ROYALTIES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Unaudited

For the three and six months ended June 30, 2023 and 2022

(Expressed in US Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor. The accompanying unaudited condensed consolidated interim financial statements of Royalties Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management.

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

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For the three and six months ended June 30, 2023 and 2022

(Expressed in US Dollars)

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ROYALTIES INC.
Condensed consolidated interim statements of financial position
Unaudited – prepared by management

As at

(Expressed in US Dollars)	Notes	June 30, 2023 $	December 31, 2022 $
ASSETS			
Current assets			
Cash		**74,456**	13,479
Amounts receivable and other	4	**6,432**	9,690
Prepaid expenses	4	**220**	220
Total current assets		**81,108**	23,389
Non-current assets			
Investments	5,10,13	**755,287**	738,334
Long-term investments	5	**18,532**	-
Music royalty assets	6	**316,688**	-
Exploration properties	7	**1**	1
Mineral royalty interests	8	**187,379**	187,379
Total non-current assets		**1,277,887**	925,714
Total assets		**1,358,995**	949,103
LIABILITIES			
Current liabilities			
Accounts payable and accruals	9,13	**77,761**	169,144
Current liabilities, before the undernoted		**77,761**	169,144
Other liability of subsidiary	16	**2,000,000**	2,000,000
Total current liabilities		**2,077,761**	2,169,144
SHAREHOLDERS' DEFICIENCY			
Capital stock	5,10	**38,520,373**	37,973,231
Warrants	11	**-**	219,637
Share-based payment reserve	12	**124,267**	195,960
Deficit		**(39,384,195)**	(39,629,658)
Deficiency attributable to equity holders of the company		**(739,555)**	(1,240,830)
Non-controlling interest	8	**20,789**	20,789
Total shareholders' deficiency		**(718,766)**	(1,220,041)
Total liabilities and shareholders' deficiency		**1,358,995**	949,103

GOING CONCERN (Note 2)
COMMITMENTS AND CONTINGENCIES (Notes 1, 8, 16)

These financial statements were approved by the Board of Directors on August 29, 2023 and signed on its behalf by:

Signed - "Timothy Gallagher"
Timothy Gallagher, Director

Signed - "Andrew Robertson"
Andrew Robertson, Director

See accompanying notes to the consolidated financial statements.

ROYALTIES INC.

Condensed consolidated interim statements of operations and comprehensive loss

Unaudited – prepared by management

For the

Expressed in US Dollars)	Notes	**Three months Ended June 30, 2023 $**	Three months Ended June 30, 2022 $	**Six months Ended June 30, 2023 $**	Six months Ended June 30, 2022 $
Income					
Dividend income	5	**11,201**	-	**22,299**	-
Royalty income	6	**4,309**	-	**10,423**	-
Interest income	4	**47**	-	**47**	-
Total income		**15,557**	-	**32,769**	-
Expenses					
Corporate expenses		**12,951**	130	**34,096**	6743
General and administrative		**14,508**	1,633	**14,633**	7,159
Professional fees		**6,541**	4,762	**7,202**	8,365
Amortization of music royalties	6	**2,644**	-	**4,212**	-
Exploration and evaluation	7	**7,333**	(2,243)	**41,550**	17,368
Total expenses		**43,977**	4,282	**101,693**	39,635
Operating loss		**28,420**	4,282	**68,924**	39,635
Other items					
Interest expense		**-**	2,478	**-**	4,929
Foreign exchange (gain) loss		**(20,656)**	2,842	**(23,057)**	(19,071)
Net loss and comprehensive loss for the period		**7,764**	9,602	**45,867**	25,493
Net loss per share basic and diluted		**0.000**	0.000	**0.000**	0.000
Weighted average Common Shares outstanding basic and diluted		**210,702,508**	175,693,057	**206,023,775**	175,693,057

See accompanying notes to the consolidated financial statements.

