



**Rio Silver Inc.**  
**Condensed Interim Consolidated Financial Statements**  
**For the Six-Month Period Ended**  
**June 30, 2016**  
**(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  
August 26<sup>th</sup>, 2016

**Rio Silver Inc.**  
**Condensed Interim Consolidated Statements of Financial Position**

*(unaudited, expressed in Canadian Dollars)*

As at

	<b>June 30, 2016</b>	December 31, 2015
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	<b>40,746</b>	11,404
Government taxes recoverable	<b>2,959</b>	2,492
Prepaid expenses and other assets	<b>1,510</b>	1,458
	<b>45,215</b>	15,354
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Trade and other payables	<b>305,290</b>	282,421
Promissory notes and interest payable (Note 3)	<b>15,399</b>	6,585
Due to related parties (Note 4)	<b>430,811</b>	393,008
	<b>751,500</b>	682,014
Shareholders' Equity (Deficiency)		
Share capital (Note 5)	<b>10,383,753</b>	10,289,753
Warrants (Note 5)	<b>80,667</b>	88,000
Contributed surplus	<b>3,174,989</b>	3,134,989
Accumulated deficit	<b>(14,345,694)</b>	(14,179,402)
	<b>(706,285)</b>	(666,660)
	<b>45,215</b>	15,354

**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		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
			\$	\$
<b>Expenses</b>				
Exploration and evaluation expenditures (recovery) (Note 7)	11,037	42,348	11,375	(5,087)
Management fees	21,000	15,000	36,000	30,000
Transfer agent and filing fees	4,607	4,339	10,522	10,629
Professional fees	6,195	19,316	10,695	35,608
Rent	4,500	4,500	9,000	9,000
Office and administration	7,133	7,710	14,249	15,271
Share-based payments (Note 6)	-	3,750	75,000	7,500
Foreign exchange (gain) loss	(260)	5,561	(1,030)	1,223
Interest expense	257	224	481	446
<b>Comprehensive Loss</b>	<b>54,469</b>	<b>102,748</b>	<b>166,292</b>	<b>104,590</b>
<b>Comprehensive loss per share, basic and diluted</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>
<b>Weighted average number of common shares</b>	<b>25,852,667</b>	<b>25,682,337</b>	<b>25,767,502</b>	<b>23,657,790</b>

*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 \$				
<b>Balance December 31, 2014</b>	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	-	-	-	-	(104,590)	(104,590)
<b>Balance June 30, 2015</b>	25,682,337	10,289,753	88,000	3,134,989	(14,108,601)	(595,859)
Comprehensive loss	-	-	-	-	(70,801)	(70,801)
<b>Balance December 31, 2015</b>	25,682,337	10,289,753	88,000	3,134,989	(14,179,402)	(666,660)
Share-based payments	-	-	-	75,000	-	75,000
Share-issued for cash - exercise of warrants	333,333	24,000	(7,333)	-	-	16,667
Shares issued for cash - exercise of options	700,000	70,000	-	(35,000)	-	35,000
Comprehensive loss	-	-	-	-	(166,292)	(166,292)
<b>Balance June 30, 2016</b>	26,715,670	10,383,753	80,667	3,174,989	(14,345,694)	(706,285)

