Rio2 Limited
Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

Presented in United States dollars

Independent Auditor's Report

Grant Thornton LLP
Suite 1600,
333 Seymour Street
Vancouver, BC
V6B 0A4

[T +1 604 687 2711]
[F +1 604 6856569]
www.GrantThornton .ca

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, 2022, and December 31, 2021 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, 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, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended 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.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of $2,303,461 and negative cash flows from operations of $3,865,987 for the year ended December 31, 2022. As at December 31, 2022, the Company had an accumulated deficit of $51,088,811. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

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.

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- 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Robert J. Riecken.

Grant Thornton LLP

Vancouver, Canada
March 16, 2023

Chartered Professional Accountants

RIO2 LIMITED
Consolidated Statements of Financial Position
As at December 31, 2022 and 2021
(Expressed in United States dollars, unless otherwise stated)

	December 31, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash *(Note 6)*	$ 4,679,667	$ 21,345,286
Short term investments *(Note 7)*	46,000	46,000
Accounts receivable *(Note 8)*	250,565	-
Input taxes recoverable *(Note 9)*	113,559	248,738
Prepaid expenses	411,327	1,475,849
Total current assets	$ 5,501,118	$ 23,115,873
Input taxes recoverable *(Note 9)*	16,474,883	9,934,283
Right of use asset *(Note 10)*	703,501	491,995
Property and equipment *(Note 11)*	27,607,655	2,031,752
Exploration and evaluation assets *(Note 12)*	64,773,833	60,121,205
Total assets	$ 115,060,990	$ 95,695,108
LIABILITIES		
Current Liabilities		
Lease liability *(Note 10)*	$ 208,827	$ 189,799
Accounts payable and accrued liabilities *(Note 13)*	1,500,069	3,478,459
Total current liabilities	$ 1,708,896	$ 3,668,258
Deferred revenue *(Note 15)*	27,186,914	-
Lease liability *(Note 10)*	504,574	295,515
Asset retirement obligation *(Note 14)*	3,830,028	3,368,322
Total liabilities	$ 33,230,412	$ 7,332,095
SHAREHOLDERS' EQUITY		
Capital stock *(Note 16)*	$ 128,530,321	$ 127,202,022
Reserves *(Note 16)*	10,609,506	9,081,203
Deficit	(51,088,811)	(48,785,350)
Accumulated other comprehensive income	(6,220,438)	865,138
Total equity	$ 81,830,578	88,363,013
Total liabilities and equity	$ 115,060,990	$ 95,695,108

Nature of operations and going concern *(Note 1)*
Commitments *(Note 20)*
Subsequent events *(Note 21)*

See accompanying notes to the consolidated financial statements

"Alexander Black"
Alexander Black, Executive Chairman

"Klaus Zeitler"
Klaus Zeitler, Lead Director

RIO2 LIMITED
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2022 and 2021
(Expressed in United States dollars, unless otherwise stated)

	2022	2021
Expenses		
Employment costs *(Note 17)*	$ 6,563,308	$ 5,687,929
Share based compensation *(Note 16)*	1,710,366	1,937,942
Advisory fees	232,203	1,309,876
Professional fees	1,005,428	980,342
Office and miscellaneous	983,747	929,396
Directors fees	148,106	211,468
Investor relations	134,739	167,666
Filing and transfer agent fees	151,390	135,326
Travel expense	166,564	95,886
Amortization	2,283,428	76,169
Exploration costs	26,366	70,492
Loss before the following	$ 13,405,645	$ 11,602,492
Other (income) expense		
Gain on disposition of exploration and evaluation assets *(Note 12)*	(5,000,000)	(1,601,852)
Foreign exchange (gain) loss	(8,654,285)	239,110
Accretion expense on Deferred Revenue (*Note 15*)	2,186,914	-
Accretion expense on ARO *(Note 14)*	490,461	284,771
Camp rental income	(104,606)	-
Interest income	(53,685)	(15,256)
Loss for the Year Before Taxes	$ 2,270,444	$ 10,509,265
Income taxes *(Note 18)*	33,017	16,069
Loss for the Year	$ 2,303,461	$ 10,525,334
Other comprehensive loss		
Exchange loss on translation of foreign operations	7,085,576	32,155
Total comprehensive loss for the year	$ 9,389,037	$ 10,557,489
Basic and Diluted Loss per Common Share	$ 0.01	$ 0.05
Weighted Average Number of Common Shares Outstanding	256,837,712	220,233,014

