



**ELEMENTAL ROYALTIES CORP.**  
(formerly “Fengro Industries Corp.”)

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the Nine Months Ended September 30, 2020 and 2019  
(Unaudited - Expressed in US Dollars)

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

**ELEMENTAL ROYALTIES CORP.**

(Formerly "Fengro Industries Corp.")

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited - Expressed in US Dollars)

	Notes	September 30, 2020 \$	December 31, 2019 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		8,757,279	812,572
Accounts receivable	4	2,077,154	445,182
Prepaid expenses and other current assets		80,723	50,789
<b>Total current assets</b>		<b>10,915,156</b>	<b>1,308,543</b>
<b>Non-current assets</b>			
Deferred acquisition costs		-	503,200
Deferred financing costs		-	75,000
Royalty interests	5	16,134,525	4,779,572
<b>Total non-current assets</b>		<b>16,134,525</b>	<b>5,357,772</b>
<b>Total assets</b>		<b>27,049,681</b>	<b>6,666,315</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	148,655	293,424
Borrowings	6	1	-
<b>Total current liabilities</b>		<b>148,656</b>	<b>293,424</b>
<b>Total liabilities</b>		<b>148,656</b>	<b>293,424</b>
<b>Equity</b>			
Share capital	7	28,800,786	6,388,098
Reserves		825,563	348,648
Subscriptions received		-	7,185
Accumulated other comprehensive loss		8,908	(970)
Deficit		(2,734,232)	(370,070)
<b>Total equity</b>		<b>26,901,025</b>	<b>6,372,891</b>
<b>Total liabilities and equity</b>		<b>27,049,681</b>	<b>6,666,315</b>

Nature of operations (Note 1)

Commitments (Note 11)

Subsequent event (Note 12)

**Approved by the Board of Directors on November 12, 2020**

<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.**

(Formerly "Fengro Industries Corp.")

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the three and nine months ended September 30, 2020 and 2019

(Unaudited - Expressed in US Dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020 \$	2019 \$	2020 \$	2019 \$
<b>Income</b>					
Revenue from royalty interests	5	1,152,922	660,849	3,660,272	1,767,368
<b>Cost of sales</b>					
Depletion of royalty interests	5	(400,288)	(167,091)	(1,165,651)	(475,103)
<b>Gross profit</b>		752,634	493,758	2,494,621	1,292,265
General and administrative expenses	8	(177,297)	(126,155)	(441,839)	(306,196)
Project evaluation expenses	8	(114,972)	(20,863)	(301,877)	(103,900)
Share-based compensation expense	7(d),9	(170,406)	(58,108)	(476,915)	(174,324)
<b>Income from operations</b>		289,959	288,632	1,273,990	707,845
Other income and expenses					
Interest income		4,539	13	4,539	113
Interest and finance expenses	6	(208,355)	-	(1,454,417)	(84,600)
Gain on acquisition	9	-	-	74,240	-
Listing expense	3,8	(1,083,122)	-	(1,523,182)	-
<b>(Loss) income before income taxes</b>		(996,979)	288,645	(1,624,830)	623,358
Tax expense		(219,848)	(216,589)	(739,332)	(560,656)
<b>Net (loss) income for the period</b>		(1,216,827)	72,056	(2,364,162)	62,702
<b>Other comprehensive income</b>					
Items that may be reclassified subsequently to profit and loss:					
Foreign currency translation adjustment		17,180	2,678	9,878	2,114
<b>Other comprehensive income</b>		17,180	2,678	9,878	2,114
<b>Total comprehensive (loss) income</b>		(1,199,647)	74,734	(2,354,284)	64,816
(Loss) earnings per share – basic and diluted					
		(0.03)	0.00	(0.09)	0.00
Weighted average number of shares outstanding – basic and diluted					
		38,034,389	19,027,121	27,773,144	17,124,424

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

**ELEMENTAL ROYALTIES CORP.**

(Formerly "Fengro Industries Corp.")

