of the assets of gold royalty, of the cash flow, the growth... I want you to explain this to everyone, is in Nevada and Quebec. When you mentioned number one or two, a lot of people might know what the Fraser

Institute means or who gives a crap about some third party consulting group. I like them, but people not might know what that means. Please explain what, in the US, what Gold Strike is. Who the partners there and why it's so important?

David Garofalo:

Well, you make an excellent point that the unusual thing about our business is if we have a problem with the government, we can't move. Our deposits are in the ground. And so we're wedded to the government, the regulatory apparatus within that jurisdiction, and the surrounding community. So you want to be in a place that welcomes mining, that has a rational regulatory framework. So being in Quebec and Nevada gives us a competitive advantage from that standpoint, but also these are two of the most prolific gold districts in the world. Quebec and Nevada. And that's evidenced by the scale of these deposits. We have exposure to two of the biggest gold deposits in North America. The biggest in Canada, the biggest in the US. In Canadian Alaric in Quebec and Gold Strike in Nevada. At least the underground extension of it, which Barrick is about to publish a resource on and integrate into their mine plan over the coming five to 10 years.

David Garofalo:

So it represents meaningful growth in the best jurisdictions in the world. And these are still geologically perspective deposits. There's still being actively explored by well-capitalized operating companies. And they're likely to continue to grow these deposits geologically, which gives our shareholders significant optionality to that expiration upside.

Marin Katusa:

The key phrase you said that I want everyone to focus on is, 'well capitalized companies'. So you look at your main assets, you got Barrick and Newmont. Bang. Awesome. In the Nevada, you got Agnico Eagle, on the former... When a Cisco built up [inaudible 00:05:11] the whole way. Got bought out. Super strong balance sheets. You're not exposed in some place like Turkey where you don't know what the rules are. And even if you get it, you can't get your money out because you're playing on an [inaudible 00:05:21] ones, not the foreign rules.

Marin Katusa:

So you look at what's happening here and capitalization. Cost inflation is going to be a huge issue in mining. And here's my take, I've been involved in many mine builds, and it's not necessarily the CEO's fault, but they take the final pay. But what happens is they get these consultants, these engineering firms, and it takes about two years to build up this study of what you need. Then by the time the company gets their regulatory approval, the financing, the board approval, the insurance, they go to build this thing. You're looking at a window of three to five years. Well, good luck getting the build today at the cost that you had two years ago. And it's not just COVID. It's supply chain issues, it's labor, all sorts of issues.

Marin Katusa:

So you're going to have serious risks. And we're seeing it in real time on many of these companies building these mines. Explain why someone like David Garofalo, who is there at the beginning of the biggest growth of a Agnico Eagle, which is one of the greatest gold miners in the world right now, top five easily. You were the CEO of Gold Corp. Before that you were involved CEO of Hudbay, at the time Canada's largest diversified miner. So why are you now flipping into royalties? A guy who's built many mines in his team? You know, this is a different shift for you.

David Garofalo:

Well, you bring up a good point and I've actually been involved in the construction of 15 mines in my career. So I know exactly what the operators are going through and the dynamic they have to deal with in terms of cost risk, technical risk, and building these mines out. And I would say right now, there's one word that describes why I've made the shift to royalties. Its inflation. And while I'm a big believer in gold, I think gold's going to go to $3,000 in this cycle, at a minimum. The question I ask myself in the midst of that cycle, is where do I best position myself to enjoy optimum leverage to the gold price? And it's not in the producers. The producers are going to be facing significant cost pressures. For two reasons.

David Garofalo:

One is we have inflation of the general economy, which is significantly understated by the CPA headline numbers of 7%. If you're putting food in your stomach, fuel in your car, or roof over your head, it's not 7%. It's well into double digit territory. They're experiencing the same sort of cost pressures in the mining business. That will undermine their margins, in my view. It's not unlike what happened 10 years ago, when we came out of the credit crisis. Gold ran up 140%. Base metals were ripping because we were in the middle of the Chinese Super-cycle. And we saw all of these mining companies and the base and precious universe start to build new mines that drove up input costs dramatically. And as a result, even with the gold price going up 140%, the producers only went up 60 to 70%. They significantly underperform the commodity because of those cost pressures eating away at their margins.