See accompanying notes to the consolidated financial statements

RIO2 LIMITED
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2022 and 2021
(Expressed in United States dollars, unless otherwise stated)

	Capital Stock					
	Number of shares	Amount	Reserves	Accumulated Other Comprehensive Income	Deficit	Total shareholders' equity (deficiency)
Balance, as at December 31, 2020	190,706,348	$ 95,768,037	$ 7,376,920	$ 897,293	$ (38,260,016)	$ 65,782,234
Public offering and concurrent private placement, net of share issuance costs *(Note 16)*	54,067,880	26,517,679	-	-	-	26,517,679
Common shares issued for RSUs	366,666	219,194	(219,194)	-	-	-
Stock option exercised	33,333	31,236	(14,465)	-	-	16,771
Warrant exercises	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
Common shares issued for vested RSUs	266,666	182,063	(182,063)	-	-	$ -
Warrant exercises	2,907,500	1,148,208	-	-	-	1,148,208
Share issuance costs	-	(1,972)	-	-	-	(1,972)
Share based compensation – stock options	-	-	1,603,413	-	-	1,603,413
Share based compensation – RSUs	50,000	-	106,953	-	-	106,953
Net loss for the year	-	-	-	-	(2,303,461)	(2,303,461)
Other comprehensive loss	-	-	-	(7,085,576)	-	(7,085,576)
Balance, as at December 31, 2022	257,560,649	$ 128,530,231	$ 10,609,506	$ (6,220,438)	$ (51,088,811)	$ 81,830,578

See accompanying notes to the consolidated financial statements

		2022		2021
Operating activities				
Net loss for the year	$	(2,303,461)	$	(10,525,334)
Items not involving cash				
Stock based compensation		1,710,366		1,937,942
Amortization		2,503,657		293,108
Accretion of asset retirement obligation		490,461		284,711
Accretion of deferred revenue		2,186,914		-
Accretion of lease liability		23,294		17,829
Change in non-cash components of working capital				
Input taxes recoverable		(6,405,421)		(242,286)
Prepaid expenses		1,064,522		(1,285,800)
Accounts receivable		(250,565)		-
Accounts payable and accrued liabilities		(2,885,754)		184,851
Cash used in operating activities	$	(3,865,987)	$	(9,334,919)
Financing activities				
Proceeds from public offering and concurrent private placement, net of share issuance costs		-		26,517,679
Proceeds from deferred revenue *(Note 15)*		25,000,000		-
Proceeds received from exercise of share purchase		-		-
warrants, net of share issuance costs		1,146,236		4,665,876
Proceeds received from exercise of stock options		-		16,772
Lease payments		(264,484)		(232,264)
Cash provided by financing activities	$	25,881,752	$	30,968,063
Investing activities				
Exploration and evaluation assets		(4,463,121)		(4,099,901)
Option income received		-		3,698,148
Short term investments		-		785,415
Property and equipment		(27,141,473)		(1,763,792)
Input taxes recoverable		-		(748,270)
Cash used in investing activities	$	(31,604,594)	$	(2,128,400)
Effect of foreign exchange		(7,076,790)		(762,435)
Decrease in cash and cash equivalents		(16,665,619)		18,742,309
Cash - beginning of the year		21,345,286		2,602,977
Cash - end of the year	$	4,679,667	$	21,345,286

See accompanying notes to the consolidated financial statements

1. Nature of Operations and Going Concern

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. Rio2 is a mining company with a focus on development and mining operations. Rio2 is focused on taking its Fenix Gold Project in Chile to production in the shortest possible timeframe based on a staged development strategy.

Rio2 is currently in an administrative appeal process with the Chilean Government in respect to the rejection of the Environmental Impact Assessment for the development of its Fenix Gold Project.

On July 24, 2018, Rio2 announced that Rio2 Limited and Atacama Pacific Gold Corporation 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.

The business of exploring for minerals and mine development involves a high degree of risk and there can be no assurance that any of the Company's current or future exploration programs will result in profitable mining operations. The Company has no source of revenue. These consolidated financial statements were prepared on a "going concern" basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As of December 31, 2022, the Company had a working capital surplus of $3,792,222 (December 31, 2021 – $19,447,615). The Company does not currently hold any revenue-generating properties and therefore continues to incur losses.