*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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
			\$	\$
<b>OPERATING ACTIVITIES</b>				
Comprehensive loss	(54,469)	(102,748)	(166,292)	(104,590)
Items not affecting cash:				
Share-based payments	-	3,750	75,000	7,500
Interest payable on promissory notes	257	224	481	446
Changes in non cash working capital items:				
Government taxes recoverable	2,021	1,702	(467)	21,224
Prepaid expenses & other assets	26	371	(52)	(6,083)
Trade and other payables	10,522	20,417	22,869	(87,414)
Due to related parties	21,903	17,000	37,803	(13,015)
<b>Cash used in operating activities</b>	<b>(19,740)</b>	<b>(59,284)</b>	<b>(30,658)</b>	<b>(181,932)</b>
<b>FINANCING ACTIVITIES</b>				
Promissory notes received	8,333	-	8,333	-
Shares issued for cash - exercise of warrants	16,667	-	16,667	-
Shares issued for cash - exercise of options	35,000	-	35,000	-
Shares and warrants issued for cash	-	-	-	200,000
<b>Cash generated by financing activities</b>	<b>60,000</b>	<b>-</b>	<b>60,000</b>	<b>200,000</b>
<b>Increase (decrease) in cash during the period</b>	<b>40,260</b>	<b>(59,284)</b>	<b>29,342</b>	<b>18,068</b>
<b>Cash, beginning of period</b>	<b>486</b>	<b>87,439</b>	<b>11,404</b>	<b>10,087</b>
<b>Cash, end of period</b>	<b>40,746</b>	<b>28,155</b>	<b>40,746</b>	<b>28,155</b>

*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**  
**Six Months Ended June 30, 2016**

*(unaudited, expressed in Canadian dollars unless otherwise noted)*

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**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. Basis of Preparation and Summary of Significant Accounting Policies**

These condensed interim consolidated financial statements for the six month period ended June 30, 2016 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 2015 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 2015 annual consolidated financial statements.

These unaudited condensed interim consolidated financial statements for the six months ended June 30, 2016 were reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on August 26, 2016.

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 June 30, 2016, the Company had no revenues, had a working capital deficit of \$706,285 (December 31, 2015 – working capital deficit of \$666,660) had not achieved profitable operations, had accumulated deficit of \$14,345,694 (December 31, 2015 - \$14,179,402) 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**  
**Six Months Ended June 30, 2016**

*(unaudited, expressed in Canadian dollars unless otherwise noted)*

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**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 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.

c) Standards, Amendments and Interpretations 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.



**Rio Silver Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Six Months Ended June 30, 2016**

*(unaudited, expressed in Canadian dollars unless otherwise noted)*

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

c) Standards, Amendments and Interpretations Not Yet Effective (continued)

*IFRS 16 Leases*

IFRS 16 Leases was released in January 2016 and replaces IAS 17, Leases. 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.

d) Significant Accounting Judgements and Estimates

Areas of critical accounting estimates and judgements that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are disclosed in Note 5 of the Company's consolidated financial statement as at and for the year ended December 31, 2015.

**3. Promissory notes and interest payable**

As at June 30, 2016 the Company had promissory notes payable outstanding of \$13,366 (December 31, 2015 - \$5,000). The promissory notes are due on demand and bear interest at an annual rate of 18%. As at June 30, 2016 there was an interest payable balance of \$2,033 (December 31, 2015 - \$1,585).

**4. 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:

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Consulting fees	<b>36,000</b>	30,000

**Rio Silver Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Six Months Ended June 30, 2016**

*(unaudited, expressed in Canadian dollars unless otherwise noted)*

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**4. 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) Due to related parties includes \$200,000 (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 \$30,000 (December 31, 2015 - \$18,000) payable to a private company owned by the Company's current CEO and earned in his capacity as CEO, and \$60,000 (December 31, 2015 - \$42,000) payable to the Company's current CFO; and \$6,000 (December 31, 2015 - Nil) payable to the Company's Co-Chairman.
- (c) Due to related parties includes \$63,804 (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.
- (d) During the six months ended June 30, 2016 the Company issued promissory note, totaling \$8,333 to related parties. As at June 30, 2016 there was an interest payable balance of \$33 on the outstanding promissory notes.
- (e) 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 the transactions.

