



CONSOLIDATED FINANCIAL STATEMENTS
(Presented in United States ("US") Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2021 AND DECEMBER 31, 2020



INDEPENDENT AUDITORS' REPORT

To the Shareholders of Star Royalties Ltd.

Opinion

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

- the consolidated statements of financial position as at end of December 31, 2021 and end of December 31, 2020
- the consolidated statements of loss and other comprehensive loss for the years then ended
- the consolidated statements of cash flows for the years then ended
- the consolidated statements of changes in shareholders equity for the years then ended
- 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 consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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) as issued by the International Accounting Standards Board, 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. A horizontal line is drawn underneath the signature, starting from the left and extending to the right, ending with a small upward tick.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Pieter Fourie.

Toronto, Canada

April 12, 2022

STAR ROYALTIES LTD.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Presented in US Dollars)

As At

	December 31, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents (Note 6)	\$ 4,160,206	\$ 1,988,993
Receivables (Note 7)	283,472	164,017
Prepays and other	<u>61,366</u>	<u>120,106</u>
	4,505,044	2,273,116
Non-current		
Royalty and stream interests (Note 8)	<u>26,711,573</u>	<u>10,346,424</u>
	<u>\$ 31,216,617</u>	<u>\$ 12,619,540</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	<u>\$ 435,723</u>	<u>\$ 134,835</u>
	435,723	134,835
Shareholders' equity		
Share capital (Note 10)	28,008,825	12,786,743
Contributed surplus	5,888,237	144,716
Accumulated other comprehensive income	459,157	459,289
Deficit	<u>(3,575,325)</u>	<u>(906,043)</u>
	<u>30,780,894</u>	<u>12,484,705</u>
	<u>\$ 31,216,617</u>	<u>\$ 12,619,540</u>

Subsequent events (Note 15)

Approved on behalf of the Board of Directors

<u>"Alexandre Pernin"</u>	Director	<u>"Kylie Dickson"</u>	Director
Alexandre Pernin		Kylie Dickson	

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

STAR ROYALTIES LTD.**CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS**

(Presented in US Dollars)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Revenue		
Royalty income	\$ 691,621	\$ 9,801
Costs of sales		
Depletion	(625,205)	(5,458)
Gross profit	66,416	4,343
Expenses		
Marketing and shareholder communications	203,275	12,065
Management compensation (Note 9)	910,035	268,633
Office and miscellaneous	246,925	28,033
Professional fees	601,445	224,517
Share-based compensation (Notes 9 and 10)	933,045	-
Total expenses	(2,894,725)	(533,248)
Other income/(loss)		
Interest income	48,401	3,499
Foreign exchange income/(loss)	110,626	(274,487)
Net loss	(2,669,282)	(799,893)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss		
Currency translation adjustment	(132)	451,620
Total other comprehensive loss	(132)	451,620
Total comprehensive loss	\$ (2,669,414)	\$ (348,273)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.05)
Weighted average number of common shares outstanding – basic and diluted	66,144,434	14,605,822

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

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

	Year ended December 31, 2021	Year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (2,669,282)	\$ (799,893)
Items not affecting cash:		
Depletion	625,205	5,458
Foreign exchange (income)/loss	(110,626)	274,487
Share-based compensation	933,045	-
Non-cash working capital items changes:		
Accounts payable and accrued liabilities	177,213	3,464
Due to related parties	-	73,688
Prepaid and other	59,937	6,620
Receivables	<u>(120,400)</u>	<u>(142,364)</u>
Net cash used in operating activities	<u>(1,104,908)</u>	<u>(578,540)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of royalty and stream interests (Note 8)	<u>(16,321,691)</u>	<u>(9,818,047)</u>
Net cash used by investing activities	<u>(16,321,691)</u>	<u>(9,818,047)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares (Note 10)	18,379,529	12,887,035
Proceeds from issuance of warrants (Note 10)	2,773,665	-
Issuance costs (Note 10)	(1,631,274)	(540,938)
Exercise of warrants (Note 10)	5,799	-
Repurchase of shares	<u>-</u>	<u>(292,383)</u>
Net cash provided by financing activities	<u>19,527,719</u>	<u>12,053,714</u>
Change in cash and cash equivalents for the period	2,101,120	1,657,127
Effect of exchange rate changes on cash and cash equivalents	70,093	(65,050)
Cash and cash equivalents, beginning of period	<u>1,988,993</u>	<u>396,916</u>
Cash and cash equivalents, end of period	<u>\$ 4,160,206</u>	<u>\$ 1,988,993</u>
Non-cash financing and investing activities		
Share issuance costs included in accounts payable and accrued liabilities	\$ -	\$ 127,069
Issuance of shares related to settlement of related party debt (Note 10)	\$ -	\$ 183,735
Issuance of shares related to royalty interest (Note 10)	\$ 574,249	\$ -
Issuance of warrants related to royalty and stream interest	\$ 57,659	\$ -
Fair value of broker warrants (Note 10)	\$ -	\$ 144,716

