



Rio Silver Inc.
Audited Consolidated Financial Statements
December 31, 2016 and 2015
(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 19th 2016

Independent Auditors' 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, 2016 and December 31, 2015, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audits 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, 2016, December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Rio Silver Inc.'s ability to continue as a going concern.

MNP LLP

Mississauga, Ontario

April 19, 2017

Chartered Professional Accountants

Licensed Public Accountants

MNP

Rio Silver Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at

	December 31, 2016 \$	December 31, 2015 \$
ASSETS		
Current assets		
Cash	2,961	11,404
Government taxes recoverable (Note 7)	4,969	2,492
Prepaid expenses and other assets	1,437	1,458
	9,367	15,354
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	256,886	282,421
Promissory notes and interest payable (Note 8 & 9)	16,606	6,585
Due to related parties (Note 9)	472,981	393,008
	746,473	682,014
Shareholders' Equity (Deficiency)		
Share capital (Note 10)	10,499,486	10,289,753
Warrants (Note 10)	95,926	88,000
Contributed surplus	3,151,050	3,134,989
Accumulated deficit	(14,483,568)	(14,179,402)
	(737,106)	(666,660)
	9,367	15,354

GOING CONCERN (Note 2)

COMMITMENT (Note 14)

SUBSEQUENT EVENT (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,	
	2016	2015
	\$	\$
Expenses		
Management fees (Note 9)	78,000	60,000
Professional fees	58,821	44,925
Office and administration	40,551	31,525
Share-based payments (Note 11)	40,152	7,500
Exploration and evaluation expense (recovery) (Note 12)	33,794	(6,070)
Transfer agent and filing fees	19,658	14,518
Capital advisory services	16,606	-
Rent	15,500	18,000
Interest expense	1,688	894
Foreign exchange (gain) loss	(604)	4,099
Comprehensive Loss	304,166	175,391
Comprehensive loss per share, basic and diluted	0.01	0.01
Weighted average number of common shares	27,461,971	25,282,883

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

Rio Silver Inc.
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in Canadian Dollars)

	Share Capital		Warrants	Contributed Surplus	Deficit	Total
	Number of shares	Amount \$				
Balance December 31, 2014	21,682,337	10,177,753	-	3,127,489	(14,004,011)	(698,769)
Share issued for cash	4,000,000	112,000	88,000	-	-	200,000
Share-based payments	-	-	-	7,500	-	7,500
Comprehensive loss	-	-	-	-	(175,391)	(175,391)
Balance December 31, 2015	25,682,337	10,289,753	88,000	3,134,989	(14,179,402)	(666,660)
Share-based payments	-	-	-	40,153	-	40,153
Share issued for cash	1,500,000	39,208	35,792	-	-	75,000
Share-issued for cash - exercise of warrants	1,266,666	104,532	(27,866)	-	-	76,666
Shares issued for cash - exercise of options	900,000	69,092	-	(24,092)	-	45,000
Share issuance costs	-	(3,099)	-	-	-	(3,099)
Comprehensive loss	-	-	-	-	(304,166)	(304,166)
Balance December 31, 2016	29,349,003	10,499,486	95,926	3,151,050	(14,483,568)	(737,106)

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,	
	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Comprehensive loss	(304,166)	(175,391)
Items not affecting cash:		
Share-based payments	40,152	7,500
Interest payable on promissory notes	1,688	894
Changes in non cash working capital items:		
Government taxes recoverable	(2,477)	34,275
Prepaid expenses & other assets	21	(409)
Trade and other payable	(25,535)	(87,170)
Due to related parties	79,973	21,618
Cash used in operating activities	(210,344)	(198,683)
FINANCING ACTIVITIES		
Shares and warrants issued for cash	75,000	200,000
Shares issued for cash - exercise of warrants	76,667	-
Shares issued for cash - exercise of options	45,000	-
Promissory notes received	8,333	-
Issue costs	(3,099)	-
Cash generated by financing activities	201,901	200,000
(Decrease) Increase in cash during the year	(8,443)	1,317
Cash, beginning of year	11,404	10,087
Cash, end of year	2,961	11,404

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

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(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 603, 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 a property contains 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, and 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. 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.

These 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. 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 consolidated financial statements. 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.

At December 31, 2016, the Company had no revenues, had a working capital deficit of \$737,106 (December 31, 2015 – working capital deficit of \$666,660), had not achieved profitable operations, had an accumulated deficit of \$14,483,578 (December 31, 2015 - \$14,179,402) and expects to incur further losses in the development of its business, all of which casts significant 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.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(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 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, 2016 and 2015.

These consolidated financial statements were approved by the Board of Directors for issue on April 19, 2017.

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 consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

c) Basis of Consolidation

The consolidated 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 statements 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 parent and subsidiaries' 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 parent and subsidiaries' presentation currency.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(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'.

