
RILEY RESOURCES CORP.

FINANCIAL STATEMENTS

December 31, 2019 and 2018
(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Riley Resources Corp.

Opinion

We have audited the financial statements of Riley Resources Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of loss and comprehensive loss, statements of changes in equity and statements of 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 December 31, 2019 and December 31, 2018, 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 audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained 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 as at December 31, 2019, the Company had working capital of \$ 167,025 and an accumulated deficit of \$ 394,225. 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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.



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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 auditor's report is Gordon Cummings.

Vancouver, B.C.
April 21, 2020

"D&H Group LLP"

Chartered Professional Accountants

RILEY RESOURCES CORP.

STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	December 31, 2019	December 31, 2018
ASSETS		
Current Assets		
Cash	\$ 170,049	\$ 304,394
Prepaid expenses	6,532	6,301
Taxes receivable	4,130	2,912
Other receivable	1,365	-
	<u>182,076</u>	<u>313,607</u>
Exploration and evaluation assets (Note 4)	<u>161,129</u>	<u>134,756</u>
	<u>\$ 343,205</u>	<u>\$ 448,363</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ <u>15,051</u>	\$ <u>19,995</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	615,298	615,298
Contributed surplus	107,081	85,042
Deficit	<u>(394,225)</u>	<u>(271,972)</u>
	<u>328,154</u>	<u>428,368</u>
	<u>\$ 343,205</u>	<u>\$ 448,363</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
EVENTS AFTER THE REPORTING PERIOD (Note 10)

These financial statements were approved for issue by the Board of Directors on April 21, 2020 and are signed on its behalf by:

Approved by the Board “Todd Hilditch”, Director “Cyndi Laval”, Director

RILEY RESOURCES CORP.

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	Year Ended December 31, 2019	Year Ended December 31, 2018
Consulting fees	\$ 20,208	\$ 15,933
Insurance expense	12,706	11,917
Interest and bank charges	607	121
Office supplies and rent	25,402	11,208
Professional fees	14,411	12,897
Shareholder reporting	7,007	4,203
Share-based payments	22,039	12,516
Transfer agent and filing fees	16,416	18,609
Travel	3,457	1,013
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	<u>(122,253)</u>	<u>(88,417)</u>
LOSS PER SHARE, BASIC AND DILUTED	\$ <u>(0.01)</u>	\$ <u>(0.01)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>10,681,755</u>	<u>10,681,755</u>

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

RILEY RESOURCES CORP.

STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	Number of Common Shares		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance, December 31, 2017	10,681,755	\$	615,298		72,526		(183,555)		504,269
Share-based payments	-		-		12,516				12,516
Net loss for the year	-		-		-		(88,417)		(88,417)
Balance, December 31, 2018	10,681,755	\$	615,298	\$	85,042		(271,972)		428,368
Share-based payments	-		-		22,039		-		22,039
Net loss for the year	-		-		-		(122,253)		(122,253)
Balance, December 31, 2019	10,681,755	\$	615,298	\$	107,081	\$	(394,225)	\$	328,154

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

RILEY RESOURCES CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

	December 31, 2019	December 31, 2018
CASH (USED IN) PROVIDED BY		
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ (122,253)	\$ (88,417)
Items not affecting cash		
Share-based payments	22,039	12,516
Changes in non-cash working capital accounts:		
Prepaid expenses	(231)	(465)
Taxes receivable	(1,218)	429
Other receivables	(1,365)	-
Accounts payable and accrued liabilities	(4,944)	13,106
	<u>(107,972)</u>	<u>(62,831)</u>
INVESTING ACTIVITIES		
Exploration and evaluation expenditures	<u>(26,373)</u>	<u>(8,751)</u>
NET CHANGE IN CASH	(134,345)	(71,582)
CASH, BEGINNING OF YEAR	<u>304,394</u>	<u>375,976</u>
CASH, END OF YEAR	\$ <u>170,049</u>	\$ <u>304,394</u>

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

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Riley Resources Corp. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on June 3, 2011. The Company's office is located at Suite 2390 - 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9. On January 8, 2015, the Company completed its initial public offering of 2,000,000 common shares at \$0.10 per share for gross cash proceeds of \$200,000 and listed its common shares on the TSX Venture Exchange ("TSXV", or the "Exchange") under the trading symbol RLY. On October 13, 2016, the Company entered into an exploration and option agreement with MSM Resource L.L.C. ("MSM") to acquire MSM's undivided interest in the East Manhattan Wash property (Note 4). The transaction received final approval of the TSXV on March 29, 2017. As a result, the Company became a Tier 2 TSXV mining issuer.

