

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Royal Gold Mining Inc. (formerly Shoshoni Gold Ltd.)

Opinion

We have audited the financial statements of Royal Gold Mining Inc. (formerly Shoshoni Gold Ltd.) (the "Company"), which comprise the statements of financial position as at February 29, 2020 and February 28, 2019, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2020 and February 28, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company did not generate any revenue and has negative cash flow from operations during the year ended February 29, 2020 and, as of that date, the Company has a working capital deficit of \$525,601 and an accumulated deficit of \$20,307,777. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Lonny Wong.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

August 13, 2020

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Statements of Financial Position

(Expressed in Canadian dollars)

	February 29, 2020 \$	February 28, 2019 \$
Assets		
Current assets		
Cash	109,423	8,503
Amounts receivable	11,162	13,892
Total current assets	120,585	22,395
Non-current assets		
Exploration and evaluation assets (Note 4)	566,865	128,825
Reclamation bond (Note 3)	16,825	16,825
Total non-current assets	583,690	145,650
Total assets	704,275	168,045
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Notes 5 and 6)	488,241	609,829
Asset retirement obligation	13,041	16,825
Loans payable (Note 5)	144,904	177,696
Total liabilities	646,186	804,350
Shareholders' equity (deficit)		
Share capital	17,977,664	16,929,566
Share-based payment reserve	2,393,875	2,393,875
Share subscriptions receivable (Note 6)	(5,673)	—
Deficit	(20,307,777)	(19,959,746)
Total shareholders' equity (deficit)	58,089	(636,305)
Total liabilities and shareholders' equity (deficit)	704,275	168,045

Nature of business and continuing operations (Note 1)

Subsequent events (Note 13)

Approved and authorized for issuance on behalf of the Board of Directors on August 13, 2020:

/s/ Glen Macdonald

Glen Macdonald, CEO

/s/ Ken Ralfs

Ken Ralfs, Director

(The accompanying notes are an integral part of these financial statements)

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

	Year ended February 29, 2020 \$	Year ended February 28, 2019 \$
Expenses		
Consulting fees (Note 6)	261,326	105,000
Office and miscellaneous	12,727	13,064
Professional fees	26,590	18,250
Rent	30,000	—
Transfer agent and filing fees	18,830	4,664
Total expenses	349,473	140,978
Loss before other income (expense)	(349,473)	(140,978)
Other income (expense)		
Interest expense	(19,558)	(25,558)
Other income	21,000	—
Net loss and comprehensive loss	(348,031)	(166,536)
Loss per share, basic and diluted	(0.05)	(0.07)
Weighted average number of common shares outstanding	6,899,298	2,251,543

(The accompanying notes are an integral part of these financial statements)

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)
Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve \$	Share subscriptions receivable \$	Deficit \$	Total shareholders' equity (deficit) \$
	Number of shares	Amount \$				
Balance, February 28, 2018	2,251,543	16,929,566	2,393,875	–	(19,793,210)	(469,769)
Net loss for the year	–	–	–	–	(166,536)	(166,536)
Balance, February 28, 2019	2,251,543	16,929,566	2,393,875	–	(19,959,746)	(636,305)
Shares issued to settle debt	4,017,919	361,613	–	–	–	361,613
Shares issued for private placement	4,000,000	360,000	–	(5,673)	–	354,327
Share issuance costs	–	(9,050)	2,160	–	–	(6,890)
Shares issued for exploration and evaluation assets	560,000	274,000	–	–	–	274,000
Shares issued pursuant to the exercise of share purchase warrants	327,500	61,535	(2,160)	–	–	59,375
Net loss for the year	–	–	–	–	(348,031)	(348,031)
Balance, February 29, 2020	11,156,962	17,977,664	2,393,875	(5,673)	(20,307,777)	58,089

(The accompanying notes are an integral part of these financial statements)

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Statements of Cash Flows

(Expressed in Canadian dollars)

