Rio2 Limited
Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Grant Thornton

Independent Auditor's Report

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

T +1 604 687 2711
F +1 604 685 6569
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, 2020, and December 31, 2019 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in 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, 2020, and December 31, 2019, 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 comprehensive loss of $11,956,258 and negative cash flows from operations of $10,774,335 for the year ended December 31, 2020. As at December 31, 2020, the Company had an accumulated deficit of $50,015,528. 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.

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.

Vancouver, Canada
April 19, 2021

Chartered Professional Accountants

RIO2 LIMITED
Consolidated Statements of Financial Position
As at December 31, 2020 and 2019
(Expressed in Canadian dollars)

		December 31, 2020		December 31, 2019
ASSETS				
Current Assets				
Cash *(Note 7)*	$	3,314,110	$	5,410,836
Short term investments *(Note 8)*		1,058,558		14,060,407
Interest receivable		-		93,301
Input taxes recoverable *(Note 9)*		8,215		7,071
Right of use asset (*Note 10*)		277,560		-
Prepaid expenses		241,971		117,791
Total current assets	$	4,900,414		19,689,406
Input taxes recoverable *(Note 9)*		11,695,632		10,475,986
Right of use asset *(Note 10)*		357,911		-
Property and equipment *(Note 11)*		438,145		236,746
Exploration and evaluation assets (*Note 12)*		76,315,898		63,652,290
Total assets	$	93,708,000	$	94,054,428
LIABILITIES				
Current Liabilities				
Lease liability *(Note 10)*		267,039		-
Accounts payable and accrued liabilities *(Note 13)*	$	2,774,950	$	3,870,208
Total current liabilities	$	3,041,989	$	3,870,208
Lease liability *(Note 10)*		345,028		-
Asset retirement obligation *(Note 14)*		4,738,902		-
Total liabilities	$	8,125,919	$	3,870,208
SHAREHOLDERS' EQUITY				
Capital stock *(Note 15)*	$	125,987,829		119,966,686
Reserves *(Note 15)*		9,609,780		8,242,121
Deficit		(50,015,528)		(38,024,587)
Total equity		85,582,081		90,184,220
Total liabilities and equity	$	93,708,000	$	94,054,428

Nature of operations and going concern uncertainty *(Note 1)*
Commitments *(Note 19)*
Subsequent Events *(Note 20)*

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, 2020 and 2019
(Expressed in Canadian dollars)

	2020	2019
Expenses		
Employment costs *(Note 16)*	$ 5,326,826	$ 4,661,389
Share based compensation *(Note 15)*	2,279,645	1,907,045
Professional fees	1,007,002	953,323
Office and miscellaneous	904,062	515,915
Investor relations	418,210	96,521
Exploration costs	270,566	625,364
Directors fees	230,499	103,000
Filing and transfer agent fees	172,459	130,050
Amortization	100,258	51,049
Travel expense	90,689	240,527
Loss before the following	$ 10,800,216	$ 9,284,183
Other (income) expense		
Foreign exchange loss	1,306,348	1,231,960
Interest income	(115,623)	(123,611)
Loss for the Year	$ 11,990,941	$ 10,392,532
Other comprehensive loss		
Exchange loss on translation of foreign operations	(34,683)	-
Total comprehensive loss for the year	$ 11,956,258	$10,392,532
Basic and Diluted Loss per Common Share	$ 0.06	$ 0.07
Weighted Average Number of Common Shares Outstanding	185,337,910	139,710,405

See accompanying notes to the consolidated financial statements

RIO2 LIMITED
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

	Capital Stock					
	Number of shares	Amount	Reserves	Foreign Currency Translation Reserve	Deficit	Total shareholders' equity (deficiency)
Balance, as at December 31, 2018	103,022,073	89,426,543	$ 6,959,468	$ -	$ (27,632,055)	$ 68,753,956
Private placements, net of share issuance costs	77,717,391	29,902,880	-	-	-	29,902,880
Stock options exercised	42,906	34,130	(21,259)	-	-	12,871
Common shares issued for vested RSUs	648,908	603,133	(603,133)	-	-	-
Share based compensation – stock options	-	-	1,730,203	-	-	1,730,203
Share based compensation - RSUs	-	-	176,842	-	-	176,842
Net loss for the year	-	-	-	-	(10,392,532)	(10,392,532)
Balance, as at December 31, 2019	181,431,278	$ 119,966,686	$ 8,242,121	-	$ (38,024,587)	$ 90,184,220
Common shares issued for vested RSUs	424,474	327,567	(327,567)	-	-	-
Stock options exercised	1,271,677	1,213,612	(619,102)	-	-	594,510
Share purchase warrants exercised	7,578,919	4,479,964	-	-	-	4,479,964
Share based compensation – stock options	-	-	2,206,204	-	-	2,206,204
Share based compensation - RSUs	-	-	73,441	-	-	73,441
Net loss for the year	-	-	-	34,683	(11,990,941)	(11,956,258)
Balance, as at December 31, 2020	190,706,348	$ 125,987,829	$ 9,575,097	$ 34,683	(50,015,528)	$ 85,582,081

