



Rio Silver Inc.
Audited Consolidated Financial Statements
December 31, 2014 and 2013
(Expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL REPORTING

The accompanying audited annual consolidated financial statements of Rio Silver Inc. [the "Company"] are the responsibility of the management and Board of Directors of the Company.

The audited annual consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the audited annual consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the audited annual consolidated financial statements have been prepared within acceptable limits of materiality and are in compliance with all applicable International Financial Reporting Standards.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the audited annual consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibility. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the audited annual consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the audited annual consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed) "*Jeffery Reeder*"
Jeffery Reeder
President and Chief Executive Officer

(signed) "*Daniel Hamilton*"
Daniel Hamilton
Chief Financial Officer

Toronto, Canada
April 24th, 2015

Independent Auditor's Report

To the Shareholders of
Rio Silver Inc.

We have audited the accompanying consolidated financial statements of Rio Silver Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rio Silver Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, the accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in the notes to these consolidated financial statements, the Company has not generated revenues to date. This condition raises material uncertainties which may cast doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of these uncertainties.

April 24, 2015

parker simone LLP.

Rio Silver Inc.
Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at

	December 31, 2014 \$	December 31, 2013 \$
ASSETS		
Current assets		
Cash	10,087	7,991
Government taxes recoverable (Note 7)	36,767	115,439
Prepaid expenses and other assets	1,049	4,652
	47,903	128,082
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	369,591	567,966
Promissory notes and interest payable (Note 12)	5,691	-
Due to related parties (Note 13)	371,390	444,833
	746,672	1,012,799
Shareholders' Equity (Deficiency)		
Share capital (Note 9)	10,177,753	9,892,990
Warrants (Note 9)	-	92,000
Contributed surplus	3,127,489	2,897,858
Accumulated deficit	(14,004,011)	(13,767,565)
	(698,769)	(884,717)
	47,903	128,082

GOING CONCERN (Note 2)

COMMITMENTS (Note 14)

SUBSEQUENT EVENTS (Note 16)

Approved on behalf of the Board: **"Jeffrey Reeder"**

"Edward J. Badida"

The accompanying notes are an integral part of these consolidated financial statements

Rio Silver Inc.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Year ended December 31,	
	2014	2013
	\$	\$
Expenses		
Exploration and evaluation (recovery) expenditures (Note 8)	(30,113)	634,870
Management fees and wages (Note 13)	84,000	236,818
Transfer agent and filing fees	29,086	17,955
Professional fees	117,944	140,042
Investor relations and business promotion	14,925	10,036
Rent	18,000	54,928
Office and administration	11,428	13,550
Travel	9,049	6,705
Share-based payments (Note 13)	7,500	51,000
Gain on settlement of debt (Note 9)	(59,044)	-
Flow-through financing costs	30,988	21,623
Foreign exchange loss	766	47,135
Interest expense	1,917	
Comprehensive Loss	236,446	1,234,662
Comprehensive loss per share, basic and diluted	\$ 0.02	\$ 0.10
Weighted average number of common shares	14,625,502	12,081,151

The accompanying notes are an integral part of these consolidated financial statements

Rio Silver Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital			Contributed		
	Number of	Amount	Warrants	Surplus	Deficit	Total
	shares	\$	\$	\$	\$	\$
Balance December 31, 2012	11,584,347	9,747,207	712,000	2,134,858	(12,532,903)	61,162
Share issued for cash	529,222	238,150	-	-	-	238,150
Issuance of w arrants	-	(91,000)	91,000	-	-	-
Share issuance costs	-	(12,367)	-	-	-	(12,367)
Share issued on acquisition of mineral property	30,000	12,000	-	-	-	12,000
Issuance of finders' w arrants	-	(1,000)	1,000	-	-	-
Share-based payments	-	-	-	51,000	-	51,000
Warrant expiry	-	-	(712,000)	712,000	-	-
Comprehensive loss					(1,234,662)	(1,234,662)
Balance December 31, 2013	12,143,569	9,892,990	92,000	2,897,858	(13,767,565)	(884,717)
Share issued on acquisition of mineral property	80,000	8,000	-	-	-	8,000
Share issued for debt settlement	9,458,768	283,763	-	130,131	-	413,894
Share issuance costs	-	(7,000)	-	-	-	(7,000)
Share-based payments	-	-	-	7,500	-	7,500
Warrant expiry	-	-	(92,000)	92,000	-	-
Comprehensive loss					(236,446)	(236,446)
Balance December 31, 2014	21,682,337	10,177,753	-	3,127,489	(14,004,011)	(698,769)

