

ALTAN RIO MINERALS LIMITED

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US dollars)

MARCH 31, 2014

(Unaudited)

Index

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Notice of Non-review of Condensed Interim Consolidated Financial Statements

The attached condensed interim consolidated financial statements for the three month period ended March 31, 2014 have not been reviewed by the Company's auditors.

ALTAN RIO MINERALS LIMITED**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT**

(Expressed in US Dollars)

(Unaudited)

| | March 31, 2014 | December 31, 2013 |
|---|---------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents (Note 4) | \$ 60,371 | \$ 52,248 |
| Receivables (Note 5) | 4,604 | 2,695 |
| Prepaid expenses (Note 6) | 7,010 | 14,176 |
| Due from related parties (Note 10) | <u>26,487</u> | <u>49,813</u> |
| | <u>98,472</u> | <u>118,932</u> |
| Equipment (Note 7) | 37,438 | 44,692 |
| Exploration and evaluation assets (Note 8) | <u>6,478,224</u> | <u>6,967,548</u> |
| | <u>6,515,662</u> | <u>7,012,240</u> |
| | <u>\$ 6,614,134</u> | <u>\$ 7,131,172</u> |

LIABILITIES AND EQUITY**Current**

| | | |
|--|------------------|------------------|
| Accounts payable and accrued liabilities | \$ 131,213 | \$ 97,276 |
| Loans payable (Note 9) | 1,274,262 | 1,188,110 |
| Due to related parties (Note 10) | <u>113,709</u> | <u>59,915</u> |
| | <u>1,519,184</u> | <u>1,345,301</u> |

Equity

| | | |
|--------------------------------------|---------------------|---------------------|
| Capital stock (Note 11) | 13,578,846 | 13,578,846 |
| Reserves (Note 11) | 844,777 | 837,738 |
| Deficit | (7,088,182) | (6,951,835) |
| Accumulated other comprehensive loss | <u>(2,240,491)</u> | <u>(1,678,878)</u> |
| | <u>5,094,950</u> | <u>5,785,871</u> |
| | <u>\$ 6,614,134</u> | <u>\$ 7,131,172</u> |

Nature and continuance of operations (Note 1)**Subsequent events** (Note 17)

Approved and authorized by the Board on May 30, 2014.

"Evan Jones"
Evan Jones

Director

"Murray Seitz"
Murray Seitz

Director

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

ALTAN RIO MINERALS LIMITED**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2014**

(Expressed in US Dollars)

(Unaudited)

| | March 31, 2014 | March 31, 2013 |
|---|---------------------|---------------------|
| EXPENSES | | |
| Computer expenses | \$ 70 | \$ 282 |
| Consulting fees | 31,461 | 47,539 |
| Depreciation expense | 1,514 | 2,233 |
| Dues and subscriptions | 4,070 | 6,177 |
| Insurance | 2,170 | 5,941 |
| Investor relations | 9,359 | 15,861 |
| Office expenses | 4,230 | 6,109 |
| Professional fees | 15,903 | 9,986 |
| Project investigation | 12,416 | 12,164 |
| Rent | 9,477 | 3,736 |
| Share-based compensation (Note 11) | 7,039 | 57,694 |
| Telecommunications | 1,369 | 3,507 |
| Transfer agent & filing fees | 8,015 | 4,600 |
| Travel & entertainment | 7,507 | 5,975 |
| Wages & benefits | <u>15,547</u> | <u>29,564</u> |
| | (130,147) | (211,368) |
| Finance income | 21 | 17 |
| Foreign exchange gain (loss) | <u>(6,221)</u> | <u>(2,109)</u> |
| | (6,200) | (2,092) |
| Net loss for the period | (136,347) | (213,460) |
| Translation adjustments | <u>(561,613)</u> | <u>(106,941)</u> |
| Comprehensive loss for the period | <u>\$ (697,960)</u> | <u>\$ (320,401)</u> |
| Basic and diluted loss per common share | <u>\$ (0.00)</u> | <u>\$ (0.00)</u> |
| Weighted average number of common shares outstanding | | |
| – basic and diluted | 51,574,811 | 51,574,811 |

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

ALTAN RIO MINERALS LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(Expressed in US Dollars)
(Unaudited)

| | March 31, 2014 | March 31, 2013 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the year | \$ (136,347) | \$ (213,460) |
| Items not involving cash: | | |
| Share based compensation | 7,039 | 57,694 |
| Depreciation | 1,514 | 2,233 |
| Change in non-cash working capital item: | | |
| Receivables | (1,909) | 3,526 |
| Prepaid expenses | 7,166 | (76,599) |
| Accounts payable and accrued liabilities | 33,937 | (1,040) |
| Due to related parties | <u>77,120</u> | <u>66,089</u> |
| Net cash used in operating activities | (11,480) | (161,557) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Exploration and evaluation assets acquisition | <u>(72,587)</u> | <u>(131,998)</u> |
| Net cash used in investing activities | (72,587) | (131,998) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Loans payable | <u>86,152</u> | <u>254,783</u> |
| Net cash provided from financing activities | 86,152 | 254,783 |
| Effect of foreign exchange on cash and cash equivalents | 6,038 | 2,291 |
| Change in cash and cash equivalents for the period | 8,123 | (36,481) |
| Cash and cash equivalents, beginning of period | <u>52,248</u> | <u>238,308</u> |
| Cash and cash equivalents, end of period | <u>\$ 60,371</u> | <u>\$ 201,827</u> |
| Cash and cash equivalents consists of: | | |
| Cash | \$ 11,379 | \$ 152,350 |
| Liquid short-term deposits | <u>48,992</u> | <u>49,477</u> |
| | <u>\$ 60,371</u> | <u>\$ 201,827</u> |