The Company incurred a net loss for the year ended December 31, 2022 of $2,303,461 (year ended December 31, 2021 – $10,525,334) and negative cash flows from operations of $3,865,987 for the year ended December 31, 2022 (year ended December 31, 2021 – $9,334,919). As at December 31, 2022, the Company had an accumulated deficit of $51,088,811 (December 31, 2021 – $48,785,350). The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and in the meantime, to obtain the necessary financing to repay its liabilities when they become due. External financing will be sought to finance the operations of the Company and enable the Company to continue its efforts towards the exploration and development of its mineral properties. These conditions, along with other matters set forth above, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. There can be no assurance that steps management is taking will be successful. These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and such adjustments could be material.

2. Basis of Presentation

Statement of Compliance

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 16, 2023.

Basis of Presentation

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.

These consolidated financial statements are presented in United States dollars, unless otherwise stated.

Principles of Consolidation

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

Name	Location	Ownership by the Company	
		December 31, 2022	December 31, 2021
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%	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.

2. Basis of Presentation (continued)

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 estimates applied to the Company's financial statements include the asset retirement obligation, 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 inputs.

Asset retirement obligation

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.

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.

2. Basis of Presentation (continued)

Use of Judgements

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 Precious Metals Purchase Agreement ("PMPA") as a gold prepaid sale arrangement and exploration and evaluation assets.

Gold prepaid sale arrangements

The Company enters into gold prepaid sale arrangements whereby the Company receives consideration for physical delivery of gold in the future. These arrangements are initially accounted for as deferred revenue since the Company determines that these arrangements are not derivatives as they will be satisfied through the delivery of non-financial items, i.e., gold, rather than cash or financial assets. It is the Company's intention to settle the obligation under these arrangements through its own gold production. Unusual and unforeseen events and circumstances may lead the Company to allow for settlements, in full or in part, of these arrangements by cash or financial assets. When such settlements by cash or financial assets occur, the Company assesses the appropriateness of continuing the accounting for these arrangements as deferred revenue. Judgement is involved in assessing the nature of the events and circumstances. Should the accounting as deferred revenue be considered inappropriate, these arrangements will be accounted for as derivatives resulting in the revaluation of the fair value of the gold prepaid sale arrangements through profit or loss on a recurring basis.

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.

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:

3. Significant Accounting Policies (continued)

- 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 exploration and evaluation assets. 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.

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 be 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.

3. Significant Accounting Policies (continued)

Restricted Share Units (“RSUs”)

The Company uses a fair value-based method of accounting for 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.

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.

3. Significant Accounting Policies (continued)

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.

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 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.

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 are 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.

3. Significant Accounting Policies (continued)

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.

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 investments

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.

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

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

Recent accounting pronouncements

IAS 16 – Property, Plant and Equipment

On January 1, 2022, the Company adopted amendments to IAS 16 which requires proceeds from selling items before the related item of property, plant and equipment is available for use to be recognized in profit or loss, together with the costs of producing those items. The initial adoption of these amendments did not have a material impact on the Company's financial statements and related note disclosures.

3. Significant Accounting Policies (continued)

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

On January 1, 2022, the Company adopted amendments to IAS 37 which clarified what costs an entity considers in assessing whether a contract is onerous. The adoption of these amendments did not have a material impact on the Company's financial statements and related note disclosures.

<u>Accounting standards issued but not yet applied</u>

The Company has not applied the following revised IFRS that have been issued but were not yet effective at December 31, 2022.

IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied for annual periods beginning on or after January 1, 2023, with early application permitted. The Company has not yet assessed the future impact of this new standard on its financial statements.

IAS 8 – Definition of Accounting Estimates

The IASB has issued amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which introduce a definition of accounting estimates and provide other clarifications to help entities distinguish accounting policies from accounting estimates.

Under the amendments, accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendments also emphasize that a change in an accounting estimate that results from new information or new developments is not an error correction, and that changes in an input or a measurement technique used to develop an accounting estimate are considered changes in accounting estimates if those changes in an input or measurement technique are not the result of an error correction.

The amendments are applied for annual periods beginning on or after January 1, 2023, with early application permitted. The Company has not yet assessed the future impact of this new standard on its financial statements.

3. Significant Accounting Policies (continued)

IAS 12 – Income Taxes

The IASB issued amendments to IAS 12 "Income Taxes" to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and will not have a significant impact on the financial statements as the Company already recognizes deferred tax as applicable per the amendments.