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

STAR ROYALTIES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Presented in US Dollars)

Share Capital								
	Number (Note 9)	Amount	Subscriptions received in advance	Contributed surplus	Accumulated other comprehensive income	Deficit	Total	
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)	-	-	-	-	-	-	
Shares issued for cash	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	-	-	-	-	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	
Units issued on initial public offering and overallotment exercised (Note 10)	38,055,500	16,048,245	-	5,104,949	-	-	21,153,194	
Issuance costs (Note 10)	-	(1,406,674)	-	(351,669)	-	-	(1,758,343)	
Shares issued for royalty (Note 8 and 10c)	1,659,304	574,249	-	-	-	-	574,249	
Warrants issued for royalty (Note 8 and 10c)	-	-	-	57,659	-	-	57,659	
Exercise of warrants	7,200	6,262	-	(463)	-	-	5,799	
Share-based compensation (Note 9 and 10)	-	-	-	933,045	-	-	933,045	
Loss and other comprehensive loss	-	-	-	-	(132)	(2,669,282)	(2,669,414)	
Balance, December 31, 2021	72,740,141	\$ 28,008,825	\$ -	\$ 5,888,237	\$ 459,157	\$ (3,575,325)	\$ 30,780,894	

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

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

1. NATURE AND CONTINUANCE OF OPERATIONS

Star Royalties Ltd. (“the Company”) was incorporated in Canada under the Canada Business Corporations Act on February 15, 2018. The Company is a precious metals and green 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 listed its common shares and warrants on the TSX Venture Exchange in February 2021 under the symbols “STRR” and STRR.WT”, respectively. The Company’s common shares are also traded on the OTCQX under the symbol “STRFF”.

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 10, and commenced trading on the TSX Venture Exchange (“TSX-V”) under the symbol “STRR”. As a result of the proceeds generated from the IPO, the cash that was on hand as at December 31, 2021 and the expected proceeds from the private placement as announced in March 2022 (Note 15d), the Company believes that it is in a position to meet its obligations and other commitments in the normal course.

These financial statements were approved and authorized for issue by the Board of Directors of the Company on April 12, 2022.

2. COVID-19 UNCERTAINTIES

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 are 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, 2021, the Company has not recorded any adjustments directly attributable to the COVID-19 pandemic.

3. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on a historical cost basis.

Basis of measurement

These consolidated financial statements are presented in United States dollars. The Canadian dollar is the functional currency of the Company and its subsidiary. 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.

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 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.

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

3. BASIS OF PREPARATION (CONTINUED)

On translation of the entities whose functional currency is Canadian dollars, 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.

4. USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Critical accounting judgements and estimates

The preparation of these consolidated 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 consolidated 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 judgements 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 and its subsidiary 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 assumptions, including the estimated amount of commodities to be received, the recovery rates, and payable rates.

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

4. USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

Changes to these assumptions may impact the depletion rates used. Changes to depletion rates due to new information are accounted for prospectively.