Supplemental disclosures with respect to cash flows (Note 13)

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

ALTAN RIO MINERALS LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in US Dollars)
(Unaudited)

| | Capital Stock | | Reserves | Accumulated Other Comprehensive Loss | Deficit | Total Shareholders' Equity |
|-------------------------------------|---------------|---------------|------------|---|----------------|----------------------------------|
| | Shares | Amount | | | | |
| Balance at December 31, 2012 | 50,503,526 | \$ 13,348,687 | \$ 713,476 | \$ (453,616) | \$ (4,959,493) | \$ 8,649,054 |
| Share based compensation | - | - | 57,694 | - | - | 57,694 |
| Share issued for debt settlement | 1,606,928 | 245,048 | - | - | - | 245,048 |
| Foreign exchange movements | - | - | - | (106,941) | - | (106,941) |
| Loss for the period | - | - | - | - | (213,460) | (213,460) |
| Balance at March 31, 2013 | 52,110,454 | \$ 13,593,735 | \$ 771,170 | \$ (560,557) | \$ (5,172,953) | \$ 8,631,395 |
| Balance at December 31, 2013 | 52,110,454 | \$ 13,578,846 | \$ 837,738 | \$ (1,678,878) | \$ (6,951,835) | \$ 5,785,871 |
| Share based compensation | - | - | 7,039 | - | - | 7,039 |
| Foreign exchange movements | - | - | - | (561,613) | - | (561,613) |
| Loss for the period | - | - | - | - | (136,347) | (136,347) |
| Balance at March 31, 2014 | 52,110,454 | \$ 13,578,846 | \$ 844,777 | \$ (2,240,491) | \$ (7,088,182) | \$ 5,094,950 |

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

ALTAN RIO MINERALS LIMITED

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

Altan Rio Minerals Limited (the “Company”) is a mineral exploration company listed on the TSX Venture Exchange under the symbol “AMO” and engaged in the acquisition and exploration of exploration and evaluation assets in the Mongolia.

The Company’s head office and registered and records office address is 800 – 1199 West Hastings Street, Vancouver, British Columbia, Canada V6E 3T5.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Management is actively targeting sources of additional financing through alliances with financial, development and resource entities, or other business and financial transactions which would assure continuation of the Company’s operations and exploration and evaluation programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. As at March 31, 2014, the Company had a working capital deficit of \$1,420,712 (December 31, 2013 – \$1,226,369) and equity of \$5,094,950 (December 31, 2013 - \$5,785,871).

These material uncertainties may cast significant doubt as to the ability of the Company to meet its obligations as they come due and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statements of financial position. The financial statements do not include any adjustments relating to the recoverability and classification of asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PRESENTATION

Statement of compliance

The condensed interim consolidated financial statements of the Company for the three months ending March 31, 2014, including comparatives, are prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting.

These condensed interim consolidated financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the Company’s December 31, 2013 annual financial statements.

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 30, 2014.

ALTAN RIO MINERALS LIMITED

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Altan Rio Holdings Canada Limited, Altan Rio Holdings Limited, Altan Rio Limited, and Altan Rio Mongolia LLC. All inter-company transactions and balances have been eliminated upon consolidation.

Foreign currency translation

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and Altan Rio Holdings Canada Limited is the Canadian dollar. The functional currency of Altan Rio Holdings Limited and Altan Rio Limited is the US dollar and the Mongolian Tugrik for Altan Rio Mongolia LLC. The functional currency determinations were conducted through an analysis of the consideration factors identified in *IAS 21, The Effects of Changes in Foreign Exchange*.

Accordingly, the accounts of the Company, Altan Rio Holdings Canada Limited, and Altan Rio Mongolia LLC are translated into US dollars as follows:

- all of the assets and liabilities are translated at the rate of exchange in effect on the date of the statement of financial position;
- revenue and expenses are translated at the exchange rate approximating those in effect on the date of the transactions; and
- exchange gains and losses arising from translation are included in accumulated other comprehensive income/loss.

Transactions in currencies other than the entity's functional currency, are recorded at exchange rates prevailing on the dates of the transactions. At period end, monetary assets and liabilities are translated at the rate in effect on the date of the statement of financial position. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

Use of estimates

Critical Judgments

The preparation of the consolidated financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in Note 1, as well as the determination of functional currency. The functional currency is the currency of the primary economic environment in which an entity operates, and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries has been determined as disclosed above.

Key Sources of Estimation Uncertainty

Significant estimates made by management affecting our consolidated financial statements include:

Share-based payments

Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based payment expense for the year along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 11.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Deferred tax Assets & Liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred income tax provisions or recoveries could be affected.

Recoverability of Exploration & Evaluation Assets

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of those mineral reserves and upon future production or proceeds from the disposition thereof.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Equipment

Equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the declining balance method at the following annual rates:

| | |
|-----------------------|------|
| Computer hardware | 55% |
| Computer software | 100% |
| Exploration equipment | 20% |
| Furniture & fixtures | 20% |
| Vehicles | 30% |

In the year of acquisition, depreciation is recorded at one-half the normal rate.

