

Elemental Royalties Corp.
(formerly Fengro Industries Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED JUNE 30, 2020

ELEMENTAL ROYALTIES CORP. (formerly Fengro Industries Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the six months ended June 30, 2020

(Expressed in US Dollars, unless otherwise indicated)

The information contained in this Management's Discussion and Analysis ("MD&A") for the six months ended June 30, 2020 has been prepared as of August 31, 2020. It should be read in conjunction with the unaudited condensed interim consolidated financial statements of Elemental Royalties Limited ("ERL Limited") for the six months ended June 30, 2020, together with the audited consolidated financial statements for the year ended December 31, 2019 and related notes thereto and the accompanying MD&A for that fiscal year as well as the unaudited condensed interim consolidated financial statements of Elemental Royalties Corp. (formerly Fengro Industries Corp.) ("Fengro" or "Elemental") for the nine months ended June 30, 2020. The referenced financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board ("IASB"). All amounts are expressed in US dollars unless otherwise indicated.

Additional information is available in the Filing Statement dated July 15, 2020 filed under Elemental's profile on SEDAR at www.sedar.com.

COMPANY OVERVIEW

Elemental Royalties Corp. (formerly Fengro Industries Corp.)

Fengro Industries Corp. was incorporated on March 11, 2004 under the laws of the Province of British Columbia. Fengro was engaged in production of phosphate fertilizers, and acquiring, exploring and evaluating mineral properties in Brazil. In February 2020, the Company complete a disposition of all the assets, liabilities and undertakings in Brazil.

Elemental Royalties Limited

Elemental Royalties Limited is a company incorporated on July 15, 2016 in the British Virgin Islands pursuant to the BVI Business Companies Act, 2004. ERL Limited's core business is the acquisition of royalties over producing, or near producing assets, from established operators and counter-parties, offering financing solutions to the metals and mining industry. Since ERL Limited's formation in 2016, the company has developed a diversified portfolio of royalties providing exposure primarily to gold and silver producing assets.

REVERSE TAKEOVER TRANSACTION AND OTHER RELATED TRANSACTIONS

On April 27, 2020, ERL Limited entered into a binding business combination agreement pursuant to the November 5, 2019 non-binding letter of intent with Fengro. On July 27, 2020, ERL Limited completed the reverse takeover ("RTO") of Fengro (the "Transaction") and on July 30, 2020 the Elemental shares commenced trading on the TSX Venture Exchange under the trading symbol "ELE".

Effective July 27, 2020, Fengro changed its name to "Elemental Royalties Corp." and consolidated its share capital (the "Consolidation") on the basis of 209 (old) common shares for 1 (new) common share. Immediately following the Consolidation, Fengro had an aggregate of 753,706 common shares outstanding.

Pursuant to the terms of the Transaction all outstanding securities of ERL Limited were exchanged (the "Share Exchange") for post-Consolidation securities of Elemental on a 4.8114 for 1 basis, resulting in 22,664,788 Elemental common shares being issued to former

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shareholders of ERL Limited. The 497,797 PSUs outstanding at June 30, 2020 were exchanged on a 4.8114 for 1 basis, resulting in 2,395,109 replacement PSUs being issued.

The Transaction is a reverse takeover transaction as ERL Limited shareholders held 96.78% of the resulting issuer shares and Fengro shareholders held 3.22% of the resulting issuer shares.

Further details regarding the Transaction can be found in the Filing Statement dated July 15, 2020 filed under Elemental's profile on SEDAR at www.sedar.com.

Subscription Receipt Financing

In conjunction with the Transaction, Elemental completed a brokered subscription receipt financing of 18,437,715 post-Consolidation common shares at CAD\$1.30 per common share for gross proceeds of CAD\$23,969,030 (\$17,917,153). In connection with the financing, Elemental paid cash finders' fees of CAD\$1,263,142 (\$944,215).

Stock options and Performance Share Units

As part of the Transaction, Elemental issued 500,000 post-Consolidation PSUs and 900,000 post-Consolidation stock options to certain directors and officers.

The PSUs vest once Elemental's share price reaches between CAD\$1.70 and CAD\$2.20 per share and a period of time has passed. 160,000 PSUs vest after 2 years (July 28, 2022) if the share price reaches CAD\$1.70. 340,000 PSUs vest after 3 years (July 28, 2023) if the share price reaches CAD\$2.20.