See accompanying notes to the consolidated financial statements

RIO 2 LIMITED
Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

	2020	2019
Operating activities		
Net loss for the year	$ (11,990,941)	$ (10,392,532)
Items not involving cash		
Stock based compensation	2,279,645	1,907,045
Amortization	100,258	51,049
Change in non-cash components of working capital		
Input taxes recoverable	(1,144)	(76,107)
Interest receivable	93,301	(93,301)
Prepaid expenses	(116,987)	(26,129)
Accounts payable and accrued liabilities	(1,138,467)	1,449,943
Cash used in operating activities	$ (10,774,335)	(7,180,032)
Financing activities		
Net proceeds from private placements	-	29,902,880
Proceeds received from exercise of stock options	594,510	12,871
Proceeds received from exercise of share purchase warrants	4,479,964	-
Cash provided by financing activities	$ 5,074,474	29,915,751
Investing activities		
Exploration and evaluation assets	(8,449,807)	(4,312,589)
Short term investments	13,001,849	(14,060,407)
Property and equipment	(258,115)	(53,453)
Input taxes recoverable	(1,219,646)	-
Cash used in investing activities	$ 3,024,281	(18,426,449)
Effect of foreign exchange	578,854	-
Increase (decrease) in cash and cash equivalents	(2,096,726)	4,309,270
Cash - beginning of the year	5,410,836	1,101,566
Cash - end of the year	$ 3,314,110	$ 5,410,836

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 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 and is managed by Rio2's existing executive team.

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 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, 2020, the Company had a working capital surplus of $1,858,425 (December 31, 2019 – $15,819,198). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses.

The Company incurred a net loss for the year ended December 31, 2020 of $11,990,941 (year ended December 31, 2019 – $10,392,532) and negative cash flows from operations of $10,774,335 for the year ended December 31, 2020 (December 31, 2019 – $7,180,032). As at December 31, 2020, the Company had an accumulated deficit of $50,015,528 (December 31, 2019 – $38,024,587). 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. This condition, 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. 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.

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").

(Expressed in Canadian dollars)

2. Basis of Presentation (continued)

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on April 19, 2021.

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.

Principles of Consolidation

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

Name	Location	Ownership by the Company	
		December 31, 2020	December 31, 2019
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%	-

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 inputs.

2. Basis of Presentation (continued)

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.

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.

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 acquisition accounting versus business combination, as well as exploration and evaluation assets.

2. Basis of Presentation (continued)

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.

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

<u>Cash</u>

Cash consists of cash held in banking institutions.

<u>Short term investments</u>

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

3. Significant Accounting Policies (continued)

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 and equipment are recorded at cost and are amortized over their estimated useful lives under the declining balance method at the following rates:

Office equipment	30% per annum
Mining Software	20% per annum
Mine equipment	20% per annum

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 acquired the interest, wtheter 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.

3. Significant Accounting Policies (continued)

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 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.

Foreign Currency Translation

The Company's functional and presentation currency is the Canadian Dollar. The functional currency of the Company's subsidiaries Fenix Gold Limitada (Chile), Rio2 Exploraciones S.A.C. (Peru), Rio2 S.A.C. (Peru) is the United States Dollar. The accounts recorded in foreign currencies have been translated into Canadian Dollars on the following basis:

(a) monetary assets and liabilities at the rate of exchange in effect at the balance sheet date.
(b) non-monetary assets and liabilities at the rates of exchange in effect on the respective dates of transactions; and
(c) revenue and expenses at the exchange rates prevailing of the date of the transaction.

Gains and losses on translation are included in income or expense in the period in which they occur.

Share Issuance Costs

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

3. Significant Accounting Policies (continued)

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.

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.

3. Significant Accounting Policies (continued)

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.

<u>Loss per Share</u>

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.

