RIO2 LIMITED

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by, and are the responsibility of, the Company’s management. The Company’s independent auditor has not performed a review of these interim financial statements.

RIO2 LIMITED
Condensed Interim Consolidated Statements of Financial Position
As at June 30, 2019 and December 31, 2018
(Expressed in Canadian dollars)

		June 30, 2019		December 31, 2018
ASSETS				
Current Assets				
Cash	$	1,415,931	$	1,101,566
Input taxes recoverable *(Note 6)*		8,207		8,550
Prepaid expenses		35,233		91,662
Total current assets		1,459,371		1,201,778
Input taxes recoverable *(Note 6)*		11,209,422		10,398,400
Property and equipment *(Note 7)*		195,104		234,342
Exploration and evaluation assets (*Note 8)*		61,123,865		59,339,701
	$	73,987,762	$	71,174,221
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities *(Note 9)*	$	2,216,059	$	2,420,265
		2,216,059		2,420,265
SHAREHOLDERS' EQUITY				
Capital stock *(Note 10)*		96,084,391		89,426,543
Reserves *(Note 10)*		7,793,884		6,959,468
Deficit		(32,106,572)		(27,632,055)
		71,771,703		68,753,956
	$	73,987,762	$	71,174,221

Nature of operations and going concern uncertainty *(Note 1)*

See accompanying notes to the condensed interim consolidated financial statements

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

"Klaus Zeitler"
Klaus Zeitler, Chairman and Director

RIO2 LIMITED
Condensed Interim Consolidated Statements of Comprehensive Loss
For the three and six months ended June 30, 2019 and 2018
(Expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Expenses				
Employment costs *(Note 11)*	$ 1,217,921	$ 505,423	$ 2,424,255	$ 942,511
Professional fees	392,988	860,358	515,424	896,282
Share based compensation *(Note 10)*	261,802	501,578	834,416	1,048,952
Office	123,908	42,927	259,256	102,953
Investor relations	39,430	76,741	60,330	92,475
Travel	38,710	75,772	186,280	96,420
Exploration costs *(Note 12)*	29,831	224,130	55,417	288,580
Filing and transfer agent fees	23,606	71,113	66,663	86,515
Amortization	22,420	569	39,238	1,099
	$ 2,150,616	$ 2,358,611	$ 4,441,279	$ 3,555,787
Other expense (income)				
Foreign exchange loss (gain)	21,681	3,159	33,238	(15,371)
Impairment of Exploration and evaluation asset	-	13,901	-	13,901
Impairment of property and equipment	-	2,501	-	2,501
Net Loss and Comprehensive Loss for the Year	$ 2,172,297	$ 2,378,172	$ 4,474,517	$ 3,556,818
Basic and Diluted Loss per Common Share	0.02	0.06	0.04	0.09
Weighted Average Number of Common Shares Outstanding	118,239,464	39,798,206	114,069,204	39,798,206

See accompanying notes to the condensed interim consolidated financial statements

RIO2 LIMITED
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the six months ended June 30, 2019 and 2018
(Expressed in Canadian dollars)

	Capital Stock								
	Number of shares		Amount		Reserves		Deficit		Total shareholders' equity (deficiency)
Balance, as at December 31, 2017	39,798,206		22,064,823		2,624,368		(19,361,555)		5,327,636
Options	-		-		918,913		-		918,913
Restricted Stock Units (RSUs)	-		-		130,039		-		130,039
Net loss for the period	-		-		-		(3,556,818)		(3,556,818)
Balance, as at June 30, 2018	39,798,206	$	22,064,823	$	3,673,320	$	(22,918,373)	$	2,819,770
Balance, as at December 31, 2018	103,022,073		89,426,543		6,959,468		(27,632,055)		68,753,956
Private placement, net of share issuance costs	15,217,391		6,657,848		-		-		6,657,848
Options	-		-		729,421		-		729,421
Restricted Stock Units (RSUs)	-		-		104,995		-		104,995
Net loss for the period	-		-		-		(4,474,517)		(4,474,517)
Balance, as at June 30, 2019	118,239,464	$	96,084,391	$	7,793,884	$	(32,106,572)	$	71,771,703