ROYALTIES INC.
Condensed consolidated interim statements of changes in equity (deficiency)
Unaudited – prepared by management

	Shares outstanding	Share Capital	Warrants	Share-based payment reserve	Deficit	Attributable to equity holders of the company	Non-controlling interest	Total
	#	$	$	$	$	$	$	$
Balance, December 31, 2021	**175,693,057**	**37,046,171**	**219,637**	**361,750**	**(39,709,979)**	**(2,082,421)**	**20,789**	**(2,061,632)**
Net loss for the period	-	-	-	-	(25,493)	(25,493)	-	(25,493)
Balance as at June 30, 2022	**175,693,057**	**37,046,171**	**219,637**	**361,750**	**(39,735,472)**	**(2,107,914)**	**20,789**	**(2,087,125)**
Balance as at December 31, 2022	**201,293,057**	**37,973,231**	**219,637**	**195,960**	**(39,629,658)**	**(1,240,830)**	**20,789**	**(1,220,041)**
Shares issued for cash	14,730,000	547,142	-	-	-	547,142	-	547,142
Stock options exercised	-	-	-	(47,760)	47,760	-	-	-
Stock options expired	-	-	-	(23,933)	23,933	-	-	-
Warrants expired	-	-	(219,637)	-	219,637	-	-	-
Net loss for the period	-	-	-	-	(45,867)	(45,867)	-	(45,867)
Balance as at June 30, 2023	**216,023,057**	**38,520,373**	**-**	**124,267**	**(39,384,195)**	**(739,555)**	**20,789**	**(718,766)**

ROYALTIES INC.
Condensed consolidated interim statements of cash flows
Unaudited – prepared by management

For the six months ended June 30,

(Expressed in US Dollars)	Note	2023 $	2022 $
Cash flow from operating activities			
Net loss for the period		(45,867)	(25,493)
Foreign exchange adjustment of investments		(16,953)	-
Amortization of music royalties		4,212	-
Non-cash interest expense		-	4,929
Operating cash flow before movements in working capital		(58,608)	(20,564)
Movements in working capital			
Amounts receivable		3,258	(2,154)
Prepaid expense		-	(2,255)
Accounts payable and accrued liabilities		(32,316)	2,597
Net cash used in operating activities		(87,666)	(22,376)
Financing activities			
Subscription receipts payable	9,13	(59,067)	39,471
Shares issued		547,142	-
Total cash provided by financing activities		488,075	39,471
Investing activities			
Purchase of royalty assets	6	(320,900)	-
Shares issued for purchase of investment	5	(18,532)	-
Total cash used in investing activities		(339,432)	-
Increase in cash		60,977	17,095
Cash, beginning of period		13,479	38,954
Cash, end of period		74,456	56,049

Supplemental information

Fair value of stock options expired	23,933	-
Fair value of stock options exercised	47,760	-
Fair value of warrants expired	219,637	-

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Royalties Inc. (the “Company” or "Royalties Inc.") completed a change of business on April 12, 2023 to refocus its operations from mineral resource exploration to a company focused on cash flow generating royalty opportunities in various industries – a diversified royalties company. The Company believes that the experience of its management and board members will enable it to identify and capitalize upon royalty opportunities. In particular, the Company expects to focus initially on resource royalties and entertainment royalties (such as music, film and television), but may determine to expand the scope of the industries it will focus on in the future.

In connection with the Change of Business, the Company changed its name to “Royalties Inc.”, has listed its common shares on the Canadian Securities Exchange (the “CSE”) and completed a concurrent delisting of the common shares from the TSX Venture Exchange. The directors and officers remained unchanged following the change of business. Shares commenced trading on the CSE on April 12, 2023 under the symbol “CSE:RI”.

The Company has a 2.2% stake in Music Royalties Inc. (“MRI”), a Canadian-based private company that acquires passive music royalties from rightsholders (including but not limited to artists, producers and songwriters) and currently holds a portfolio of approximately 27 cash-flowing music royalties. MRI is currently paying a monthly dividend generating a 7.2% annual yield.

The Company also has interests in exploration and evaluation properties located in Mexico, owning a 100% interest (subject to a 1.5% net smelter royalty repurchased in July 2019) on the Bilbao silver-lead-zinc-copper project located in the southeastern part of the State of Zacatecas and 88% of the outstanding shares of Minera Portree de Zacatecas, S.A. de C.V (“Minera Portree”) which holds an asserted claim to a 2% net smelter royalty on six mining concessions located adjacent to the Cozamin Mine operated by Capstone Mining Corp., which claim is challenged by Capstone.

There has been no determination whether the Company's interests in exploration and evaluation projects contain mineral deposits which are economically recoverable. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The value of the Company's mining interests is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable mineral deposits, the achievement of profitable operations, or the ability of the Company to raise additional financing, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. All of the Company's mineral exploration interests are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, and mineral royalty interests, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. The Company’s properties may be subject to government licensing requirements, social licensing requirements, unregistered prior agreements, unregistered claims, local indigenous or aboriginal claims and regulatory and environmental requirements.

