# Rio2 Limited
## Consolidated Financial Statements
## For the years ended December 31, 2018 and 2017

Grant Thornton

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# Independent auditor's report

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, 2018, and December 31, 2017 and the consolidated statements of comprehensive income, 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, 2018, and December 31, 2017, 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 and comprehensive loss of $8,270,500 and negative cash flows from operations of $3,759,904 for the year ended December 31, 2018. As at December 31, 2018, the Company had an accumulated deficit of $27,632,055. 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.

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## 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.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Grant Thornton LLP

Vancouver, Canada
April 30, 2019

Chartered Professional Accountants

**RIO2 LIMITED**
**Consolidated Statements of Financial Position**
**As at December 31, 2018 and 2017**
**(Expressed in Canadian dollars)**

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets | | | | |
| Cash *(Note 7)* | $ | 1,101,566 | $ | 1,337,760 |
| Short term investments *(Note 8)* | | - | | 4,000,000 |
| Input taxes recoverable *(Note 9)* | | 8,550 | | 74,575 |
| Interest receivable | | - | | 54,449 |
| Prepaid expenses | | 91,662 | | 77,685 |
| Total current assets | | 1,201,778 | | 5,544,469 |
| Input taxes recoverable *(Note 9)* | | 10,398,400 | | 113,797 |
| Property and equipment *(Note 10)* | | 234,342 | | 6,542 |
| Exploration and evaluation assets (*Note 11)* | | 59,339,701 | | 13,901 |
| | $ | 71,174,221 | $ | 5,678,709 |
| **LIABILITIES** | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities *(Note 12)* | $ | 2,420,265 | $ | 351,073 |
| | | 2,420,265 | | 351,073 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Capital stock *(Note 13)* | | 89,426,543 | | 22,064,823 |
| Reserves *(Note 13)* | | 6,959,468 | | 2,624,368 |
| Deficit | | (27,632,055) | | (19,361,555) |
| | | 68,753,956 | | 5,327,636 |
| | $ | 71,174,221 | $ | 5,678,709 |

Nature of operations and going concern uncertainty *(Note 1)*
Subsequent events *(Note 19)*
Commitments *(Note 18)*

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 Net Income (Loss) and Comprehensive Income (Loss)**
**For the years ended December 31, 2018 and 2017**
**(Expressed in Canadian dollars)**

| | 2018 | 2017 |
|---|---|---|
| **Expenses** | | |
| Employment costs *(Note 15)* | $ 3,366,410 | $ 1,191,907 |
| Stock based compensation *(Note 13)* | 2,129,296 | 1,910,215 |
| Professional fees | 1,087,650 | 569,374 |
| Exploration costs *(Note 14)* | 490,865 | 1,514,557 |
| Travel expense | 374,735 | 318,742 |
| Office | 339,904 | 112,997 |
| Filing and transfer agent fees | 153,941 | 74,762 |
| Investor relations | 117,702 | 22,518 |
| Meals and entertainment | 21,130 | 21,357 |
| Amortization | 44,276 | 662 |
| | $ (8,125,909) | $ (5,737,091) |
| **Other income (expense)** | | |
| Interest income | 22,688 | 62,652 |
| Foreign exchange (loss) gain | (150,877) | (1,366) |
| Impairment of exploration and evaluation assets *(Note 11)* | (13,901) | - |
| Impairment of property and equipment | (2,501) | - |
| **Net Loss and Comprehensive Loss for the Year** | $ (8,270,500) | $ (5,675,805) |
| **Basic and Diluted Loss per Common Share** | 0.16 | 0.15 |
| **Weighted Average Number of Common Shares Outstanding** | 51,747,086 | 38,318,705 |

See accompanying notes to the consolidated financial statements

**RIO2 LIMITED**
**Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**
**For the years ended December 31, 2018 and 2017**
**(Expressed in Canadian dollars)**

| | Capital Stock | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | | Amount | | Reserves | | Deficit | | Total shareholders' equity (deficiency) |
| **Balance, as at December 31, 2016** | 29,797,706 | $ | 14,625,411 | $ | 714,153 | $ | (13,685,750) | $ | 1,653,814 |
| Private placement, net of issuance costs | 10,000,500 | | 7,439,412 | | - | | - | | 7,439,412 |
| Share based compensation – stock options | - | | - | | 1,529,819 | | - | | 1,529,819 |
| Share based compensation - RSUs | | | | | 380,396 | | - | | 380,396 |
| Net loss for the period | - | | - | | - | | (5,675,805) | | (5,675,805) |
| **Balance, as at December 31, 2017** | 39,798,206 | $ | 22,064,823 | $ | 2,624,368 | $ | (19,361,555) | $ | 5,327,636 |
| Common shares of Atacama exchanged for common shares of Rio2 | 56,375,340 | | 58,074,866 | | - | | - | | 58,074,886 |
| Value of Atacama options acquired | - | | - | | 1,766,609 | | - | | 1,766,609 |
| Value of Atacama warrants acquired | - | | - | | 510,686 | | - | | 510,686 |
| Private placement, net of issuance costs | 6,667,000 | | 9,160,885 | | - | | - | | 9,160,885 |
| Stock options exercised | 181,527 | | 125,949 | | (71,491) | | - | | 54,458 |
| Share based compensation – stock options | - | | - | | 1,800,368 | | - | | 1,800,368 |
| Share based compensation - RSUs | - | | - | | 328,928 | | - | | 328,928 |
| Net loss for the period | - | | - | | - | | (8,270,500) | | (8,270,500) |
| **Balance, as at December 31, 2018** | 103,022,073 | $ | 89,426,523 | $ | 6,959,468 | $ | (27,632,055) | $ | 68,753,956 |