See accompanying notes to the condensed interim consolidated financial statements

RIO 2 LIMITED
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2019 and 2018
(Expressed in Canadian dollars)

	Six months ended June 30, 2019	Six months ended June 30, 2018
Operating activities		
Net loss for the period	$ (4,474,517)	$ (3,556,818)
Items not involving cash		
Share based compensation	834,416	1,048,952
Impairment of Exploration and asset	-	13,901
Impairment of Property and equipment	-	2,501
Amortization	39,238	1,099
Interest income		-
Change in non-cash components of working capital		
Input taxes recoverable	(810,679)	(59,026)
Interest receivable	-	49,670
Prepaid expenses	56,429	22,292
Accounts payable and accrued liabilities	(204,206)	126,874
Cash used in operating activities	$ (4,559,319)	$ (2,350,555)
Financing activities		
Net proceeds from private placement	6,657,848	-
Cash provided by financing activities	$ 6,657,848	$ -
Investing activities		
Exploration and evaluation assets	(1,784,164)	-
Short term investments	-	2,200,000
Property and equipment	-	(553)
Cash provided by (used in) investing activities	$ (1,784,164)	$ 2,199,467
Increase in cash and cash equivalents	314,365	(151,088)
Cash and cash equivalents - beginning of the period	1,101,566	1,337,760
Cash and cash equivalents - end of the period	$ 1,415,931	$ 1,186,672

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 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". On March 14, 2019, Rio2 announced that the Company's common shares listed for trading 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, 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 June 30, 2019, the Company had a working capital deficiency of $756,688 (December 31, 2018 – working capital deficiency of $1,218,487). The Company does not currently hold any revenue-generating properties and thereby continues to incur losses.

1. Nature of Operations and Going Concern (continued)

The Company incurred a net and comprehensive loss for the six months ended June 30, 2019 of $4,474,517 (six months ended June 30, 2018 – $3,556,818) and negative cash flows from operations of $4,559,319 for the six months ended June 30, 2019 (six months ended June 30, 2018 – $2,350,555). As at June 30, 2019, the Company had an accumulated deficit of $32,106,572 (December 31, 2018 – $27,632,055). 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 condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). These financial statements comply with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Certain disclosures included in the annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the audited annual consolidated financial statements of the Company for the year ended December 31, 2018.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 9, 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. 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.

(Expressed in Canadian dollars)

2. Basis of Presentation (continued)

The accounting policies applied in the preparation of these Unaudited Condensed Interim Consolidated Financial Statements are consistent with those applied and disclosed in the Company's Audited Consolidated Financial Statements for the year ended December 31, 2018, except for the following:

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. IFRS 16 did not impact the Company's classification and measurement of financial assets and liabilities.

Principles of Consolidation

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

Name	Location	Ownership by the Company	
		June 30, 2019	December 31, 2018
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%	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.

2. Basis of Presentation (continued)

Use of Judgements

The preparation of financial statements in accordance with IFRS requires management to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include the assumptions of going concern and functional currency, as well as the determination of whether deferred tax assets are likely to be realized.

3. Financial Instruments

The Company's financial instruments consist of cash 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 June 30, 2019, the Company has cash totalling $1,415,931 (December 31, 2018 - $1,101,566) and current liabilities of $2,216,059 (December 31, 2018 - $2,420,265). The current liabilities are accounts payable of $1,559,892 due on demand, salaries payable of $509,842 and vacation payable of $136,325, as well as an additional accrued liability of $10,000 with an unknown date of settling the obligation (December 31, 2018 - 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.

3. 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 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 interest rate risk due to the short-term nature of its cash held in a bank account.

Commodity Price Risk

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

Sensitivity Analysis

The Company has accounts payable which are denominated in United States Dollars. A 10% change in the foreign exchange rate would impact comprehensive loss for the period by $198,447 (December 31, 2018 – $12,070).

4. 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.

		June 30, 2019		**December 31, 2018**
Share capital	$	96,084,391	$	89,426,543
Reserves		7,793,884		6,959,468
	$	103,878,275	$	96,386,011

(Expressed in Canadian dollars)

4. Capital Risk Management (continued)

The properties in which the Company currently have 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.