2. BASIS OF MEASUREMENT AND GOING CONCERN

These unaudited interim condensed consolidated financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the current fiscal year. Several conditions discussed below create a material uncertainty and significant doubt about the Company’s ability to continue as a going concern.

As at June 30, 2023, the Company had not achieved profitable operations, had a working capital deficiency, had an accumulated deficit since inception and expects to incur further losses in the development of its business. The Company will have to rely on equity financing to generate additional financial resources to fund its working capital requirements and will need to generate additional financial resources to fund its planned acquisitions. There is a risk that additional financing will not be available to the Company on a timely basis or on acceptable terms. There are no assurances that the Company will continue to obtain additional financial resources and/or achieve positive cash flows or profitability. Based on the assumptions that such finance will become available, the Directors believe that the going concern basis is appropriate for group financial statements.

The underlying value and the recoverability of the exploration and evaluation projects is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the exploration and evaluation projects, and the generation of future profitable production or proceeds from the disposition of the exploration and evaluation projects.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements of the Company and its subsidiaries are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below were consistently applied to all the periods presented, unless otherwise noted.

These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022 prepared in accordance with IFRS and available under the Company's profile on www.SEDAR.com.

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit and loss which are stated at their fair value. In addition, these unaudited condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except cash flow information. These unaudited condensed interim financial statements are expressed in United States Dollars.

Significant Accounting Judgments, Estimates and Assumptions
The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities at the reporting date and the reported amounts of income and expenses during the reporting year. Actual results may differ from these estimates. There have been no significant changes in the judgments, estimates or assumptions from those disclosed in the Company's audited annual consolidated financial statements for the year ended December 31, 2022 and as at June 30, 2023 also include the following:

(a) Music royalties

Catalogues of songs and other investments
Catalogues of songs and other investments include music catalogues, artist producer and manager's contracts, and music publishing rights and are recognised as intangible assets measured initially at the fair value of the consideration paid. Catalogues of songs and other investments are subsequently amortized over the estimated useful life of the asset. Catalogues of songs and other investments with an indefinite useful life are not amortized but are subject to an annual impairment test. Useful life is separately considered for each catalogue of songs and other investments are reviewed at the end of each reporting period.

All catalogues of songs are carried at cost less accumulated amortization and any applicable impairment provision. No impairment provision was recognized as at June 30, 2023.

The Company amortizes catalogues of songs with a limited useful life using the straight-line method based on the terms of the agreements. Terms negotiated are either life of artist ("LOA") plus 70 years, in which case a 20-year straight-line amortization method is used, or straight-line over a contract term of 10 years.

Contingent consideration
Under the terms of the acquisition agreements for Catalogues of songs, contingent consideration may be payable dependent on future independent valuations of the Catalogues or revenue received within a specific time frame of acquiring the Catalogues. Contingent consideration will be recognised when performance conditions are met or the amount is a deferred liability. In such cases, a liability will be recognised alongside an associated finance charge which will be accrued over the respective deferral period.

Asset impairment
Each time events or changes in the economic environment indicate a risk of impairment of intangible assets, the Company re-examines the value of these assets. This impairment test is performed to compare the recoverable amount to the carrying value of the asset. The recoverable amount is determined as the higher of the value in use; or the fair value (less costs to sell) as described hereafter, for each individual asset. The impairment losses recognised in respect of intangible assets may be reversed in a later period if the recoverable amount becomes greater than the carrying value, within the limit of impairment losses previously recognised.

Derecognition of assets
The Company derecognises an asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. On derecognition of an asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

(Expressed in US Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Royalty Revenue Recognition

The Company enters into licence arrangements in respect of Catalogues of songs with third party collection agents. The Company is generally entitled to receive royalty payments paid subsequent to the purchase of the Catalogue regardless of when the performance occurred that generated the royalty. Revenue arising from licences entered into with collection agents is recognised in the period when the royalty payments are received. The contractual basis of the licence arrangements is such that the agents are deemed as 'principals' for tax purposes, therefore the Company recognises its revenue net of administration fees.

(c) Critical accounting judgements and key sources of estimation uncertainty

Assessment of useful life of music royalties
In order to calculate the amortized cost of the music royalties it is necessary to assess the useful economic life of the copyright interests in songs. This requires forecasts of the expected future revenue from the copyright interests, which contains significant uncertainties as the ongoing popularity of a song can fluctuate unexpectedly.

The actual useful life of a catalogue depends on the Catalogue's genre and listener demographic. The Company will separately consider the useful life of each Catalogue of songs, which is expected to be 20 years.

