



**Empress Royalty Corp.**

**Financial Statements**

**For the period from incorporation on March 2, 2020  
to September 30, 2020**

(Expressed in Canadian dollars)

## INDEPENDENT AUDITOR'S REPORT

To the Directors of  
Empress Royalty Corp.

### *Opinion*

We have audited the accompanying financial statements of Empress Royalty Corp. (the "Company"), which comprise the statement of financial position as at September 30, 2020, and the statements of loss and comprehensive loss, changes in equity and cash flows for the period from incorporation on March 2, 2020 to September 30, 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020, and its financial performance and its cash flows for the period from incorporation on March 2, 2020 to September 30, 2020, in accordance with International Financial Reporting Standards ("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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

***Auditor's 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 auditor's 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 these 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.

We 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.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

November 26, 2020

**Empress Royalty Corp.**

## Statements of Financial Position

(Expressed in Canadian dollars)

		<b>September 30, 2020</b>
	<i>Note</i>	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash		\$ 1,515,475
Marketable securities	4	228,657
Receivables		8,779
Prepaid expenses		48,300
		1,801,211
<b>Royalty interests</b>	5	1
		\$ 1,801,212
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	7	\$ 207,638
		207,638
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	6	1,980,770
Reserve	6	22,716
Deficit		(409,912)
		1,593,574
		\$ 1,801,212
Nature of operations	1	
Commitment	12	
Subsequent events	13	

These financial statements are approved for issue by the Board of Directors of the Company on November 26, 2020.

They are signed on the Company's behalf by:

"Paul Mainwaring", Director

"Alexandra Woodyer Sherron", Director

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

**Empress Royalty Corp.**

## Statement of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

			Period from incorporation on March 2, 2020 to September 30, 2020
	Note		
<b>Expenses</b>			
Consulting fees	7	\$	96,784
Director fees	7		7,500
Foreign exchange			789
Management fees	7		159,532
Office expenses			41,359
Professional fees			87,850
Project investigation costs			35,117
Salaries and benefits			14,705
			(443,636)
Loss on sale of marketable securities	4		(4,062)
Unrealized gain on marketable securities	4		37,786
<b>Loss and comprehensive loss for the period</b>		\$	(409,912)
<b>Basic and diluted loss per share</b>		\$	(0.04)
<b>Weighted average number of shares outstanding</b>			10,324,251

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

**Empress Royalty Corp.**  
Statement of Cash Flows  
(Expressed in Canadian dollars)

	<b>Period from incorporation on March 2, 2020 to September 30, 2020</b>
<b>CASH FLOWS FROM (TO) OPERATING ACTIVITIES</b>	
Loss for the period	\$ (409,912)
Items not involving cash:	
Loss on sale of marketable securities	4,062
Unrealized loss on marketable securities	(37,786)
Incorporation costs paid by Empress Resources	350
Change in non-cash working capital items:	
Receivables	(8,779)
Prepaid expenses	(48,300)
Trade and other payables	207,638
Net cash used in operating activities	(292,727)
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES</b>	
Proceeds on sale of marketable securities, net of commissions	58,201
Net cash provided by investing activities	58,201
<b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES</b>	
Private placement	1,500,000
Incorporation share	1
Arrangement with Empress Resources and Alto	250,000
Net cash provided by financing activities	1,750,001
<b>Increase in cash for the period</b>	<b>1,515,475</b>
<b>Cash, beginning of period</b>	<b>-</b>
<b>Cash, end of period</b>	<b>\$ 1,515,475</b>
<b>Non-cash investing and financing activities</b>	
Shares issued for marketable securities and NSR royalties	\$ 230,769
Contribution of assets included as reserves	22,366
<b>Supplementary information</b>	
Interest paid	-
Income taxes paid	-

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

**Empress Royalty Corp.**Statement of Changes in Equity  
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Reserve	Deficit	Total Shareholders' Equity
<b>Balance, March 2, 2020</b>	-	\$ -	\$ -	\$ -	\$ -
Share issued for cash on incorporation	1	1	350	-	351
Arrangement with Empress Resources and Alto	9,615,384	480,769	22,366	-	503,135
Private placement	30,000,000	1,500,000	-	-	1,500,000
Comprehensive loss for the period	-	-	-	(409,912)	(409,912)
<b>Balance, September 30, 2020</b>	<b>39,615,385</b>	<b>\$ 1,980,770</b>	<b>\$ 22,716</b>	<b>\$ (409,912)</b>	<b>\$ 1,593,574</b>

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

## **Empress Royalty Corp.**

### Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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#### **1. NATURE OF OPERATIONS**

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Empress Royalty Corp. (the “Company”) was incorporated under the laws of British Columbia, Canada on March 2, 2020. The corporate office and registered and records office of the Company is located at Unit 1 – 15782 Marine Drive, White Rock, BC, Canada, V4B 1E6.