David Garofalo:

You know what happened in extremely precious metal companies? They went up 350% during that gold run because you're getting that top line exposure while insulating your shareholders entirely from the input cost inflation. And that's recurring in this business today because of, again, the under investment in new mine capacity over the last half a dozen years, and the inflation in the economy generally, which we didn't have 10 years ago. So this is where we need to be to provide investors with optimum leverage to the gold price.

Marin Katusa:

I completely agree. I want everyone to know you're not paying me in any form to do this. I'm doing this because I believe in it. And I love trying to educate people. That's my background. And the best part of me being me is I can do what I want. Okay? And I'm disclosing to everyone. I'm a big shareholder. I'm a huge fan. And everyone should know that I didn't know. And obviously we knew of each other for many years, but we really started to get to know each other this past year. And of anyone I've worked with in my career, you got to understand, David, everybody pitches me. Like, I'm in the zone and a lot of guys say, "We're going to do this. We're going to do that. Oh, there's a delay with the exchange. Oh, don't worry if you do this, Goldman Sachs will come in right after,".

Marin Katusa:

It's like, okay. You are one of the few people. You're up there with like [inaudible 00:09:29] and Amir Adani. When you set it, you under-promised and over-delivered. And I must say, David, I tip my hat to you. Great work. You've kicked ass. But really what I want everyone to understand is what you and Sean and the crew at Agnico Eagle did, you're kind of doing a mirror image for the royalties and the market yet hasn't figured this out. And that's what I'm so excited about because Agnico never ran what Barrick and the big, big, pour-free copper deposits that the CapEx inflation just crushed them. And then the permitting crushed them. Agnico was very disciplined and they stayed in low political jurisdiction. And look how successful they've done it. Sean's done an incredible team. You were right there. You were the

CFO for 10 years. You saw that growth. Is that a fair comparable? Cause that's me saying that. What does the guy who is there and just doing it now, think of that?

David Garofalo:

No, look, it's an excellent analog or analogy because if you look at the royalty space right now, they're the big guys, the category killers. And there's three of them. There's wheat and precious metals Franklin, Nevada Royal Gold. And then there's the rest. They're around a billion-ish market cap and below. Some of them far below that, very illiquid, very difficult to grow off that those kind of small platforms, because of lack of access to capital. There is no mid here in the royalty space. And that's exactly where we were in back in 1998, when I was starting Agnico Eagle. We were a hundred million dollar market cap company. 90,000 ounces a year of production. And we had this vision that if we ever got ourselves to a million ounces a year, we could get ourselves to five billion market cap.

David Garofalo:

At the time, there was no mid tier. There was a bunch of small players and there was Barrick and Newmont. Everybody else. And we said, if we could get two million ounces a year and five billion market cap, we'll get a growth multiple because we'll be small enough to grow, but big enough to matter to institutional investors. And that's exactly what happened in Agnico. Now it took a dozen years. We had to build six mines. Mining's much more difficult than building a royalty business. There's a lot more technical risk and capital intensity associated with that. So it took us a long time when we got there, we got the growth multiple. Not only did we achieve five billion market cap. When I left Agnico Eagle to run Hudbay in 2010, we were a 10 billion dollar market cap company up from a hundred million dollars. And that's because we systematically built out that scale and relevance.

David Garofalo:

And that's what we're effectively trying to do with Gold Royalty. Through this roll up strategy, we had a very successful IPO with a small royalty base of 17 royalties. We've expanded that to 190 royalties. We've rolled up three of our peer companies and effectively quadrupled our size and increased our portfolio scale by tenfold. We've provided a lot more diversity cash flow and we're achieving that scale. And I think that's what we'll try to create over time, systematically, is fill that void in that mid tier in order to be big enough to matter, but small enough to grow, to attract that attractive growth multiple.

Marin Katusa:

Now, David, we went for dinner and I shared you the story of what Tom Kaplan and shared with me. That what he admires most about me is my ability to piss everybody off in the mining industry by telling the truth. And one thing that I want to technically, piss off everybody now by saying, is the royalty sector is such a strategic investment. That it went from investment bankers and what I call spreadsheet jockey's that know how to use Excel, use consultants and hoping that the price of gold goes up.