Impairment of catalogues of songs and other investments
Valuations of music publishing rights typically adopt the discounted cash flow ("DCF") valuation approach which measures the present value of anticipated future revenues from acquiring the assets, which are discounted at a 'market cost of capital'. This method takes into account income projections from various music industry sources across various revenue flows whilst also factoring in the associated cost of capital. Changes in these estimates can have a material impact on the estimated fair value of the catalogues of songs.

Basis of consolidation
The unaudited condensed consolidated interim financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Company. All material intra-Company transactions, balances, income and expenses are eliminated on consolidation.

4. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	June 30, 2023 $	December 31, 2022 $
Receivable sales taxes – Canada	**1,956**	8,070
Receivable sales taxes – Mexico	**3,103**	1,620
Other receivables	**1,373**	-
Prepaid expenses	**220**	220
	6,652	9,910

On May 17, 2023, interest totaling $47 (CAD$57) was received on settlement of Canadian sales taxes receivable as at December 31, 2022.

5. PRIVATE INVESTMENTS

On September 30, 2022, the Company acquired 2,000,000 common shares in Music Royalties Inc. ("MRI"). The MRI shares had a value of CAD$0.50 per share based on recent financings or $721,400 (CAD$1,000,000). As at June 30, 2023, the fair market value of the royalty acquisition was $755,287 (December 31, 2022 - $738,334). Refer also to notes 10 and 13.

During the three and six months ended June 30, 2023, the Company received dividend income totaling $11,201 and $22,299 respectively (CAD$15,000 and CAD$30,000 respectively) (June 30, 2022 - $Nil and $Nil).

(Expressed in US Dollars)

5. PRIVATE INVESTMENTS (CONTINUED)

On May 11, 2023, the Company acquired an interest in MRI's acquisition of an American music producer and songwriter's interest in publishing and public performance royalties. In exchange for the issuance of 500,000 shares at $0.05 per share valued at $18,532 (CAD$25,000), the Company acquired a 9.8% share in the investment consisting of a catalog with over 300 songs.

6. MUSIC ROYALTIES

On January 9, 2023, MRI advanced the Company cash to purchase $137,900 of royalty assets which generated $21,323 in the prior year, paid monthly. The company settled the debt to MRI on April 20, 2023 (note 10). The acquisition is for 415 tracks, for a term of "Author Life of Rights (70+ years)" ("LOR"). "New Message" Alert Tone royalties are generated from the purchase by consumers of downloads on the Apple iTunes ringtone store on iPhones. Alert Tones are short message-based ringtones.

On May 17, 2023, the Company completed an acquisition of an American songwriter's public performance royalties (the "Acquisition") consisting of 103 tracks performed by artists including Backstreet Boys, Marshmello and Anarbor and including top songs "Ritual", "It's Christmas Time Again", "White Flag" and "18". The Company invested $53,000 in the Acquisition which currently generates a 9% yield.

On June 13, 2023, the Company purchased an additional $130,000 of royalty assets with a remaining term of 9.3 years.

	$
Cost	
Balance – December 31, 2022	-
Additions	320,900
Balance – June 30, 2023	320,900
Accumulated amortization	
Balance – December 31, 2022	-
Amortization	(4,212)
Balance – June 30, 2023	(4,212)
Net book value – June 30, 2023	**316,688**

During the three and six months ended June 30, 2023, the Company received royalty income totaling $6,114 and $10,423 respectively (June 30, 2022 - $Nil and $Nil). Refer also to note 13.

7. EXPLORATION AND EVALUATION EXPENDITURES

The following table shows the Company's cumulative exploration and evaluation expenditures:

	June 30, 2023 $	Additions $	December 31, 2022 $	Additions $	December 31, 2021 $
Bilbao	**23,333,754**	41,550	23,292,204	51,104	23,241,100
Laguna	**7,281,000**	-	7,281,000	-	7,281,000
	30,614,754	41,550	30,573,204	51,104	30,522,100

The Company has previously impaired the carrying values of its exploration properties.

Bilbao

The Company, through its indirectly wholly owned Mexican subsidiaries, holds a 100% interest in the Bilbao zinc-silver-lead-copper project, including the necessary surface lands for surface installations and development of the Bilbao deposit. See Note 8.

