Rio Silver Inc.
Annual Consolidated Financial Statements
December 31, 2013 and 2012
(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, 2014

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, 2013 and 2012, 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, 2013 and 2012, 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.

parker simone LLP.

April 24, 2014

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

	December 31, 2013 $	December 31, 2012 (as restated Note 4) $
ASSETS		
Current assets		
Cash (Note 8)	**7,991**	217,868
Government taxes recoverable	**115,439**	299,515
Prepaid expenses and other assets	**4,652**	14,558
	128,082	531,941
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables (Note 13)	**1,012,799**	470,779
	1,012,799	470,779
Shareholders' Equity (Deficiency)		
Share capital (Note 10)	**9,892,990**	9,747,207
Warrants (Note 10)	**92,000**	712,000
Contributed surplus	**2,897,858**	2,134,858
Accumulated deficit	**(13,767,565)**	(12,532,903)
	(884,717)	61,162
	128,082	531,941

GOING CONCERN (Note 2)

COMMITMENTS AND CONTINGENCIES (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, 2013 $	Year ended December 31, 2012 $ (as restated Note 4)
Expenses		
Exploration and evaluation expenditures (Notes 4 & 9)	**634,870**	2,448,630
Management fees and wages (Note 13)	**236,818**	176,228
Transfer agent and filing fees	**17,955**	17,548
Professional fees	**140,042**	95,742
Investor relations	**10,036**	48,000
Rent	**54,928**	40,000
Office	**13,550**	13,928
Travel	**6,705**	27,820
Share-based payments (Note 13)	**51,000**	109,000
Flow-through financing costs	**21,623**	-
Foreign exchange loss	**47,135**	7,417
Comprehensive loss	**1,234,662**	2,984,313
Comprehensive loss per share, basic and diluted	**$ 0.02**	$ 0.06
Weighted average number of common shares	**60,405,756**	46,040,368

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					
	Number of shares	Amount $	Warrants $	Contributed Surplus $	Deficit (as restated Note 4)	Total $
Balance December 31, 2011	41,946,738	8,521,264	1,661,600	743,258	(9,548,590)	1,377,532
Share issued for cash	15,875,000	1,630,000	-	-	-	1,630,000
Issuance of warrants	-	(316,000)	316,000	-	-	-
Share issued on acquisition of mineral property	100,000	14,000	-	-	-	14,000
Share issuance costs	-	(85,057)	-	-	-	(85,057)
Issuance of finders' warrants		(17,000)	17,000			-
Warrant expiry			(1,282,600)	1,282,600		-
Share-based payments	-	-	-	109,000	-	109,000
Comprehensive loss					(2,984,313)	(2,984,313)
Balance December 31, 2012	57,921,738	9,747,207	712,000	2,134,858	(12,532,903)	61,162
Share issued for cash	2,646,111	238,150	-	-	-	238,150
Issuance of warrants	-	(91,000)	91,000	-	-	-
Share issued on acquisition of mineral property	150,000	12,000	-	-	-	12,000
Share issuance costs	-	(12,367)	-	-	-	(12,367)
Issuance of finders' warrants		(1,000)	1,000	-	-	-
Warrant expiry			(712,000)	712,000	-	-
Share-based payments				51,000	-	51,000
Comprehensive loss					(1,234,662)	(1,234,662)
Balance December 31, 2013	60,717,849	9,892,990	92,000	2,897,858	(13,767,565)	(884,717)

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,	
	2013	2012
	$	$
		(as restated Note 4)
OPERATING ACTIVITIES		
Comprehensive loss	**(1,234,662)**	(2,984,313)
Items not affecting cash:		
Share-based payments	**51,000**	109,000
Shares issued on acquisition of mineral properties	**12,000**	14,000
Changes in non cash working capital items:		
Government taxes recoverable	**184,076**	126,796
Prepaid expenses & other assets	**9,906**	6,400
Trade and other payable	**542,020**	313,718
Cash generated by operating activities	**(435,660)**	(2,414,399)
FINANCING ACTIVITIES		
Shares and warrants issued for cash	**238,150**	2,455,105
Issue costs	**(12,367)**	(85,057)
Cash generated by financing activities	**225,783**	2,370,048
Decrease in cash during the year	**(209,877)**	(44,351)
Cash, beginning of year	**217,868**	262,219
Cash, end of year	**7,991**	217,868

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

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 current and 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.