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the nine months ended September 30, 2020 and 2019

(Unaudited - Expressed in US Dollars)

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net loss for the period	(2,364,162)	62,702
Items not affecting cash:		
Depletion of royalty interests	1,165,651	475,103
Foreign exchange	4,108	19,595
Expenses settled in shares	7,511	19,776
Share-based compensation expense	476,915	174,324
Interest and finance expenses	1,454,417	84,600
Gain on acquisition	(74,240)	-
Listing expense	1,036,927	-
	1,707,127	836,100
Changes in non-cash working capital items:		
Accounts receivable	(1,607,342)	(96,084)
Prepaid expenses and other current assets	(29,934)	(80,371)
Accounts payable and accrued liabilities	(400,871)	(59,410)
<b>Net cash (used in) provided by operating activities</b>	<b>(331,020)</b>	<b>600,235</b>
<b>Investing activities</b>		
Purchase of royalties	(11,008,958)	-
Cash received on acquisition of ERL UK	81,416	-
Cash received on acquisition of Fengro	12,462	-
<b>Cash used in investing activities</b>	<b>(10,915,080)</b>	<b>-</b>
<b>Financing activities</b>		
Proceeds from issue of shares, net of fees	17,927,757	1,524,057
Interest paid	(610,639)	(146,442)
Proceeds of borrowings, net of fees	10,461,067	-
Repayment of borrowings	(8,587,378)	(1,487,003)
Dividends paid	-	(5,453)
<b>Net cash provided by (used in) financing activities</b>	<b>19,190,807</b>	<b>(114,841)</b>
<b>Increase in cash</b>	<b>7,944,707</b>	<b>485,394</b>
<b>Cash, beginning of the period</b>	<b>812,572</b>	<b>206,189</b>
<b>Cash, end of the period</b>	<b>8,757,279</b>	<b>691,583</b>

Supplemental cash flow information (Note 10)

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

**ELEMENTAL ROYALTIES CORP.**

(Formerly "Fengro Industries Corp.")

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the nine months ended September 30, 2020 and 2019

(Unaudited - Expressed in US Dollars)

	Ordinary shares #	Share capital \$	Reserves \$	Subscriptions received \$	Equity component convertible loan \$	AOCI \$	Deficit \$	Total Equity \$
Balance as at December 31, 2018	15,993,975	4,124,574	116,216	80,810	-	(36)	(228,816)	4,092,748
Issued during the period:								
For cash, net of issue costs	2,433,698	1,514,757	-	(80,810)	-	-	-	1,433,947
For bonus	31,717	19,776	-	-	-	-	-	19,776
Share-based compensation expense	-	-	174,324	-	-	-	-	174,324
Dividends	86,591	53,991	-	-	-	-	(59,444)	(5,453)
For settlement of loan	481,140	300,000	-	-	-	-	-	300,000
Loss and comprehensive loss for the period	-	-	-	-	-	2,114	62,702	64,816
Balance as at September 30, 2019	19,027,121	6,013,098	290,540	-	-	2,078	(225,558)	6,080,158
Issued during the period:								
For cash, net of issue costs	515,508	375,000	-	-	-	-	-	375,000
Subscriptions received	-	-	-	7,185	-	-	-	7,185
Share-based compensation expense	-	-	58,108	-	-	-	-	58,108
Loss and comprehensive loss for the period	-	-	-	-	-	(3,048)	(144,512)	(147,560)
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	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 as at September 30, 2020	44,524,734	28,800,786	825,563	-	-	8,908	(2,734,232)	26,901,025

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

## **ELEMENTAL ROYALTIES CORP.**

(Formerly "Fengro Industries Corp.")

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2020 and 2019

(Unaudited - Expressed in US Dollars)

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Elemental Royalties Corp. (the "Company" or "ERC") (formerly "Fengro Industries Corp.") ("Fengro") 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.

On July 27, 2020, Fengro acquired all of the issued and outstanding common shares of a British Virgin Islands incorporated company, Elemental Royalties Limited ("ERL"), in exchange for 22,664,788 common shares. As a result of this transaction, the shareholders of ERL acquired more than 50% of the Company's issued and outstanding common shares and the transaction was accounted for as a reverse takeover ("RTO"). Upon completion of the RTO, the shareholders of ERL obtained control of the consolidated entity. ERL has been identified as the acquirer, and accordingly the entity is considered to be a continuation of ERL with the net assets of Fengro at the date of the RTO deemed to have been acquired by ERL (Note 3). The consolidated financial statements include the results of operations of Fengro from July 27, 2020. The comparative figures are those of ERL.

On July 30, 2020 the common shares of the Company commenced trading on the TSX Venture Exchange under the ticker symbol "ELE".