Share-based compensation

The Company measures share-based compensation by reference to the fair value of the equity instruments on grant date. Estimating fair value of share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and forfeiture rate. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

5. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The financial statements consist of the consolidation of the financial statements of the Company and its subsidiaries. All significant intercompany transactions, balances, revenues and expenses have been eliminated upon consolidation. Subsidiaries are entities over which the Company has control, including the power to govern the financial and operating policies in order to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

At December 31, 2021, the only subsidiary of the Company is Green Star Royalties Ltd. ("Green Star"), an entity domiciled in Canada and owned 100% by Star Royalties Ltd.

Cash and cash equivalents

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

Financial instruments

Financial assets

The Company classified its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI"), 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 consolidated 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 consolidated 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.

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated 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 consolidated 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.

Financial instruments

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

Financial liability	Classification
Accounts payable and accrued liabilities	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 either tangible or intangible assets with finite lives depending on the nature of the royalty or stream. 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.

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 reserves. Estimated sales prices are determined by reference to an average of long-term metal 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.

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.

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Share-based compensation

The Company grants share-based awards in the form of stock options and restricted share units ("RSUs"). The stock options and RSUs are equity-settled awards. The Company determines the fair value of the awards on the date of grant. This fair value is expensed to the statement of loss and comprehensive loss using a graded vesting attribution method over the vesting period of the awards, with a corresponding credit to contributed surplus. When the share options or share units are exercised, the applicable amounts of contributed surplus are transferred to share capital.

Warrant issued in equity financing transactions

The Company may issue units comprise of a certain number of common shares and a certain number of share purchase warrants in equity financing transactions. Depending on the terms and conditions of each financing agreement, the warrants are exercisable into additional common shares prior to expiry at a price specified in the agreement. Warrants that are part of units are assigned value based on the residual value method and included in the share warrant reserve. When warrants are cancelled or are not exercised at the expiry date, the amount previously recognized is transferred from contributed surplus to share capital.

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 expected tax 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 is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the consolidated statement of financial position.

A deferred tax asset is recognized only 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, it does not recognize the asset.

STAR ROYALTIES LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

6. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash	\$ 4,160,206	\$ 856,094
Guaranteed investment certificates	<u>-</u>	<u>1,132,899</u>
Total	<u>\$ 4,160,206</u>	<u>\$ 1,988,993</u>

7. RECEIVABLES

	December 31, 2021	December 31, 2020
Goods and service tax ("GST") receivable	\$ 173,181	\$ 153,710
Royalty receivable	<u>110,291</u>	<u>10,307</u>
Total	<u>\$ 283,472</u>	<u>\$ 164,017</u>

STAR ROYALTIES LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

8. ROYALTY AND STREAM INTERESTS

	Mining Royalties	Stream Interests	Carbon Credit Royalties	Total
Cost, December 31, 2019	\$ 297,709	\$ -	\$ -	\$ 297,709
Additions during the year	3,163,116	6,537,566	117,366	9,818,048
Foreign currency translation	109,133	115,150	12,124	236,407
Cost, December 31, 2020	\$ 3,569,958	\$ 6,652,716	\$ 129,490	\$ 10,352,164
Additions during the year	10,702,142	6,008,948	242,502	16,953,592
Foreign currency translation	53,861	(15,277)	(1,822)	36,762
Cost, December 31, 2021	\$ 14,325,961	\$ 12,646,387	\$ 370,170	\$ 27,342,518

	Mining Royalties	Stream Interests	Carbon Credit Royalties	Total
Accumulated depreciation, December 31, 2019	\$ -	\$ -	\$ -	\$ -
Depletion during the year	5,740	-	-	5,740
Accumulated depreciation, December 31, 2020	\$ 5,740	\$ -	\$ -	\$ 5,740
Depletion during the year	625,205	-	-	442,153
Accumulated depreciation, December 31, 2021	\$ 630,945	\$ -	\$ -	\$ 442,893

Net book value, December 31, 2020	\$ 3,565,218	\$ 6,652,716	\$ 129,490	\$ 10,346,424
Net book value, December 31, 2021	\$ 13,695,016	\$ 12,646,387	\$ 370,170	\$ 26,711,573

Of the total net book value as at December 31, 2021, \$2,835,314 (December 31, 2020 - \$3,260,088) is depletable and \$23,876,259 (December 31, 2020 - \$7,086,336) is non-depletable.

