# Electric Royalties Ltd.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2023 AND 2022

*(Expressed in Canadian Dollars)*

*(Unaudited)*

# Electric Royalties Ltd.

**Condensed Consolidated Interim Statements of Financial Position**

(Unaudited – Expressed in Canadian Dollars)

| | Note | June 30, 2023 | December 31, 2022 |
|---|---|---|---|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 3 | $ 267,440 | $ 1,236,733 |
| Income tax receivable | | 54,193 | 36,473 |
| Royalty revenue receivable | | 41,593 | – |
| Prepaid expenses | | 115,926 | 29,664 |
| | | 479,152 | 1,302,870 |
| Non-current Assets | | | |
| Mineral royalty interests and deferred transaction costs | 4 | 14,726,342 | 12,048,633 |
| Investment in associate | 5 | 4,796,753 | 5,033,605 |
| Right-of-use asset | | 19,299 | 22,706 |
| | | 19,542,394 | 17,104,944 |
| TOTAL ASSETS | | $ 20,021,546 | $ 18,407,814 |
| EQUITY | | | |
| Share capital | 6 | $ 23,588,230 | $ 22,563,230 |
| Reserves | 7 | 2,543,248 | 2,605,264 |
| Accumulated deficit | | (7,660,584) | (6,916,323) |
| | | 18,470,894 | 18,252,171 |
| LIABILITIES | | | |
| Non-Current Liabilities | | | |
| Convertible loan | 8 | 1,417,308 | – |
| Lease liability | | 15,179 | 18,707 |
| | | 1,432,487 | 18,707 |
| Current Liabilities | | | |
| Lease liability | | 7,170 | 6,609 |
| Accounts payable | | 110,995 | 130,327 |
| | | 118,165 | 136,936 |
| Total liabilities | | 1,550,652 | 155,643 |
| TOTAL EQUITY AND LIABILITIES | | $ 20,021,546 | $ 18,407,814 |

Nature and continuance of operations (note 1)
Events after the end of the reporting period (note 10)

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

These Financial Statements were approved for issuance by the Audit and Risk Committee of the Company's Board of Directors on August 28, 2023 and are signed on the Company's behalf by the following:

| | |
|---|---|
| */s/ Brendan Yurik* | */s/ Craig Lindsay* |
| Brendan Yurik<br>Director | Craig Lindsay<br>Director |

# Electric Royalties Ltd.

**Condensed Consolidated Interim Statements of Comprehensive Loss**

(Unaudited – Expressed in Canadian Dollars, except for weighted average number of common shares)

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | **Note** | **2023** | **2022** | **2023** | **2022** |
| Revenue from royalty interests | 2(d) | $ 46,214 | $ – | $ 70,656 | $ – |
| Depletion of royalty interest | 4 | (10,300) | – | (15,900) | – |
| Gross profit | | 35,914 | – | 54,756 | – |
| Operating Expenses | | | | | |
| Investor relations and shareholder communications | | 38,753 | 174,253 | 82,059 | 257,787 |
| Salaries and benefits | 9 | 101,145 | 99,239 | 203,915 | 202,136 |
| Administration | | 129,109 | 121,630 | 228,081 | 215,033 |
| Regulatory | | 30,052 | 25,039 | 52,998 | 40,614 |
| Legal, tax, audit and audit related | | 115,226 | 133,264 | 147,452 | 157,523 |
| Property investigations | | 8,007 | 21,791 | 15,370 | 51,291 |
| Equity-settled share-based payments | 7(a) | – | 68,000 | – | 227,000 |
| | | (422,292) | (643,216) | (729,875) | (1,151,384) |
| Share of (loss) income of associate | 5 | (11,031) | 2,395 | (47,128) | 81,014 |
| Foreign exchange loss (income) | | (7,907) | 667 | (8,396) | (465) |
| Interest income on cash and cash equivalents | 3 | 7,934 | 5,784 | 19,971 | 10,122 |
| Finance expenses – convertible note | 8 | (30,651) | – | (65,308) | – |
| Finance expenses – lease liability | | (568) | (705) | (1,175) | (1,439) |
| Net loss, before income tax | | (428,601) | (635,075) | (777,155) | (1,062,152) |
| Current income tax expense | | (4,642) | (29,575) | (7,066) | (56,575) |
| Deferred income tax recovery | 8 | 13,770 | – | 39,960 | – |
| | | 9,128 | (29,575) | 32,894 | (56,575) |
| Net loss | | $ (419,473) | $ (664,650) | $ (744,261) | $ (1,118,727) |
| Other comprehensive (loss) income | | | | | |
| Items that may be subsequently reclassified to net income | | | | | |
| Foreign exchange translation difference | 5 | (150,125) | 140,670 | (170,056) | 88,915 |
| Total other comprehensive (loss) income | | (150,125) | 140,670 | (170,056) | 88,915 |
| Total comprehensive loss | | $ (569,598) | $ (523,980) | $ (914,317) | $ (1,029,812) |
| Basic and diluted loss per share | | $ (0.00) | $ (0.01) | $ (0.01) | $ (0.01) |
| Weighted average number of common shares outstanding | | 95,887,223 | 85,667,443 | 94,933,001 | 82,115,321 |