ALTAN RIO MINERALS LIMITED

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of operations and comprehensive income or loss. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

Exploration and evaluation assets

Before legal rights to explore a property have been acquired, costs are expensed as incurred. The Company records exploration and evaluation asset interests, which consist of the right to explore for mineral deposits, at cost. The Company records deferred exploration costs, which consist of costs attributable to the exploration of exploration and evaluation asset interests, at cost. All direct and indirect costs relating to the acquisition and exploration of these exploration and evaluation asset interests are capitalized on the basis of specific claim blocks until the exploration and evaluation asset interests to which they relate are placed into production, the exploration and evaluation asset interests are disposed of through sale or where management has determined there to be an impairment. If an exploration and evaluation asset interest is abandoned, the exploration and evaluation asset interests and deferred exploration costs will be written off to operations in the period of abandonment.

On an ongoing basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject property. Management's determination for impairment is based on: 1) whether the Company's exploration programs on the exploration and evaluation asset interests have significantly changed, such that previously identified resource targets are no longer being pursued; 2) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future; or 3) whether remaining lease terms are insufficient to conduct necessary studies or exploration work.

The recorded cost of exploration and evaluation asset interests is based on cash paid and the assigned value of share consideration issued (where shares are issued) for exploration and evaluation asset interest acquisitions and exploration costs incurred. The recorded amount may not reflect recoverable value, as this will be dependent on future development programs, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Financial instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to-maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in the statement of operations. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

ALTAN RIO MINERALS LIMITED**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

The Company's financial assets and liabilities are recorded and measured as follows:

| Asset or Liability | Category | Measurement |
|---|-----------------------|--------------------|
| Cash and cash equivalents | FVTPL | Fair value |
| Receivables | Loans and receivables | Amortized cost |
| Due from related parties | Loans and receivables | Amortized cost |
| Loans payable | Other liabilities | Amortized cost |
| Accounts payable and accrued liabilities. | Other liabilities | Amortized cost |
| Due to related parties | Other liabilities | Amortized cost |

The Company classifies the fair value of financial instruments according to the following hierarchy based on the reliability of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying value of receivables, accounts payable and accrued liabilities, loans payable, and due to/from related parties, approximate their fair values due to their short terms to maturity. Cash and cash equivalents have been measured at fair value using Level 1 inputs.

Impairment of long-lived assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

ALTAN RIO MINERALS LIMITED

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year.

Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share are the same for the years presented.

Share-based compensation

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense 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. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital.

The fair value is measured at grant date and each tranche is 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 each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the statement of loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

ALTAN RIO MINERALS LIMITED

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

Future reclamation costs

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of the Company's exploration and evaluation assets and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

The increase in the provision due to the passage of time is recognized as finance expense.

The Company currently does not have any significant future reclamation costs.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. The Company's and subsidiary's translation of its financial results to United States dollars is the only item currently affecting comprehensive income (loss) for the years presented.

New standards adopted during the year

Effective January 1, 2013, the following standards were adopted but have had no material impact on the consolidated financial statements.

- IAS 1 (Amendment): This standard is amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.
- IFRS 7 (Amendment): This standard is amended to enhance disclosure requirements related to offsetting of financial assets and financial liabilities.
- IFRS 10: New standard to establish principles for the presentation and preparation of consolidated financial statements, effective for annual periods beginning on or after January 1, 2013
- IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement, effective for annual periods beginning on or after January 1, 2013

ALTAN RIO MINERALS LIMITED**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**New standards adopted during the year (cont'd...)**

- IFRS 12: New standard for the disclosure of interest in other entities not within the scope of IFRS 9 / IAS 39, effective for annual periods on or after January 1, 2013
- IFRS 13: New standard on the measurement and disclosure of fair value, effective for annual periods beginning on or after January 1, 2013
- IAS 27 (Amendment): As a result of the issue of IFRS 10, IFRS 11 and IFRS 12. IAS 27 deals solely with separate financial statements, effective for annual periods beginning on or after January 1, 2013
- IAS 28 (Amendment): New standard issued that supersedes IAS 28 (2003) to prescribe the application of the equity method to investments in associates and joint ventures, effective for annual periods beginning on or after January 1, 2013

New standards not yet adopted

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2014. Many of these updates are not applicable or consequential to the Company and have been excluded from the discussion below.

New standard IFRS 9 “Financial Instruments”

This new standard is a partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. This new standard is tentatively effective for annual periods beginning on or after January 1, 2018.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements

4. CASH AND CASH EQUIVALENTS

| | March 31, 2014 | December 31, 2013 |
|---------------------------|-------------------|----------------------|
| Cash on deposit | \$ 11,379 | \$ 3,256 |
| Liquid short term deposit | <u>48,992</u> | <u>48,992</u> |
| Total | <u>\$ 60,371</u> | <u>\$ 52,248</u> |

ALTAN RIO MINERALS LIMITED**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

5. RECEIVABLES

The Company's receivables are broken down as follows:

| | March 31, 2014 | December 31, 2013 |
|-------------------|-------------------|----------------------|
| Trade receivables | \$ 909 | \$ 641 |
| HST receivable | <u>3,695</u> | <u>2,054</u> |
| Total | <u>\$ 4,604</u> | <u>\$ 2,695</u> |