	Year ended February 29, 2020 \$	Year ended February 28, 2019 \$
Operating activities		
Net loss for the year	(348,031)	(166,536)
Changes in non-cash operating working capital:		
Amounts receivable	2,730	(4,325)
Accounts payable and accrued liabilities	(558)	150,556
Net cash used in operating activities	(345,859)	(20,305)
Investing activities		
Proceeds from loan receivable	–	63,500
Exploration and evaluation expenditures	(59,240)	(35,000)
Net cash provided by (used in) investing activities	(59,240)	28,500
Financing activities		
Proceeds from loans payable	99,207	–
Proceeds from issuance of shares	413,702	–
Share issuance costs	(6,890)	–
Net cash provided by financing activities	506,019	–
Change in cash	100,920	8,195
Cash, beginning of year	8,503	308
Cash, end of year	109,423	8,503
Non-cash Investing and Financing Activities:		
Exploration and evaluation expenditures included in accounts payable and accrued liabilities	104,800	93,824
Shares issued to acquire exploration and evaluation assets	274,000	–
Shares issued to settle accounts payable	229,614	–
Shares issued to settle loans payable	131,999	–

(The accompanying notes are an integral part of these financial statements)

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Notes to the Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

1. Nature of Business and Continuing Operations

Shoshoni Gold Ltd. (the "Company") was incorporated April 23, 1985, under the Company Act of British Columbia, and extra-provincially registered in the Northwest Territories. The Company's principal activity is the exploration of resource properties. The Company's corporate office and principal place of business is located at Suite 905, 1600M Beach Avenue, Vancouver, British Columbia, Canada.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company is not currently determinable, but management continues to monitor the situation.

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended February 29, 2020, the Company did not generate any revenues and incurred negative cash flow from operations. As at February 29, 2020 the Company has a working capital deficit of \$525,601 and an accumulated deficit of \$20,307,777. The Company's ability to continue as a going concern is dependent upon its ability to generate and maintain future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(b) Application of New IFRS

IFRS 16, Leases

On March 1, 2019, the Company adopted IFRS 16, Leases ("IFRS 16") which replaced IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less), leases with certain variable lease payments, and leases of low-value assets.

The Company adopted IFRS 16 using the modified retrospective method, with no material impact on the Company's financial statements.

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Notes to the Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(c) Use of Estimates and Judgments

The preparation of these financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant areas requiring the use of estimates include the impairment of exploration and evaluation assets, fair value of share-based payments, and unrecognized deferred income tax assets.

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of operations in the period when the new information becomes available.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amount of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(e) Exploration and Evaluation Expenditures

(i) Exploration and evaluation expenditures

Asset acquisition costs and exploration and evaluation expenditures are recorded at cost. When shares are issued as part of asset acquisition costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determinable. Payments relating to assets acquired under an option or joint venture agreement, where payments are made at the sole discretion of the Company, are recorded in the financial statements upon payment.

Option payments received are treated as a reduction of the carrying value of the related asset until the Company's option and/or royalty payments received are in excess of costs incurred and then are credited to income.

ROYAL GOLD MINING INC.

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Notes to the Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Exploration and Evaluation Expenditures (continued)

(i) Exploration and evaluation expenditures (continued)

All expenditures related to the cost of exploration and evaluation of assets including acquisition costs for interests in mineral claims are classified and capitalized as intangible assets until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. These costs will be depreciated over the estimated useful life of the property following commencement of commercial production or will be written off if the property is sold, allowed to lapse, abandoned, or determined to be impaired.

The Company has taken steps, in accordance with industry standards, to verify mineral properties in which it has an interest. Although the Company has made efforts to ensure that legal title to its properties is properly recorded in the name of the Company when all terms of agreements have been met, there can be no assurance that such title will ultimately be secured.

(ii) Impairment

Exploration and evaluation assets are assessed for impairment when indicators and circumstances suggest that the carry amount may exceed its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of operations.

Industry-specific indicators for an impairment review arise typically when one of the following circumstances applies:

- Substantive expenditure or further exploration and evaluation activities is neither budgeted nor planned;
- Title to the asset is compromised, has expired or is expected to expire;
- Adverse changes in the taxation, regulatory or political environment;
- Adverse changes in variables in commodity prices and markets making the project unviable; and
- Variations in the exchange rate for the currency of operation.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of operations.

