



**Rio Silver Inc.**  
**Consolidated Financial Statements**  
**December 31, 2022 and 2021**  
**(Expressed in Canadian dollars)**

## MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

(signed) "*Chris Verrico*"  
Chris Verrico  
President and Chief Executive Officer

(signed) "*Chris Hopton*"  
Chris Hopton  
Chief Financial Officer

Vancouver, Canada  
April 28, 2023

To the Shareholders of Rio Silver Inc.:

## Opinion

We have audited the consolidated financial statements of Rio Silver Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of comprehensive loss, changes in shareholder's deficit and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that at December 31, 2022, the Company had a working capital deficiency, had not achieved profitable operations and had an accumulated deficit. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## MNP LLP

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jenny Lee.

Vancouver, British Columbia  
April 28, 2023

*MNP* LLP  
Chartered Professional Accountants

**RIO SILVER INC.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian dollars)

As at	December 31, 2022	December 31, 2021
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 11,917	\$ 42,662
Government taxes receivable	2,935	4,638
Prepaid expense	22,385	-
	<b>\$ 37,237</b>	<b>\$ 47,300</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 563,647	\$ 478,200
Promissory note (Note 9)	13,248	45,618
Due to related parties (Note 6)	89,386	175,302
	666,281	699,120
<b>Convertible debentures (Note 10)</b>	166,467	-
<b>Convertible debentures - Derivative liabilities (Note 10)</b>	37,345	-
	870,093	699,120
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Share capital (Note 7)	13,064,420	12,563,992
Contributed surplus (Note 7)	3,827,364	3,874,795
Accumulated deficit	(17,724,640)	(17,090,607)
	(832,856)	(651,820)
	<b>\$ 37,237</b>	<b>\$ 47,300</b>

**NATURE OF OPERATION** (Note 1)  
**BASIS OF PRESENTATION AND GOING CONCERN** (Note 2)  
**SUBSEQUENT EVENTS** (Note 14)

**APPROVED ON BEHALF THE BOARD:**

"Chris Verrico" Director  
Chris Verrico

"Edward J. Badida" Director  
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)

<b>For the years ended</b>	December 31, 2022	December 31, 2021
<b>Expenses</b>		
Consulting fees	\$ 16,750	\$ -
Exchange (gain) loss	(26,167)	25,666
Exploration and evaluation expenditures (Note 8)	212,483	58,344
Filing fees	19,215	15,141
Management fees (Note 6)	97,000	90,000
Office and administration	33,133	61,941
Professional fees	88,235	128,160
Rent	5,500	6,000
Share based payments	205,878	461,221
	(652,027)	(846,473)
<b>Other income (expenses)</b>		
Other income	-	113
Gain on fair value of derivative liability (Note 10)	23,270	-
Interest expenses	(5,276)	-
	17,994	113
Loss for the year before income taxes	(634,033)	(846,360)
Income taxes recovery	-	-
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (634,033)</b>	<b>\$ (846,360)</b>
<b>Net loss per share - basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares</b>		
- basic and diluted	73,768,578	67,843,104

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

**RIO SILVER INC.**  
**Consolidated Statements of Changes in Shareholders' Deficit**  
**For the Years Ended December 31, 2022 and 2021**

(Expressed in Canadian dollars, except share number)

	Issued Common Shares		Contributed Surplus	Accumulated Deficit	Total Equity (Deficit)
	Number	Amount			
		\$	\$	\$	\$
<b>BALANCE, December 31, 2020</b>	63,368,944	12,058,390	3,546,501	(16,244,247)	(639,356)
Shares issued for cash - exercise of options or warrant (Note 7b (iii) and (iv))	6,233,500	505,602	(132,927)	-	372,675
Share-based payments (Note 7d)	-	-	461,221	-	461,221
Net loss and comprehensive loss	-	-	-	(846,360)	(846,360)
<b>BALANCE, December 31, 2021</b>	69,602,444	12,563,992	3,874,795	(17,090,607)	(651,820)
Shares issued for cash - exercise of options or warrant (Note b (ii) and (ii))	4,842,400	500,428	(253,309)	-	247,119
Share-based payments (Note 7d)	-	-	205,878	-	205,878
Net loss and comprehensive loss	-	-	-	(634,033)	(634,033)
<b>BALANCE, December 31, 2022</b>	74,444,844	13,064,420	3,827,364	(17,724,640)	(832,856)

