



**RHYOLITE
RESOURCES**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the three and nine months ended
September 30, 2021 and 2020**

(Unaudited and expressed in Canadian Dollars)

RHYOLITE RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited and expressed in Canadian dollars)

	September 30, 2021	December 31, 2020
ASSETS		
Current assets		
Cash	\$ 3,812,298	\$ 6,419,246
Amounts receivable (Note 4)	41,560	20,607
Prepaid expenses and deposits (Note 5)	63,591	191,250
	3,917,449	6,631,103
Non-current assets		
Property, plant and equipment	11,060	-
Investment in joint ventures (Note 6)	8,162,492	3,312,412
	12,091,001	9,943,515
Total assets	\$ 12,091,001	\$ 9,943,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 289,787	\$ 74,452
	289,787	74,452
Shareholders' equity		
Share capital (Note 8)	22,141,769	18,499,096
Equity reserves (Note 8)	177,767	111,205
Deficit	(10,518,322)	(8,741,238)
	11,801,214	9,869,063
Total liabilities and shareholders' equity	\$ 12,091,001	\$ 9,943,515

Basis of presentation (Note 2)

Going concern (Note 2)

Related party transaction (Note 9)

On behalf of the Board of Directors:

/s/ Tony Chedraoui

Tony Chedraoui, Director

/s/ Michael G. Leskovec

Michael G. Leskovec, Director

RHYOLITE RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited and expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Operating expenses				
Office administration and facilities (Note 9)	\$ 37,500	\$ 12,000	\$ 107,500	\$ 36,000
Compliance and regulatory	34,204	1,107	70,456	7,925
Professional fees	179,452	398	616,072	12,796
Insurance	8,511	-	19,861	-
Salaries and benefits	144,881	-	266,001	-
Muckahi acquisition cost (Note 8)	1,206,735	-	1,206,735	-
Office supplies and services	8,935	345	17,694	962
Investor relations	11,598	180	18,870	540
Amortization	782	-	1,314	-
	1,632,598	14,030	2,324,503	58,223
Other expense (income)				
Gain on derivative instrument (Note 8)	-	-	(630,000)	-
Share of loss in joint ventures (Note 6)	69,570	-	82,131	-
Foreign exchange (gain) loss	(5,484)	-	7,002	-
Interest income	(2,632)	(2,154)	(6,552)	(13,121)
Loss and comprehensive loss for the period	\$ 1,694,052	\$ 11,876	\$ 1,777,084	\$ 45,102
Basic and diluted loss per share	\$ 0.02	\$ 0.00	\$ 0.02	\$ 0.00
Weighted average number of common shares outstanding	87,576,375	52,047,200	85,676,733	52,047,200

RHYOLITE RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Cash (used in) provided by:				
Operating activities:				
Loss for the period	\$ (1,694,052)	\$ (11,876)	\$ (1,777,084)	\$ (45,102)
Adjusted for:				
Derivative gain (Note 8)	-	-	(630,000)	-
Share of loss in joint ventures	69,570	-	82,131	-
Amortization	782	-	1,314	-
Muckahi acquisition cost (Note 8)	1,206,735	-	1,206,735	-
Unrealized foreign exchange gain	4,330	-	(2,455)	-
Changes in non-cash working capital balances:				
Amounts receivable and prepaid deposits	(49,611)	(184)	106,706	723
Accounts payable and accrued liabilities	18,522	(2,732)	82,060	5,880
	(443,724)	(14,792)	(930,593)	(38,499)
Investing activities:				
Acquisition of property, plant and equipment	(3,230)	-	(12,374)	-
Investment in joint ventures (Note 6)	(289,542)	-	(1,718,936)	-
	(292,772)	-	(1,731,310)	-
Financing activities:				
Exercise of stock options	-	-	52,500	-
	-	-	52,500	-
Change in cash for the period	(736,496)	(14,792)	(2,609,403)	(38,499)
Effect of changes in foreign exchange rates on cash	(4,330)	-	2,455	-
Cash, beginning of period	4,553,124	2,579,446	6,419,246	2,603,153
Cash, end of period	\$ 3,812,298	\$ 2,564,654	\$ 3,812,298	\$ 2,564,654

