



FINANCIAL STATEMENTS
(Expressed in United States (“US”) Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND DECEMBER 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Star Royalties Ltd.

Opinion

We have audited the financial statements of Star Royalties Ltd. (the Entity), which comprise:

- the statements of financial position as at December 31, 2020 and December 31, 2019
- the statements of loss and other comprehensive loss for the years ended December 31, 2020 and December 31, 2019
- the statements of changes in equity for the years ended December 31, 2020 and December 31, 2019
- the statements of cash flows for the years ended December 31, 2020 and December 31, 2019
- and notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020 and December 31, 2019, and its results of loss and other comprehensive loss and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Pieter Fourie.

Toronto, Canada
April 19, 2021

STAR ROYALTIES LTD.
STATEMENTS OF FINANCIAL POSITION
(Presented in US Dollars)
As At

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents (Note 4) | \$ 1,988,993 | \$ 396,916 |
| Receivables (Note 5) | 164,017 | 13,998 |
| Prepaid and other (Note 6) | <u>120,106</u> | <u>-</u> |
| | 2,273,116 | 410,914 |
| Non-current | | |
| Royalty and stream interests (Note 7) | <u>10,346,424</u> | <u>297,709</u> |
| | \$ 12,619,540 | \$ 708,623 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 8) | \$ 134,835 | \$ 4,036 |
| Due to related parties (Note 9) | <u>-</u> | <u>108,505</u> |
| | 134,835 | 112,541 |
| Shareholders' equity | | |
| Share capital (Note 10) | 12,786,743 | 484,033 |
| Subscriptions received in advance (Note 10) | - | 210,530 |
| Contributed surplus | 144,716 | - |
| Accumulated other comprehensive income (Note 10) | 459,289 | 7,669 |
| Deficit | <u>(906,043)</u> | <u>(106,150)</u> |
| | <u>12,484,705</u> | <u>596,082</u> |
| | \$ 12,619,540 | \$ 708,623 |

Nature and continuance of operations (Note 1)
Subsequent events (Note 10, 15)

Approved on behalf of the Board

"Alexandre Pernin"
Alexandre Pernin

Director

"Kylie Dickson"
Kylie Dickson

Director

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

STAR ROYALTIES LTD.

STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS

(Presented in US Dollars)

| | Year Ended December 31, 2020 | Year Ended December 31, 2019 |
|---|---|------------------------------------|
| Revenue | | |
| Royalty income | \$ 9,801 | \$ - |
| Costs of sales | | |
| Depletion | (5,458) | - |
| Gross profit | 4,343 | - |
| Expenses | | |
| Consulting fees (Note 9) | 268,633 | 102,156 |
| Office and miscellaneous | 14,300 | 475 |
| Professional fees | 224,517 | 3,519 |
| Shareholder communications | 12,065 | - |
| Transfer agent and filing fees | 2,540 | - |
| Rent | 11,193 | - |
| Total operating expenses | (533,248) | (106,150) |
| Other income/(loss) | | |
| Interest income | 3,499 | - |
| Foreign exchange loss | (274,487) | - |
| Net loss | (799,893) | (106,150) |
| Other comprehensive income | | |
| Items that are or may be reclassified subsequently to profit or loss | | |
| Foreign currency translation differences | 451,620 | 7,669 |
| Total other comprehensive income | 451,620 | 7,669 |
| Total comprehensive loss | \$ (348,273) | \$ (98,481) |
| Basic and diluted loss per common share | \$ (0.05) | \$ (0.01) |
| Weighted average number of common shares outstanding – basic and diluted | 14,605,822 | 3,014,155 |

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

STAR ROYALTIES LTD.
STATEMENTS OF CASH FLOWS
(Presented in US Dollars)