See accompanying notes to the consolidated financial statements

## RIO2 LIMITED
## Consolidated Statements of Cash Flows
## For the years ended December 31, 2018 and 2017
## (Expressed in Canadian dollars)

| | 2018 | 2017 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the year | $ (8,270,500) | $ (5,675,805) |
| Items not involving cash | | |
| Stock based compensation | 2,129,296 | 1,910,215 |
| Amortization | 49,382 | 662 |
| Impairment of exploration and evaluation assets | 13,901 | - |
| Impairment of property and equipment | 2,501 | - |
| Change in non-cash components of working capital | | |
| Input taxes recoverable | 257,974 | (179,294) |
| Interest receivable | 54,449 | (54,449) |
| Prepaid expenses | (13,977) | (77,685) |
| Accounts payable and accrued liabilities | 2,017,070 | 298,580 |
| **Cash used in operating activities** | (3,759,904) | (3,777,776) |
| **Financing activities** | | |
| Net proceeds from private placement | 9,160,885 | 7,439,412 |
| Proceeds received from exercise of stock options | 54,458 | - |
| Repayment of loan to related party | - | (100,000) |
| **Cash provided by financing activities** | 9,215,343 | 7,339,412 |
| **Investing activities** | | |
| Cash received in asset acquisition | 495,800 | - |
| Cash paid in transaction costs in asset aquisition | (7,569,524) | - |
| Short term investments | 4,000,000 | (4,000,000) |
| Exploration and evaluation assets | (2,338,226) | - |
| Property and equipment | (279,683) | (3,995) |
| **Cash used in investing activities** | (5,691,633) | (4,003,995) |
| Decrease in cash and cash equivalents | (236,194) | (442,359) |
| Cash - beginning of the year | 1,337,760 | 1,780,119 |
| **Cash - end of the year** | $ 1,101,566 | $ 1,337,760 |

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. The Company was incorporated under of the laws of the province of British Columbia on February 13, 1990 under the name of Prospector Consolidated Resources Inc. The Company changed its name to Prospector Resources Corp. on January 31, 2011 and its shares began trading on the TSX Venture Exchange (“TSXV”) effective November 28, 2016 under the symbol PRR.

The Company continued from the Province of British Columbia to the Province of Ontario pursuant to a resolution passed by shareholders of the company at the Company’s Annual General and Special Meeting (the “Meeting”) held on April 21, 2017. In addition to the Continuance, the Company changed its name to Rio2 Limited (“Rio2”) on April 27, 2017 pursuant to a resolution passed by the shareholders of the Company at the Meeting. On Friday, April 28, 2017, the common shares of the Company began to trade on the TSXV under the symbol “RIO”.

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.

On September 7, 2018, Rio2 announced that the Company's common shares have been listed for trading on the Bolsa de Valores de Lima ("BVL") as of the opening of trading on September 7, 2018 under the ticker symbol “RIO”.

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, 1260-355 Burrard Street, Vancouver, BC, V6C 2G8.

Rio2 is building a multi-asset, multi-jurisdiction, precious metals company focused in the Americas. With projects in Chile and Peru, Rio2 will continue pursuing additional strategic acquisitions to compile a portfolio of precious metals assets where it can deploy its operational excellence and responsible mining practices to create value for its shareholders.

The Company has not yet determined whether the properties they hold contain mineral reserves which are economically recoverable. 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, 2018, the Company had a working capital deficiency of $1,218,487 (December 31, 2017 – working capital surplus of $5,193,396). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses.

**(Expressed in Canadian dollars)**

## 1. Nature of Operations and Going Concern (continued)

The Company incurred a net and comprehensive loss for the year ended December 31, 2018 of $8,270,500 (December 31, 2017 – net and comprehensive loss of $5,675,805) and negative cash flows from operations of $3,759,904 for the year ended December 31, 2018 (December 31, 2017 – $3,777,776). As at December 31, 2017, the Company had an accumulated deficit of $27,632,055 (December 31, 2017 – $19,361,555). 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, predominantly by the issuance of equity, 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 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 April 30, 2019.