6. PREPAID EXPENSES

The prepaid expenses for the Company are broken down as follows:

| | March 31, 2014 | December 31, 2013 |
|------------------|-------------------|----------------------|
| Services deposit | \$ 1,374 | \$ 6,351 |
| Rent deposit | 1,297 | 1,316 |
| Insurance | <u>4,339</u> | <u>6,509</u> |
| Total | <u>\$ 7,010</u> | <u>\$ 14,176</u> |

ALTAN RIO MINERALS LIMITED**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

7. EQUIPMENT

| | Computer Hardware | Computers Software | Exploration Equipment | Furniture & Fixtures | Vehicles | Total |
|---------------------------|------------------------------|-------------------------------|----------------------------------|-------------------------------------|-----------------|---------------|
| Cost: | | | | | | |
| At December 31, 2012 | 36,250 | 1,202 | 26,077 | 17,457 | 62,897 | 143,883 |
| Additions | 571 | 781 | - | - | - | 1,352 |
| Disposals | - | - | (287) | - | - | (287) |
| Foreign exchange movement | (3,761) | - | (3,817) | (2,350) | (9,181) | (19,109) |
| At December 31, 2013 | 33,060 | 1,983 | 21,973 | 15,107 | 53,716 | 125,839 |
| Additions | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| Foreign exchange movement | (2,175) | (163) | (2,065) | (1,300) | (5,048) | (10,751) |
| At March 31, 2014 | 30,885 | 1,820 | 19,908 | 13,807 | 48,668 | 115,088 |
| Depreciation: | | | | | | |
| At December 31, 2012 | (34,175) | (1,202) | (10,289) | (10,115) | (17,090) | (72,871) |
| Depreciation | (1,242) | (398) | (2,843) | (1,362) | (12,621) | (18,466) |
| Foreign exchange movement | 3,610 | 7 | 1,709 | 1,485 | 3,379 | 10,190 |
| At December 31, 2013 | (31,807) | (1,593) | (11,423) | (9,992) | (26,332) | (81,147) |
| Depreciation | (146) | (98) | (494) | (242) | (1,923) | (2,903) |
| Foreign exchange movement | 1,893 | - | 1,088 | 883 | 2,536 | 6,400 |
| At March 31, 2014 | (30,060) | (1,691) | (10,829) | (9,351) | (25,719) | (77,650) |
| Net book value: | | | | | | |
| At December 31, 2012 | 2,075 | - | 15,788 | 7,342 | 45,807 | 71,012 |
| At December 31, 2013 | \$ 1,253 | \$ 390 | \$ 10,550 | \$ 5,115 | \$ 27,384 | \$ 44,692 |
| At March 31, 2014 | 825 | 129 | 9,079 | 4,456 | 22,949 | 37,438 |

ALTAN RIO MINERALS LIMITED

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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8. EXPLORATION AND EVALUATION ASSETS

| As at March 31, 2014 | Chandman | Yol | Khavchuu | TOTAL |
|---|---------------------|---------------------|-------------------|---------------------|
| Acquisition Costs | \$ 607 | \$ 1,211 | \$ 132 | \$ 1,950 |
| Exploration Costs | | | | |
| Assays | - | - | 412 | 412 |
| Camp Costs | - | - | - | - |
| Drilling | - | - | - | - |
| Database | - | - | - | - |
| Depreciation | 514 | 1,258 | - | 1,772 |
| Field Costs | - | - | 93 | 93 |
| Geological Expenses | 11,312 | 33,983 | 18,961 | 64,256 |
| Labour | - | - | - | - |
| Rental | - | - | 3,490 | 3,490 |
| Surveys & Geophysics | - | - | - | - |
| Support & Communication | - | - | 614 | 614 |
| Professional Fees | | | | |
| Insurance | - | - | - | - |
| Legal Fees | - | - | - | - |
| Value added Tax | - | - | - | - |
| Total Costs incurred during the year | 12,433 | 36,452 | 23,702 | 72,587 |
| Opening Balance | 4,698,682 | 1,435,892 | 832,974 | 6,967,548 |
| Project Write-off | - | - | - | - |
| Foreign Exchange Movements | (376,020) | (117,516) | (68,376) | (561,912) |
| Ending Balance | \$ 4,335,095 | \$ 1,354,828 | \$ 788,300 | \$ 6,478,223 |
| Cumulative Costs | | | | |
| Acquisition Costs | \$ 833,179 | \$ 303,190 | 291,136 | \$ 1,427,505 |
| Exploration Costs | 5,261,833 | 1,367,287 | 597,366 | 7,226,486 |
| Professional Fees | 17,193 | 10,315 | 25,367 | 52,875 |
| Project Write-off | (670,489) | - | - | (670,489) |
| Value added tax | 159,465 | 53,945 | 35,689 | 249,099 |
| Foreign Exchange Movements | (1,266,086) | (379,909) | (161,258) | (1,807,253) |
| | \$ 4,335,095 | \$ 1,354,828 | \$ 788,300 | \$ 6,478,223 |

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8. EXPLORATION AND EVALUATION ASSETS (cont'd...)