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

# Electric Royalties Ltd.

**Condensed Consolidated Interim Statements of Changes in Equity**

(Unaudited – Expressed in Canadian Dollars, except for number of shares)

| | | **Share Capital (note 6)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Note** | **Number of shares** | **Amount** | **Share-based payment reserve** | **Share purchase warrant reserve** | **Conversion option reserve** | **Foreign currency translation reserve** | **Accumulated deficit** | **Total equity** |
| | | | | 7(a) | 7(b) | 8 | 7(c) | | |
| Balance at January 1, 2022 | | 77,101,509 | $ 18,586,154 | $ 803,000 | $ 735,092 | $ – | $ 38,529 | $ (4,993,279) | $ 15,169,496 |
| Net loss | | – | – | – | – | – | – | (1,118,727) | (1,118,727) |
| Other comprehensive income | | – | – | – | – | – | 88,915 | – | 88,915 |
| Total comprehensive loss | | – | – | – | – | – | 88,915 | (1,118,727) | (1,029,812) |
| Common Shares issued upon acquisition of the Rana Nickel Royalty | 4 | 2,000,000 | 760,000 | – | – | – | – | – | 760,000 |
| Units issued pursuant to the Public Offering, net of cost | 6(b) | 11,500,000 | 2,495,226 | – | 226,500 | – | – | – | 2,721,726 |
| Agent warrants issued pursuant to the Public Offering | 6(b) | – | – | – | 107,000 | – | – | – | 107,000 |
| Common shares issued upon acquisition of Sleitat Royalty | 4 | 1,000,000 | 255,000 | – | – | – | – | – | 255,000 |
| Equity-settled share-based payments | | – | – | 227,000 | – | – | – | – | 227,000 |
| **Balance at June 30, 2022** | | 91,601,509 | $ 22,096,380 | $ 1,030,000 | $ 1,068,592 | $ – | $ 127,444 | $ (6,112,006) | $ 18,210,410 |
| Balance at January 1, 2023 | | 93,601,509 | $ 22,563,230 | $ 1,094,600 | $ 1,068,592 | $ – | $ 442,072 | $ (6,916,323) | $ 18,252,171 |
| Net loss | | – | – | – | – | – | – | (744,261) | (744,261) |
| Other comprehensive loss | | – | – | – | – | – | (170,056) | – | (170,056) |
| Total comprehensive loss | | – | – | – | – | – | (170,056) | (744,261) | (914,317) |
| Common Shares issued upon acquisition of the Penouta Royalty | 4 | 500,000 | 175,000 | – | – | – | – | – | 175,000 |
| Common Shares issued upon acquisition of the Kenbridge Royalty | 4 | 2,500,000 | 850,000 | – | – | – | – | – | 850,000 |
| Convertible loan – conversion option | 8 | – | – | – | – | 148,000 | – | – | 148,000 |
| Initial deferred tax resulting from separation of compound instrument | 8 | – | – | – | – | (39,960) | – | – | (39,960) |
| **Balance at June 30, 2023** | | 96,601,509 | $ 23,588,230 | $ 1,094,600 | $ 1,068,592 | $ 108,040 | $ 272,016 | $ (7,660,584) | $ 18,470,894 |