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Notes to the Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(f) Restoration, Rehabilitation, and Environmental Obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arise from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money and risks specific to the liability are used to calculate the net present value. These costs are charged to the statement of operations over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in the statement of operations.

(g) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the statement of operations.

Fair value estimates are made at the statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

The Company has made the following classifications:

Cash	Amortized cost
Amounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Notes to the Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(g) Financial Instruments (continued)

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

Subsequent to initial recognition, financial liabilities are measured at amortized cost, unless designated as fair value through profit or loss. The Company's accounts payable and accrued liabilities, loans payable, and amounts due to related parties are measured at amortized cost.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations. Loss allowances are based on the lifetime ECL's that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(h) Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issue costs.

ROYAL GOLD MINING INC.

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Notes to the Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(h) Financial Liabilities and Equity Instruments (continued)

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(i) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(j) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the statement of operations.

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Notes to the Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(k) Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. On issuance, the premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability. When expenditures are renounced to flow through share investors, the deferred income tax liability associated with the renounced tax deductions is recognized through the statement of operations with a pro-rata portion of the deferred premium.

(l) Share-based Payments

The Company has an equity-settled share-based compensation plan. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the statement of operations such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(l) Loss Per Share

The Company presents basic and diluted loss per share data 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 does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive. As at February 29, 2020, the Company has 7,792,919 (February 28, 2019 - 5,918,000) potentially dilutive shares outstanding.

(m) Comprehensive Loss

Comprehensive loss is the total non-owner change in equity for a reporting period. This change encompasses all changes in equity other than transactions from shareholders. For the years ended February 29, 2020 and February 28, 2019, the Company's did not have any items impacting comprehensive loss.

(n) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended February 29, 2020, and have not been early adopted in preparing these financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's financial statements.

ROYAL GOLD MINING INC.

(formerly Shoshoni Gold Ltd.)

Notes to the Financial Statements

Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian dollars)

3. Reclamation Bond

The bond posted during fiscal 2008 by the Company in anticipation of the drilling on the Sunrise Natural Gas Lands is held in trust for the Company until such time as any required reclamation has been completed. The funds do not bear interest, and fair value is not readily determinable. Refer to Note 13.

4. Exploration and Evaluation Assets

Although the Company has taken steps to verify title to resource properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and noncompliance with regulatory requirements.

	Kirkland Creek \$	Sainte Sabine \$	Partridge Gold \$	Total \$
Acquisition costs:				
Balance, February 28, 2018	1	–	–	1
Additions	25,000	–	–	25,000
Balance, February 28, 2019	25,001	–	–	25,001
Additions	25,000	149,000	180,000	354,000
Balance, February 29, 2020	50,001	149,000	180,000	379,001
Exploration costs:				
Balance, February 28, 2018	–	–	–	–
Additions (Note 6)	103,824	–	–	103,824
Balance, February 28, 2019	103,824	–	–	103,824
Geological and field labour	(1,275)	58,803	–	84,040
Equipment rental	–	5,905	–	5,905
Reports	–	7,756	–	7,756
Travel	–	12,851	–	12,851
Balance, February 28, 2019	102,549	85,315	–	187,864
Carrying amounts:				
Balance, February 28, 2019	25,001	–	–	25,001
Balance, February 29, 2020	152,550	234,315	180,000	566,865

Kirkland Creek Property

The Company has negotiated the purchase of the Kirkland Creek Property, located 120 kilometers northwest of Whitehorse, Yukon, in the Ashihik Lake region. The property originally was comprised of 144 claims totaling approximately 7,300 acres. The Company paid the vendor 2,000,000 common shares for a 100% interest in the property. The vendor will retain a 3% net smelter royalty ("NSR") on any mineral production from the property. Effective November 2010, an advance royalty of \$25,000 is payable annually, the Company has incurred \$275,000 cumulatively to February 29, 2020. The Company has the right to purchase up to 2% of the 3% NSR for \$1,000,000 per percentage point. On May 7, 2007, the Company announced that it had expanded the property by staking an additional 36 claims (1,830 acres) adjoining the original 144-claim block. The Company has allowed some of the claims it considers to be of lesser importance to lapse. The Kirkland Creek property now consists of 40 contiguous claims.