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



**RIO SILVER INC.**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian dollars)

<b>For the years ended</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
	\$	\$
<b>Operating Activities</b>		
Net loss for the year	(634,033)	(846,360)
Items not requiring use of cash:		
Gain on fair value of derivative liability (Note 10)	(23,270)	-
Interest accretion (Note 10)	1,832	-
Share-based payments	205,878	461,221
Changes in operating assets and liabilities:		
Other receivable	-	430
Government taxes receivable	1,704	(2,411)
Prepaid expense	(22,385)	-
Accounts payable and accrued liabilities	85,448	(15,369)
<b>Cash used in operating activities</b>	<b>(384,827)</b>	<b>(402,489)</b>
<b>Financing Activities</b>		
Due to related parties	(85,918)	37,674
Shares and warrants issued for cash, net of share issuance costs	-	372,675
Option and warrants exercised	214,750	-
Convertible debentures	225,250	-
<b>Cash provided by financing activities</b>	<b>354,082</b>	<b>410,349</b>
(Decrease) Increase in cash	(30,745)	7,860
Cash, beginning of year	42,662	34,802
<b>Cash, end of year</b>	<b>11,917</b>	<b>42,662</b>

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

**Rio Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**Years ended December 31, 2022 and 2021**

*(Expressed in Canadian dollars unless otherwise noted)*

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**1. NATURE OF OPERATIONS**

Rio Silver Inc. (the “Company” or “Rio Silver”) is listed on the TSX Venture Exchange (“TSXV”) 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 Suite 1600 – 595 Burrard Street, Vancouver, BC, V7X 1L4. The Company’s principal business activity is the acquisition, evaluation and development of mineral properties in the Americas.

**2. BASIS OF PRESENTATION AND GOING CONCERN**

**Statement of compliance**

These consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 28, 2023.

**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 those properties contain economically recoverable mineral deposits.

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

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

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. If the going concern assumption was not used then the adjustments required to report the Company’s assets and liabilities on a liquidation basis could be material to these consolidated financial statements. Accordingly, these 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.

**Rio Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**Years ended December 31, 2022 and 2021**

*(Expressed in Canadian dollars unless otherwise noted)*

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As at December 31, 2022, the Company had no revenues, had a working capital deficit of \$629,044 (December 31, 2021 – \$651,820), had an accumulated deficit of \$17,742,640 (December 31, 2021 - \$17,090,607) and expects to incur further losses in the development of its business, all of which indicate a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due.

**Basis of presentation**

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

**Principles of consolidation**

The consolidated financial statements of the Company consolidate the accounts of the following subsidiaries:

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

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

**Functional currency and foreign operation**

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

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Assets and liabilities of an entity that has a functional currency that is different from presentation currency are translated at exchange rate at the reporting date and the income and expenses are translated at the average exchange rate during the reporting period. Gains and losses resulting from translation adjustments are recorded as other comprehensive income (loss) and accumulated in a separate component of shareholders’ equity, described as accumulated comprehensive income (loss).

**Rio Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
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*(Expressed in Canadian dollars unless otherwise noted)*

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**Financial instruments**

Financial assets

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or through profit or loss (FVTPL). Interest income is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments held for trading are classified as FVTPL. For all other equity investments that are not held for trading, the Company, on initial recognition, may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

The Company reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for accounts receivable that do not contain a significant financing component. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value less transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

**Rio Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
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*(Expressed in Canadian dollars unless otherwise noted)*

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Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method, unless they must be measured at FVTPL (such as derivatives) or if the Company elects to measure them at FVTPL. Interest, gains and losses relating to a financial liability are recognized in profit or loss. Financial liabilities measured at FVTPL are comprised of derivative liabilities. Financial liabilities measured at amortized cost are comprised of accounts payable and accrued liabilities, promissory note, convertible debentures and due to related parties.

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Offsetting

Financial assets and financial liabilities are offset, with the net amount presented in the statement of financial position, when, and only when, the Company has a current and legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or when arising from a group of similar transactions if the resulting income and expenses are not material.