Laguna

The Company holds a 100% interest in the Laguna silver-gold-mercury tailings development project and has been granted a twenty-year concession dated December 10, 2003 by the *Comision Nacional del Agua* ("Conagua") relating to the extraction rights to six million cubic metres of tailings material, subject to an amount payable to Conagua in the amount MXN$11.00 (approximately $1.00) per cubic metre of tailings. The permit is unlikely to be renewed.

(Expressed in US Dollars)

7. EXPLORATION AND EVALUATION EXPENDITURES (CONTINUED)

In order to maintain the Company's mineral concessions and titles in good standing, the Company is required to maintain a prescribed minimum of annual exploration expenditure and pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum expenditure commitments and concession payments totaling approximately $85,000 (MXN $1,488,000) are required annually. Failure to make the annual concession payments or incur the minimum annual exploration expenditures, to the satisfaction of the Mexican authorities, or a determination that the expenditures incurred are not qualifying expenditures, may result in the cancellation or forfeiture of the mineral concessions.

8. MINERAL ROYALTY INTERESTS

On April 22, 2020, the Company entered into an agreement to acquire 88% of the shares of Minera Portree de Zacatecas S.A. de C.V. in consideration of the payment of CAD$56,000, and the issue to the vendors of 2,000,000 shares of the Company. The fair value of the common shares issued of CAD$99,330, was estimated based on the market price of the shares on the date of issuance. Liabilities of $14,280 were assumed and a non-controlling interest of $20,789 was recognized as a result of the purchase. Minera Portree holds various legal or royalty interests in certain mineral properties in Mexico, and an asserted claim to a 2% net smelter royalty emanating from its former ownership of six mining concessions located adjacent to the Cozamin Mine in Zacatecas operated by Capstone Mining Corp. (TSX:CS) ("Capstone"). The entitlement of Minera Portree to the 2002 royalty is contested by a third party and Capstone. Minera Portree filed lawsuits against both parties to properly recognize the 2% NSR. In August 2022, the Zacatecas courts requested the Public Mines Registry in Mexico City register the Minera Portree royalty claims on title. The timing and outcome of the lawsuits are uncertain.

9. ACCOUNTS PAYABLE AND ACCRUALS

	June 30, 2023 $	December 31, 2022 $
Trade creditors	**17,947**	20,933
Payable to related parties (Note 13)	**59,814**	47,550
Subscription receipts	**-**	59,067
Accrued liabilities	**-**	41,594
	77,761	169,144

10. CAPITAL STOCK

Common Shares

Authorized

Unlimited number of common shares

	Shares #	Amount $
Balance as at December 31, 2021 and June 30, 2022	**175,693,057**	**37,046,171**
Shares issued pursuant to acquisition agreement, September 2022	20,000,000	721,400
Shares issued from the exercise of stock options, December 2022	5,600,000	205,660
Balance as at December 31, 2022	**201,293,057**	**37,973,231**
Shares issued from the exercise of stock options, Second Quarter 2023	1,350,000	47,760
Shares issued from treasury	14,730,000	499,382
Balance as at June 30, 2023	**216,023,057**	**38,520,373**

(Expressed in US Dollars)

10. CAPITAL STOCK (CONTINUED)

During the second quarter of fiscal 2023, a total of 14,730,000 shares were issued from treasury. Details are as follows:

- Share subscription proceeds totaling $277,713 (CAD$375,000) were received in the six months ended June 30, 2023 (June 30, 2022 - $39,471 (CAD$50,000)).
- On June 20, 2023, 1,350,000 stock options were exercised for proceeds of $58,826 (CAD$81,000).
- On May 11, 2023, the Company invested $18,532 (CAD$25,000) through the issuance of 500,000 shares at CAD$0.05 per share in order to participate in a 300-song catalog generating a 9% yield.
- On April 19, 2023, 11,000,000 shares were issued at CAD$0.05 per share for a total of $406,867 (CAD$550,000) of which 5,400,000 shares were issued to MRI as settlement of debt owing by Royalties Inc. in the amount of $199,735 (CAD$270,000), which included the royalty asset purchase of $137,900, professional fees and other expenses ($61,835).
- Also on April 19, 2023, a director was issued 5,600,000 shares in the Company to settle share subscription proceeds received between December, 2021 and April, 2023 totaling $207,132 (CAD$280,000).

Fiscal 2022

- On December 23, 2022, 5,600,000 options were exercised for proceeds of $205,660 (CAD$280,000).