5. 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%

(Expressed in Canadian dollars)

5. Atacama Pacific Acquisition (continued)

The Company accounted for the transaction as an asset acquisition as Atacama Pacific 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 Pacific 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 Pacific.

6. Input taxes recoverable

Input taxes recoverable consist of the following:

	June 30, 2019	December 31, 2018
Canadian GST/HST receivable	$ 8,207	$ 8,550
Current input taxes recoverable	$ 8,207	$ 8,550
Peruvian IGV receivable	$ 305,559	$ 254,569
Chilean IVA receivable	10,903,863	10,143,831
Long term input taxes recoverable	$ 11,209,422	$ 10,398,400

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 12 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. 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)

7. Property and Equipment

	Office Equipment	Software	Total
Cost:			
Balance, December 31, 2018	44,130	240,462	284,592
Additions	-	-	-
Disposals	-	-	-
Balance, June 30, 2019	44,130	240,462	284,592
Accumulated depreciation:			
Balance, December 31, 2018	(7,120)	(43,130)	(50,250)
Additions	(9,312)	(29,926)	(39,238)
Balance, June 30, 2019	(16,432)	(73,056)	(89,488)
Net book value at December 31, 2018	37,010	197,332	234,342
Net book value at June 30, 2019	27,698	167,406	195,104

8. Exploration and Evaluation Assets

	Fenix Gold Project Chile	Anocarire Gold Project Chile	Kalzas Yukon	Total
Balance, December 31, 2017	$ -	$ -	$ 13,901	$ 13,901
Acquisition of Atacama Pacific	50,684,315	6,317,160	-	57,001,475
Additions	2,405,220	-	-	2,405,220
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	$53,089,535	$ 6,250,166	$ -	$ 59,339,701
Additions	1,743,373	-	-	1,743,373
Effect of exchange rate	-	40,791	-	40,791
Balance, June 30, 2019	$54,832,908	$ 6,290,957	$ -	$ 61,123,865

Fenix Gold Project (Chile)

On July 24, 2018, the Company acquired the Fenix Gold Project ("Fenix") (see Note 5). Evaluation related costs were capitalized to the asset from the date of acquisition by Rio2. Additions to Fenix included drilling, technical consultant fees and equipment rentals.

(Expressed in Canadian dollars)

8. Exploration and Evaluation Assets (continued)

Anocarire Project (Chile)

On July 24, 2018, the Company acquired the Anocarire Gold Project (see Note 5). 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 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 ending 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”). 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.

9. Accounts Payable and Accrued Liabilities

		June 30, 2019		December 31, 2018
Accounts payable	$	1,559,892	$	2,410,265
Accrued liabilities		10,000		10,000
Salaries payable		509,842		-
Vacation payable		136,325		-
	$	2,216,059	$	2,420,265

10. Capital Stock

a. Share capital

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.

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 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. Share issuance costs of $342,152 were paid in connection with this private placement.

(Expressed in Canadian dollars)

10. Capital Stock (continued)

Authorized share capital consists of an unlimited number of common shares of which 118,239,464 were issued and outstanding as at June 30, 2019 (103,022,073 – December 31, 2018).

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, 2018	9,253,892	$ 1.02
Expired or cancelled	(523,236)	1.49
Outstanding, June 30, 2019	8,730,656	1.00
Options exercisable, June 30, 2019	5,357,251	$ 1.01

Stock options outstanding at June 30, 2019 were:

Outstanding			**Exercisable**	
Number of Options	Weighted average remaining contractual years	Weighted average exercise price	Number of Options	Weighted average exercise price
310,245	0.07	$0.88	310,245	$0.88
1,683,255	1.07	$0.67	1,683,255	$0.67
402,659	1.43	$0.33	402,659	$0.33
661,748	1.72	$0.76	661,748	$0.76
521,477	2.54	$0.91	521,477	$0.91
1,366,735	2.67	$1.53	911,157	$1.53
500,025	2.82	$2.25	333,350	$2.25
166,675	2.92	$2.56	111,117	$2.56
366,685	3.18	$1.66	144,452	$1.66
811,152	3.75	$0.82	277,792	$0.82
1,940,000	4.25	$0.65	-	$0.65
8,730,656	2.62	$1.00	5,357,251	$1.01