RHYOLITE RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited and expressed in Canadian dollars)

	Number of shares	Share capital	Equity Reserves	Deficit	Total Equity
Balance at December 31, 2020	82,693,766	\$18,499,096	\$ 111,205	\$ (8,741,238)	\$ 9,869,063
Loss for the period	-	-	-	(1,777,084)	(1,777,084)
Exercise of stock options - cash proceeds	350,000	52,500	-	-	52,500
Fair value of stock options exercised	-	40,173	(40,173)	-	-
Shares issued for acquisition of joint ventures (Note 8)	3,500,000	2,450,000	-	-	2,450,000
Shares issued for acquisition of Muckahi Inc. (Note 8)	9,500,000	1,100,000	9,350,000	-	10,450,000
Fair value of escrow shares yet to vest (Note 8)	-	-	(9,350,000)	-	(9,350,000)
Share-based compensation - escrow shares (Note 8)	-	-	106,735	-	106,735
Balance, September 30, 2021	96,043,766	\$22,141,769	\$ 177,767	\$(10,518,322)	\$11,801,214
Balance at December 31, 2019	52,047,200	6,244,992	122,683	(3,770,809)	2,596,866
Loss for the period	-	-	-	(45,102)	(45,102)
Balance, September 30, 2020	52,047,200	\$ 6,244,992	\$ 122,683	\$ (3,815,911)	\$ 2,551,764

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Rhyolite Resources Ltd. (the "Company" or "Rhyolite") was incorporated under the *Business Corporations Act* (Alberta) on April 6, 2006. Its principal business activities include the acquisition, exploration and development of mineral properties. The Company's registered office address is Suite 1900, 520 – 3rd Avenue SW, Calgary. The Company's common shares are listed on the Toronto Stock Venture Exchange under the symbol "RYE".

In March 2020, the World Health Organization declared the COVID-19 coronavirus outbreak a pandemic, which continues to have significant impact on the global economy. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's ability to raise capital or conduct exploration activities. There are travel restrictions and health and safety concerns in all areas in which the Company operates, including Canada, Suriname, and the USA that may prohibit or delay exploration programs from proceeding. Operations will depend on obtaining necessary field supplies, contractor services and safeguarding all personnel during the outbreak, which may be prohibitive or too costly.

2. BASIS OF PREPARATION AND GOING CONCERN

a) Statement of Compliance

These unaudited condensed consolidated interim financial statements ("consolidated interim financial statements") as at and for the three and nine months ended September 30, 2021, have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, and do not include all the information required for annual consolidated financial statements. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

These consolidated interim financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and related notes as at and for the year ended December 31, 2020.

These consolidated interim financial statements were authorized for issue in accordance with a resolution of the board of directors of the Company on November 17, 2021.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries.

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

c) Continuation of operations and going concern

These consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due for the foreseeable future. The Company had working capital of \$3.6 million, including cash of \$3.8 million as at September 30, 2021. During the three and nine month period ended September 30, 2021, the Company reported a net loss of \$1.7 million and \$1.8 million, respectively. As at September 30, 2021, the Company does not have sufficient liquidity on hand to fund its operations and to meet its joint venture earn-in commitments for the next twelve months and will require further financing to meet its financial obligations and execute on its business plans.

Continuance as a going concern is dependent upon a company's ability to obtain adequate equity or debt financing, or, alternatively, dispose of its non-core properties on an advantageous basis, among other things. During 2020, the Company was successful in raising funds through equity offerings. While the Company has been successful in the past in obtaining financing for its operations, there is no assurance that it will be able to obtain adequate financing in the future. These uncertainties cast significant doubt about the Company's ability to continue as a going concern.

The ability to raise additional financing to meet its financial obligations and execute its business plans are significant judgments in these consolidated interim financial statements. These unaudited condensed interim consolidated financial statements do not reflect any adjustments to carrying values of assets and liabilities, reported expenses, and condensed interim consolidated statement of financial position classification that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

d) Basis of consolidation

These consolidated interim financial statements include the accounts of the Company and its subsidiaries, which are entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity to obtain benefits from the entity's activities. The financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases. Where the Company's interest in a subsidiary is less than 100%, the interest attributable to non-controlling shareholders is recognized as non-controlling interest.