The accompanying notes are an integral part of these consolidated financial statements

Rio Silver Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31,	
	2014	2013
	\$	\$
OPERATING ACTIVITIES		
Comprehensive loss	(236,446)	(1,234,662)
Items not affecting cash:		
Gain on settlement of debt	(59,044)	-
Share-based payments	7,500	51,000
Shares issued on acquisition of mineral properties	8,000	12,000
Shares issued as settlement for trade debt	421,713	-
Interest payable on promissory notes	1,916	-
Changes in non cash working capital items:		
Government taxes recoverable	78,672	184,076
Prepaid expenses & other assets	3,603	9,906
Trade and other payable	(183,375)	256,186
Due to related parties	(73,443)	285,834
Cash used in operating activities	(30,904)	(435,660)
FINANCING ACTIVITIES		
Promissory notes received	40,000	-
Shares and warrants issued for cash	-	238,150
Issue costs	(7,000)	(12,367)
Cash generated by financing activities	33,000	225,783
Increase (Decrease) in cash during the year	2,096	(209,877)
Cash, beginning of year	7,991	217,868
Cash, end of year	10,087	7,991

The accompanying notes are an integral part of these consolidated financial statements

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

1. Reporting entity

Rio Silver Inc. (the "Company" or "Rio Silver") is listed on the TSX Venture Exchange under the symbol "RYO". It is incorporated in Canada under the Canada Business Corporations Act. The Company's corporate office and principal place of business is 40 University Avenue, Suite 606, Toronto, Canada M5J 1T1. The Company's principal business activity is the acquisition, evaluation and development of mineral properties in the Americas.

2. Going Concern

The Company is in the process of exploring and evaluating its mineral properties. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable mineral deposits.

The business of mining and exploration involves a high degree of risk and there can be no assurances that the Company's exploration programs will result in profitable mining operations. Until it is determined that the properties contain mineral reserves or resources that can be economically mined, it is classified as an exploration property. The Company's continued existence is dependent upon the discovery of economically recoverable reserves and resources, securing and maintaining title and beneficial interest in its properties, making the required payments pursuant to mineral property option agreements.

The Company has raised funds throughout the prior fiscal years and has utilized these funds for working capital and capital expenditures requirements. During the current fiscal year the Company issued common shares for debt settlement to reduce outstanding accounts payable and promissory notes payable. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and existing shareholders may have their interest diluted. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interests or terminate its operations.

At December 31, 2014, the Company had no revenues, had a working capital deficit of \$698,769 (December 31, 2013 – working capital deficit of \$884,717), had not achieved profitable operations, had accumulated deficit of \$14,004,011 (December 31, 2013 - \$13,767,565) and expects to incur further losses in the development of its business, all of which casts substantial doubt upon the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due.

These audited consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. Accordingly, these audited consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies

a) Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), effective for the Company's reporting for the years ended December 31, 2014 and 2013.

These consolidated financial statements were approved by the Board of Directors for issue on April 24, 2015.

