



ELEMENTAL ROYALTIES CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2021 and 2020
(Unaudited - Expressed in US Dollars)

ELEMENTAL ROYALTIES CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited - Expressed in US Dollars)

	Notes	September 30, 2021 \$	December 31, 2020 \$
Assets			
Current assets			
Cash and cash equivalents		5,584,979	10,920,888
Accounts receivable	4	1,688,882	1,103,831
Prepaid expenses and other current assets		233,878	112,905
Total current assets		7,507,739	12,137,624
Non-current assets			
Deferred acquisition costs	5	-	108,447
Deferred financing costs	6	-	153,390
Royalty interests	5	69,106,178	15,645,301
Total non-current assets		69,106,178	15,907,138
Total assets		76,613,917	28,044,762
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		281,001	1,135,066
Borrowings	6	-	1
Total current liabilities		281,001	1,135,067
Non-current liabilities			
Borrowings	6	24,297,321	-
Total non-current liabilities		24,297,321	-
Total liabilities		24,578,322	1,135,067
Equity			
Share capital	7	56,436,769	28,791,726
Contributed surplus		1,660,685	1,078,494
Accumulated other comprehensive (loss) income ("AOCI")		37,705	40,183
Deficit		(6,099,564)	(3,000,708)
Total equity		52,035,595	26,909,695
Total liabilities and equity		76,613,917	28,044,762

Commitments (Note 11)

Approved by the Board of Directors on November 12, 2021

<u>"Frederick Bell"</u>	Director	<u>"Martin Turenne"</u>	Director
Frederick Bell		Martin Turenne	

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

ELEMENTAL ROYALTIES CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the three and nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2021 \$	2020 \$	2021 \$	2020 \$
Revenue from royalty interests	5	1,900,707	1,152,922	4,288,502	3,660,272
Depletion of royalty interests	5	(905,232)	(400,288)	(1,784,053)	(1,165,651)
Gross profit		995,475	752,634	2,504,449	2,494,621
General and administrative expenses	8	(555,026)	(218,924)	(1,574,668)	(471,361)
Project evaluation expenses	8	(48,429)	(114,972)	(281,886)	(301,877)
Share-based compensation expense	7(d),9	(98,277)	(170,406)	(582,191)	(476,915)
Income from operations		293,743	248,332	65,704	1,244,468
Other income and expenses					
Interest income		3,158	4,539	13,274	4,539
Interest and finance expenses	6	(771,361)	(208,355)	(2,253,608)	(1,454,417)
Foreign exchange gain (loss)		(82,402)	41,627	(71,559)	29,522
Gain on acquisition	9	-	-	-	74,240
Listing expense	3,8	-	(1,083,122)	-	(1,523,182)
Income (Loss) before income taxes		(556,862)	(996,979)	(2,246,189)	(1,624,830)
Tax expense		(278,966)	(219,848)	(852,667)	(739,332)
Net loss for the period		(835,828)	(1,216,827)	(3,098,856)	(2,364,162)
Other comprehensive income (loss)					
Items that may be reclassified subsequently to profit and loss:					
Foreign currency translation adjustment		(904)	17,180	(2,478)	9,878
Other comprehensive income (loss)		(904)	17,180	(2,478)	9,878
Total comprehensive loss		(836,732)	(1,199,647)	(3,101,334)	(2,354,284)
Loss per share – basic and diluted		(0.01)	(0.03)	(0.05)	(0.09)
Weighted average number of shares outstanding – basic and diluted		68,991,221	38,034,389	65,585,629	27,773,144

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

ELEMENTAL ROYALTIES CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(835,828)	(1,216,827)	(3,098,856)	(2,364,162)
Adjustments for:				
Depletion of royalty interests	905,232	400,288	1,784,053	1,165,651
Unrealized foreign exchange	(88,864)	(300,684)	(5,576)	(319,985)
Expenses settled in shares	-	-	-	7,511
Share-based compensation expense	98,277	170,406	582,191	476,915
Interest and finance expenses	771,361	208,356	2,253,609	1,454,417
Interest income	(3,158)	-	(13,274)	-
Gain on acquisition	-	-	-	(74,240)
Listing expense	-	1,036,927	-	1,036,927
	847,020	298,466	1,502,147	1,383,034
Changes in non-cash working capital items:				
Accounts receivable	(684,353)	(563,570)	(585,051)	(1,607,342)
Prepaid expenses and other current assets	(66,667)	(54,090)	(120,973)	(29,934)
Accounts payable and accrued liabilities	(139,025)	(455,252)	(854,065)	(400,871)
Net cash (used in) provided by operating activities	(43,025)	(774,446)	(57,942)	(655,113)
Investing activities				
Interest received	3,158	-	13,274	-
Purchase of royalty interests	-	-	(40,136,483)	(11,008,958)
Cash received on acquisition of ERL UK	-	-	-	81,416
Cash received on acquisition of Fengro	-	12,462	-	12,462
Cash used in investing activities	3,158	12,462	(40,123,209)	(10,915,080)
Financing activities				
Proceeds from issue of shares	-	17,917,153	12,666,817	19,173,640
Share issue costs	-	(1,245,883)	(740,558)	(1,245,883)
Interest paid	(638,889)	(103,181)	(1,916,668)	(610,639)
Proceeds from borrowings, net of fees paid in cash	-	(20,933)	24,832,554	10,461,067
Deferred financing costs	-	11,618	-	-
Repayment of borrowings	-	(8,587,378)	(1)	(8,587,378)
Net cash provided by financing activities	(638,889)	7,971,396	34,842,144	19,190,807
Exchange differences on cash	87,960	305,172	3,098	324,093
Change in cash and cash equivalents	(590,796)	7,514,584	(5,335,909)	7,944,707
Cash and cash equivalents, beginning of the period	6,175,775	1,242,695	10,920,888	812,572
Cash and cash equivalents, end of the period	5,584,979	8,757,279	5,584,979	8,757,279