**Exploration and evaluation expenditures**

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

**Rio Silver Inc.**  
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**Convertible debentures**

Upon issuance, convertible debentures are allocated between derivative liabilities and host debt on initial recognition with transaction cost attributable to the derivative liability expensed in the period. The host debt is net of attributable transaction costs. Transaction costs are allocated based on proportion to the allocation of proceeds. The derivative liability is measured at fair value through profit and loss using the Black Scholes pricing model. On initial recognition, host debt is the residual of total proceeds less the fair value of the derivative liability, net of transaction costs. The host debt is subsequently carried at amortized cost using the effective interest rate method; the liability is accreted to the face value over the term of the convertible debt. Accretion is expensed to the consolidated statement of comprehensive loss

**Share-based payment transactions**

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

**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.

**Income taxes**

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

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

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

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

**Rio Silver Inc.**  
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**Loss per share and comprehensive loss per share**

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

**Significant accounting judgements and estimates**

The preparation of these consolidated financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical accounting judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements are as follows:

*Evaluation of the Company's ability to continue as a going concern*

As at December 31, 2022, the Company has working capital deficit of \$629,044 (2021: \$651,820) and has incurred accumulated deficit of \$17,742,640 (2021: \$17,090,607) since incorporation. The Company possesses \$11,917 (2021: \$42,662) in cash. The continuation of the Company as a going concern is dependent upon its ability to execute its strategy and finance the operations through achieving positive cash flow from operations or by obtaining additional funding through debt or equity financing involves judgments. Management routinely plans future activities including forecasting future cash flows. Management has reviewed their plan with the Directors and has collectively formed a judgement that the Company has adequate resources to continue as a going concern for the foreseeable future, which Management and the Directors have defined as being at least the next 12 months. In arriving at this judgment, Management has prepared the cash flow projections of the Company. Directors have reviewed this information provided by management and have considered the financial resources available to the Company. The expected cash flows have been modeled based on anticipated debt and equity funding programmed into the model and reducing over time.

Management has assessed and concluded that the going concern assumption is appropriate for a period of at least twelve months following the end of the reporting period. Management applied significant judgement in arriving at this conclusion by considering the following:

- The amount of cash on hand as of year end;
- The ability to source new debt and equity financing to provide sufficient cash flow to continue to fund operations and other committed expenditures; and
- The ability to delay the payment for the due to related parties balance in order to manage cash flows.

**Rio Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
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*(Expressed in Canadian dollars unless otherwise noted)*

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Considering the above, Management and Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Given the judgement involved, actual results may lead to a materially different outcome.

*Determination of functional currency of the Company*

The functional currency for each of the Company and its subsidiary is the currency of the primary economic environment in which each entity operates. The determination of each entity's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires management to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, management analyzed both the primary and secondary factors, including the currency of each entity's operating cash flow, and sources of financing.

*Fair value calculation of derivative liabilities*

Derivative liabilities arising from convertible debentures are determined by Black-Scholes option pricing model. Significant judgements and estimates are used in the calculation of the input variables in the Black-Scholes model, which includes: share price, risk free interest rate, expected stock price volatility, expected life, and expected dividend yield. (see Note 10).

Key sources of estimation uncertainty

*Deferred taxes*

The calculation of deferred tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred tax recorded is also subject to uncertainty regarding the magnitude on non-capital losses available for carry forward and of the balances in various tax pools.

*Share-based payment transactions and fair value of warrants issued with common shares*

The fair value of share-based payment and fair value of warrants are determined using the Black-Scholes option pricing model. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company's stock options and warrants issued with common shares.

**Recent accounting pronouncements not yet effective**

Certain pronouncements have been issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods ending after these consolidated financial statements. Some are not applicable or do not have a significant impact to the Company are not disclosed.

**4. CAPITAL MANAGEMENT**

The Company considers its cash and share capital as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.



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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 interests are in the exploration stage; as such, the Company is dependent on external financing to fund its activities (see note 2). In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire interests 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, 2022. The Company is not subject to externally imposed capital requirements.

## **5. FINANCIAL INSTRUMENTS RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks. The Company's overall business strategies, tolerance of risk and general risk management philosophy are determined by the directors in accordance with prevailing economic and operating conditions.