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial assets to fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

c) Basis of Consolidation

The financial statements of the Company consolidate the accounts of the following companies:

<u>Company</u>	<u>Location</u>	<u>Ownership</u>	<u>Principal Activity</u>
Rio Silver Inc.	Canada	-	Parent company
Rio Silver Exploration Ltd	Canada	100%	Holding company
Minera Rio Plata S.A.C.	Peru	100%	Exploration company

The results of the subsidiaries are included in the consolidated statement of comprehensive loss and statement of cash flow from the effective date of acquisition. All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

d) Functional currency and foreign operation

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators as per IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The group's functional currency is the Canadian dollar for operations in both Peru and Canada. The consolidated financial statements are presented in Canadian dollars, which is the group's presentation currency.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

e) Financial instruments

Financial assets:

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss for which transaction costs are expensed.

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity investments', 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities:

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities:

Other financial liabilities include borrowings are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

All financial assets and liabilities are initially recognized at fair value. In subsequent periods, financial assets and liabilities which are fair-value-through-profit-loss ("FVTPL") are recorded at fair value with gains and losses recognized in net income; financial assets which are loans and receivables or held to maturity are recorded at amortized cost using the effective interest rate method and gains and losses recognized in net income; financial assets which are available for sale are recorded at fair value with gains and losses recognized (net of applicable taxes) in other comprehensive income except for impairment losses which are recognized in net income; financial liabilities that are not FVTPL are recorded at amortized cost using the effective interest rate method with gains and losses recognized in net income.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – valuation techniques based on 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 – valuation techniques using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

Financial instruments recorded at fair value (continued):

f) Exploration and evaluation expenditures

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include property option payments and other property acquisition and preservation costs and explorations and evaluation activities. The Company records property option payments and government assistance received on account of exploration and evaluation activities on a net basis against expenditures.

g) Share based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

h) Equity settled transactions

The costs of equity settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

i) Fair value of the warrants issued with common shares

Proceeds from unit placements are allocated between common shares and warrants issued using the residual method. The proceeds are first attributed to the warrants according to the fair market value at the

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

i) Fair value of the warrants issued with common shares (continued)

time of issuance with the residual amount allocated to the common shares. The Company uses the Black-Scholes pricing model to determine the fair value of the warrants issued.

j) Income taxes

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at period end.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against the excess.

k) Loss per share and comprehensive loss per share

Loss per share and comprehensive loss per share is based on the weighted average number of common shares outstanding for the period. In a period when the Company reports a loss and comprehensive loss, the effect of potential issuances of shares under options and warrants outstanding would be anti-dilutive and, therefore basic and diluted loss and comprehensive loss per share are the same.

l) Significant accounting judgements and estimates

The preparation of financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimate relates to the valuation of share-based payments. The most significant judgments relate to the determination of the economic viability of a project, the classification of financial instruments and the inputs used in the valuation of share-based payments.

Significant assumptions that management has made, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- Management applied judgment in determining the functional currency of the Company as Canadian Dollars; and
- Management's assumption of no material restoration, rehabilitation and environmental obligation based on the facts and circumstances that existed during the period.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

- m) Recent accounting pronouncements not yet effective

Certain pronouncements have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for accounting periods ending after these financial statements. Some are not applicable or do not have a significant impact to the Company and have been excluded from the discussion below.

The following new standards, amendments and interpretations that have not been early adopted in these financial statements will or may have an effect on the Company's future results and financial position:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has yet to evaluate the impact of the new standard.

4. Capital management

The capital structure of the Company consists of equity attributable to common shareholders and includes share capital of \$10,177,753 (December 31, 2013 - \$9,892,990), contributed surplus of \$3,127,489 (December 31, 2013 - \$2,897,858), warrants of \$Nil (December 31, 2013 - \$92,000), and deficit of \$14,004,011 (December 31, 2013 - \$13,767,565).