The 900,000 stock options are excisable at CAD\$1.50 per share and expire on July 28, 2025. The stock options vest on July 28, 2021.

Escrowed Shares

On completion of the Transaction, certain principals of Elemental entered into a Tier 1 Value Escrow Agreement with the TSX Venture Exchange and Computershare Trust Company of Canada, as escrow agent, in respect of 8,883,783 Elemental common shares and 2,760,109 PSUs. Under the terms of the Escrow Agreement, 25% of such escrowed securities were released upon closing (July 27, 2020) with subsequent 25% releases occurring 6, 12, and 18 months from closing.

Fengro Loan

On August 4, 2020, Elemental entered into a settlement agreement with Tembo Mining Capital Fund LP ("Tembo") whereby 65,996 common shares were agreed to be issued to settle CAD\$115,494 of debt incurred pursuant to a bridge loan made to Fengro in March 2019. The debt was comprised of CAD\$100,000 of principal, a CAD\$5,000 establishment fee and CAD\$10,494 of interest. The issuance of the shares is subject to TSX Venture Exchange approval.

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An additional amount of CAD\$115,494 was paid on August 19, 2020 to settle the remaining CAD\$100,000 of principal, CAD\$5,000 of establishment fee and CAD\$10,494 of interest that was due to an arms' length party.

Convertible Loan

On January 9, 2020, ERL Limited entered into a Convertible Loan Agreement with Tembo, an arms' length company. Pursuant to the terms of the agreement, ERL Limited received a loan of \$2,000,000 bearing interest at a rate of 12% per annum and maturing on July 7, 2020. In addition, the lender was to receive an arrangement fee of \$200,000 payable on maturity. On May 13, 2020, the Convertible Loan Agreement was amended with a revised maturity date of August 6, 2020. All other terms remained the same.

On August 4, 2020, Tembo converted the \$2,000,000 loan, the \$200,000 arrangement fee and \$134,667 of accrued interest. The conversion price was CAD\$1.30 per common share resulting in Elemental issuing 2,406,322 post-Consolidation shares.

Credit Facility

On December 19, 2019, ERL Limited entered into a Credit Agreement with Sprott Private Resource Lending ("Sprott"), an arms' length company, pursuant to which ERL Limited would be provided with a \$8,500,000 senior secured credit facility (the "Sprott Credit Facility"). On January 23, 2020, the Company received \$8,500,000 from the Sprott Credit Facility. The Sprott Credit Facility bears interest at a rate of 11.50% per annum paid monthly, maturing on July 23, 2020 and is secured by all assets of the Company. In addition, the lender was to receive a fee of \$190,250 payable on completion of the Transaction in shares at the Transaction share price. A separate fee of \$80,000 was paid for the lender making a potential future financing facility available. On July 1, 2020, the Sprott Credit Facility was amended with a revised maturity date of August 23, 2020.

On August 7, 2020, Elemental repaid \$8,539,939 of the Sprott Credit Facility which included \$8,499,999 of principal, \$20,933 of legal fees and \$19,007 of interest. Elemental also issued 196,207 post-Consolidation shares to settle the \$190,250 arrangement fee. The principal balance remaining on the Sprott Credit Facility is \$1.

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OVERALL PERFORMANCE

Highlights of ERL Limited during the six months ended June 30, 2020 and subsequent to June 30, 2020:

- Revenue of \$2,507,350.
- Operating cash flow of \$138,254.
- Net loss of \$1,147,335.
- On December 13, 2019, ERL Limited entered into an agreement to acquire 100% of the issued capital of Sanembaore Sarl Pty Ltd ("SNB"), a company incorporated under the laws of Australia. SNB's principal asset was a 1% net smelter return royalty over Teranga Gold Corporation's Wahgnion project in Burkina Faso. The acquisition closed on January 29, 2020. In consideration for 100% of the issued capital of SNB, ERL Limited agreed to pay a total of \$12,500,000 consisting of a first payment of \$500,000, a second payment of \$2,500,000 and issuing 285,714 pre-RTO common shares (issued on January 16, 2020 at the fair value of \$1,000,000) and a final payment of \$8,500,000. The final payment as well as a late interest payment of \$73,014 was made on January 23, 2020.
- On January 7, 2020, ERL Limited completed a private non-brokered financing by issuing 103,145 pre-RTO common shares at a price of \$3.50 per pre-RTO share for proceeds of \$361,007.
- On January 9, 2020, ERL Limited entered into an unsecured convertible loan agreement with Tembo Capital Mining GP, LP as lender for an aggregate amount of \$2,000,000. This amount was used to satisfy in part the total acquisition price of the Wahgnion royalty, completed on January 29, 2020.
- On January 22, 2020, ERL Limited entered into a senior secured credit facility with Sprott Private Resource Lending, pursuant to which Sprott advanced to ERL Limited \$8,500,000. This amount was used to satisfy in part the total acquisition price of the Wahgnion royalty, completed on January 29, 2020. The Sprott Credit Facility is secured against ERL Limited's assets. On August 7, 2020, Elemental repaid \$8,539,939 of the Sprott Credit Facility which included \$8,499,999 of principal, \$20,933 of legal fees and \$19,007 of interest. The principal balance remaining on the Sprott Credit Facility is \$1.
- On May 1, 2020, ERL Limited completed a private non-brokered financing by issuing 257,904 pre-RTO common shares at a price of \$3.50 per pre-RTO share for proceeds of \$902,664.
- On July 27, 2020, ERL Limited closed the Transaction and on July 30, 2020 the Elemental shares commenced trading on the TSX Venture Exchange under the trading symbol "ELE".
- On August 4, 2020, Tembo converted the \$2,000,000 loan, the \$200,000 arrangement fee and \$134,667 of accrued interest. The conversion price was CAD\$1.30 per post-Consolidation common share resulting in Elemental issuing 2,406,322 post-Consolidation shares.

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ROYALTY PORTFOLIO

Elemental's focus is securing royalties over high-quality precious metals assets with established operators.

The following table lists the royalty interests that Elemental owns either directly, or indirectly through one of its subsidiaries as at June 30, 2020:

Property	Operator	Location	Commodity Exposure	Stage	Royalty Interest
Wahgnion	Teranga Gold	Burkina Faso	Gold	Production	1% NSR
Amancaya	Austral Gold Limited	Chile	Gold & Silver	Production	2.25% NSR
Mercedes	Premier Gold Mines Limited	Mexico	Gold & Silver	Production	1% NSR ⁽¹⁾
Kwale	Base Resources Limited	Kenya	Mineral Sands	Production	0.25% GRR
Mount Pleasant	Zijin Mining Group	West Australia	Gold	Production	5% NPI or A\$10/oz
Panton Sill	Panoramic Resources Limited	West Australia	Platinum Palladium Gold	Feasibility	0.5% NSR

⁽¹⁾ Royalty revenue due to Elemental after hurdle, being the earlier of: (a) the date on which 450,000 ounces of gold equivalent have been produced after July 28, 2016 and b) the sixth anniversary of that date (July 28, 2022)

Principle Royalties:

Wahgnion Project Burkina Faso

On January 29, 2020, ERL Limited completed the acquisition of the Wahgnion royalty pursuant to the Wahgnion Royalty Purchase Agreement for aggregate consideration of \$12,500,000. The Wahgnion royalty was created pursuant to a contract of sale between Sanembaore Sarl Pty Ltd. and Gryphon Minerals West Africa Pty Ltd. dated November 12, 2007 as amended May 22, 2008. Under this contract of sale, Gryphon Minerals West Africa Pty Ltd acquired a 51% interest in the project and joint venture assets of Wahgnion Project, and Sanembaore Sarl Pty Ltd., received a 1% NSR royalty.

In August 2020 Teranga Gold announced an increase to Wahgnion's 2020 production guidance to between 150,000 - 165,000 ounces, a 15% - 18% improvement on earlier guidance.

Teranga has also updated the Life of Mine plan, increasing annual expected production by 25% with annual gold production expected to average 150,000 ounces to 2025.

A multi-year drilling and exploration program has commenced with the goal of extending the mine life to 15 years at three existing deposit areas and more than a dozen exploration targets.