**For the year ended
December 31 2013**

| | Chandman | Onon | Yol | Khavchuu | TOTAL |
|---|---------------------|---------------|---------------------|-------------------|---------------------|
| Acquisition Costs | \$ 17,675 | \$ 55,634 | \$ 43,783 | \$ 10,925 | \$ 128,017 |
| Exploration Costs | | | | | |
| Assays | 12,918 | - | 3,418 | 3,816 | 20,152 |
| Camp Costs | 11 | - | - | - | 11 |
| Drilling | 2,866 | 1,291 | - | 231 | 4,388 |
| Database | - | - | - | 96 | 96 |
| Depreciation | 2,385 | 1,111 | 5,768 | - | 9,264 |
| Field Costs | 778 | 206 | 1,883 | 279 | 3,146 |
| Geological Expenses | 118,497 | 12,388 | 67,677 | 63,771 | 262,333 |
| Labour | 550 | - | - | - | 550 |
| Rental | 15,627 | 7,111 | 10,006 | 618 | 33,362 |
| Surveys & Geophysics | 163,841 | - | - | 43,292 | 207,133 |
| Support & Communication | 13,615 | 907 | 5,662 | 3,578 | 23,762 |
| Professional Fees | | | | | |
| Insurance | - | - | - | - | - |
| Legal Fees | 2,606 | 1,337 | 1,053 | 7,417 | 12,413 |
| Value added Tax | 38,776 | 8,764 | 14,831 | 14,891 | 77,262 |
| Total Costs incurred during the year | 390,145 | 88,749 | 154,081 | 148,914 | 781,889 |
| Opening Balance | 5,760,917 | 724,746 | 1,517,402 | 767,639 | 8,770,704 |
| Project Write-off | (670,489) | (627,085) | - | - | (1,297,574) |
| Foreign Exchange Movements | (781,891) | (186,410) | (235,591) | (83,579) | (1,287,471) |
| Ending Balance | \$ 4,698,682 | \$ - | \$ 1,435,892 | \$ 832,974 | \$ 6,967,548 |
| Cumulative Costs | | | | | |
| Acquisition Costs | \$ 832,572 | \$ 270,327 | \$ 301,979 | \$ 291,004 | \$ 1,695,882 |
| Exploration Costs | 5,250,007 | 518,804 | 1,332,046 | 573,796 | 7,674,653 |
| Professional Fees | 17,193 | 16,250 | 10,315 | 25,367 | 69,125 |
| Project Write-off | (670,489) | (627,085) | - | - | (1,297,574) |
| Value added tax | 159,465 | 24,305 | 53,945 | 35,689 | 273,404 |
| Foreign Exchange Movements | (890,066) | (202,601) | (262,393) | (92,882) | (1,447,942) |
| | \$ 4,698,682 | \$ - | \$ 1,435,892 | \$ 832,974 | \$ 6,967,548 |

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8. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing. The exploration and evaluation assets in which the Company has committed to earn an interest are located in Mongolia.

The terms and commitments of the Company with respect to its exploration and evaluation assets are subject to change if and when the Company and its partners mutually agree to new terms and conditions.

(a) Chandman project, Mongolia

On November 26, 2007, the Company entered into an option agreement with a private company to acquire 80% of its shares. As a result, the Company can earn an 80% interest in the projects owned by the private company's wholly owned subsidiary. The option agreement has the following terms:

- i. Payment of \$50,000 in cash on signing (Paid).
- ii. Incur \$3,000,000 of cumulative exploration expenditure on the properties over a four year period as follows:
 - Minimum of \$200,000 on or before the first anniversary of the agreement (Incurred);
 - Minimum of \$1,000,000 (cumulative) on or before the second anniversary of the agreement (Incurred); and
 - Minimum of \$3,000,000 (cumulative) on or before the fourth anniversary of the agreement (Incurred).
- iii. Payment of \$600,000 in cash over a four year period as follows:
 - \$100,000 on or before the second anniversary of the agreement (Paid); and
 - An additional \$500,000 on or before the fourth anniversary of the agreement (Paid).

During the year ended December 31, 2011, the Company earned its 100% interest in Chandman property by converting the remaining 20% interest into a 2.5% Net smelter return ("NSR") royalty.

During the year ended December 31, 2013, the Company allowed certain licenses on the Chandman project to expire and accordingly, the Company wrote off costs totaling \$670,489.

(b) Onon, Mongolia

On November 13, 2008, the Company entered into an agreement with a private company in order to acquire a 90% beneficial interest in the Onon gold project. The agreement was subsequently amended on May 19, 2009, October 20, 2010, and on May 23, 2011. On May 28, 2012, a further amendment was filed for approval by the TSX-V Exchange. Approval was obtained on August 3, 2012. The amended terms are as follows:

- i. Payment of \$100,000 and issuance of shares over a four year period as follows:
 - \$10,000 on signing (Paid);
 - An additional \$20,000 on or before May 25, 2009 (Paid);
 - An additional \$70,000 on or before May 25, 2011 (Paid); and
 - Issuance of 240,000 common shares on or before August 13, 2012 (Issued).
- ii. Incur \$900,000 in aggregate exploration expenditures over a four year period as follows:
 - Minimum of \$200,000 on or before October 1, 2011 (Incurred); and
 - Minimum of \$900,000 (cumulative) on or before October 1, 2012.

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8. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Onon Mongolia (Cont'd...)

In accordance with the May 28, 2012 amendment, the satisfaction of the cumulative exploration expenditures was done by way of the issuance of the final 240,000 shares. The Company completed all of the necessary requirements to acquire a 90% beneficial interest in the Onon gold property.

During the year ended December 31, 2013, the Company allowed its licenses on the Onon gold project to expire and accordingly, the Company wrote off costs totaling \$627,085.