When managing capital, the Company's objective is to ensure continuance as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

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 the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the year ended December 31, 2014. The Company is not subject to externally imposed capital requirements.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

5. Financial instruments risk factors

Fair value

As at December 31, 2014, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the short-term or demand nature of the instruments.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is attributable to cash. Cash is held with a reputable Canadian chartered bank, from which management believes the risk of credit loss to be minimal.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash available to meet liabilities when they become due and payable. As at December 31, 2014, the Company had cash of \$10,087 (December 31, 2013 - \$7,991) to settle current liabilities of \$746,672 (December 31, 2013 - \$1,012,799). All of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms with the exception of \$200,000 payable to a related party (Note 13). This amount has been deferred until the Company's working capital position has improved.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as, foreign currencies and commodity and equity prices.

Foreign exchange risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency, including all subsidiaries, is the Canadian dollar. Some of the operational and other expenses incurred outside of Canada are paid in US dollars or Peruvian Nuevo sol. All assets and liabilities of the Company are recorded in Canadian dollars and as a result, fluctuations in the US dollar or Peruvian Nuevo sol vis-à-vis the Canadian dollar result in foreign exchange gains/losses. The Company currently has no plans for hedging its foreign currency transactions. The following foreign denominated amounts are included in the consolidated statement of financial position at December 31, 2014:

Account	Foreign Currency	Exposure (\$Cdn)
Cash	United States dollar	412
Cash	Peruvian new sol	423
Trade payables	Peruvian new sol	89,637

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

5. Financial instruments risk factors (continued)

Commodity and equity price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, particularly as they relate to base and precious metals, individual equity movements, and the stock market in general to determine the appropriate course of action to be taken by the Company.

6. Categories of financial instruments

The Company's financial instruments consist of the following:

Financial assets:

Cash

Classification:

FVTPL

Financial liabilities:

Trade and other payables

Promissory notes and interest payable

Due to related parties

Classification:

Other financial liabilities

Other financial liabilities

Other financial liabilities

As of December 31, 2014 and December 31, 2013, the Company's sole financial instrument carried at fair value, being cash, is recorded at a level 1 fair value hierarchy.

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities, amounts payable for financing activities and payroll liabilities.

7. Government Taxes recoverable

Government taxes recoverable consist of HST and QST recoverable and the refundable Quebec exploration tax credit. The HST & QST recoverable is based on quarterly submissions to provincial and federal governments and an amount is accrued for the last quarter for HST/QST that has been paid and is refundable. The Quebec exploration tax credit recoverable is based on eligible exploration expenditures incurred in the Province of Quebec and are reported in the annual audited financial statements with claims submitted to the Quebec Government on an annual basis.

At December 31, 2014, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 5.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Year ended December 31, 2014

(Expressed in Canadian dollars unless otherwise noted)

8. Exploration and evaluation expenditures

Accumulated costs/expenditures	Niñobamba, Peru	KAN	Gerow Lake	Other Peru Concessions & Red Rock	Total
Balance December 31, 2012	\$ 2,488,123	\$ 2,172,856	\$ 814,496	\$ -	\$ 5,475,475
Acquisition costs and annual fees	14,040	58,344	-	-	72,384
Expenditures	449,001	291,506	30,749	-	771,256
Property option payments	(101,640)	-	-	(10,636)	(112,276)
Québec mining tax credit	-	(96,494)	-	-	(96,494)
Balance December 31, 2013	2,849,524	2,426,212	845,245	(10,636)	6,110,345
Acquisition costs and annual fees	8,695	52,520	-	-	61,215
Expenditures	54,231	20,099	25,388	-	99,718
Property option payments	-	-	-	(22,342)	(22,342)
Proceeds on sale of KAN	-	(150,000)	-	-	(150,000)
Refund of bond obligation	-	-	-	(11,116)	(11,116)
Québec mining tax credit	-	(7,588)	-	-	(7,588)
Balance December 30, 2014	\$ 2,912,450	\$ 2,341,243	\$ 870,633	\$ (44,094)	\$ 6,080,232

The Niñobamba property is located in the Department of Ayacucho, Peru and is owned 100% by the Company's wholly owned Peruvian subsidiary, Minera Rio Plata S.A.C., and is not subject to any royalties or exploration expenditures commitments.