The Company acknowledges the outbreak of the COVID-19 pandemic during the period and the 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 projected 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 the recognition and valuation principles of 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, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

The financial statements are presented in US Dollars rounded to the nearest dollar. The notation "\$" represents US dollars and "CAD\$" represents Canadian dollars.

The Company uses the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended December 31, 2019 except as listed below.

The financial statements were approved by the board and authorized for issue on November 12, 2020.

## ELEMENTAL ROYALTIES CORP.

(Formerly "Fengro Industries Corp.")

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

(Unaudited - Expressed in US Dollars)

#### (B) Changes in accounting policy

##### i) New standards, interpretations and amendments effective from January 1, 2020

	Issued Date	IASB mandatory effective date <sup>1</sup>
<b>Amendments to Existing Standards</b>		
Amendments to References to the conceptual framework in IFRSs	29-Mar-18	01-Jan-20
Amendment to IFRS 3 Business Combinations	22-Oct-18	01-Jan-20
Amendments to IAS 1 and IAS 8: Definition of Material	31-Oct-18	01-Jan-20

<sup>1</sup>Periods beginning unless noted otherwise.

The application of the above standards did not have a material impact on the Company's financial statements.

#### (C) Critical accounting estimates and judgements

For full details on the critical accounting estimates and judgements affecting the Company, please refer to the Company's annual consolidated financial statements and notes for the year ended December 31, 2019.

### 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.



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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:

<b>Net assets acquired</b>	<b>\$</b>
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)
<b>Consideration paid</b>	
Fair value of 753,706 common shares deemed issued	732,426
<b>Listing expense</b>	<b>1,036,927</b>

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

**4. ACCOUNTS RECEIVABLE**

	September 30, 2020	December 31, 2019
	\$	\$
Accrued royalty income	2,058,650	438,548
Other receivables	18,504	6,634
Total accounts receivable	2,077,154	445,182

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2020 and 2019

(Unaudited - Expressed in US Dollars)

**5. ROYALTY INTERESTS**

	Kwale	Panton Sill	Mount Pleasant	Amancaya	Mercedes	Wahgnion	Total
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2018	618,791	94,219	430,822	3,344,906	999,001	-	5,487,739
Additions	-	-	-	-	-	-	-
Depletion	(120,470)	-	(4,759)	(581,459)	-	-	(706,688)
Foreign exchange translation	-	-	(1,479)	-	-	-	(1,479)
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	(110,383)	-	(680)	(369,948)	-	(684,640)	(1,165,651)
Foreign exchange translation	-	-	8,446	-	-	-	8,446
Balance, September 30, 2020	387,938	94,219	432,350	2,393,499	999,001	11,827,518	16,134,525

**Kwale**

In February 2017 the Company acquired a 0.25% GRR royalty on the Kwale mineral sands mine from Acacia Mining (LON: ACA) for cash consideration of \$937,500; in addition, \$5,639 in transaction costs was incurred. 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% NSR royalty on the Panton Sill project from Fevertree Resources Pty Ltd in February 2017 for the consideration of \$90,000, settled by the issue of 90,000 preferred shares of the Company. The Company incurred \$4,219 in transaction costs. The Panton Sill project is owned by Panoramic Resources Limited, a base metal mining and exploration company which is listed on the Australian Securities Exchange (ASX: PAN).

**Mount Pleasant**

In December 2017 the Company acquired a 5% NPI or A\$10/Oz royalty on the Mount Pleasant operations 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. A total of AU\$16,118 in acquisition costs were incurred. 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).

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2020 and 2019

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**Amancaya**

In July 2018 the Company acquired a 2.25% NSR royalty on the Amancaya gold-silver mine from Yamana Gold Inc (TSX: YRI) for cash consideration of \$3.55m. A total of \$64,306 in acquisition costs was incurred. 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).

**Mercedes**

In July 2018 the Company acquired a 1% NSR royalty on the Mercedes gold-silver mine from Yamana Gold Inc (TSX: YRI) for cash consideration of \$950,000, providing royalty revenue from 2022. Acquisition costs of \$49,000 were incurred. The Mercedes mine is operated by Premier Gold Mines Limited, an emerging gold producer which is listed on the Toronto Stock Exchange (TSX: PG).