(Expressed in Canadian dollars)

10. Capital Stock (continued)

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
Cancelled	(33,335)
Outstanding, June 30, 2019	486,691
Vested, June 30, 2019	-

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 were 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.

c. Warrants

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

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 will expire on February 28, 2021 and 2,593,866 warrants will expire on March 13, 2021.

d. Reserves

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

(Expressed in Canadian dollars)

11. 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 three and six months ended June 30, 2019 and 2018 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Senior management – consulting and employment costs	$ 536,898	$ 216,858	$ 715,456	$ 430,856
Share-based compensation	127,669	264,712	391,304	590,039
	$ 664,567	$ 481,570	$ 1,106,760	$ 1,020,895

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

(a) During the three months ended June 30, 2019, the Company incurred legal fees of $43,584 (2018 - $498,562) to a firm in which a former director (who ceased being a director on May 28, 2019) of the Company was a partner. During the six months ended June 30, 2019, the Company incurred legal fees of $112,309 (2018 - $526,446) to a firm in which a former director of the Company is a partner.

(b) During the three months ended June 30, 2019, the Company management fees of $74,668 (2018 - $nil) to a company in which a director of the Company is the owner. During the six months ended June 30, 2019, the Company incurred management fees of $149,608 (2018 - $nil) to a firm in which a director of the Company is the owner.

12. Exploration costs

The Company's exploration expenditures consist of the following for the three months ended June 30, 2019 and 2018:

				June 30, 2019	**June 30, 2018**
	Nexa Portfolio (Peru)	Nicaraguan Portfolio	Other Projects*	Total	Other Projects*
Technical consultants	$ 29,831	$ -	$ -	$ 29,831	$ 149,384
Geology	-	-	-		54,619
Community relations	-	-	-		20,127
	$ 29,831	$ -	$ -	$ 29,831	$ 224,130

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

(Expressed in Canadian dollars)

12. Exploration costs (continued)

The Company's exploration expenditures consist of the following for the six months ended June 30, 2018 and 2017:

				June 30, 2019	**June 30, 2018**
	Nexa Portfolio (Peru)	Nicaraguan Portfolio	Other Projects	Total	Total
Technical consultants	$ 50,671	$ -	$ 4,746	$ 55,417	$ 208,478
Geology	-	-	-	-	59,975
Community relations	-	-	-	-	20,127
	$ 50,671	$ -	$ 4,746	$ 55,417	$ 288,580

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, $1,117,454 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.

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.

13. 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 support of the Fenix Project and 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:

(Expressed in Canadian dollars)

13. Segmented Information (continued)

June 30, 2019

	Canada	Chile	Peru	Nicaragua	Total
Property and equipment	$ -	$23,430	$ 170,853	$ 821	$ 195,104
Exploration and evaluation assets	-	61,123,865	-	-	61,123,865
Other assets	1,129,019	11,096,794	442,980	-	12,668,793
Total assets	$ 1,129,019	$ 72,244,089	$ 613,833	$ 821	$73,987,762
Accounts payable and accrued liabilities	$ 391,160	$ 552,711	$ 1,272,188	$ -	$ 2,216,059
	$ 391,160	$ 552,711	$ 1,272,188	$ -	$ 2,216,059

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

For the three months ended June 30, 2019

	Canada	Chile	Peru	Nicaragua	Total
Employment costs	$ 350,598	$ 128,907	$ 738,416	$ -	$ 1,217,921
Professional fees	247,844	76,251	68,627	266	392,988
Share based compensation	261,802	-	-	-	261,802
Office	12,417	58,698	52,793	-	123,908
Investor relations	39,430	-	-	-	39,430
Travel	8,726	5,089	24,895	-	38,710
Exploration costs	-	-	29,831	-	29,831
Filing and transfer agent fees	23,606	-	-	-	23,606
Amortization	-	2,265	20,155	-	22,420
Foreign exchange loss (gain)	321,336	(255,143)	(36,808)	(7,704)	21,681
Net loss	$ 1,265,759	$ 16,067	$ 897,909	$ (7,438)	$ 2,172,297