<u>Unit Offering</u>

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.

<u>Financial Instruments</u>

Financial Assets

Financial assets are classified and measured at: FVTPL, 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.

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 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

The Company has applied the following standards and amendments for the first-time effective January 1, 2020:

- Amendments to IFRS 3 – Definition of a Business

The amendments are aimed at resolving difficulties that arise when an entity determines whether it has acquired a business or group of assets. The amounts which may have been recognized as goodwill in a business combination under the previous standard may now be recognized as allocations to net identifiable assets acquired under the amended standard. The amendments are effective for business combinations for which acquisition date is on after the beginning of the first annual reporting period beginning on or after January 1, 2020.

- Amendments to IFRS 9 – Financial Instruments

Amendments to IFRS 9, Financial Instruments ("IFRS 9") and IFRS 7, Financial Instruments: Disclosures ("IFRS 7") will affect entities that apply the hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.

- IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 are to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition, effective January 1, 2020, states "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

The Company determined that the impact of the standards and amendments were not material to its financial statements.

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

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, 2020, the Company has cash totalling $3,314,110 (December 31, 2019 - $5,410,836), short term investments of $1,058,558 (December 31, 2019 - $14,060,407) and current liabilities of $3,041,989 (December 31, 2019 - $3,870,208). The current liabilities are accounts payable of $2,764,950 due on demand, as well as an additional accrued liability of $10,000 with an unknown date of settling the obligation (December 31, 2019 - Accounts payable of $3,860,208 due on demand and accrued liabilities of $10,000), as well as the current portion of a lease liability of $267,039 (December 31, 2019 - $nil).

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's functional currency is the Canadian Dollar. 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 United States Dollars. A 10% change in the foreign exchange rate would impact comprehensive loss for the period by $264,369 (December 31, 2019 – $437,877).

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.

(Expressed in Canadian dollars)

5. Capital Risk Management (continued)

		December 31, 2020		December 31, 2019
Share capital	$	125,987,829	$	119,966,686
Reserves		9,609,780		8,242,121
	$	135,597,609	$	128,208,807

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 USD $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.

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

Purchase price:		
Cash paid	$	2,083,062
	$	2,083,062
Purchase price allocation:		
Cash	$	33,187
Prepaid expenses		7,193
Chilean IVA receivable		73,673
Property, plant and equipment		43,542
Exploration and evaluation asset (Fenix)		6,246,863
Accounts payable		(53,209)
Mine closure obligation		(4,268,187)
Net assets acquired	$	2,083,062

7. Cash

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

	December 31, 2020	December 31, 2019
Canadian dollars	$ 507,783	$ 1,382,013
United States dollars (i)	1,464,808	3,755,883
Chilean Peso (ii)	1,257,865	112,435
Peruvian Nuevo Sol (iii)	83,654	160,505
	$ 3,314,110	$ 5,410,836

i. The Company held $1,150,681 United States dollars, translated at an exchange rate of 1.272992
ii. The Company held 702,788,089 Chilean Pesos translated at an exchange rate of 0.001789821.
iii. The Company held 237,755 Peruvian Nuevo Soles, translated at an exchange rate of 0.35185.

8. Short Term Investments

As at December 31, 2020, the Company had $1,058,558 (December 31, 2019 – $14,060,407) invested in Canadian dollar denominated guaranteed investment certificates (“GIC”) at a major Canadian financial institution. $1,000,000 is invested in a GIC that accrues interest at the Canada Prime Rate less 2.2% and expires on August 13, 2021. $46,000 USD is invested in a GIC that accrues interest at 0.2% and expires on December 19, 2021. Interest is accrued during the GIC term and is recorded in interest receivable.

9. Input Taxes Recoverable

Input taxes recoverable consist of the following:

	December 31, 2020	December 31, 2019
Canadian GST/HST receivable	$ 8,215	$ 7,071
Current input taxes recoverable	$ 8,215	$ 7,071
Peruvian IGV receivable	$ 430,329	$ 405,776
Chilean IVA receivable	11,265,303	10,070,210
Long term input taxes recoverable	$ 11,695,632	$ 10,475,986

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 Canadian dollars)

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		823,103
Amortization		(187,632)
Balance, December 31, 2020	$	635,471
Short term portion, right-of-use assets		(277,560)
Balance, December 31, 2020	$	357,911

Lease liabilities:

Balance, December 31, 2019, Leases		-
Recognition of liability	$	823,103
Payments – Office and miscellaneous		(238,062)
Accretion – Office and miscellaneous		27,026
Balance, December 31, 2020	$	612,067
Short term portion, lease liability		(267,039)
Balance, December 31, 2020	$	345,028

(Expressed in Canadian dollars)

11. Property and Equipment

	Land	Office Equipment	Mine Equipment	Software	Total
Cost:					
Balance, December 31, 2019	$ -	$ 74,884	$ -	$ 263,161	$ 338,045
Additions	2,769	218,954	67,329	12,605	301,657
Balance, December 31, 2020	$ 2,769	$ 293,838	$ 67,329	$ 275,766	$ 639,702
Accumulated depreciation:					
Balance, December 31, 2019	$ -	$ (17,969)	$ -	$ (83,330)	$ (101,299)
Additions	-	(24,848)	-	(75,410)	(100,258)
Balance, December 31, 2020	$ -	$ (42,817)	$ -	$ (158,740)	$ (201,557)
Net book value at December 31, 2019	$ -	$ 56,915	$ -	$ 179,831	$ 236,746
Net book value at December 31, 2020	$ 2,769	$ 251,021	$ 67,328	$ 117,027	$ 438,145

12. Exploration and Evaluation Assets

	Fenix Gold Project Chile	Anocarire Gold Project Chile	Total
Balance, December 31, 2018	$ 53,089,535	$ 6,250,166	$ 59,339,701
Additions	5,375,095	-	5,375,095
Option income received	-	(796,140)	(796,140)
Effect of exchange rate	-	(266,366)	(266,366)
Balance, December 31, 2019	$ 58,464,630	$ 5,187,660	$ 63,652,290
Additions	13,143,554	-	13,143,554
Option income received		(386,618)	(386,618)
Effect of exchange rate	-	(93,328)	(93,328)
Balance, December 31, 2020	$ 71,608,184	$ 4,707,714	$ 76,315,898

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)

On July 24, 2018, the Company acquired the Anocarire Gold Project. Upon acquisition, the value of $6,317,160 was assigned to Anocarire based on the $4.8 million USD option payment that may be paid to Rio2 by Andex Minerals, a company controlled by a former director of Atacama Pacific. During the year ended December 31, 2018, a payment of $200,000 USD was received. During the year ended December 31, 2019, a payment of $600,000 USD was received. During the year ended December 31, 2020, a payment of $300,000 USD was received.

(Expressed in Canadian dollars)

12. Exploration and Evaluation Assets (continued)

On December 14, 2020, the option payment was revised so that Andex Minerals may pay Rio2 $5 million USD by December 31, 2021.

Payments under this option payment are being recorded as a reduction of the exploration and evaluation asset.

13. Accounts Payable and Accrued Liabilities

		December 31, 2020		December 31, 2019
Accounts payable	$	2,764,950	$	3,860,208
Accrued liabilities		10,000		10,000
	$	2,774,950	$	3,870,208

14. Asset Retirement Obligation

The asset retirement obligation comprises:

		December 31, 2020		December 31, 2019
Balance acquired (note 6)	$	4,268,187	$	-
Effect of exchange rate		470,715		-
	$	4,738,902	$	-

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 $6,061,567. The majority of the work will be done in 2025 - 2026. The credit adjusted risk free rate is 0.48%, based on the Chilean Government 1 year bond rate.

15. Capital Stock

a. Share capital

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 $4,479,964. 1,271,677 stock options were exercised for proceeds of $594,510, resulting in an average share price of $0.47 for options exercised.

The Company's authorized share capital consists of an unlimited number of common shares of which 190,706,348 were issued and outstanding as at December 31, 2020 (181,431,278 – December 31, 2019).

(Expressed in Canadian dollars)

15. Capital Stock (continued)

The Company's authorized share capital consists of an unlimited number of common shares of which 190,706,348 were issued and outstanding as at December 31, 2020 (181,431,278 – December 31, 2019).

Share transactions during the year ended December 31, 2019:

During the year ended December 31, 2019, 42,906 stock options were exercised for proceeds of $12,871, resulting in an average share price of $0.30 for options exercised.

During February and March 2019, the Company completed a non-brokered private placement via two tranches. The Company issued a total of 15,217,391 units at $0.46 per unit for aggregate gross proceeds of $7,000,000. Each unit consists of one common share and one whole common share purchase warrant. Each warrant will entitle the holder thereof to acquire one additional common share at a price of $0.65 per common share for a period of two years following the issuance of the warrant. Share issuance costs of $342,152 were paid in connection with this private placement.