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the year | \$ (799,893) | \$ (106,150) |
| Items not affecting cash: | | |
| Depletion | 5,458 | - |
| Foreign exchange loss | 274,487 | - |
| Non-cash working capital items changes: | | |
| Accounts payable and accrued liabilities | 3,464 | 3,977 |
| Due to related parties | 73,688 | 106,885 |
| Prepaid and other | 6,620 | - |
| Receivables | <u>(142,364)</u> | <u>(13,789)</u> |
| Net cash used in operating activities | <u>(578,540)</u> | <u>(9,077)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of royalty and stream interests | <u>(9,818,047)</u> | <u>-</u> |
| Net cash used by investing activities | <u>(9,818,047)</u> | <u>-</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of shares (Note 10) | 12,887,035 | 190,276 |
| Repurchase of shares (Note 10) | (292,383) | - |
| Share issuance costs (Note 10) | (540,938) | - |
| Proceeds from subscriptions received in advance (Note 10) | <u>-</u> | <u>210,530</u> |
| Net cash provided by financing activities | <u>12,053,714</u> | <u>400,806</u> |
| Change in cash and cash equivalents for the year | 1,657,127 | 391,729 |
| Effect of exchange rate changes on cash and cash equivalents | (65,050) | 5,186 |
| Cash and cash equivalents, beginning of year | <u>396,916</u> | <u>1</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,988,993</u> | <u>\$ 396,916</u> |
| Non-cash financing and investing activities | | |
| Share issuance costs in accounts payable and accrued liabilities | \$ 127,069 | \$ - |
| Issuance of shares for related party settlement (Note 10) | \$ 183,735 | \$ - |
| Issuance of shares related to royalty interest (Note 10) | \$ - | \$ 293,756 |
| Fair value of broker warrants (Note 10) | \$ 144,716 | \$ - |

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

STAR ROYALTIES LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Presented in US Dollars)

| | Share Capital | | | | | | Total |
|---|---------------------|---------------|---|------------------------|---|--------------|---------------|
| | Number (Note 10) | Amount | Subscriptions received in advance | Contributed surplus | Accumulated other comprehensive income | Deficit | |
| Balance, December 31, 2018 | 1 | \$ 1 | \$ - | \$ - | \$ - | \$ - | 1 |
| Private placement | 5,000,000 | 190,276 | - | - | - | - | 190,276 |
| Shares issued related to acquisition of royalty interests (Note 7) | 2,833,333 | 293,756 | - | - | - | - | 293,756 |
| Subscriptions received in advance | - | - | 210,530 | - | - | - | 210,530 |
| Loss and other comprehensive gain for the year | - | - | - | - | 7,669 | (106,150) | (98,481) |
| Balance, December 31, 2019 | 7,833,334 | \$ 484,033 | \$ 210,530 | \$ - | \$ 7,669 | \$ (106,150) | \$ 596,082 |
| Shares re-purchased related to acquisition of royalty interests (Note 10) | (2,833,333) | (292,383) | - | - | - | - | (292,383) |
| Share cancellation (Note 10) | (2,500,000) | - | - | - | - | - | - |
| Private placement | 30,134,136 | 13,097,565 | (210,530) | - | - | - | 12,887,035 |
| Share issuance costs – cash | - | (540,938) | - | - | - | - | (540,938) |
| Share issuance costs – broker warrants | - | (144,716) | - | 144,716 | - | - | - |
| Shares issued to settle amount due to related parties | 384,000 | 183,182 | - | - | - | - | 183,182 |
| Loss and other comprehensive loss for the year | - | - | - | - | 451,620 | (799,893) | (348,273) |
| Balance, December 31, 2020 | 33,018,137 | \$ 12,786,743 | \$ - | \$ 144,716 | \$ 459,289 | \$ (906,043) | \$ 12,484,705 |

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

STAR ROYALTIES LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. NATURE AND CONTINUANCE OF OPERATIONS

Star Royalties Ltd. (formerly Oxford Royalties Ltd.) (the “Company”) was incorporated in Canada under the Canada Business Corporations Act on February 15, 2018. The Company changed its name on January 24, 2020. The Company is a precious metals royalty and streaming investment company. The head office, records office, and principal address of the Company is 902-18 King Street East, Toronto, Ontario, M5C 1C4. The Company has listed its common shares and warrants on the TSX Venture Exchange in February 2021 under the symbols “STRR” and STRR.WT”, respectively.