### 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, as explained in the accounting policies set out in Note 3. In addition, the financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information.

The Company restated the statement of changes equity to align the comparative number of shares issued and outstanding after the reduction of proportionate issued and outstanding shares as a result of the Arrangement with Atacama Pacific. The restatement did not have any impact on the comparative equity balances.

### 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 at December 31, | |
|---|---|---|---|
| | | 2018 | 2017 |
| Rio2 S.A.C. | Peru | 100% | 100% |
| Rio2 Exploraciones S.A.C. | Peru | 100% | 100% |
| Rio2 S.A. | Nicaragua | 100% | 100% |
| Fenix Gold Limitada | Chile | 100% | - |

## 2. Basis of Presentation (continued)

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.

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 the assumptions of going concern and functional currency, as well as the determination of whether deferred tax assets are likely to be realized.

## 3. Significant Accounting Policies

Cash

Cash consists of cash held in banking institutions.

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 |

Financial Instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, fair value through profit or loss ("FVTPL"), available-for-sale, or other financial liabilities. Financial assets and liabilities FVTPL are measured at fair value with gains and losses recognized in net income. Financial

**3. Significant Accounting Policies (continued)**

assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income and reported in shareholders' equity.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as held-to-maturity, loans and receivables, or other financial liabilities are included in the initial carrying value of such instruments and amortized using the effective interest method. Transaction costs classified as FVTPL are expensed when incurred, while those classified as available for sale are included in the initial carrying value.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<u>Exploration and Evaluation Assets</u>

The Company accounts for mineral property interests in accordance with IFRS 6 – Exploration for and evaluation of mineral properties ("IFRS 6"). 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)

Site Rehabilitation Provisions

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 mineral properties 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 SAC (Peru), Rio2 SAC (Peru) is the United States Dollar. The functional currency of the Company's subsidiary Rio2 SA (Nicaragua) is the Nicaraguan Cordoba. 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 of Equity settled awards are measured at using a 5-day Volume Weighted Average Price (“VWAP”) 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>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.

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

### 3. Significant Accounting Policies (continued)

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

- cash; 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. This is applicable to the Company's trade receivables which are subject to provisional pricing.

These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price stipulated in the contract and causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at FVTPL from the date of sale, with subsequent movements being recognized in revenue in the statement of comprehensive income.

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, depending on the purpose for which the asset was acquired. 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 amounts due to related parties, all of which are measured at amortized cost.

**(Expressed in Canadian dollars)**

## 3. Significant Accounting Policies (continued)

**Changes in accounting policies and disclosures**
The Company applied IFRS 15 and IFRS 9 effective January 1, 2018, the nature and effect of which are described below. Other than the changes described below, the accounting policies adopted are consistent with those of the comparative period.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 applies to all revenue arising from contracts with its customers. The new revenue standard establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognized when (or as) control of a good or service transfers to a customer at an amount that reflects the consideration to which an entity expects to be entitled. The standard also requires enhanced and extensive disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

IFRS 9 – Financial Instruments

Under IFRS 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, in accordance with IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and amortized cost. Investments in equity instruments are required to be measured by default at FVTPL (but there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income). Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The Company adopted IFRS 15 using the modified retrospective approach, which means the cumulative impact of adoption will be recognized as at January 1, 2019 and comparatives will not be restated**.** There is no impact from adoption of IFRS 15. IFRS 9 allows for an exemption from restating prior periods in respect of the standard's classification and measurement requirements. The Company has chosen to apply this exemption upon initial adoption. However, it was determined that the adoption of IFRS 9 has no impact on the comparative year's consolidated financial statements. There was no impact on hedging as the Company does not apply hedge accounting. The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The adoption of IFRS 9 had no quantitative impact on the Company's financial instruments; however, it has an impact on the classification and disclosure of the Company's financial instruments compared to the old standard IAS 39 as follows:

| | Original classification under IAS 39 | New classification under IFRS 9 |
|---|---|---|
| **Financial assets** | | |
| Cash | Loans and receivable | Amortized cost |
| Short-term investments | Loans and receivable | Amortized cost |
| **Financial liabilities** | | |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |

## 3. Significant Accounting Policies (continued)

Accounting Standards Issued But Not Yet Applied

IFRS 16 – Leases

IFRS 16 replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. The Company has not yet assessed the future impact of this new standard on its financial statements.

## 4. Financial Instruments

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 and receivables. 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, 2018, the Company has cash totalling of $1,101,566 (December 31, 2017 - $1,337,760) and current liabilities of $2,420,265 (December 31, 2017 - $351,073). The current liabilities are accounts payable of $2,410,265 due on demand, and accrued liabilities of $10,000.