**5. 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:

**Rio Silver Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Six Months Ended June 30, 2016**

(unaudited, expressed in Canadian dollars unless otherwise noted)

**5. Share Capital and Reserves (continued)**

**(b) Common Shares (continued)**

	Number of shares	Issue Price \$	Amount \$
<b>Balance December 31, 2014</b>	21,682,337		10,177,753
Share issuance (i)	4,000,000	0.05	235,000
Proceeds allocated to warrants issued	-		(80,667)
<b>Balance December 31, 2015</b>	25,682,337		10,332,086
Exercise of warrants (ii)	333,333	0.05	16,667
Exercise of options (iii)	700,000	0.05	35,000
<b>Balance June 30, 2016</b>	26,715,670		10,383,753

- (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.
- (ii) In June 2016 there were 333,333 warrants exercised at \$0.05 per share for gross proceeds of \$16,667.
- (iii) In June 2016 there were 700,000 options exercised at \$0.05 per share for gross proceeds of \$35,000.

**(c) Warrants**

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

	Six months ended June 30, 2016		Year ended December 31, 2015	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Balance, beginning of period	4,000,000	0.075	-	-
Granted - warrants	-	-	4,000,000	0.075
Exercised	(333,333)	0.050		
<b>Balance, end of period</b>	<b>3,666,667</b>	<b>0.068</b>	4,000,000	0.075

**Rio Silver Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Six Months Ended June 30, 2016**

*(unaudited, expressed in Canadian dollars unless otherwise noted)*

**5. Share Capital and Reserves (continued)**

**(c) Warrants (continued)**

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 5 (b)(i). The exercise price of the warrants was reduced from \$0.075 to \$0.05 per warrant share.

**6. 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 June 30, 2016, the Company had 1,251,567 stock options available for issuance (December 31, 2015 – 1,928,234).

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

	<b>Six months ended June 30, 2016</b>		Year ended December 31, 2015	
	<b>Number</b>	<b>Weighted average exercise price (\$)</b>	Number	Weighted average exercise price (\$)
Options outstanding, beginning of period	<b>620,000</b>	<b>0.52</b>	640,000	0.50
Granted	<b>1,500,000</b>	<b>0.05</b>	-	-
Exercised	<b>(700,000)</b>	<b>0.05</b>		
Expired	-	-	(20,000)	0.55
Options outstanding, end of period	<b>1,420,000</b>	<b>0.26</b>	620,000	0.52
Options exercisable, end of period	<b>1,420,000</b>	<b>0.26</b>	620,000	0.52

The following table summarizes information about the common stock options outstanding and exercisable at June 30, 2016:

**Rio Silver Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Six Months Ended June 30, 2016**

*(unaudited, expressed in Canadian dollars unless otherwise noted)*

**6. Stock Options (continued)**

<b>Expiry Date</b>	<b>Number Outstanding</b>	<b>Exercise Price (\$)</b>	<b>Number of options exercisable</b>	<b>Weighted Average Remaining Contractual Life (years)</b>
<b>June 26, 2017</b>	360,000	0.50	360,000	0.99
<b>January 25, 2018</b>	800,000	0.05	800,000	1.57
<b>February 4, 2018</b>	200,000	0.50	200,000	1.60
<b>June 26, 2019</b>	60,000	0.25	60,000	2.99
	1,420,000		1,420,000	1.49

On January 26, 2016 the Company granted a total of 1,500,000 options to directors, officers and employees at an exercise price of \$0.05 per share, expiring on January 25, 2018.

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

	<b>2016</b>	<b>2015</b>
Risk-free interest rate	1%	-
Expected life (years)	3.0	-
Expected volatility	218%	-
Expected rate of forfeiture	nil	-
Expected dividend yield	nil	-

On June 26, 2014 the shareholders of the Company approved the grant of 60,000 options to a consultant at a price of \$0.25 per share. The fair value of these options at the date of grant was \$15,000, and the options were fully vested as at December 31, 2015.