On November 30, 2020, the Board of Directors authorized a five-for-one share consolidation, which was passed at the shareholders’ meeting on November 30, 2020 and took effect on December 4, 2020. The number of issued and outstanding shares, broker warrants and per share amounts have been retrospectively restated for all periods presented unless otherwise stated. In February 2021, the Company completed its initial public offering (“IPO”) and issued 34,286,000 units of the Company at a price of CAD\$0.70 per unit, as described in Note 15, and commenced trading on the TSX Venture Exchange (“TSX-V”) under the symbol “STRR”. As a result of the proceeds generated from the IPO as well as the cash that was on hand at December 31, 2020, the Company believes that it is in a position to meet its obligations and other commitments in normal course.

These financial statements were approved and authorized for issue by the Board of Directors of the Company on April 19, 2021.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The full extent and impact of the COVID-19 pandemic is unknown and to date has included volatility in financial markets, a slowdown in economic activity and volatility in commodity prices. The Company completed a review of all operations on which the Company holds royalty, stream and other interests to identify the impacts of COVID-19. Based on the review COVID-19 was not considered to have a material impact on any of the Company’s investments and as such at December 31, 2020, the Company has not recorded any adjustments directly attributable to the COVID-19 pandemic.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their value.

Basis of measurement

These financial statements are presented in United States dollars. The Canadian dollar is the functional currency of the Company. The functional currency determinations were conducted through a point in time analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Translation of transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Monetary assets and liabilities denominated in foreign currencies are re-measured at the rate of exchange at each financial position date. Foreign exchange gains and

STAR ROYALTIES LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2. BASIS OF PREPARATION (CONTINUED)

losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

On translation of the entity whose functional currency is the Canadian dollar, expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Assets and liabilities are translated at the rate of exchange at the reporting date and equity is translated at historic rates. Exchange gains and losses, including results of re-translation, are recorded as foreign currency translation differences in other comprehensive income.

Significant Accounting Judgments and Estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates.

The most significant judgments relate to the following:

Functional Currency

The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates. The functional currency for the Company is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Accounting for Royalty and Stream Interests

The Company from time to time will acquire royalty and stream interests. Each royalty and stream interest agreement has its own unique terms and significant judgment is required to assess the appropriate accounting treatment.

Impairment of Royalty and Stream Interests

Assessment of impairment of royalty and stream interests at the end of each reporting period requires the use of judgments, assumptions and estimates when assessing whether there are any indicators that give rise to the requirement to conduct a formal impairment test on the Company's royalty and stream interests. Indicators which could trigger an impairment test include, but are not limited to, a significant change in operator reserve and resource estimates, industry or economic trends, current or forecast commodity prices, and other relevant operator information. The assessment of fair values requires the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, reserve/resource conversion, foreign exchange rates, future capital expansion plans and the associated production implications. In addition, the Company may use other approaches in determining fair value which may include judgment and estimates related to (i) dollar value per ounce or pound of reserve/resource; (ii) cash-flow multiples; and (iii) market capitalization of comparable assets. Changes in any of the assumptions and estimates used in determining the fair value of the royalty and stream could impact the impairment analysis.

Estimation of Depletion

The Company's royalty, stream, and other production-based interests that generate economic benefits are considered depletable and are depleted on a unit-of-production basis over the units of production that are expected to generate the cash flows that will be attributable to the Company. These calculations require the use of estimates and

STAR ROYALTIES LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2. BASIS OF PREPARATION (CONTINUED)

assumptions, including the estimated amount of commodities to be received, the recovery rates, and payable rates. Changes to these assumptions may impact the depletion rates used. Changes to depletion rates due to new information are accounted for prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise deposits held with banks and other short-term highly liquid investments. Cash and cash equivalents are recorded at amortized cost.

Royalty and stream interests

Royalty and stream interests consist of acquired royalty and stream contracts and agreements. Royalty and stream interests acquired in an asset acquisition are recorded at cost and capitalized as tangible assets with finite lives. They are subsequently measured at cost less accumulated depletion and accumulated impairment losses, if any. The cost of the royalty and stream interest is comprised of its purchase price and any costs directly attributable to acquiring the asset. Project evaluation costs that are not related to a specific agreement are expensed in the period incurred.

Producing royalty and stream interests are depleted using the units-of-production method over the life of the property to which the interests relate, which are estimated using available information of proven and probable reserves and may include a portion of resources expected to be converted into reserves. The Company relies on information available to it under contracts with operators and/or public disclosures for information on reserves and resources from the operators of the producing mineral interests.