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

## Electric Royalties Ltd.

**Condensed Consolidated Interim Statements of Cash Flows**
(Unaudited – Expressed in Canadian Dollars)

| | | Six months ended June 30, | |
|---|---|---|---|
| | **Note** | **2023** | **2022** |
| **Operating activities** | | | |
| Net loss | | $ (744,261) | $ (1,118,727) |
| Adjustments for: | | | |
| Depletion of royalty interest | | 15,900 | – |
| Depreciation of right-of-use asset | | 3,407 | 3,407 |
| Equity-settled share-based payments | 7(a) | – | 227,000 |
| Share of loss (income) of associate | 5 | 47,128 | (81,014) |
| Finance expenses – convertible note | 8 | 65,308 | – |
| Finance expenses – lease liability | | 1,175 | 1,439 |
| Interest income on cash and cash equivalents | 3 | (19,971) | (10,122) |
| Deferred income tax recovery | | (39,960) | – |
| Foreign exchange difference | | 2,195 | – |
| Changes in working capital items | | | |
| Prepaid expenses | | (86,262) | (151,886) |
| Income tax receivable | | (17,720) | – |
| Royalty revenue receivable | | (41,593) | – |
| Accounts payable | | (19,332) | 98,050 |
| Income tax payable | | – | (34,000) |
| **Cash used in operating activities** | | (833,986) | (1,065,853) |
| **Investing activities** | | | |
| Acquisition of mineral royalty interests, including transaction costs | 4 | (1,722,500) | (311,643) |
| Cash distributions from associate | | 73,559 | 119,053 |
| Interest received | 3 | 19,971 | 10,122 |
| **Cash used in investing activities** | | (1,628,970) | (182,468) |
| **Financing activities** | | | |
| Proceeds from convertible loan | 8 | 1,500,000 | – |
| Net proceeds from the Public Offering | | – | 2,828,726 |
| Payment of principal on lease | | (2,967) | (2,269) |
| Payment of interest on lease | | (1,175) | (1,439) |
| **Cash provided by financing activities** | | 1,495,858 | 2,825,018 |
| **Change in cash and cash equivalents** | | (967,098) | 1,576,697 |
| Effects of exchange rate fluctuations on cash held | | (2,195) | – |
| Cash and cash equivalents, opening balance | | 1,236,733 | 2,101,875 |
| **Cash and cash equivalents, closing balance** | | $ 267,440 | $ 3,678,572 |

**Supplemental cash flow information (note 3)**

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Electric Royalties Ltd., ("ELEC" or the "Company") is a public company whose common shares are listed on the TSX Venture Exchange ("TSXV"), under the trading symbol "ELEC". The Company's common shares trade on the OTCQB Venture Market under the symbol "ELECF". The Company was incorporated on September 16, 2016 under the laws of the Province of British Columbia, Canada. The address of the Company's corporate office is 14th Floor, 1040 West Georgia Street, Vancouver, BC, V6E 4H1.

The Company is focused predominantly on acquiring royalty interests in operating mines as well as advanced stage mineral projects, located in jurisdictions with low geopolitical risk, to build a diversified portfolio of royalty interests in significant mineral deposits (resources and/or reserves) of a wide range of commodities, including lithium, vanadium, manganese, tin, graphite, cobalt, nickel, and copper, that will benefit from the drive to electrification (cars, rechargeable batteries, large scale energy storage, renewable energy generation and other applications).

These condensed consolidated interim financial statements (the "Financial Statements") are comprised of the Company and its subsidiary (wholly-owned ) – Electric Royalties (USA) Inc. ("ELEC-US") – (together referred to as the "Company" or the "Group") and are prepared for the three and six months ended June 30, 2023 and 2022.

These Financial Statements are prepared on the basis that the Company will continue as a going concern which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. During the six months ended June 30, 2023, the Company recorded a net loss of $744,261 (for the six months ended June 30, 2022: $1,118,727). The Company's primary sources of funding consist of proceeds from the issuance of common shares of the Company, convertible debt, royalty revenue, and distributions from MTM LP (note 5).

In November, the Company entered into a convertible loan facility for an aggregate amount of up to $2 million (subsequently increased to $5 million in April 2023), with a 3 year term (note 8). As of June 30, 2023, the Company had drawn $ 1.5 million of the convertible loan facility. Funds from the convertible loan facility are available solely to fund additional royalty acquisitions.

Any change in the commitment or timing of debt and equity funding from existing or new shareholders of the Company, and alternative capital providers may require the Company to curtail its business development activities or seek alternative sources of funding. As such, there is material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. Management has concluded that presentation as a going concern is appropriate in these Financial Statements based on the Company's current financial position and its plans for the next 12 months.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION

*(a) Statement of compliance*

These Financial Statements have been prepared on a going concern basis in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). These Financial Statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes. These Financial Statements should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2022. Results for the current reporting period are not necessarily indicative of future results.