On August 13, 2019, Rio2 completed a bought deal. The Company issued 62,500,000 units of the Company at a price of $0.40 per unit for aggregate gross proceeds of $25,000,000. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $0.50 for a period of 36 months following the closing of the Offering. Share issuance costs of $1,742,101 were paid in connection with the bought deal.

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 June 25, 2020.

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.

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price ($/option)
Outstanding, December 31, 2018	9,253,892	$ 1.02
Issued	5,680,000	0.55
Exercised	(42,906)	0.30
Expired or cancelled	(1,057,912)	1.16
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
Options exercisable, December 31, 2020	6,941,976	$ 1.05

(Expressed in Canadian dollars)

15. Capital Stock (continued)

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:

	2020	2019
(i) Risk-free interest rate	0.36%	1.37%
(ii) Expected life	5 years	5 years
(iii) Expected volatility	157%	134%
(iv) Expected dividend yield	0%	0%
(iv) Expected forfeiture rate	0%	0%
(vi) Fair value per option	$0.54	$0.45

Stock options outstanding at December 31, 2020 were:

Outstanding			**Exercisable**	
Number of Options	Weighted average remaining contractual years	Weighted average exercise price	Number of Options	Weighted average exercise price
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

(Expressed in Canadian dollars)

15. Capital Stock (continued)

Stock options outstanding at December 31, 2019 were:

Outstanding			**Exercisable**	
Number of Options	Weighted average remaining contractual years	Weighted average exercise price	Number of Options	Weighted average exercise price
1,683,255	0.57	$0.67	1,683,255	$0.67
330,049	0.93	$0.30	330,049	$0.30
542,932	1.21	$0.76	542,932	$0.76
445,566	2.03	$0.91	445,566	$0.91
1,366,735	2.17	$1.53	911,157	$1.53
500,025	2.32	$2.25	333,350	$2.25
166,675	2.41	$2.56	111,117	$2.56
366,685	2.67	$1.66	255,568	$1.66
811,152	3.24	$0.82	277,792	$0.82
1,940,000	3.74	$0.65	646,667	$0.65
5,680,000	4.70	$0.55	-	$0.55
13,833,074	3.25	$0.82	5,537,453	$1.00

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 options assumed from Atacama Pacific, if not already vested, vested in full on July 24, 2018. 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.

RSU transactions are summarized as follows:

	Number of RSUs
Outstanding, December 31, 2018	520,026
Issued	150,000
Vested and settled in common shares	(324,454)
Cancelled	(33,335)
Outstanding, December 31, 2019	312,237
Issued	400,000
Vested and settled in common shares	(212,237)
Cancelled	-
Outstanding, December 31, 2020	500,000
Vested, December 31, 2020	-

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.

(Expressed in Canadian dollars)

15. Capital Stock (continued)

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 30, 2019, the vesting of the RSUs were modified to vest by December 31, 2019. On December 11, 2019, 324,454 RSUs were settled via the issuance of common shares of the Company. A multiplier of 2 was awarded, therefore, a total of 648,908 common shares of the Company were issued on December 11, 2019

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

c. Warrants

In February and March 2019 as part of the private placement of 15,217,391 units, the Company issued 15,217,391 warrants with an exercise price of $0.65 and an expiry of two years. 12,623,525 warrants expired on February 28, 2021 and 2,593,866 warrants expired on March 13, 2021.

On August 13, 2019, as part of the bought deal of 62,500,000 units, the Company issued 31,250,000 warrants with an exercise price of $0.50, which will expire on August 13, 2022.

Warrants outstanding as of December 31, 2020 were:

Expiry dates	Number of warrants	Conversion price
February 28, 2021	8,134,156	$0.65
March 13, 2021	2,479,866	$0.65
August 13, 2022	28,274,450	$0.50
	38,888,472	

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

(Expressed in Canadian dollars)

15. Capital Stock (continued)

	Number of warrants	Weighted average exercise price
Outstanding, December 31, 2018	-	-
Issued	46,467,391	$0.55
Exercised	-	-
Expired	-	-
Outstanding, December 31, 2019	46,467,391	$0.55
Issued	-	-
Exercised	(7,578,919)	$0.59
Expired	-	-
Outstanding, December 31, 2020	38,888,472	$0.54

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, 2020 and 2019 was as follows:

	2020	2019
Senior management – consulting and employment costs	$ 1,913,742	$ 1,685,940
Directors fees	230,499	103,000
Share-based compensation	1,353,704	1,236,980
	$ 3,497,945	$ 3,025,920

In addition to the compensation for directors and officers, the Company had the following transactions with related parties:

(a) During the year ended December 31, 2020, the Company incurred legal fees of $40,271 (2019 - $248,757) from a firm in which a former director of Rio2 (who ceased being a director on May 28, 2019) is a partner.