Acquisition costs of exploration stage royalty and stream interests are capitalized and are not depleted until such time as revenue-generating activities begin.

Impairment of royalty and stream interests

Evaluation of the carrying values of each royalty and stream is undertaken when events or changes in circumstances indicate that the carrying values may not be recoverable. Impairment is assessed at the level of cash-generating units, which are identified as the smallest identifiable group of assets that generates cash inflows and largely independent of the cash inflows from other assets. This is usually at the individual royalty, stream or other interest level for each property from which cash inflows are generated.

An assessment is made at each reporting period if there is any indication that a previous impairment loss may no longer exist or has decreased. If indications are present, the carrying value of the royalty or stream is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount net of depletion that would have been determined had no impairment loss been recognized for the royalty or stream in previous periods.

Royalty and stream interests classified as exploration and evaluation assets are assessed for impairment whenever indicators of impairment exist in accordance with IFRS 6. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). Estimated future cash flows are calculated using estimated production, sales prices and a discount rate. Estimated future production is determined using current reserves and the portion of resources expected to be classified as mineral reserves, as well as exploration potential expected to be converted into resources or reserves. If the operation does not have established reserves or resources, estimates will be made based on best available information. Estimated sales prices are

STAR ROYALTIES LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

determined by reference to an average of long-term commodity price forecasts by research analysts and management's expectations. The discount rate is estimated using an average discount rate incorporating research analyst views used to value precious metal royalty and streaming companies.

Financial instruments

Financial assets

The Company classified its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), or at amortized cost. The determination of the classification of financial assets is made at initial recognition.

The Company's accounting policy for each of the categories is as follows:

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of financial assets held at FVTPL are included in the statements of loss and comprehensive loss.

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost: The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

The following table shows the classification of the Company's financial assets:

| Financial asset | Classification |
|---------------------------|-----------------------|
| Cash and cash equivalents | Amortized cost |
| Receivables | Amortized cost |

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statements of loss and comprehensive loss.

Other financial liabilities - This category includes accounts payable and accrued liabilities, which is recognized at amortized cost using the effective interest method.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized in the statements of loss and comprehensive loss immediately, while transaction costs associated with all other financial instruments are included in the initial measurement of the financial instrument.

STAR ROYALTIES LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table shows the classification of the Company's financial liabilities:

| Financial liability | Classification |
|--|----------------|
| Accounts payable and accrued liabilities | Amortized cost |
| Due to related parties | Amortized cost |

Revenue recognition

The Company has determined that each unit of a commodity that is delivered to a customer under a royalty, stream, or working interest arrangement is a performance obligation for the delivery of a good that is separate from each other unit of the commodity to be delivered under the same arrangement.

For stream interests, revenue is recognized when the relevant commodity received from the stream operator is delivered by the Company to its third-party customers under separate sales contracts. The Company transfers control over the commodity on the date the commodity is delivered to the customer's metal account, which is the date that title to the commodity and the risks and rewards of ownership transfer to the customer and the customer is able to direct the use of and obtain substantially all of the benefits from the commodity. Revenue is measured at the fair value of the consideration received or receivable when management can reliably estimate the amount, pursuant to the terms of the purchase and sales agreement.

For royalty interests, revenue is recognized when control of the relevant commodity is transferred to the end customer by the operator of the royalty property. This transfer of control generally occurs when the operator of the mining property on which the royalty interest is held physically delivers the commodity to the customer. At this point in time, the risks and rewards of ownership have transferred to the customer and the Company has an unconditional right to payment. Revenue is measured at the fair value of the consideration received or receivable when management can reliably estimate the amount, pursuant to the terms of the royalty agreement with the operator of each mining property. In some instances, the Company will not have access to sufficient information to make a reasonable estimate of consideration to which it expects to be entitled and, accordingly, revenue recognition is deferred until management can make a reasonable estimate. Differences between estimates and actual amounts are adjusted and recorded in the period that the actual amounts are known.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Share-based payments

Share-based payments are arrangements in which the Company receives goods or services in consideration for its own equity instruments granted to non-employees. These are accounted for as equity settled share-based payment transactions and measured at the fair value of goods and services received. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or services.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax expense is the

STAR ROYALTIES LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Presented in US Dollars)

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expected taxes payable on taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is not recognized.

