



Rio Silver Inc.
Condensed Interim Consolidated Financial Statements
For the Nine-Month Period Ended
September 30, 2014
(unaudited)
(Expressed in Canadian dollars)

Notice to Shareholders of Rio Silver Inc.

In accordance with National Instrument 51-102, Part 4, subsection 4.3 (3) (a), we report that the accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

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

Toronto, Canada
November 21, 2014

Rio Silver Inc.
Condensed Interim Consolidated Statements of Financial Position
(unaudited, expressed in Canadian Dollars)
As at

	September 30, 2014 \$	December 31, 2013 \$
ASSETS		
Current assets		
Cash	27,810	7,991
Government taxes recoverable	26,929	115,439
Prepaid expenses and other assets	2,859	4,652
	57,598	128,082
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	358,583	600,439
Promissory notes and interest payable (Note 7)	5,464	-
Due to related parties (Note 8)	365,936	412,360
	729,983	1,012,799
Shareholders' Equity (Deficiency)		
Share capital (Note 4)	10,184,753	9,892,990
Warrants (Note 4)	-	92,000
Contributed surplus	3,133,686	2,897,858
Accumulated deficit	(13,990,824)	(13,767,565)
	(672,385)	(884,717)
	57,598	128,082

GOING CONCERN (Note 2)

COMMITMENTS AND CONTINGENCIES (Note 9)

Approved on behalf of the Board: “Jeffrey Reeder”

“Edward J. Badida”

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements

Rio Silver Inc.
Condensed Interim Consolidated Statements of Comprehensive Loss
(unaudited, expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Expenses				
Exploration and evaluation expenditures (recovery) (Note 3)	40,281	176,237	(1,125)	650,523
Management fees and wages (Note 8)	21,000	39,750	63,000	196,682
Professional fees	23,249	73,990	136,106	110,990
Transfer agent and filing fees	15,731	3,045	27,254	15,988
Investor relations	-	-	14,925	10,036
Rent	4,500	12,000	13,500	36,000
Office and administration	3,711	1,620	12,491	17,133
Gain on settlement of debt (Note 8(b)(vi))	(59,044)	-	(59,044)	-
Share-based payments (Note 8)	-	-	13,697	51,000
Foreign exchange loss	-	-	766	-
Loss before the following	49,428	306,642	221,570	1,088,352
Interest expense	227	-	1,689	-
Comprehensive Loss	49,655	306,642	223,259	1,088,352
Comprehensive loss per share, basic and diluted	\$ 0.00	\$ 0.02	\$ 0.02	\$ 0.09
Weighted average number of common shares	12,274,335	12,143,570	12,241,375	12,061,765

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements

Rio Silver Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(unaudited, expressed in Canadian Dollars)

	Share Capital		Warrants	Contributed Surplus	Deficit	Total
	Number of shares	Amount \$				
Balance December 31, 2012	11,584,347	9,747,207	712,000	2,134,858	(12,095,074)	498,991
Share issued for cash	529,222	238,150	-	-	-	238,150
Issuance of w arrants	-	(91,000)	91,000	-	-	-
Share issuance costs	-	(10,860)	-	-	-	(10,860)
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	-	-	(525,000)	525,000	-	-
Comprehensive loss	-	-	-	-	(437,829)	(437,829)
Balance September 30, 2013	12,143,569	9,894,497	279,000	2,710,858	(12,532,903)	351,452
Share issuance costs	-	(1,507)	-	-	-	(1,507)
Warrant expiry	-	-	(187,000)	187,000	-	-
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
Shares issued for debt settlement	9,458,768	283,763	-	130,131	-	413,894
Share-based payments	-	-	-	13,697	-	13,697
Warrant expiry	-	-	(92,000)	92,000	-	-
Comprehensive loss	-	-	-	-	(223,259)	(223,259)
Balance September 30, 2014	21,682,337	10,184,753	-	3,133,686	(13,990,824)	(672,385)