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 (continued)

*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 cash, expenditures, amounts receivable, accounts payable and accruals are denominated in U.S. Dollars, Chilean Pesos, Peruvian Soles, and Nicaraguan Cordobas 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 material 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 tungsten and gold and the outlook for these minerals. 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 United States Dollars. A 10% change in the foreign exchange rate would impact comprehensive loss for the period by $246,700 (December 31, 2017 – $26,615).

## 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, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Capital stock | $ | 89,426,543 | $ | 22,064,823 |
| Reserves | | 6,959,468 | | 2,624,368 |
| | $ | 96,386,011 | $ | 24,689,191 |

**(Expressed in Canadian dollars)**

**5. Capital Risk Management (continued)**

The properties in which the Company currently has an interest are in the exploration 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. Atacama Pacific Acquisition**

On July 24, 2018, Rio2 announced that Rio2 Limited and Atacama Pacific completed 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 Arrangement was completed under the *Business Corporations Act* (Ontario) ("OBCA"). Prior to the effective time of the Arrangement, Atacama Pacific continued from the *Canada Business Corporations Act* to the OBCA. Pursuant to the terms of the Arrangement, each Atacama Pacific shareholder received 0.6601 common shares of Rio2 Limited for each Atacama Pacific common share held and each Rio2 shareholder received 0.6667 common shares of Rio2 for each Rio2 common share held. 85,404,244 shares of Atacama Pacific were exchanged for 56,375,340 common shares of Rio2. 69,694,362 common shares of the old

Rio2 were exchanged for 46,465,206 common shares of the Company. All common share and share based payment balances in these financial statements reflect the exchange ratio applied to common shares of Rio2 retroactively.

The acquisition purchase price of the Fenix Gold Project reflects the closing market price of Atacama Pacific's common shares on July 24, 2018, which was CAD $0.68.

Each Atacama Pacific stock option or warrant which gave the holder the right to acquire shares in the common stock of Atacama Pacific was exchanged for a stock option or warrant which gave the holder the right to acquires shares in common stock of Rio2 on the same basis as the exchange ratio of Atacama Pacific common shares for Rio2 common shares. These stock options and warrants have been included in the purchase price at their fair value based on the Black-Scholes pricing model using the following weighted average assumptions.

| | Options | Warrants |
|---|---|---|
| Issued | 4,640,820 | 4,233,324 |
| Strike price | $0.78 | $0.91 |
| Risk-free interest rate | 2.03% | 2.03% |
| Expected life (years) | 1.85 | 0.31 |
| Expected price volatility | 125% | 125% |

### 6. Atacama Pacific Acquisition (continued)

The Company accounted for the transaction as an asset acquisition as Atacama 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 preliminary purchase price has been determined and allocated as follows:

| | | |
|---|---|---|
| Purchase price: | | |
| Fair value of shares issued | $ | 58,074,886 |
| Fair value of stock options issued | | 1,766,609 |
| Fair value of warrants issued | | 510,686 |
| Transaction costs | | 1,940,175 |
| | $ | 62,292,356 |
| Purchase price allocation: | | |
| Cash | $ | 495,800 |
| Canadian GST/HST receivable | | 452,334 |
| Chilean IVA receivable | | 10,024,213 |
| Exploration property (Fenix Gold Project) | | 50,684,315 |
| Exploration property (Anocarire Gold Project) | | 6,317,160 |
| Accounts payable | | (52,117) |
| Due to Rio2 (i) | | (5,629,349) |
| Net assets acquired | $ | 62,292,356 |

i. Atacama incurred transaction costs of $5,629,349 that it was unable to settle with their own cash balances. Rio2 paid these amounts on behalf of Atacama.

### 7. Cash

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

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Canadian dollars | $ | 368,079 | $ | 916,414 |
| United States dollars (i) | | 521,909 | | 399,446 |
| Chilean Peso (ii) | | 199,070 | | - |
| Peruvian Nuevo Sol (iii) | | 12,357 | | 21,706 |
| Nicaraguan Cordoba | | 151 | | 194 |
| | $ | 1,101,566 | $ | 1,337,760 |

i. The Company held 384,650 United States dollars, translated at an exchange rate of 1.3568
ii. The Company held 102,068,323 Chilean Pesos translated at an exchange rate of 0.0019504.
iii. The Company held 30,683 Peruvian Nuevo Soles, translated at an exchange rate of 0.4027.
iv. The Company held 5,000 Nicaraguan Cordobas, translated at an exchange rate of 0.0302.