4. Financial Instruments and Risk Management

The Company's financial instruments consist of cash, short term investments 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, 2022, the Company has cash totalling $4,679,667 (December 31, 2021 - $21,345,286), short term investments of $46,000 (December 31, 2021 - $46,000) and current liabilities of $1,708,896 (December 31, 2021 - $3,688,258). The current liabilities are accounts payable and accrued liabilities of $1,500,069 due on demand (December 31, 2021 - $3,478,459), as well as the current portion of a lease liability of $208,827 (December 31, 2021 - $189,799).

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.

4. Financial Instruments and Risk Management (continued)

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.

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.

Sensitivity Analysis

The Company has accounts payable which are denominated in Canadian Dollars, Chilean Pesos and Peruvian Soles. A 10% change in the foreign exchange rate would impact the net loss for the period by $121,847 (December 31, 2021 – $213,831).

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, 2022		**December 31, 2021**
Share capital	$	128,530,321	$	127,202,022
Reserves		10,609,506		9,081,203
	$	139,139,827	$	136,283,225

5. Capital Risk Management (continued)

The properties in which the Company currently have an interest in 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. Cash

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

	December 31, 2022	December 31, 2021
United States dollars (i)	$ 3,747,408	$ 6,803,407
Canadian dollars	757,632	10,578,470
Chilean Peso (ii)	168,142	3,934,856
Peruvian Nuevo Sol (iii)	6,485	28,553
	$ 4,679,667	$ 21,345,286

i. The Company held $1,026,137 Canadian dollars, translated at an exchange rate of 0.7383.
ii. The Company held 144,520,105 Chilean Pesos translated at an exchange rate of 0.001163454.
iii. The Company held 24,692 Peruvian Nuevo Soles, translated at an exchange rate of 0.26261.

7. Short Term Investments

As at December 31, 2022, the Company had $46,000 (December 31, 2021 – $46,000) invested in guaranteed investment certificates ("GIC") at a major Canadian financial institution. $46,000 is invested in a GIC that accrues interest at 2% and expires on December 27, 2023. Interest is accrued during the GIC term and is recorded in interest receivable.

8. Accounts Receivable

	December 31, 2022	December 31, 2021
Trade receivables	$ 124,481	$ -
Other receivables	126,084	-
	$ 250,565	$ -

(Expressed in United States dollars, unless otherwise stated)

9. Input Taxes Recoverable

Input taxes recoverable consist of the following:

	December 31, 2022	December 31, 2021
Canadian GST/HST receivable	$ 113,559	$ 248,738
Current input taxes recoverable	$ 113,559	$ 248,738
Peruvian IGV receivable	$ 567,528	$ 476,689
Chilean IVA receivable	15,907,355	9,457,594
Long term input taxes recoverable	$ 16,474,883	$ 9,934,283

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.

(Expressed in United States dollars, unless otherwise stated)

10. Right of use asset and lease liability

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:

Balance, December 31, 2020	$	499,113
Lease additions		205,185
Amortization		(216,939)
Adjustment foreign exchange		4,636
Balance, December 31, 2021	$	491,995
Lease additions		501,030
Amortization		(220,229)
Adjustment on foreign exchange		(69,295)
Balance, December 31, 2022	$	703,501

Lease liabilities:

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
Recognition of liability		470,668
Payments – Office and miscellaneous		(234,122)
Accretion – Office and miscellaneous		23,294
Adjustment on foreign exchange		(31,753)
Balance, December 31, 2022	$	713,401
Short term portion, lease liability		208,827
Long term portion, lease liability	$	504,574

(Expressed in United States dollars, unless otherwise stated)

11. Property and Equipment

	Land	Office Equipment	Mine Equipment	Software	Total
Cost:					
Balance, December 31, 2020	$ 2,174	$ 147,367	$ 136,302	$ 216,593	$ 502,436
Additions	-	192,463	1,571,329	-	1,763,792
Balance, December 31, 2021	$ 2,174	$ 339,830	$ 1,707,631	$ 216,593	$ 2,266,228
Additions	-	45,575	27,813,756	-	27,859,331
Balance, December 31, 2022	$ 2,174	$ 385,405	$ 29,521,387	$ 216,593	$ 30,125,559
Accumulated depreciation:					
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)
Additions	-	(188,223)	(2,061,645)	(33,560)	(2,283,428)
Balance, December 31, 2022	$ -	$ (264,234)	$ (2,061,872)	$ (191,798)	$ (2,517,904)
Net book value at December 31, 2021	$ 2,174	$ 263,819	$ 1,707,404	$ 58,355	$ 2,031,752
Net book value at December 31, 2022	$ 2,174	$ 121,171	$ 27,459,514	$ 24,795	$ 27,607,655