The consolidated interim financial statements include the financial statements of Rhyolite Resources Ltd. and its subsidiaries listed below:

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

	Jurisdiction	Nature of Operations	Equity Interest	
			September 30, 2021	December 31, 2020
Paxson Resources Ltd.	Alberta, Canada	Holding company	100%	100%
Paxson Resources (USA) Inc.	Alaska, USA	Exploration	100%	100%
2777662 Ontario Ltd.	Ontario, Canada	Holding company	100%	100%
2765798 Ontario Ltd.	Ontario, Canada	Holding company	100%	0%
Muckahi Inc.	Canada	Holding company	100%	0%

All inter-company balances and transactions have been eliminated.

e) Investment in joint ventures

The Company accounts for its investment in joint ventures using the equity method. Under the equity method, the Company's investment in joint ventures is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of net earnings/losses and other comprehensive earnings/losses of the investees, after any adjustments necessary to give effect to uniform accounting policies, any other movement in the investees' reserves, and for impairment losses after the initial recognition date. The Company's share of earnings or losses of its investees are recognized in the Company's Statement of Income/Loss and Comprehensive Income/Loss during the period.

The consolidated interim financial statements include the following investments in joint ventures:

	Location of Project	Equity Interest	Mining Properties
Prosperous Gold Resources Ltd.	Suriname	20%	Brothers
Suku Passi N.V.	Suriname	0%	Suku Passi
Bob's Resources N.V.	Suriname	0%	Bob's

f) Significant accounting judgments, estimates and assumptions

These consolidated interim financial statements have been prepared following the same judgements, estimates and assumptions as the audited annual consolidated financial statements for the year ended December 31, 2020. New judgements, estimates and assumptions applied in preparing the consolidated interim financial statements for the three and nine months ended September 30, 2021 related to judgements and estimates applied in assessing if there are events and uncertainties that cast a significant doubt about the Company's ability to continue as a going concern (Note 2(c)); accounting for the acquisition of 2765798 Ontario Ltd. ("ONCorp") (Note 8); accounting for the investment in the Suku Passi and Bob's joint ventures (Note 6) and judgements and estimates applied in accounting for the Muckahi transaction (Note 8).

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

These consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements for the year ended December 31, 2020.

New accounting standards issued but not yet effective

The following new accounting standards were not yet effective for the three and nine months ended September 30, 2021 and have not been applied in preparing these consolidated interim financial statements.

IAS 16, Property, Plant and Equipment

The International Accounting Standards Board ("IASB") issued an amendment to IAS 16, Property, Plant and Equipment to prohibit deducting from property, plant and equipment amounts received from selling items produced while preparing an asset for its intended use. Instead, sales proceeds and related costs must be recognized in profit or loss. The amendment will require companies to distinguish between costs associated with producing and selling items before the item of property, plant and equipment is available for use and costs associated with making the item of property, plant and equipment available for its intended use. The amendment is effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. The extent of the impact of adoption of this standard has not yet been determined.

4. AMOUNTS RECEIVABLE

The Company's amounts receivable arise primarily from the refund of sales taxes from Canadian taxation authorities.

5. PREPAID EXPENSES AND DEPOSITS

	September 30, 2021	December 31, 2020
Prepaid financial advisory fees	\$ -	\$ 180,000
Prepaid insurance	14,188	-
Other prepaid expenses and deposits	49,403	11,250
Balance	\$ 63,591	\$ 191,250

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

6. INVESTMENT IN JOINT VENTURES

The following is a summary of the Company's investment in the Brothers Project and the Suku Passi Project (including both the Suku Passi and Bob's concessions) as of September 30, 2021:

	Amount
Brothers Project	
Balance - December 31, 2020	\$ 3,312,412
Earn-in payments	125,790
Earn-in exploration expenditures	598,591
Share of loss in joint venture	(82,131)
Total Brothers - September 30, 2021	\$ 3,954,662
Suku Passi Project (Suku Passi and Bob's Concessions)	
Balance - December 31, 2020	\$ -
Acquisition cost - Rhyolite's shares issued to acquire ONCorp	3,080,000
Earn-in payments	754,100
Earn-in exploration expenditures	373,730
Total Suku Passi - September 30, 2021	\$ 4,207,830
Total Investment in Joint Ventures - September 30, 2021	\$ 8,162,492

Earn-in payments represent cash payments made to the concession holders based on the schedule set out in the joint venture agreements. Earn-in exploration expenditures represent exploration expenditures the Company incurred to fulfil its funding requirement based on the joint venture agreements.