At December 31, 2013, the Company had no revenues, had a working capital deficit of $884,717 (December 31, 2012 – working capital $61,162), had not achieved profitable operations, had accumulated deficit of $13,767,565 (December 31, 2012 - $12,532,903) 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.

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 Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), effective for the Company's reporting for the years ended December 31, 2013 and 2012.

These consolidated financial statements were approved by the Board of Directors for issue on April 24, 2014.

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:

Company	Location	Ownership	Principal Activity
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 income 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.

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,

3. Summary of Significant Accounting Policies (continued)

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.

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.

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 Company's financial instruments consist of the following:

Financial assets:	**Classification:**
Cash	FVTPL
Financial liabilities:	**Classification:**
Trade and other payables	Other financial liabilities

Impairment of financial assets:
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one of more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

3. Summary of Significant Accounting Policies (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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). As of December 31, 2013 and December 31, 2012, the Company's sole financial instrument carried at fair value, being cash, is recorded at a level 1 fair value hierarchy.

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 preservations 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.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations.

Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

g) Flow-through shares

The Company finances a portion of its exploration activities through the issue of flow-through shares issued pursuant to the Income Tax Act (Canada). Under the terms of these share issues, the deductions for income tax purposes of the related expenditures are renounced to the subscribers of the flow-through shares.

h) Cash and cash equivalents

Cash and cash equivalents are comprised of both cash on deposit and guaranteed investment certificates with an original maturity of three months or less from the date of acquisition or are readily convertible into a known amount of cash without penalty. The Company holds these assets at major Canadian financial institutions.

3. Summary of Significant Accounting Policies (continued)

i) 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.

j) 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.

k) 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.

l) 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.

3. Summary of Significant Accounting Policies (continued)

m) 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 per share are the same.

n) 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 estimates relate to: valuation of deferred income tax and 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;
- management's assumption of no material restoration, rehabilitation and environmental obligation based on the facts and circumstances that existed during the period; and
- management's position that there are no current income tax balances required within these audited consolidated financial statements.

o) 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 beginning on or after January 1, 2014. 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

(expressed in Canadian dollars unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

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, 2015. The Company has yet to evaluate the impact of the new standard.

4. Change in Accounting Policy

These consolidated financial statements have been prepared on the basis of a retrospective application of a change in accounting policy relating to exploration and evaluation expenditures.

The new accounting policy is to expense exploration and evaluation expenditures as incurred whereas the previous policy required capitalizing these expenditures. Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized.

The new accounting policy was adopted on December 31, 2013 and has been applied retrospectively. Management believes the change in policy will result in the financial statements providing more reliable and no less relevant information because it eliminates subjectivity inherent in the impairment analysis of exploration stage projects. The impact of the change in accounting policy on the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive loss is as follows:

	December 31, 2012 $	January 1, 2012 $
Deficit before accounting change	7,050,011	6,495,885
Adjustments to:		
Mineral exploration properties	5,482,892	3,052,705
Deficit after accounting changes	12,532,903	9,548,590

	Year ended December 31, 2012 $
Comprehensive loss before accounting change	554,126
Adjustments to:	
Mineral exploration property write-off	(25,860)
Mineral exploration property expenditures	2,448,630
Foreign exchange loss	7,417
Comprehensive loss after accounting change	2,984,313

Loss per share, basic and diluted before accounting change	$	0.01
Loss per share, basic and diluted after accounting change	$	0.06

5. Capital management

The capital structure of the Company consists of equity attributable to common shareholders and includes share capital of $9,892,990 (December 31, 2012 - $9,747,207), contributed surplus of $2,897,858 (December 31, 2012 - $2,134,858), warrants of $92,000 (December 31, 2012 - $712,000), and deficit of $13,767,565 (December 31, 2012 - $12,532,903).