Accounting policies applied herein are the same as those applied in the Company's annual financial statements, with the exception of the Note 2(c) and, effective January 1, 2023, the Company mandatorily adopted amendments to IAS 1 regarding the disclose of accounting policies and IAS 12 regarding deferred tax related to assets and liabilities arising from a single transaction. The adoption of these amendments did not have a material impact on the Financial

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

Statements.

*(b) Significant accounting estimates and judgements*

In preparing these Financial Statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

To record depletion of its royalty interest under the units-of-production method, the Company uses estimated recoverable Reserves and Resources to determine the depletion rate with respect to each of its royalty interests. The Company relies on public disclosures of Reserves and Resources estimates released by the operators of underlying mineral properties, which estimates involve assessments of geological and geophysical studies and economic data and the reliance on a number of assumptions, including commodity prices and production costs.

Except for the foregoing, there was no change in the use of estimates and judgments during the current period as compared to those described in Note 2 in the Company's consolidated financial statements for the year ended December 31, 2022.

*(c) Revenue*

The Company recognizes revenue from its royalty interests when the relevant commodity is transferred to the end customer by the operator of the royalty property. 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.

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.

*(d) Operating segments*

The Company operates as a single operating and reporting segment and these Financial Statements should be read as a whole for the results of this single reporting segment. The Company's mineral royalty interests and deferred transaction costs, and investment in an associate are located in the following locations:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Mineral royalty interests and deferred transaction costs | | |
| Canada | $ 6,235,078 | $ 4,851,149 |
| United States of America | 2,537,435 | 2,591,326 |
| Southern hemisphere (Australia and Madagascar) | 3,658,048 | 3,658,048 |
| Norway | 914,673 | 914,673 |
| Spain | 1,381,108 | 33,437 |
| Investment in associate | | |
| United States of America | 4,796,753 | 5,033,605 |
| Total | $ 19,523,095 | $ 17,082,238 |

| Revenue from royalty interests | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|
| Revenue from the Penouta Tin-Tantalum Royalty, located in Spain | $ 70,656 | $ – |

## 3. CASH AND CASH EQUIVALENTS

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Components of cash and cash equivalent: | | |
| Cash held in business accounts | | |
| Denominated in Canadian Dollars | $ 172,710 | $ 868,286 |
| Denominated in US Dollars | 94,730 | 368,447 |
| Total | $ 267,440 | $ 1,236,733 |

| **Supplemental cash flow information** | Note | Six months ended June 30, 2023 | 2022 |
|---|---|---|---|
| **Income tax paid** | | | |
| Income tax paid during the period | | $ 21,027 | $ 90,170 |
| **Non-cash investing and financing activities** | | | |
| Value of common shares issued with respect to royalty acquisitions | 4 | $ 1,025,000 | $ 1,015,000 |
| Value of agent warrants issued pursuant to the Public Offering | 6 | – | 107,000 |

## 4. MINERAL ROYALTY INTERESTS AND DEFERRED TRANSACTION COSTS

At June 30, 2023, the Company held the following royalty interests, including gross revenue royalty ("GRR"), gross metal royalty ("GMR"), and net smelter returns ("NSR") royalty:

| Project | Location | Royalty Interest |
|---|---|---|
| Bissett Creek Graphite Royalty | Ontario, Canada | 1.0 % GRR |
| Globex Royalties | | |
| Authier Lithium Project (core claim) | Quebec, Canada | 0.5 % GMR |
| Authier Lithium Project (Sayona West) | Quebec, Canada | 0.5 % GMR |
| Authier Lithium Project (Sayona East) | Quebec, Canada | 2.0 % GMR |
| Mont Sorcier Project – vanadium production | New Brunswick, Canada | 1.0 % GMR |
| Battery Hill Manganese Project | Quebec, Canada | 2.0 % GMR |
| Chubb Lithium Project | Quebec, Canada | 2.0 % GMR |
| Bouvier Lithium Project | Quebec, Canada | 2.0 % GMR |
| Global Royalties | | |
| Millennium Copper Cobalt Project | Queensland, Australia | 0.5 % GRR |
| Mt. Dorothy Cobalt Project | Queensland, Australia | 0.5 % GRR |
| Cobalt Ridge Cobalt Project | Queensland, Australia | 0.5 % GRR |
| Seymour Lake Lithium Royalty | Ontario, Canada | 1.5 % NSR |
| Glassville Manganese Royalty | New Brunswick, Canada | 1.0 % GRR |
| Vox Graphite Royalties | | |
| Graphmada Graphite Project | Madagascar | 2.5 % NSR |
| Graphite Bull Project | Western Australia | 0.75 % GRR |
| Cancet Lithium Royalty | Quebec, Canada | 1.0 % NSR |
| Rana Nickel Royalty | Northern Norway | 1.0 % NSR |
| Sleitat Tin-Silver Royalty | Alaska, United States | 1.0 % NSR |
| Zonia Copper Royalty | Alaska, United States | 0.5% GRR |
| Penouta Tin-Tantalum Royalty | Ourense, Spain | 0.75% GRR, subject to reduction |
| Kenbridge Nickel Royalty | Ontario, Canada | 0.5% GRR |