## 8. Short term investments

As a December 31, 2018, the Company had $nil (2017 – $4,000,000) invested in Canadian dollar denominated guaranteed investment certificates ("GIC") at a major Canadian financial institution. 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, 2018 | December 31, 2017 |
|---|---|---|
| Canadian GST/HST receivable | $ 8,550 | $ 72,946 |
| Nicaragua IVA receivable | - | 1,629 |
| Current input taxes recoverable | $ 8,550 | $ 74,575 |
| | | |
| Peruvian IGV receivable | $ 254,569 | $ 113,797 |
| Chilean IVA receivable | 10,143,831 | - |
| Long term input taxes recoverable | $ 10,398,400 | $ 113,797 |

The Peruvian Impuestos General a las Ventas ("IGV") receivable consists of input taxes recoverable for expenses incurred for an Agreement (the "Agreement") with Nexa Peru S.A.A. ("Nexa"). See Note 14 for further details of the Agreement. The Agreement was signed on April 10, 2017, and registered in January 2019 with the public registry of Peru.

The Chilean Impuesto al Valor Agregado ("IVA") relates to the Fenix project. As per Note 6 of these financial statements, $10,024,313 in IVA was acquired from Atacama on July 24, 2018. An additional $119,518 in IVA was realized during the year ended December 31, 2018 for a total balance of $10,143,831 as at December 31, 2018. 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. Property and Equipment

| | Office Equipment | Software | Land | Total |
|---|---|---|---|---|
| Cost: | | | | |
| Balance, December 31, 2017 | 4,909 | - | 2,501 | 7,410 |
| Additions | 39,220 | 240,462 | - | 279,683 |
| Disposals | - | - | - | - |
| Impairment | - | - | (2,501) | (2,501) |
| Balance, December 31, 2018 | 44,129 | 240,462 | - | 284,592 |
| Accumulated depreciation: | | | | |
| Balance, December 31, 2017 | (868) | - | - | (868) |
| Additions | (6,252) | (43,130) | - | (49,382) |
| Balance, December 31, 2018 | (7,120) | (43,130) | - | (50,250) |
| Net book value at December 31, 2017 | 4,041 | - | 2,501 | 6,542 |
| Net book value at December 31, 2018 | 37,010 | 197,332 | - | 234,342 |

## 11. Exploration and Evaluation Assets

| | Fenix Gold Project Chile | Anocarire Gold Project Chile | Kalzas Yukon | Total |
|---|---|---|---|---|
| Balance, December 31, 2016 | $ - | $ - | $ 13,901 | $ 13,901 |
| Additions | - | - | - | - |
| Balance, December 31, 2017 | $ - | $ - | $ 13,901 | $ 13,901 |
| Acquisition of Atacama | 50,684,315 | 6,317,160 | - | 57,001,475 |
| Additions | 2,405,219 | - | - | 2,405,219 |
| Effect of exchange rate | - | 195,686 | - | 195,686 |
| Option income received | - | (262,680) | - | (262,680) |
| Impairment of property | - | - | (13,901) | (13,901) |
| Balance, December 31, 2018 | $ 53,089,534 | $ 6,250,166 | $ - | $ 59,339,701 |

Fenix Gold Project (Chile)

On July 24, 2018, the Company acquired the Fenix Gold Project (“Fenix”) (see Note 6). Evaluation related costs were capitalized to the asset from the date of acquisition by Rio2 on July 24, 2018 to December 31, 2018. Additions to Fenix during the period of July 24, 2018 to December 31, 2018 included drilling, technical consultant fees and equipment rentals.

**(Expressed in Canadian dollars)**

## 11. Exploration and Evaluation Assets (continued)

Anocarire Project (Chile)

On July 24, 2018, the Company acquired the Anocarire Gold Project (see Note 6). 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 a company controlled by Paul Champagne, a former director of Atacama Pacific. During the year ended December 31, 2018, a payment of $200,000 USD was received on the payment, and the remaining payment of $4,600,000 USD is expected during the year ended December 31, 2019. Payments under this agreement are being recorded as a reduction of the exploration and evaluation asset.

Kalzas Property (Yukon)

Pursuant to an agreement dated August 8, 2007, the Company obtained an option to acquire a 100% interest in the Kalzas Property located in the Mayo Mining District, Yukon from Redtail Metals Corp. ("Redtail"), formerly Copper Ridge Explorations Inc.

The interest was written-down to a nominal value of $1 in 2015 upon cessation of work on the property. The Company recommenced activities in respect of the property in the year ended December 31, 2016. In addition, an asset retirement obligation of $10,000 has been set up with respect to the property.

In June 2018, management determined that it has no intention of doing further work on the property, and therefore determined that the value of the property be written down to $0.

## 12. Accounts Payable and Accrued Liabilities

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Accounts payable | $ | 2,410,265 | $ | 293,105 |
| Accrued liabilities | | 10,000 | | 57,968 |
| | $ | 2,420,265 | $ | 351,073 |

## 13. Capital Stock

a. Share capital

On February 24, 2017, the Company issued 15,000,000 common shares of the Company at a price of $0.50 per common share for aggregate gross proceeds of $7,500,000. Share issuance costs of $60,187 were paid in connection with this private placement.