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Amancaya Project Chile

ERL Limited acquired the Amancaya Royalty from Minera Meridian Limitada, pursuant to the Amancaya Royalty Purchase Agreement on June 15, 2018 for an aggregate consideration of \$3,550,000. Under the terms of the Amancaya Royalty Purchase Agreement, ERL Limited acquired the 2.25% NSR royalty including the royalty payments accrued or payable from April 1, 2018.

The Amancaya Royalty was created pursuant to the terms of a net smelter returns royalty agreement between Minera Meridian Ltda, and Guanaco Compania Minera, SPA entered into on August 8, 2014. Under this agreement, Guanaco Compania Minera SPA, the owner of an interest in certain mineral properties granted a 2.25% NSR royalty calculated on production from the properties to Minera Meridian Ltda.

Mercedes Project Mexico

ERL Limited acquired the Mercedes Royalty from Yamana Gold Inc. pursuant to the Mercedes Royalty Purchase Agreement entered into on June 15, 2018 for an aggregate consideration of \$950,000.

The Mercedes Royalty was created pursuant to the terms of the net smelter return royalty agreement dated September 30, 2016 between Yamana Minera Meridian S. de. R. L., de C.V., Premier Gold Mines (Netherlands) B.V., and 2536066 Ontario Inc. Under this agreement, Yamana Minera Meridian S. de. R.L., de C.V. was granted a 1% NSR royalty on the property as part of the consideration for the share purchase agreement under which Premier Gold Mines (Netherlands) B.V., and 2536066 Ontario Inc., acquired all shares of Meridian Gold Holdings the parent company of Minera Meridian Minerales.

DISCUSSION OF OPERATIONS

The discussion of operations relates to the ERL Limited condensed interim consolidated financial statements for the three and six months ended June 30, 2020 and 2019.

	Six months ended June 30,	
	2020	2019
	\$	\$
Revenue from royalty interests	2,507,350	1,106,519
Depletion of royalty interests	(765,363)	(308,012)
General and administrative expenses	(891,507)	(263,078)
Share-based compensation expense	(306,509)	(116,216)
Interest and financing expenses	(1,246,062)	(84,600)
Other	74,240	100
Tax expense	(519,484)	(344,067)
Net loss for the period	(1,147,335)	(9,354)
Operating cash flows	138,254	243,542

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ERL Limited recorded a net loss of \$1,147,335 for the six months ended June 30, 2020 as compared to a net loss of \$9,354 for the six months ended June 30, 2019. The increase in net loss is due to a combination of factors including:

- Royalty revenue increased to \$2,507,350 for the six months ended June 30, 2020 compared to \$1,106,519 for the six months ended June 30, 2019 due to a full periods of royalty revenue for the 2.25% NSR Amancaya Royalty and the 1% NSR Mercedes royalty as well as the royalty revenue from the Wahgnion royalty acquired in January 2020. Depletion of royalty interests increased from \$308,012 for the six months ended June 30, 2019 to \$765,363 for the six months ended June 30, 2020.
- General and administrative expense increased from \$263,078 for the six months ended June 30, 2019 to \$891,507 for the six months ended June 30, 2020 due primarily to an increase in employment costs from \$155,827 to \$217,091 and an increase in professional and consultancy fees from \$52,803 to \$551,442.
- Interest and finance expense increased from \$84,600 in the 2019 period to \$1,246,062 in the 2020 period due to fees associated with the Sprott Credit Facility and the Tembo loan.
- Withholding tax expense increase from \$344,067 in the 2019 period to \$519,484 in the 2020 period due to the increase in revenues subject to withholding tax.
- Gain on acquisition of \$74,240 relates to the acquisition of Elemental Resources Ltd. ("ERLUK") in May 2020.

During the three months ended June 30, 2020, ERL Limited recorded a net loss of \$768,033 as compared to net income of \$95,777 for the three months ended June 30, 2019. The loss during the 2020 period includes additional interest and finance expense from the Sprott Credit Facility and the Tembo Loan and additional professional fees relating to the Transaction. These additional expenses were offset by increased revenues from the Wahgnion royalty.

SUMMARY OF QUARTERLY RESULTS

The following is selected financial data of ERL Limited for the last eight quarters ending with the most recently completed quarter, being the three months ended June 30, 2020.