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements

Rio Silver Inc.
Condensed Interim Consolidated Statements of Cash Flows
(unaudited, expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Comprehensive loss	(49,655)	(306,641)	(223,259)	(1,088,352)
Items not affecting cash:				
Gain on settlement of debt	(59,044)	-	(59,044)	-
Shares issued on acquisition of mineral properties	-	-	8,000	12,000
Share-based payments	-	-	13,697	51,000
Changes in non cash working capital items:				
Government taxes recoverable	85,172	175,153	88,510	286,198
Prepaid expenses & other assets	(80)	18,032	1,793	4,371
Trade and other payable	(206,657)	112,447	(241,856)	139,331
Due to related parties	(190,959)	30,000	(46,424)	220,834
Cash generated by (used in) operating activities	(421,223)	28,991	(458,583)	(374,618)
FINANCING ACTIVITIES				
Promissory notes received	-	-	40,000	-
Interest payable on promissory notes	227	-	1,689	-
Repayment of promissory notes and interest	(36,225)	-	(36,225)	-
Shares issued as settlement for debt	472,938	-	472,938	-
Shares and warrants issued for cash	-	-	-	227,290
Cash generated by financing activities	436,940	-	478,402	227,290
Increase(decrease) in cash during the period	15,717	28,991	19,819	(147,328)
Cash, beginning of period	12,093	41,549	7,991	217,868
Cash, end of period	27,810	70,540	27,810	70,540

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements

Rio Silver Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Nine Months Ended September 30, 2014

(unaudited, 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. Basis of Preparation and Summary of Significant Accounting Policies

These condensed interim consolidated financial statements for the nine month period ended September 30, 2014 have been prepared in accordance with IAS34 Interim Financial Reporting.

These condensed interim consolidated financial statements should be read in conjunction with the Company's 2013 annual consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The condensed interim consolidated financial statements have been prepared using accounting policies consistent with those used in the Company's 2013 annual consolidated financial statements.

These unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2014 were reviewed by the Audit Committee and approved and authorized for issued by the Board of Directors on November 21, 2014.

a) 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 recoverability of amounts shown as mineral exploration properties is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest, the ability of the Company to obtain the necessary financing to complete development, and future profitable production or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis, all of which are uncertain.

The Company will periodically be required to raise funds to continue operations by funding its working capital and capital expenditure requirements and, although it has been successful in the past, there can be no assurance it will be able to do so in the future on terms satisfactory to the Company. 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 on the business performance of the Company. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interests or terminate its operations.

At September 30, 2014, the Company had no revenues, had a working capital deficit of \$658,635 (December 31, 2013 – working capital deficit of \$884,717) had not achieved profitable operations, had accumulated deficit of \$14,036,118 (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.

Rio Silver Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Nine Months Ended September 30, 2014

(unaudited, expressed in Canadian dollars unless otherwise noted)

2. Basis of Preparation and Summary of Significant Accounting Policies (Continued)

a) Going Concern (Continued)

These 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 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.

b) 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

There were no changes during the current interim period to the composition of the Company. The results of the subsidiaries are included in the condensed interim consolidated statement of comprehensive income from the effective date of acquisition. All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

3. 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	58,206	-	-	72,246
Expenditures	395,947	160,082	22,248	-	578,277
Property option payments	(101,640)	-	-	-	(101,640)
Balance September 30, 2013	2,796,470	2,391,144	836,744	-	6,024,358
Acquisition costs and annual fees	-	138	-	-	138
Expenditures	53,054	131,424	8,501	-	192,979
Property option payments	-	-	-	(10,636)	(10,636)
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	54,021	61,847	5,250	-	121,118
Property option payments	0	-	-	(22,342)	(22,342)
Proceeds on sale of KAN	-	(150,000)	-	-	(150,000)
Refund of bond obligation	-	-	-	(11,116)	(11,116)
Balance September 30, 2014	\$ 2,912,240	\$ 2,390,579	\$ 850,495	\$ (44,094)	\$ 6,109,220

Rio Silver Inc.
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Nine Months Ended September 30, 2014

(unaudited, expressed in Canadian dollars unless otherwise noted)

3. Exploration and evaluation expenditures (continued)

Niñobamba and non-core Peruvian properties

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, 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
US\$ 10,000 on July 10, 2015
US\$ 15,000 on December 10, 2015
US\$ 25,000 on July 10, 2016

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.

KAN Project, Quebec

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 Resources 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; (iv) the issuance by Rio Silver of 400,000 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.