All financial assets and liabilities are initially recognized at fair value. In subsequent periods, financial assets and liabilities which are at 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 instrument 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 instrument, or (where appropriate) a shorter period, 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).

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 exploration 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.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

g) Share-based payment transactions

The fair value of share options granted to Directors, Officers, employees, and consultants is recognized as an expense over the vesting period using the graded vesting method with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Share-based payments incorporates an expected forfeiture rate.

h) 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 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.

i) Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

j) 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.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

k) Significant accounting judgements and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period.

Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain for the decommissioning obligation, valuation of warrants and options and mineral properties. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

l) Recent accounting pronouncements not yet effective

Certain pronouncements have been issued by the IASB or the IFRS Interpretations 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 consolidated financial statements will or may have an effect on the Company's future results and financial position:

IFRS 9 Financial Instruments

IFRS 9 was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial instruments: recognition and measurement. IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces IAS 17, Leases was released in January 2017. This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

- l) Recent accounting pronouncements not yet effective (continued)

IFRS 7) Statement of Cash Flows

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS7 which were incorporated into Part 1 of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments are part of the IASB’s Disclosure Initiative to address some of the concern expressed about existing presentation and disclosure requirements. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate both cash flow and non cash changes in liabilities arising from financing activities.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The adoption of these amendments is not expected to have a material impact on the Company’s consolidated financial statements.

IAS 12 Income Taxes

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 12 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The amendments clarify the following aspects around the recognition of deferred tax assets for unrealized losses:

- Decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if the debt instrument is measured at fair value and its tax base remains at cost.
- An entity’s estimate of future taxable profit may include amounts from assets it expects to recover in excess of their carrying amounts if there is sufficient evidence that it is probable the entity will achieve this.
- An entity’s estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses whether to recognize the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilization of tax losses so that an entity can only deduct tax losses against income of a specified type(s) (e.g. if it can deduct capital losses only against capital gains), the entity must still recognize a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The adoption of these amendments is not expected to have a material impact on the Company’s consolidated financial statements.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

4. Capital Management

The capital structure of the Company consists of equity attributable to common shareholders and includes share capital of \$10,499,486 (December 31, 2015 - \$10,289,753), contributed surplus of \$3,151,050 (December 31, 2015 - \$3,134,989), warrants of \$95,926 (December 31, 2015 - \$88,000), and deficit of \$14,483,568 (December 31, 2015 - \$14,179,402).

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 (see note 2). 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, 2016. The Company is not subject to externally imposed capital requirements.

5. Financial Instruments Risk Factors

Fair value

As at December 31, 2016, 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 exposure as it relates to financial instruments is 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, 2016, the Company had cash of \$2,961 (December 31, 2015 - \$11,404) to settle current liabilities of \$746,473 (December 31, 2015 - \$682,014) (see note 2). 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 \$472,981 payable to a related parties (Note 9). This amount has been deferred until the Company's working capital position has improved.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

5. Financial Instruments Risk Factors (continued)

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, and that of all its 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 statements of financial position at December 31, 2016:

Account	Foreign Currency	Exposure (\$Cdn)
Cash	United States dollar	129
Trade payables	Peruvian Nuevo sol	7,596

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, 2016 and December 31, 2015, the Company's sole financial instrument carried at fair value, being cash, was recorded at level 1 in the 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.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

7. Government Taxes Recoverable

Government taxes recoverable consist of HST and QST recoverable. 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.

At December 31, 2016, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables.

8. Promissory Note and Interest Payable

As at December 31, 2016, the Company had promissory notes payable outstanding of \$13,333 (December 31, 2015 - \$5,000). The promissory notes are due on demand and bear interest at an annual rate of 18%. As at December 31, 2016 there was interest payable balance of \$3,273 (December 31, 2015 - \$1,585).

9. Related Party Transactions, Balances, 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,	
	2016	2015
	\$	\$
Management fees	78,000	60,000
Technical and Administration services	-	6,000
Tax services	-	3,000
	78,000	69,000

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 and balances during the year:

- (a) Due to related parties includes \$199,060 (December 31, 2015 - \$200,000) payable to the Company's Co-Chairman earned in his capacity as CEO of the Company up to July 12, 2013 and \$11,250 (December 31, 2015 - \$11,250) 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 \$40,718 (December 31, 2015 - \$18,000) payable to the Company's current CEO and to a private company owned by the Company's current CEO; \$72,390 (December 31, 2015 - \$42,000) payable to the Company's current CFO; and \$26,970 (December 31, 2015 \$8,787) payable to the Company's Executive Co-Chairman.
- (c) Due to related parties includes \$62,862 (December 31, 2015 - \$62,001) payable to current directors and officers for 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.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

9. Related Party Transactions, Balances, and Key Management Remuneration (continued)

- (d) Due to related parties includes \$59,757 (December 31, 2015 - \$59,757) 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, 2016 the Company issued promissory notes of \$8,333 (2015 - \$Nil) and incurred interest of \$789 (2015 - \$Nil) to related parties. As at December 31, 2016 the promissory notes balance and interest outstanding for the related parties was \$9,122.