(c) Yol, Mongolia

Licenses were issued to Altan Rio Mongolia LLC on April 17, 2009 and April 24, 2009.

(d) Khavchuu, Mongolia

On May 3, 2011 (the "Commencement Date") the Company entered into an option agreement with two private companies to acquire a 100% interest in Khavchuu Land Mongolia LLC ("KLM"), a Mongolian entity jointly owned by the two private companies. KLM is the registered and beneficial owner of a 100% right, title and interest in the Khavchuu project. The agreement was amended on August 17, 2012 and June 10, 2013. The modified option agreement has the following terms:

- i) Payment of \$60,000 (Paid);
- ii) Issuance of 760,000 common shares (Issued);
- iii) Payment of \$15,000 on or before the date that is 30 months from the Commencement Date (Not paid);
- iv) Incurrence of exploration expenditures of \$300,000 (cumulative) on or before the date that is 24 months from the Commencement Date (Incurred).

During the year ended December 31, 2013, the Company did not make the \$15,000 payment required under the agreement and is currently renegotiating the terms of the final payment required.

After commercial production commences, the project is also subject to a 3% NSR royalty.

9. LOANS PAYABLE

Loans payable are amounts received from Verite Trust Company Limited, a non-related party. There were no specific terms of interest or repayment on these advances. Subsequent to the quarter end \$1,155,496 of the outstanding loan amount was reassigned to the following parties and converted to shares.

| | |
|-----------------------------|-----------|
| Double Dragon Equities Ltd. | 437,500 |
| 0809979 B.C. LTD | 717,996 |
| | 1,155,496 |

\$210,000 of the outstanding amount to Verite Trust Company Limited was converted to shares subsequent to the quarter end.

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10. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Altan Rio Minerals Limited and its subsidiaries listed in the following table:

| Name of Subsidiary | Country of Incorporation | Proportion of Ownership Interest | Principal Activity |
|-----------------------------------|--------------------------|----------------------------------|---------------------|
| Altan Rio Holdings Canada Limited | Canada | 100% | Holding company |
| Altan Rio Holdings Limited | British Virgin Islands | 100% | Holding company |
| Altan Rio Limited | British Virgin Islands | 100% | Holding company |
| GS Minerals Corp. Ltd. | Bermuda | 100% | Holding company |
| BraveHeart Resources LLC | Mongolia | 100% | Holding company |
| Altan Rio Mongolia LLC | Mongolia | 100% | Project exploration |

The Company entered into the following transactions with related parties:

- a) Paid or accrued management and consulting fees of \$20,250 (2013 - \$20,250) to Evan Jones, President, CEO and director of the Company. At March 31 2014, the amount payable to him was \$41,480 (December 31, 2013 - \$21,401). The Company also had an amount due from him of \$92 (December 31, 2013 - \$92).
- b) Paid or accrued management and consulting fees of \$Nil (2013 - \$18,211) to Kelly Cluer, a former director of the Company. At March 31, 2014, the amount payable to him was \$24,627 (December 31, 2013 - \$24,627). The Company also had an amount due from him of \$2,729 (December 31, 2013 - \$2,729).
- c) At March 31, 2014, an amount of \$29,424 (December 31, 2013 - (due from) \$42,794) was due to Altan Nevada Minerals Ltd., a company with directors and officers in common.
- d) At March 31, 2014, an amount of \$3,363 (December 31, 2013 - \$3,363) was due from John Jones, a director of the Company.
- e) Paid or accrued accounting services of \$10,901 (2013 - \$nil) to BridgeMark Financial Corp. ("BridgeMark"), a management company controlled by an officer of the Company. At March 31, 2014 the amount payable to BridgeMark was \$8,400 (December 31, 2013 - \$3,949)
- f) At March 31, 2014, an amount of \$1,961 (December 31, 2013 - \$1,961) was due to the Bonito Trust, controlled by a director of the Company.
- g) At March 31, 2014, an amount of \$5,000 (December 31, 2013 - \$5,000) was due to 0809979 B.C. Ltd., a company with a common director.
- h) At March 31, 2014, an amount of \$836 (December 31, 2013 - \$836) was due from Jones Partners, controlled by a director of the Company.
- i) At March 31, 2014, an amount of \$2,977 (December 31, 2013 - \$2,977) was due to the Westbury Management Services, controlled by a director of the Company.

These transactions were incurred in the normal course of operations.

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10. RELATED PARTY TRANSACTIONS (cont'd...)

Key Management Personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. The remuneration of directors and other members of key management personnel during the three months ended March 31, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|--------------------------------|------------------|------------------|
| Management and consulting fees | \$ 51,151 | \$ 38,461 |
| Share-based payments | <u>7,039</u> | <u>50,500</u> |
| | <u>\$ 58,190</u> | <u>\$ 88,961</u> |

11. EQUITY**Authorized share capital**

There is unlimited number of common and preferred voting shares without nominal or par value.

Issued share capital

No shares were issued during the period ended March 31, 2014.

European Bank for Reconstruction and Development ("EBRD") equity financing

During the period ended March 31, 2014, the Company announced that the European Bank for Reconstruction and Development ("EBRD") has agreed to provide equity financing to the Company for the furtherance of the Company's Mongolian operations. EBRD has agreed to purchase, on a private placement basis, 16,666,000 common shares of the Company at a price of \$0.06 per share as a first tranche subscription (the "First Tranche Subscription") pursuant to a larger potential investment referred to hereafter.