The Company is a precious metals exploration company engaged in the acquisition and exploration of mineral properties. The Company currently has an exploration property in the United States of America. To date, no mineral development projects have been completed and no commercial development or production has commenced. Based on the information available to date, the Company has not yet determined whether its mineral property contains economically recoverable reserves. The recoverability of the amounts shown for exploration and evaluation costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete its exploration and development programs and ultimately upon future profitable production.

As at December 31, 2019, the Company had working capital of \$167,025 (2018 - \$293,612) and an accumulated deficit of \$394,225 (2018 - \$271,972). The Company's ability to continue exploring its exploration and evaluation assets is dependent upon its ability to obtain additional financing, in the immediate term, in order to continue to carry on its mineral exploration business. There is material uncertainty about whether the Company will be able to obtain the required financing. This material uncertainty casts significant doubt about the Company's ability to continue as a going concern. Should the Company be unable to obtain additional financing, it may have no alternative but to significantly curtail, or cease to carry on, business operations.

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the financial statements. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value as explained in the Summary of Significant Accounting Policies set out in Note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Critical judgments and sources of estimation uncertainty

The preparation of these financial statements 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 period. 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

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Critical judgments and sources of estimation uncertainty (Cont'd)

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 periods. 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. *Critical Judgments*

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (ii) The Company's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the year-end exchange rate and all income and expenses are translated at average exchange rates prevailing during the year. Non-monetary assets and liabilities are translated at the rates prevailing at the dates the assets were acquired or liabilities incurred. Exchange gains and losses arising on translation are included as a charge to operations in the year incurred.
- (iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.
- (iv) Although the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- (ii) The assessment of any impairment of exploration and evaluation assets is dependent upon estimates of the recoverable amount that take into account factors such as reserves, economic and market conditions and the useful lives of assets. As a result of this assessment, management determined that no impairment charges need to be recorded for the current year end.
- (iii) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change

RILEY RESOURCES CORP.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Critical judgments and sources of estimation uncertainty (Cont'd)

based on changes in laws and regulations and negotiations with regulatory authorities.

(b) Cash

Cash consists of cash and money market instruments with terms to maturity not exceeding 90 days at date of acquisition.

(c) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective-interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

(d) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and accrued liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost using the effective-interest method.

(e) Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and, accordingly, follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received, or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. Any exploration expenditures that are not expected to be recovered are charged to the results of operations.

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less cost of disposal and value in use. Fair value is determined by the price that would be received to sell an asset in an orderly transaction between market participants. 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 or cash-generating unit 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 profit or loss for the period.

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 only to the extent that the increased carrying amount 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 profit or loss.

(g) Financial instruments

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. Receivables and accounts payable and accrued liabilities are classified as amortized cost.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise. Cash is classified as FVTPL.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise. There are currently no financial assets or liabilities classified as FVOCI.

(iii) Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Financial Instruments (cont'd)

not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of net (loss) income.

(h) Share-based payments

The fair value, at the grant date, of equity-settled share awards is charged to comprehensive loss over the period for which the benefits of employees and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in contributed surplus. The fair value of awards is calculated using an option pricing model which considers the following factors:

- Exercise price
- Expected volatility
- Risk-free interest rate
- Expected life of the award
- Current market price of the underlying shares
- Expected forfeitures

(i) Share capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

(j) Current and deferred income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss). Current tax expense, if any, is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Loss per share

Basic and diluted loss per share is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

(l) Significant Accounting Policies adopted

Effective on January 1, 2019, the Company adopted IFRS 16 - *Leases*. In January 2016, the IASB issued IFRS 16 which replaces IAS 17 – *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The Company reviewed the impact of IFRS 16 and there were no changes as the Company does not have any applicable leases.

4. EXPLORATION AND EVALUATION ASSETS

On October 13, 2016, the Company entered into an exploration and option agreement (the "Agreement") with MSM Resource L.L.C. ("MSM"), pursuant to which the Company has been granted an option to acquire MSM's undivided interest in the East Manhattan Wash (the "Property"), located in Nye County, Nevada and is comprised of 6 unpatented lode mining claims controlled by MSM.

Pursuant to the terms of the Agreement, in order to earn MSM's interest in the Property, the Company must: pay to MSM option payments in the aggregate of C\$57,500 as follows:

- C\$5,000 cash upon execution of the agreement (paid);
- C\$7,500 before the first anniversary date of TSXV final approval of filing QT, March 29, 2018 (the "Anniversary") (paid);
- C\$10,000 before the second Anniversary (paid);
- C\$15,000 before the third Anniversary (complete – the Company paid MSM a one-time payment of C\$5,000 in lieu of the third Anniversary payment); and
- C\$20,000 before the fourth Anniversary.