Note: For the Company's Interest in the Middle Tennessee Mine Zinc Royalty, refer to Note 5.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

Continuity of the Company's mineral royalty interests and deferred transaction costs is as follows:

| | Six months ended June 30, 2023 | | | Six months ended June 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Mineral royalty interest | Deferred transaction cost | Total | Mineral royalty interest | Deferred transaction cost | Total |
| **Cost** | | | | | | |
| Beginning balance | 11,961,081 | 33,437 | 11,994,518 | 8,509,197 | 48,236 | 8,557,433 |
| Additions during the period | 2,741,498 | 6,002 | 2,747,500 | 1,307,589 | 19,054 | 1,326,643 |
| Reallocation | 33,437 | (33,437) | – | 48,236 | (48,236) | – |
| Ending balance | 14,736,016 | 6,002 | 14,742,018 | 9,865,022 | 19,054 | 9,884,076 |
| **Accumulated depletion** | | | | | | |
| Beginning balance | – | – | – | – | – | – |
| Charge for the period | 15,900 | – | 15,900 | – | – | – |
| Ending balance | (15,900) | – | (15,900) | – | – | – |
| **Foreign currency translation difference** | | | | | | |
| Beginning balance | 54,115 | – | 54,115 | – | – | – |
| Movement for the period | (53,891) | – | (53,891) | – | – | – |
| Ending balance | 224 | – | 224 | – | – | – |
| Ending balance | 14,720,340 | 6,002 | 14,726,342 | 9,865,022 | 19,054 | 9,884,076 |

In January 2023, the Company acquired a 0.75% GRR (the "Penouta Tin-Tantalum Project") on the producing Penouta tin-tantalum mine in Spain, from Strategic Minerals Europe Corp. ("Strategic Minerals"), in exchange for a cash payment of $1,000,000 and 500,000 common shares of the Company with the fair value of $175,000 on the date of issuance. In addition, the Company was granted an option (exercised in July 2023, note 10(a)) for a period of 7 months from closing to acquire an additional 0.75% GRR on the Penouta Tin-Tantalum Project in exchange for an additional cash payment of $1,250,000. The royalty rates will be reduced from 0.75% to 0.5% after aggregate royalty payments of $1.67 million.

In April 2023, the Company completed the acquisition (the “Kenbridge Transaction”), from Tartisan Nickel Corp. (“Tartisan”), of a 0.5% GRR on certain mining claims, mining leases and mineral tenures comprising the wholly-owned Kenbridge Nickel Project in northwest Ontario, Canada (the "Kenbridge Project" or "Kenbridge") in exchange for $500,000 cash and 2,500,000 common shares of the Company with the fair value of $850,000 on the date of issuance. The Company has also received the right, for a period of 18 months after the closing date of the Kenbridge Transaction, to acquire a further 0.5% GRR on the Kenbridge Project for $1,750,000 cash consideration. In addition, the Company will have an option to acquire a 1% GRR on the mining claims, mining leases and mineral tenures comprising the Kenbridge North Nickel Project (the “Kenbridge North Project” or “Kenbridge North”), approximately 2.5 km north of the Kenbridge Nickel Deposit, for $1,000,000 cash, at any time during a period of 24 months from the date that Tartisan publishes an initial technical report in respect of the Kenbridge North Project which is prepared in accordance with National Instrument 43-101 and which contains an estimate of Inferred Mineral Resources.

