
RILEY RESOURCES CORP.
FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Riley Resources Corp.

We have audited the accompanying financial statements of Riley Resources Corp., which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Riley Resources Corp. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Vancouver, B.C.
April 21, 2017

"D&H Group LLP"

Chartered Professional Accountants

RILEY RESOURCES CORP.

STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	December 31, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash	\$ 245,916	\$ 329,100
Prepaid expenses	1,617	-
Taxes receivable	946	1,740
	<u>248,479</u>	<u>330,840</u>
Exploration and evaluation assets (Note 4)	<u>53,479</u>	<u>-</u>
	<u>\$ 301,958</u>	<u>\$ 330,840</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ <u>14,167</u>	\$ <u>3,716</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	342,387	346,028
Contributed surplus	73,393	73,393
Deficit	<u>(127,989)</u>	<u>(92,297)</u>
	<u>287,791</u>	<u>327,124</u>
	<u>\$ 301,958</u>	<u>\$ 330,840</u>

These financial statements were approved for issue by the Board of Directors on April 17, 2017 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, 2016 AND 2015 (Expressed in Canadian Dollars)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Professional fees	\$ 11,326	\$ 8,199
Office supplies and rent	6,596	-
Bank charges and interest	237	70
Shareholder reporting	1,676	1,261
Stock-based compensation	-	62,883
Transfer agent and filing fees	<u>15,857</u>	<u>7,752</u>
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	<u>(35,692)</u>	<u>(80,165)</u>
LOSS PER SHARE, BASIC AND DILUTED	\$ <u>(0.01)</u>	\$ <u>(0.01)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>7,050,001</u>	<u>7,006,165</u>

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

RILEY RESOURCES CORP.

STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	Number of Common Shares		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance, December 31, 2014	5,050,001	\$	271,035	\$	-	\$	(12,132)	\$	258,903
Common shares issued for cash	2,000,000		200,000		-		-		200,000
Share issuance costs	-		(125,007)		10,510		-		(114,497)
Stock-based compensation	-		-		62,883		-		62,883
Net loss for the year	-		-		-		(80,165)		(80,165)
Balance, December 31, 2015	7,050,001	\$	346,028	\$	73,393	\$	(92,297)	\$	327,124
Share issuance costs	-		(3,641)		-		-		(3,641)
Net loss for the year	-		-		-		(35,692)		(35,692)
Balance, December 31, 2016	7,050,001	\$	342,387	\$	73,393	\$	(127,989)	\$	287,791

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

RILEY RESOURCES CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	December 31, 2016	December 31, 2015
CASH (USED IN) PROVIDED BY		
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ (35,692)	\$ (80,165)
Item not affecting cash:		
Stock-based compensation	-	62,883
Changes in non-cash working capital accounts		
Prepaid expenses	(1,617)	-
Taxes receivable	794	1,343
Accounts payable and accrued liabilities	5,913	(49,544)
	<u>(30,602)</u>	<u>(65,483)</u>
INVESTING ACTIVITIES		
Exploration and evaluation expenditures	<u>(48,941)</u>	<u>-</u>
FINANCING ACTIVITIES		
Issuance of shares, net	<u>(3,641)</u>	<u>151,503</u>
NET CHANGE IN CASH	(83,184)	86,020
CASH, BEGINNING OF YEAR	<u>329,100</u>	<u>243,080</u>
CASH, END OF YEAR	<u>\$ 245,916</u>	<u>\$ 329,100</u>

SUPPLEMENTAL CASH FLOW INFORMATION (Note 9)

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(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 registered 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 has listed its common shares on the TSX Venture Exchange ("TSXV", or the "Exchange") as a Capital Pool Company ("CPC") under the trading symbol RLY.

As a CPC, the Company's business objective will be to identify and evaluate assets or businesses with a view to potential acquisition or participation by completing a Qualifying Transaction ("QT"), as defined in Exchange Policy 2.4 subject, in certain cases, to shareholder approval and acceptance by the Exchange. Under the policies of the TSXV, the Company must identify and complete a QT within 24 months from the date the Company's shares are listed for trading on the TSXV. There is no assurance that the Company will be able to complete a QT within 24 months of being listed or that it will be able to secure the necessary financing to complete a QT. The TSXV may suspend or de-list the Company's shares from trading should it not meet these requirements.