Brothers Project

In October 2020, the Company acquired an option to earn up to an 80% interest in the Brothers Project in Suriname. The option is exercisable by completing the following:

- US\$200,000 cash payment by April 12, 2021 for a 20% interest in the project. As of September 30, 2021, the Company has paid US\$200,000 and has earned 20% interest in the Brothers Project.
- Drill 3,000 meters with minimum exploration expenditure of US\$1,000,000 and cash payment of US\$300,000 by April 12, 2022 for an additional 20% interest.
- Drill an additional 10,000 meters with minimum exploration expenditure of US\$3,500,000 and cash payment of US\$400,000 by April 12, 2024 for an additional 20% interest. If the Company does not earn a 60% interest in the project, it will return the shares earned to date.
- Deliver a preliminary economic assessment ("PEA") and cash payment of US\$500,000 by April 12, 2026 for an additional 10% interest.
- Deliver a feasibility study and cash payment of US\$1,250,000 by October 12, 2027 for an additional 5% interest.

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

- Within 5 business days after completion of a feasibility study, make a US\$2,500,000 cash payment for the final 5% interest.

Suku Passi Project (Suku Passi and Bob's Concessions)

On March 31, 2021, the Company completed the acquisition (the "Transaction") of all the outstanding share capital of 2765798 Ontario Ltd. ("ONCorp"), pursuant to the terms of a definitive share purchase agreement entered into on March 21, 2021 with each of the shareholders (collectively the "Vendors") of ONCorp. ONCorp is a privately held company which holds the options (the "Options") to acquire a 70% interest in Suku Passi N.V. and Bob's Resources N.V. (the "Joint Venture Companies"). The Joint Venture Companies own 100% of the Suku Passi concession and the Bob's Pit concession (together the "Suku Passi Project") in Suriname. The Vendors received 3,500,000 common shares (the "Consideration Shares") of the Company in consideration for all the outstanding share capital of ONCorp.

The options held by ONCorp are exercisable by completing the following:

Suku Passi Concession

- For a 51% interest:
 - Initial cash payment of US\$400,000 and issuance of the Consideration Shares to the Vendors within 4 weeks from March 21, 2021. As of September 30, 2021, the Company has paid US\$400,000 and issued the Consideration Shares.
 - Cash payment of US\$400,000 and exploration expenditure of US\$500,000 by March 21, 2022.
 - Cash payment of US\$300,000, share payment of US\$100,000 and exploration expenditure of US\$1,000,000 by March 21, 2023.
 - Cash payment of US\$300,000, share payment of US\$100,000 and exploration expenditure of US\$1,500,000 by March 21, 2024.
 - Cash payment of US\$300,000, share payment of US\$100,000 and exploration expenditure of US\$2,000,000 by March 21, 2025.
- For an additional 19% interest:
 - Cash payment of US\$300,000, share payment of US\$100,000 and exploration expenditure of US\$2,500,000 by March 21, 2026.
 - Deliver a pre-feasibility study ("PFS") and cash payment of US\$2,500,000 by March 21, 2029.

Bob's Pit Concession

- For a 51% interest:
 - Initial cash payment of US\$100,000 and issuance of the Consideration Shares to the Vendors within 4 weeks from March 21, 2021. As of September 30, 2021, the Company has paid US\$100,000 and issued the Consideration Shares.

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

- Cash payment of US\$100,000 by September 21, 2021. As of September 30, 2021, the Company has paid US\$100,000.
- Cash payment of US\$150,000, share payment of US\$50,000 and exploration expenditures of US\$200,000 by each March 21 in 2022, 2023, 2024, 2025, and 2026.
- For an additional 19% interest:
 - Deliver a PFS and cash payment of US\$750,000 by March 21, 2029.