The First Tranche Subscription is made by EBRD pursuant to a Subscription Agreement and Framework Agreement (the "Financing Agreements") entered into between EBRD and the Company. Under the Financing Agreements, EBRD has committed to invest a minimum of \$5,000,000 (subject to certain limitations as referred to hereafter) and a maximum of \$10,000,000 to purchase common shares of Altan Rio under the First Tranche Subscription and a series of subsequent private placements in minimum tranches of \$1,000,000 each ("Subsequent Tranche Subscriptions"). Each Subsequent Tranche Subscription will be triggered by a notice from the Company requesting funds and providing certain other required information. The size of each tranche will be dependent on the amount requested by the Company and agreed to by EBRD, with the price per share to be subject to agreement between the parties based on the market price for the Company's shares at the time and the requirements of Exchange policies.

Each Tranche Subscription will be subject to a number of conditions precedent including among other things:

- Exchange approval,
- any necessary shareholder approvals being obtained,
- outside investors having subscribed for common shares of the Company at least equal in number to the number of shares to be purchased by EBRD, at the same subscription price,
- the continued compliance by the Company with the Financing Agreements and the agreed business plan, and

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11. EQUITY (cont'd...)

- EBRD's total shareholding in the Company following the Subsequent Tranche Subscription not exceeding 35% of the Company's issued and outstanding shares.

The Financing Agreements also provide for the Company to adhere to an agreed business plan with respect to its ongoing exploration activities in Mongolia, to report quarterly and annually to EBRD with respect to ongoing operations, and to obtain EBRD's consent to certain material changes in the Company's business, material corporate reorganizations and certain other material events including outside equity financings. The Financing Agreements also require certain principal shareholders of the Company to maintain a threshold shareholding in the Company and to make specified time and work commitments to the Company's affairs. EBRD also has participation rights with respect to future proposed debt and equity financings. EBRD is entitled to appoint a director to the Company's Board and to appoint a non-voting observer to attend Board meetings. Certain of the foregoing obligations are subject to EBRD holding at least 5% of the Company's shares or a minimum investment of \$5,000,000.

The proceeds from the First Tranche Subscription in the sum of approximately \$1,000,000 will be employed to advance the Company's exploration activities in Mongolia and to provide working capital.

During the year ended December 31, 2012 the following share capital transactions occurred:

- On July 12, 2012, the Company issued 240,000 common shares at a value of C\$0.25 per share in connection with the terms of the Onon gold project acquisition agreement.
- On October 17, 2012, the Company issued 4,000,000 units at C\$0.25 per unit, for gross proceeds of \$1,013,296. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one common share exercisable at a price of C\$0.50 per share until October 17, 2014.
- On December 20, 2012, the Company issued 760,000 common shares at a value of C\$0.25 per share in connection with the terms of Khavchuu project acquisition agreement.

Share purchase and agents warrants

| | Number of Warrants | Weighted Average Exercise Price |
|---|---------------------------|--|
| Outstanding warrants, December 31, 2013 | 15,793,521 | C\$0.54 |
| Expired | 13,793,521 | C\$0.55 |
| Outstanding warrants, March 31, 2014 | 2,000,000 | C\$0.50 |

As at March 31, 2014, the following share purchase warrants were outstanding and exercisable:

| Expiry Date | Weighted Average Exercise Price | Number of Warrants | Weighted Average Remaining Life in Years |
|--------------------|--|---------------------------|---|
| October 17, 2014 | C\$0.50 | 2,000,000 | 0.54 |

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11. EQUITY (cont'd...)**Stock options**

The Company has established a stock option plan (the "Plan") for directors, employees, and consultants of the Company. From time to time, shares may be reserved by the Board, in its discretion, for options under the Plan, provided that at the time of the grant, the total number of shares so reserved for issuance by the Board shall not exceed the greater of 10% of the issued and outstanding listed shares (on a non-diluted basis) as at the date of grant. Options are non-assignable and may be granted for a term not exceeding that permitted by the Exchange, currently ten years. All stock options issued are subject to vesting terms. Options issued to directors vest in the amount of 33% every six months from the date of grant; and options issued to officers and/or consultants vest between 12 and 24 months depending on date of grant and nature of service.

On February 20, 2014 the Company granted to directors, officers, consultants and management of the Company, stock options to purchase a total of 1,420,000 common shares at a price of \$0.10 per common share. The Options are exercisable for a period of 5 years ending February 20th, 2019.

On February 1, 2012, the Company granted options to acquire 1,992,400 common shares with an exercise price of C\$0.53 per share.

| | Number of Options | Weighted Average Exercise Price |
|--|------------------------------|--|
| Outstanding options, December 31, 2013 | 1,534,400 | C\$0.53 |
| Granted | 1,450,000 | C\$0.10 |
| Outstanding options, March 31, 2014 | 2,984,400 | C\$0.32 |

| Exercise Price | Exercisable Options December 31, 2013 | Average remaining Contractual Life (Years) | Expiry Date |
|-----------------------|--|---|--------------------|
| C\$0.53 | 1,384,400 | 2.84 | February 1, 2017 |

The estimated fair value of the stock options granted was \$767,238 using the Black-Scholes option pricing model. \$109,372 of this fair value was recognized as share-based compensation expense during the year ended December 31, 2013 due to the vesting provision. During the period ended March 31, 2014, the Company recognized share based compensation expense of \$7,039.