## 5. INVESTMENT IN ASSOCIATE

In August 2021, the Company's wholly-owned subsidiary, Electric Royalties (USA) Inc., acquired a 25% interest in a limited partnership ("MTM LP"), which completed the acquisition of the Middle Tennessee Mine royalty (“MTM Royalty”). The Company's interest in the MTM LP entitles it to receive distributions of 25% of the MTM LP's revenue after deduction of 50% of its operating expenses.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

The MTM Royalty is a sliding-scale gross metal royalty on the currently producing Middle Tennessee Mine complex in Tennessee that varies with the zinc price: no royalty is payable if the zinc price is below US$0.90 per pound, a 1.0% royalty is paid at zinc prices between US$0.90 and US$1.10 and a 1.4% royalty is paid at zinc prices above US$1.10 per pound.

The Company had an option (the "MTM Option"), exercisable on August 11, 2023, to acquire an additional 25% economic interest in the MTM LP for up to US$4.34 million (approximately $5.50 million) in cash, subject to certain deductions determinable with reference to the amount of royalty received by MTM LP prior to exercise of the MTM Option but not exceeding US$0.24 million (approximately $0.31 million). The Company has determined the fair value of the MTM Option at June 30, 2023 to be $Nil (December 31, 2022 - $Nil). The MTM Option expired unexercised after the end of the reporting period.

| | Six months ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Beginning balance | $ 5,033,605 | $ 4,779,796 |
| ELEC's share of net (loss) income of associate | (47,128) | 81,014 |
| Cash distributions from MTM LP | (73,559) | (119,053) |
| Currency translation adjustments | (116,165) | 88,915 |
| Carrying amount at the end of the period | $ 4,796,753 | $ 4,830,672 |

Summarized financial information for the Company's investment in associate, on a 100% basis and reflecting adjustments made by the Company, including adjustments for differences in accounting policies is as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Royalty revenue | $ 203,662 | $ 473,074 | $ 475,600 | $ 1,086,782 |
| Depletion of royalty interest | (120,012) | (226,192) | (182,226) | (450,041) |
| Revenue, net of depletion | 83,650 | 246,882 | 293,374 | 636,741 |
| Administration expenses | (63,888) | (118,652) | (240,944) | (156,341) |
| Net income | $ 19,762 | $ 128,230 | $ 52,430 | $ 480,400 |
| | | | | |
| ELEC's shares in net income of MTM LP: | | | | |
| Administration expenses (50%) | $ (31,944) | $ (59,326) | $ (120,472) | $ (78,171) |
| Other items of net income (25%) | 20,913 | 61,721 | 73,344 | 159,185 |
| Company's share of (loss) income of associate | $ (11,031) | $ 2,395 | $ (47,128) | $ 81,014 |

At June 30, 2023 and December 31, 2022, MTM LP's only non-current asset was MTM Royalty interest, and it had no significant amount of liabilities.

## 6. SHARE CAPITAL

*(a) Authorized share capital*

The authorized share capital of the Company was comprised of an unlimited number of common shares without par value ("Common Shares"). All issued shares are fully paid.

*(b) Public Offering*

On May 12, 2022, the Company closed a marketed public offering (the "Public Offering") pursuant to which the Company issued 11,500,000 units of the Company (the "Units") at a price of $0.30 per Unit (the "Offering Price") for aggregate gross proceeds of $3,450,000. Each Unit is comprised of one common share in the capital of the Company and one common share purchase warrant (each a "Warrant"). Each Warrant can be exercised for one common share at an exercise price of $0.45 per Warrant for a period of 36 months following the closing of the Public Offering, subject to adjustments in certain circumstances.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

In connection with the Public Offering, the Company paid an aggregate cash commission equal to 7% of the gross proceeds to the underwriter for the Public Offering and also issued, as additional compensation, non-transferable compensation warrants ("Compensation Warrants") exercisable to purchase up to 805,000 Common Shares each at the Offering Price, subject to adjustments in certain circumstances, for a period of 24 months following the closing of the Offering. Share issue costs totaled $728,228, made up of the commission, the fair value of the Compensation Warrants and other attributable costs.

The gross proceeds from the Public Offering was allocated to shares and warrants using the residual value method, whereby the aggregate gross proceeds is first allocated to share capital to the extent of the fair value of the common shares issued, which fair value is determined with reference to their market value. Any excess of the gross proceeds over the fair value of the common shares is allocated to the warrants and is recorded as share warrants reserve. The fair value of the Company's common shares at the timing of the closing was $0.275 per share; accordingly, the residual value assigned to each warrant that constitutes each Unit was $0.025.