(Expressed in United States dollars, unless otherwise stated)

12. Exploration and Evaluation Assets

	Fenix Gold Project Chile	Anocarire Gold Project Chile	Total
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
Exploration and evaluation costs additions:			
Community initiatives	134,450	-	134,450
Geological and drilling	351,549	-	351,549
Engineering studies	2,302,993	-	2,302,993
Field support	1,863,636	-	1,863,636
Balance, December 31, 2022	$ 64,773,833	$ -	$ 64,773,833

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 purchase price acquisition costs, the asset retirement obligation for Lince *(Note 14)*, geological and drilling, environmental, technical consultant fees, camp, and community relations.

Anocarire Project (Chile)

There was an option payment agreement between Rio2 and Andex Minerals ("Andex") that stated that Andex had the option of paying Rio2 $5,300,000 by December 31, 2021 in order for Andex to acquire the Anocarire Project from Rio2. 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 a gain on disposition of exploration and evaluation assets during the year ended December 31, 2021.

Osisko Royalties

On November 22, 2022, Rio2 announced that it sold a non-core royalty package for $5,000,000. The royalty sale consisted of the sale of Rio2's 1.5% royalty on the Anocarire Project and its 1.25% royalty on the Horizonte Project, both located in Chile. The amount of $5,000,000 was recognized as a gain on disposition of exploration and evaluation assets during the year ended December 31, 2022.

(Expressed in United States dollars, unless otherwise stated)

13. Accounts Payable and Accrued Liabilities

		December 31, 2022		December 31, 2021
Accounts payable	$	1,335,294	$	2,765,017
Accrued liabilities		164,775		713,442
	$	1,500,069	$	3,478,459

As of December 31, 2022, included in accounts payable and accrued liabilities was $189,507 (Decemeber 31, 2021 - $1,114,098) due to third parties in relation to exploration and evaluation assets.

14. Asset Retirement Obligation

The asset retirement obligation comprises:

		December 31, 2022		December 31, 2021
Opening balance	$	3,368,322	$	3,722,041
Accretion expense		490,461		284,771
Effect of exchange rate		(28,755)		(638,490)
	$	3,830,028	$	3,368,322

On April 15, 2020, Rio2 announced that it completed the strategic acquisition of Compañía Minera Paso San Francisco S.A. (“MPSF”). Subsequent to the acquisition of MPSF, the name of MPSF was changed to Lince S.A. (“Lince”). The Lince assets consist of strategic mining infrastructure and facilities located adjacent to Rio2’s Fenix Gold Project in Chile. Subsequent to the acquisition of MPSF, the name of MPSF was changed to Lince S.A. (“Lince”). The net assets acquired included an asset retirement obligation relating to Lince.

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 is anticipated to be done in 2026 - 2027. The credit adjusted risk free rate is 1.46%, based on the Chilean Government 10 year bond rate.

(Expressed in United States dollars, unless otherwise stated)

15. Deferred revenue

On March 25, 2022, the Company received $25,000,000 from Wheaton Precious Metals International Ltd. (“WPMI” or “Wheaton”) pursuant to the PMPA on Rio2’s Fenix Gold Project in Chile (the “Gold Stream”).

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 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.

The Company recorded the advances received on precious metals delivery, net of transaction costs, as deferred revenue and will recognize the amounts in revenue as performance obligations to metals delivery are satisfied over the term of the metals delivery and purchase agreements. The advances received on precious metals delivery are expected to reduce to nil through deliveries of the Company’s own production to WPMI. A rate of 11%, based on the rate inherent in Gold Stream, is used to calculate accretion on the financing component.

The following are components of deferred revenue as at December 31, 2022:

		December 31, 2022		December 31, 2021
Opening balance	$	-	$	-
Advances received		25,000,000		
Accretion on financing component		2,186,914		-
	$	27,186,914	$	-

16. Capital Stock

a. Share capital

The Company’s authorized share capital consists of an unlimited number of common shares of which 257,560,649 were issued and outstanding as at December 31, 2022 (254,336,483 – December 31, 2021).

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 December 14, 2022.