(b) During the year ended December 31, 2020, the Company incurred management fees of $174,596 (2019 - $299,804) from a company owned by a director of Rio2.

(Expressed in Canadian dollars)

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, 2020	December 31, 2019
Income (loss) for the year before income taxes	$ (11,990,941)	$ (10,392,532)
Statutory tax rate	27%	27%
Recovery of income taxes computed at statutory rates	(3,238,000)	(2,806,000)
Non-deductible expenditures	623,000	731,000
Impact of share issuance costs	-	(563,000)
Differing effective tax rate on loss in foreign jurisdiction	(5,000)	1,000
Unrecognized deferred tax assets	2,494,000	5,034,000
Impact of foreign exchange and other	126,000	(2,397,000)
Total income tax (expense) recovery	$ -	$ -

The approximate tax effect of each item that gives rise to the Company's deferred tax assets and liabilities as at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Deferred income tax assets		
Non-capital losses	$ 188,000	$ -
	$ 188,000	$ -
Deferred income tax liabilities		
Property and equipment	$ (16,000)	$ -
Other	(172,000)	-
	$ (188,000)	$ -
Net deferred income tax liability	$ -	$ -

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

	December 31, 2020	Expiry Dates
Non-capital losses	$ 36,555,000	*2021-2040*
Exploration and evaluation assets	7,230,000	*no expiry*
Financing fees	1,490,000	*2041 - 2042*
Other	1,083,000	*no expiry*
Total	$ 46,358,000	

(Expressed in Canadian dollars)

17. Income Taxes (continued)

As at December 31, 2020, the Company has non-capital loss carry forwards in Canada aggregating $15,296,000 which expire over the period between 2026 and 2038, available to offset future taxable income in Canada.

As at December 31, 2020, the Company has non-capital loss carry forwards in Chile aggregating $20,036,000 which do not expire, available to offset future taxable income in Chile.

As at December 31, 2020, the Company has non-capital loss carry forwards in Peru aggregating $1,659,000 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, 2020, 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, 2020
	Canada	Peru	Chile	Total
Property and equipment	$ -	$ 144,962	$ 293,183	$ 438,145
Exploration and evaluation assets	-	-	76,315,898	76,315,898
Other assets	3,177,080	1,217,096	12,559,781	16,953,957
Total assets	$ 3,177,080	$ 1,362,058	$ 89,168,862	$ 93,708,000
Lease liability	$ -	$ 612,067	$ -	$ 612,067
Accounts payable and accrued liabilities	$ 357,300	$ 272,153	$ 2,145,497	$ 2,774,950
Asset retirement obligation	-	-	4,738,902	4,738,902
Total liabilities	$ 357,300	$ 884,220	$ 6,884,399	$ 8,125,919

(Expressed in Canadian dollars)

18. Segmented Information (continued)

				December 31, 2019
	Canada	Peru	Chile	Total
Property and equipment	$ -	$ 214,514	$ 22,232	236,746
Exploration and evaluation assets	-	-	63,652,290	63,652,290
Other assets	16,839,408	1,011,477	12,314,507	30,165,392
Total assets	$16,839,408	$ 1,225,991	$ 75,989,029	94,054,428
Accounts payable and accrued liabilities	$ 239,808	$ 459,497	$ 3,170,903	3,870,208
	$ 239,808	$ 459,497	$ 3,170,903	3,870,208

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, 2020 and 2019. The following table summarizes the Company's commitments:

				December 31, 2020
	Within 1 year	2 to 5 years	Over 5 years	Total
Lease commitments	$ 229,499	$ 345,697	$ -	$ 575,196
Water supply contract	233,855	935,420	1,636,984	$ 2,806,259
	$ 463,354	$ 1,281,117	$ 1,636,984	$ 3,381,455

20. Subsequent Events

Subsequent to December 31, 2020:

a. The Company received $5,684,416 from the exercise of 8,745,256 warrants.

b. 1,726,766 warrants with an exercise price of $0.65 expired.