Supplemental cash flow information (Note 10)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

ELEMENTAL ROYALTIES CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

	Ordinary shares #	Share capital \$	Contributed Surplus \$	Subscriptions received \$	Equity component convertible loan \$	AOCI \$	Deficit \$	Total Equity \$
Balance as at December 31, 2019	19,542,629	6,388,098	348,648	7,185	-	(970)	(370,070)	6,372,891
Issued during the period:								
For cash, net of issue costs	20,174,866	19,180,825	-	(7,185)	-	-	-	19,173,640
Less: finders' fees	-	(1,083,461)	-	-	-	-	-	(1,083,461)
Less: other cash issuance costs	-	(162,422)	-	-	-	-	-	(162,422)
Pursuant to royalty acquisition	1,374,683	1,000,000	-	-	-	-	-	1,000,000
Deemed issued by Elemental to acquire Fengro	753,706	732,426	-	-	-	-	-	732,426
For bonus	10,325	7,511	-	-	-	-	-	7,511
Convertible loan equity component	-	-	-	-	124,929	-	-	124,929
Pursuant to conversion of loan	2,406,322	2,459,596	-	-	(124,929)	-	-	2,334,667
To settle fees on loan	196,207	190,250	-	-	-	-	-	190,250
To settle loan	65,996	87,963	-	-	-	-	-	87,963
Share-based compensation expense	-	-	476,915	-	-	-	-	476,915
Loss and comprehensive loss for the period	-	-	-	-	-	9,878	(2,364,162)	(2,354,284)
Balance, September 30, 2020	44,524,734	28,800,786	825,563	-	-	8,908	(2,734,232)	26,901,025
Issued during the period:								
Less: other cash issuance costs	-	(9,060)	-	-	-	-	-	(9,060)
Share-based compensation expense	-	-	252,931	-	-	-	-	252,931
Loss and comprehensive loss for the period	-	-	-	-	-	31,275	(266,476)	(235,201)
Balance as at December 31, 2020	44,524,734	28,791,726	1,078,494	-	-	40,183	(3,000,708)	26,909,695
Issued during the period:								
For cash	10,748,132	12,666,817	-	-	-	-	-	12,666,817
Less: finders' fees	-	(584,203)	-	-	-	-	-	(584,203)
Less: other cash issuance costs	-	(207,441)	-	-	-	-	-	(207,441)
Pursuant to royalty acquisition	13,065,100	15,000,000	-	-	-	-	-	15,000,000
Pursuant to loan as a finance cost	653,255	769,870	-	-	-	-	-	769,870
Share-based compensation expense	-	-	582,191	-	-	-	-	582,191
Loss and comprehensive loss for the period	-	-	-	-	-	(2,478)	(3,098,856)	(3,101,334)
Balance as at September 30, 2021	68,991,221	56,436,769	1,660,685	-	-	37,705	(6,099,564)	52,035,595

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

ELEMENTAL ROYALTIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

1. NATURE OF OPERATIONS

Elemental Royalties Corp. (the “Company”, “Elemental” or “ERC”) was incorporated on March 11, 2014 under the laws of the Province of British Columbia. The Company is primarily involved in the acquisition of precious metal royalties. The head office and principal address is 880 – 580 Hornby Street, Vancouver, British Columbia, Canada. The Company’s common shares trade on the TSX Venture Exchange under the ticker symbol “ELE” and the OTCQX market under the trading symbol “ELEMf”.

The continuation of the COVID-19 pandemic in 2021 may have a potential impact on the mining operations in which the Company holds royalty interests and receives revenues. The Company is closely monitoring the impact and mitigating actions by each of the mine operators and is pleased to note there has been no significant disruption to operations and in turn, royalty revenues to date. The diversified royalty interests held by the Company across a number of different mine operators and geographical locations significantly mitigate this risk.