10. 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.

(b) Common Shares Issued and Outstanding

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

	Number of shares	Issue Price \$	Amount \$
Balance December 31, 2014	21,682,337		10,177,753
Share issuance (i)	4,000,000	0.050	200,000
Proceeds allocated to warrants issued	-		(88,000)
Balance December 31, 2015	25,682,337		10,289,753
Exercise of warrants (ii)	733,333	0.050	36,667
Exercise of warrants (ii)	533,333	0.075	40,000
Allocation from warrants reserve			27,866
Exercise of options (iii)	900,000	0.050	45,000
Allocation from contributed surplus			24,092
Share issuance (iv)	1,500,000	0.026	39,207
Share issuance costs			(3,099)
Balance December 31, 2016	29,349,003		10,499,486

- (i) The Company completed two tranches of a private placement in February 2015. On February 3, 2015 the Company completed the first tranche 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 one common share purchase warrant exercisable at \$0.075 per share until February 3, 2017. In the second and 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 one common share purchase warrant exercisable at \$0.075 per share until February 20, 2017.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

10. Share Capital and Reserves (continued)

(b) Common Shares Issued and Outstanding (continued)

- (ii) In June 2016 there were 333,333 warrants exercised at \$0.05 per share for gross proceeds of \$16,667. In September 2016 there were 400,000 warrants exercised at \$0.05 per share for gross proceeds of \$20,000, and 533,333 warrants exercised at \$0.075 for gross proceeds of \$40,000.
- (iii) In June 2016 there were 700,000 options exercised at \$0.05 per share for gross proceeds of \$35,000. In September 2016 there were 200,000 options exercised at \$0.05 per share for gross proceeds of \$10,000.
- (iv) On August 23, 2016 the Company completed a non-brokered private placement financing of 1,500,000 units at \$0.05 per unit for gross proceeds of \$75,000. Each unit consisted of one common share of the Company and one common share purchase warrant exercisable at \$0.05 until February 23, 2018. (Note 12)

(c) Warrants

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

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Balance, beginning of year	4,000,000	0.075	-	-
Granted	1,500,000	0.050	4,000,000	0.075
Exercised	(1,266,666)	0.061		
Balance, end of year	4,233,334	0.070	4,000,000	0.075

In May 2015 the Company amended the terms of a total of 1,400,000 share purchase warrants issued as part of the private placement described in Note 10 (b)(i). The exercise price of the warrants was reduced from \$0.075 to \$0.05 per warrant share.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

10. Share Capital and Reserves (continued)

(c) Warrants (continued)

The following warrants are outstanding as at December 31, 2016:

Expiry Date	Number of warrants outstanding	Exercise price (\$)	Weighted average remaining contractual life (years)
February 5, 2017	1,880,001	0.075	0.10
February 5, 2017	653,333	0.050	0.10
February 23, 2017	186,666	0.075	0.15
February 23, 2017	13,334	0.050	0.15
February 23, 2018	1,500,000	0.050	1.15
	4,233,334	0.060	0.47

11. Stock Options

The Company has adopted an incentive stock option plan for employees, consultants, officers and directors. 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, 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, 2016, the Company had 1,714,900 stock options available for issuance (December 31, 2015 – 1,928,234).

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

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Options outstanding, beginning of year	620,000	0.52	640,000	0.50
Granted	1,500,000	0.05	-	-
Exercised	(900,000)	0.05	-	-
Expired	-	-	(20,000)	0.55
Options outstanding, end of year	1,220,000	0.29	620,000	0.52
Options exercisable, end of year	1,220,000	0.29	620,000	0.52

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

11. Stock Options (continued)

The following table summarizes information about the common stock options outstanding and exercisable at December 31, 2016:

Expiry Date	Number Outstanding	Exercise Price (\$)	Number of options exercisable	Weighted Average Remaining Contractual Life (years)
June 26, 2017	360,000	0.50	360,000	0.48
January 25, 2018	600,000	0.05	600,000	1.07
February 04, 2018	200,000	0.50	800,000	1.10
June 26, 2019	60,000	0.25	60,000	1.79
	1,220,000	0.27	1,820,000	0.99

The grant date fair value of the options granted was estimated using the Black-Scholes option pricing model using the following estimates:

	2016	2015
Risk-free interest rate	0.41%	nil
Expected life (years)	2.0	nil
Expected volatility	244.6%	nil
Expected rate of forfeiture	nil	nil
Expected dividend yield	nil	nil