The Company is primarily in the business of acquiring royalty and streaming interests in precious metal mines and mining projects. The Company intends to focus the majority of its resources on investing in precious metals royalty or streaming opportunities with small to mid-tier producing or development stage mining companies, where immediate or near-term revenue can be generated. The Company may also invest in new grass roots royalties.

On July 7, 2020, the Company completed an arrangement with Empress Resources Corp. (“Empress Resources”) and Alto Ventures Ltd. (“Alto”) in which the Company issued Empress Resources 5,000,000 common shares for \$250,000 (Note 6); and the Company issued Alto 4,615,384 common shares for a portfolio of net smelter return (“NSR”) royalties (Note 5) and certain marketable securities (Note 4). At the time of closing, the shareholders of Empress Resources held 52% of the shares of the Company and the shareholders of Alto held 48% of the shares of the Company.

The Company is in the process of pursuing a listing on the TSX Venture Exchange (“TSX-V”).

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at September 30, 2020, the Company had working capital of \$1,593,573. Subsequent to September 30, 2020, the Company completed a non-brokered private placement for gross proceeds of \$8,000,000 (Note 13). Management estimates that these funds will provide the Company with sufficient financial resources to carry out currently planned operations through the next twelve months. Additional financing may be required by the Company to complete its long-term strategic objectives and continue as a going concern. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company.

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. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s ability to raise funds or the impact on its investments.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.



**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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**2. BASIS OF PRESENTATION**

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**Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee. The policies applied in these financial statements are based on the IFRS issued and outstanding as at the date the Board of Directors approved these financial statements for issue.

**Basis of measurement**

These financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

**Use of accounting estimates, judgments and assumptions**

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Information about significant areas of estimation uncertainty and judgments made by management in preparing the financial statements are described below. The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and include, but are not limited to, the following:

**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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**2. BASIS OF PRESENTATION (continued)**

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**Use of accounting estimates, judgments and assumptions (continued)**Royalty interests

In accordance with the Company's accounting policy, royalty interests are evaluated on a periodic basis to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed, and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of a royalty asset is measured at the higher of fair value less costs to sell and value in use. The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, the proportion of areas subject to royalty rights, commodity prices (considering current and historical prices, price trends and related factors), and reserves. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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**Financial instruments***Financial assets*

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVTOCI are classified as FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and marketable securities are classified as FVTPL.

**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**Financial instruments (continued)***Impairment*

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Financial liabilities*

Financial liabilities are designated as either: (i) FVTPL; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Trade and other payables are classified as other financial liabilities and carried on the statement of financial position at amortized cost. For the period presented, the Company does not have any derivative financial liabilities.

**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**Royalty interests**

Royalty interests consist of acquired royalty interests pursuant to purchase agreements. These interests 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. Project evaluation costs that are not related to a specific agreement are expensed in the period incurred.

On acquisition of a royalty interest, an allocation of its cost is attributed to the exploration potential of the interest and is recorded as an asset on the acquisition date. The value of the exploration potential is accounted for in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources and is not depleted until such time as the technical feasibility and commercial viability have been established at which point the value of the asset is accounted for in accordance with IAS 16, Property, Plant and Equipment.

Acquisition costs of production stage royalty interests are depleted using the units of production method over the life of the related mineral property, which is calculated using estimated reserves. Acquisition costs of royalty interests on exploration stage mineral properties, where there are no estimated reserves, are not amortized. At such time as the associated exploration stage mineral interests are converted to estimated reserves, the cost basis is amortized over the remaining life of the mineral property, using the estimated reserves. The carrying values of exploration stage mineral interests are evaluated for impairment at such time as information becomes available indicating that production will not occur in the future.

**Income (loss) per share**

The Company presents basic and diluted loss per share ("EPS") data for its common shares, calculated by dividing the loss attributable to equity shareholders of the Company by the weighted average number of common shares issued and outstanding during the period. Diluted EPS is calculated by adjusting the loss attributable to equity shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares. The calculation of diluted EPS assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Diluted EPS does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**Income taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit or loss.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

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 profit or loss 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 reduced.

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

**Related party transactions**

Parties are considered to be 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. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**New standards, interpretations and amendments not yet effective**

There are no new standards that will have any significant effect on the Company.