The Compensation Warrants were recorded at their grant date fair value of $0.13 per warrant, which fair value was determined using the Black-Scholes Option Valuation method and the following inputs: a) market price of $0.275 per common share; b) risk-free annual interest rate of 2.6%; c) time to expiration of 2 years; d) expected stock price volatility of 80%; and e) expected annual dividend yield of nil.

## 7 . RESERVES

*(a) Equity-settled share-based payment arrangements*

The number and weighted-average exercise prices of share options were as follows:

| Continuity of options | Six months ended June 30, 2023 | | | Six months ended June 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Number of Options | | Weighted average exercise price | Number of Options | | Weighted average exercise price |
| Outstanding – beginning balance | 7,197,500 | $ | 0.35 | 7,172,500 | $ | 0.35 |
| Options granted | – | $ | – | 200,000 | $ | 0.34 |
| Options expired | – | $ | – | (25,000) | $ | 0.20 |
| Options outstanding – ending balance | 7,197,500 | $ | 0.35 | 7,347,500 | $ | 0.35 |
| Options exercisable – ending balance | 7,197,500 | $ | 0.35 | 6,030,838 | $ | 0.34 |

The fair value of the options granted during the three and six months ended June 30, 2022 was determined as $0.12 per option and using the following weighted average inputs: risk-free interest rate of 2.40%; expected volatility of 50%; underlying market price of $0.34 per share; time to expiry of 3 years; and dividend yield of nil%.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

The following table summarizes information on the options outstanding:

| Remaining contractual life of the Company's common share purchase options: | June 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| Exercise price | Number of Options | Weighted average remaining contractual life (years) | Number of Options | Weighted average remaining contractual life (years) |
| $0.280 | 200,000 | 0.62 | 200,000 | 1.12 |
| $0.290 | 3,447,500 | 1.54 | 3,447,500 | 2.03 |
| $0.340 | 200,000 | 1.75 | 200,000 | 2.24 |
| $0.415 | 3,350,000 | 3.08 | 3,350,000 | 3.58 |
| | 7,197,500 | 2.24 | 7,197,500 | 2.73 |

*(b) Share purchase warrants*

| **Continuity of share purchase warrants** | Note | Six months ended June 30, 2023 | 2022 |
|---|---|---|---|
| | | (Number of warrants) | |
| Beginning balance | | 22,805,000 | 10,593,000 |
| Warrants issued pursuant to the Public Offering | 6(b) | – | 11,500,000 |
| Compensation warrants issued to the underwriter of the Public Offering | 6(b) | – | 805,000 |
| Ending balance | | 22,805,000 | 22,898,000 |
| Weighted average exercise price – end of the reporting period | | $ 0.51 | $ 0.51 |
| Weighted remaining life (years) – end of the reporting period | | 1.52 | 2.48 |

*(c) Foreign currency translation reserve*

The foreign currency translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations into Canadian Dollars.

## 8. CONVERTIBLE LOAN

In November 2022, the Company entered into a convertible loan facility (the "Loan Facility" or "Convertible Loan") with a significant shareholder (the "Lender") of the Company, which agreement was amended after the reporting period in April 2023 (note 10(a)). The Loan Facility can be drawn before June 30, 2023 at the election of the Company for an aggregate amount of up to $2 million with a three-year term, and as per the original terms of the Loan Facility, was subject to interest at 15% per annum, with interest to be accrued and payable at the end of the loan term. There is no commitment fee payable on the Loan Facility. The Loan is secured by the Company's interest in the Penouta Tin-Tantalum Royalty and any other royalties acquired using funds from this Loan facility.

In April 2023, the Company and the Lender entered into an agreement to increase the Loan Facility from $2 million to $5 million. The Lender also agreed to modify the interest rate to a lower, floating rate (Secured Overnight Financing Rate (or "SOFR") + 7%), with a maximum interest rate of 12.5% p.a., as compared to the original rate of 15% p.a. All other terms remain the same. The Company concluded this was a non-substantive loan modification and recorded a modification gain of $21,000, as a credit to finance expenses, in the statement of comprehensive loss for the three and six months ended June 30, 2023 (2022 - $Nil).

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

In January 2023, the Company elected to draw down $1,000,000 (the "First Advance") under the Loan Facility, which amount was used for the acquisition of the Penouta royalty. The Company also drew down an additional $500,000 (the "Second Advance") against the Loan Facility in April 2023, which amount was used for the acquisition of the Kenbridge royalty.

