REGULUS RESOURCES INC

(the "Company")

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Regulus Resources Inc.

Opinion

We have audited the accompanying consolidated financial statements of Regulus Resources Inc. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of operations and comprehensive (loss)/income, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Stephen Hawkshaw.

Davidson & Company LLP

Vancouver, Canada — Chartered Professional Accountants

January 28, 2021

Regulus Resources Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
As at

	September 30, 2020	September 30, 2019
ASSETS		
Current		
Cash	$ 2,750,410	$ 3,036,369
Receivables (Note 4)	227,833	831,292
Prepaid expenses and deposits (Note 6)	375,772	540,020
	3,354,015	4,407,681
Long-term investments (Note 9)	418,000	358,000
Property and equipment	639,882	474,481
Exploration and evaluation assets (Note 6)	51,891,535	44,430,445
	$ 56,303,432	$ 49,670,607
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (Notes 8 and 10)	$ 747,049	$ 2,172,238
	747,049	2,172,238
Decommissioning liability (Note 11)	400,897	330,994
	1,147,946	2,503,232
Equity		
Capital stock (Note 7)	114,707,360	104,124,561
Accumulated other comprehensive loss	(5,272,470)	(5,308,264)
Share compensation reserve (Note 7)	14,366,232	11,753,485
Deficit	(68,645,636)	(63,402,407)
	55,155,486	47,167,375
	$ 56,303,432	$ 49,670,607

Nature and continuance of operations (Note 1)
Commitments (Note 15)
Subsequent events (Note 17)

Approved by the Board:

Director: ”*John Black*” — John Black

Director: “*Mark Wayne*” — Mark Wayne

Regulus Resources Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)/INCOME
Expressed in Canadian Dollars
For the Years Ended September 30,

	2020	2019
EXPENSES		
Accounting and audit	$ 195,178	$ 212,985
Amortization	139,845	40,936
Bank charges and interest	9,708	5,445
Consulting fees	13,363	193,989
Fees and taxes	-	273
Insurance	28,100	108,742
Interest	5,551	-
Investor relations and shareholder information	170,273	284,037
Legal (Note 8)	173,560	275,203
Management fees (Note 8)	747,582	758,951
Office and administration	506,341	925,765
Rent	-	88,676
Share-based compensation (Note 7, 8)	2,612,747	4,002,943
Telephone	14,590	25,199
Transfer agent and listing fees	122,107	94,500
Travel	27,265	104,149
	(4,766,210)	(7,121,793)
OTHER ITEMS		
Gain on disposal of property (Note 6)	-	100,000
Gain on transfer of spin-out assets (Note 5)	-	16,847,997
Interest income	49,258	60,269
Gain on foreign exchange	38,181	130,625
Recovery/(Write-off) of prepaid expenses	15,256	(10,137)
Write-off of property (Note 6)	-	(2,010,383)
Write-off of receivables (Note 4)	(579,714)	(1,126,832)
(LOSS) INCOME FOR THE YEAR	(5,243,229)	6,869,746
Items that may be reclassified subsequently to profit and loss:		
Change in fair market value of long-term investment	60,000	(532,000)
Items that will not be reclassified subsequently to profit and loss:		
Translation adjustment	(24,206)	(52,779)
Comprehensive (loss) income for the year	$ (5,207,435)	$ 6,284,967
(Loss)/income per common share – basic	$ (0.05)	$ 0.08
(Loss)/income per common share – diluted	$ (0.05)	$ 0.07
Weighted average number of common shares outstanding - basic	98,360,092	90,994,624
Weighted average number of common shares outstanding - diluted	98,360,092	92,994,624

Regulus Resources Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of Shares	Capital Stock	Accumulated Other Comprehensive Loss	Share Compensation Reserve	Deficit	Total
Balance, September 30, 2018	91,002,794	$ 122,323,481	$ (5,393,485)	$ 7,750,542	$ (70,272,153)	$ 54,408,385
Shares returned to treasury	(8,200)	-	-	-	-	-
Transfer of net assets pursuant to spin-out	-	(18,198,920)	670,000	-	-	(17,528,920)
Share-based compensation	-	-	-	4,002,943	-	4,002,943
Fair value adjustment to long-term investment	-	-	(532,000)	-	-	(532,000)
Foreign exchange adjustment	-	-	(52,779)	-	-	(52,779)
Income for the year	-	-	-	-	6,869,746	6,869,746
Balance, September 30, 2019	90,994,594	$ 104,124,561	$ (5,308,264)	$ 11,753,485	$ (63,402,407)	$ 47,167,375
Shares issued pursuant to a public offering	7,783,875	8,250,908	-	-	-	8,250,908
Shares issued pursuant to a private placement	3,066,375	3,250,358	-	-	-	3,250,358
Shares issued pursuant to a warrant exercise	5,000	8,500	-	-	-	8,500
Share issuance costs	-	(926,967)	-	-	-	(926,967)
Share-based compensation	-	-	-	2,612,747	-	2,612,747
Fair value adjustment to long-term investment	-	-	60,000	-	-	60,000
Foreign exchange adjustment	-	-	(24,206)	-	-	(24,206)
Loss for the year	-	-	-	-	(5,243,229)	(5,243,229)
Balance, September 30, 2020	101,849,844	$ 114,707,360	$ (5,272,470)	$ 14,366,232	$ (68,645,636)	$ 55,155,486

Regulus Resources Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
For the Years ended September 30,

	2020	2019
Cash Flows from Operating Activities		
(Loss)/income for the year	$ (5,243,229)	$ 6,869,746
Items not affecting cash:		
Amortization	139,845	40,936
Gain on transfer of spin-out assets	-	(16,847,997)
Gain on disposal of property	-	(100,000)
(Recovery)/write-off of prepaid expenses and deposits	(15,256)	10,137
Share-based compensation	2,612,747	4,002,943
Interest expense	5,551	-
Write-off of property	-	2,010,383
Write-off of receivables	579,714	1,126,832
Changes in non-cash working capital items:		
Receivables	23,745	(1,360,438)
Prepaid expenses and deposits	179,504	10,426
Accounts payable and accrued liabilities	16,166	(439,849)
Due to related parties	-	(272,552)
Net cash used in operating activities	(1,701,213)	(4,949,613)
Cash Flows from Financing Activities		
Proceeds from public offering	8,250,908	-
Proceeds from private placement	3,250,358	-
Proceeds from exercise of warrants	8,500	-
Share issuance costs	(926,967)	-
Repayment of loans payable	-	(894,200)
		-
Net cash provided by (used in) financing activities	10,582,799	(894,200)
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	(240,724)	(166,375)
Proceeds on disposal of property	-	100,000
Lease payments	(97,440)	-
Exploration and evaluation assets, net of recoveries	(8,195,818)	(11,004,706)
Net cash used in investing activities	(8,533,982)	(11,071,081)
Effect of foreign exchange on cash	(633,563)	272,477
Change in cash for the year	(285,959)	(16,642,417)
Cash, beginning of year	3,036,369	19,678,786
Cash, end of year	$ 2,750,410	$ 3,036,369

Supplemental disclosures with respect to cash flows (Note 12)

1. NATURE AND CONTINUANCE OF OPERATIONS

Regulus Resources Inc. ("Regulus" or the "Company") is a mineral exploration company formed on December 16, 2010.

At the date of these consolidated financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its exploration and evaluation assets. The ability of the Company to realize the costs it has incurred to date on these exploration and evaluation assets is dependent upon the Company being able to identify a commercial ore body, to finance its exploration costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the exploration and evaluation assets. To date, the Company has not earned revenues and is considered to be in the exploration stage.

The Company is domiciled and incorporated in Canada, and its registered and records office is located at 15th Floor, Bankers Court, 850 - 2nd St SW Calgary, Alberta T2P 0R8.

As at September 30, 2020, the Company had working capital of $2,606,966. During the year ended September 30, 2020, Regulus completed a public offering via prospectus and a concurrent private placement financing (Note 7) to provide it with sufficient capital for the next 12 months or longer. Subsequent to the year ended September 30, 2020, the Company received cash payment of $16,200,000 (USD 12,500,000) from its royalty agreement with Osisko Royalties Ltd. (Note 17). The Company has otherwise no source of operating cash flows, such that the Company's ability to continue as a going concern is contingent on its ability to monetize assets or obtain additional financing. There can be no assurance that the Company will be able to obtain adequate financing or that the terms of such financing will be favourable.

During the year ended September 30, 2020, there was a global outbreak of a novel coronavirus identified as "COVID-19". On March 11, 2020, the World Health Organization declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. Central banks and governments, including Canadian federal and provincial governments, have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

Given the uncertainty, management exercised significant judgment in determining the impact of COVID-19 on the Company's consolidated financial statements, including with respect to financial risks, including liquidity, and the assessment of going concern and the carrying values of the Company's properties, equipment assets and exploration and evaluation assets. The Company has assessed whether there are any impairment indicators for the Company's equipment assets and exploration and evaluation assets and did not note any significant indicators as of September 30, 2020. Based on management's judgment, as at the date of these consolidated financial statements, there has been no impact from COVID-19 on the Company's estimates and assumptions that has resulted in the need to recognize impairment. The Company will continue to assess the impact of COVID-19 on commodity, credit, and equity markets, which may impact management's judgments in the future.

These consolidated financial statements were authorized by the audit committee and approved by the board of directors of the Company on January 25, 2021.

2. BASIS OF PREPARATION

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

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

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 the reported expenses during the year. Actual results could differ from these estimates.

2. BASIS OF PREPARATION (cont'd…)

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

Functional currencies

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, the Effects of Changes in Foreign Exchange Rates. The functional currency of each entity is disclosed below under "Foreign Exchange".

Impairment of exploration and evaluation assets

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations. Determining whether to test for impairment of exploration and evaluation assets requires management's judgment, and consideration of whether the period for which the Company has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Estimates

Significant estimates, made by management, about the future and other sources of estimation uncertainty at the end of the reporting period that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made relate to, but are not limited to, the following:

Carrying value and recoverability of exploration and evaluation assets

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or disposition of the mineral properties. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could affect management's assessment of the overall viability of its properties or to the likelihood of generating future cash flows necessary to recover the carrying value of the Company's exploration and evaluation assets.

To the extent that any of management's assumptions change there could be a significant effect on the Company's future financial position, operating results and cash flows.

Fair value of stock options and warrants

Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant effect on the Company's future operating results or on other components of shareholders' equity.

2. BASIS OF PREPARATION (cont'd…)

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development or commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets and deferred income tax provisions or recoveries could be affected.

Decommissioning costs

Upon retirement of the Company's exploration and evaluation assets, decommissioning costs will be incurred by the Company. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The liability, the related asset and the corresponding expense are affected by estimates with respect to the costs and timing of decommissioning.

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company (Note 8). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and is determined for each entity within the Company. The functional currency for the entities within the Company are: the Canadian dollar (the Company) and the United States dollar ("U.S.$") (Pachamama (Bermuda) Ltd, Southern Legacy Minerals Inc., Southern Legacy Peru S.A.C., KoriAnta S.A.C., Anta Norte S.A.C., Maria Eugenia 2 Mina Volare de Cajamarca S.A.C., SMRL El Sinchao de Cajamara, Rita Margot de Cajamara S.A.C., Minas del Sinchao S.A., and Minera Southern Legacy Chile Limitada).

The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the entities' functional currency are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities of an entity that are denominated in foreign currencies are translated at the rate of exchange at the consolidated statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statements of operations and comprehensive (loss) income.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

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 (loss) income ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition.

A financial asset is measured at amortized cost if both of the following conditions are met:

a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

A financial asset is measured at FVTOCI if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

We may make an irrevocable election at initial recognition to carry at FVOCI particular investments in equity instruments that would otherwise be measured at FVTPL.

A financial asset is required to be measured at FVTPL unless it is measured at amortized cost or at FVTOCI.

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 FVTOCI. 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 the Company has opted to measure them at FVTPL.

The following table shows the classification under IFRS 9:

Financial assets/ liabilities	**IFRS 9**
Cash	FVTPL
Receivables	Amortized cost
Investments	FVTOCI
Accounts payable and accrued liabilities	Amortized cost

Measurement

<u>Financial assets at FVTOCI</u>

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

<u>Financial assets and liabilities at amortized cost</u>

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.

<u>Financial assets and liabilities at FVTPL</u>

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of operations and comprehensive (loss) income. 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 the statements of operations and comprehensive (loss) income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive (loss) income.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

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 credit risk has 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. The Company shall recognize in the statements of operations and comprehensive (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.

<u>Financial assets</u>

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 operations and comprehensive (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive (loss) income.

<u>Financial liabilities</u>

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of operations and comprehensive (loss) income.

Exploration and evaluation assets

Costs related to pre-exploration are expensed as incurred while costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property until the commencement of commercial production. Each of the Company's exploration and evaluation assets is considered to be a cash generating unit. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated economic life of the property, the property is abandoned or management deems there to be an impairment in value the property is written down to its net realizable value.

Any option payments or royalties received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

Cash

Cash is comprised of cash on deposit.

Impairment

At the end of each reporting period the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment (cont'd…)

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 not to an amount that would exceed the original carrying amount in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provision for decommissioning liability

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment when those obligations result from the acquisition, construction, development or normal operation of assets. The net present value of future rehabilitation costs is capitalized to exploration and evaluation assets along with a corresponding increase in the rehabilitation provision in the period incurred.

Pre-tax discount rates that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as exploration and evaluation assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to exploration and evaluation assets and the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the consolidated statement of operations and comprehensive (loss) income for the period.

Property and equipment

Property and equipment is stated at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with such costs will flow to the Company and cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to operations and comprehensive (loss) income during the period in which they are incurred.

The major categories of equipment are amortized as follows:

Vehicles - 30% declining balance basis
Office furnishings - 20% declining balance basis
Equipment - 30% declining balance basis

The Company allocates the amount initially recognized in respect of an item of equipment to its significant parts and amortizes separately each such part. Residual values, method of amortization and useful lives are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statements of operations and comprehensive (loss) income.

Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital stock. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the 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. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as 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 consolidated statement of financial position date.

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. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Earnings (loss) per share

For both continuing and discontinued operations, the Company presents basic and diluted earnings (loss) per share (EPS) data for its common shares. Basic (loss) EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted (loss) EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options.

Recent accounting pronouncements

IFRS 16 – Leases ("IFRS 16")

The Company adopted all of the requirements of IFRS 16 Leases ("IFRS 16") as of October 1, 2019. The Company adopted IFRS 16 using the modified retrospective approach, and therefore, the comparative information has not been restated and continues to be reported under IAS 17, *Leases* and IFRIC 4, *Determining whether an arrangement contains a lease*. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize a right-of-use ("ROU") asset and a lease obligation at the lease commencement date.

<u>Accounting policy applicable from October 1, 2019</u>

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset, either explicitly or implicitly, including consideration of supplier substitution rights;
- the Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

The ROU asset is initially measured based on the initial amount of the lease liability plus any initial direct costs incurred less any lease incentives received. The ROU asset is depreciated to the earlier of the end of the useful life or the lease term using either the straight-line or units-of-production method, depending on which method more accurately reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise the option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

IFRS 16 – Leases (cont'd…)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments. Future lease payments can arise from a change in an index or rate, if there is a change in the Company's estimate of the expected payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded to the consolidated statement of operations and comprehensive (loss) income if the carrying amount of the ROU asset has been reduced to zero.

<u>Transition to IFRS 16</u>

The Company previously classified leases as operating, or finance leases based on the Company's assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset. The Company did not have any finance leases in the comparative periods.

At transition, the Company re-assessed the remaining 13 payments on the agreement dated November 20 2017, for the remainder of the period between October 1, 2019 and November 20, 2020. Following IFRS 16 criteria, the Company determined that these remaining payments contained a lease, and recognized an incremental ROU asset of $113,467 and lease liability of $110,364.

The lease liability has been measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate; While the ROU asset was measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

4. RECEIVABLES

The Company's receivables arise from accrued royalty payments (Note 6), due from related party, and various tax credits receivable from the Canadian and Peruvian government taxation authorities and advances. These are broken down as follows:

		September 30, 2020		September 30, 2019
Royalty payments receivable (Note 6)	$	3,908	$	616,116
Due from related party (Note 8)		576		67,290
Tax credits and advances receivable		223,349		147,886
	$	227,833	$	831,292

During the year ended September 30, 2020, the Company wrote-off $579,714 (2019 - $1,126,832) of receivables to profit and loss. These receivables primarily related to Value Added Taxes ("VAT") in Peru for which recoverability is uncertain.

(Expressed in Canadian Dollars)

5. PLAN OF ARRANGEMENT

Upon receiving final approval from the TSX-Venture Exchange on November 2, 2018, the Company completed the spin-out of its wholly owned Argentinian subsidiaries, Regulus Argentina S.A. and Minera El Toro S.A. (the "Argentine subsidiaries") into Aldebaran Resources Inc. ("Aldebaran").

The spin-out was completed by way of a statutory plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement") wherein, Regulus transferred its Argentine subsidiaries to Aldebaran in exchange for 30,331,534 common shares ("Aldebaran Shares") of Aldebaran, which were distributed to Regulus shareholders on the basis of one Aldebaran Share for each three Regulus common shares held as of the close of business on September 28, 2018.

The carrying value of the net assets transferred to Aldebaran, pursuant to the Arrangement consisted of the following assets and liabilities:

Assets and liabilities distributed	
Cash	$ 192,867
Receivables	7,504
Prepaids	1,085
Equipment	879
Exploration and evaluation assets	913,055
Accounts payable and accrued liabilities	(11,010)
Site resoration	(423,457)
Net assets acquired:	**680,923**
Fair value of net assets distributed	**(18,198,920)**
Reclassification of accumulated translation adjustment	**670,000**
Gain on transfer of spin-out assets	**$16,847,997**

In accordance with IFRIC 17, Distribution of Non-cash Assets to Owners, the Company recognized the distribution of net assets to Regulus shareholders at fair value with the difference between that value and the carrying amount of the net assets recorded to the consolidated statements of operations and comprehensive (loss) income.

The fair value of the net assets distributed was based on a share price of Aldebaran of $0.60 per share multiplied by the total number of shares issued, 30,331,534. The $0.60 price was based on the trading price of the Aldebaran shares on the measurement date, being the date Aldebaran commenced trading on the TSXV Venture Exchange on November 2, 2018. The Arrangement resulted in a reduction of share capital amounting to $18,198,920.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to its exploration and evaluation assets and, to the best of its knowledge, title to its property is in good standing.

The exploration and evaluation assets in which the Company has an interest are located in Peru, the U.S. and Canada and the Company is therefore relying on title opinions by legal counsel who are basing such opinions on the laws of Peru, the U.S. and Canada.

	Golden Brew, Nevada USA	AntaKori, Peru	Total
Balance, September 30, 2018	$ 1,222,938	$ 32,417,136	$ 33,640,074
Additions:			
Administrative services	9,799	7,843	17,642
Change in estimates related to decommissioning liability (Note 11)	-	330,994	330,994
Environmental costs	-	420,097	420,097
Field operations	708,078	8,776,402	9,484,480
Labour	-	225,467	225,467
Property payments	105,692	513,914	619,606
Recoveries	-	(335,052)	(335,052)
Third party services	45,699	950,927	996,626
	869,268	10,890,592	11,759,860
Foreign exchange movement	-	1,122,717	1,122,717
Write-off	(2,010,383)	-	(2,010,383)
Reclassify bond to receivables	(81,823)	-	(81,823)
Balance, September 30, 2019	-	44,430,445	44,430,445
Additions:			
Administrative services	-	1,221	1,221
Change in estimates related to decommissioning liability (Note 11)	-	66,816	66,816
Field operations	-	5,025,402	5,025,402
Labour	-	203,936	203,936
Property payments	-	908,299	908,299
Third party services	-	757,266	757,266
	-	6,962,940	6,962,940
Foreign exchange movement	-	498,150	498,150
Balance, September 30, 2020	$ -	$ 51,891,535	$ 51,891,535

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

AntaKori Project, Peru

The Company has acquired an option to earn an interest in the AntaKori project through the following option agreements executed by its Peruvian subsidiary, Southern Legacy Peru S.A.C. ("Regulus Peru"):

(a) An option agreement was executed in December 2011 with certain members of the Santolalla family, providing a right to acquire 86.8% of the capital stock of Minas del Sinchao S.A., which owns 50% of the capital stock of SMRL Rita Margot de Cajamarca. SMRL Rita Margot de Cajamarca owns three mining rights and has a 50% interest in SMRL Maria Eugenia 2 Mina Volare de Cajamarca which owns an additional mining right that comprises a portion of the AntaKori project. The agreement also provides for a 1% net smelter return royalty for the Santolalla family which is subject to a US$4.5 million buy-out option. Payments made to date are US$3,038,000 with no payments remaining;

(b) A second option agreement dated November 2013 provides the right to acquire an additional 7.7% interest in Minas del Sinchao S.A, which increases the Company's right to acquire an interest in Minas del Sinchao S.A. up to 94.5% of its capital stock. Payments made to date are US$233,926 with no payments remaining;

(c) Two option and usufruct agreements dated March 2012 were executed whereby two owners of a combined 12.5% ownership of SMRL Rita Margot De Cajamarca granted in favor of Regulus Peru a usufruct right over their 12.5% ownership of the entity. With the usufruct over the vendors' shares, Regulus Peru has an option to acquire 62.5% of the SMRL Rita Margot De Cajamarca capital stock. Each of these option and usufruct agreements provide the owners a net smelter royalty ("NSR") of 0.1875%. Payments made to date are US$877,000 with no payments remaining;

(d) Six option and usufruct agreements were executed in December 2012, whereby 30 owners of a combined 62.5% ownership of SMRL El Sinchao De Cajamarca ("El Sinchao") granted in favour of SLM Peru a usufruct right over their 62.5% ownership of the entity with the payment terms set out in the table below. El Sinchao owns 100% of three mining concessions that compose a portion of the AntaKori project. With the usufruct over the vendors' shares, Regulus Peru has an option to acquire 62.5% of El Sinchao capital stock. No smelter royalties or back-in rights exist as part of this option agreement. Payments made to date are US$1,173,558 with no payments remaining;

(e) Two option and usufruct agreements were executed in March 2013, whereby four owners of a combined 20.63% ownership of El Sinchao granted in favour of Regulus Peru a usufruct right over their 20.63% ownership of the entity. With the usufruct over the vendors' shares, Regulus Peru increased to 83.13% the total of El Sinchao's capital stock it has options to acquire. These option agreements do not contain smelter royalties or back-in rights clauses. Payments made to date are US$386,381 with no payments remaining;

(f) An option and usufruct agreement were executed in September 2014, whereby Regulus Peru purchased 25% of the outstanding shares of Rita Margot de Cajamarca for a total of US$1,750,000. Payments made to date are US$1,750,000 with no payments remaining.

A summary of the payments made and due under the option agreements described above is outlined below:

Payment Due Date		Amount (US$)
Paid during the year ended September 30, 2012	$	580,000
Paid during the year ended September 30, 2013		1,159,170
Paid during the year ending September 30, 2014		1,923,769
Paid during the year ending September 30, 2015		1,850,000
Paid during the year ending September 30, 2016		1,909,123
Paid during the year ending September 30, 2017		38,000
Total	$	7,460,062

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

AntaKori Project, Peru (cont'd…)

During the year ended September 30, 2017, the Company's wholly owned Peruvian subsidiary, Southern Legacy Peru S.A.C, ("Regulus Peru"), finalized the execution of definitive agreements with Compañía Minera Coimolache S.A. ("Coimolache") and Compañía Minera Colquirrumi S.A. ("Colquirrumi"), companies that hold mineral concessions immediately adjacent to, and inter-fingering with the Company's AntaKori copper-gold project in northern Peru. These agreements allow for mutual access, mutual rights of expansion and collaborative exploration of the project area, providing benefit to all three parties.

The Coimolache agreement has a term of five years, renewable with consent from both parties. The agreement is primarily designed to allow the parties to collaboratively explore the project area. In addition, Comolaiche has the right to expand its current Tantahuatay oxide pit by laying back onto certain concessions owned by Regulus (the "Regulus Concessions") but assigned to Coimolache for the specific purpose of exploiting oxide gold mineralization. Coimolache will pay a 5% NSR (the "Coimolache NSR Payments") to Regulus for any precious metals produced from oxide material mined on Regulus Concessions. The layback rights are retricted to oxide mineralization only and are further limited by a floor of 3,800 m above sea level. Coimolache commenced mining on certain of the Regulus Concessions in 2018 and during the year ended September 30, 2018, the Company received or accrued Coimolache NSR Payments for production from the Napoleon concession and Mina Volare concession. Some of the Regulus Concessions are subject to underlying NSR royalties (the "Underlying NSR Royalties") as indicated in the agreement section above. These Underlying NSR Royalties vary from 0-3% with buy out clauses for some of the royalties as indicated. In the event that the Company receives a Coimolache NSR Payment from a Regulus Concession with an Underlying NSR Royalty(ies), the Company must pay the Underlying NSR Royalty payment from proceeds received from the Coimolache NSR Payment. The Company must pay an Underlying NSR Royalty of 1.5% for the portion of the production from the Napoleon concession and of 3.0% for the portion of the production from the Mina Volare concession.

The Colquirrumi agreement allows Regulus to earn-in to a 70% interest in a 2,571 hectare block of ground held by Colquirrumi by completing 7,500 m of drilling within 3 years from obtaining necessary permits to drill. Regulus has up to 3 years to receive the necessary permits. The agreement assigns certain mining concessions to the Company's 99.9% owned Peruvian subsidiary, Anta Norte S.A.C. ("Anta Norte") to allow for exploration work to be performed on those claims by Anta Norte during the term of the agreement. Upon notification that Regulus has completed 7,500 m of drilling and elected to obtain a 70% interest in the property, Colquirrumi will have a one time option to claw-back to a 70% interest in the property (leaving 30% to Regulus) by paying Regulus the sum of US$9 million.

During the year ended September 30, 2020, the Company earned royalties of $3,908 (year ended September 30, 2019 - $843,139) arising from the terms of the definitive agreement with Coimolache. The Company is also subject to pay NSR's ranging from 1.5% - 3% to the underlying holders of these same claims, which totaled $Nil (year ended September 30, 2019 – $508,087) in the current year. The net amount of $Nil (year ended September 30, 2019 - $335,052) has been offset to the balance of exploration and evaluation assets as a recovery in accordance with the Company's policy in the current year. As at September 30, 2020, accounts receivable included $3,908 (September 30, 2019 - $616,116) relating to these royalties, and accounts payable includes $66,187 (September 30, 2019 - $49,016).

As at September 30, 2020, the Company has $375,000 (September 30, 2019 - $481,388) in drilling advances included in prepaid expenses and deposits.

Puchuldiza Property, Chile

During the year ended September 30, 2019, the Company sold its interest in its 100% owned Puchuldiza property for $100,000.

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Golden Brew, Nevada, USA

On February 14, 2014, the Company signed an agreement with Highway 50 Gold Corp. ("Highway 50") whereby Highway 50 granted Regulus an option (the "Option") to earn a 50% interest in Highway 50's Golden Brew property. In order to exercise the Option, the Company must spend US$5,000,000 on exploration expenditures on the project by May 28, 2022. Upon earn-in the parties will form a joint venture on a 50/50 basis. The transaction was considered to be non-arms length under the rules of the TSX Venture Exchange by virtue of the fact that two of the directors of Regulus, John Leask and Gordon Leask, are also directors of Highway 50. This transaction was unanimously approved by the three other Regulus Board members, all of whom are independent of Highway 50, with John Leask and Gordon Leask both abstaining. During the year ended September 30, 2018, the Company amended and paid the annual option payment from US$50,000 to US$30,000. During the year ended September 30, 2019, the Company wrote-off the Golden Brew property and on October 31, 2019, the Company terminated its Option and returned the project to Highway 50 and therefore has no further commitments on the Option.

In addition to the AntaKori and Golden Brew properties, the Company holds a 100% interest in the Fireweed property in British Columbia, Canada.

During the year ended September 30, 2019, Rio Grande, Aguas Calientes, El Camino, Catua, Oscuro and La Frontera properties in Argentina were spun-out into a separate company (Note 5). In connection with the spin-out, these properties was re-classified to assets held for distribution to shareholders as at September 30, 2018.

7. CAPITAL STOCK AND SHARE COMPENSATION RESERVE

Authorized: unlimited common shares without par value. All issued shares are fully paid.

Treasury shares: recorded at cost.

During the year ended September 30, 2020, the Company closed a financing comprised of 7,783,875 units of the Company, each comprising one common share and one-half of one common share purchase warrant, at a price of $1.06 per unit, for aggregate gross proceeds of $8,250,908. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of $1.70 for a period of two years from the date of issue. Pursuant to a concurrent non-brokered private placement, 3,066,375 units under the same terms were sold to certain funds managed by Route One Investment Co. LP, the Company's largest shareholder, at the offering price, for additional aggregate gross proceeds of $3,250,358. Together with the public offering, the Company raised total gross proceeds of $11,501,266. The Company incurred finder's fees and other share issuance costs of $926,967 pursuant to these financings.

During the year ended September 30, 2019, the Company returned 8,200 common shares to treasury.

Stock Options

The Company has a stock option plan ("the Plan") for directors, officers, employees and consultants of the Company and its subsidiaries. The number of common shares subject to the stock options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Company. The Plan provides for a maximum term of five years for stock options and sets the most favorable vesting terms as one-third of the total stock options granted on the day of the grant and on each of the first and second anniversaries of the date of grant.

(Expressed in Canadian Dollars)

7. CAPITAL STOCK AND SHARE COMPENSATION RESERVE (cont'd…)

The following table summarized movements in stock options outstanding for the year ended September 30, 2020:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2018	2,250,000	$ 1.53
Options granted	5,950,000	1.60
Options expired/forfeited	(100,000)	1.50
Balance, September 30, 2019	8,100,000	1.58
Options granted	1,900,000	0.86
Options expired/forfeited	(150,000)	1.73
Balance, September 30, 2020	9,850,000	$ 1.44
Number of options currently exercisable	6,412,500	$ 1.57

Share-based compensation

The Company recognizes compensation expense for all stock options and warrants granted and vested using the fair value based method of accounting. During the year ended September 30, 2020, the Company recognized $2,612,747 (2019 - $4,002,943) in share-based compensation expense with respect to options vested during the year.

The following table summarizes information about stock options outstanding at September 30, 2020:

Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
$ 1.50	1,950,000	1,950,000	September 2, 2021
0.86	215,000	-	June 29, 2023
2.00	50,000	50,000	July 11, 2023
1.60	5,550,000	4,162,500	February 4, 2024
1.78	200,000	150,000	March 1, 2024
1.40	200,000	100,000	June 6, 2024
0.86	1,685,000	-	June 29, 2025
	9,850,000	6,412,500	

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

	Year ended September 30, 2020	Year ended September 30, 2019
Risk-free interest rate	0.36%	1.84%
Expected life of grant	4.77 years	5 years
Volatility	73.19%	88.27%
Dividend	0.00%	0.00%
Weighted average fair value per option	$0.50	$1.09

(Expressed in Canadian Dollars)

7. CAPITAL STOCK AND SHARE COMPENSATION RESERVE (cont'd…)

Warrants

The following table summarizes movements in warrants outstanding.

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2018 and September 30, 2019	4,404,759	$ 1.61
Warrants issued	5,425,125	1.70
Warrants exercised	(5,000)	1.70
Warrants expired/forfeited	(187,307)	1.90
Balance, September 30, 2020	9,637,577	$ 1.66

The following table summarizes information about warrants outstanding at September 30, 2020:

Exercise Price	Number Outstanding	Expiry Date
$ 1.60	4,217,452	January 27, 2021*
1.70	5,420,125	December 27, 2022
	9,637,577	

* During the year ended September 30, 2020, 4,217,452 warrants with an exercise price of $1.60 and an original expiry date of January 27, 2020, were extended with a new expiry date of January 27, 2021. On January 5, 2021, these warrants were further extended to a new expiry date of July 27, 2021.

8. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest	Principal Activity
Southern Legacy Minerals Inc.	USA	100%	Holding company
Southern Legacy Peru S.A.C.	Peru	100%	Mineral exploration
KoriAnta S.A.C.	Peru	100%	Holding company
SMRL El Sinchao de Cajamara	Peru	83.13%	Holding company
Anta Norte S.A.C.	Peru	99.90%	Mineral exploration
Minera Southern Legacy Chile Limitada	Chile	100%	Mineral exploration
Pachamama (Bermuda) Ltd.	Bermuda	100%	Holding company

8. RELATED PARTY TRANSACTIONS (cont'd…)

During the year ended September 30, 2020, the Company entered into the following transactions with key management personnel and related parties.

a) Double Black Diamond Resources LLC. ("DBD Resources") is a private company controlled by Mr. John Black, CEO and a director of the Company. For the year ended September 30, 2020, DBD Resources was paid $235,419 (2019 - $241,622). Amounts paid to DBD Resources are classified as management fees expense in the consolidated statements of profit and loss.

   At September 30, 2020, the Company owed $Nil (September 30, 2019 – $Nil) to DBD Resources. During the year ended September 30, 2018, Mr. John Black loaned the Company $460,122 ($350,000 USD). During the year ended September 30, 2019, the Company repaid the loan in full, including accrued interest of $8,224 ($6,374 USD).

b) For the year ended September 30, 2020, Mr. Fernando Pickmann, President, COO and a director of the Company, was paid or accrued $235,395 in consulting fees (2019 – $232,629). Amounts paid or accrued to Mr. Pickmann are classified as management fees in the consolidated statements of profit and loss. A law firm at which Mr. Pickmann was a partner was also paid or accrued $251,896 (2019 - $340,087) for legal services. Legal fees paid to Mr. Pickmann's law firm are classified as legal expenses in the consolidated statements of profit and loss.

   At September 30, 2020, the Company owed $Nil (September 30, 2019 – $Nil) to Mr. Pickmann and owed $2,435 (September 30, 2019 – $Nil) to the law firm at which Mr. Pickmann was a partner which is included in accounts payable and accrued liabilities.

c) Unicus Funds Ltd. ("Unicus") is a private company controlled by Mr. Mark Wayne, CFO and a director of the Company. For the year ended September 30, 2020, Unicus was paid $75,000 (2019 – $68,750). Amounts paid to Unicus are classified as management fees expense in the consolidated statements of profit and loss.

   At September 30, 2020, the Company owed $Nil (September 30, 2019 – $Nil) to Unicus. During the year ended September 30, 2018, Mr. Mark Wayne loaned the Company $800,000. During the year ended September 30, 2019, the loan was paid in full, including accrued interest of $17,454.

d) K.B. Heather & Socios Limitada (The Rock Doctor Limitada) ("K.B. Heather") is a private company controlled by Dr. Kevin B. Heather, Chief Geological Officer of the Company. For the year ended September 30, 2020, K.B. Heather was paid $201,768 (2019 – $215,950). Amounts paid to K.B. Heather are classified as management fees in the consolidated statements of profit and loss.

   At September 30, 2020, the Company owed $Nil (September 30, 2019 – $Nil) to K.B. Heather. During the year ended September 30, 2018, Dr. Kevin B. Heather loaned the Company $300,000. During the year ended September 30, 2018, the Company repaid the loan in full and during the year ended September 30, 2019, the Company paid the accrued interest of $4,767.

e) At September 30, 2020, the Company was owed $Nil (September 30, 2019 - $67,290) from Aldebaran. This balance is included in receivables at September 30, 2020 and September 30, 2019. For the year ended September 30, 2019, the Company incurred $234,275 of expenses on behalf of Aldebaran.

f) The Company holds 2,000,000 common shares (September 30, 2019 – 2,000,000 common shares) of Highway 50 Gold Corp., a company with a director in common, included within long term investments.

Key Management Personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors.

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS (cont'd…)

The remuneration of directors and other members of key management personnel during the year ended September 30, 2020 and 2019 are as follows:

	Fees and Bonus	Share-based Benefits	Total
Year ended September 30, 2020			
Chief Executive Officer	$ 235,419	$ 393,366	$ 628,785
Chief Geological Officer	201,768	393,366	595,134
Chief Financial Officer	75,000	393,366	468,366
Chief Operating Officer	235,395	393,366	628,761
Non-executive directors	-	276,029	276,029
	$ 747,582	$ 1,849,493	$ 2,597,075
year ended September 30, 2019			
Chief Executive Officer	$ 241,622	$ 625,109	$ 866,731
Chief Geological Officer	215,950	625,109	841,059
Chief Financial Officer	68,750	625,109	693,859
Chief Operating Officer	232,629	625,109	857,738
Non-executive directors	-	323,670	323,670
	$ 758,951	$ 2,824,106	$ 3,583,057

9. LONG-TERM INVESTMENT

Long-term investment is comprised of holdings in publicly traded securities as follows:

	Fair Value	Cost
Balance as at September 30, 2018	$ 890,000	$ 740,000
Fair market value adjustments	(532,000)	-
Balance as at September 30, 2019	$ 358,000	$ 740,000
Fair market value adjustments	60,000	-
Balance as at September 30, 2020	$ 418,000	$ 740,000

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities for the Company are as follows:

	September 30, 2020	September 30, 2019
Trade payables	$ 738,130	$ 2,171,038
Accrued liabilities	-	1,200
Lease liability	8,919	-
	$ 747,049	$ 2,172,238

All accounts payables and accrued liabilities for the Company fall due within the next 12 months.

(Expressed in Canadian Dollars)

11. DECOMMISSIONING LIABILITY

Although the ultimate amount of the decommissioning liability is uncertain, the best estimate of these obligations is based on information currently available. Significant closure activities include land rehabilitation, demolition of buildings and other costs. The following table presents the aggregate carrying amount of the obligation associated with the retirement of the mineral property interests.

	September 30, 2020	September 30, 2019
Asset retirement obligation – beginning of year	$ 330,994	$ -
Change in estimates	66,816	330,994
Foreign exchange movement	3,087	-
Asset retirement obligation – end of year	$ 400,897	$ 330,994

The total amount of estimated undiscounted cash flows required to settled the Company's estimated obligation is $415,126 as at September 30, 2020 (2019 - $363,067), which has been discounted using a credit adjusted rate of 0.45% (2019 – 1.4%) and an inflation rate of 0.7% (2019 - 1.92%). The present value of the decommissioning liabilities may be subject to change based on management's estimates, changes in remediation technology or changes to applicable laws and regulations. The decommissioning liability relates to the Company's Peru properties during the years ended September 30, 2020 and 2019. The decommissioning liability is expected to be settled at various dates which are currently expected to extend up to 2025 (2019 – 2022).

During the year ended September 30, 2019, the properties associated with the Argentinean decommissioning liability were spun-out into a separate company (Note 5).

12. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Other than disclosed elsewhere in these consolidated financial statements, the significant non-cash transactions for the years ended September 30, 2020 and 2019 included:

a) $660,896 (2019 - $1,963,677) in accounts payable and accrued liabilities related to exploration and evaluation assets.
b) $Nil (2019 - $680,293) of net assets transferred upon spin-out.
c) $66,816 (2019 - $330,994) recorded to decommissioning liability.
d) $60,000 increase (2019 - $532,000 decrease) in fair value of long-term investment.
e) Capitalized $113,467 as ROU assets and recognized $110,364 as lease liability upon adoption of IFRS 16.

For the year ended September 30	2020	2019
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ -	$ 30,445

13. SEGMENTED INFORMATION

The Company operates under one segment, that being the exploration and development of exploration and evaluation assets. Geographical information is as follows:

	Total Assets	Property, Plant and Equipment	Exploration and Evaluation Assets	Other Assets
September 30, 2020				
Canada	$ 2,864,534	$ -	$ -	$ 2,864,534
Peru	53,336,197	639,882	51,891,535	804,780
Chile	20,118	-	-	20,118
United States	82,583	-	-	82,583
	$ 56,303,432	$ 639,882	$ 51,891,535	$ 3,772,015

(Expressed in Canadian Dollars)

13. SEGMENTED INFORMATION (cont'd…)

	Total Assets	Property and Equipment	Exploration and Evaluation Assets	Other Assets
September 30, 2019				
Canada	$ 2,656,644	$ -	$ -	$ 2,656,644
Peru	46,910,602	474,481	44,430,445	2,005,676
Chile	21,538	-	-	21,538
United States	81,823	-	-	81,823
	$ 49,670,607	$ 474,481	$ 44,430,445	$ 4,765,681

	2020	2019
Loss (income) for the year ended September 30		
Canada	$ 3,954,763	$ (10,174,362)
Peru	1,288,466	3,146,524
Chile	-	158,092
	$ 5,243,229	$ (6,869,746)

14. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables and accounts payable and accrued liabilities approximate carrying value, which is the amount recorded on the consolidated statements of financial position. The Company's other financial instruments, cash, and long-term investments, under the fair value hierarchy, are based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at large Canadian financial institutions in interest-bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of tax credits and advances receivable. The Company does not believe it is subject to significant credit risk.

14. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd…)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2020, the Company had a cash balance of $2,750,410 to settle current liabilities of $747,049. Management believes that it has sufficient funds to meet its current liabilities as they become due however, as the COVID-19 pandemic has continued to spread, it has adversely affected workforces, economies, as well as financial markets globally, potentially leading to an economic downturn. This has impacted the Company's ability to raise necessary funds. It is not possible for the Company at this time to predict the duration or magnitude of the impact towards the Company's business or results from its operations.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances. The interest earned on the cash balances approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's debt which accrues interest is at a fixed rate and also does not expose the Company to interest rate risk.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in US$, the Chilean peso ("C-Peso") and the Peruvian nuevo sol ("PEN"). A 10% fluctuation in the US$, C-Peso and PEN against the Canadian dollar would affect accumulated other comprehensive loss for the year by approximately $144,000.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company currently maintains investments in certain publicly listed companies. There can be no assurance that the Company can exit these positions if required resulting in proceeds, which approximate the carrying amount of these investments. A 10% fluctuation in market prices would not have a significant affect on comprehensive (loss) income.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity.

The Company manages the 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 the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

(Expressed in Canadian Dollars)

15. COMMITMENTS

The Company has entered into lease agreements for its premises in Peru. The annual lease commitments are as follows:

		Peru
2021	$	16,207
2022		-
	$	16,207

16. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

		2020		2019
Gain (Loss) for the year	$	(5,243,229)	$	6,869,746
Expected income recovery	$	(1,417,000)	$	1,855,000
Change in statutory, foreign tax, foreign exchange rates and other		(18,000)		(177,000)
Permanent difference		880,000		1,564,000
Impact of spin-out		-		(7,129,000)
Share issuance cost		(250,000)		(12,000)
Adjustment to prior years' provision versus statutory returns		300,000		(688,000)
Change in unrecognized deductible temporary differences		505,000		4,587,000
	$	-	$	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

		2020	Expiry dates		2019	Expiry dates
Temporary differences						
Property and equipment	$	201,000	No expiry date	$	173,000	No expiry date
Share issue costs		949,000	No expiry date		476,000	No expiry date
Exploration and evaluation assets		4,984,000	No expiry date		5,964,000	No expiry date
Marketable securities		344,000	No expiry date		341,000	No expiry date
Allowable capital losses		11,515,000	No expiry date		11,515,000	No expiry date
Non-capital losses available for future periods		30,787,000	2026 to 2040, indefinite		28,325,000	2025 to 2039, indefinite
	$	48,780,000		$	46,794,000	

17. SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2020, the Company:

i. closed a previously announced strategic partnership whereby it agreed to grant certain rights to Osisko Gold Royalties Ltd. ("Osisko") in exchange for an upfront cash payment (the “Upfront Payment”) of US$12.5 M ($16.2 M). These rights include the following: (i) in the event Regulus acquires any existing royalties within the current AntaKori project area or within a 1 km area of interest surrounding the project on claims owned 100% by Regulus, Osisko has the option to acquire 50% of the acquired royalty by paying 75% of Regulus’ purchase price for the royalty; (ii) Osisko will have a right of first refusal on all future royalty or stream transactions in relation to claims on the AntaKori project where Regulus has 100% ownership, or on any additional claims Regulus might acquire with 100% ownership within the area of interest described above; and (iii) should Regulus receive a royalty or stream as consideration for the sale of AntaKori, Osisko will have a right of first refusal should Regulus later choose to sell that royalty or stream. In addition, Regulus issued to Osisko 5.5 million warrants having a term of three years and an exercise price equal to $2.25 per share.

ii. appointed a new member to the board of directors and granted 200,000 options at $1.49 for a period up to five years in accordance with the company's stock option plan.