## **Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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### **4. MARKETABLE SECURITIES**

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On July 7, 2020, the Company completed an arrangement with Empress Resources and Alto in which, among other things, the Company acquired certain marketable securities from Alto valued at \$253,134. The Company also acquired certain share purchase warrants, which are considered to have a nominal value.

During the period ended September 30, 2020, the Company sold certain marketable securities for proceeds of \$58,201 (net of commissions) and recorded a loss on sale of marketable securities of \$4,062.

As at September 30, 2020, the remaining marketable securities were measured at a fair value of \$228,657 and accordingly the Company recorded an unrealized gain on marketable securities of \$37,786.

### **5. ROYALTY INTERESTS**

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On July 7, 2020, the Company completed an arrangement with Empress Resources and Alto in which, among other things, the Company acquired a portfolio of NSR royalties from Alto. All NSR royalties are on early stage exploration properties located in Canada and range between 0.5% and 1%.

### **6. SHARE CAPITAL**

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#### **Authorized**

The Company has an unlimited number of common shares without par value authorized for issue.

#### **Issued and outstanding**

On March 2, 2020, the date of incorporation, the Company issued one common share for proceeds of \$1.

On July 7, 2020, the Company completed an arrangement with Empress Resources and Alto in which:

- the Company issued Empress Resources 5,000,000 common shares at a price of \$0.05 per share for \$250,000; and
- the Company issued Alto 4,615,384 common shares valued at \$230,769 for a portfolio of NSR royalties (Note 5) and certain marketable securities (Note 4) valued at \$253,134 resulting in an allocation of \$22,365 to reserves.

On August 12 and 21, 2020, the Company completed a non-brokered private placement in two tranches through the issuance of 30,000,000 common shares at a price of \$0.05 per share for gross proceeds of \$1,500,000.

**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

**7. RELATED PARTY TRANSACTIONS***Compensation of key management personnel*

Key management includes members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, and the Corporate Secretary. The aggregate compensation paid, or payable, to key management personnel during the period ended September 30, 2020 are as follows:

		Period from incorporation on March 2, 2020 to September 30, 2020
Consulting fees		
Alexandra Woodyer Sherron (1)	\$	45,000
Golden Oak (2)		37,500
Director fees		
Richard Mazur (3)		3,750
Wes Roberts (4)		3,750
Management fees		
Endeavour Financial (5)		39,481
Jeremy Bond (6)		120,051
Total	\$	249,532

- (1) Alexandra Woodyer Sherron is a director and the President and Chief Executive Officer of the Company.
- (2) Golden Oak Corporate Services Ltd. ("Golden Oak") is a consulting company controlled by Dan O'Brien, the Chief Financial Officer, and Doris Meyer, the Corporate Secretary, of the Company. Golden Oak provides the services of a Chief Financial Officer, a Corporate Secretary, and accounting and administrative staff to the Company. The Chief Financial Officer and the Corporate Secretary are employees of Golden Oak and are not paid directly by the Company.
- (3) Richard Mazur is a director of the Company.
- (4) Wes Roberts is a director of the Company.
- (5) Endeavour Financial Limited (Cayman) and the Company have a director in common, being David Rhodes.
- (6) Jeremy Bond is a director of the Company.

*Amounts due to related parties*

As at September 30, 2020, the Company had trade and other payables of \$127,818, owing to related parties, being \$120,051 owing to Jeremy Bond for management fees, \$3,750 owing to each of Richard Mazur and Wes Roberts for director fees, and \$267 owing to Golden Oak for the reimbursement of expenses. All amounts owed are unsecured and non-interest bearing.

**Empress Royalty Corp.**

## Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

**8. SEGMENTED INFORMATION**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Chief Executive Officer.

As at September 30, 2020, the Company's business is the acquisition of mining royalty and streaming interests. All of the Company's assets are located in Canada.

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****Financial instruments**

Financial instruments are classified into one of the following categories: FVTPL; FVTOCI; or at amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

		<b>September 30, 2020</b>	
Cash	FVTPL	\$	1,515,475
Marketable securities	FVTPL		228,657
Trade and other payables	Amortized cost		(207,638)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The carrying value of trade and other payables approximates its fair value due to its short-term nature. Cash and marketable securities are recorded at fair value using Level 1 of the fair value hierarchy.



**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

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**Risk management**

The Company's risk exposures and the impact on the Company's financial instruments are summarized as follows:

*Credit Risk*

Credit risk is the risk of loss associated with a counter party's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to its cash balances. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada. Management believes that the credit risk with respect to cash is low.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to closely monitor cash forecasts and manage resources to ensure that there is sufficient capital in order to meet short-term business requirements. All of the Company's financial liabilities are classified as current and are anticipated to be settled in the next sixty days.