4. Share Capital and Reserves

(a) Authorized

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

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(unaudited, expressed in Canadian dollars unless otherwise noted)

4. Share Capital and Reserves (Continued)

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

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	0.04	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 (v)	9,458,768		283,763
Balance September 30, 2014	21,682,337		10,184,753

- (i) On February 4, 2013, the Company completed the second tranche of a non-flow through private placement consisting of 529,222 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 3).

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4. Share Capital and Reserves (Continued)

(b) Common Shares (continued)

- (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 common share for every five (5) pre-consolidation common shares (the "Consolidation"). The Consolidation came into effect September 8, 2014. As at September 30, 2014, the common shares of the Company have been restated 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 nine months ended September 30, 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:

	Nine Months ended September 30, 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 period	-	-	536,842	0.60

5. 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

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5. Stock Options (Continued)

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 September 30, 2014, the Company had 1,508,233 stock options available for issuance (December 31, 2013 – 550,357).

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

	Nine months ended September 30, 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	(100,000)	0.50	(320,000)	1.25
Options outstanding, end of period	660,000	0.50	700,000	0.55
Options exercisable, end of period	660,000	0.50	700,000	0.55

The following table summarizes information about the common stock options outstanding and exercisable at September 30, 2014:

Expiry Date	Number Outstanding	Exercise Price (\$)	Number of options exercisable	Weighted Average Remaining Contractual Life (years)
February 23, 2016	40,000	1.25	40,000	1.41
June 26, 2017	360,000	0.50	360,000	2.75
February 4, 2018	200,000	0.50	200,000	3.33
October 15, 2018	60,000	0.25	45,000	4.00
	660,000	0.50	645,000	2.93

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 to the Company at a price of \$0.25 per share, with an effective grant date of October 15, 2013. The fair

Rio Silver Inc.
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(unaudited, expressed in Canadian dollars unless otherwise noted)

5. Stock Options (Continued)

value of these options at the date of grant was \$15,000, vesting over a one year period. A total of \$13,697 has vested up to September 30, 2014.

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%	1.1%
Expected life (years)	5.0	2.0
Expected volatility	140%	138%
Expected rate of forfeiture	nil	nil
Expected dividend yield	nil	nil

6. Segmented Information

	Nine months ended September 30,	Year ended December 31,
	2014	2013
	\$	\$
Consolidated net loss		
Canada	181,196	883,897
Peru	40,374	350,765
	221,570	1,234,662
	September 30,	December 31,
	2014	2013
	\$	\$
Identifiable assets		
Canada	57,187	125,967
Peru	411	2,115
	57,598	128,082

7. Promissory notes and interest payable

During the nine months ended September 30, 2014 the Company issued a total of \$40,000 in unsecured promissory notes bearing interest at an annual rate of 18%. As at September 30, 2014 principal of \$5,000 and interest of \$464 was payable on outstanding promissory notes.

Rio Silver Inc.
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(unaudited, expressed in Canadian dollars unless otherwise noted)

8. Related Party Transactions and Key Management Remuneration

The Company defines key management as its President and Chief Executive Officer, and Chief Financial Officer.

Remuneration of key management personnel:

	Nine months ended	
	September 30,	
	2014	2013
	\$	\$
Salaries, consulting fees and other short term benefits	45,000	220,834
Share-based payments	-	51,000
	45,000	271,834

The Company's related parties consist of its Directors and Officers and parties related to Directors and Officers.

The following is a summary of the Company's related party transactions during the period:

- (a) Due to related parties includes \$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 \$4,000 (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 \$12,500 (December 31, 2013 - \$18,000) payable to the Company's current CFO.
- (c) Due to related parties includes \$58,429 (December 31, 2013 - \$92,068) 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 \$69,757 (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 nine months ended September 30, 2014 the Company issued promissory notes of \$15,000 and paid interest of \$259 to the CEO of the Company. As at September 30, 2014 the promissory note due to the Company's CEO had been repaid.

During the nine months ended September 30, 2014 the Company issued promissory notes of \$15,000 and paid interest of \$725 to a party related to a Director of the Company. As at September 30, 2014 the promissory note had been repaid.

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9. Commitments and Contingencies

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.