The Company has the following financial instruments as of December 31, 2022 and 2021:

	<b>Categories</b>	<b>2022</b> <b>\$</b>	<b>2021</b> <b>\$</b>
<b>Financial assets</b>			
Cash	Amortized cost	11,917	42,662
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	Amortized cost	563,647	478,200
Promissory note	Amortized cost	13,248	45,618
Convertible debentures – debt host	Amortized cost	166,467	-
Derivative liabilities	FVTPL	37,345	-
Due to related parties	Amortized cost	89,386	175,302

### **Fair value of financial instruments**

The Company classifies its fair value measurements in accordance with the three level fair value hierarchies as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - 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 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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The fair value of cash, accounts payable and accrued liabilities, promissory note and due to related parties approximate their carrying values due to the short-term nature of these instruments. The difference between the fair value and carrying amount is minimal. The fair value of the derivative liabilities was based on Level 3 inputs.

**Financial risk management objectives and policies**

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*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 financial institution, from which management believes the risk of credit loss to be minimal.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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, 2022, the Company had cash of \$11,917 (December 31, 2021 - \$42,662) to settle current liabilities of \$666,281 (December 31, 2021 - \$699,120) (see note 2). All of the Company's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms except the promissory note and convertible debentures (note 10).

*Market risk*

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

*Foreign exchange risk*

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

The Company has net financial liabilities of approximately \$177 (2021 - \$7,758) that are denominated in US dollars. A 5% change in the US dollars to the Canadian dollar exchange rate would impact the Company's profit or loss by \$9 (2021 - \$492).

The Company also has net financial liabilities of approximately \$30,941 (2021 - \$159,583) that are denominated in Peruvian Nuevo Sol. A 5% change in the Peruvian Nuevo Sol to the Canadian dollar exchange rate would impact the Company's profit or loss by \$1,414 (2021 - \$2,534).

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*Commodity and equity price risk*

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

**6. Related Party Transactions**

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

	2022	2021
	\$	\$
Management fees	97,000	90,000
Accounting fees	54,000	54,000
Consulting fees	5,000	-
Interest expenses	2,341	-
Rent	5,500	6,000
Share-based payments	117,448	263,033
	281,289	413,033

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

- (a) Due to related parties includes \$40,719 (December 31, 2021 - \$52,095) payable to a private company owned by the Company's current CEO; \$24,302 (December 31, 2021 - \$33,821) payable to the Company's CFO. The balance has been included in accounts payable.
- (b) Due to related parties includes \$89,386 (December 31, 2021 - \$89,386) of cash advanced from current directors. These amounts are unsecured, non-interest bearing and without fixed repayment terms.
- (c) Convertible debentures include \$73,903 (December 31, 2021- \$nil) of loan from CEO. See note 10.

**7. Share Capital and Reserves**

**(a) Authorized**

Unlimited number of voting common shares without par value.

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

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**(b) Share transactions:**

Issued: As of December 31, 2022, 74,444,844 (2021: 69,602,444) common shares were issued and outstanding.

During the years ended December 31, 2022 and 2021, share transactions were as follows:

- (i) During the year ended December 31, 2022, there were 3,842,400 options exercised at \$0.05 per share for gross proceeds of \$192,120, including non-cash debt settlement of \$32,370. In relation to the exercise of the stock option, previously recognized contributed surplus of \$213,438 was allocated to share capital.
- (ii) During the year ended December 31, 2022, there were 1,000,000 options exercised at \$0.055 per share for gross proceeds of \$55,000. In relation to the exercise of the stock option, previously recognized contributed surplus of \$39,871 was allocated to share capital.
- (iii) During the year ended December 31, 2021, there were 3,183,500 options exercised at \$0.05 per share for gross proceeds of \$159,175. In relation to the exercise of the stock option, previously recognized contributed surplus of \$95,286 was allocated to share capital.
- (iv) During the year ended December 31, 2021, there were 3,050,000 warrants exercised at \$0.07 per share for gross proceeds of \$213,500. In relation to the exercise of the stock option, previously recognized contributed surplus of \$37,640 was allocated to share capital.

**(c) Warrants**

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

	Number of Warrants	Weighted average exercise price	Weighted average remaining contractual life (year)
Balance at December 31, 2020	15,851,000	\$ 0.08	0.76
Warrants exercised	(3,050,000)	\$ 0.07	-
Warrants expired	(6,361,000)	\$ 0.08	-
<b>Balance at December 31, 2022 and 2021</b>	<b>6,440,000</b>	<b>\$ 0.08</b>	<b>1.36</b>

The following warrants are outstanding as at December 31, 2022 and 2021:

Expiry Date	Exercise Price	Number of Warrants
May 12, 2024*	\$ 0.08	6,440,000

\*During the year 2022, the expiry date extended from May 12, 2022 to May 12, 2024.