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, 2013. The Company is not subject to externally imposed capital requirements.

6. Financial risk factors

Fair value

As at December 31, 2013, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the short-term 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, 2013, the Company had cash of $7,991 (December 31, 2012 - $217,868) to settle current liabilities of $1,012,799 (December 31, 2012

6. Financial risk factors (continued)

- $470,779). All of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms. During the period subsequent to year end, the Company continued to raise additional funds through the issuance of unsecured promissory notes payable (see note 16).

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.

Account	Foreign Currency	Exposure ($Cdn)
Cash	United States dollar	73
Cash	Peruvian new sol	455
Trade payables	Peruvian new sol	90,517

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.

7. Categories of financial instruments

	December 31, 2013 $	**December 31, 2012 $**
Financial assets		
Cash	**7,991**	217,868
Financial liabilities		
Trade and other payables	**1,012,799**	470,779

(expressed in Canadian dollars unless otherwise noted)

7. Categories of financial instruments (continued)

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, 2013, 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 6.

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.

8. Cash

	December 31, 2013	December 31, 2012
	$	$
Cash on deposit with financial institutions	7,991	217,868

9. Exploration and evaluation expenditures

Accumulated costs/expenditures	Niñobamba, Peru	KAN	Gerow Lake	Total
Balance December 31, 2011	1,507,660	719,631	799,554	3,026,845
Acquisition costs	4,214	72,893	-	77,107
Expenditures	976,249	1,262,471	14,942	2,253,662
Québec mining tax credit	-	117,861	-	117,861
Balance December 31, 2012	2,488,123	2,172,856	814,496	5,475,475
Acquisition costs	14,040	58,344	-	72,384
Expenditures	449,001	291,506	30,749	771,256
Property option payments	(112,276)	-	-	(112,276)
Québec mining tax credit	-	(96,494)	-	(96,494)
Balance December 31, 2013	2,838,888	2,426,212	845,245	6,110,345

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
US$ 5,000 on June 10, 2014
US$ 10,000 on December 10, 2014

9. Exploration and evaluation expenditures (continued)

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.

The KAN property is located in Northern Québec. The Company holds an option to acquire a 100% undivided interest in the property. The option requires the Company to pay an aggregate of $105,000 ($65,000 paid) and issue an aggregate 650,000 common shares (250,000 issued) to the vendor over the course of four years. The option will be subject to a 2% net smelter royalty in favour of the vendor of which 1% may be repurchased for $500,000 on or before the fourth anniversary date or $1,500,000 thereafter. (See subsequent Events – Note 16)

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).

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

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

(expressed in Canadian dollars unless otherwise noted)

	Number of shares	Issue Price $	Amount $
Balance December 31, 2011	41,946,738		8,521,264
Issued on acquisition of mineral properties	100,000	0.14	14,000
Share issuance (i)	6,875,000	0.08	550,000
Flow-through share issuance (ii)	5,000,000	0.12	600,000
Flow-through share issuance (iii)	2,000,000	0.15	300,000
Share issuance (iv)	2,000,000	0.09	180,000
Proceeds of issuances allocated to warrants issued	-	-	(316,000)
Share issue costs	-	-	(102,057)
Balance December 31, 2012	57,921,738		9,747,207
Share issuance (v) (vi)	2,646,111	0.09	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 (vii)	150,000	0.08	12,000
Balance December 31, 2013	60,717,849		9,892,990

(i) On August 24, 2012 the Company completed a non-flow-through private placement consisting of 6,875,000 units (the “Units”) at $0.08 per Unit for gross proceeds of $550,000. Each Unit consisted of one common share of the Company and one common share purchase warrant exercisable at $0.12 per share until August 24, 2013.

(ii) On September 24, 2012, the Company completed a flow-through private placement consisting of 5,000,000 flow-through shares (the “FT Shares”) at $0.12 per FT Share for gross proceeds of $600,000. The proceeds from the FT Shares will be used to incur eligible Canadian Exploration Expenses as defined by the Income Tax Act (Canada).