In December 2013 the Company entered into an option agreement whereby the optionee can earn a 100% interest in various non-core Peruvian property concessions for total cash consideration of US\$90,000. Subsequent to the year end the option agreement was assigned to a different party (See Note 16). The option payments are payable as follows:

US\$ 10,000 on December 23, 2013 (received \$10,636 CAD)
US\$ 15,000 on January 10, 2014 (received \$16,350 CAD)
US\$ 5,000 on June 10, 2014 (received \$5,475 CAD on August 22, 2014)
US\$ 10,000 on December 10, 2014 (received \$11,895 CAD on January 22, 2015)
US\$ 10,000 on July 10, 2015 (received \$11,895 CAD on January 22, 2015)
US\$ 15,000 on December 10, 2015 (received \$17,843 CAD on January 22, 2015)
US\$ 25,000 on July 10, 2016 (received \$29,738 CAD on January 22, 2015)

In April 2013, the Company entered into a non-binding letter of intent ("LOI") whereby the counterparty could acquire up to a 51% interest in Minera Rio Plata S.A.C., which holds title to the Ninobamba mining concessions, by completing exploration expenditures and financial commitments totaling US \$25 million over a five year period. On signing of the LOI, Rio Silver received a US \$100,000 non-refundable payment. The LOI was terminated by the parties prior to the exchange of any further consideration.

The KAN property is located in Northern Québec. On February 6, 2014 the Company completed an agreement with Virginia Mines Inc. ("Virginia"), Altius Resources Inc. ("Altius"), a wholly-owned subsidiary of Altius Minerals Corporation and Les Ressources Tectonic inc. ("Tectonic") to acquire Rio Silver's KAN Project.

Rio Silver transferred 100% interest in the Project in consideration for (i) the issuance by Virginia of 3,571 of its common shares to Rio Silver at a deemed price of \$14.00 per share (the "Virginia Shares"); (ii) a cash payment equal to \$25,000 paid by Virginia; (iii) a cash payment equal to \$75,000 paid by Altius;

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8. Exploration and evaluation expenditures (continued)

(iv) the issuance by Rio Silver of 80,000 common shares to Tectonic (the “Rio Silver Shares”); and (iv) a cash payment of \$40,000 paid by Rio Silver to Tectonic.

The Rio Silver Shares issued to Tectonic and cash payment paid by Rio Silver were required under the option agreement (the “Option Agreement”) between Rio Silver and Tectonic dated March 2, 2011, pursuant to which Rio Silver had the option to acquire from Tectonic 209 of the mining claims forming part of the KAN property.

As a result of the transaction, Rio Silver is wholly released and forever discharged from the observance and performance of its covenants and agreements in and under the Option Agreement.

The Gerow Lake property (previously known as Sachigo Lake property) is a base metal project located in northwestern Ontario. The Company has a 100% interest subject to a 2.5% net smelter royalty applicable to 40% of the revenue generated from 14 of the 36 mineral claims (the Company having the right to purchase 1% of the royalty for \$1,000,000) and, a 2% net smelter royalty on 100% of the claims (the Company having the right to purchase the royalty for \$200,000).

9. Share Capital and Reserves

(a) Authorized

Unlimited number of voting common shares without nominal or par value.

Unlimited number of non-voting preferred shares issuable in a series. The directors may determine the number of shares of each series and fix the designation, privileges, rights, restrictions and conditions attaching to each series subject to the filing of Articles of Amendment.