Work commitments in the aggregate of C\$550,000 must be met as follows:

- C\$50,000 before the first Anniversary (complete);
- C\$50,000 before the second Anniversary (complete – the Company paid MSM a one-time payment of C\$15,000 in lieu of the second Anniversary work commitment);
- C\$100,000 before the third Anniversary (complete – the Company paid MSM a one-time payment of C\$20,000 in lieu of the third Anniversary work commitment);
- C\$150,000 before the fourth Anniversary; and
- C\$200,000 before the fifth Anniversary.

In addition, the Company must grant MSM a 3% net smelter return royalty on the Property, and finally must pay MSM an additional lump sum payment of C\$200,000 within five years from signing the Agreement.

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

4. EXPLORATION AND EVALUATION ASSETS (Cont'd)

Exploration and evaluation asset activity during the year:

	Year Ended December 31, 2019	Activity	Year Ended December 31, 2018	Activity	Year Ended December 31, 2017
EAST MANHATTAN WASH PROPERTY					
Property acquisition costs and option payments	\$ 95,816	\$ 25,000	\$ 70,816	\$ 7,500	\$ 63,316
Property maintenance costs	3,803	1,344	2,459	1,251	1,208
Engineering and consulting	39,995	-	39,995	-	39,995
Assays and analysis	6,764	-	6,764	-	6,764
Geophysical surveys	9,892	-	9,892	-	9,892
Communications, field supplies and expenses	4,859	29	4,830	-	4,830
TOTAL EXPLORATION AND EVALUATION ASSETS	\$ 161,129	\$ 26,373	\$ 134,756	\$ 8,751	\$ 126,005

5. SHARE CAPITAL

(a) Authorized

At December 31, 2019, the Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

Pursuant to an escrow agreement, 5,991,494 common shares will be held in escrow. 10% of these shares were released from escrow on the TSXV's acceptance of the qualifying transaction ("Initial Release"). An additional 15% will be released every 6 months over a 36-month period following the Initial Release.

At December 31, 2019, there are 898,719 shares remaining in escrow. The escrow shares may not be transferred, assigned or otherwise dealt without the consent of the securities regulatory authorities.

(b) Issued

No shares were issued during the years ended December 31, 2019 and 2018.

(c) Warrants

No warrants were outstanding as at December 31, 2019 and 2018.

(d) Stock Options

The Company has a share purchase option plan under which directors, officers, employees and consultants of the Company are eligible to receive share purchase options. The aggregate number of shares available to be issued upon the exercise of all share purchase options granted under the plan shall not exceed 10% of the issued and outstanding shares of the Company. The plan limits the maximum number of share purchase options issuable in any one 12-month period to any one optionee to 5% of the total common shares outstanding. The Board of Directors shall determine the terms and provisions of the options at the time of grant. The exercise price of each share purchase option shall not be less than the market price of the common shares on the date of the grant less the discount permitted by the Exchange. The maximum term of share purchase options shall not exceed 10 years or such other term as permitted by the Exchange.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore,

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5. SHARE CAPITAL (Cont'd)

(d) Stock Options (cont'd)

existing models do not necessarily provide reliable measures of the fair value of the Company's share purchase options.

As at December 31, 2019, the Company had outstanding share purchase options enabling holders to acquire common shares of the Company as follows:

Number	Vested	Price per share	Expiry date
705,000	705,000	\$ 0.10	January 8, 2025
240,000	180,000	\$0.145	September 20, 2028
100,000	50,000	\$ 0.15	March 12, 2029
1,045,000	935,000		

A summary of the Company's options and the changes for the year are as follows:

	December 31, 2019		December 31, 2018	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the year	945,000	\$0.11	705,000	\$0.10
Granted	100,000	\$0.15	240,000	\$0.145
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding, end of the year	1,045,000	\$0.12	945,000	\$0.11

During the year ended December 31, 2019, the Company granted 100,000 stock options to a director of the Company. The weighted average grant-date fair value of the stock options granted during the year ending December 31, 2019 is \$0.13.

The weighted average remaining contractual life of the outstanding stock options at December 31, 2019 was 6.28 (2018 – 6.97) years.