12. Exploration and Evaluation Expenditures

Accumulated costs/expenditures	Niñobamba, Peru		Other Peru Concessions	Total
Balance, December 31, 2014	\$ 2,912,450	\$ 870,633	\$ (44,094)	\$ 3,738,989
Acquisition costs and annual fees	7,869			7,869
Expenditures	17,104	6,000	-	23,104
Proceeds on sale of concessions	-	-	(37,043)	(37,043)
Balance, December 31, 2015	\$ 2,937,423	\$ 876,633	\$ (81,137)	\$ 3,732,919
Acquisition costs and annual fees	25,681	-	-	25,681
Expenditures	8,113	-	-	8,113
Balance, December 31, 2016	\$ 2,971,217	\$ 876,633	\$ (81,137)	\$ 3,766,713

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.

On October 24, 2016 the Company and Magellan Gold Corporation ("Magellan") signed a Definitive Agreement (the "Agreement") whereby Magellan has an option (the "Option") to earn an undivided 50%

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

12. Exploration and Evaluation Expenditures (continued)

interest in the Niñobamba Project (the “Project”). Pursuant to the Agreement, in order to exercise the Option, Magellan must spend US\$2 million over the next 3 years on qualifying exploration expenditures. Additionally, Magellan is obligated to subscribe for two Rio Silver Private Placement Unit financings of \$75,000 each. The first private Placement closed on August 23, 2016 (see Note 9). The second Private Placement Financing closed on January 19, 2017 (see Note 16).

On September 8, 2016 the Company acquired 3 concessions (2,200 additional hectares) that adjoin to the west of the main Niñobamba concession. These additional concessions now form a part of the Project and are subject to the Agreement.

In December 2013 the Company entered into an option agreement to sell a 100% interest in various non-core Peruvian property concessions for total cash consideration of US\$90,000, of which US \$30,000 had been paid by instalment up to December 2014. In January 2015 the option agreement was assigned to a Peruvian subsidiary of a public mining company (the “Optionee”). The Optionee earned 100% of the interest in the optioned concessions by making payments of US\$60,000 against the remaining option payments on January 22, 2015. As part of the option agreement the Company was required to pay the 2014 concession fees and registration fees on the optioned properties.

The Gerow 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).

13. Segmented Information

	Year ended December 31 2016 \$	Year ended December 31, 2015 \$
Consolidated net loss (income)		
Canada	270,372	181,461
Peru	33,794	(6,070)
	304,166	175,391
	December 31, 2016 \$	December 31, 2015 \$
Identifiable assets		
Canada	8,801	14,782
Peru	566	572
	9,367	15,354

14. Commitment

Operating lease

The Company is party to an operating lease agreement for office space with annual lease payments of approximately \$12,000, expiring on January 30, 2018.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

15. Income Taxes

Income tax expense

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2015 – 26.5%) to the effective tax rate is as follows:

	2016	2015
	\$	\$
Net Loss before recovery of income taxes	(339,562)	(175,391)
Expected income tax recovery	(89,980)	(46,480)
Difference in foreign tax rates	(580)	120
Tax rate changes and other adjustments	(37,420)	21,050
Permanent differences	19,880	24,250
Change in tax benefits not recognized	108,100	1,060
Income tax expense (recovery) expense	-	-

Unrecognized deferred income tax

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2016	2015
	\$	\$
Mineral properties	5,961,880	5,976,780
Non-capital losses carried forward	3,778,110	3,400,060
Share issuance costs	5,270	73,230

Peruvian losses of approximately \$1,940,000 may be carried forward indefinitely but may only be applied against 50% of taxable income in subsequent year. Share issue and financing costs will be fully amortized in 2018. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Rio Silver Inc.
Notes to the Audited Consolidated Financial Statements
Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars unless otherwise noted)

15. Income Taxes (continued)

The Company's Canadian non-capital income tax losses expire as follows:

	Total
	\$
2025	132,970
2026	373,170
2027	270,370
2028	318,880
2029	140
2030	57,220
2031	219,190
2032	46,250
2035	157,840
2036	261,810
	1,837,840

16. Subsequent Events

On January 19, 2017 the Company closed the second Private Placement Financing with Magellan as part of the Agreement to acquire a 50% interest in the Niñobambo Project, for gross proceeds of \$75,000. As consideration the Company issued 1,250,000 units comprised of 1,250,000 common shares and 1,250,000 warrants.

During January and February 2017 a total of 2,733,334 warrants were exercised with gross proceeds to the Company of \$188,334.

In March 2017 the Company settled an aggregate of \$244,774 of indebtedness owed to certain arm's length and non-arm's length creditors through the issuance of an aggregate of 3,059,669 common shares at a deemed issuance price of \$0.08 per common share, of which 1,305,663 common shares were issued to non-arm's length creditors.