Income tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income tax levied by the same tax authority and the Company intends to settle its tax assets and liabilities on a net basis.

Related party transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such parties include key management personnel of the Company. Parties are also considered related if they are subject to common control or significant influence. A transaction is considered a related party transaction when there is a transfer of resources or obligations between related parties.

Segment reporting

The operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (“CEO”) who fulfills the role of the chief operating decision-maker. The CEO is responsible for allocating resources and assessing performance of the Company’s operating segments. The Company manages its business under a single operating segment, consisting of acquiring and managing precious metal and other royalty, stream and other interests.

4. CASH AND CASH EQUIVALENTS

| | December 31, 2020 | December 31, 2019 |
|------------------------------------|------------------------------|----------------------|
| Cash | \$ 856,094 | \$ 51,237 |
| Guaranteed investment certificates | <u>1,132,899</u> | <u>345,679</u> |
| Total | <u>\$ 1,988,993</u> | <u>\$ 396,916</u> |

STAR ROYALTIES LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

5. RECEIVABLES

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|----------------------|
| Goods and service tax (“GST”) receivable | \$ 153,710 | \$ 13,998 |
| Royalty receivable | <u>10,307</u> | <u>-</u> |
| Total | \$ 164,017 | \$ 13,998 |

6. PREPAID AND OTHER

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|----------------------|
| Prepaid initial public offering expenses (Note 15) | \$ 118,880 | \$ - |
| Other | <u>1,226</u> | <u>-</u> |
| Total | \$ 120,106 | \$ - |

7. ROYALTY AND STREAM INTERESTS

| | December 31, 2020 | December 31, 2019 |
|------------------------------|------------------------------|----------------------|
| Opening | \$ 297,709 | \$ - |
| Additions during the year | 9,818,048 | 293,756 |
| Accumulated Depletion | (5,740) | - |
| Foreign currency translation | <u>236,407</u> | <u>3,953</u> |
| Closing | \$ 10,346,424 | \$ 297,709 |

| | Baavhai Uul | Bayan Undur | LSFN Forest | Keysbrook | Copperstone | Total |
|-----------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|----------------------|
| Acquisition Costs | | | | | | |
| Opening, January 1, 2019 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Additions during the year | 141,306 | 152,450 | - | - | - | 293,756 |
| Foreign currency translation | 2,734 | 1,219 | - | - | - | 3,953 |
| Closing, December 31, 2019 | 144,040 | 153,669 | - | - | - | 297,709 |
| Additions during the year | - | - | 117,366 | 3,163,116 | 6,537,566 | 9,818,048 |
| Depletion during the year | - | - | - | (5,740) | - | (5,740) |
| Foreign currency translation | 3,106 | 3,315 | 12,124 | 102,712 | 115,150 | 236,407 |
| Closing, December 31, 2020 | \$ 147,146 | \$ 156,984 | \$ 129,490 | \$ 3,260,088 | \$ 6,652,716 | \$ 10,346,424 |

Of the total net book value as at December 31, 2020, \$3,260,088 is depletable and \$7,086,336 is non-depletable.

STAR ROYALTIES LTD.

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(Presented in US Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

7. ROYALTY AND STREAM INTERESTS (CONTINUED)

The Company's royalty and stream interests consisted of the following:

Baavhai Uul, Mongolia

The Company entered into a Gross Revenue Royalty Sale and Purchase Agreement with ION Energy LLC ("ION") in July 2019. The Company purchased a 1.5% Gross Revenue Royalty on any product extracted, produced, sold and marketed from the Property located in Sukhbaatar Province in Mongolia. The purchase price was the issuance of 1,500,000 common shares of the Company. The transaction was valued at the fair value of the equity instruments granted of \$141,306 (CAD\$187,509).

Bayan Undur, Mongolia

The Company entered into a Net Smelter Return Royalty Sale and Purchase Agreement with Bayan Undur Resource LLC ("BUR") in October 2019. The Company purchased a 2% Net Smelter Returns Royalty on all products produced from the Bayan Undur Property and a right of first refusal on any potential future metals stream on the Bayan Undur Property located in Bayankhongor Aimag, Bayan Undur Soum, Mongolia. The purchase price was the issuance of 1,333,333 common shares of the Company. The transaction was valued at the fair value of the equity instruments granted of \$152,450 (CAD\$200,045).