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9. Share Capital and Reserves (continued)

(b) Common Shares Issued and Outstanding

The following is a summary of the changes in common share capital during the period:

	Number of shares	Issue Price \$	Amount \$
Balance December 31, 2012	11,584,347		9,747,207
Share issuance (i) (ii)	529,222	0.45	238,150
Proceeds of issuances allocated to warrants issued	-	-	(91,000)
Share issue costs	-	-	(12,367)
Value attributed to finders' warrants issued	-	-	(1,000)
Issued on acquisition of mineral properties (iii)	30,000	0.40	12,000
Balance December 31, 2013	12,143,569		9,892,990
Issued on acquisition of mineral properties (iv)	80,000	0.10	8,000
Issued as settlement of debt (vi)	9,458,768	0.03	283,763
Share issue costs	-	-	(7,000)
Balance December 31, 2014	21,682,337		10,177,753

- (i) On February 4, 2013, the Company completed the second tranche of a non-flow through private placement consisting of 469,222 units (the "Units") at \$0.45 per Unit for gross proceeds of \$211,150. Each Unit consisted of one common share of the Company and one common share purchase warrant exercisable at \$0.60 per share until February 4, 2014. The Company paid a finders' fee comprised of \$1,000 and 7,620 broker warrants which entitles the holder to purchase a non-flow through common share at \$0.60 until February 4, 2014.
- (ii) On February 15, 2013, the Company completed the last tranche of a non-flow through private placement consisting of 60,000 units (the "Units") at \$0.45 per Unit for gross proceeds of \$27,000. Each Unit consisted of one common share of the Company and one common share purchase warrant exercisable at \$0.60 per share until February 15, 2014.
- (iii) On April 5, 2013 the Company issued 30,000 common shares pursuant to its option agreement to acquire the KAN property.
- (iv) On February 6, 2014, the Company issued 80,000 common shares pursuant to its option agreement to acquire the KAN property (see note 8).
- (v) On June 26, 2014, the Company's shareholders approved the share consolidation of the issued and outstanding common shares of the Company on the basis of one (1) post-consolidation

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9. Share Capital and Reserves (continued)

(b) Common Shares (continued)

common share for every five (5) pre-consolidation common shares (the "Consolidation"). The Consolidation came into effect on September 8, 2014. As at December 31, 2014, 2013 and 2012, the common shares, stock options and warrants of the Company have been restated on a proportional basis to reflect the Consolidation.

- (vi) On September 30, 2014 the Company issued 9,458,768 common shares with a fair value of \$283,763 on settlement of debt amounting to \$472,938. A total of 6,506,558 of the foregoing common shares were issued to officers and directors of the Company for an aggregate settlement amount of \$325,328. Accordingly the Company recorded a gain on settlement of debt in the amount of \$59,044 in the statement of comprehensive loss for the year ended December 31, 2014 and an amount of \$130,131 in contributed surplus. The gain on settlement of \$130,131 relating to common shares issued to officers and directors has been credited to contributed surplus as this was, in essence, a capital transaction. All shares issued as settlement for debt have a four month holding period.

(c) Warrants

The following is a summary of the changes in warrants during the period:

	Year ended December 31, 2014		Year ended December 31, 2013	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Balance, beginning of year	536,842	0.60	2,966,227	1.00
Granted - warrants	-	-	529,222	0.60
Granted - broker warrants	-	-	7,620	0.60
Expired	(536,842)	0.60	(2,966,227)	1.00
Balance, end of year	-	-	536,842	0.60

10. Stock Options

The Company adopted an incentive stock option plan for employees, consultants, officers and directors on April 17, 2009. The number of common shares reserved for issue under the stock option plan may not exceed 10% of the number of issued and outstanding common shares of the Company at any given time. The term of options granted under the stock option plan may not exceed ten years from the date of the grant. The board of directors will determine the vesting period within the exercisable term and options granted to consultants performing investor relations activities shall vest over a minimum of 12 months with no more than ¼ of such options vesting in any 3-month period. The option exercise price,

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10. Stock Options (continued)

also determined by the board of directors of the Company, may not be less than the lower of: the market price for the common shares at the grant date and \$0.05.

As at December 31, 2014, the Company had 1,528,234 stock options available for issuance (December 31, 2013 – 514,357).