- On September 30, 2022, the Company entered into an acquisition agreement (“Royalty Acquisition”) with Tim Gallagher, Director and Chief Executive Officer of the Company (the “CEO”) whereby, in exchange for 20,000,000 shares in Royalties Inc. at an acquisition price of CAD$0.05 totaling $721,400 (CAD$1,000,000), the Company received 2,000,000 common shares in MRI held by the CEO. The MRI shares had a value of CAD$0.50 per share based on recent financings or $721,400 (CAD$1,000,000). As at June 30, 2023, the fair market value of the Royalty Acquisition was $755,287 (December 31, 2022 - $738,334). Refer also to Notes 5 and 13.

11. WARRANTS

On April 27, 2021, the Company issued to its major shareholder Buchans Resources Limited (“Buchans”) 5,000,000 share purchase warrants, each warrant entitling Buchans to purchase one common share of Royalties Inc. at a price of CAD$0.10 per share for a term of two years. The value of the warrants received was estimated to be $219,637. On April 27, 2023, the 5,000,000 warrants issued to Buchans at CAD$0.10 expired and the fair value of these warrants totaling $219,637 was reallocated to retained earnings.

12. STOCK OPTIONS

The board of directors has approved a Stock Option Plan for directors, officers, management, employees and other persons who perform ongoing services for the Company or any of its subsidiaries. The purpose of the plan is to attract, retain and motivate these parties by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and to benefit from its growth.

The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% of the total number of common shares outstanding immediately prior to such an issuance. The options are exercisable over a period not exceeding ten years. The options are non-assignable and may be granted for a term not exceeding ten years. The exercise price of the options is fixed by the board of directors at the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

Stock options transactions during the periods ended June 30, 2023 and December 31, 2022 were as follows:

	Options Granted and Exercisable #	Estimated Grant Date Fair Value $	Exercise Price $
Balance as at December 31, 2021 and June 30, 2022	11,800,000	361,750	CAD$0.056
Stock options exercised	(5,600,000)	(165,321)	
Stock options terminated	(400,000)	(469)	
Balance as at December 31, 2022	5,800,000	195,960	CAD$0.059
Stock options expired	(800,000)	(23,933)	
Stock options exercised	(1,350,000)	(47,760)	
Balance as at June 30, 2023	3,650,000	124,267	CAD$0.06

(Expressed in US Dollars)

12. STOCK OPTIONS (CONTINUED)

During the year ended December 31, 2022, 5,600,000 options were exercised for gross proceeds of $205,660 (CAD$280,000) and 400,000 stock options were terminated. The fair value of these options totaling $165,790 was reallocated to retained earnings. Refer to Note 13.

On January 30, 2023, 800,000 stock options expired and the fair value of these options totaling $23,933 was reallocated to retained earnings.

On June 20, 2023, 1,350,000 options were exercised for gross proceeds of $61,325 (CAD$81,000) and the fair value of these options totaling $47,760 was reallocated to retained earnings.

As at June 30, 2023 and August 29, 2023, 3,650,000 stock options remained outstanding with an expiry date of June 4, 2025. The weighted-average remaining contractual life of the options as at June 30, 2023 was 1.99 years (December 31, 2022 – 2.1 years).

13. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

On April 19, 2023, a director was issued 5,600,000 shares in the Company to settle share subscription proceeds received between December, 2021 and April, 2023 totaling $207,132 (CAD$280,000).

On September 30, 2022, the CEO acquired 20 million common shares of the Company pursuant to the Royalty Acquisition disclosed in Notes 5 and 10. On December 23, 2022, the CEO exercised 3,600,000 stock options for net proceeds of $132,210 (CAD$180,000). As a result of the Royalty Acquisition and exercise of stock options, the CEO beneficially owns and controls 32,875,000 common shares of the Company and no stock options representing approximately 15.2% of the issued and outstanding common shares of the Company on a non-diluted basis and approximately 15.0% on a partially diluted basis as at June 30, 2023 and December 31, 2022.

The CEO is also Chairman and CEO of Music Royalties Inc. A Director of the Company is also a Director of Music Royalties Inc. No fees were paid by the Company to directors or the CEO for their services during the periods ended June 30, 2023 and December 31, 2022.

During fiscal 2022, the Company settled various funding agreements with its major shareholder Buchans (Note 11). As at June 30, 2023, Buchans held 19.9% of the Company's outstanding shares.

Included in accounts payable and accruals as at June 30, 2023 is $41,303 (December 31, 2022 - $41,303) due to Steenberg Law Professional Corporation, a company controlled by Neil J.F. Steenberg, Secretary, for legal fees. These balances are due on demand, unsecured and non-interest bearing.