On July 24, 2018, the Company issued 6,667,000 common shares of the Company at a price of $1.50 per common share for aggregate gross proceeds of $10,000,000. Share issuance costs of $839,116 were paid in connection with this private placement.

Authorized share capital consists of an unlimited number of common shares of which 103,022,073 were issued and outstanding as at December 31, 2018 (39,798,206 – December 31, 2017).

**(Expressed in Canadian dollars)**

## 13. Capital Stock (continued)

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 Share Incentive Plan and the Stock Option Plan at a meeting held on July 16, 2018.

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

Stock option transactions are summarized as follows:

| | Number of options | Weighted Average Exercise Price ($/option) |
|---|---|---|
| Outstanding, December 31, 2017 | 2,466,790 | $ 1.77 |
| Exercised | (181,527) | 0.30 |
| Expired | (445,566) | 0.63 |
| Issued | 2,773,375 | 0.65 |
| Issued on July 24, 2018* | 4,640,820 | 0.78 |
| Outstanding, December 31, 2018 | 9,253,892 | 1.02 |
| Options exercisable, December 31, 2018 | 5,113,782 | $ 0.95 |

*As part of the Arrangement with Atacama Pacific

Proceeds from the exercise of options were $54,458 (2017 – nil) during the year ended December 31, 2018.

Stock options outstanding at December 31, 2018 were:

**(Expressed in Canadian dollars)**

## 13. Capital Stock (continued)

| Outstanding | | | Exercisable | |
|---|---|---|---|---|
| Number of Options | Weighted average remaining contractual years | Weighted average exercise price | Number of shares | Weighted average exercise price |
| 427,742 | 0.08 | $1.51 | 427,742 | $1.51 |
| 6,601 | 0.24 | $0.76 | 6,601 | $0.76 |
| 310,245 | 0.56 | $0.88 | 310,245 | $0.88 |
| 1,683,255 | 1.57 | $0.67 | 1,683,255 | $0.67 |
| 402,659 | 1.93 | $0.33 | 402,659 | $0.33 |
| 661,748 | 2.21 | $0.76 | 661,748 | $0.76 |
| 521,477 | 3.03 | $0.91 | 521,477 | $0.91 |
| 1,366,735 | 3.17 | $1.53 | 455,578 | $1.53 |
| 500,025 | 3.32 | $2.25 | 166,675 | $2.25 |
| 166,675 | 3.41 | $2.56 | 55,558 | $2.56 |
| 433,355 | 3.67 | $1.66 | 144,452 | $1.66 |
| 833,375 | 4.24 | $0.82 | 277,792 | $0.82 |
| 1,940,000 | 4.74 | $0.65 | - | $0.65 |
| 9,253,892 | 2.98 | $1.02 | 5,113,782 | $0.95 |

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, 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, 2017 | 520,026 |
| Exercised | - |
| Issued | - |
| Outstanding, December 31, 2018 | 520,026 |
| Vested, December 31, 2018 | - |

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. On March 13, 2018, the vesting of RSUs scheduled to vest during the year ended December 31, 2018 were modified so that the first tranche would vest after 2018 financial results are finalized in April 2019. On April 30, 2019, the vesting of the RSUs were further modified to vest by December 31, 2019.

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.

**(Expressed in Canadian dollars)**

## 13. Capital Stock (continued)

c. Warrants

On July 24, 2018, the Company assumed 6,413,167 warrants from Atacama Pacific, which are each exchangeable for 0.6601 common shares of Rio2. The effective exercise price of these warrants is $0.91. These warrants expired on November 17, 2018.

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.

## 14. Exploration Costs

Exploration costs expensed during the years ended December 31, 2018 and 2017 are as follows:

| | | | | **December 31, 2018** | **December 31, 2017** |
|---|---|---|---|---|---|
| | Nexa Portfolio (Peru) | Nicaraguan Portfolio | Other Projects* | Total | Total* |
| Technical consultants | $ 80,121 | $ 29,122 | $ 245,992 | $ 355,235 | $ 1,137,180 |
| Geology | 78,559 | 51,044 | - | 129,603 | 66,700 |
| Community Relations | 1,466 | 4,561 | - | 6,027 | 310,677 |
| | $ 160,146 | $ 84,727 | $ - | $ 490,865 | $ 1,514,557 |

*Other projects relate to pre-exploration or project investigation of various projects.