A summary of changes in common stock options outstanding is presented below:

	Year ended December 31, 2014		Year ended December 31, 2013	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Options outstanding, beginning of year	700,000	0.55	820,000	0.85
Granted	60,000	0.25	200,000	0.50
Expired	(120,000)	0.63	(320,000)	1.25
Options outstanding, end of year	640,000	0.50	700,000	0.55
Options exercisable, end of year	640,000	0.50	700,000	0.55

The following table summarizes information about the common stock options outstanding and exercisable at December 31, 2014:

Expiry Date	Number Outstanding	Exercise Price (\$)	Number of options exercisable	Weighted Average Remaining Contractual Life (years)
February 23, 2016	20,000	1.25	20,000	1.15
June 26, 2017	360,000	0.50	360,000	2.48
February 4, 2018	200,000	0.50	200,000	3.10
October 15, 2018	60,000	0.25	60,000	3.79
	640,000	0.50	640,000	2.76

On February 4, 2013, the Company granted 200,000 options to a director of the Company at a price of \$0.50 per share. The fair value of these options at the date of grant was \$51,000.

On June 26, 2014 the shareholders of the Company approved the grant of 60,000 options to a consultant of the Company at a price of \$0.25 per share. The fair value of these options at the date of grant was \$15,000, vesting in equal quarterly increments over a one year period.

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10. Stock Options (continued)

The grant date fair value of the options granted was estimated using the Black-Sholes option pricing model, using the following weighted average assumptions:

	<u>2014</u>	<u>2013</u>
Risk-free interest rate	1.0%	1.1%
Expected life (years)	5.0	2.0
Expected volatility	140%	138%
Expected rate of forfeiture	nil	nil
Expected dividend yield	nil	nil

11. Segmented Information

	Year ended December 31,	
	2014	2013
	\$	\$
Consolidated net loss		
Canada	195,862	883,897
Peru	40,584	350,765
	236,446	1,234,662

	December 31,	December 31,
	2014	2013
	\$	\$
Identifiable assets		
Canada	46,088	125,967
Peru	1,815	2,115
	47,903	128,082

12. Promissory notes and interest payable

During the year ended December 31, 2014, the Company issued a total of \$40,000 in unsecured promissory notes, due on demand, and bearing interest at an annual rate of 18%. As at December 31, 2014 principal of \$5,000 and interest of \$691 was payable on outstanding promissory notes.

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13. Related Party Transactions and Key Management Remuneration

The Company defines key management as its Board of Directors, President and Chief Executive Officer and Chief Financial Officer. Remuneration of key management personnel:

	Year ended December 31,	
	2014	2013
	\$	\$
Salaries, consulting fees and other short term benefits	60,000	235,834
Share-based payments	-	51,000
	60,000	286,834

The Company's related parties consist of its Directors, President and Chief Executive Officer and Chief Financial Officer. The following is a summary of the Company's related party transactions during the period:

- (a) Due to related parties include \$200,000 (December 31, 2013 - \$200,000) payable to the Company's Co-Chairman earned in his capacity as CEO of the Company up to July 12, 2013 and \$21,250 (December 31, 2013 - \$31,250) payable to a private company owned by the individual who was the Company's CFO up to July 12, 2013 and earned in his capacity as CFO up to July 12, 2013. Payment to the Co-Chairman has been deferred until the Company's working capital position has improved.
- (b) Due to related parties includes \$10,000 (December 31, 2013 - \$12,000) payable to a private company owned by the Company's current CEO, and earned in his capacity as CEO, and \$23,965 (December 31, 2013 - \$18,000) payable to the Company's current CFO.
- (c) Due to related parties includes \$56,418 (December 31, 2013 - \$124,541) payable to current directors and officers for advances, services provided, and reimbursable expenses incurred on behalf of the Company in the normal course of business. These amounts are unsecured, non-interest bearing and without fixed repayment terms.
- (d) Due to related parties includes \$59,757 (December 31, 2013 - \$59,042) payable to a legal firm of which a partner of the firm was a director of the Company at the time of transactions.
- (e) During the year ended December 31, 2014 the Company issued promissory notes of \$15,000 and paid interest of \$259 to the CEO of the Company (2013 – Nil). As at December 31, 2014 the promissory note due to the Company's CEO has been repaid.
- (f) During the year ended December 31, 2014 the Company issued promissory notes of \$15,000 and paid interest of \$725 to a party related to a Director of the Company (2013 – Nil). As at December 31, 2014 the promissory note has been repaid.