	THREE MONTHS ENDED			
	June 30, 2020 (\$)	March 31, 2020 (\$)	December 31, 2019 (\$)	September 30, 2019 (\$)
Total revenues	1,294,687	1,212,663	647,991	660,849
Net (loss) income	(768,033)	(379,302)	(144,512)	72,056
Total assets	19,312,334	18,375,516	6,666,315	6,227,180

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	THREE MONTHS ENDED			
	June 30, 2019 (\$)	March 31, 2019 (\$)	December 31, 2018 (\$)	September 30, 2018 (\$)
Total revenues	709,059	397,460	503,565	417,046
Net income (loss)	95,777	(105,131)	(161,551)	(120,323)
Total assets	6,117,450	5,825,721	6,057,916	6,745,502

The increase in assets at March 31, 2020 is due to the acquisition of the Wahgnion royalty on January 29, 2020 for aggregate consideration of \$12,500,000.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2020, ERL Limited's cash balance was \$1,242,695 (December 31, 2019 - \$812,572) with a working capital deficiency of \$8,617,373 (December 31, 2019 - working capital deficiency of \$1,015,119). The increase in working capital deficiency was due to the \$8,500,000 credit facility and \$2,000,000 convertible loan entered into during the 2020 period.

ERL Limited's operations provided \$138,254 during the six months ended June 30, 2020 (2019 - \$243,542) with \$10,927,542 (2019 - \$100 provided by) used in investing activities. The cash requirements during the first two quarters of fiscal 2020 was funded mainly from the \$8,500,000 credit facility and \$2,000,000 convertible loan and the net proceeds from share issuances of \$1,256,487.

ERL Limited's aggregate operating, investing, and financing activities during the six months ended June 30, 2020 resulted in an increase in its cash balance from \$812,572 at December 31, 2019 to \$1,242,695 at June 30, 2020.

The directors regularly review cash flow forecasts to determine whether the Company has sufficient cash reserves to meet future working capital requirements and discretionary business development opportunities.

The condensed interim consolidated financial statements are prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the Directors have taken into account all relevant available information about the current and future position of ERL Limited, including the current level of resources, expected royalty revenues, securing additional funding from investors and its repayment obligations under the Spratt Credit Facility. Subsequent to June 30, 2020, Elemental completed a brokered financing for gross proceeds of CAD\$23,969,030. The financing was used in part to repay the Spratt Credit Facility.

In the current business climate, the Directors acknowledge the COVID-19 pandemic and the potential impact on the mining operations in which Elemental holds royalty interests and receives revenues. The Directors are closely monitoring the impact and mitigating actions by each of the mine operators and are pleased to note there has been no significant disruption to production to date. The diversified royalty interests held by Elemental across a number of different mine operators and geographical locations further mitigates this risk.

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FINANCING ACTIVITIES

During the six months ended June 30, 2020, ERL Limited completed the following equity financing transactions:

- 1) On January 7, 2020, the Company issued 103,145 ordinary shares at a price of \$3.50 per share to raise gross proceeds of \$361,007;
- 2) On January 23, 2020, the Company issued 285,714 ordinary shares at \$3.50 per share as part of the acquisition of SNB.
- 3) On April 21, 2020, the Company issued 2,146 ordinary shares at \$3.50 per share as payment of a bonus; and
- 4) On May 1, 2020, the Company issued 257,904 ordinary shares at \$3.50 per share to raise gross proceeds of \$902,664.

During the six months ended June 30, 2019, ERL Limited completed the following equity financing transactions:

- 1) On February 22, 2019, the Company issued 27,000 ordinary shares at \$3.00 per share to raise gross proceeds of \$81,000;
- 2) On February 22, 2019, the Company issued 8,358 ordinary shares at \$3.00 per share as payment of \$25,074 of dividends;
- 3) On February 22, 2019, the Company issued 6,592 ordinary shares at \$3.00 per share as payment of \$19,776 of a bonus;
- 4) On June 14, 2019, the Company issued 100,000 ordinary shares at \$3.00 per share to settle the remainder of the loan to Flewis Holdings Pty Limited;
- 5) On June 14, 2019, the Company issued 478,819 ordinary shares at \$3.00 per share to raise gross proceeds of \$1,436,457. The Company incurred finders' fees of \$2,700; and
- 6) On June 14, 2019, the Company issued 9,639 ordinary shares at \$3.00 per share as payment of \$28,917 of dividends.