**7. Exploration and evaluation expenditures**

<b>Accumulated costs/expenditures</b>	<b>Niñobamba, Peru</b>		<b>Other Peru Concessions</b>	<b>Total</b>
<b>Balance, December 31, 2014</b>	\$ 2,912,450	\$ 870,633	\$ (44,094)	\$ 3,738,989
Acquisition costs and annual fees	7,869			7,869
Expenditures	4,276	5,250	-	9,526
Proceeds on sale of concessions	-	-	(56,961)	(56,961)
<b>Balance, June 30, 2015</b>	\$ 2,924,595	\$ 875,883	\$ (101,055)	\$ 3,699,423
Expenditures	12,828	750	19,918	33,496
<b>Balance, December 31, 2015</b>	\$ 2,937,423	\$ 876,633	\$ (81,137)	\$ 3,732,919
Acquisition costs and annual fees	10,447	-	-	10,447
Expenditures	928	-	-	928
<b>Balance, June 30, 2016</b>	\$ 2,948,798	\$ 876,633	\$ (81,137)	\$ 3,744,294

**Rio Silver Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Six Months Ended June 30, 2016**

*(unaudited, expressed in Canadian dollars unless otherwise noted)*

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**7. Exploration and evaluation expenditures (continued)**

**Niñobamba**

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 June 30, 2016 the Company entered into a non-binding letter of intent ("LOI") with Magellan Gold Corporation ("Magellan") pursuant to which, subject to regulatory approval, Magellan has an option (the "Option") to earn an undivided 50% interest in the Niñobamba property. Under the terms of the LOI Magellan must spend US \$2,000,000 within a three year period in direct and indirect expenditures, including 4,000 metres of drilling, of which 700 metres must be completed by the end of November 2017. Upon completion of the exploration programs, it is intended that Magellan shall deliver a Preliminary Resource Estimate for the Niñobamba property.

In connection with the transaction, the Company intends to complete two private placement financings, each for aggregate proceeds of Cdn \$75,000. It is intended that Magellan will be the sole subscriber for each of the private placements. The first private placement will consist of units of the Company for an aggregate subscription price of Cdn \$75,000 with each unit consisting of one common share of Rio Silver and one share purchase warrant, with each warrant expiring eighteen (18) months following the date of issue. Subject to regulatory approval, the first private placement is expected to be concluded upon execution of the Definitive Agreement. The second private placement will be a unit financing for an aggregate subscription price of Cdn\$75,000 with each unit consisting of one common share of Rio Silver and one share purchase warrant, with each warrant expiring thirty (30) months following the date of issue. Subject to regulatory approval, the second private placement is expected to be concluded within ninety (90) days after execution of the Definitive Agreement. Pursuant to the LOI, in order to maintain their Niñobamba Option earn-in rights Magellan must exercise all warrants before they expire. The final terms of the private placement, including the price of each unit, are yet to be finalized. All securities issued in connection with the private placement will be subject to a four-month statutory hold period.

The closing of the transaction is subject to a number of conditions including the entering into of the Definitive Agreement, the satisfactory completion of due diligence review by the parties, the completion of the first private placement, receipt of all required approvals and consents, including TSX Venture Exchange approval and satisfaction of other customary closing conditions. The transaction cannot close until the required approvals are obtained. (See Subsequent events)

**Other Peru Concessions**

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 (Cdn \$103,814), of which US \$30,000 (Cdn \$32,443) 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 (Cdn \$71,371) 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.

**Rio Silver Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Six Months Ended June 30, 2016**

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**7. Exploration and evaluation expenditures (continued)**

**Gerow Lake**

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).

**8. Commitments**

Operating lease

The Company is party to an operating lease agreement for office space with annual lease payments of \$18,000, expiring on July 30, 2016. As at June 30, 2016 there are lease payments of \$1,500 remaining on this lease obligation.

**9. Comparative figures**

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

**10. Subsequent events**

On August 23, 2016 the Company closed the first of two financings contemplated in its transaction with Magellan, subject to final regulatory approval. The first financing consists of a non-brokered private placement of 1,500,000 Units at \$0.05 per Unit for gross proceeds of \$75,000. Each Unit consists of one common share of the Company and one common share purchase warrant entitling the holder to acquire one common share of the Company at a price of \$0.05 until February 23, 2018.