Marin Katusa:

You're one of the elders now in the business. I know you don't like to feel that way, but I'm sure early in the morning when you get up and we've had many calls at 5:30, 6 in the morning. You're up. You're a professional. But the fact is you've lived it. You have the scars to live... You've earned your trade. Something I want to explain to everyone is you're not some slick young investment banker who's going to leverage consultants and their analyst skills. You have all that obviously, but it's not just David you're a follow here. It's the team who've actually built mine. So, explain that differentiating factor of what you've built in, let's say many of the others.

David Garofalo:

Well, look, I think we've done a great job in execution. You're giving me way too much credit. I have assembled a team underneath me and on the board that is second to none in the royalty space. I put us up against even the large cap companies, because collectively that board of management has 400 years of industry experience. But on the mine building side, development side. We're not bankers. We're not investment advisors. We are nuts and bolts mining guys that have actually built and operated mines.

David Garofalo:

And so, within my board, I have Alan Hair, 40 years as a mineral process engineer, a former CEO, a former chief operating officer, a prolific mine builder in his own right. Warren Gillman who's a provider of capital to the mining industry and has been for over 30 years. Amir Adani, a serial entrepreneur, the co-founder of Gold Royalty with me, he's on the board. Garrett Dawson, who's one of the founders of Gold Mining, Inc., Our former parent company, a geologist. Astair Still, former Gold Corp mine operator, mine builder, geologist. Sam Mah, our VP of Technical Services. It goes on and on and on. These are people that have built and operated mines and have a clear eye view of the underlying risk of building these mines. Understand how operators think. And importantly, given the seniority of our team, we have unmitigated access to anyone in the industry.

Marin Katusa:

I love disruption and people who know me, know my style. I absolutely love disruption because our industry craves it. But it's set up that people don't want the disruption. People don't like potentially hostile M and A, because it disrupts the status quo. The investment bankers, like their big poshy fees. And they like having that pipeline of fees. They don't want to piss anyone off. I get it. That's how they make money. The executives don't want to piss off others because you may work on other boards. You get options. They got cushy jobs. It's kind of the status quo, that wait a second, but really you've disrupted the sector. You're bringing in a major riffle where it's like, okay, it's time to consolidate. So David, please keep doing what you're doing. I salute the aggressiveness and I appreciate, and just so everyone knows, you're also the number one performing precious metal royalty company in the world for 2021. So what are you going to do in 2022 to continue that trend to make me more money?

David Garofalo:

Well, look, we've announced a bit for elemental and all I will say is please refer to the offering documents which we mailed to our shareholders last week. We think it represents a compelling value proposition for both our and their shareholders. And it's really part of that broader consolidation theme. We need to create scale to improve our access to capital. And we're one of the most liquid stocks in the space already. But we want to continue to perpetuate that so we can reduce our cost at capital and maintain a competitive position as we look to continue to perpetuate and grow our business through further royalty acquisitions. Scale does matter. As I said, if you're big enough to matter and small enough to grow, you're going to get that multiple. And that's going to drive down your cost capital and keep you competitive. It creates a virtuous cycle that allow, allows you to continue to grow in perpetuity.

David Garofalo:

And that's what we've created. We've created that a vast multi-decade annuity with the portfolio of royalties we have, 191 royalties, that will continue to increase our cash flow over time and hopefully increase our dividend over time and yield to investors. It's a business that's going to be very profitable and amicably scalable. I have six full time employees. I could run this business with those six employees if it were 10 times the size. Eminently scalable. We're not running or operating the mines. We're providing capital and we're doing it on a cost effective basis so that we generate per share value and per share returns to our shareholders.

Marin Katusa:

And it's why the biggest guys from the investment standpoint, the guys like Eric Sprott, Rob McEwen, are such big fans and shareholders of what you're doing. And look, like I said, I'm not an easy guy to get along with nor exceed my expectations. Because if I'm investing in someone it's because I want them to ruin their life to make their shareholders a lot of money during that time. Not busting their chops. And you've done that. You're... When I've contacted you, you respond. So thank you for that, David. Keep doing what you're doing and all the best to you and the team.

David Garofalo:

Thank you.

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