Also included in accounts payable and accruals as at June 30, 2023 is $5,063 (December 31, 2022 - $4,493) due to Jaqi Logan Financial Services Inc., a company controlled by Jacqueline Logan, Chief Financial Officer of the Company ("CFO"), for professional fees. These balances are due on demand, unsecured and non-interest bearing. The CFO is also CFO of Music Royalties Inc.

The subsidiaries of the Company as at June 30, 2023 and December 31, 2022 were as follows:

Name of Subsidiary	Country of Incorporation	Percentage owned	Principal activity
Orca Minerals Limited	Canada	100%	Holding company for Orca Gold International
Orca Gold International Ltd.	Bahamas	100%	Holding company for Mexican subsidiaries
Bilbao Resources SA de CV	Mexico	100%	Exploration
Bilbao Mining SA de CV	Mexico	100%	Exploration
Minera Orca SA de CV	Mexico	100%	Exploration
Orca Mining Exploration SA de CV	Mexico	100%	Exploration
Minera Portree de Zacatecas SA de CV	Mexico	88%	Holding company for mineral royalty interests

(Expressed in US Dollars)

14. FINANCIAL INSTRUMENTS

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and managed and that the capital base is adequate in relation to those risks. There have been no significant changes in the risks or the Company's objectives, policies and procedures related to risk management during the periods ended June 30, 2023 and December 31, 2022.

The principal risks to which the Company is exposed to are described below:

Fair value:

The carrying amounts for cash, amounts receivable and other, accounts payable and accruals, and other liability of the subsidiary on the consolidated statements of financial position approximate fair value because of the limited term of these instruments.

Privately held Investments

Shares in privately held companies (other than options and warrants) are initially recorded at cost, being the fair value at the time of acquisition. At the end of each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below and reflects such valuations in the financial statements. These are included in Level 3 in the fair value hierarchy.

Level 3 Hierarchy

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 during the periods ended June 30, 2023 and December 31, 2022. These financial instruments are measured at fair value utilizing non-observable market inputs. The net realized and unrealized gain are recognized in the statements of loss.

Investments, fair value	June 30, 2023	December 31, 2022
Balance, beginning of period	$ 738,334	$ -
Purchase at cost – shares	-	721,400
Fair value adjustment of shares	16,953	16,934
Balance, end of period	$ 755,287	$ 738,334

The investment is comprised of an equity interest in Music Royalties Inc. measured at fair value based on the most recent financing price. The valuation of the private investments in inherently subjective.

Sensitivity Analysis of Investment:

A 10% increase (decrease) in the fair value of the investment as at June 30, 2023 would result in an estimated increase (decrease) in net income (loss) of approximately $75,500 (December 31 2022 - $73,800) and a one cent change in the USD/CAD exchange rate will result in a corresponding change in the value of investments as at June 30, 2023 of approximately $7,552 (December 31, 2022 - $7,383).

Capital Risk:

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain its exploration and evaluation projects.

Credit Risk:

Credit risk is the risk that a counterparty (Music Royalties Inc., Royalty Exchange) will be unable to pay amounts owing to the Company. Management's assessment of the Company's risk is low given the 5-year history to these counterparties.

Liquidity Risk:

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at June 30, 2023, the Company had cash of $80,885 to settle current liabilities of $77,761, excluding the $2,000,000 contingent liability of a subsidiary. The Company's accounts payable and accruals generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Price Volatility of Publicly Traded Securities:

Securities of exploration companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the relative attractiveness of particular industries. The Company's share price is also likely to be significantly affected by short-term changes in metal prices or in the Company's financial condition or results of operations as reflected in quarterly earnings reports.

14. FINANCIAL INSTRUMENTS (CONTINUED)

Price Risk:
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not a producing entity.

Interest Rate Risk:
The Company is not subject to interest rate risk due to the minimal cash levels, and debt has been repaid.

Foreign Currency Risk:
The Company is subject to foreign exchange risk as some of its operating, investing and financing activities are transacted in Mexico and the change in the value of the Canadian dollar regarding the investment in Music Royalties Inc. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the United States dollar.

Sensitivity Analysis:
The Company has designated its marketable securities and long-term investments as fair value through profit or loss, which are measured at fair value. Financial instruments included in cash and amounts receivable are measured at amortized cost. Accounts payable and accruals, and other liability of subsidiary are classified as financial liabilities, measured at amortized cost.