At the discretion of the Lender, after six months from the initial drawdown date, the Convertible Loan plus accrued interest is convertible into common shares of the Company as follows: (a) the conversion price (the "Conversion Price") for the principal sum of the Convertible Loan is set at the date of each advance at a 100% premium above the 30-day VWAP ($0.62 for the First Advance, and $0.71 for the Second Advance) of Company's shares, subject to a minimum conversion price of $0.50 per share; and (b) the conversion price for accrued interest is the market price at the time of settlement, which price shall not be less than the Conversion Price without prior approval of the TSX Venture Exchange.

The Convertible Loan is a compound financial instrument, which has both liability and equity characteristics, and its initial carrying amount is allocated to its equity and liability components. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the fair value of the liability component. Upon initial recognition, the fair value of the Convertible Loan was determined as $1,352,000, and a residual value of $148,000 was recorded in equity. Moreover, an initial deferred tax of $39,960 was charged to equity due to a taxable temporary difference resulting from crediting of the residual value directly in equity upon separation of the compound instrument. Concurrently, the deferred tax liability arising from the deferred tax amount charged directly to equity was derecognized, with a corresponding deferred tax recovery recorded in net loss for the current reporting period, because the Company had accumulated tax losses in excess of the residual amount from which the deferred tax liability originated.

| | Gross proceeds | Fair value of debt | Residual value | Deferred tax |
|---|---|---|---|---|
| First Advance | $ 1,000,000 | $ 903,000 | $ 97,000 | $ 26,190 |
| Second Advance | 500,000 | 449,000 | 51,000 | 13,770 |
| Total | $ 1,500,000 | $ 1,352,000 | $ 148,000 | $ 39,960 |

Continuity of the carrying amount of the Convertible Loan is as follows:

| | Six months ended June 30, 2023 | Year ended December 31, 2022 |
|---|---|---|
| Beginning balance | $ – | $ – |
| Aggregate fair value of cash advances upon initial recognition | 1,352,000 | – |
| Finance expenses – convertible note | | |
| Interest for the period | 72,809 | – |
| Debt accretion for the period | 13,499 | – |
| Gain on modification | (21,000) | – |
| | 65,308 | – |
| Carrying amount at the end of the period | $ 1,417,308 | $ – |
| | | |
| Aggregate cash advances received | $ 1,500,000 | $ – |
| Fair value of the Convertible Loan upon initial recognition | (1,352,000) | – |
| Residual value allocated to equity | $ 148,000 | $ – |

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

## 9. RELATED PARTY TRANSACTIONS

The Lender of the Loan Facility is a significant shareholder of the Company that beneficially held approximately 18% of the Company's issued and outstanding common shares at the First Advance date (note 8).

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company and include the chief executive officer and directors of the Company. Transactions with the Company's key management personnel were as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Short-term employment benefits(i) | $ 101,145 | $ 99,239 | $ 203,915 | $ 202,136 |
| Share-based payments | – | 59,000 | – | 135,000 |
| Total | $ 101,145 | $ 158,239 | $ 203,915 | $ 337,136 |

(i) Includes executive salaries and directors' fees relating to the Company's key management personnel.

## 10. EVENTS AFTER THE END OF THE REPORTING PERIOD

*(a) Penouta option exercised (note 4)*

In July 2023, the Company exercised its option (the "Penouta Option") to increase its existing 0.75% GRR on the producing Penouta Project, by a further 0.75% in exchange for a cash payment of $1,250,000. Electric Royalties now holds an aggregated 1.5% GRR on Penouta, which rate will reduce to 1.25% upon receipt of $1,666,667 in aggregate royalty payments, and to 1.0% upon receipt of $3,333,334 in aggregate royalty payments.

*(b) Additional drawdown against the Convertible Note (note 8)*

In July 2023, the Company drew down $1,400,000 (the "Loan") under the Convertible Loan Facility, which was used for the acquisition of the Penouta Option royalty ($1,250,000) and transaction costs relating to Penouta and Kenbridge royalty acquisitions. At the discretion of the Lender, after six months from the initial drawdown date, the Loan plus accrued Interest is convertible into common shares of Electric Royalties as follows: (a) for the Loan at the greater of $0.50; a 100% premium above the 30-day VWAP ($0.63) of Company's shares on the TSXV at the date of advance; and the minimum price acceptable to the TSXV, per share; and (b) for Interest at the Market Price (as defined under Exchange policy 1.1) at the time of settlement, subject to the Market Price not being less than the Conversion Price without prior Exchange approval, per share.