2. BASIS OF PRESENTATION

(A) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020.

The Company uses the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended December 31, 2020 except as in Note 2 (d) below.

The financial statements are presented in US Dollars. The notation “\$” represents US dollars and “CAD\$” represents Canadian dollars.

The financial statements were approved by the board and authorized for issue on November 12, 2021.

(B) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries listed in the following table:

Name	Country of Incorporation	Functional Currency	% Equity Interest as at September 30, 2021
Elemental Royalties Limited	BVI	US dollars	100%
Elemental One Limited	BVI	US dollars	100%
Elemental Royalties (Australia) Pty Ltd.	Australia	US dollars	100%
Sanembaore Sarl Pty Ltd. ¹	Australia	Australian dollars	100%
Elemental Resources Limited	England and Wales	Pound Sterling	100%
Elemental (Finance) Limited	Canada	Canadian dollars	100%

¹Sanembaore Sarl Ltd was wound up on August 4, 2021.

The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date the Company’s control over the subsidiary ceases. Control is defined as the exposure, or rights, to

ELEMENTAL ROYALTIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

variable returns from involvement with an investee and the ability to affect those returns through power over the investee. All intercompany transactions and balances have been eliminated.

(C) Critical accounting estimates and judgements

The Company is subject to the same critical accounting estimates and judgements as those that applied to the annual consolidated financial statements for the year ended December 31, 2020.

(D) New accounting standards adopted

The Company adopted Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 (the “Phase 2 Amendments”) effective on January 1, 2021. Interest rate benchmark reform (“Reform”) refers to a global reform of interest rate benchmarks, which includes the replacement of some interbank offered rates (“IBOR”) with alternative benchmark rates. The Phase 2 Amendments provide a practical expedient requiring the effective interest rate be adjusted when accounting for changes in the basis for determining the contractual cash flow of financial assets and liabilities that relate directly to the Reform rather than applying modification accounting which might have resulted in a gain or loss. In addition, the Phase 2 Amendments require disclosures to assist users in understanding the effect of the Reform on the Company’s financial instruments and risk management strategy.

The Company’s Credit Facility bears interest at a floating rate equal to a base rate of 9% plus the greater of i) the London interbank offered rates (“LIBOR”) and ii) 1% paid monthly and has not yet transitioned to alternative benchmark rates at the end of the current reporting period. The Company is working with the lenders to assess the potential alternatives to the use of the LIBOR.

3. REVERSE TAKEOVER

On April 27, 2020, the Company entered into a binding business combination agreement pursuant to the November 5, 2019 non-binding letter of intent with Fengro Industries Corp., a company trading on the TSX Venture Exchange, whereby Elemental and Fengro agreed to complete a reverse takeover.

On July 27, 2020, the Company completed the reverse takeover with Fengro and on July 30, 2020 the Company’s shares commenced trading on the TSX Venture Exchange under the trading symbol “ELE”.

Effective July 27, 2020, Fengro changed its name to “Elemental Royalties Corp.” and consolidated its share capital (the “Consolidation”) on the basis of 209 (old) common shares for 1 (new) common share. Immediately following the Consolidation, Fengro had an aggregate of 753,706 common shares outstanding.

Pursuant to the terms of the RTO all outstanding securities of ERL were exchanged (the “Share Exchange”) for post-Consolidation securities of ERC on a 4.8114 for 1 basis, resulting in 22,664,788 ERC common shares being issued to former shareholders of ERL. The 497,797 PSUs outstanding at July 27, 2020 were exchanged on a 4.8114 for 1 basis, resulting in 2,395,109 replacement PSUs being issued. All references to share and per share amounts in these consolidated financial statements have been retroactively re-stated to reflect the post-4.8114 for 1 exchange ratio.

In accordance with IFRS 3, *Business Combinations*, the substance of the acquisition is a reverse takeover as the shareholders of ERL held 96.78% of the resulting issuer shares and Fengro shareholders held 3.22% of the resulting issuer shares. Accordingly, for accounting purposes, ERL was treated as the accounting parent company (legal subsidiary) and Fengro has been treated as the accounting subsidiary (legal parent) in these consolidated financial statements. As ERL was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values. Fengro’s results of operations have been included from July 27, 2020.

ELEMENTAL ROYALTIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

As the acquisition of Fengro did not constitute a business combination, the reverse takeover transaction was accounted for in accordance with IFRS 2 *Share-based Payments* whereby equity instruments issued were recognized at fair value and allocated to the net assets acquired (liabilities assumed). Any difference is the value of the listing which was expensed on completion of the RTO.