**Wahgnion**

On December 13, 2019, the Company entered into a Bindings Heads of Agreement between the Company and the Vendor pursuant to which the Company agreed to acquire 100% of the issued capital of Sanembaore Sarl Pty Ltd ("SNB"), a company incorporated under the laws of Australia. SNB's principal asset is a 1% net smelter return royalty over Teranga Gold's Wahgnion project in Burkina Faso. The acquisition closed on January 29, 2020.

In consideration for 100% of the issued capital of SNB, the Company paid a total of \$12,500,000 consisting of a first payment of \$500,000 (paid as at December 31, 2019), a second payment of \$2,500,000 and issuing 1,374,683 common shares (issued on January 16, 2020 at the fair value of \$1,000,000) and a final payment of \$8,500,000. The final payment as well as a late interest payment of \$73,014 was made on January 23, 2020. Acquisition costs of \$7,153 were incurred. 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.

A Director of the Company owned a 25% interest in the Vendor; given this minority ownership position, the Vendor was considered to be an arm's length party.

The following table summarizes the Company's total revenue from royalty interests during the three and nine months ended September 30, 2020 and 2019:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Kwale	96,479	97,059	403,015	359,785
Mount Pleasant	-	427	8,678	17,367
Amancaya	358,069	563,363	1,305,916	1,390,216
Wahgnion	698,374	-	1,942,663	-
Total revenue from royalty interests	1,152,922	660,849	3,660,272	1,767,368

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**6. BORROWINGS**

	September 30, 2020 \$	December 31, 2019 \$
Opening balance	-	1,848,845
Additions from credit facility	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	(113,933)	-
Amortization of transaction costs and arrangement fees	113,933	-
Additions from the RTO with Fengro (Note 3)	172,666	-
Foreign exchange loss on Fengro loan	2,676	-
Repayments – ordinary shares	(2,087,963)	(300,000)
Repayments - cash	(8,587,378)	(1,548,845)
Closing balance	1	-

On June 15, 2018 the Company entered into a short-term loan facility with Flewis Holdings Pty Limited for up to \$4m. On July 10, 2018 the Company drew down \$3.69m. The loan carried an interest rate of 12% per annum, payable quarterly in arrears. On May 28, 2019, the loan was settled in full by paying cash and issuing 481,140 common shares at the fair value of \$300,000.

*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 bears interest at a rate of 11.50% per annum paid monthly, maturing on July 23, 2020 and is secured by all assets of the Company. In addition, the lender received a fee of \$190,250 payable on completion of the RTO in shares at the RTO share price. A separate fee of \$80,000 was paid for the lender making a potential future financing facility available. The Company agreed to pay legal fees of the lender and as at December 31, 2019, the Company had advanced the lender \$75,000 for legal fees. During the nine months ended September 30, 2020, the Company paid additional legal fees of \$18,000 and accrued additional legal fees payable of \$20,933. 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 \$8,539,939 which included \$8,499,999 of principal, \$20,933 of legal fees and \$19,007 of interest. The Company also issued 196,207 common shares to settle the \$190,250 arrangement fee at the fair value of CAD\$1.30 per common share (\$0.970). The principal balance remaining on the Sprott Credit Facility is \$1.

During the nine months ended September 30, 2020, the Company recorded interest expense of \$537,624, amortization of transaction costs of \$113,933 and arrangement fee expense of \$270,250 on the Sprott Credit Facility.

## ELEMENTAL ROYALTIES CORP.

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### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

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#### *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.

### *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.

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#### *c) Share activities*

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 common shares at \$0.73 per share as payment of a bonus of \$7,511 to a Company employee;
- 4) On May 1, 2020, the Company issued 1,240,879 common 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.

Details of equity transactions during the nine months ended September 30, 2019 are as follows:

- 1) On February 22, 2019, the Company issued 129,908 common shares at \$0.62 per share to raise gross proceeds of \$81,000;
- 2) On February 22, 2019, the Company issued 40,214 common shares at \$0.62 per share as payment of \$25,074 of dividends;
- 3) On February 22, 2019, the Company issued 31,717 common shares at \$0.62 per share as a bonus payment of \$19,776 to a Company employee;
- 4) On June 14, 2019, the Company issued 481,140 common shares at \$0.62 per share to settle the remainder of the loan to Flewis Holdings Pty Limited;
- 5) On June 14, 2019, the Company issued 2,303,790 common shares at \$0.62 per share to raise gross proceeds of \$1,436,457. The Company incurred finders' fees of \$2,700; and
- 6) On June 14, 2019, the Company issued 46,377 common shares at \$0.62 per share as payment of \$28,917 of dividends.