(Expressed in Canadian dollars)

13. Segmented Information (continued)

For the three months ended June 30, 2018

	Canada	Chile	Peru	Nicaragua	Total
Share based compensation	$ 501,578	$ -	$ -	$ -	$ 501,578
Employment costs	429,802	-	59,582	16,039	505,423
Exploration costs	127,875	-	35,588	60,667	224,130
Office	25,305	-	5,874	11,748	42,927
Professional fees	837,673	-	21,142	1,543	860,358
Travel	54,054	-	18,001	3,717	75,772
Filing and transfer agent fees	71,113	-	-	-	71,113
Investor relations	69,520	-	-	-	69,520
Meals and entertainment	4,100	-	1,973	1,148	7,221
Amortization	-	-	-	569	569
Foreign exchange loss (gain)	(27,309)	-	27,008	3,460	3,159
Impairment of Exploration asset	13,901	-	-	-	13,901
Impairment of Property and equipment	2,501	-	-	-	2,501
Net loss	$ 2,110,113	$ -	$ 169,168	$ 98,891	$ 2,378,172

For the six months ended June 30, 2019

	Canada	Chile	Peru	Nicaragua	Total
Employment costs	$ 596,938	$ 482,567	$1,344,542	$ 208	$ 2,424,255
Professional fees	363,572	81,636	68,627	1,589	514,424
Share based compensation	834,416	-	-	-	834,416
Office	45,118	95,708	112,034	6,396	259,256
Investor relations	60,330	-	-	-	60,330
Travel	10,802	121,100	54,378	-	186,280
Exploration costs	4,746	-	50,671	-	55,417
Filing and transfer agent fees	66,663	-	-	-	66,663
Amortization	-	2,265	36,383	590	39,238
Foreign exchange loss (gain)	511,983	(404,183)	(62,754)	(11,808)	33,238
Net loss	$ 2,494,568	$ 379,093	$ 1,603,881	$ (3,025)	$ 4,474,517

(Expressed in Canadian dollars)

13. Segmented Information (continued)

	For the six months ended June 30, 2018				
	Canada	Chile	Peru	Nicaragua	Total
Share based compensation	$ 1,048,952	$ -	$ -	$ -	$1,048,952
Employment costs	837,469	-	72,535	32,507	942,511
Exploration costs	186,969	-	35,588	66,023	288,580
Office	74,015	-	8,804	20,134	102,953
Professional fees	869,487	-	21,142	5,653	896,282
Travel	71,321	-	18,001	7,098	96,420
Filing and transfer agent fees	86,515	-	-	-	86,515
Investor relations	83,770	-	-	-	83,770
Meals and entertainment	4,261	-	1,974	2,470	8,705
Amortization	-	-	-	1,099	1,099
Foreign exchange loss (gain)	(73,641)	-	52,177	6,093	(15,371)
Impairment of Exploration asset	13,901	-	-	-	13,901
Impairment of Property and equipment	2,501	-	-	-	2,501
Net loss	$ 3,205,520	$ -	$ 210,221	$ 141,077	$ 3,556,818

14. Subsequent Events

a. On July 23, 2019, Rio2 announced that it had entered into an agreement with Cormark Securities Inc. (“Cormark”), pursuant to which Cormark shall purchase 55,000,000 units of the Company (the “Units”) at a price of $0.40 per Unit, on a “bought deal” private placement basis, for aggregate gross proceeds to the Company of $22.0 million.

   Each Unit will consist of one common share of the Company (a “Common Share”) and one-half of one Common Share Purchase Warrant (each full warrant, a “Warrant”). Each Warrant will entitle the holder to acquire one Common Share of the Company at an exercise price of $0.50 for a period of 36 months following the closing of the Offering.

   Cormark also has the option (the “Option”) to sell an additional 7,500,000 Units at the offering price up to the closing date. In the event that the Option is exercised in its entirety, the aggregate gross proceeds of the Offering will be $25.0 million.

   The Offering is scheduled to close on or about August 13, 2019 and is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory and other approvals including the approval of the TSX Venture Exchange.

b. 23,103 stock options were exercised at the option price of $0.30, for proceeds of $6,931.