Subsequent to June 30, 2020, Elemental completed a brokered subscription receipt financing of 18,437,715 post-Consolidation common shares at CAD\$1.30 per common share for gross proceeds of CAD\$23,969,030 (\$17,917,153). In connection with the financing, Elemental paid cash finders' fees of CAD\$1,263,142 (\$944,215).

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any material off-balance sheet arrangements.

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TRANSACTIONS BETWEEN RELATED PARTIES

Key management includes the executive and non-executive directors and the Corporate Development Manager. Key management compensation during the three and six months ended June 30, 2020 and 2019 is as follows:

	Three months ended		Six months ended	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salary, fees and pension	91,396	71,616	197,428	161,185
Share-based payments - PSUs	248,401	116,216	306,509	232,432
	339,797	187,832	503,937	393,617

Transactions with key management personnel

Earth Exploration Pty Ltd

During the period Earth Exploration Pty Ltd, a company owned by Peter Williams, a Director of ERL Limited, charged the Company a total of \$19,392 (2019: \$5,948), for consultancy fees and related expenses. There was \$nil outstanding as at June 30, 2020 and no outstanding balance as at December 31, 2019.

Estera Corporate Services (BVI) Limited

During the period Estera Corporate Services (BVI) Limited charged the company \$10,614 (2019: \$18,438) for directors’ fees. There was no outstanding balance at June 30, 2020 (December 31, 2019: \$500).

Acquisition of Elemental Resources Ltd.

During the period Elemental Resources Ltd., a company in which Frederick Bell and Richard Evans are directors and controlling shareholders, charged employment and office related expenses in the amount of \$90,805 (2019: \$94,775). As at December 31, 2019, \$59,205 was outstanding as payable.

On May 29, 2020, ERL Limited acquired Elemental Resources Ltd. (“ERLUK”) for a purchase price of \$1. ERLUK is a management company used to pay United Kingdom based directors, officers and employees as well as other administrative expenses.

ERL Limited paid \$1 to acquire ERLUK which had net liabilities at the date of acquisition of \$4,552 as well as a receivable from ERL Limited of \$78,793 resulting in a gain on acquisition of \$74,240.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New standards, interpretations and amendments effective from January 1, 2020:

	Issued Date	IASB mandatory effective date ¹
Amendments to Existing Standards		
Amendments to References to the conceptual framework in IFRSs	29-Mar-18	01-Jan-20
Amendment to IFRS 3 Business Combinations	22-Oct-18	01-Jan-20
Amendments to IAS 1 and IAS 8: Definition of Material	31-Oct-18	01-Jan-20

¹ Periods beginning unless noted otherwise.

The application of the above standards in the future is not expected to have a material impact on the financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

ERL Limited's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables and borrowings are all measured at amortized cost.

Discussions of risks associated with financial assets and liabilities are detailed below:

Market risk

Market risk is the risk that Elemental's future earnings will be adversely impacted by changes in market prices. Market risk for the Company comprises two types of risk: price risk and foreign currency risk.

Price risk

The price risk is the risk that Elemental's future earnings will be adversely impacted by changes in the market prices of commodities.

Foreign currency risk

ERL Limited's transactions are carried out in a variety of currencies, including Sterling, Australian Dollar, Canadian Dollar and US Dollar. ERL Limited has not hedged its exposure to currency fluctuations.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that ERL Limited uses. Treasury activities take place under procedures and policies approved and monitored by the Board to minimise the financial risk faced by ERL Limited. Interest-bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets and the borrowings from Sprott

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and Tembo. The borrowings, which were settled subsequent to June 30, 2020, were at fixed rates of interest of 12% and 11.5%, respectively.

Liquidity risk

Liquidity risk is the risk that ERL Limited will not be able to meet its financial obligations as they fall due. ERL Limited manages liquidity risk by continuing to monitor forecasted and actual cash flows. ERL Limited has in place a planning and budgeting process to help determine the funds required to support ERL Limited's normal operating requirements on an ongoing basis and its development plans. ERL Limited strives to maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from royalty interests, its holdings in cash and its committed liabilities.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. ERL Limited's maximum exposure to credit risk is attributable to cash. The credit risk on cash is limited because ERL Limited invests its cash in deposits with well capitalized financial institutions.