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4. Exploration and Evaluation Assets (continued)

Kirkland Creek Property (continued)

During the year ended February 28, 2017, as a result of applying IFRS 6, the Company was forced to write down this property by \$2,296,719 to a nominal amount of \$1 as a result of not meeting the criteria for expenditures on the property. Under IFRS 6, where substantial expenditures are neither budgeted nor planned there is an indicator of impairment. During the year ended February 28, 2019, the Company resumed exploration activities on the property.

Sainte Sabine Property, Quebec

On September 17, 2019, the Company entered into an option agreement whereby the Company has the right to earn a 100% ownership interest in 140 mining claims in the Beauce region of Quebec.

To earn this interest, the Company is to make cash payments totalling \$295,000, issue a total of 1,500,000 common shares, and incur exploration expenditures on the property aggregating \$2,200,000 as follows:

Cash consideration to be paid:

- \$20,000 to be paid on execution of the agreement (paid);
- a further \$10,000 within 30 days of regulatory approval (paid);
- a further \$25,000 within 75 days of regulatory approval (paid);
- a further \$45,000 on or before September 26, 2020;
- a further \$55,000 on or before September 26, 2021;
- a further \$65,000 on or before September 26, 2022; and
- a further \$75,000 on or before September 26, 2023.

Common shares to be issued:

- 200,000 shares within 75 days of regulatory approval (issued);
- a further 250,000 shares on or before September 26, 2020;
- a further 300,000 shares on or before September 26, 2021;
- a further 350,000 shares on or before September 26, 2022; and
- a further 400,000 shares on or before September 26, 2023.

Exploration expenditures to be incurred by Decade:

- \$100,000 on or before September 26, 2020;
- \$500,000 in aggregate on or before September 26, 2021;
- \$1,200,000 in aggregate on or before September 26, 2022; and
- \$2,200,000 in aggregate on or before September 26, 2023.

The optionor has retained a 2% net smelter royalty, of which two tranches of 0.5% may be purchased by the Company for \$500,000 each.

Partridge Gold Property, Quebec

On January 16, 2020, the Company entered into an agreement to acquire a 100% interest in 95 mineral claims located in Abitibi, Quebec in exchange for issuing 360,000 common shares to the vendor (issued on January 23, 2020).

The vendor has retained a 2% net smelter return ("NSR") royalty. The Company may purchase 50% of the NSR for \$1,000,000.

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4. Exploration and Evaluation Assets (continued)

Eliza Gold Property, Quebec

On February 6, 2020, the Company entered into an option agreement whereby the Company has the right to earn a 100% interest in 8 mineral claims. To earn this interest, the Company is to pay \$20,000 within 3 days of TSX-V approval. The Company is also to issue 150,000 units of the Company on each of the following dates: (1) within three days of TSX-V approval; (2) March 13, 2021; (3) March 13, 2022; and (4) March 13, 2023. Each unit will be comprised of one common share and one share purchase warrant exercisable at \$0.60 per common share for a period of two years from the date of issuance. The optionor has retained a 2% net smelter royalty, of which two tranches of 0.5% may be purchased by the Company for \$500,000 each. Refer to Note 13.