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14. Commitments

Operating lease

The Company is party to an operating lease agreement for office space with annual lease payments of approximately \$18,000, expiring on July 30, 2016.

15. Income Taxes

Income tax expense

The Company's income tax provision differs from the amount resulting from the application of the statutory income tax rate of 26.5% (2013 – 26.5%). A reconciliation of the statutory income tax rate with the Company's effective tax rate is as follows:

	2014 \$	%	2013 \$	%
Income tax expense (recovery) at statutory rates				
Loss before income taxes	(236,446)		(1,234,662)	
Income taxes at the combined federal and provincial statutory rates	(62,700)	(26.5)	(327,200)	(26.5)
Non-deductible expenses and other	10,700	5.1	114,300	9.3
Share based payments	2,000	0.9	13,500	1.1
Change in valuation allowance	50,000	20.5	199,400	16.1
Income tax expense (recovery)	-	-	-	-

Deferred income tax

The primary differences that give rise to the deferred income tax balances at December 31, 2014 and 2013 are as follows:

	2014 \$	2013 \$
Deferred income tax assets (liabilities)		
Deductible financing fees	19,000	12,000
Non-capital losses carried forward	1,125,000	1,045,000
Non-current assets	1,526,000	1,563,000
	2,670,000	2,620,000
Less: valuation allowance	(2,670,000)	(2,620,000)
Net deferred tax asset	-	-

At December 31, 2014 and 2013, the Company recorded a 100% valuation allowance against its deferred income tax asset balances due to uncertainty surrounding their realization.

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15. Income Taxes (continued)

Tax loss carry forward balances

As at December 31, 2014, the Company has non-capital loss carry forwards, available to offset future taxable income, expiring as follows:

	Total \$
2015	79,400
2026	133,000
2027	373,200
2028	266,600
2029	313,900
2030	-
2031	57,100
2032	146,600
2033	-
2034	351,300
Indefinite	663,000
	2,384,100

The unamortized balance, for income tax purposes, of deductible financing costs amounts to \$73,233 and will be deductible over the next four years.

The Company also has cumulative Canadian exploration and development expenditures available to offset future taxable income of \$5,757,600 that may be carried forward indefinitely.

16. Subsequent Events

Equity Issuance

Subsequent to the year-end, the Company completed two tranches of a private placement. On February 3, 2015, the company completed a private placement of 3,400,000 units at \$0.05 per unit for gross proceeds of \$170,000. Each unit consisted of one common share of the Company and common share purchase warrant exercisable at \$0.075 per share until February 3, 2017. In the final tranche of the private placement, which closed on February 20, 2015, the Company issued 600,000 units at a price of \$0.05 per unit for gross proceeds of \$30,000. Each unit consisted of one common share of the Company and once common share purchase warrant exercisable at \$0.075 per share until February 20, 2017.

Option payments received for non-core Peruvian property concessions

Subsequent to the year-end, the option agreement for the sale of various non-core Peruvian property concessions was assigned to a Peruvian subsidiary of a public mining company (the "Optionee") whereby, the Optionee earned 100% of the interest in the optioned concessions by making payments of US \$60,000 against the remaining outstanding option payments on January 22, 2015.

17. Comparative Figures

Certain of the prior year amounts have been reclassified in order to conform to the presentation adopted in the current year.