(iii) On November 26, 2012, the Company completed a flow-through private placement consisting of 2,000,000 flow-through shares the (FT Shares”) at $0.15 per FT Share for gross proceeds of $300,000. The proceeds from the FT Shares will be used to incur eligible Canadian Exploration Expenses as defined by the Income Tax Act (Canada).

(iv) On December 21, 2012, the Company completed the first tranche of a non-flow-through private placement consisting of 2,000,000 units (the “Units”) at $0.09 per Unit for gross proceeds of $180,000. Each Unit consisted of one common share of the Company and one common share purchase warrant exercisable at $0.12 per share until December 21, 2013.

(v) On February 4, 2013, the Company completed the second tranche of a non-flow through private placement consisting of 2,346,111 units (the “Units”) at $0.09 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 $0.12 per share until February 4, 2014. The Company paid finders’ fee comprised of $1,000 and 38,100 broker warrants which entitles the holder to purchase a non-flow through common share at $0.12 until February 4, 2014.

(expressed in Canadian dollars unless otherwise noted)

10. Share Capital and Reserves (continued)

(b) Common Shares (continued)

(vi) On February 15, 2013, the Company completed the last tranche of a non-flow through private placement consisting of 300,000 units (the "Units") at $0.09 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 $0.12 per share until February 15, 2014.

(vii) On each of April 2, 2012 and April 5, 2013 the Company issued 150,000 common shares pursuant to its option agreement to acquire the KAN property (see subsequent event note 16).

(c) Warrants

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

	Year ended December 31, 2013		Year ended December 31, 2012	
	Number	**Weighted average exercise price ($)**	Number	Weighted average exercise price ($)
Balance, beginning of year	**14,831,136**	**0.20**	15,931,136	0.38
Granted - warrants	**2,646,111**	**0.12**	8,875,000	0.12
Granted - broker warrants	**38,100**	**0.12**	444,000	0.12
Expired	**(14,831,136)**	**0.20**	(10,419,000)	0.40
Balance, end of period	**2,684,211**	**0.12**	14,831,136	0.20

The Company had the following warrants outstanding at December 31, 2013:

Expiry Date	Number of warrants outstanding	Exercise price ($)	Allocated Value
February 4, 2014	2,384,211	0.12	78,000
February 15, 2014	300,000	0.12	14,000
	2,684,211	0.12	92,000

11. 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

(expressed in Canadian dollars unless otherwise noted)

11. 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 $0.10.

As at December 31, 2013, the Company had 2,571,785 stock options available for issuance (December 31, 2012 – 1,692,174).

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

	Year ended December 31, 2013		Year ended December 31, 2012	
	Number	**Weighted average exercise price ($)**	Number	Weighted average exercise price ($)
Options outstanding, beginning of year	**4,100,000**	**0.17**	2,870,000	0.38
Granted	**1,000,000**	**0.10**	2,300,000	0.10
Expired	**(1,600,000)**	**0.25**	(1,070,000)	0.60
Options outstanding, end of period	**3,500,000**	**0.11**	4,100,000	0.17
Options exercisable, end of period	**3,500,000**	**0.11**	4,100,000	0.17

The following table summarizes information about the common stock options outstanding and exercisable at December 31, 2013:

Expiry Date	**Number Outstanding**	**Exercise Price ($)**	**Number of options exercisable**	**Weighted Average Remaining Contractual Life (years)**
February 23, 2016	200,000	0.25	200,000	2.02
June 26, 2017	2,300,000	0.10	2,300,000	3.5
February 4, 2018	1,000,000	0.10	1,000,000	4.08
	3,500,000	0.11	3,500,000	3.58

On June 26, 2012, the Company granted 2,300,000 options to directors, officers and consultants of the Company at a price of $0.10 per share. The fair value of these options at the date of grant was $109,000.