The weighted average fair value of the stock options granted was determined by using the Black-Scholes option pricing model with the following assumptions:

	Year ended December 31, 2019	Year ended December 31, 2018
Risk-free interest rate	1.75%	2.39% - 2.43%
Estimated volatility	98.42%	102.65%
Expected life	9.25 years	10 years
Expected dividend yield	Nil	Nil

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6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments are classified into one of the following four categories: fair-value-through-profit or loss ("FVTPL"); fair-value-through other comprehensive income ("FVOCI"); and amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2019	December 31, 2018
Cash	FVTPL	\$ 170,049	\$ 304,394
Receivables	Amortized cost	5,495	2,912
Accounts payable and accrued liabilities	Amortized cost	(15,051)	(19,995)

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

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's fair value of cash under the fair value hierarchy are measured using Level 1 inputs. The recorded amounts for receivables, accounts payable and accrued liabilities, approximate their fair value due to their short-term nature.

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's receivables predominately relate to receivables from goods and services input tax credits. Accordingly, the Company views credit risk on receivables as minimal, as it is primarily from an agency of the Government of Canada. The Company is also exposed to credit concentration risk by holding cash. This risk is minimized by holding the investments in large financial institutions or with the Government of Canada.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties meeting its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities and property commitments when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. Management attempts to ensure sufficient cash or liquid investments are available to satisfy budgeted expenditures.

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6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

(i) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian and the United States Dollar. The Company's exploration and evaluation costs are denominated in Canadian Dollars and United States Dollars. The Company has not entered into any arrangements to hedge its currency risk.

(ii) Commodity price risk

Commodity price risk is the risk that the fair value of financial assets and financial liabilities or expected future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States Dollars, as outlined above. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time. However, the Company is exposed to commodity price risk as it impacts the Company's access to capital and funding.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of cash and is limited because of its short-term investment nature. A variable rate of interest is earned on cash; changes in market interest rates at the year-end would not have a material impact on the Company's financial statements.

7. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the continued development of its mineral properties. Therefore, the Company monitors the level of risk associated with its mineral property expenditures relative to its capital structure.

The Company considers its capital structure to include working capital and shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets and capital markets. In order to facilitate the management of capital and the development of its mineral properties, the Company prepares annual expenditure budgets which are regularly monitored and updated as considered necessary.

To maintain or adjust the capital structure, the Company may issue new equity, if available, on favorable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold cash and term deposits in interest-bearing bank accounts and highly liquid short-term, interest-bearing investments with maturities of one year or less which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the year ended December 31, 2019.

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8. RELATED PARTY DISCLOSURES

As at December 31, 2019, \$2,847 (December 31, 2018 - \$10,811) of accounts payable and accrued liabilities was payable to a company with directors and officers in common.

As at December 31, 2019, \$1,365 (December 31, 2018 - \$Nil) of accounts receivable was receivable from a company with a director and/or officer in common.

During the year ended December 31, 2019, \$1,973 (December 31, 2018 - \$1,687) was paid to a law firm in which a director is a partner. During the year ended December 31, 2019, the Company incurred rental fees and shared office expenses of \$20,848 to companies with a director and/or officer in common (December 31, 2018 - \$7,716). During the year ended December 31, 2019, the Company incurred consulting fees of \$9,000 to a company with directors and officers in common (December 31, 2018 - \$9,450).

During the year ended December 31, 2019, the Company incurred share-based payments of \$21,341 (December 31, 2018 - \$11,734) to officers and directors of the Company.

9. INCOME TAXES

- (a) Temporary timing differences between the income tax basis and accounting cost result in the Company's potential deferred income tax assets and liabilities. Significant components of the Company's deferred income tax assets (liabilities) at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Share issue costs	\$ 1,028	\$ 26,908
Non-capital loss carry forwards	<u>428,714</u>	<u>302,620</u>
	429,742	329,528
Estimated corporate income tax rate	27.0%	27.0%
Total deferred income assets (liabilities)	116,031	88,973
Valuation allowance	<u>(116,031)</u>	<u>(88,973)</u>
Deferred income tax assets (liabilities)	\$ <u>-</u>	\$ <u>-</u>

- (b) The Company has available non-capital tax losses of approximately \$428,714 (December 31, 2018 - \$302,620), which expire at varying dates up to 2039. The potential benefit of the losses has been reduced to Nil in the financial statements by management's determination of a valuation allowance.

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9. INCOME TAXES (Cont'd)

- (c) The actual income tax provision differs from the expected amount calculated by applying the Canadian corporate income tax rate to the Company's income before income taxes. The components of these differences are as follows:

	<u>2019</u>	<u>2018</u>
Net loss before income taxes	\$ (122,253)	\$ (88,417)
Expected tax recovery at 27% (2018-27%)	(33,008)	(23,873)
Non-deductible share-based payments	5,951	3,380
Deductible share issuance costs	(6,988)	(7,202)
Additions to non-capital loss carryforwards	<u>34,045</u>	<u>27,695</u>
	<u>\$ -</u>	<u>\$ -</u>

10. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year-end, on March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Company in future periods.