(Expressed in United States dollars, unless otherwise stated)

16. Capital Stock (continued)

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.

During the year ended December 31, 2022, 2,100,000 stock options were granted to officers of the Company. The estimated fair value associated with the stock options granted is $637,163. The options have an exercise price of C$0.65.

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price (C$/option)
Outstanding, December 31, 2020	15,036,433	$ 0.81
Issued	4,200,000	0.65
Exercised	(33,333)	0.65
Expired	(1,199,620)	0.92
Outstanding, December 31, 2021	18,003,480	$ 0.77
Issued	2,100,000	0.65
Expired	(2,200,110)	1.77
Forfeited	(100,000)	$ 0.65
Outstanding, December 31, 2022	17,803,370	$ 0.63
Options exercisable, December 31, 2022	11,903,370	$ 0.62

The Black-Scholes Option Pricing Model is used to estimate the fair value of options granted. Vesting periods are over a 3-year period as follows:

	2022	2021
(i) Risk-free interest rate	1.50%	0.85%
(ii) Expected life	5 years	5 years
(iii) Expected volatility	84.87%	139%
(iv) Expected dividend yield	0%	0%
(iv) Expected forfeiture rate	0%	0%

Stock options outstanding at December 31, 2022 were:

Outstanding			**Exercisable**	
Number of Options	Weighted average remaining contractual years	Weighted average exercise price C$	Number of Options	Weighted average exercise price C$
733,370	0.24	0.82	733,370	0.82
1,840,000	0.74	0.65	1,840,000	0.65
5,380,000	1.69	0.55	5,380,000	0.55
3,650,000	2.49	0.65	2,483,334	0.65
4,100,000	3.73	0.65	1,466,666	0.65
2,100,000	4.03	0.65	-	0.65
17,803,370	2.44	0.63	11,903,370	0.62

(Expressed in United States dollars, unless otherwise stated)

16. 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 C$	Number of Options	Weighted average exercise price C$
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

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.

Share based compensation relating to stock options for the year ended December 31, 2022 was $1,603,413 (year ended December 31, 2021 - $1,584,970).

RSU transactions are summarized as follows:

	Number of RSUs
Outstanding, December 31, 2020	500,000
Vested and settled in common shares	(183,333)
Outstanding, December 31, 2021	316,667
Vested and settled in common shares	(183,333)
Cancelled	(50,000)
Outstanding, December 31, 2022	83,334
Vested, December 31, 2022	41,667

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 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 practice of settling in cash.

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.

(Expressed in United States dollars, unless otherwise stated)

16. Capital Stock (continued)

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.

On January 4, 2022, 133,333 RSUs were settled. A multiplier of 2 was approved by the board of directors and therefore, 266,666 common shares were issued.

On September 9, 2022, 50,000 RSUs vested. However, the executive who held the RSUs declined any shares being issued to him for the settlement of the RSUs, and therefore, no common shares were issued.

On November 25, 2022, an executive who held 50,000 RSUs departed the company. The initial vesting terms of these RSUs were that 25,000 RSUs were to vest on December 31, 2022, and the remaining 25,000 RSUs were to vest on June 30, 2023. However, the board of directors of Rio2 approved an accelerated vesting of the RSUs to be converted into 50,000 common shares of Rio2 upon the executive's departure from the Company on November 25, 2022.

Share based compensation relating to RSUs for the year ended December 31, 2022 was $106,953 (year ended December 31, 2021 - $352,972).

c. Warrants

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

	Number of warrants	Weighted average exercise price (C$)
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
Exercised	(2,907,500)	0.50
Expired	(25,091,950)	0.50
Outstanding, December 31, 2022	-	0.00

During the year ended December 31, 2022, the Company received net proceeds of $1,146,236 for the exercise of 2,907,500 warrants.

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.