Nexa Portfolio (Peru)

On April 10, 2017, the Company entered into an Agreement (the “Agreement”) with Nexa Peru S.A.A. (formerly Compañía Minera Milpo S.A.A.) pursuant to which it has the right and option, but not the obligation, to acquire all rights and interests in the Peruvian Portfolio. The material terms of the Agreement include the following:

- Rio2 is required to incur a total of US$5 million in exploration expenditures on the Peruvian Portfolio over a 36-month period. To date, $1,066,783 has been incurred by Rio2.
- To exercise the option and acquire the Peruvian Portfolio, Rio2 is required to complete the US$5 million investment within the specified time period after which it will grant Nexa a two percent net smelter return royalty over the Peruvian Portfolio.
- If the 36-month option is exercised, Rio2 will have an additional 3 years to deliver a Feasibility Study or express its decision to start a mining project.

**(Expressed in Canadian dollars)**

## 14. Exploration Costs (continued)

Nicaraguan Portfolio

Rio2 applied for 10,000 hectares of exploration concessions in May 2017 in Nicaragua. All expenses related to Nicaragua have been expensed to the income statement, in accordance with the Company's Exploration and Evaluation Assets policy.

## 15. Related Party Transactions

Compensation of Key Management

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 ended December 31, 2018 and 2017 was as follows:

| | 2018 | 2017 |
|---|---|---|
| Senior management – consulting and employment costs | $ 1,025,012 | $ 649,535 |
| Share-based compensation | 1,134,909 | 1,327,079 |
| | $ 2,159,921 | $ 1,976,614 |

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

(a) During the year ended December 31, 2018, the Company incurred legal fees of $566,403 (2017 - $251,321) to a firm in which a director of the Company is a partner.

(b) During the year ended December 31, 2018, the Company incurred management fees of $109,787 (2017 - $nil) to a company in which a director of the Company is the owner.

## 16. Deferred 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:

**(Expressed in Canadian dollars)**

## 16. Deferred Income Taxes (continued)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Income (loss) for the year before income taxes | $ (8,270,500) | $ (5,572,036) |
| Statutory tax rate | 27% | 26% |
| Recovery of income taxes computed at statutory rates | (2,233,000) | (1,449,000) |
| Non-deductible expenditures | 324,000 | 499,000 |
| Impact of share issuance costs | (227,000) | (16,000) |
| Differing effective tax rate on loss in foreign jurisdiction | (21,000) | (35,000) |
| Impact of change in statutory tax rates | - | (110,000) |
| Unrecognized deferred tax assets | 1,726,000 | 889,000 |
| Impact of foreign exchange and other | 431,000 | 222,000 |
| 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, 2018 and 2018 are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deferred income tax assets | | |
| Non-capital losses | $ 53,000 | $ - |
| | $ 53,000 | $ - |
| Deferred income tax liabilities | | |
| Exploration and evaluation assets | $ (53,000) | $ - |
| | $ (53,000) | $ - |
| Net deferred income tax liability | $ - | $ - |

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

| | December 31, 2018 | Expiry Dates | December 31, 2017 |
|---|---|---|---|
| Non-capital losses | $ 12,308,000 | *2020-2038* | $ 4,983,000 |
| Exploration and evaluation assets | 5,499,000 | *no expiry* | 7,228,000 |
| Financing fees | 713,000 | *2039 - 2041* | 56,000 |
| Other | 61,000 | *no expiry* | 1,000 |
| Total | $ 18,581,000 | | $ 12,268,000 |

As at December 31, 2018, the Company has non-capital loss carry forwards in Canada aggregating $7,016,000 (December 31, 2017 - $3,696,000) which expire over the period between 2026 and 2038, available to offset future taxable income in Canada.

**(Expressed in Canadian dollars)**

### 16. Deferred Income Taxes (continued)

As at December 31, 2018, the Company has non-capital loss carry forwards in Chile aggregating $3,527,000 (December 31, 2017 - $0) which do not expire, available to offset future taxable income in Chile.

As at December 31, 2018, the Company has non-capital loss carry forwards in Peru aggregating $1,717,000 (December 31, 2017 - $1,207,000) which do not expire, available to offset future taxable income in Peru.

As at December 31, 2018, the Company has non-capital loss carry forwards in Nicaragua aggregating $245,000 (December 31, 2017 - $80,000) which expire over the period between 2020 and 2021 available to offset future taxable income in Nicaragua.