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**(d) 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.

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

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number of Options as of December 31, 2021</b>	<b>Granted During the year</b>	<b>Exercised During the year</b>	<b>Expired/ Cancelled During the year</b>	<b>Number of Options as of December 31, 2022</b>
November 21, 2022	\$0.05	700,000	-	-	(700,000)	-
December 23, 2022	\$0.05	400,000	-	-	(400,000)	-
January 29, 2023	\$0.05	1,875,000	-	(500,000)	-	1,375,000*
March 7, 2023	\$0.055	-	1,000,000	(1,000,000)	-	-
April 12, 2023	\$0.05	-	647,400	(647,400)	-	-
January 29, 2024	\$0.05	2,916,500	-	(1,716,500)	-	1,200,000
March 9, 2024	\$0.06	-	500,000	-	-	500,000
February 10, 2025	\$0.06	-	2,450,000	-	-	2,450,000
December 23, 2026	\$0.05	1,000,000	-	(978,500)	-	21,500
	<b>\$0.06</b>	<b>6,891,500</b>	<b>4,597,400</b>	<b>(4,842,400)</b>	<b>(1,100,000)</b>	<b>5,546,500</b>

\*options unexercised and expired subsequent to year ended December 31, 2022.

The weighted average contractual life remaining of all stock options as at December 31, 2022 is 1.31 years (December 31, 2021: 2.04 years). The weighted average exercise price for the exercised option is \$0.05 (December 31, 2021: \$0.05). The weighted average share price on the date of options exercised is \$0.06 (December 31, 2021: \$0.08).

On April 12, 2022, the Company granted 647,400 common share purchase options exercisable at \$0.05 per share to a consultant of the Company. The common share purchase options will expire on April 12, 2023. The options were vested immediately. The Company recorded a share-based payment amount of \$21,897. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 2.26%; dividend yield of 0%; expected volatility of 140%; and expected option life of 1 years.

On February 10, 2022, the Company granted 2,450,000 common share purchase options exercisable at \$0.06 per share to directors, officers, employees and consultants of the Company. The common share purchase options will expire on February 10, 2025. The options were vested immediately. The Company recorded a share-based payment amount of \$122,446. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 1.6%; dividend yield of 0%; expected volatility of 158%; and expected option life of 3 years.

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On March 9, 2022, the Company granted 500,000 common share purchase options exercisable at \$0.06 per share to a consultant of the Company. The common share purchase options will expire on March 9, 2024. The options were vested immediately. The Company recorded a share-based payment amount of \$21,665. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 1.5%; dividend yield of 0%; expected volatility of 152%; and expected option life of 2 years.

On March 7, 2022, the Company granted 1,000,000 common share purchase options exercisable at \$0.055 per share to a consultant of the Company. The common share purchase options will expire on March 7, 2023. The options were vested immediately. The Company recorded a share-based payment amount of \$39,870. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 1.36%; dividend yield of 0%; expected volatility of 137%; and expected option life of 1 years.

On January 29, 2021, the Company granted 5,525,000 common share purchase options exercisable at \$0.09 per share to directors, officers, employees and consultants of the Company. 1,875,000 common share purchase options will expire on January 29, 2023 and the remaining 3,650,000 common share purchase options will expire on January 29, 2024. The options were vested immediately. The Company recorded a share-based payment amount of \$392,184. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 0.15-0.18%; dividend yield of 0%; expected volatility of 149-166%; and expected option life of 2-3 years. On December 17, 2021, the Company re-pricing of an aggregate of 5,525,000 options from an exercise price of \$0.09 per share to an exercise price of \$0.05 per share. \$27,549 for the increase in the fair value of the share-based payment resulted from such term modification has been recorded.

On December 24, 2021, the Company granted 1,400,000 common share purchase options exercisable at \$0.05 per share to directors, officers, employees and consultants of the Company. 1,000,000 common share purchase options will expire on December 23, 2026 and 400,000 common share purchase option will expire on December 23, 2022. The options were vested immediately. The Company recorded a share-based payment amount of \$41,487. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 1.26%; dividend yield of 0%; expected volatility of 126-139%; and expected option life of 1-5 years.