Fair Value Hierarchy and Liquidity Risk Disclosure:
The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) 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 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

During the year ended December 31, 2022, the Company acquired 2,000,000 common shares in Music Royalties Inc. (“MRI”). The MRI shares have a value of CAD$0.50 per share based on recent financings or $755,287 (CAD$1,000,000). A 10% increase (decrease) in the fair value of the common shares as at June 30, 2023 would result in an estimated increase (decrease) in net income (loss) of approximately $75,500 (December 31, 2022 - $73,800).

15. CAPITAL MANAGEMENT

The Company's capital structure consists of its capital stock, warrants and share-based payment reserve. The Company manages its capital structure, and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition of catalogues of songs, and the exploration and development of mineral properties. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company will continue to assess new music royalties and seek to acquire an interest in additional music royalties if it feels there is economic potential and if it has adequate financial resources to do so.

The properties in which the Company currently has an interest are in the exploration stage and historically the Company was dependent on external financing to fund its activities. In order to carry out the planned acquisition of cash flowing royalties, the Company will utilize its existing working capital and seek to raise additional amounts as needed through the issue of common shares or other securities. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company’s capital management objectives, policies and processes have remained unchanged during the periods ended June 30, 2023 and December 31, 2022. The Company was not subject to any capital requirements imposed by a lending institution or regulatory body.

16. COMMITMENTS AND CONTINGENCIES

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

In order to maintain the Company's mineral concessions and titles in good standing, the Company is required to maintain a prescribed minimum of annual exploration expenditure and pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum expenditure commitments and concession payments totaling approximately $85,000 (MXN $1,488,000) are required annually. Failure to make the annual concession payments or incur the minimum annual exploration expenditures, to the satisfaction of the Mexican authorities, or a determination that the expenditures incurred are not qualifying expenditures, may result in the cancellation or forfeiture of the mineral concessions. See Note 7.

Under an Indemnity and Guarantee Agreement dated August 11, 2008, entered into in connection with the acquisition by Orca Gold International Ltd. ("Orca Gold"), from Shoshone Silver Mining Company ("Shoshone Silver"), of the shares of Shoshone Mexico S.A. de C.V., ("Shoshone Mexico"), the registered owner of four mining concessions comprising the bulk of the Bilbao property, subject to a 1.5% net smelter royalty, and the beneficial owner of a 25% interest in the Bilbao concessions, Shoshone Silver agreed to indemnify Orca Gold and Shoshone Mexico against any damages or losses suffered from all liabilities and obligations of Shoshone Mexico, in consideration of the agreement by Orca Gold to pay to Shoshone Silver the total sum of $4,900,000. Of this total amount, $2,400,000 was paid on the date of transfer of the shares of Shoshone Mexico to Orca Gold in August 2008 and a further $500,000 was paid one year after the date of the first payment.

The balance of $2,000,000 expressed to be payable by Orca Gold to Shoshone Silver pursuant to the Indemnity and Guarantee Agreement was to be payable in four consecutive equal annual payments of $500,000 each, the first such $500,000 annual payment to be made at the time of commencement of construction of any mine developed on the Bilbao concessions, but in any event not less than six years after the date of the first payment of $2,400,000 in August 2008 and provided that the remaining balance of $2,000,000 was to be paid in full no later than ten years after the date of the first payment of $2,400,000. Construction of a mine on the Bilbao concessions has not commenced to date. The payment was secured by a charge granted by Shoshone Mexico in favor of Shoshone Silver and registered against the four Bilbao mining concessions.

Orca Minerals Limited, the parent company of Orca Gold, guaranteed the payments and obligations of Orca Gold to Shoshone Silver. Orca Gold is treating any potential claim that may become due to Shoshone Silver under the Indemnity and Guarantee Agreement as a contingent liability as the likelihood of this occurring cannot be predicted at this time. Royalties Inc. acquired Orca Minerals Limited on August 29, 2008, but did not assume or guarantee, on a corporate non-consolidated basis, the payments or obligations of Orca Gold. Royalties Inc. has no direct liability for any payments that may become due to Shoshone Silver, however under IFRS 9 *Financial Instruments*, upon consolidation, the Company is required to recognise this potential payment as a financial liability.

17. INCOME TAXES

The Company has approximately CAD$7,113,000 ($5,250,000) of non-capital losses in Canada and approximately MXN170,599,000 Mexican Pesos ($8,746,000), of non-capital losses in Mexico which under certain circumstances can be used to reduce the taxable income of future years. The Canadian losses expire at various dates through 2042 and the Mexican losses expire at various dates through 2032.