### 17. Segmented Information

The Company has four operating segments in four geographic areas: the corporate office in Canada, development of the Fenix Project in Chile, the development of the Nexa Portfolio in Peru, and development of the Nicaraguan Portfolio in Nicaragua. Segmented disclosure and Company-wide information is as follows:

December 31, 2018

| | Canada | Chile | Peru | Nicaragua | Total |
|---|---|---|---|---|---|
| Property and equipment | $ - | $ 26,653 | $ 205,325 | $ 2,364 | $ 234,342 |
| Exploration and evaluation assets | - | 59,339,701 | - | - | 59,339,701 |
| Other assets | 733,404 | 10,478,424 | 387,183 | 1,167 | 11,600,178 |
| Total assets | $ 733,404 | $ 69,844,778 | $ 592,508 | $ 3,531 | $ 71,174,221 |
| Accounts payable and accrued liabilities | $ 409,268 | $ 1,712,738 | $ 246,155 | $ 52,104 | $ 2,420,265 |
| | $ 409,268 | $ 1,712,738 | $ 246,155 | $ 52,104 | $ 2,420,265 |

December 31, 2017

| | Canada | Chile | Peru | Nicaragua | Total |
|---|---|---|---|---|---|
| Property and equipment | $ 2,501 | $ - | $ - | $ 4,041 | $ 6,542 |
| Exploration and evaluation assets | 13,901 | - | - | - | 13,901 |
| Other assets | 5,372,170 | - | 283,326 | 2,770 | 5,658,266 |
| Total assets | $ 5,388,572 | $ - | $ 283,326 | $ 6,811 | $ 5,678,709 |
| Accounts payable and accrued liabilities | $ 185,594 | $ - | $ 127,189 | $ 38,290 | $ 351,073 |
| | $ 185,594 | $ - | $ 127,189 | $ 38,290 | $ 351,073 |

**(Expressed in Canadian dollars)**

## 17. Segmented Information (continued)

For the year ended December 31, 2018

| | Canada | Chile | Peru | Nicaragua | Total |
|---|---|---|---|---|---|
| Stock based compensation | $ 2,129,296 | $ - | $ - | $ - | $ 2,129,296 |
| Exploration costs | 207,153 | - | 261,725 | 21,987 | 490,865 |
| Employment costs | 1,601,681 | 619,059 | 1,068,927 | 76,743 | 3,366,410 |
| Professional fees | 756,372 | 170,218 | 151,819 | 9,241 | 1,087,650 |
| Travel expense | 133,641 | 99,867 | 135,344 | 5,883 | 374,735 |
| Office | 118,803 | 52,242 | 129,452 | 39,407 | 339,904 |
| Filing and transfer agent fees | 153,941 | - | - | - | 153,941 |
| Investor relations | 104,108 | - | 13,594 | - | 117,702 |
| Meals and entertainment | 9,372 | - | 8,215 | 3,543 | 21,130 |
| Amortization | - | - | 42,713 | 1,563 | 44,276 |
| Interest income | (22,688) | - | - | - | (22,688) |
| Foreign exchange loss (gain) | (433,030) | 451,177 | 114,652 | 18,078 | 150,877 |
| Impairment of mineral property | 13,901 | - | - | - | 13,901 |
| Impairment of plant and equipment | 2,501 | - | - | - | 2,501 |
| Net loss | $ 4,775,050 | $ 1,392,563 | $ 1,926,441 | $ 176,446 | $ 8,270,500 |

For the year ended December 31, 2017

| | Canada | Chile | Peru | Nicaragua | Total |
|---|---|---|---|---|---|
| Stock based compensation | $ 1,910,215 | $ - | $ - | $ - | $ 1,910,215 |
| Exploration costs | 412,119 | - | 906,637 | 195,801 | 1,514,557 |
| Employment costs | 1,146,387 | - | 635 | 44,885 | 1,191,907 |
| Professional fees | 455,277 | - | 106,799 | 7,298 | 569,374 |
| Travel expense | 316,229 | - | 2,385 | 128 | 318,742 |
| Office | 80,899 | - | 3,256 | 28,842 | 112,997 |
| Filing and transfer agent fees | 74,762 | - | - | - | 74,762 |
| Investor relations | 22,518 | - | - | - | 22,518 |
| Meals and entertainment | 14,352 | - | 7,005 | - | 21,357 |
| Amortization | 46 | - | - | 616 | 662 |
| Interest income | (62,652) | - | - | - | (62,652) |
| Foreign exchange loss (gain) | 18,347 | - | (15,928) | (1,053) | 1,366 |
| Net loss | $ 4,388,499 | $ - | $ 1,010,789 | $ 276,517 | $ 5,675,805 |

**(Expressed in Canadian dollars)**

## 18. 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, 2018 and 2017. The following table summarizes the Company's commitments:

| | | | | **December 31, 2018** | **December 31, 2017** |
|---|---|---|---|---|---|
| | Within 1 year | 2 to 5 years | Over 5 years | Total | Total |
| Lease commitments | $ 122,767 | $ 204,612 | $ - | $ 327,379 | $ 34,697 |
| | $ 122,767 | $ 204,612 | $ - | $ 327,379 | $ 34,697 |

## 19. Subsequent Events

In 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 of Rio2 ("Common Share") and one whole Common Share purchase warrant ("Warrant"). Each Warrant will entitle the holder thereof to acquire one additional Common Shares at a price of $0.65 per Common Share for a period of two years following the issuance of the Warrant.