**8. Exploration and Evaluation Expenditures**

Accumulated costs/ expenditures	Niñobamba	Palta Dorada		Total
	Peru	Peru	Gerow Lake	
Balance, December 31, 2020	3,252,710	334,090	876,633	4,463,433
Acquisition costs and annual fees	-	-	-	-
Expenditures	58,344	-	-	58,344
Balance, December 31, 2021	3,311,054	334,090	876,633	4,521,777
Acquisition costs and annual fees	-	-	-	-
Expenditures	212,483	-	-	212,483
Balance, December 31, 2022	3,523,537	334,090	876,633	4,734,260

On October 30, 2019, the Company closed a Transfer Agreement dated September 3, 2019, pursuant to which the Company acquired 100% rights of two mining concessions (Palta Dorada property) located in Moro district of Santa province, Ancash, Peru.

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The total purchase price agreed upon by Transfer Agreement amounts to the sum of US\$250,000 which will be paid as follows:

- On the signing date, the sum of US\$100,000 will be paid as down payment (paid);
- On September 30, 2019, the sum of US\$100,000 will be paid as down payment (paid);
- On October 15, 2019, the sum of US\$50,000 will be paid (paid).

During the year ended December 31, 2020, the Company signed a Memorandum of Understanding (“MOU”) with Peruvian Metals Corp (“Peruvian Metals”) to jointly explore the Palta Dorada Au-Ag-Cu property (“Palta Dorada” or the “Property”) by initially conducting a detailed sampling and mapping program along with a bulk sampling campaign and processing the mineral at Peruvian Metals’ 80% owned Aguila Norte Processing Plant (“Aguila Norte or Plant”).

The Property is located in the Ancash Mining Department in Northern Peru and covers an area of approximately 1,200 hectares. The MOU establishes a joint effort to explore and develop the property. Any sales from metal concentrates produced from the bulk sampling activity and all operational expenses will be shared between companies. Peruvian Metals’ 80% owned Plant will charge the joint effort commercial mineral processing rates on a similar basis to its other clients for processing the bulk samples. Peruvian Metals will also have the option to earn a 50% ownership in the Property. Equal ownership will occur once Peruvian Metals has matched Rio Silver’s acquisition price of the project of USD \$250,000 by assuming all capital and exploration expenditures. Any shortfall of capital expense by Peruvian Metals will require a cash payment to the joint effort by December 31, 2021. As at December 31, 2021, Peruvian Metals completed its earn-in requirement by investing USD \$250,000 into the project, as result, the Company deemed to equal own Palta Dorada with Peruvian Metals.

As at December 31, 2022, Peruvian Metals has spent USD\$547,573 (2021: USD\$394,606) toward the Property and has an excess of USD\$297,573 (2021: USD\$144,606). The excess investment contribution is considered as the loan. The loan will charge a 12% interest annually on the amount of exceeding the USD \$250,000 from the proposed joint venture to be formed between the Company and Peruvian Metals and will be paid back from the cash flow of sales of concentrates or oxide gold after all operation expenses are paid. 50% of any positive cash flow will be paid to the loan and remaining 50% will be divided equally by the Company and Peruvian Metals. The Company has accrued \$Nil on this loan and interest as at December 31, 2022 because the proposed joint venture has not been formed. If the joint venture is not eventually formed, the Company is not liable for this loan and the accrued interest.

The Niñobamba concession 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.

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

## **9. Promissory Note**

- A. On April 17, 2019, the Company entered into a promissory note agreement with an individual where the Company borrowed \$10,000 at an interest of 12% per annum, unsecured and due on demand.
- B. During the year ended December 31, 2021, the Company entered into a promissory note where the Company borrowed \$32,370. These amounts are unsecured, non-interest bearing and without fixed repayment terms. As at December 31, 2022, the balance of promissory note has been paid in full.

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	Note 9A	Note 9B	Total
Balance at December 31, 2020	12,048	-	12,048
Additions	-	32,370	32,370
Interest	1,200	-	1,200
Balance at December 31, 2021	13,248	32,370	45,618
Payment (Note 7(b)(i))	-	(32,370)	(32,370)
Balance at December 31, 2022	13,248	-	13,248

**10. Convertible Debentures**

On December 1, 2022, the Company entered into convertible debentures agreements with the CEO and other arm's length lenders and issued convertible debentures (the "Notes") in the aggregate principal amount of \$225,250. The Notes will mature in 24 months from the date of issuance and bear interest at the rate of 18% per annum, payable quarterly, until the Notes are converted or repaid. The Notes can be converted into one common share of the Company at \$0.05 in the first 12 month from the issue date and \$0.10 thereafter. The Company is entitled to repay the principal amount of the Notes, together with accrued and unpaid interest, at any time commencing four months after the date of issuance.