The fair value of the options being granted as part of share-based compensation, were estimated using the Black-Scholes Pricing Model with the following assumptions:

| | March 31, 2014 | March 31, 2013 |
|---------------------------------|-------------------|-------------------|
| Estimated risk-free rate | 1.26% | 1.26% |
| Expected volatility | 100% | 100% |
| Estimated annual dividend yield | 0.00% | 0.00% |
| Expected life of options | 5 Years | 5 Years |
| Fair value per option granted | C\$0.53 | C\$0.53 |
| Forfeiture rate | 0.00% | 0.00% |

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11. EQUITY (cont'd...)**Escrow shares**

As of March 31, 2014, the Company has 12,514,653 common shares held in escrow with the Company's escrow agent. The escrow agreement provides for the original 18,124,496 common shares held in escrow and was released as follows:

- 5% of 17,434,489 shares and 10% of 690,007 shares on January 11, 2012 (released),
- 5% of 17,434,489 shares and 15% of 690,007 shares on July 11, 2012 (released),
- 10% of 17,434,489 shares and 15% of 690,007 shares on January 11, 2013 (released),
- 10% of 17,434,489 shares and 15% of 690,007 shares on July 11, 2013 (released),
- 15% of 17,434,489 shares and 15% of 690,007 shares on January 11, 2014 (released),
- 15% of 17,434,489 shares and 15% of 690,007 shares on July 11, 2014, and
- 40% of 17,434,489 shares and 15% of 690,007 shares on January 11,

12. SEGMENT INFORMATION

The Company operates in one business segment, the exploration of exploration and evaluation assets. The Company's exploration activities are centralized whereby management of the Company is responsible for business results and the everyday decision-making. The Company's operations therefore are segmented on a geographic basis.

The Company's capital assets are located in the following geographic locations:

| | March 31, 2014 | December 31, 2013 |
|-----------------------------------|---------------------|----------------------|
| Equipment | | |
| Canada | \$ 1,062 | \$ 1,498 |
| Mongolia | <u>36,376</u> | <u>43,194</u> |
| | 37,438 | 44,692 |
| Exploration and evaluation assets | | |
| Canada | - | - |
| Mongolia | <u>6,478,224</u> | <u>6,967,548</u> |
| | <u>\$ 6,515,662</u> | <u>\$ 7,012,240</u> |

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the period ended March 31, 2014 were as follows:

- a) Included in exploration and evaluation assets is depreciation expense of \$1,772.

The significant non-cash transactions for the period ended March 31, 2013 were as follows:

- a) The Company issued 1,606,928 common shares for settlement of debt. The shares were valued at \$245,048.
- b) Accounts payable and accrued liabilities includes \$17,520 of exploration and evaluation assets costs.
- c) Included in exploration and evaluation assets is depreciation expense of \$2,608

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14. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. In the management of capital, the Company includes components of equity. 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 to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

15. FINANCIAL INSTRUMENTS

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. The Company's cash and cash equivalents are held at a large Canadian financial institution in interest-bearing accounts. The Company has no investment in asset backed commercial paper. The Company's receivables consist mainly of sales tax receivable due from the Government of Canada. The Company believes it has no significant credit risk.

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 liquidity to meet liabilities when due. As at December 31, 2013, the Company has cash and cash equivalents of \$52,248 (December 31, 2012 - \$238,308) to settle current liabilities of \$1,345,301 (December 31, 2012 - \$607,476). As disclosed in Note 1, the Company will need to raise additional funds to meet its obligations as they come due.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices and foreign currency fluctuations.

a) *Interest rate risk*

The Company has cash and cash equivalent balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

b) *Foreign currency risk*

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, accounts payables and accrued liabilities, loans payable, and due to/from related parties that are denominated in Canadian dollars and Mongolian Tugrik.

ALTAN RIO MINERALS LIMITED

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(Expressed in US Dollars)

(Unaudited)

15. FINANCIAL INSTRUMENTS (cont'd...)

c) *Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. 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 of gold and copper, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis

The Company operates in Mongolia and is exposed to risk from changes in the Canadian dollar and the Mongolian Tugrik. A simultaneous 10% fluctuation in the Canadian dollar and Mongolian Tugrik against the US dollar would affect accumulated other comprehensive loss for the year by approximately \$7,460.

16. SUBSEQUENT EVENTS

- a) On April 28th, 2014 the Company announced that it has closed the debt settlement originally announced February 20, 2014. Pursuant to the settlement, the Company has issued a total of 20,346,555 common shares to settle debt in the total sum of \$1,424,258.90 at a deemed price of \$0.07 per share. Debt in the sum of \$5,000 that was originally contemplated in the February 20, 2014 news release was not settled for shares, resulting in a net reduction of 71,428 shares from the number originally announced. The 20,346,555 shares so issued are subject to a hold period of four months plus a day, expiring August 29, 2014
- b) On May 20th, 2014 the Company announced that it has closed its previously announced private placement with European Bank for Reconstruction and Development ("EBRD"). Pursuant to the Private Placement, the Company has issued to EBRD 16,666,000 common shares at \$0.06 per share, for gross proceeds of \$999,960. Following closing of the Private Placement EBRD holds 16,666,000 common shares of the Company, representing approximately 18.7% of the issued and outstanding common shares of the Company.