As at December 31, 2016, the Company had 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 proposed transaction constitutes an arm's length qualifying transaction and is subject to the approval of the TSXV. Upon TSXV approval of the QT, the Company will become a Tier 2 TSXV mining issuer. Subsequent to December 31, 2016, the Company completed its QT (Note 11).

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 consolidated 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 consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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 periods. These

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

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

RILEY RESOURCES CORP.

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

(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. Receivables are classified as loans and receivables. 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 classified as other financial liabilities initially 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, 2016 AND 2015
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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

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or fair-value-through-profit or loss.

Financial assets classified as fair-value-through-profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). Cash is classified as fair-value-through-profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost. Receivables are classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. There are currently no financial assets classified as available-for-sale.

Transaction costs associated with fair-value-through-profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as fair-value-through-profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and notes payable are classified as other financial liabilities.

Financial liabilities classified as fair-value-through-profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). The Company currently has no financial liabilities classified as fair-value-through-profit or loss.

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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.

(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) Accounting standards and interpretations issued but not yet adopted

As at the date of these consolidated financial statements, the following standards have not been applied in these consolidated financial statements:

- (i) IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes. The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortized cost or fair value.

RILEY RESOURCES CORP.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

- (i) Accounting standards and interpretations issued but not yet adopted (Cont'd)
- (ii) IFRS 15 *Revenue from contracts with customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.
- (iii) 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 standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15.
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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 lease payments in the aggregate of \$57,500 as follows:

- \$5,000 cash upon execution of the agreement (paid);
- \$7,500 before the first anniversary date of TSXV final approval of filing QT, March 29, 2018 (the "Anniversary");
- \$10,000 before the second Anniversary;
- \$15,000 before the third Anniversary; and
- \$20,000 before the fourth Anniversary.

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

- \$50,000 before the first Anniversary;
- \$50,000 before the second Anniversary;
- \$100,000 before the third Anniversary;
- \$150,000 before the fourth Anniversary; and
- \$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 \$200,000 within five years from signing the Agreement.

RILEY RESOURCES CORP.

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4. EXPLORATION AND EVALUATION ASSETS (Cont'd)

Exploration and evaluation asset activity during the year:

	Year Ended December 31, 2016	Activity	Year Ended December 31, 2015
EAST MANHATTAN WASH PROPERTY			
Property acquisition costs and option payments	\$ 36,802	\$ 36,802	\$ -
Engineering and consulting	15,848	15,848	-
Communications, field supplies and expenses	829	829	-
TOTAL EXPLORATION AND EVALUATION ASSETS	\$ 53,479	\$ 53,479	\$ -

5. SHARE CAPITAL

(a) Authorized

At December 31, 2016, 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, as at December 31, 2016, 4,800,001 common shares will be held in escrow. 10% of these shares will be released from escrow on the TSXV's acceptance of the qualifying transaction ("Initial Release") and an additional 15% will be released every 6 months over a 36 month period following the Initial Release. The escrow shares may not be transferred, assigned or otherwise dealt without the consent of the securities regulatory authorities.

(b) Reconciliation of changes in share capital

- (i) On January 8, 2015, the Company completed its initial public offering by issuing 2,000,000 common shares at \$0.10 per share for gross cash proceeds of \$200,000. Pursuant to this transaction, the Company has paid the agent a commission equal to 10% of the gross proceeds, being \$20,000, paid a corporate finance fee of \$10,000 and issued warrants to purchase up to 200,000 common shares of the Company, exercisable at \$ 0.10 per share and exercisable until January 8, 2017. The fair value of the warrants was estimated at \$10,510 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 100%, risk free rate of return 1.04%, and an expected maturity of two years. Volatility was estimated based on the historical volatility of similar companies over a period equal to the expected life of the options.

(c) Share Purchase Warrants

A summary of the Company's share purchase warrants and the changes for the years ended December 31, 2016 and 2015 are as follows:

	Number of Warrants	Weighted average exercise price
As at December 31, 2016 and 2015	200,000	\$ 0.10

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5. SHARE CAPITAL (Cont'd)

(c) Share Purchase Warrants (Cont'd)

A summary of the Company's share purchase warrants as at December 31, 2016 is as follows:

Number Outstanding	Exercise Price	Expiry Date
200,000	\$ 0.10	January 8, 2017

Subsequent to year end, 16,500 warrants were exercised and 183,500 warrants expired without exercise (Note 11).