5. Loans Payable

- (a) As at February 29, 2020, the amount of \$18,936 (February 28, 2019 - \$18,936) is owed to a non-related party which bears interest at 20% per annum compounded monthly, is unsecured, and is due on demand. As at February 29, 2020, accrued interest of \$30,638 (February 28, 2019 - \$21,697) has been recorded in accounts payable and accrued liabilities.
- (b) As at February 29, 2020, the amount of \$nil (February 28, 2019 - \$7,000) is owed to a non-related party which bears interest at 20% per annum, is unsecured, and is due on demand. As at February 29, 2020, accrued interest of \$nil (February 28, 2019 - \$5,600) has been recorded in accounts payable and accrued liabilities.
- (c) As at February 29, 2020, the amount of \$10,000 (February 28, 2019 - \$10,000) is owed to a non-related party which bears interest at 20% per annum, is unsecured, and is due on demand. As at February 29, 2020, accrued interest of \$11,903 (2019 - \$8,388) has been recorded in accounts payable and accrued liabilities.
- (d) As at February 29, 2020, the amount of \$23,208 (February 28, 2019 - \$nil) is owed to a non-related party which is non-interest bearing, unsecured, and due on demand.
- (e) As at February 29, 2020, the amount of \$82,500 (February 28, 2019 - \$2,500) was owed to companies controlled by the Chief Executive Officer of the Company which is non-interest bearing, unsecured, and due on demand.
- (f) As at February 29, 2020, the total amount of \$10,260 (February 28, 2019 - \$105,760) is owed to non-related parties which bears interest at 10% per annum, is unsecured, and is due on September 30, 2019. As at February 29, 2020, accrued interest of \$6,503 (February 28, 2019 - \$18,247) has been recorded in accounts payable and accrued liabilities.
- (g) As at February 29, 2020, the amount of \$nil (February 28, 2019 - \$33,500) is owed to the Chief Executive Officer of the Company which bears interest at 10% per annum, is unsecured, and was due on September 30, 2019. As at February 29, 2020, accrued interest of \$206 (February 28, 2019 - \$5,784) has been recorded in accounts payable and accrued liabilities.

6. Related Party Transactions

- (a) As at February 29, 2020, the amount of \$31,194 (February 28, 2019 - \$31,194) was owed to the Chief Executive Officer of the Company which is recorded in accounts payable and accrued liabilities. The amount due is non-interest bearing, unsecured, and due on demand.
- (b) During the year ended February 29, 2020, the amount of \$nil (February 28, 2019 - \$31,128) was incurred to the Chief Executive Officer of the Company for exploration costs.
- (c) During the year ended February 29, 2020, the amount of \$30,000 (February 28, 2019 - \$11,500) was incurred to the Chief Executive Officer of the Company for consulting fees.
- (d) During the year ended February 29, 2020, the amount of \$9,925 (February 28, 2019 - \$nil) was incurred to directors of the Company for consulting fees.

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7. Share Capital

Authorized: Unlimited common shares without par value

- (a) On August 1, 2019, the Company completed a 4 for 1 share consolidation. All share amounts have been retroactively restated to reflect the share consolidation.
- (b) On August 2, 2019, the Company issued 4,017,919 units with a fair value \$361,611 to settle accounts payable of \$229,614 and loans payable of \$131,999. Included in this issuance were 450,000 units issued to settle the loan payable of \$40,500 owed to the Chief Executive Officer of the Company. Each unit consisted of one common share and a share purchase warrant that entitles the holder to acquire an additional common share at \$0.15 in the first year and \$0.20 in the second year.
- (c) On August 7, 2019, the Company issued 4,000,000 units at \$0.09 per unit pursuant to a private placement for gross proceeds of \$360,000. Each unit consisted of one common share and a share purchase warrant that entitles the holder to acquire an additional common share at \$0.15 per share in the first year and \$0.20 in the second year. The Company incurred share issuance costs of \$6,890 and issued 102,500 finder's warrants with a fair value of \$2,160 in connection with the private placement. Each finder's warrant entitles the holder to acquire an additional common share at \$0.25 per share for a period of one year.
- (d) On January 17, 2020, the Company issued 200,000 common shares with a fair value at \$94,000 in connection with the Sainte Sabine mineral property option agreement. Refer to Note 4.
- (e) On January 23, 2020, the Company issued 360,000 common shares with a fair value at \$180,000 in connection with the Partridge Gold mineral property acquisition agreement. Refer to Note 4.
- (f) During the year ended February 29, 2020, the Company issued 327,500 common shares for proceeds of \$59,375 pursuant to the exercise of share purchase warrants. The fair value of \$2,160 for the agent's warrants exercised was transferred from share-based payment reserve to share capital upon exercise.