LSFN Forest, Ontario, Canada

In May 2020, the Company entered into a Gross Revenue Royalty and Right of First Refusal Agreement with AurCrest Gold Inc. ("AurCrest Gold"). The Company purchased a 16% Gross Revenue Royalty on AurCrest Gold's forest carbon sequestration revenue share from the Forest Pilot Project (with a right of first refusal on any forest carbon sequestration within the overall Lac Seul Forest Management Unit) located in Ontario, Canada. The purchase price was \$110,029 (CAD\$155,000), acquisition costs of \$7,336 were incurred for a total acquisition cost of \$117,366 paid in cash.

Keysbrook, Western Australia, Australia

In October 2020, the Company completed the acquisition of an existing 2.0% Gross Revenue Royalty on the Keysbrook mineral sands mine ("Keysbrook") located in WA, Australia and owned and operated by Keysbrook Leucoxene Pty Ltd ("Keysbrook Leucoxene"), from Resource Capital Fund VI L.P. ("RCF VI") for a total consideration of \$3,000,000 (paid) in cash, acquisition costs of \$163,116 were incurred for a total acquisition cost of \$3,163,116 paid in cash.

Copperstone, Arizona, USA

In November 2020, the Company and Arizona Gold Corp. ("Arizona Gold") (formerly Kerr Mines Inc.) entered into a definitive \$18,000,000 Gold Purchase and Sale Agreement (the "Streaming Agreement") to finance the restart of underground operations and gold production at the Copperstone Gold Mine ("Copperstone") in Arizona, USA. The \$18,000,000 advance payment under the Streaming Agreement will be provided in three equal installments, with the first \$6,000,000 installment paid on closing, which occurred on November 23, 2020. The second tranche payment was made in February 2021 and the final tranche payment will be paid upon Arizona Gold meeting certain milestone requirements. As at December 31, 2020, the Company recorded a \$6,000,000 asset addition and acquisition costs of \$537,566 in respect of this transaction. The remaining \$12,000,000 asset addition will be recorded subsequent to the year-ended December 31, 2020 upon payment of the remaining installments.

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NOTES TO THE FINANCIAL STATEMENTS

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Accounts payable and accrued liabilities | \$ 7,766 | \$ 4,036 |
| Share issuance costs payable (Note 10(f)) | <u>127,069</u> | <u>-</u> |
| | <u>\$ 134,835</u> | <u>\$ 4,036</u> |

9. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Board and corporate officers, including the Company's Executive Chairman, Chief Executive Officer, Chief Investment Officer, Chief Business Development Officer, and Chief Financial Officer.

During the year ended December 31, 2020 and 2019, the Company entered into the following transactions with companies controlled by officers and directors of the Company:

| | For the year ended December 31, 2020 | For the year ended December 31, 2019 |
|---------------------------|---|---|
| Consulting fees | \$ 268,633 | \$ 102,156 |
| Shareholder communication | <u>4,734</u> | <u>\$ -</u> |
| | <u>\$ 273,367</u> | <u>\$ 102,156</u> |

As at December 31, 2020, \$Nil (December 31, 2019 - \$108,505) was recorded as due to related parties, which is owed to companies controlled by officers and directors of the Company for professional fees and reimbursement of expenses.

10. SHAREHOLDERS' EQUITY

Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

Share consolidation

As disclosed in Note 1, the Board of Directors authorized a five-for-one share consolidation, which was passed at the shareholders' meeting on November 30, 2020 and took effect on December 4, 2020. The number of issued and outstanding shares, broker warrants, and per share amounts have been retrospectively restated for all periods presented unless otherwise stated.

Issued share capital

During the year ended December 31, 2020, the Company entered into the following transactions:

- a) In February 2020, 2,833,333 common shares of the Company were repurchased for \$292,383 (CAD\$387,553) and cancelled. The Company bought back 1,500,000 common shares relating to the Baavhai Uul royalty interest for \$141,201 (CAD\$187,509) and 1,333,333 common shares relating to the Bayan Undur royalty interest for \$151,182 (CAD\$200,045).