At the time of acquisition, the Company concluded that ONCorp has joint control over the Joint Venture Companies with the other Joint Venture Companies' owners (the "Other Owners") upon consideration of the following significant factors: (i) ONCorp is entitled to three appointees on the Joint Venture Companies' boards each comprises 5 directors; however, ONCorp has not appointed any directors to the respective boards; (ii) due to the lack of a simple majority of ONCorp-nominated directors, the strategic and operational decisions require consent of both ONCorp and the Other Owners to achieve the approval requirement stipulated by the joint venture agreements.

The Company further concluded that the Suku Passi and Bob's joint arrangements are joint ventures and not joint operations as the parties to the joint arrangements do not share the obligations for liabilities. ONCorp is responsible for funding the earn-in expenditures of the Joint Venture Companies, including all costs relating to statutory filings and license maintenance, and ONCorp is the sole operator of the Suku Passi Project. The parties to these joint arrangements have joint control of the joint ventures and have rights to the net assets of the arrangements.

Based on the above, the Company accounted for ONCorp's investment in the Suku Passi Project using the equity method as joint ventures under *IFRS 11 Joint Arrangements* and *IAS 28 Investment in Associates and Joint Ventures*.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities relate to amounts owing for project development, management, consulting and other professional services, including services provided by a related party (Note 9). All payables and accrued liabilities for the Company fall due within the next 12 months.

	September 30,	December 31,
	2021	2020
Accounts payable	\$ 263,430	\$ 66,434
Due to related party (Note 10)	26,357	8,018
Balance	\$ 289,787	\$ 74,452

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

8. SHAREHOLDERS' EQUITY

Share Capital and Equity Reserves

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares in series without par value.

No preferred shares were issued and outstanding during the three and nine month period ended September 30, 2021.

Acquisition of ONCorp

On March 31, 2021, the Company issued 3.5 million common shares to acquire all the outstanding share capital of 2765798 Ontario Ltd. pursuant to the terms of a definitive share purchase agreement entered into on March 21, 2021 with each of the shareholders of ONCorp. (Note 6).

The acquisition of ONCorp was accounted for as an asset acquisition as opposed to a business combination under *IFRS 3 Business Combinations*. The options to earn a 70% interest in the Joint Venture Companies were the only assets of ONCorp. The Company acquired ONCorp's equity-accounted investees and therefore, applied *IFRS 9 Financial Instruments* to account for the acquisition of the financial asset. When the Company became party to the share purchase agreement on March 21, 2021, the agreement was accounted for as a derivative instrument as the Company was committed to deliver a fixed number of Rhyolite's shares on a future date, upon closing of the Transaction, with the value of the shares unknown at the time of signing.

The Company's shares closed at \$0.88 per share on March 21, 2021; therefore, the Consideration was valued at \$3,080,000 on the agreement date. On March 31, 2021, the Transaction closed, and the Company delivered 3,500,000 shares to the Vendors. Rhyolite's shares closed on the TSXV at \$0.70 per share, resulting in a total Consideration of \$2,450,000 on the closing date. The difference of \$630,000 between the agreement date and Transaction closing date values was recognized as gain on derivative instrument in the Company's Statement of Loss and Comprehensive Loss for the period.

Acquisition of Muckahi Inc.

On September 20, 2021, the Company issued 9.5 million common shares to acquire all the outstanding share capital of Muckahi Inc. (the "Muckahi Transaction"), a company controlled by Mr. Fred Stanford that holds a license and the associated trademark to the Muckahi Mining System ("MMS"). Concurrent with the Muckahi Transaction, Mr. Stanford joined the Company as Chief Executive Officer and Director.

Mr. Stanford received 9.5 million common shares of Rhyolite in consideration, of which, 1.0 million common shares were delivered to Mr. Stanford upon closing of the Muckahi Transaction, and the remaining 8.5 million common shares were deposited in escrow (the "Escrow Shares") to be released to Mr. Stanford in tranches over a four-year period conditional upon Mr. Stanford remaining involved with the Company in any capacity other than as a shareholder as at each anniversary date. The Escrow Shares are to be released as follows:

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

- 1 million on September 20, 2022
- 2 million on September 20, 2023
- 2 million on September 20, 2024
- 3.5 million on September 20, 2025

The acquisition of Muckahi Inc. did not meet the definition of a business in accordance with *IFRS 3 Business Combinations*.