8. Share Purchase Warrants

	Number of warrants	Weighted average exercise price \$
Balance, February 28, 2018 and 2019	5,918,000	0.20
Issued	8,120,419	0.15
Exercised	(327,500)	0.18
Expired	(5,918,000)	0.20
Balance, February 29, 2020	7,792,919	0.15

As at February 29, 2020, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date
4,017,919	0.15**	August 2, 2021
3,775,000	0.15**	August 7, 2021
7,792,919		

***Exercisable at \$0.20 per common share in the final year

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9. Stock Options

The Company, in accordance with the policies of the TSX Venture Exchange, is authorized to grant options to directors, officers, and employees to acquire common shares. The essential elements of the 2015 Stock Option Plan ("Plan") provide that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the issued common shares of the Company from time to time. Options granted under the Plan may have a maximum term of ten years. The exercise price of options granted under the Plan will not be less than the fair market value price of the shares on the date of grant of the options (defined as the last closing market price of the Company's shares on the last day shares are traded prior to the grant date). Stock options granted under the Plan vest immediately subject to vesting terms which may be imposed at the discretion of the Directors. There were no options issued or outstanding during the years ended February 29, 2020 and February 28, 2019.

10. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended February 28, 2019.

11. Financial Instruments and Risk Management

Fair Values

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on 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); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments, which includes cash amounts receivable, accounts payable and accrued liabilities, and loans payable, approximate their carrying values due to the relatively short-term maturity of these instruments.

Credit Risk

Credit risk is the risk of potential loss to the Company if a counter party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and amounts receivable. The Company limits the exposure to credit risk by only investing its cash with high-credit quality financial institutions. Amounts receivable consists of GST receivable from the Government of Canada. The carrying amount of these financial assets represents the maximum credit exposure.

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11. Financial Instruments and Risk Management (continued)

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 currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

Foreign Exchange Rate Risk

The Company is not exposed to significant foreign exchange rate risk.

Interest Rate Risk

The Company is not exposed to significant interest rate risk.

Price Risk

The Company's ability to raise capital to fund exploration activities is subject to risks associated with fluctuations in the market price of mineral resources. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

12. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rates) of the significant temporary differences, which comprise of deferred income tax assets and liabilities, are as follows:

	2020	2019
	\$	\$
Canadian statutory income tax rate	27%	27%
Income tax recovery at statutory rate	(93,968)	(44,965)
Tax effect of:		
Permanent differences and other	2,053	—
True up of prior year differences	(1,763)	18,928
Change in unrecognized deferred income tax assets	93,678	26,037
Income tax provision	—	—

The significant components of deferred income tax assets and liabilities are as follows:

	2020	2019
	\$	\$
Deferred income tax assets		
Non-capital losses carried forward	1,111,095	1,017,126
Net capital losses carried forward	11,363	11,363
Property and equipment	5,101	6,319
Resource properties	2,195,638	2,195,638
Share issuance costs	2,048	1,121
Total gross deferred income tax assets	3,325,245	3,231,567
Unrecognized deferred income tax assets	(3,325,245)	(3,231,567)
Net deferred income tax asset	—	—

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12. Income Taxes (continued)

As at February 29, 2020, the Company has non-capital losses carried forward of \$4,115,166, which are available to offset future years' taxable income. These losses expire as follows:

	\$
2026	197,299
2027	294,153
2028	294,400
2029	306,559
2030	301,227
2031	417,624
2032	397,356
2033	507,329
2034	275,866
2035	146,902
2036	175,248
2037	168,307
2038	118,329
2039	166,536
2040	348,031
	<hr/> 4,115,166 <hr/>

The Company also has available mineral resource related expenditure pools totalling \$8,698,859, which may be deducted against future taxable income on a discretionary basis.

13. Subsequent Events

- (a) Subsequent to February 29, 2020, the Company issued 150,000 units and paid \$20,000 pursuant to the Eliza Gold mineral property option agreement. Refer to Note 4.
- (b) Subsequent to February 29, 2020, the Company issued 1,430,000 common shares for proceeds of \$214,500 pursuant to the exercise of share purchase warrants.
- (c) Subsequent to February 29, 2020, the Company received the refund of the reclamation bond of \$16,825. Refer to Note 3.