Fair values

It is the Board's opinion that the carrying values of the cash and cash equivalents, other receivables, all trade and other payables in the consolidated statement of financial position approximate their fair values due to their short-term nature.

Capital risk management

Elemental's objectives when managing capital are to provide shareholder returns through maximisation of the profitable growth of the business and to maintain a degree of financial flexibility relevant to the underlying operating and metal price risks while safeguarding Elemental's ability to continue as a going concern. Elemental manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure Elemental may issue new shares, acquire debt, or sell assets. Management regularly reviews cash flow forecasts to determine whether Elemental has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities.

OUTSTANDING SHARE DATA

Common shares

As at the date of this report, Elemental had 44,458,738 post-Consolidation common shares issued and outstanding.

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Stock Options and Performance Share Units (“PSUs”)

A summary of Elemental’s issued and outstanding stock options and PSUs at the date of this report was as follows:

Type	Expiry Date	Exercise Price	Trading Price Hurdle	Number Outstanding	Number Exercisable
Stock Options	July 28, 2025	CAD\$1.50		900,000	-
Performance Share Units	July 28, 2025		CAD\$1.70	160,000	-
Performance Share Units	July 28, 2025		CAD\$2.20	340,000	-
Performance Share Units	June 28, 2023		US\$0.62	463,498	463,498
Performance Share Units	June 28, 2023		US\$0.78	579,483	-
Performance Share Units	June 28, 2023		US\$0.94	579,483	-
Performance Share Units	June 28, 2023		US\$1.25	772,645	-
TOTAL				3,795,109	463,498

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. All statements, other than statements of historical fact, constitute “forward-looking statements” and include any information that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future including the Company’s strategy, plans or future financial or operating performance and other statements that express management’s expectations or estimates of future performance.

Forward-looking statements are generally identifiable by the use of the words “may”, “would”, “could”, “will”, “anticipate”, “believe”, “plan”, “expect”, “intend”, “estimate” and similar expressions have been used to identify these forward-looking statements. These statements reflect management’s current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant risks, uncertainties and assumptions. Examples of such statements include: (A) the intention to complete the Transaction; (B) the intention to grow the business and operations of Elemental. Many factors could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, those listed in the “Risk Factors” section of this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements may vary materially from those expressed or implied by the forward-looking statements contained in this MD&A. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management of Elemental currently believes to be reasonable assumptions, Elemental cannot assure prospective investors that actual results, performance or

ELEMENTAL ROYALTIES CORP. (formerly Fengro Industries Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the six months ended June 30, 2020

(Expressed in US Dollars, unless otherwise indicated)

achievements will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A have been based on expectations, factors and assumptions concerning future events which may prove to be inaccurate and are subject to numerous risks and uncertainties, certain of which are beyond Elemental's control, including without limitation: the impact of general business and economic conditions; the absence of control over mining operations from which it will receive royalty payments and risks related to those mining operations, including risks related to international operations, government and environmental regulation, delays in mine construction and operations, actual results of mining and current exploration activities, conclusions of economic evaluations and changes in project parameters as plans are refined; problems related to the ability to market precious metals or other metals; industry conditions, including commodity price fluctuations, interest and exchange rate fluctuations; regulatory, political or economic developments in any of the countries where properties underlying the royalty or other interest are located or through which they are held; risks related to the operators of the properties underlying royalty or other interest, including changes in the ownership and control of such operators; risks related to global pandemics, including the novel coronavirus ("COVID-19") global health pandemic, and the spread of other viruses or pathogens; influence of macroeconomic developments; business opportunities that become available, or are pursued; title, permit or license disputes related to interests on any of the properties in which a royalty or other interest is held; litigation; fluctuations in foreign exchange or interest rates; and other factors, many of which are beyond the control of Elemental. Elemental assume no responsibility to update forward looking statements, other than as may be required by applicable securities laws. The factors identified above are not intended to represent a complete list of the factors that could affect Elemental.

RISK FACTORS

Refer to the Filing Statement for risk factors relating to Elemental.