*Interest Rate Risk*

The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risk on cash is not considered significant.

*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. These fluctuations may be significant.

- (a) Interest Rate Risk: The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risk on cash is not considered significant.
- (b) Foreign Currency Risk: The Company expects to raise equity predominately in Canadian dollars; however, investment transactions are expected to be primarily in US dollars. As such, the Company is subject to fluctuations in the exchange rate between the Canadian dollar and the US dollar. As at September 30, 2020, the Company holds most of its cash in Canadian dollars. Management believes the foreign exchange risk related to currency conversions is minimal and therefore, does not hedge its foreign exchange risk.

**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

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**Risk management (continued)***Market Risk (continued)*

- (c) **Commodity Price Risk:** While the value of the Company's investments is expected to be primarily related to the price of gold and silver and the outlook for these minerals, the value of the Company's investments are subject to changes in metal prices and market fluctuations.

Historically, the price of metals has fluctuated significantly and is affected by numerous factors outside of the Company's control, including but not limited to industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold and silver.

A 10% change in value will increase or decrease investments by approximately \$23,000.

**10. MANAGEMENT OF CAPITAL**

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The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue operations and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages its common shares as capital. As the Company is in the early stages, its principal source of funds is from the issuance of common shares. The Company is not subject to any externally imposed capital requirements.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations. The Board of Directors has not established quantitative capital structure criteria for management but will review on a regular basis the capital structure of the Company to ensure its appropriateness to the stage of development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

In order to facilitate the management of its capital requirements, the Company may issue new equity. The Company's investment policy for its cash is to hold cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing efforts, the Company does not pay dividends. The Company expects to continue to raise funds, from time to time, to continue meeting its capital management objectives.

**Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

**11. INCOME TAXES**

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	<b>Period from incorporation on March 2, 2020 to September 30, 2020</b>
Loss for the period	\$ (409,912)
Expected Income tax recovery	\$ (111,000)
Non-deductible items and other	(5,000)
Temporary differences not recognized	116,000
Income tax expense (recovery)	\$ -

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

	<b>September 30, 2020</b>
Non-capital loss carry forward	\$ 116,000
Total unrecognized deferred tax assets	\$ 116,000

Deferred tax assets have not been recognized in these financial statements as it is not probable that they will be realized.

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	<b>September 30, 2020</b>	<b>Expiry date</b>
<b>Temporary differences</b>		
Allowable capital losses	\$ 2,000	No expiry date
Non-capital losses available for future periods	410,000	2040

Tax carry forward balances which give rise to deferred tax assets are subject to review, and potential adjustment, by tax authorities.

## **Empress Royalty Corp.**

Notes to the Financial Statements

For the period from incorporation on March 2, 2020 to September 30, 2020

(Expressed in Canadian dollars)

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### **12. COMMITMENT**

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In August 2020, the Company entered into a strategic alliance agreement with Accendo Banco, S.A. ("Accendo") pursuant to which the Company will pay a success fee of 0.5% to 2.0% on the acquisition of identified royalty or streaming opportunities in Mexico.

Accendo has the right to participate in future financings and will provide a line of credit to finance Mexico acquisitions subject to negotiated terms. Accendo has the right to appoint one director to the board of directors of the Company as long as it retains a minimum 5% ownership interest. The agreement will terminate on the earlier of three years written notification or an ownership threshold below 5%.

### **13. SUBSEQUENT EVENTS**

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Subsequent to September 30, 2020, the Company completed the following transactions:

- On October 20, 2020, the Board of Directors of the Company approved a rolling stock option plan ("the Plan") which is applicable to directors, officers, employees and consultants. Under the Plan, the total outstanding stock options that may be granted are limited to 10% of the outstanding common shares of the Company at any one time. The exercise price of an option shall not be less than the discounted market price at the time of granting as prescribed by the policies of the TSX-V (once listed). The maximum term of stock options is ten years from the grant date. Vesting terms are at the discretion of the directors. Adoption of the Plan is subject to regulatory and shareholder approval. To date, the Company has not granted any stock options.
- On October 23 and November 10, 2020, the Company completed a non-brokered private placement in two tranches through the issuance of 32,000,000 common shares at a price of \$0.25 per share for gross proceeds of \$8,000,000. The Company paid cash finder's fees of \$160,125 and issued 154,000 finders shares.
- On November 24, 2020, the Company completed the acquisition of a 1% NSR royalty on Candelaria Mining Corp.'s Pinos project in Mexico for total consideration of US\$1,500,000 cash. The Company will pay Accendo a success fee of US\$30,000 in connection with this transaction.