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

Mining Royalties**Baavhai Uul, Mongolia**

The Company entered into a Gross Royalty Sale and Purchase Agreement with ION Energy LLC ("ION") in July 2019. The Company purchased a 1.5% of Gross Revenue of 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.

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.

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. ROYALTY AND STREAM INTERESTS (CONTINUED)

Elk Gold, British Columbia, Canada

In September 2021, the Company acquired an existing 2% net smelter return royalty from Almadex Minerals Ltd. on the Elk Gold Mine ("Elk Gold") located in BC, Canada and owned and operated by Gold Mountain Mining Corp. for \$10,000,000 in cash, 1,659,304 common shares valued at \$574,249 and 829,652 common share purchase warrants valued at \$57,659 (Note 10c). Each common share purchase warrant will be exercisable at CAD\$0.70 until September 29, 2023. Total acquisition costs of \$70,234 were incurred.

Keysbrook, Western Australia, Australia

In October 2020, the Company completed the acquisition of an existing 2.0% minerals royalty on the mineral sands mine ("Keysbrook") located in Western Australia, 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 in cash, and acquisition costs of \$163,116 for a total acquisition cost of \$3,163,116.

Stream Interests

Copperstone, Arizona, USA

In November 2020, the Company and Sabre Gold Mines Corp. ("Sabre Gold") (formerly Arizona Gold Corp.) entered into a definitive \$18,000,000 gold purchase and sale (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 instalments, with the first \$6,000,000 instalment paid on the initial closing and the second tranche paid in February 2021. On June 28, 2021, the Streaming Agreement was amended whereby the previously defined final tranche payment date was removed and was replaced by certain closing conditions having to be met by Sabre Gold. Total acquisition costs of \$546,514 was incurred in respects of this transaction.

Carbon Credit Royalties

EMS Forest, Alberta, Canada

In July 2021, the Company executed a definitive royalty purchase agreement and gross revenue royalty agreement with Elizabeth Metis Settlement ("EMS") to acquire a 13.5% gross revenue royalty on EMS' revenue share from the creation and sale of emission reduction benefits (including carbon offset credits and emission reduction credits) from forested lands located in EMS in Alberta, Canada for a total consideration of \$238,569 in cash. Total acquisition costs of \$3,933 were incurred.

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 paid in cash and acquisition costs of \$7,337 for a total acquisition cost of \$117,366.

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

9. RELATED PARTY TRANSACTIONS

Related parties include key management personnel, and individuals or companies controlled by key management personnel. 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 of Directors 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, 2021 and 2020, the Company entered into the following transactions with related parties:

	Year ended December 31, 2021	Year ended December 31, 2020
Management cash compensation	\$ 910,035	\$ 268,633
Marketing and shareholder communications	79,888	4,734
Share-based compensation	<u>933,045</u>	<u>-</u>
	<u>\$ 1,922,968</u>	<u>\$ 273,367</u>

10. SHAREHOLDERS' EQUITY

(a) Authorized

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

(b) Share consolidation

The Board of Directors authorized a five-to-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.

(c) Issued share capital

During the year ended December 31, 2021, the Company entered into the following transactions:

- 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 \$18,974,650 (CAD\$24,000,200). Each unit consists of one common share and one publicly traded warrant. Each publicly traded warrant entitles the holder to purchase one common share at an exercise price of CAD\$1.00 per common share until February 19, 2024. The gross proceeds of \$18,974,650 were allocated between common shares and publicly traded warrants and recorded as \$14,382,791 to share capital and \$4,591,859 to contributed surplus.
- 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 publicly traded warrants at a price of CAD\$0.089 per warrant for combined gross proceeds of \$2,178,545 (CAD\$2,760,883). The gross proceeds of \$2,178,544 were allocated between common shares and publicly traded warrants and recorded as \$1,665,454 to share capital and \$513,090 to contributed surplus.
- Share issuance fees paid in cash totalled \$1,758,343 in relation to the Company's IPO and the exercise of the over-allotment option granted to the syndicate of underwriters. The share issuance costs of \$1,758,343 were recorded against share capital in the amount of \$1,406,674 and contributed surplus in the amount of \$351,669.