On February 4, 2013, the Company granted 1,000,000 options to a director of the Company at a price of $0.10 per share. The fair value of these options at the date of grant was $51,000.

(expressed in Canadian dollars unless otherwise noted)

11. 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:

	2013	2012
Risk-free interest rate	**1.1%**	1.0%
Expected life (years)	**2.0**	2.0
Expected volatility	**138%**	111%
Expected rate of forfeiture	**nil**	nil
Expected dividend yield	**nil**	nil

12. Segmented Information

	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Consolidated net loss		
Canada	**883,897**	2,003,850
Peru	**350,765**	980,463
	1,234,662	2,984,313

	December 31, 2013 $	December 31, 2012 $
Identifiable assets		
Canada	**125,967**	525,362
Peru	**2,115**	6,579
	128,082	531,941

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, 2013 $	Year ended December 31, 2012 $
Salaries, consulting fees and other short term benefits	**285,834**	245,050
Share-based payments	**51,000**	75,131
	336,834	320,181

(expressed in Canadian dollars unless otherwise noted)

13. Related Party Transactions and Key Management Remuneration (continued)

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) Trade and other payables include $200,000 payable to the Company's Chairman earned in his capacity as CEO of the Company up to July 12, 2013 and $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.

(b) Trade and other payables at December 31, 2013 include $17,085 payable to a private company owned by the Company's current CEO, $12,000 of which has been earned since July 12, 2013 and $18,000 payable to the Company's current CFO and earned since July 12, 2013.

(c) Trade and other payables include $35,507 payable to current directors that is unsecured, non-interest bearing and without fixed repayment terms.

(d) Trade and other payables include $59,042, of which $27,697 was incurred in the current period, payable to a legal firm of which a director is a partner.

14. 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.

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% (2012 – 26.5 %). A reconciliation of the statutory income tax rate with the Company's effective tax rate is as follows:

	2013		2012	
	$	**%**	$	%
Income tax expense (recovery) at statutory rates				
Loss before income taxes	**(1,234,662)**		(2,984,313)	
Income taxes at the combined federal and provincial statutory rates	**(327,200)**	**(26.5)**	(790,800)	(26.5)
Non-deductible expenses and other	**114,300**	**9.3**	6,200	0.2
Share based payments	**13,500**	**1.1**	28,800	1.0
Changes in current and deferred tax rates	**-**	**-**	3,000	0.1
Change in valuation allowance	**199,400**	**16.1**	752,800	25.2
Income tax expense (recovery)	**-**		-	

(expressed in Canadian dollars unless otherwise noted)

15. Income Taxes (continued)

Deferred income tax

The primary differences that give rise to the deferred income tax balances at December 31, 2013 and 2012 are as follows:

Deferred income tax assets (liabilities)	2013 $	2012 $
Deductible financing fees	**12,000**	46,600
Non-capital losses carried forward	**1,045,000**	907,000
Non-current assets	**1,563,000**	1,467,000
	2,620,000	2,420,600
Less: valuation allowance	**(2,620,000)**	(2,420,600)
Net deferred tax asset		-

At December 31, 2013 and 2012, the Company recorded a 100% valuation allowance against its deferred income tax asset balances due to uncertainty surrounding their realization.

Tax loss carry forward balances

As at December 31, 2013, the Company has non-capital loss carry forwards, available to offset future taxable income, expiring as follows:

	Total $
2014	**103,800**
2015	**79,400**
2026	**133,000**
2027	**373,200**
2028	**266,600**
2029	**313,900**
2030	**-**
2031	**57,100**
2032	**193,300**
2033	**46,300**
Indefinite	**1,967,300**
	3,533,900

The unamortized balance, for income tax purposes, of deductible financing costs amounts to $46,300 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 $5,896,400 that may be carried forward indefinitely.

16. Subsequent Events

Sale of KAN property
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 property.

16. Subsequent Events (continued)

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 are 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.

Issuance of promissory notes

Subsequent to December 31, 2013 the Company raised $25,000 by the issuance of unsecured promissory notes bearing interest at an annual rate of 18% and repayable on demand.