The consideration paid was the fair value of common shares issued by ERL which had a fair value of \$732,426. These are the 753,706 shares issued to the Fengro shareholders. The fair value of the 753,706 common shares was determined based on the pricing of the concurrent financing with a value of CAD\$1.30 (\$0.972) being allocated to each common share (Note 7(c)). The purchase price was allocated to the net assets acquired as follows:

Net assets acquired	\$
Assets acquired	
Cash	12,462
Accounts receivable	1,641
Liabilities assumed	
Accounts payable and accrued liabilities	(145,938)
Loans payable	(172,666)
Net assets as at July 27, 2020	(304,501)
Consideration paid	
Fair value of 753,706 common shares deemed issued	732,426
Listing expense	1,036,927

Transaction costs of the RTO of \$486,255 were expensed.

4. ACCOUNTS RECEIVABLE

	September 30,	December 31,
	2021	2020
	\$	\$
Accrued royalty income	1,627,781	1,081,944
Other receivables	61,101	21,887
Total accounts receivable	1,688,882	1,103,831

ELEMENTAL ROYALTIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

5. ROYALTY INTERESTS

	Kwale	Panton Sill	Mount Pleasant	Amancaya	Mercedes	Wahgnion	Karlawinda	Laverton	Western Queen	Total
	<i>Kenya</i>	<i>Australia</i>	<i>Australia</i>	<i>Chile</i>	<i>Mexico</i>	<i>Burkina Faso</i>	<i>Australia</i>	<i>Australia</i>	<i>Australia</i>	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2019	498,321	94,219	424,584	2,763,447	999,001	-	-	-	-	4,779,572
Additions	-	-	-	-	-	12,512,158	-	-	-	12,512,158
Depletion	(168,329)	-	(647)	(723,124)	-	(797,117)	-	-	-	(1,689,217)
Foreign exchange translation	-	-	42,788	-	-	-	-	-	-	42,788
Balance, December 31, 2020	329,992	94,219	466,725	2,040,323	999,001	11,715,041	-	-	-	15,645,301
Additions	-	-	-	-	-	-	37,164,772	16,071,252	2,008,906	55,244,930
Depletion	(124,513)	-	(2,609)	(386,881)	-	(760,673)	(509,377)	-	-	(1,784,053)
Balance, September 30, 2021	205,479	94,219	464,116	1,653,442	999,001	10,954,368	36,655,395	16,071,252	2,008,906	69,106,178

ELEMENTAL ROYALTIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

The following table summarizes the Company's total revenue from royalty interests during the three and nine months ended September 30, 2021 and 2020:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Kwale	156,406	96,479	465,606	403,015
Mount Pleasant	1,245	-	2,272	8,678
Amancaya	372,931	358,069	1,007,452	1,305,916
Wahgnion	585,796	698,374	2,028,843	1,942,663
Karlawinda	784,329	-	784,329	-
Total revenue from royalty interests	1,900,707	1,152,922	4,288,502	3,660,272

Kwale

In February 2017 the Company acquired a 0.25% gross revenue royalty ("GRR") royalty on the Kwale mineral sands mine located 50 kilometres south of Mombasa in Kenya, from Acacia Mining Plc (LON: ACA) for cash consideration of \$937,500. The Kwale mine is operated by Base Resources Limited, an Australian-based, African-focused mineral sands producer and developer which is dual-listed on the Australian Securities Exchange (ASX: BSE) and the London Alternative Investment Market (AIM: BSE).

Panton Sill

The Company acquired a 0.5% net smelter return ("NSR") royalty on the Panton Sill project, located about 60km north of Halls Creek in the East Kimberley region of Western Australia, from Fevertree Resources Pty Ltd in February 2017 for the consideration of \$90,000, settled by the issue of shares of the Company. Future Metals NL ("Future Metals") (ASX: FME) acquired the Panton Sill project from Panoramic Resources Limited, a base metal mining and exploration company listed on the Australian Securities Exchange (ASX: PAN) in June 2021.

Mount Pleasant

In December 2017 the Company acquired a royalty interest consisting of the lesser of either 5% net profit interest ("NPI") or AU\$10/Ounce royalty on the Mount Pleasant operations, located 40km northwest of Kalgoorlie in Western Australia, from a subsidiary of the Carlton & United Breweries Company for cash consideration of AU\$600,000. A deferred payment of AU\$400,000 is due at the point a decision is taken to mine a refractory portion of the resource and funds committed to its development. The Mount Pleasant mine is operated by Zijin Mining Group, a large Chinese international mining company engaged in the exploration and mining of gold, copper, zinc and other mineral resources, which is dual-listed on the Hong Kong Stock Exchange (HKSE: 2899) and the Shanghai Stock Exchange (SSEC: 601899).

Amancaya

In July 2018 the Company acquired a 2.25% NSR royalty on the Amancaya gold-silver mine, located in northern Chile approximately 200km southeast of Antofagasta, from Yamana Gold Inc (TSX: YRI) for cash consideration of \$3.55m. The Amancaya mine is operated by Austral Gold Limited, a producer and explorer of precious metals which is dual-listed on the Australian Securities Exchange (ASX: AGD) and the Toronto Venture Exchange (TSX-V: AGLD).