Since the conversion features offer a variable price and a variable number of shares to settle the Notes, the conversion feature has been accounted for as a derivative liability under IFRS. Accordingly, the fair value of the conversion feature, being \$60,615 of the issuance proceeds was allocated to the derivative liability and the remaining \$164,635 was allocated to the Loan.

The fair value of the derivative liability at the date of issuance was determined using the Black Scholes option pricing model with the following assumptions: share price of \$0.035; expected life of 2 years; \$nil dividends; 123% volatility; risk-free interest rate of 3.79% and a conversion price of \$0.05 and \$0.10.

The fair value of the derivative liability at reporting date was determined to be \$37,345 using the Black Scholes option pricing model with the following assumptions: share price of \$0.025; expected life of 1.92 years; \$nil dividends; 125% volatility; risk-free interest rate of 4.06% and a conversion price of \$0.05 and \$0.10. As a result, the Company recognized a gain on the revaluation of the embedded derivative of \$23,270 for the year ended December 31, 2022.

The Company amortizes the debt component of the Notes using an effective interest rate of 37.73% over the term of the Notes. For the year ended December 31, 2022, \$5,276 (2021: \$nil) in interest expense was recorded in the consolidated statement of comprehensive loss.

	Convertible debentures	Derivative liabilities	Total
	\$	\$	\$
December 31, 2021	-	-	-
Gross proceeds received in convertible debentures	164,635	60,615	225,250
Accretion and interest expense recognized during the year	1,832		1,832
Fair value adjustment to derivative liabilities	-	(23,270)	(23,270)
December 31, 2022	166,467	37,345	203,812



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**11. Segmented Information**

The Company as one reportable operating segment: mineral exploration and development in two geographic locations being Peru and Canada.

The Company's consolidated net loss by geographic locations for the years ended December 31, 2022 and 2021 are as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Consolidated net loss</b>		
Canada	490,892	747,988
Peru	143,141	98,372
	<u>634,033</u>	<u>846,360</u>

The Company's total assets by geographic locations for the years ended December 31, 2022 and 2021 are as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Total assets</b>		
Canada	37,060	46,968
Peru	178	332
	<u>37,237</u>	<u>47,300</u>

**12. Income Taxes**

Income tax expense

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2021 – 27%) to the effective tax rate is as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Net loss before recovery of income taxes	<u>(634,033)</u>	<u>(846,360)</u>
Expected income tax recovery	(171,189)	(228,517)
Change in tax rates and foreign tax rates	(3,579)	(2,459)
Non-deductible expenses	62,038	123,157
Share issuance cost recorded to equity	-	-
Prior period true-up	(228,194)	(109,876)
Gain on settlement of debt	-	-
Expiry of Peruvian tax losses	106,246	563,940
Change in tax benefits not recognized	<u>234,678</u>	<u>(346,245)</u>
Income tax expense (recovery) expense	<u>-</u>	<u>-</u>

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Unrecognized deferred tax assets

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

	<b>2022</b>	<b>2021</b>
	\$	\$
Mineral properties	4,702,417	5,235,666
Non-capital losses carried forward	6,171,672	4,777,983
Unpaid amounts	364,648	364,648
Share issuance costs	1,600	3,638

Approximately \$907,064 of Peruvian losses may be applied against 100% of taxable income in each subsequent year and expire between 2022 - 2026. Share issue and financing costs will be fully amortized in 2024. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

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

	<b>Total</b>
	\$
2025	<b>124,393</b>
2026	<b>373,165</b>
2027	<b>266,646</b>
2028	<b>313,882</b>
2030	<b>57,066</b>
2031	<b>219,116</b>
2032	<b>46,248</b>
2035	<b>220,661</b>
2036	<b>251,748</b>
2037	<b>21,092</b>
2038	<b>45,361</b>
2039	<b>829,943</b>
2040	<b>923,267</b>
2041	<b>1,308,859</b>
2042	<b>263,161</b>
	<b>5,264,608</b>

**13. Supplemental Cash Flow Information**

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Shares issued for debt settlement (Note 7b)	\$ 32,370	-

**14. Subsequent Events**

See note 7(d).