STAR ROYALTIES LTD.

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FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

10. SHAREHOLDERS' EQUITY (CONTINUED)

- b) In February 2020, 2,500,000 common shares of the Company were returned to treasury and subsequently cancelled.
- c) In February, March and April 2020, the Company closed private placements for gross proceeds of \$1,642,215 (CAD\$2,224,521) through the sale of 5,932,056 common shares at a price of CAD\$0.375 per common share, of which \$210,530 (CAD\$ 278,696) had been received as at December 31, 2019 and recorded as subscriptions received in advance at that date. Share issuance fees paid in cash totalled \$61,294 (CAD\$84,274).
- d) In August 2020, settled amounts due to related parties of \$183,735 (CAD\$240,000) by issuing 384,000 common shares.
- e) In September 2020, the Company closed private placements for gross proceeds of \$6,979,652 (CAD\$9,211,625) through the sale of 14,738,600 common shares at a price of CAD\$0.625 per common share. Fees and commissions consisted of 5% cash and 5% broker warrants issued to eligible finders exercisable for a common share of the Company at CAD\$0.625 for a period of 18 months from September 30, 2020. Share issuance fees in cash totalled \$299,866 (CAD\$396,156) and 669,300 broker warrants were issued. The fair value of the broker warrants was \$144,716 (CAD\$192,696). The fair value of the warrants was estimated using the Black-Scholes option pricing model assuming a life expectancy of 2 years, a risk-free rate of 0.23%, a forfeiture rate of 0%, dividend yield rate of 0% and volatility of 100%.
- f) In October 2020, the Company closed private placements for gross proceeds of \$4,475,699 (CAD\$5,914,675) through the sale of 9,463,480 common shares at a price of CAD\$0.625 per common share. Share issuance fees in cash totalled \$179,778 (CAD\$238,872).

During the year ended December 31, 2019, the Company:

- a) Completed a non-brokered private placement consisting of 5,000,000 common shares at a price of CAD \$0.05 per share for gross proceeds of \$190,276 (CAD\$250,000).
- b) Issued 2,833,333 common shares in relation to the acquisition of royalty interests (Note 7) valued at \$293,756 (CAD\$387,553).

There were no share-based compensation transactions for the year ended December 31, 2020 and year ended December 31, 2019. Subsequent to the year ended December 31, 2020, 3,735,000 stock options and 1,250,005 restricted share units ("RSUs") were granted to officers and directors of the Company on February 19, 2021. The stock options granted have a ten-year term and vest over three years with 25% being vested on the grant date and 25% on each anniversary of the grant date. The RSUs granted are vested three years in equal portions on the anniversary of the grant date.

Broker Warrants

As at December 31, 2020, the following broker warrants were outstanding:

| | Number of broker warrants | Weighted Average Exercise Price CAD |
|-----------------------------------|---------------------------------|---|
| Balance, December 31, 2019 | - | - |
| Granted | 669,300 | \$ 0.625 |
| Balance, December 31, 2020 | 669,300 | \$ 0.625 |

STAR ROYALTIES LTD.

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FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

10. SHAREHOLDERS' EQUITY (CONTINUED)

As at December 31, 2020, the following broker warrants were outstanding:

| Number of Broker warrants | Weighted Average Exercise Price CAD | Expiry Date |
|------------------------------|--|----------------|
| 172,300 | \$ 0.625 | March 18, 2022 |
| 47,000 | \$ 0.625 | March 23, 2022 |
| 16,000 | \$ 0.625 | March 28, 2022 |
| 434,000 | \$ 0.625 | March 30, 2022 |
| 669,300 | | |

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the year ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|--------------|--------------|
| Loss before income taxes | \$ (799,893) | \$ (106,150) |
| Expected income tax recovery | \$ (212,000) | \$ (29,000) |
| Permanent difference | 36,000 | - |
| Foreign exchange on non-monetary items | (62,000) | - |
| Change in unrecognized deductible temporary differences | 238,000 | 29,000 |
| Income tax expense | \$ - | \$ - |