The Company expensed the \$1.1 million related to the 1.0 million unconditional shares issued to Mr. Stanford in accordance with IFRS 2 after concluding most of the value of the transaction related to Mr. Stanford's know-how of the MMS. Such know-how did not meet the definition of an asset in accordance with IFRS. The Company's shares closed at \$1.1 per share on the TSXV on the Muckahi Transaction closing date, which was determined to be the measurement date in accordance with IFRS 2 and was used to measure the expense.

For the remaining 8.5 million shares issued but deposited in escrow, since the release of these shares is conditional upon Mr. Stanford fulfilling certain service conditions to the Company, the shares in escrow are considered to be a separate equity-settled employee share-based payment transaction in accordance with IFRS 2 for future services of Mr. Stanford. The Escrow Shares were valued at its grant date fair value of \$9,350,000 using the TSXV closing price on September 20, 2021. The grant date fair value will be recognized in the statement of loss and comprehensive loss as share-based compensation and in the statement of financial position as other equity reserve over the escrow period, the period during which all the release conditions are to be satisfied. When the shares are released from escrow, the amount recorded in other equity reserve will be reclassified to share capital. For the three and nine months ended September 30, 2021, the Company recognized \$106,735 as share-based compensation from the Escrow Shares.

Stock options

The Company adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

As at September 30, 2021, there are no stock options outstanding. A summary of changes in the number of Options issued by the Company for the period ended September 30, 2021 is as follows:

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

	Number of Options	Weighted Average Exercise Price
Balance - December 31, 2020	350,000	\$ 0.15
Exercised	(350,000)	\$ 0.15
Balance - September 30, 2021	-	

9. RELATED PARTY TRANSACTIONS

The Company had a corporate service agreement with Earlston Management Corp. ("Earlston"), a company that provided key management services to the Company and shared key management personnel with the Company. The Company paid Earlston a fee of \$7,500 per month (from November 2020 to January 2021) and \$12,500 per month (from February 2021 to October 2021) and out-of-pocket costs for standard management and office services. The Company incurred \$37,500 and \$107,500 in office administration and facilities expenditures provided by Earlston for the three and nine months ended September 30, 2021 respectively (2020 – \$12,000 and \$36,000 respectively). The service agreement was terminated in October 2021.

Accounts payable as at September 30, 2021 includes \$26,357 (December 31, 2020 - \$8,018) in amounts owing to Earlston.

Key Management Compensation

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include certain directors and officers. For the three and nine months ended September 30, 2021 and 2020, key management compensation comprises:

	Three months ended September 30, 2021		September 30, 2020		Nine months ended September 30, 2021		September 30, 2020	
Salaries and benefits	\$ 120,685	\$ -	\$ -	\$ -	\$ 220,685	\$ -	\$ -	
Muckahi acquisition cost	1,206,735	-	-	-	1,206,735	-	-	
Total	\$ 1,327,420	\$ -	\$ -	\$ -	\$ 1,427,420	\$ -	\$ -	

Mr. Stanford was appointed as Chief Executive Officer concurrent with the acquisition of Muckahi Inc. As part of the Muckahi Transaction Mr. Stanford received 9.5 million common shares of Rhyolite in consideration, of which 1.0 million common shares were delivered to Mr. Stanford upon closing of the Muckahi Transaction, and the remaining 8.5 million common shares were deposited in escrow to be released to Mr. Stanford in tranches over a four-year period conditional upon Mr. Stanford remaining involved with the Company in any capacity other than as a shareholder as at each anniversary date. Refer to Note 8 for details related to the acquisition of Muckahi Inc. For the three and nine months ended September 30, 2021, the Company recognized \$1.2 million as share-based compensation related to the shares issued to Mr. Stanford in the Muckahi Transaction.

RHYOLITE RESOURCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(Unaudited and expressed in Canadian dollars)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2021, the Company's financial instruments comprise cash, amounts receivable and accounts payable and accrued liabilities. The fair values of amounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values.

11. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current period's presentation.