STAR ROYALTIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

10. SHAREHOLDERS' EQUITY (CONTINUED)

- d) In September 2021, the Company issued 1,659,304 common shares at a price of CAD\$0.44 valued at \$574,249 (CAD\$730,094) and 829,652 warrants with a fair value of \$57,659 (CAD\$73,307) pursuant to the Elk Gold royalty acquisition (Note 8). Each warrant entitles the holder to purchase one common share at an exercise price of CAD\$0.70 per common share until September 29, 2023. 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 0.53%, a forfeiture rate of 0%, and a share price volatility of 60%.

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).
- 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. 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).

(d) Broker warrants

As at December 31, 2021 and 2020, there were 669,300 broker warrants with a weighted average exercise price of CAD\$0.625. These broker warrants were subsequently expired between March 18, 2022 and March 30, 2022.

STAR ROYALTIES LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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10. SHAREHOLDERS' EQUITY (CONTINUED)**(e) Publicly traded warrants**

As at December 31, 2021, the following publicly traded warrants were outstanding:

	Number of publicly traded warrants	Weighted average exercise price CAD
Balance, December 31, 2020	-	-
Granted	39,428,900	\$ 1.00
Exercised	(7,200)	\$ 1.00
Balance, December 31, 2021	39,421,700	\$ 1.00

The publicly traded warrants expire on February 19, 2024.

(f) Share purchase warrants

As at December 31, 2021, the following share purchase warrants were outstanding:

	Number of share purchase warrants	Weighted average exercise price CAD
Balance, December 31, 2020	-	-
Granted	829,652	\$ 0.70
Balance, December 31, 2021	829,652	\$ 0.70

The share purchase warrants expire on September 29, 2023.

(g) Stock options

The Company has an equity compensation plan, under which it is authorized to grant stock options, RSUs and performance share units, or some combination thereof up to 10% of its outstanding common shares. The equity compensation plan received shareholders' approval at the Annual General and Special Meeting held on June 23, 2021.

On February 19, 2021, the Company issued 3,735,000 stock options to officers and directors of the Company with an exercise price of CAD\$0.70 per share. The stock options expire on February 19, 2031 and vest 25% on grant and 25% annually over three years.

On June 23, 2021, upon receiving shareholders' approval on the equity compensation plan, the Company revised the earlier fair value estimate so that the amounts recognized for services received in respect of the grant are based on the grant date fair value. The weighted average fair value per stock option as determined on June 23, 2021 was CAD\$0.34. The fair value of the options was estimated using the Black-Scholes option pricing model assuming a life expectancy of 10 years, a risk-free rate of 1.21%, a forfeiture rate of 0%, and a share price volatility of 60%. During the year ended December 31, 2021, the Company recorded expense of \$649,673 in relation to stock options in share-based compensation in the consolidated statement of loss and other comprehensive loss.

STAR ROYALTIES LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

10. SHAREHOLDERS' EQUITY (CONTINUED)

Stock option transactions are summarized as follows:

	Number of Stock options	Weighted average exercise price CAD
Balance, December 31, 2020	-	\$ -
Granted	3,735,000	0.70
Balance, December 31, 2021	3,735,000	\$ 0.70
Vested and exercisable, December 31, 2021	933,750	\$ 0.70

The outstanding stock options expire on February 19, 2031.

(h) RSUs

Pursuant to the equity compensation plan, which was approved by shareholders at the Annual General and Special Meeting on June 23, 2021, the Company is authorized to issue RSUs to directors, officers, employees or consultants. The RSUs entitle holders to common shares of the Company upon vesting, based on vesting terms determined by the Board of Directors at the time of grant.