ELEMENTAL ROYALTIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

Mercedes

In July 2018 the Company acquired a 1% NSR royalty on the Mercedes gold-silver mine, located in the State of Sonora in northern Mexico, 300km south of Tucson Arizona, from Yamana Gold Inc (TSX: YRI) for cash consideration of \$950,000. The Mercedes mine is operated by Equinox Gold Corp (TSX: EQX) following the completion of its acquisition of Premier Gold Mines Limited on April 7, 2021.

Wahgnion

On December 13, 2019, the Company entered into a Binding Heads of Agreement with Sanembaore Sarl Pty Ltd, ("SNB"), pursuant to which the Company agreed to acquire 100% of the issued capital of ("SNB"), a company incorporated under the laws of Australia. SNB's principal asset was a 1% NSR royalty over the Wahgnion gold project in Burkina Faso. The acquisition closed on January 29, 2020. The Wahgnion mine is operated by Endeavour Mining (TSX: EDV) following the completion of its acquisition of Teranga Gold Corp. on February 10, 2021.

In consideration for SNB, the Company paid a total of \$12,500,000 consisting of \$11,500,000 and issued 1,374,683 common shares (issued on January 16, 2020 at the fair value of \$1,000,000). The final payment as well as a late interest payment of \$73,014 was made on January 23, 2020. As SNB had no net assets other than the Wahgnion royalty, the purchase price and acquisition costs to acquire SNB were allocated to royalty interests.

South32 Portfolio

On February 9, 2021, the Company completed the acquisition of a portfolio of three gold royalties from South32 Limited ("South32 Portfolio"). The South32 portfolio included the following key assets: Karlawinda, Laverton and Western Queen. As consideration for the transaction, the Company made a cash payment of \$40,000,000 and issued 13,065,100 common shares to South32 valued at \$15,000,000.

As at December 31, 2020, the Company had incurred deferred acquisition costs of \$108,447 for legal fees, due diligence costs and other fees related to the acquisition of these royalties. During the nine months ended September 30, 2021, the Company incurred a further \$136,483 for legal fees, due diligence and other related fees.

The Company allocated the purchase price of the South32 Portfolio to Karlawinda (\$37,164,772), Laverton (\$16,071,252) and Western Queen (\$2,008,906).

Karlawinda

Elemental acquired a 2% NSR royalty on the Karlawinda gold project in February 2021 as part of the acquisition of the South32 Portfolio. The Karlawinda Gold Project is located in the Pilbara region of Western Australia, 70km by road south-east of the town of Newman. The Karlawinda gold project is operated by Capricorn Metals Ltd (ASX: CMM).

Laverton

Elemental acquired a 2% GRR royalty on the Laverton gold project in Feb 2021 as part of the acquisition of the South32 Portfolio. The Laverton gold project is located in the Eastern Goldfields region of Western Australia, surrounding the town of Laverton, approximately 250km north of Kalgoorlie. Elemental's interest is a 2% Gross Revenue Royalty payable on certain licences held by Focus Minerals Ltd. (ASX: FML).

Western Queen

Elemental acquired a A\$6-20/oz royalty on the Western Queen gold project in Feb 2021 as part of the acquisition of the South32 Portfolio. The Western Queen gold project lies 110km north-west of Mt Magnet within the Yalgoo mineral field of Western Australia. The Company's interest is a A\$6-20/oz royalty over the 9.8km² Western Queen Central Mine and associated prospects held by Rumble Resources Ltd. (ASX: RTR).

ELEMENTAL ROYALTIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

6. BORROWINGS

	September 30, 2021 \$	December 31, 2020 \$
Opening balance	1	-
Additions from credit facility	25,000,000	8,500,000
Additions from convertible loan	-	2,000,000
Allocation to equity component of convertible loan	-	(124,929)
Accretion of convertible loan	-	124,929
Transaction costs	(1,039,620)	(113,933)
Amortization of transaction costs and arrangement fees	336,941	113,933
Additions from the reverse takeover	-	172,666
Foreign exchange loss on loan	-	2,676
Repayments – ordinary shares	-	(2,087,963)
Repayments - cash	(1)	(8,587,378)
Closing balance	24,297,321	1

Credit Facility

On December 19, 2019, the Company entered into a Credit Agreement with Sprott Private Resource Lending ("Sprott"), an arm's length party, pursuant to which the Company would be provided with a \$8,500,000 senior secured credit facility (the "Sprott Credit Facility"). On January 23, 2020, the Company received \$8,500,000 from the Sprott Credit Facility.

The Sprott Credit Facility bore interest at a rate of 11.50% per annum paid monthly, maturing on July 23, 2020 and was secured by all assets of the Company. The Sprott Credit Facility required the Company to maintain cash and working capital balances of greater than \$1.0 million.

On July 1, 2020, the Sprott Credit Facility was amended with a revised maturity date of August 23, 2020.

On August 7, 2020, the Company repaid \$8,499,999 of principal. The principal balance remaining on the Sprott Credit Facility was \$1, which was repaid during the nine months ended September 30, 2021.

On December 29, 2020, the Sprott Credit Facility was amended and the Company entered into an Amended and Restated Credit Agreement with Sprott, pursuant to which the Company would be provided with a \$25,000,000 senior secured credit facility (the "Amended Sprott Credit Facility"). On February 9, 2021, the Company received \$25,000,000 from the Amended Sprott Credit Facility.

The Amended Sprott Credit Facility bears interest at a rate of 9% per annum plus the greater of (i) LIBOR and (ii) 1%, paid monthly, matures on January 31, 2023 and is secured by all assets of the Company. The Amended Sprott Credit Facility requires the Company to maintain cash and working capital balances of greater than \$1.0 million, which it has done.

Interest rate benchmark reform ("Reform") is a global reform of interest rate benchmarks, which includes the replacement of some interbank offered rates ("IBOR") with alternative benchmark rates. The Company is currently working with the lender to assess the potential alternatives to the use of LIBOR.

ELEMENTAL ROYALTIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

On February 8, 2021, the Company issued 653,255 common shares to Sprott as a finance cost at the fair value of \$769,870. As at September 30, 2021, the Company had incurred costs of \$269,750 for legal fees and other fees in connection with the facility. The financing costs associated with the credit facility will be accreted up to the maturity date.

During the nine months ended September 30, 2021, the Company recorded interest expense of \$1,916,668 (2020 - \$537,624) and amortization of transaction costs of \$336,941 (2020 - \$113,933) and arrangement fee expense of \$nil (2020 - \$270,250) on the Amended Sprott Credit Facility and the Sprott Credit Facility.

Convertible Loan

On January 9, 2020, the Company entered into a Convertible Loan Agreement with Tembo Mining Capital Fund LP ("Tembo"), an arm's length party. Pursuant to the terms of the agreement, the Company received a loan of \$2,000,000 bearing interest at a rate of 12% per annum and maturing on July 7, 2020. In addition, the lender was to receive an arrangement fee of \$200,000 payable on maturity. On May 13, 2020, the Convertible Loan Agreement was amended with a revised maturity date of August 6, 2020. All other terms remained the same.

The loan was convertible into ordinary shares of the Company at the lower of (i) the price per post-RTO share at which the first equity offering following the RTO is completed provided that the equity offering is at least \$2,000,000 and (ii) the volume weighted average price of the post-RTO share for the five trading days before conversion. On July 30, 2020, Tembo converted the \$2,000,000 loan, the \$200,000 arrangement fee and \$134,667 of accrued interest. The conversion price was CAD\$1.30 per common share (\$0.970) resulting in Elemental issuing 2,406,322 common shares to settle the Convertible Loan.

The Company determined that the fair value of the liability component of the Convertible Loan to be \$1,875,071, based on the net present value of future cash flows. The residual value of \$124,929 was allocated to the equity component of the Convertible Loan. On conversion of the loan, the amount was transferred to share capital.

During the nine months ended September 30, 2020, the Company recorded interest expense of \$134,667, accretion expense of \$124,929 and arrangement fee expense of \$200,000 on the Convertible Loan.

Fengro Loan

As part of the RTO with Fengro, the Company assumed the CAD\$230,987 (\$172,666) loan payable due to Tembo and an arm's length lender.

On August 4, 2020, the Company entered into a settlement agreement with Tembo whereby 65,996 common shares were issued to settle CAD\$115,493 of the loan. The shares were issued on September 3, 2020 at the fair value of \$87,963 based on the share price of CAD\$1.75 per common share (\$1.333).

On August 19, 2020, the Company paid the arm's length lender CAD\$115,494 (\$87,379) to settle the remaining balance of the loan.

7. SHARE CAPITAL

a) Authorized

The Company's authorized share structure consists of an unlimited number of common shares without par value.

ELEMENTAL ROYALTIES CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

b) *Share Exchange*

Pursuant to the terms of the RTO all outstanding securities of ERL were exchanged for post-Consolidation securities of ERC on a 4.8114 for 1 basis (Note 3). All references to share and per share amounts in these consolidated financial statements have been retroactively restated to reflect the post-4.8114 for 1 exchange ratio.

c) *Share activities*

Details of equity transactions during the nine months ended September 30, 2021 are as follows:

- 1) On February 8, 2021, the Company completed a private placement of 10,748,132 common shares at CAD\$1.50 (\$1.18) per common share for gross proceeds of CAD\$16,122,198 (\$12,666,817). In connection with the private placement, the Company paid CAD\$743,568 (\$584,203) of cash finders' fees and incurred additional legal fees and other cash issuance costs of CAD\$241,618 (\$207,441).
- 2) On February 8, 2021, the Company issued 13,065,100 common shares at CAD\$1.50 (\$1.18) per common share as part of the acquisition of the South32 royalty portfolio (Note 5); and
- 3) On February 8, 2021, the Company issued 653,255 common shares as a finance cost pursuant to the Amended and Restated Credit Agreement with Sprott (Note 6).