The significant components of the Company's deferred tax assets and liabilities are as follows:

| | 2020 | 2019 |
|-----------------------------------|-------------|------|
| Deferred tax assets (liabilities) | | |
| Stream asset | \$ (31,000) | \$ - |
| Non-capital losses | 31,000 | - |
| Net deferred tax assets | \$ - | \$ - |

The significant components of the Company's deferred tax assets that have not been included on the statements of financial position are as follows:

| | 2020 | Expiry Date Range |
|--|-----------|----------------------|
| Deferred tax assets | | |
| Share issuance costs | \$ 79,000 | No expiry |
| Royalties | 24,000 | No expiry |
| Allowable capital losses | 137,000 | No expiry |
| Non-capital losses available for future period | 410,000 | 2039-2040 |
| | 650,000 | |
| Unrecognized deferred tax assets | 650,000 | |
| | \$ - | |

STAR ROYALTIES LTD.

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FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

12. SEGMENT INFORMATION

For the year ended December 31, 2020, the Company had revenue of \$9,801 from one of its royalties located in Australia.

The Company has non-current assets in the following geographic locations:

| | December 31, 2020 | December 31, 2019 |
|---------------|----------------------|----------------------|
| United States | \$ 6,652,716 | \$ - |
| Australia | 3,260,088 | - |
| Mongolia | 304,130 | 297,709 |
| Canada | 129,490 | - |
| | <u>\$ 10,346,424</u> | <u>\$ 297,709</u> |

13. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and due to related parties approximates fair value due to the short-term nature of the financial instruments. Cash and cash equivalents and receivables are classified as amortized cost. Accounts payable and accrued liabilities and amounts payable to related parties are classified as amortized cost.

Risk management

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents is held at a large Canadian financial institution in interest-bearing accounts. The Company has no investment in asset-backed commercial paper.

The Company's receivables consist of goods and services tax receivable from the government of Canada.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation.

STAR ROYALTIES LTD.

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13. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on cash and cash equivalents. The Company's practice has been to invest cash and cash equivalents at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash and cash equivalents as they are held with large financial institutions. As at December 31, 2020, the Company is not exposed to significant interest rate risk.

b) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of purchases are transacted in Canadian dollar. The Company is not exposed to any significant foreign currency risk.

c) Price risk

The Company's exposure to commodity price risk is insignificant at this time.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition of royalty and stream interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In doing so, the Company may issue new shares, issue debt, acquire or dispose of assets.

The Company currently is not subject to externally imposed capital requirements.

14. COMMITMENTS

As at December 31, 2020, the Company had the following contractual obligations:

| | Less than | | | Total |
|--|------------|--------------|--------------|------------|
| | 1 year | 1 to 3 years | Over 3 years | |
| Accounts payable and accrued liabilities | \$ 134,835 | \$ - | \$ - | \$ 134,835 |
| | \$ 134,835 | \$ - | \$ - | \$ 134,835 |

In addition to the commitments above, the Company has committed to provide the final installment payment of \$6,000,000 to Arizona Gold Corp. pursuant to the Copperstone stream agreement (Note 7) upon certain milestone conditions being met.

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15. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, the Company entered into the following transactions:

- a) In February 2021, the Company completed its initial public offering of 34,286,000 units of the Company at a price of CAD\$0.70 per unit for gross proceeds of \$19,026,637 (CAD\$24,000,200). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CAD \$1.00 per common shares until February 19, 2024.
- b) In February 2021, the Company made the second installment payment of \$6,000,000 to Arizona Gold Corp. pursuant to the Copperstone streaming agreement (Note 7).
- c) In March 2021, the syndicate of underwriters for the Company's IPO exercised a portion of the over-allotment option granted to them. As a result of the exercise, the Company issued an additional 3,769,500 common shares at a price of CAD\$0.611 per common share and 5,142,900 warrants at a price of CAD\$0.089 per warrant for combined gross proceeds of \$2,179,415 (CAD\$2,760,883).
- d) In April 2021, the Company filed a final base short form base shelf prospectus in each province and territory of Canada. The base shelf prospectus will allow the Company to make offerings of common shares, debt securities, subscription receipts, convertible securities, warrants, units or any combination thereof up to a maximum of \$200,000,000 during the 25-month period in which the base shelf prospectus is effective.