On February 19, 2021, the Company granted 1,250,005 RSUs to officers and directors of the Company. The RSUs vest over three years. On June 23, 2021, upon receiving shareholders' approval on the equity compensation plan, the Company revised the earlier fair value estimate so that the amounts recognized for services received in respect of the grant are based on the grant date fair value. The weighted average fair value per unit as at June 23, 2021 was CAD\$0.54, being the share price on the IFRS grant date. During the year ended December 31, 2021, the Company recorded expense of \$283,372 in relation to RSUs in share-based compensation in the consolidated statement of loss and other comprehensive loss.

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the year ended December 31, 2021 and 2020 are as follows:

	2021	2020
Loss for the year	\$ (2,669,282)	\$ (799,893)
Expected income tax recovery at statutory tax rate of 26.5%	\$ (707,000)	\$ (212,000)
Permanent differences	428,000	36,000
Foreign exchange on non-monetary items	(25,000)	(62,000)
Share issue costs	(471,000)	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	74,000	-
Change in unrecognized deferred tax asset	701,000	238,000
Income tax expense	\$ -	\$ -

STAR ROYALTIES LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Presented in US Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

11. INCOME TAXES (CONTINUED)

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

	2021	2020
Deferred tax assets (liabilities)		
Stream asset	\$ (29,000)	\$ (31,000)
Royalties	(186,000)	-
Non-capital losses	215,000	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:

	2021	Expiry Date Range
Deferred tax assets		
Share issuance costs	\$ 1,660,000	N/A
Royalties	516,000	N/A
Non-capital losses available for future period	1,592,000	2039-2041
	3,768,000	
Unrecognized deferred tax assets	3,768,000	
Net deferred tax assets	\$ -	

12. SEGMENT INFORMATION

For the year ended December 31, 2021, the Company had revenue of \$691,621 (December 31, 2020 - \$9,801) from one of its royalties located in Australia.

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

	December 31, 2021	December 31, 2020
United States	\$ 12,646,387	\$ 6,652,716
Canada	11,107,699	129,490
Australia	2,835,314	3,260,088
Mongolia	305,225	304,130
	\$ 26,894,625	\$ 10,346,424

As at December 31, 2021, the Company's subsidiary Green Star does not meet the quantitative thresholds under IFRS 8 "Operating segments" to be a reportable segment. Green Star holds the carbon credit royalties as disclosed in Note 8.

STAR ROYALTIES LTD.

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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 and accounts payable and accrued liabilities, approximates fair value due to the short-term nature of the financial instruments.

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 royalty receivable and 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 fall due.

The Company manages liquidity risk through its capital management. Accounts payable and accrued liabilities are due within one year.

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, 2021, the Company is not exposed to significant interest rate risk.

STAR ROYALTIES LTD.

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13. FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

b) Foreign currency risk

The Company's functional currency is the Canadian dollar. The Company is exposed to fluctuations in foreign exchange rates as a portion of our expenses are incurred in Canadian dollars. A significant change in the foreign exchange rates between the US dollar relative to the Canadian dollar could have a material impact on the Company's profit or loss, financial position, or cash flows. Currently, the Company does not hedge against movement in foreign currency exchange rates.

c) Price risk

The Company is exposed to price risk with respect to commodity prices on the royalty and stream agreements. Currently, the Company's revenue is not hedged in order to provide shareholders with the full exposure to changes in the market prices of the commodities.

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. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

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

14. COMMITMENTS

As at December 31, 2021, the Company had the following contractual obligations:

	Less than 1 year	1 to 3 years	Over 3 years	Total
Accounts payable	\$ 435,723	\$ -	\$ -	\$ 435,723
Investment commitment	<u>\$ 5,000,000</u>	<u>-</u>	<u>-</u>	<u>5,000,000</u>
	\$ 5,435,723	\$ -	\$ -	\$ 5,435,723

In December 2021, the Company through its wholly-owned subsidiary Green Star, entered into an agreement with Blue Source, LLC ("Bluesource") to create premium, verified carbon offset credit that will reward the adoption of regenerative agriculture practices by North American farmers. The Company expects this project to result in over 500,000 carbon offset credits per annum commencing in 2023, to be available for sale in the voluntary carbon marketplace. Green Star expects initial funding for this investment to commence in the second quarter of 2022 until the \$5,000,000 is spent.