Share subscription received relates to funds received in advance of shares being issued. As at September 30, 2020, the balance was \$nil (December 31, 2019 - \$7,185).

#### *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

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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 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 periods ended September 30, 2020 and December 31, 2019 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, September 30, 2020	900,000	CAD\$1.50	4.83
Outstanding and exercisable, September 30, 2020	-	CAD\$1.50	-

As at September 30, 2020, there were 900,000 stock options outstanding exercisable at CAD\$1.50 per share expiring on July 28, 2025. The stock options vest on July 28, 2021.

The fair value of the stock options granted has been estimated to be \$0.56 per stock option using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Stock price	CAD\$1.30
Exercise price	CAD\$1.50
Risk-free interest rate	0.33%
Expected life	5.0 years
Expected volatility <sup>(1)</sup>	75%
Expected dividends	Nil

<sup>(1)</sup> The volatility was determined as per an average of the volatility of comparable publicly traded companies.

During the nine months ended September 30, 2020, the Company recorded \$83,462 (2019 - \$nil) 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 periods ended September 30, 2020 and December 31, 2019 are as follows:

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	Number of PSUs
Outstanding, December 31, 2018 and 2019	497,797
Recapitalization transactions	
Pursuant to the acquisition of Fengro	(497,797)
Exchange of Shares	2,395,109
Issued	500,000
Outstanding, September 30, 2020	2,895,109
Outstanding and exercisable, September 30, 2020	463,498

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. 160,000 PSUs vest after 2 years (July 28, 2022) if the share price reaches CAD\$1.70. 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, 2020, the Company recorded \$393,453 (2019 - \$174,324) of share-based compensation to the statement of comprehensive loss based on the vesting of PSUs.

*e) Escrowed Shares*

On completion of the Transaction, 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 will be released as follows:

Date of Automatic Timed Release	Amount of Escrow Shares Released
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
36 months after the listing date (January 30, 2022)	The remainder of the escrow shares

As at September 30, 2020, 7,173,108 common shares and 2,070,082 PSUs remained in escrow.



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*f) Basic and diluted loss per share*

During the nine months ended September 30, 2020, potentially dilutive common shares totaling 3,795,109 (2019: 2,395,109) 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.

**8. OPERATING EXPENSES BY NATURE**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salary, fees and pension	154,201	71,354	371,292	227,181
Corporate administration	52,529	35,990	175,503	90,438
Listing and filing fees	33,451	-	33,451	-
Professional fees and consulting fees	98,283	39,674	649,725	92,477
Total operating expenses, including RTO expenses	338,464	147,018	1,229,971	410,096
Less: RTO expenses (Note 3)	(46,195)	-	(486,255)	-
Total operating expenses	292,269	147,018	743,716	410,096

**9. RELATED PARTY TRANSACTIONS**

Key management includes the executive and non-executive directors and the Corporate Development Manager. Key management compensation during the three and nine months ended September 30, 2020 and 2019 is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salary, fees and pension	115,421	71,354	312,849	232,539
Share-based compensation – PSUs and stock options	136,761	58,018	443,270	174,324
	252,182	129,372	756,119	406,863

*Acquisition of Elemental Resources Ltd.*

During the period Elemental Resources Ltd. ("ERLUK"), a company in which Frederick Bell and Richard Evans are directors and controlling shareholders, charged employment and office related expenses in the amount of \$90,805 (2019: \$94,775). As at December 31, 2019, \$59,205 was outstanding as payable.

On May 30, 2020, the Company acquired ERLUK 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.

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**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, 2020, the following transactions were excluded from the statement of cash flows:

- 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).

During the nine months ended September 30, 2019, the following transactions were excluded from the statement of cash flows:

- a) 86,591 common shares were issued at the fair value of \$53,991 as settlement of dividends; and,
- b) 481,140 common shares were issued at the fair value of \$300,000 as settlement of a loan.

**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 not considered more likely than not that the condition triggering the payment obligation will occur.

**12. SUBSEQUENT EVENT**

On November 4, 2020, the Company's shares began trading on the OTXQX market under the trading symbol "ELEM".