Details of equity transactions during the nine months ended September 30, 2020 are as follows:

- 1) On January 7, 2020, the Company issued 496,272 common shares at \$0.73 per share to raise gross proceeds of \$361,008;
- 2) On January 23, 2020, the Company issued 1,374,683 common shares at \$0.73 per share as part of the acquisition of SNB (Note 5);
- 3) On April 21, 2020, the Company issued 10,325 ordinary shares at \$0.73 per share as payment of \$7,511 of a bonus;
- 4) On May 1, 2020, the Company issued 1,240,879 ordinary shares at \$0.73 per share to raise gross proceeds of \$902,664;
- 5) On July 27, 2020, the Company was deemed to have issued 753,706 common shares at CAD \$1.30 (\$0.972) per share as part of the reverse takeover transaction (Note 3);
- 6) On July 28, 2020, the Company completed a brokered subscription receipt financing of 18,437,715 common shares at CAD\$1.30 (\$0.972) per share for gross proceeds of CAD\$23,969,030 (\$17,917,153). In connection with the financing, the Company paid cash finders' fees of \$1,083,461 and incurred cash issuance costs of \$162,422;
- 7) On July 30, 2020, the Company issued 2,406,322 common shares to convert the Tembo loan, including the arrangement fee and accrued interest at a conversion price of CAD\$1.30 (\$0.97) as repayment of the \$2,334,667 convertible loan (Note 6);
- 8) On July 30, 2020, the Company issued 196,207 common shares at CAD\$1.30 (\$0.97) to settle the \$190,250 arrangement fee for the Sprott Credit Facility (Note 6); and
- 9) On September 3, 2020, the Company issued 65,996 common shares to settle CAD\$115,494 of debt incurred pursuant to a bridge loan made to Fengro in March 2019.

d) *Stock options and performance share units*

The Company has an incentive compensation plan for stock options, performance share units and restricted share units. The maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of

ELEMENTAL ROYALTIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX-V). The vesting terms of the awards are in the sole discretion of the Board of Directors. Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as a director or officer of the Company.

Stock options

Changes in share purchase options during the nine months ended September 30, 2021 and during the year ended December 31, 2020 are as follows:

	Number of stock options	Weighted Average Exercise Price	Weighted Average Life (Years)
Outstanding, December 31, 2019	-		
Granted	900,000	CAD\$1.50	5.00
Outstanding, December 31, 2020	900,000	CAD\$1.50	4.58
Outstanding, September 30, 2021	900,000	CAD\$1.50	3.83
Outstanding and exercisable, September 30, 2021	900,000	CAD\$1.50	3.83

As at September 30, 2021, there were 900,000 stock options outstanding at CAD\$1.50 per share expiring on July 28, 2025. All 900,000 stock options vested fully on July 28, 2021.

During the nine months ended September 30, 2021, the Company recorded \$292,118 (2020 - \$83,462) of share-based compensation to the statement of comprehensive loss based on the vesting of stock options.

During the three months ended September 30, 2021, the Company recorded \$41,732 (2020 - \$83,462) of share-based compensation to the statement of comprehensive loss based on the vesting of stock options.

Performance share units

The Company has certain performance share units ("PSUs") outstanding which were issued to directors and officers. Changes in PSUs during the nine months ended September 30, 2021 and the year ended December 31, 2020 are as follows:

	Number of PSUs
Outstanding, December 31, 2019	497,797
Recapitalization transactions	
Pursuant to the reverse takeover	(497,797)
Replacement PSUs issued	2,395,109
Issued	500,000
Outstanding, December 31, 2020	2,895,109
Outstanding, September 30, 2021	2,895,109
Outstanding and exercisable, September 30, 2021	2,395,109

ELEMENTAL ROYALTIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

On June 14, 2018, the Company issued 2,395,109 PSUs to directors and officers, expiring on June 14, 2023. The PSUs vest once the Company's share price reaches between \$0.62 and \$1.25 per share and a period of time has passed. 463,498 PSUs vest after 2 years if the share price reaches \$0.62. The remaining PSUs vest after 3 years with 579,483 vesting if the share price reaches \$0.78, 579,483 if the share price reaches \$0.94 and 772,645 if the share price reaches \$1.25.

On July 28, 2020, the Company issued 500,000 PSUs to certain employees of Elemental. The PSUs vest once the Company's share price reaches between CAD\$1.70 and CAD\$2.20 per share and a period of time has passed as follows: 160,000 PSUs vest after 2 years (July 28, 2022) if the share price reaches CAD\$1.70 and 340,000 PSUs vest after 3 years (July 28, 2023) if the share price reaches CAD\$2.20.

