# DOLLY VARDEN SILVER CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

UNAUDITED –Prepared by Management

(Expressed in Canadian Dollars)

# TO THE SHAREHOLDERS OF DOLLY VARDEN SILVER CORPORATION

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company as at and for the periods ended September 30, 2016 and 2015 have been prepared by management and have been reviewed and approved by the Company's Audit Committee and Board of Directors.

The Company's independent auditor, Davidson & Company LLP, has not performed a review of these condensed interim financial statements for the three and nine month periods ended September 30, 2016 and 2015.

**DOLLY VARDEN SILVER CORPORATION**
**Condensed Interim Statements of Financial Position**
Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

| | | September 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | $ | 2,875,016 | $ | 212,403 |
| Prepaid Expenses (Note 3) | | 1,085,638 | | 20,824 |
| Receivables (Note 4) | | 66,573 | | 74,473 |
| | | 4,027,227 | | 307,700 |
| **Non-Current** | | | | |
| Equipment (Note 5) | | 95,930 | | 140,262 |
| Deposits (Note 6) | | 91,000 | | 91,000 |
| Exploration and evaluation assets (Note 6) | | 3,524,092 | | 3,433,092 |
| | $ | 7,738,249 | $ | 3,972,054 |
| **Liabilities and shareholders' equity** | | | | |
| **Current liabilities** | | | | |
| Accounts payable & accrued liabilities (Note 7 and 11) | $ | 508,634 | $ | 610,564 |
| Loan and interest payable (Note 8) | | - | | 1,518,750 |
| | | 508,634 | | 2,129,314 |
| **Shareholders' equity** | | | | |
| Share Capital (Note 9) | | 33,761,884 | | 26,798,486 |
| