Rio2 Limited
Consolidated Financial Statements
For the years ended December 31, 2021 and 2020

Presented in United States dollars

Grant Thornton

Independent Auditor's Report

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To the shareholders of Rio2 Limited:

Opinion

We have audited the consolidated financial statements of Rio2 Limited (the "Company), which comprise the consolidated statements of financial position as at December 31, 2021, December 31, 2020 and January 1, 2020 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2021 and December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Rio2 Limited as at December 31, 2021, December 31, 2020 and January 1, 2020, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2021 and December 31, 2020 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Information other than the consolidated financial statements and auditor's report thereon

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

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.

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 International Financial Reporting Standards (IFRSs), 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 Group 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 Robert J. Riecken.

Grant Thornton LLP

Chartered Professional Accountants

Vancouver, Canada
March 25, 2022

RIO2 LIMITED
Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(Expressed in United States dollars, unless otherwise stated)

	December 31, 2021	December 31, 2020 (restated, notes 3 and 20)	January 1, 2020 (restated, notes 3 and 20)
ASSETS			
Current Assets			
Cash *(Note 7)*	$ 21,345,286	$ 2,602,977	$ 4,166,027
Short term investments *(Note 8)*	46,000	831,415	10,825,691
Interest receivable	-	-	71,836
Input taxes recoverable *(Note 9)*	248,738	6,452	5,444
Prepaid expenses	1,475,849	190,049	90,692
Total current assets	$ 23,115,873	$ 3,630,893	$ 15,159,690
Input taxes recoverable *(Note 9)*	9,934,283	9,186,013	8,065,896
Right of use asset (*Note 10*)	491,995	499,113	-
Property and equipment *(Note 11)*	2,031,752	344,129	182,281
Exploration and evaluation assets (*Note 12)*	60,121,205	58,504,367	48,996,951
Total assets	$ 95,695,108	$ 72,164,515	$ 72,404,818
LIABILITIES			
Current Liabilities			
Lease liability *(Note 10)*	$ 189,799	$ 209,739	$ -
Accounts payable and accrued liabilities *(Note 13)*	3,478,459	2,179,508	2,979,834
Total current liabilities	$ 3,668,258	$ 2,389,247	$ 2,979,834
Lease liability *(Note 10)*	295,515	270,993	-
Asset retirement obligation *(Note 14)*	3,368,322	3,722,041	-
Total liabilities	$ 7,332,095	$ 6,382,281	$ 2,979,834
SHAREHOLDERS' EQUITY			
Capital stock *(Note 15)*	$ 127,202,022	$ 95,768,037	$ 91,279,671
Reserves *(Note 15)*	9,081,203	7,376,920	6,383,274
Deficit	(48,785,350)	(38,260,016)	(29,321,559)
Accumulated other comprehensive income	865,138	897,293	1,083,598
Total equity	88,363,013	65,782,234	69,424,984
Total liabilities and equity	$ 95,695,108	$ 72,164,515	$ 72,404,818

Nature of operations *(Note 1)*
Commitments *(Note 19)*
Subsequent events *(Note 21)*

See accompanying notes to the consolidated financial statements

"Alexander Black"
Alexander Black, CEO, President and Director

"Klaus Zeitler"
Klaus Zeitler, Chairman and Director

RIO2 LIMITED
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2021 and 2020
(Expressed in United States dollars, unless otherwise stated)

	2021	2020
Expenses		
Employment costs *(Note 16)*	$ 5,687,929	$ 3,970,798
Share based compensation *(Note 15)*	1,937,942	1,699,325
Advisory fees	1,309,876	60,000
Professional fees	980,342	690,654
Office and miscellaneous	929,396	673,918
Directors fees	211,468	171,822
Investor relations	167,666	311,748
Filing and transfer agent fees	135,326	128,557
Travel expense	95,886	67,603
Amortization	76,169	74,736
Exploration costs	70,492	201,689
Loss before the following	$ 11,602,492	$ 8,050,850
Other (income) expense		
Option income *(Note 12)*	(1,601,852)	-
Foreign exchange loss	239,110	973,796
Accretion expense	284,771	-
Interest income	(15,256)	(86,189)
Loss for the Year Before Taxes	$ 10,509,265	$ 8,938,457
Income taxes	16,069	-
Loss for the Year	$ 10,525,334	$ 8,938,457
Other comprehensive loss		
Exchange loss on translation of foreign operations	32,155	186,305
Total comprehensive loss for the year	$ 10,557,489	$ 9,124,762
Basic and Diluted Loss per Common Share	$ 0.05	$ 0.05
Weighted Average Number of Common Shares Outstanding	220,233,014	185,337,910

See accompanying notes to the consolidated financial statements

RIO2 LIMITED
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2021 and 2020
(Expressed in United States dollars, unless otherwise stated)

	Capital Stock					
	Number of shares	Amount	Reserves	Foreign Currency Translation Reserve	Deficit	Total shareholders' equity (deficiency)
Balance, as at December 31, 2019	181,431,278	$ 91,279,671	$ 6,383,274	$ 1,083,598	$ (29,321,559)	$ 69,424,984
Common shares issued for vested RSUs	424,474	244,180	(244,180)	-	-	-
Stock options exercised	1,271,677	904,668	(461,500)	-	-	443,168
Share purchase warrants exercised	7,578,919	3,339,518	-	-	-	3,339,518
Share based compensation – stock options	-	-	1,644,580	-	-	1,644,580
Share based compensation - RSUs	-	-	54,746	-	-	54,746
Net loss for the year	-	-	-	-	(8,938,457)	(8,938,457)
Other comprehensive loss	-	-	-	(186,305)	-	(186,305)
Balance, as at December 31, 2020	190,706,348	$ 95,768,037	$ 7,376,920	$ 897,293	$ (38,260,016)	$ 65,782,234
Common shares issued for private placement and concurrent public offering – net of share issuance costs	54,067,880	26,517,679	-	-	-	26,517,679
Common shares issued for vested RSUs	366,666	219,194	(219,194)	-	-	-
Stock options exercised	33,333	31,236	(14,465)	-	-	16,771
Share purchase warrants exercised	9,162,256	4,665,876	-	-	-	4,665,876
Share based compensation – stock options	-	-	1,585,266	-	-	1,585,266
Share based compensation - RSUs	-	-	352,676	-	-	352,676
Net loss for the year	-	-	-		(10,525,334)	(10,525,334)
Other comprehensive loss	-	-	-	(32,155)	-	(32,155)
Balance, as at December 31, 2021	254,336,483	$ 127,202,022	$ 9,081,203	$ 865,138	(48,785,350)	$ 88,363,013

See accompanying notes to the consolidated financial statements

RIO2 LIMITED
Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(Expressed in United States dollars, unless otherwise stated)

	2021	2020
Operating activities		
Net loss for the year	$ (10,525,334)	$ (8,938,457)
Items not involving cash		
Accretion expense	284,771	-
Amortization	293,108	214,603
Interest expense	17,829	20,146
Interest income	-	(86,189)
Stock based compensation	1,937,942	1,699,325
Change in non-cash components of working capital		
Input taxes recoverable	(242,286)	(1,008)
Interest receivable	-	71,836
Prepaid expenses	(1,285,800)	(94,250)
Accounts payable and accrued liabilities	184,851	(2,276,181)
Cash used in operating activities	$ (9,334,919)	$ (9,390,175)
Financing activities		
Net proceeds from private placements	26,517,679	-
Proceeds received from exercise of stock options	16,772	443,168
Proceeds received from exercise of share purchase warrants	4,665,876	3,339,518
Lease payments	(232,264)	(177,460)
Cash provided by financing activities	$ 30,968,063	$ 3,605,226
Investing activities		
Exploration and evaluation assets	(4,099,901)	(3,607,371)
Short term investments	785,415	10,080,465
Option income received	3,698,148	-
Property and equipment	(1,763,792)	(205,673)
Net assets – Lince acquisition	-	(1,425,894)
Input taxes recoverable	(748,270)	(1,067,815)
Cash (used in) provided by investing activities	$ (2,128,400)	$ 3,773,712
Effect of foreign exchange	(762,435)	448,187
Increase (decrease) in cash	18,742,309	(1,563,050)
Cash - beginning of the year	2,602,977	4,166,027
Cash - end of the year	$ 21,345,286	$ 2,602,977

1. Nature of Operations

Rio2 Limited ("Rio2" or the "Company") is the parent company of a consolidated group. Rio2 is incorporated under the laws of the province of Ontario and its principle business activity is the exploration and development of its flagship Fenix Gold Project in Chile, as well as pursing additional strategic acquisitions where it can deploy its operational excellence and responsible mining practices to build a multi-asset, multi-jurisdiction, precious metals company.

On July 24, 2018, Rio2 announced that Rio2 Limited and Atacama Pacific Gold Corporation ("Atacama Pacific") completed a transaction by way of a court approved plan of arrangement through which the companies amalgamated as a single entity (the "Arrangement"). The combined company that resulted from the Arrangement continues to operate under the name Rio2 Limited.

The Company trades on the TSX Venture Exchange ("TSXV") under the symbol "RIO", the Bolsa de Valores de Lima ("BVL") under the symbol "RIO" and on the OTCQX® Best Market under the ticker "RIOFF**".**

The Company's registered office is located at Suite 6000, 1 First Canadian Place, 100 King St. West, Toronto, ON, M5X 1E2 and its head office is at The Marine Building, 1000-355 Burrard Street, Vancouver, BC, V6C 2G8.

Subsequent to December 31, 2021, the Company received $25,000,000 from Wheaton Precious Metals International Limited ("Wheaton") pursuant to the Precious Metals Purchase Agreement ("PMPA"). See note 21, Subsequent Events.

2. Basis of Presentation

<u>Statement of Compliance</u>

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 25, 2022.

<u>Basis of Presentation</u>

These financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, the financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information.

<u>Principles of Consolidation</u>

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

(Expressed in United States dollars, unless otherwise stated)

2. Basis of Presentation (continued)

Name	Location	Ownership by the Company	
		December 31, 2021	December 31, 2020
Fenix Gold Limitada	Chile	100%	100%
Rio2 S.A.C.	Peru	100%	100%
Rio2 Exploraciones S.A.C.	Peru	100%	100%
Lince S.A.	Chile	100%	100%
Rio2 Limited Bahamas	Bahamas	100%	-

All material inter-company transactions and balances have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the reported amount of the Company's assets, liabilities, expenses, and related disclosures. Assumptions and estimates are based on historical experience, expectations, current trends, and other factors that management believes to be relevant at the time at which the Company's financial statements are prepared.

Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates, and judgements in order to ensure that the financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustments. The most significant judgements applying to the Company's financial statements include share-based payment transactions and mineral resource estimate. Key judgements include the timing commencement of commercial production which in turn impacts the realization of input tax credits.

Provision for closure and reclamation

The process of determining a value for the closure and reclamation provision is subject to estimates and assumptions, particularly when sufficient information required for a more precise estimate is still being gathered. Significant estimates include the amount and timing of closure and reclamation costs and the discount rate used. The size of the provision for closure and reclamation reflects management's best estimate using information available on the date of approval of these consolidated financial statements.

Leases

Management uses estimation in determining the incremental borrowing rate used to measure the lease liability, specific to the asset, underlying currency and geographic location.

2. Basis of Presentation (continued)

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield, risk free rate, forfeiture rate and making assumptions about them.

Mineral resource estimate

The life of the Fenix Gold Project is determined from the ore reserves that are available to be extracted at the end of each reporting period. The Company initially estimates the ore reserve available based on the findings of qualified, independent, mining professionals. These estimates are updated from time to time as additional technical and economic information becomes available. Factors that impact the computation of reserves available include the geological data on the size, depth and shape of the ore body, the prevailing and expected market price for the underlying metals to be extracted and the expected costs to extract and process the mined material. Changes in the mineable ore reserve available may impact the carrying value of mine property, exploration and evaluation properties, plant and equipment, site closure and reclamation provision and changes in the recognition of deferred tax amounts in addition to changes in the recognition of depreciation and depletion.

<u>Use of Judgements</u>

The preparation of financial statements in accordance with IFRS requires management to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include accounting for the PMPA, acquisition accounting versus business combination, and exploration and evaluation assets.

Accounting for the PMPA

The upfront cash deposit that will be received from future stream transactions will be accounted for as deferred revenue. The deferred revenue will be recognized into revenue as performance obligations to metals delivery are satisfied over the term of the delivery contract.

Acquisition accounting versus business combination

On the acquisition of a subsidiary, the Company must determine whether the acquisition is a business combination by applying the definition in IFRS 3 Business Combinations. If the assets and liabilities assumed do not constitute a business the transaction would be accounted for as an asset acquisition.

Management has determined that the acquisition of Compañía Minera Paso San Francisco S.A. ("MPSF") constituted an asset acquisition as MPSF did not meet the definition of a business.

2. Basis of Presentation (continued)

Refer to Note 6 for discussion on the Lince S.A. acquisition. (MPSF was renamed Lince S.A. shortly after the acquisition of the entity.)

Exploration and evaluation assets

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to ensure the title to mineral property interests in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

3. Significant Accounting Policies

Cash

Cash consists of cash held in banking institutions.

Short term investments

Short term investments consist of cash invested in banking institutions and are redeemable at any time.

Leases

Upon lease commencement, the Company recognizes a right-of-use asset, which is initially measured at the amount of the lease liability plus any direct costs incurred, which is then amortized over the life of the lease on a straight-line basis. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease; if the implicit lease rate cannot be determined, the incremental borrowing rate is used. Payments against the lease are then offset against the lease liability. The lease liability and right-of-use asset are subsequently remeasured to reflect changes to the terms of the lease. Assets and liabilities are recognized for all leases unless the lease term is twelve months or less or the underlying asset has a low value.

3. Significant Accounting Policies (continued)

Property and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation. The cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is based on cost and is calculated on a straight-line basis over the estimated economic life of the asset. The right of use asset and the leasehold improvements are depreciated over the life of the lease term. Other assets, which include computer software, computer equipment, office furniture and office equipment, are depreciated over their estimated economic life, which ranges from 2 to 10 years.

Exploration and Evaluation Assets

The Company accounts for mineral property interests in accordance with IFRS 6 – Exploration for and Evaluation of Mineral Resources ("IFRS 6"). The acquisition costs of mineral properties are capitalized as exploration and evaluation interests and include cash or shares paid, liabilities assumed, and associated legal costs paid to acquire the interest, whether by option, purchase, staking or otherwise. Exploration expenditures are costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Prospecting and initial exploration costs to define and delineate a mineral deposit that has no demonstrable reserves are expensed.

The carrying values of capitalized amounts are reviewed annually, or when there are indications of potential impairment.

Exploration and evaluation expenditures are expensed until it is probable that future economic benefits will flow to the Company. The following criteria is used to assess the economic recoverability and probability of future economic benefits:

- Viability: A Mineral Reserve, as defined by NI 43-101, has been established that demonstrates a positive finance return, and/or where there is a history of conversion to Mineral Reserves at operating mines; and
- Authorizations: Necessary permits, access to critical resources, and environmental programs exist or are reasonably attainable.

Once future economic benefits are expected, further exploration and evaluation expenditures are capitalized at cost and recognized as an exploration and evaluation asset. Capitalized costs are considered to be tangible assets as they form part of the underlying mineral property.

Asset Retirement Obligations

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

3. Significant Accounting Policies (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is certain that a reimbursement will be received and the amount receivable can measured reliably.

Impairment of Long-Lived Assets

Property and equipment and exploration and evaluation assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less direct costs to sell and the asset value in use (being the present value of the expected future cash flows of the asset). An impairment loss is recognized for the amount by which the carrying amount exceeds its recoverable amount.

Share Issuance Costs

Share issue costs, which include commissions, professional fees, and regulatory fees, are charged directly to share capital.

Share-based Payments

The Company uses a fair value-based method of accounting for stock options to employees, including directors and non-employees. The fair value is determined using the Black-Scholes Option Pricing Model on the date of grant, with assumptions for risk-free interest rate, volatility, expected forfeiture and life of the options or warrants. The cost is measured at the date of grant and each tranche is recognized on a graded-vesting basis over the applicable vesting period as an increase in share-based payments expense and the reserves account. On the exercise of the stock options, the proceeds received by the Company, together with the respective amount from reserves, are credited to share capital.

Restricted Share Units (RSUs)

The Company uses a fair value-based method of accounting for Restricted Share Units ("RSUs") which are assumed to settle on an equity basis. The fair value of equity settled awards are measured with market related inputs as of the date of the grant. The cost is recorded over the vesting period of the award to the same expense category of the award recipient's compensation costs and the corresponding entry is recorded in equity.

Income Taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the country where the Company operates and generates taxable income.

3. Significant Accounting Policies (continued)

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred tax is recognized using the asset and 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. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3. Significant Accounting Policies (continued)

Loss per Share

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions including the exercise of options and warrants that would be anti-dilutive. For the periods presented, the calculation of the diluted loss per share proved to be anti-dilutive. Accordingly, there is no difference in the amounts presented for the basic and diluted loss per share.

Unit Offering

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

Accounting for Precious Metals Purchase Agreement (“PMPA”)

The upfront cash deposit that will be received from future stream transactions will be accounted for as deferred revenue. The deferred revenue will be recognized into revenue as performance obligations to metals delivery are satisfied over the term of the delivery contract.

Financial Instruments

Financial Assets

Financial assets are classified and measured at: fair value through profit or loss (“FVTPL”) and fair value through other comprehensive income (“FVOCI”) and amortized cost. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. Measurement and classification of financial assets is dependent on the Company’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset i.e. whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost if both of the following conditions are met: the financial asset is held with the objective to collect contractual cash flows; and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (“SPPI”). This is referred to as the SPPI test.

3. Significant Accounting Policies (continued)

Financial assets at amortized cost are subsequently measured using the effective interest rate (“EIR”) method and are subject to impairment. Interest received is recognized as part of finance income. Gains and losses are recognized when the asset is derecognized, modified or impaired. The Company’s financial assets at amortized cost include:

- cash;
- interest receivable; and
- short-term investment

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value i.e. fail the SPPI test. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss. An embedded derivative will often make a financial asset fail the SPPI test thereby requiring the instrument to be measured at FVTPL in its entirety.

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the Company has transferred substantially all the risks and rewards of ownership. On derecognition, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial Liabilities

The Company classifies its financial liabilities into one of two categories. The Company's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the Statement of Financial Position at fair value with changes in fair value recognized in the Statement of Loss and Comprehensive Loss.

Other financial liabilities

This category includes accounts payable and accrued liabilities, all of which are measured at amortized cost.

3. Significant Accounting Policies (continued)

Changes in accounting policies and disclosures

Change of Presentation Currency

Effective January 1, 2021, Rio2 changed its presentation currency from Canadian dollars to United States dollars, as a result of the continued advancement of the Fenix Gold Project. The Company's management believes that presenting financial information in US dollars is more useful internally to manage the business, and more useful to readers of the financial statements because of greater comparability and greater congruence with the underlying currencies of significant transactions.

The change in the financial statement presentation currency is considered an accounting policy change and has been accounted for retrospectively. The balance sheets for each period presented have been translated from the related subsidiary's functional currency to the new US dollar presentation currency at the rate of exchange prevailing at the respective balance sheet date except for equity items, which have been translated at accumulated historical rates from the related subsidiary's date of incorporation. The statements of income and comprehensive income were translated at the average exchange rates for the reporting period, or at the exchange rate prevailing at the date of transactions.

During the year ended December 31, 2020, the translation of the Company's subsidiaries with US dollar functional currencies were converted into Canadian dollars, resulting in a translation adjustment which was recorded in Foreign Currency Translation Reserve, a separate component of shareholders' equity. With the retrospective application of the change in presentation currency from the Canadian dollar to the US dollar, the Foreign Currency Translation Reserve related to the translation of US dollar functional currency subsidiaries was eliminated. However, with the retrospective application of the change in presentation currency to the US dollar, the Company's corporate office, which has a Canadian dollar functional currency, resulted in an Accumulated Other Comprehensive Income ("AOCI") balance.

(a) Adjustment to previously reported financial information due to change in presentation currency

For comparative purposes, the consolidated balance sheets as at December 31, 2020 and January 1, 2020 include adjustments to reflect the change in the presentation currency to the US dollar, which is a change in accounting policy. The exchange rates used to translate the amounts previously reported into US dollars at December 31, 2020 were 1.2732 CAD/USD, and at January 1, 2020 were 1.2988 CAD/USD. Refer to note 20(a) for the effects of the translation.

For comparative purposes, the consolidated statement of loss and comprehensive loss for the year ended ended December 31, 2020 includes adjustments to reflect the change in the presentation currency to the US dollar, which is a change in accounting policy. The exchange rates used to translate the amounts previously reported into US dollars for the year ended December 31, 2020 were 1.3541 CAD/USD, which were the average exchange rates for the period. Refer to note 20(b) for the effects of the translation.

(Expressed in United States dollars, unless otherwise stated)

3. Significant Accounting Policies (continued)

(b) Functional currency

The functional currencies of the Company and its subsidiaries, all of which are wholly owned, remained unchanged and were as follows for periods presented.

Name	Functional Currency
Rio2 Limited	Canadian dollar
Fenix Gold Limitada	United States Dollars
Rio2 S.A.C.	United States Dollars
Rio2 Exploraciones S.A.C.	United States Dollars
Lince S.A.	United States Dollars
Rio2 Bahamas Limited	United States Dollars

Accounting standards issued but not yet applied

The Company has not applied the following revised IFRS that have been issued but were not yet effective at December 31, 2021.

IAS 16 - Property, Plant and Equipment – Proceeds before Intended Use

In May 2020, the International Accounting Standards Board ("IASB") issued an amendment to IAS 16, Property, Plant and Equipment - Proceeds before Intended Use. The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in the consolidated statements of income. The amendment will become effective on January 1, 2022. The Company is assessing the impact of the amendment and does not expect it to have a significant effect on the Company's financial statements.

IAS 12 - Income Taxes

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amended IAS 12 Income Taxes. The amendments will become effective on January 1, 2023. The Company is assessing the impact of the amendment and does not expect it to have a significant effect on the Company's financial statements.

IFRS 17 – Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is effective for periods beginning on or after January 1, 2023. The Company has not yet assessed the future impact of this new standard on its financial statements.

4. Financial Instruments and Risk Management

The Company's financial instruments consist of cash, short term investments, interest receivable and accounts payable. The carrying values of the Company's financial instruments approximate their fair value due to the short term to maturity.

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks and, when appropriate, takes steps to mitigate such risks. These risks may include credit risk, liquidity risk, and market risk.

Credit Risk

Credit risk is the risk that a party to the Company's financial assets will fail to discharge its obligation causing the Company financial loss. The Company's exposure to credit risk is in its cash. Cash is held in major financial institutions. Accordingly, the Company believes it has no significant credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations associated with its financial liabilities as they fall due. The Company's objective is to ensure that there are sufficient committed financial resources to meet its short-term business requirements for a minimum of twelve months. As of December 31, 2021, the Company has cash totalling $21,345,286 (December 31, 2020 - $2,602,977), short term investments of $46,000 (December 31, 2020 - $831,415) and current liabilities of $3,668,258 (December 31, 2020 - $2,389,247). The current liabilities are accounts payable and accrued liabilities of $3,478,459 due on demand (December 31, 2020 - accounts payable and accrued liabilities of $2,179,508 due on demand), as well as the current portion of a lease liability of $189,799 (December 31, 2020 - $209,739).

The Company has no formal credit facilities at this time and given the Company's current stage of development, it is not expected that such credit facilities would be available to the Company.

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risk: foreign currency risk, interest rate risk, and commodity price risk.

Foreign Currency Risk

Foreign exchange risk is the risk arising from changes in foreign currency fluctuations. The Company operates in more than one country. As a result, a portion of the Company's expenditures, amounts receivable, accounts payable and accruals are denominated in U.S. Dollars, Chilean Pesos and Peruvian Soles and are therefore subject to fluctuation in exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency rates.

Interest Rate Risk

The Company is not exposed to interest rate risk due to the short-term nature of its cash held in a bank account.

4. Financial Instruments and Risk Management (continued)

Commodity Price Risk

The value of the Company's interests in mineral properties is related to the price of gold and the outlook for this mineral. Mineral prices have historically fluctuated widely and are impacted by numerous factors outside of the Company's control, including, but not limited to: industrial and retail demand, forward sales by producers and speculators, level of worldwide production, short-term changes in supply and demand because of speculators, hedging activities, and certain other factors. The Company is not actively managing its commodity risk.

Other Risks

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the outbreak to constitute a pandemic. The spread of COVID-19 has severely impacted economies around the globe. In many countries, including Canada, Chile and Peru, businesses have been forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, maintaining minimum distances between people, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in significant unemployment and an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening of certain sectors. Governments and central banks have responded with monetary and fiscal interventions designed to stabilize economic conditions. To date, the Company's operations have not been materially negatively affected by these events, apart from increasing costs, in particular around health and safety and housing field-staff. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration of the impact, the severity of the consequences, nor the impact, if any, on the financial position and results of the Company for future periods.

Sensitivity Analysis

The Company has accounts payable which are denominated in Canadian Dollars. A 10% change in the foreign exchange rate would impact comprehensive loss for the period by $213,381 (December 31, 2020 – $159,652).

(Expressed in United States dollars, unless otherwise stated)

5. Capital Risk 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 development of its mineral property interests and to maintain flexible capital structure for its projects for the benefit of its stakeholders. There have been no changes in the Company's objectives for managing capital or in what it considers capital from the prior year. In the management of capital, the Company includes the following components of shareholders' equity.

		December 31, 2021		December 31, 2020
Share capital	$	127,202,022	$	95,768,037
Reserves		9,081,203		7,376,920
	$	136,283,225	$	103,144,957

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such the Company is dependent on external financing to fund its activities. In order to carry out any planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. To maintain or adjust the capital structure, the Company may be required to issue new shares or debt or acquire or dispose of assets. The Company will continue to assess new properties and seek to acquire additional properties, if it feels there is sufficient geological or economic potential, and if it has adequate financial resources to do so. The Company is not subject to externally imposed capital requirements. The Company's overall capital management strategy remains unchanged from the prior year.

6. Lince Acquisition

On April 15, 2020, Rio2 announced that it completed the strategic acquisition of Compañía Minera Paso San Francisco S.A. ("MPSF"). MPSF owns strategic mining infrastructure and facilities located adjacent to Rio2's Fenix Gold Project in Chile.

MPSF was acquired by Rio2 for $1.5 million cash from Inversiones Alxar S.A. ("Alxar"), a subsidiary of Empresas Copec S.A., a large Chilean industrial conglomerate. Subsequent to the acquisition of MPSF, the name of MPSF was changed to Lince S.A. ("Lince").

The Company accounted for the transaction as an asset acquisition as Lince does not constitute a business. The purchase price was allocated to the assets acquired and liabilities assumed based on their relative fair values on the closing date. The purchase price allocation is a result of management's best estimates and assumption after taking into account all relevant information available.

6. Lince Acquisition (continued)

The final purchase price has been determined and allocated as follows:

Purchase price:		
Cash paid	$	1,500,000
	$	1,500,000
Purchase price allocation:		
Cash	$	23,560
Prepaid expenses		5,107
Chilean IVA receivable		52,302
Property, plant and equipment		30,911
Exploration and evaluation asset (Fenix)		4,455,986
Accounts payable		(37,774)
Mine closure obligation		(3,030,092)
Net assets acquired	$	1,500,000

7. Cash

Cash, expressed in USD, include cash in bank accounts as follows:

	December 31, 2021	December 31, 2020
United States dollars (i)	$ 6,803,407	$ 1,150,681
Canadian dollars	10,578,470	398,824
Chilean Peso (ii)	3,934,856	987,956
Peruvian Nuevo Sol (iii)	28,553	65,704
Adjustment foreign exchange	-	(188)
	$ 21,345,286	$ 2,602,977

i. The Company held $13,411,384 Canadian dollars, translated at an exchange rate of 0.788768.
ii. The Company held 3,345,610,937 Chilean Pesos translated at an exchange rate of 0.00117612.
iii. The Company held 113,501 Peruvian Nuevo Soles, translated at an exchange rate of 0.25157.

8. Short Term Investments

As at December 31, 2021, the Company had $46,000 (December 31, 2020 – $831,415) invested in guaranteed investment certificates ("GIC") at a major Canadian financial institution. $46,000 is invested in a GIC that accrues interest at 0.03% and expires on December 19, 2022. Interest is accrued during the GIC term and is recorded in interest receivable.

(Expressed in United States dollars, unless otherwise stated)

9. Input Taxes Recoverable

Input taxes recoverable consist of the following:

	December 31, 2021	December 31, 2020
Canadian GST/HST receivable	$ 248,738	$ 6,452
Current input taxes recoverable	$ 248,738	$ 6,452
Peruvian IGV receivable	$ 476,689	$ 337,990
Chilean IVA receivable	9,457,594	8,848,023
Long term input taxes recoverable	$ 9,934,283	$ 9,186,013

The Peruvian Impuesto General a las Ventas ("IGV") receivable consists of input taxes recoverable for expenses incurred in Peru for the Fenix Gold Project.

The Chilean Impuesto al Valor Agregado ("IVA") relates to the Fenix Gold Project. The actual timing of receipt is uncertain as IVA is typically refundable only upon commercial operations; IVA receivable has therefore been classified as a non-current asset.

10. Leases

The Company entered into office leases that resulted in right-of-use assets and lease liabilities. The balances are as follows:

Right-of-use assets:

Balances, December 31, 2019	$ -
Lease additions	646,484
Amortization	(139,867)
Adjustment foreign exchange	(7,504)
Balance, December 31, 2020	$ 499,113
Lease additions	205,185
Amortization	(216,939)
Adjustment foreign exchange	4,636
Balance, December 31, 2021	$ 491,995

(Expressed in United States dollars, unless otherwise stated)

10. Leases (continued)

Lease liabilities:

Balance, December 31, 2019, Leases		-
Recognition of liability	$	646,484
Payments – Office and miscellaneous		(177,460)
Accretion – Office and miscellaneous		20,146
Adjustment on foreign exchange		(8,438)
Balance, December 31, 2020	$	480,732
Payments – Office and miscellaneous		(232,264)
Recognition of liability		205,185
Accretion – Office and miscellaneous		17,829
Adjustment on foreign exchange		13,832
Balance, December 31, 2021	$	485,314
Short term portion, lease liability		(189,799)
Balance, December 31, 2021	$	295,515

11. Property and Equipment

	Land	Building	Office Equipment	Mine Equipment	Software	Total
Cost:						
Balance, December 31, 2019	$ -	$ -	$ 57,656	$ -	$ 202,619	$ 260,275
Additions	2,174	-	89,711	136,302	13,974	242,161
Balance, December 31, 2020	$ 2,174	$ -	$ 147,367	$ 136,302	$ 216,593	$ 502,436
Additions	-	3,836	192,463	1,567,493	-	1,763,792
Balance, December 31, 2021	$ 2,174	$ 3,836	$ 339,830	$ 1,703,795	$ 216,593	$2,266,228
Accumulated depreciation:						
Balance, December 31, 2019	$ -	$ -	$ (13,835)	$ -	$ (64,159)	$ (77,994)
Additions	-	-	(19,794)	-	(60,519)	(80,313))
Balance, December 31, 2020	$ -	$ -	$ (33,629)	$ -	$ (124,678)	$ (158,307)
Additions	-	-	(42,382)	(227)	(33,560)	(76,169)
Balance, December 31, 2021	$ -	$ -	$ (76,011)	$ (227)	$ (158,238)	$ (234,476)
Net book value at December 31, 2020	$ 2,174	$ -	$ 113,738	$ 136,302	$ 91,915	$ 344,129
Net book value at December 31, 2021	$ 2,174	$ 3,836	$ 263,819	$ 1,703,568	$ 58,355	$ 2,031,752

(Expressed in United States dollars, unless otherwise stated)

12. Exploration and Evaluation Assets

As of December 31, 2021, the Company's exploration and evaluation assets consisted of the following:

	Fenix Gold Project Chile	Anocarire Gold Project Chile	Total
Balance, December 31, 2019	$ 45,002,756	$ 3,994,195	$ 48,996,951
Exploration and evaluation costs additions:			
Mineral and surface rights	1,552,641	-	1,552,641
Asset retirement obligation	3,722,040	-	3,722,040
Community initiatives	107,361	-	107,361
Geological and drilling	3,593,775	-	3,593,775
Engineering studies	770,000	-	770,000
Field support	703,539	-	703,539
Option income received	-	(288,198)	(288,198)
Effect of exchange rate	-	(8,452)	(8,452)
Accumulated foreign exchange on translation	(645,290)	-	(645,290)
Balance, December 31, 2020	$ 54,806,822	$ 3,697,545	$ 58,504,367
Exploration and evaluation costs additions:			
Community initiatives	139,203	-	139,203
Geological and drilling	2,627,513	-	2,627,513
Engineering studies	1,745,487	-	1,745,487
Field support	802,180	-	802,180
Option income received	-	(3,698,148)	(3,698,148)
Effect of exchange rate	-	603	603
Balance, December 31, 2021	$ 60,121,205	$ -	$ 60,121,205

Fenix Gold Project (Chile)

On July 24, 2018, the Company acquired the Fenix Gold Project. Evaluation related costs were capitalized to the asset from the date of acquisition by Rio2. Additions to the Fenix Gold Project include drilling, technical consultant fees, equipment rentals, acquisition of Lince and the Asset Retirement for Lince (note 6).

Anocarire Project (Chile)

During the year ended December 31, 2018, a payment of $200,000 was received. During the year ended December 31, 2019, a payment of $600,000 was received. During the year ended December 31, 2020, a payment of $300,000 was received.

(Expressed in United States dollars, unless otherwise stated)

12. Exploration and Evaluation Assets (continued)

On December 14, 2020, the option payment was revised so that Andex Minerals may pay Rio2 $5,300,000 by December 31, 2021. On June 28, 2021, Rio2 received a payment of $300,000 from Andex Minerals. On December 22, 2021, Rio2 received a payment of $5,000,000 from Andex Minerals to complete the sale of Anocarire to Andex Minerals.

Payments under this option payment were recorded as a reduction of the exploration and evaluation asset until that balance was reduced to $nil. The residual amount of $1,601,852 was recognized as option income during the year ended December 31, 2021.

13. Accounts Payable and Accrued Liabilities

		December 31, 2021		December 31, 2020
Accounts payable	$	2,765,017	$	2,171,654
Accrued liabilities		713,442		7,854
	$	3,478,459	$	2,179,508

As of December 31, 2021, included in accounts payable and accrued liabilities $1,114,098 are due to third parties in relation to exploration and evaluation assets.

14. Asset Retirement Obligation

The asset retirement obligation comprises:

		December 31, 2021		December 31, 2020
Opening balance	$	3,722,041	$	-
Balance acquired (note 6)		-		3,030,092
Accretion expense		284,771		-
Effect of exchange rate		(638,490)		691,949
	$	3,368,322	$	3,722,041

In 2018, the reclamation and closure plan for Lince was submitted to the Chilean Government. The undiscounted obligation is 116,531 Chilean Unidad de Fomento (UF), which translates to $4,761,670. The majority of the work will be done in 2025 - 2026. The credit adjusted risk free rate is 1.46%, based on the Chilean Government 1 year bond rate.

15. Capital Stock

a. Share capital

The Company's authorized share capital consists of an unlimited number of common shares of which 254,336,483 were issued and outstanding as at December 31, 2021 (190,706,348 - December 31, 2020).

Share transactions during the year ended December 31, 2021

On August 10, 2021, Rio2 closed the underwritten public offering of common shares of Rio2 and the private placement of common shares to Wheaton for combined gross proceeds of CAD$35,144,122 as follows:

A total of 44,275,000 common shares were issued through the underwritten public offering of common shares upon the exercise of the over-allotment option in full, for gross aggregate proceeds of CAD$28,778,750.

A total of 9,792,880 common shares were issued to Wheaton at the price of CAD$0.65 per share for gross proceeds of CAD$6,365,372. The private placement was completed on a non-brokered basis.

The combined amount of the public offering of common shares and private placement was $28,025,616. There were share issuance costs of $1,507,937, for net proceeds of $26,517,679.

Share transactions during the year ended December 31, 2020

During the year ended December 31, 2020, 7,578,919 share purchase warrants were exercised for proceeds of CAD$4,479,964. 1,271,677 stock options were exercised for proceeds of CAD$594,510, resulting in an average share price of CAD$0.47 for options exercised.

b. Share-based payments

The Company's stock option plan and its share incentive plan authorizes the directors to grant stock options and Restricted Share Units ("RSUs") to executive officers, directors, employees and consultants enabling them to acquire from treasury up to that number of shares equal to 10 per cent of the issued and outstanding common shares of the Company. The shareholders of the Company last approved the stock option plan at a meeting held on September 21, 2021.

The number and exercise price of options granted is determined by the directors, subject to regulatory approval if required. Options may be granted for a maximum term of 10 years and vest as determined by the board of directors.

(Expressed in United States dollars, unless otherwise stated)

15. Capital Stock (continued)

b. Share-based payments (continued)

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price (CAD$/option)
Outstanding, December 31, 2019	13,833,074	0.82
Issued	3,850,000	0.65
Exercised	(1,271,677)	0.47
Expired or cancelled	(1,374,964)	0.77
Outstanding, December 31, 2020	15,036,433	$ 0.81
Issued	4,200,000	0.65
Exercised	(33,333)	0.65
Expired or cancelled	(1,199,620)	0.92
Outstanding, December 31, 2021	18,003,480	$ 0.77
Options exercisable, December 31, 2021	9,893,480	$ 0.88

The Black-Scholes Option Pricing Model is used to estimate the fair value of options granted. Vesting periods are over a 5-year period as follows:

	2021	2020
(i) Risk-free interest rate	0.85%	0.36%
(ii) Expected life	5 years	5 years
(iii) Expected volatility	139%	157%
(iv) Expected dividend yield	0%	0%
(iv) Expected forfeiture rate	0%	0%
(vi) Fair value per option	CAD$0.55	CAD$0.54

(Expressed in United States dollars, unless otherwise stated)

15. Capital Stock (continued)

Stock options outstanding at December 31, 2021 were:

Outstanding			**Exercisable**	
Number of Options	Weighted average remaining contractual years	Weighted average exercise price CAD$	Number of Options	Weighted average exercise price CAD$
1,200,060	0.16	1.53	1,200,060	1.53
500,025	0.31	2.25	500,025	2.25
166,675	0.41	2.56	166,675	2.56
333,350	0.67	1.66	333,350	1.66
733,370	1.24	0.82	733,370	0.82
1,840,000	1.74	0.65	1,840,000	0.65
5,380,000	2.69	0.55	3,653,333	0.55
3,650,000	3.49	0.65	1,316,667	0.65
4,200,000	4.73	0.65	150,000	0.65
18,003,480	2.88	0.77	9,893,480	0.88

Stock options outstanding at December 31, 2020 were:

Outstanding			**Exercisable**	
Number of Options	Weighted average remaining contractual years	Weighted average exercise price CAD $	Number of Options	Weighted average exercise price CAD$
542,932	0.21	0.76	542,932	0.76
445,566	0.58	0.91	445,566	0.91
1,366,735	1.16	1.53	1,366,735	1.53
500,025	1.31	2.25	500,025	2.25
166,675	1.41	2.56	166,675	2.56
333,350	1.67	1.66	333,350	1.66
777,817	2.24	0.82	533,360	0.82
1,873,333	2.74	0.65	1,260,000	0.65
5,380,000	3.69	0.55	1,793,333	0.55
3,650,000	4.49	0.65	-	0.65
15,036,433	3.10	0.81	6,941,976	1.05

Each option entitles the holder to purchase one common share for a period of five years from the date of grant. The options granted by Rio2 vest 1/3 equally over a three-year period. The grant of the RSUs and options are subject to the terms of the Share Incentive Plan and the Stock Option Plan respectively, and final regulatory approval and if applicable, shareholder approval.

(Expressed in United States dollars, unless otherwise stated)

15. Capital Stock (continued)

RSU transactions are summarized as follows:

	Number of RSUs
Outstanding, December 31, 2019	312,237
Issued	400,000
Vested and settled in common shares	(212,237)
Outstanding, December 31, 2020	500,000
Vested and settled in common shares	(183,333)
Outstanding, December 31, 2021	316,667
Vested, December 31, 2021	133,333

The RSUs, which original terms saw a vesting schedule of 1/3 equally over a three-year period, include a time-based and a performance-based component with a multiplier as determined by the Company's Board of Directors, and entitle the holder to an amount computed by the value of a notional number of Common Shares designated in the award. The RSUs that vested and were settled in common shares during the year ended December 31, 2020 were awarded a multiplier of 2 by the Company's Board of Directors.

The RSUs may be settled in equity instruments, or cash, at the sole discretion of the Company. The choice to settle in equity instruments does not have any commercial substance and the Company does not have a past practise of settling in cash.

On April 23, 2020, 162,237 RSUs were settled via the issuance of common shares of the Company. A multiplier of 2 was awarded, therefore, a total of 324,474 common shares of the Company were issued on April 23, 2020.

On September 11, 2020, 50,000 RSUs were settled via the issuance of common shares of the Company. A multiplier of 2 was awarded, therefore, a total of 100,000 common shares of the Company were issued on September 11, 2020.

On December 31, 2020, 400,000 RSUs were granted to Executive Officers of the Company. The RSUs will vest one-third on June 30, 2021, one-third on December 31, 2021, one-sixth on December 31, 2022, and one-sixth on December 31, 2023.

On June 30, 2021, 133,333 RSUs were settled via the issuance of common shares of the Company. A multiplier of 2 was awarded, therefore, a total of 266,666 common shares of the Company were issued on July 26, 2021.

On September 9, 2021, 50,000 RSUs were settled via the issuance of common shares of the Company. A multiplier of 2 was awarded, therefore, a total of 100,000 common shares of the Company were issued on September 9, 2021.

(Expressed in United States dollars, unless otherwise stated)

15. Capital Stock (continued)

c. Warrants

Warrants outstanding as of December 31, 2021 were:

Expiry dates	Number of warrants	Conversion price
August 13, 2022	27,999,450	CAD$0.50

Movements in the number of warrants outstanding and their related weighted average exercise prices are as follows:

	Number of warrants	Weighted average exercise price CAD$
Outstanding, December 31, 2019	46,467,391	0.55
Exercised	(7,578,919)	0.59
Outstanding, December 31, 2020	38,888,472	0.54
Exercised	(9,162,256)	0.65
Expired	(1,726,766)	0.65
Outstanding, December 31, 2021	27,999,450	0.50

d. Reserves

Reserves recognizes share-based compensation expense until such time that the stock options and RSUs are exercised, at which time the corresponding amount will be transferred to share capital.

16. Related Party Transactions

Key management consists of the Board of Directors and senior management. Senior management is defined as the President & CEO, and Executive Vice Presidents. Key management compensation for the years December 31, 2021, and 2020 was as follows:

	2021	2020
Senior management – employment costs	$ 1,772,533	$ 1,426,569
Directors fees	211,468	171,822
Share-based compensation	1,131,586	1,009,097
	$ 3,115,587	$ 2,607,488

In addition to the compensation for directors and officers, the Company incurred management fees during the year ended December 31, 2021, of $nil (December 31, 2020 - $130,150) from SBX Asesorias e Inversiones Limitada, a company owned by Albrecht Schneider, who is a director of Rio2.

(Expressed in United States dollars, unless otherwise stated)

17. Income Taxes

The provision for income taxes reported differs from the amounts computed by applying statutory Canadian federal and provincial tax rates to the loss before tax due to the following:

	December 31, 2021	December 31, 2020
Income (loss) for the year before income taxes	$ (10,509,265)	$ (8,938,457)
Statutory tax rate	27%	27%
Recovery of income taxes computed at statutory rates	(2,838,000)	(2,413,000)
Non-deductible expenditures	520,000	465,000
Impact of share issuance costs	(428,000)	-
Differing effective tax rate on loss in foreign jurisdiction	(1,000)	(4,000)
Unrecognized deferred tax assets	9,264,000	2,315,000
Impact of foreign exchange and other	(6,500,931)	(363,000)
Total income tax (expense) recovery	$ 16,069	$ -

The approximate tax effect of each item that gives rise to the Company's deferred tax assets and liabilities as at December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Deferred income tax assets		
Non-capital losses	$ 680,000	$ 148,000
	$ 680,000	$ 148,000
Deferred income tax liabilities		
Exploration and evaluation assets	$ (477,000)	$ -
Property and equipment	(70,000)	$ (13,000)
Other	(133,000)	(135,000)
	$ (680,000)	$ (148,000)
Net deferred income tax liability	$ -	$ -

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	December 31, 2021	Expiry Dates
Non-capital losses	$ 63,533,000	*2022-2041*
Exploration and evaluation assets	5,200,000	*no expiry*
Financing fees	2,045,000	*2042- 2045*
Other	672,000	*no expiry*
Total	$ 71,450,000	

(Expressed in United States dollars, unless otherwise stated)

17. Income Taxes (continued)

As at December 31, 2021, the Company has non-capital loss carry forwards in Canada aggregating $20,621,000 which expire over the period between 2026 and 2038, available to offset future taxable income in Canada.

As at December 31, 2021, the Company has non-capital loss carry forwards in Chile aggregating $43,279,000 which do not expire, available to offset future taxable income in Chile.

As at December 31, 2021, the Company has non-capital loss carry forwards in Peru aggregating $2,148,000 which do not expire, available to offset future taxable income in Peru.

18. Segmented Information

The Company's business consists of a single reportable segment being mineral exploration and development.

During the year ended December 31, 2021, the Company had three operating segments in three geographic areas: the corporate office in Canada, development of the Fenix Gold Project in Chile, the support of the Fenix Gold Project in Peru. Segmented disclosure of the Company's assets and liabilities is as follows:

				December 31, 2021
	Canada	Peru	Chile	Total
Property and equipment	$ -	$ 75,651	$ 1,956,100	$ 2,031,751
Exploration and evaluation assets	-	-	60,121,205	60,121,205
Other assets	17,035,841	834,687	15,671,624	33,542,152
Total assets	$ 17,035,841	$ 910,338	$ 77,748,929	$ 95,695,108
Lease liability	$ -	$485,314	$ -	$ 485,314
Accounts payable and accrued liabilities	1,007,500	579,234	1,891,725	3,478,459
Asset retirement obligation	-	-	3,368,322	3,368,322
Total liabilities	$ 1,007,500	$ 1,064,548	$ 5,260,047	$ 7,332,095

(Expressed in United States dollars, unless otherwise stated)

18. Segmented Information (continued)

				December 31, 2020
	Canada	Peru	Chile	Total
Property and equipment	$ -	$ 113,856	$ 230,272	$ 344,128
Exploration and evaluation assets	-	-	58,504,367	58,504,367
Other assets	2,495,350	955,935	9,864,735	13,316,020
Total assets	$ 2,495,350	$ 1,069,791	$ 68,599,374	72,164,515
Lease liability	$ -	$ 480,732	$ -	$ 480,732
Accounts payable and accrued liabilities	280,631	213,755	1,685,122	2,179,508
Asset retirement obligation	-	-	3,722,041	3,722,041
	$ 280,631	$ 694,487	$ 5,407,163	$ 6,382,281

19. Commitments

In the normal course of business, the Company enters into contracts and conducts business activities that give rise to commitments for future minimum payments. The table below summarizes the maturity profile of the Company's commitments, based on contractual undiscounted payments. No other material commitments exist at December 31, 2021 and 2020. The following table summarizes the Company's commitments:

				December 31, 2021
	Within 1 year	2 to 5 years	Over 5 years	Total
Lease commitments	$ 279,384	$ 187,225	$ -	$ 466,609
Subscriptions	231,636	67,223	-	298,859
Construction	2,000,000	-	-	2,000,000
Asset retirement obligation	-	3,368,322	-	3,368,322
Water supply contract	414,788	354,780	1,064,340	1,833,908
	$ 2,925,808	$ 3,977,550	$ 1,064,340	$ 7,967,698

(Expressed in United States dollars, unless otherwise stated)

20. Effect of the Change of Presentation Currency

The effects of the change of presentation currency discussed in note 3 were as follows.

a) Effect on the consolidated balance sheets as at December 31, 2020 and January 1, 2020:

	December 31, 2020		January 1, 2020	
	USD	CAD	USD	CAD
ASSETS				
Current Assets				
Cash	US$ 2,602,977	CAD$ 3,314,110	US$ 4,166,027	CAD$ 5,410,836
Short term investments	831,415	1,058,558	10,825,691	14,060,407
Interest receivable	-	-	71,836	93,301
Input taxes recoverable	6,452	8,215	5,444	7,071
Prepaid expenses	190,049	241,971	90,692	117,791
Total current assets	US$ 3,630,893	CAD$ 4,622,854	US$15,159,690	CAD$ 19,689,406
Input taxes recoverable	9,186,013	11,695,632	8,065,896	10,475,986
Right of use asset	499,113	635,471	-	-
Property and equipment	344,129	438,145	182,281	236,746
Exploration and evaluation assets	58,504,367	76,315,898	48,996,951	63,652,290
Total assets	US$ 72,164,515	CAD$ 93,708,000	US$ 72,404,818	CAD$ 94,054,428
LIABILITIES				
Current Liabilities				
Lease liability	US$ 209,739	267,039	US$ -	CAD$ -
Accounts payable and accrued liabilities	2,179,508	2,774,950	2,979,834	3,870,208
Total current liabilities	US$ 2,389,247	CAD$ 3,041,989	US$ 2,979,834	CAD$ 3,870,208
Lease liability	270,993	345,028	-	-
Asset retirement obligation	3,722,041	4,738,902	-	-
Total liabilities	US$ 6,382,281	CAD$ 8,125,919	US$ 2,979,834	CAD$ 3,870,208
SHAREHOLDERS' EQUITY				
Capital stock	US$ 95,768,037	CAD$125,987,829	US$ 91,279,671	CAD$119,966,686
Reserves	7,376,920	9,575,097	6,383,274	8,242,121
Deficit	(38,260,016)	(50,015,528)	(29,321,559)	(38,024,587)
Accumulated other comprehensive income	897,293	34,683	1,083,598	-
Total equity	65,782,234	85,582,081	69,424,984	90,184,220
Total liabilities and equity	US$ 72,164,515	CAD$ 93,708,000	US$ 72,404,818	CAD$94,054 ,428

(Expressed in United States dollars, unless otherwise stated)

20. Effect of the Change of Presentation Currency (continued)

b) Effect on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2020:

	Year ended December 31, 2020	
	USD	**CAD**
Expenses		
Employment costs	US$ 3,970,798	CAD$ 5,326,826
Share based compensation	1,699,325	2,279,645
Advisory fees	60,000	80,490
Professional fees	690,654	926,512
Office and miscellaneous	673,918	904,062
Investor relations	311,748	418,210
Exploration costs	201,689	270,566
Directors fees	171,822	230,499
Filing and transfer agent fees	128,557	172,459
Amortization	74,736	100,258
Travel expense	67,603	90,689
Loss before the following	US$ 8,050,850	CAD$ 10,800,216
Other (income) expense		
Foreign exchange loss	973,796	1,306,348
Accretion expense	-	-
Interest income	(86,189)	(115,623)
Net loss for the Period	US$ 8,938,457	CAD$ 11,990,941
Other comprehensive loss		
Exchange loss on translation of foreign operations	186,305	-
Total comprehensive loss for the period	US$ 9,124,762	CAD$ 11,990,941
Basic and Diluted Loss per Common Share	US$ 0.05	CAD$ 0.06
Weighted Average Number of Common Shares Outstanding	185,337,910	185,337,910

21. Subsequent Events

Subsequent to December 31, 2021:

a. 133,333 RSUs were settled. A multiplier of 2 was approved by the board of directors and therefore, 266,666 common shares were issued.

b. The Company received $674,115 for the exercise of 1,706,564 warrants.

c. 2,100,000 stock options were granted to officers of the Company. The estimated fair value associated with the stock options granted is CAD$809,712 and it was determined using the Black-Scholes Option Pricing Model with the following assumptions: stock price at the grant CAD$0.59; an annualized volatility of 84.87%; an expected life of 5 years; a dividend yield of 0%; a forfeiture rate of 0%; and a risk-free rate of 1.50%. The options have an exercise price of CAD$0.65.

d. The Company received $25,000,000 from Wheaton pursuant to the PMPA.

   WPMI will purchase 6.0% of the gold production until 90,000 ounces of gold have been delivered and 4.0% of the gold production until 140,000 ounces of gold have been delivered, after which the stream will reduce to 3.5% of the gold production for the life of mine. Under the proposed Gold Stream, WPMI will pay total cash consideration of $50 million, $25 million of which was paid upon closing, with the remaining $25 million payable subject to certain conditions, including the receipt of the Environmental Impact Assessment approval for the Fenix Gold Mine. In addition, Wheaton will make ongoing payments for gold ounces delivered equal to 18% of the spot gold price until the value of gold delivered less the production payment is equal to the upfront consideration of $50 million, at which point the production payment will increase to 22% of the spot gold price.