STAR ROYALTIES LTD.

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15. SUBSEQUENT EVENTS

Subsequent to December 31, 2021, the Company entered into the following transactions:

- a) In January 2022, the Company, through its wholly-owned subsidiary Green Star, acquired an additional 27% gross revenue royalty on EMS' revenue share from the creation and sale of carbon offset credits from forested lands located in Elizabeth Metis Settlement (the "EMS Forest Project") in Alberta, Canada for CAD\$600,000 in cash. The gross revenue royalty covers the entire EMS Forest Project and has a term of the earlier of: 1) 10 years commencing on the date EMS receives any gross revenue from the monetization of carbon offset credits, or 2) the date hereof until the first 225,000 carbon offset credits are issued and sold in connection with the EMS Forest Project. In combination with the Company's previously acquired 13.5% gross revenue royalty in July 2021, the Company now owns an effective 40.5% gross revenue royalty on the EMS Forest Project.
- b) In January 2022, the Company through its wholly-owned subsidiary Green Star, acquired a 2.5% gross revenue royalty on all current and future gross revenues and any potential business divestment revenues from MOBISMART Mobile Off-Grid Power and Storage Inc. ("MOBISMART") for total cash consideration of CAD\$300,000. The royalty has a term of 15 years and the Company has granted MOBISMART an initial payment holiday on the royalty, where the first payment of the royalty, calculated from the closing date, will occur no later than January 2023. The Company also granted MOBISMART a royalty repurchase provision, whereby MOBISMART, at its sole election and in connection with a potential go-public event, will have the right to repurchase the royalty in its entirety for CAD\$10,000,000 in cash, or partially on a pro rata basis. MOBISMART, at its sole election and only after five years have elapsed since the completion of its potential go-public event, will have the additional right to repurchase any part of the royalty not already repurchased during its go-public event, on the same pro rata basis.
- c) In February 2022, 625,000 stock options and 1,215,000 restricted share units ("RSUs") were granted to officers and directors of the Company. The stock options granted have a ten-year term and vest over three years in equal portions on the anniversary of the grant date. The RSUs granted are vested over three years in equal portions on the anniversary of the grant date.
- d) In March 2022, the Company announced a non-brokered private placement of 15,384,620 shares of its wholly-owned subsidiary Green Star, at a price of CAD\$1.00 per Green Star class A shares (each a "Green Star Share"). Agnico Eagle Mine Limited has agreed to purchase 14,134,620 Green Star Shares for an aggregate purchase price of CAD\$14,134,620. The Company's management team and Board of Directors have agreed to purchase concurrently the remaining 1,250,000 Green Star Shares for an aggregate purchase price of CAD\$1,250,000. The proceeds from the private placement is expected to be used for funding the first tranche payment of the Regen Ag project (Note 15e), Green Star's future investments in carbon offset credit projects and green technology opportunities and general corporate and administrative expenses of Green Star.
- e) In April 2022, the Company, through its wholly-owned subsidiary, Green Star, entered into a fourfold expansion of its agreement with Bluesource for the Regen Ag project, originally entered into in December 2021, to create premium, verified carbon offset credits that will reward the adoption of regenerative agriculture practices by North American farmers. Under the amended agreement, Green Star will be financing a regenerative agriculture carbon program being developed and managed by Bluesource for total contribution of \$20,625,000 in cash. Cash will be available to growers in this program through Locus Agricultural Solutions' ("Locus AG") CarbonNOW program. Locus AG will be actively recruiting growers under this project until a total of 1,320,000 acres of farmland across the United States have been adopted into the program. The Company expects initial funding of \$5,000,000 to commence in the second quarter of 2022, with the remaining \$15,625,000 to be invested in 2023. The total investment of \$20,625,000 will be funded by the private placement as announced in March 2022 and future financing. This project investment has a term of 11.5 years and the future financial benefits derived from the monetization of the project's carbon offset credits will be split between the growers, Bluesource, and the Company.