(d) Stock Options

The Company has adopted a stock option plan (the "Plan"), under which stock options may be awarded to directors, officers, employees and consultants at the discretion of the Board of Directors. Stock options awarded under the Plan may be exercisable for up to ten years at exercise prices determined by the Board of Directors at the time of award. The Plan provides for 705,000 common shares to be reserved for stock option awards upon completion of the Company's initial public offering.

A summary of the Company's stock options and the changes for the years ended December 31, 2016 and 2015 are as follows:

	Number of Options	Weighted average exercise price
As at December 31, 2016 and 2015	705,000	\$ 0.10

During the year ended December 31, 2015, the Company granted 705,000 stock options to officers and directors of the Company. The weighted average grant-date fair value of the stock options granted during the period is \$0.09.

A summary of the Company's stock options as at December 31, 2016 is as follows:

Number Outstanding	Exercise Price	Expiry Date
705,000	\$ 0.10	January 8, 2025

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

	December 31, 2016	December 31, 2015
Risk-free interest rate	-	1.04%
Estimated volatility	-	100%
Expected life	-	10 years
Expected dividend yield	-	0.00%

Volatility was estimated based on the historical volatility of similar companies over a period equal to the expected life of the options.

RILEY RESOURCES CORP.

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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"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2016	December 31, 2015
Cash	FVTPL	\$ 245,916	\$ 329,100
Receivables	Loans and receivables	946	1,740
Accounts payable and accrued liabilities	Other liabilities	(14,167)	(3,716)

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.

(d) 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.

(e) 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.

(f) 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 manages, as capital, the components of shareholders' equity and its cash. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow or adjust the amount of cash. The Company does not anticipate the payment of dividends in the foreseeable future.

8. RELATED PARTY DISCLOSURES

As at December 31, 2016, \$2,143 (December 31, 2015 - \$3,480) of accounts payable and accrued liabilities was payable to a law firm in which a director is a partner, and to a director.

During the year ended December 31, 2016, \$17,895 (December 31, 2015 - \$2,402) was paid to a law firm in which a director is a partner.

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9. SUPPLEMENTAL CASH FLOW INFORMATION

The following significant non-cash transactions have been excluded from the statements of cash flows:

As at December 31, 2016, exploration and evaluation expenditures incurred of \$4,538 (December 31, 2015 – \$Nil) are included under accounts payable and accrued liabilities.

10. 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Share issue costs	\$ 79,504	\$ 102,385
Non-capital loss carry forwards	<u>118,217</u>	<u>56,002</u>
	197,721	158,387
Estimated corporate income tax rate	26.0%	26.0%
Total deferred income assets (liabilities)	51,407	41,180
Valuation allowance	<u>(51,407)</u>	<u>(41,180)</u>
Deferred income tax assets (liabilities)	\$ <u>-</u>	\$ <u>-</u>

- (b) The Company has available non-capital tax losses of approximately \$118,217 (2015 - \$56,002), which expire at varying dates up to 2036. The potential benefit of the losses has been reduced to Nil in the consolidated financial statements by management's determination of a valuation allowance.
- (c) The actual income tax provision differs from the expected amount calculated by applying the combined Canadian and United States corporate income tax rate to the Company's income before income taxes. The components of these differences are as follows:

	<u>2016</u>	<u>2015</u>
Net loss before income taxes	\$ (35,692)	\$ (80,165)
Expected tax recovery at 26% (2015 – 26%)	(9,280)	(20,843)
Non-deductible stock-based compensation	-	16,350
Deductible share issuance costs	(6,896)	(6,707)
Additions to non-capital loss carryforwards	<u>16,176</u>	<u>11,200</u>
	\$ <u>-</u>	\$ <u>-</u>

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11. EVENTS AFTER THE REPORTING PERIOD

Subsequent to year end, 16,500 share purchase warrants were exercised, and on January 8, 2017, share purchase warrants to purchase 183,500 common shares of the Company at \$0.10 per share expired without exercise.

On March 16, 2017, the Company completed a private placement of 3,615,254 common shares at a price of \$0.075 per common share for total gross proceeds of \$271,143.

On March 29, 2017, the Company received receipt of final acceptance of the TSXV in respect of the Company's QT (See Note 1 and Note 4).