(Expressed in United States dollars, unless otherwise stated)

17. 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, 2022, and 2021 was as follows:

	2022	2021
Senior management – employment and termination costs	$ 1,821,173	$ 1,772,533
Directors fees	148,106	211,468
Share-based compensation	800,742	1,131,586
	$ 2,770,021	$ 3,115,587

18. 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, 2022		December 31, 2021
Income (loss) for the year before income taxes	$	(2,270,444)	$	(10,509,265)
Statutory tax rate		27%		27%
Recovery of income taxes computed at statutory rates		(613,000)		(2,838,000)
Non-deductible expenditures		496,000		520,000
Impact of share issuance costs		(1,000)		(428,000)
Differing effective tax rate on loss in foreign jurisdiction		580,000		(1,000)
Unrecognized deferred tax assets		10,101,000		9,264,000
Impact of foreign exchange and other		(10,529,983)		(6,500,931)
Total income tax expense	$	33,017	$	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, 2022 and 2021 are as follows:

		December 31, 2022		December 31, 2021
Deferred income tax assets				
Non-capital losses	$	634,000	$	680,000
	$	634,000	$	680,000
Deferred income tax liabilities				
Exploration and evaluation assets	$	(444,000)	$	(477,000)
Property and equipment		-		(70,000)
Other		(190,000)		(133,000)
	$	(634,000)	$	(680,000)
Net deferred income tax liability	$	-	$	-

(Expressed in United States dollars, unless otherwise stated)

18. Income Taxes (continued)

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

	December 31, 2022	Expiry Dates
Non-capital losses	$ 98,424,000	*2022-2042*
Exploration and evaluation assets	7,164,000	*no expiry*
Property and equipment	2,885,000	*no expiry*
Financing fees	1,190,000	*2043- 2046*
Other	1,361,000	*no expiry*
Total	$ 111,024,000	

As at December 31, 2022, the Company has non-capital loss carry forwards in Canada aggregating $19,743,000 which expire over the period between 2026 and 2038, available to offset future taxable income in Canada.

As at December 31, 2022, the Company has non-capital loss carry forwards in Chile aggregating $2,830,000 which do not expire, available to offset future taxable income in Chile.

As at December 31, 2022, the Company has non-capital loss carry forwards in Peru aggregating $78,197,000 which do not expire, available to offset future taxable income in Peru.

19. Segmented Information

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

During the year ended December 31, 2022 and 2021, the Company had four operating segments in four geographic areas: the corporate office in Canada, the financing of the Fenix Gold Project in the Bahamas, the support of the Fenix Gold Project in Peru, and the development of the Fenix Gold Project in Chile. Segmented disclosure of the Company's assets and liabilities is as follows:

(Expressed in United States dollars, unless otherwise stated)

19. Segmented Information (continued)

December 31, 2022

	Canada	Bahamas	Peru	Chile	Total
Property and equipment	$ -	$ -	$ 36,545	$ 27,571,111	$ 27,607,655
Exploration and evaluation assets	-	-	-	64,773,833	64,773,833
Other assets	3,804,536	99,424	1,342,131	17,433,411	22,679,502
Total assets	$ 3,804,536	$ 99,424	$ 1,378,676	$ 109,778,355	$ 115,060,990
Lease liability	$ -	$ -	$ 598,612	$ 114,790	$ 713,401
Accounts payable and accrued liabilities	232,231	-	131,993	1,135,845	1,500,069
Asset retirement obligation	-	-	-	3,830,028	3,830,028
Deferred revenue	-	27,186,914	-	-	27,186,914
Total liabilities	$ 232,231	$ 27,186,914	$ 730,605	$ 5,080,663	$ 33,230,412

December 31, 2021

	Canada	Bahamas	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)

20. 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 payments. No other material commitments exist at December 31, 2022 and 2021. The following table summarizes the Company's commitments:

				December 31, 2022
	Within 1 year	2 to 5 years	Over 5 years	Total
Lease commitments	$ 208,827	$ 504,574	$ -	$ 713,401
Subscriptions	31,874	31,874	-	63,747
Asset retirement obligation	-	3,277,193	-	3,277,193
Water supply contract	118,260	985,500	8,199,360	9,303,120
	$ 358,961	$ 4,799,141	$ 8,199,360	$ 13,357,461

21. Subsequent Events

Subsequent to December 31, 2022:

a. 41,667 RSUs were settled. A multiplier of 2 was approved by the board of directors and therefore, 83,334 common shares were issued.

b. 7,150,000 stock options were granted to officers of the Company. The estimated fair value associated with the stock options granted is C$1,233,092 and it was determined using the Black-Scholes Option Pricing Model with the following assumptions: stock price at the grant C$0.25; an annualized volatility of 92%; an expected life of 5 years; a dividend yield of 0%; a forfeiture rate of 0%; and a risk-free rate of 3.13%. The options have an exercise price of C$0.30.

c. $1,368,319 in an input tax credit refund was received by Lince S.A., a subsidiary of Rio2 Limited.