The fair value of the performance share units was estimated using the fair value of a common share at the grant date and various probabilities of the likelihood of the Company's stock price reaching the targets.

During the nine months ended September 30, 2021, the Company recorded \$290,073 (2020 - \$393,453) of share-based compensation to the statement of comprehensive loss based on the vesting of PSUs.

During the three months ended September 30, 2021, the Company recorded \$56,545 (2020 - \$86,944) of share-based compensation to the statement of comprehensive loss based on the vesting of PSUs.

e) Escrowed Shares

On completion of reverse takeover and listing on the TSX Venture Exchange on July 30, 2020, certain principals of Elemental entered into a Tier 1 Value Escrow Agreement with the TSX Venture Exchange and Computershare Trust Company of Canada, as escrow agent, in respect of 9,564,143 Elemental common shares and 2,760,109 PSUs for aggregate escrowed securities of 12,324,252. Under the terms of the Escrow Agreement, 25% of such escrowed securities were released upon closing (July 30, 2020) with subsequent 25% releases occurring 6, 12, and 18 months from closing. These escrow shares have been and will be released as follows:

<u>Date of Automatic Timed Release</u>	<u>Amount of Escrow Shares Released</u>
On the date that the Company's common shares were listed on the TSX-V, July 30, 2020	1/4 of the escrow shares
6 months after the listing date (January 30, 2021)	1/4 of the escrow shares
12 months after the listing date (July 30, 2021)	1/4 of the escrow shares
18 months after the listing date (January 30, 2022)	The remainder of the escrow shares

As at September 30, 2021, 2,391,036 common shares and 690,028 PSUs remained in escrow.

f) Basic and diluted loss per share

During the nine months ended September 30, 2021, potentially dilutive common shares totaling 3,795,109 (2020: 3,795,109) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive. Potentially dilutive common shares are from PSUs and stock options.

ELEMENTAL ROYALTIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

8. OPERATING EXPENSES BY NATURE

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salary, fees and pension	244,115	154,201	761,637	371,292
Corporate administration	59,832	56,301	192,847	164,584
Listing and filing fees	18,320	33,451	118,122	33,451
Marketing and promotion	185,500	37,855	459,148	40,441
Professional fees and consulting fees	95,688	98,283	324,800	649,725
Total operating expenses, including reverse takeover expenses	603,455	380,091	1,856,554	1,259,493
Less: reverse takeover expenses	-	(46,195)	-	(486,255)
Total operating expenses	603,455	333,896	1,856,554	773,238

9. RELATED PARTY TRANSACTIONS

Key management includes the executive and non-executive directors and certain officers of the Company. Key management compensation during the three and nine months ended September 30, 2021 and 2020 is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salary, fees, pension and professional fees	183,128	157,878	573,429	361,982
Share-based compensation – PSUs and stock options	69,795	136,721	443,886	443,270
	252,923	294,599	1,017,315	805,252

Acquisition of Elemental Resources Ltd.

On May 30, 2020, the Company acquired Elemental Resources Ltd. (“ERLUK”), a company in which Frederick Bell and Richard Evans are directors and controlling shareholders, for a purchase price of \$1.

At the date of acquisition, ERLUK had net liabilities of \$4,552 as well as a receivable from the Company of \$78,793, resulting in a gain on acquisition of \$74,240.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the nine months ended September 30, 2021, the following transactions were excluded from the statement of cash flows:

- a) 13,065,100 common shares were issued at the fair value of \$15,000,000 to acquire the South32 Portfolio (Note 5); and,
- b) 653,255 common shares were issued at the fair value of \$769,870 to settle the Sprott finance cost (Note 6).

During the nine months ended September 30, 2020, the following transactions were excluded from the statement of cash flows:

ELEMENTAL ROYALTIES CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2021 and 2020

(Unaudited - Expressed in US Dollars)

- a) 1,374,683 common shares were issued at the fair value of \$1,000,000 to acquire the Wahgnion Royalty (Note 5);
- b) 196,207 common shares were issued at the fair value of \$190,250 to settle the Sprott arrangement fee (Note 6);
- c) 2,406,322 common shares were issued at the fair value of \$2,334,667 on the conversion of the Tembo Convertible Loan (Note 6); and,
- d) 65,996 common shares were issued at the fair value of \$87,963 to settle the Fengro Loan (Note 6).

11. COMMITMENTS

In December 2017, the Company acquired the Mount Pleasant royalty. A deferred payment of AU\$400,000 is due at the point a decision is taken to mine a refractory portion of the resource and funds committed to its development. As of the reporting date, the deferred payment has not been recognized as it is not considered more likely than not that the condition triggering the payment obligation will occur.

On March 16, 2021, the Company entered into a client services contract where the Company was committed to incurring CAD\$800,000, of which CAD\$600,000 had already been paid as at September 30, 2021.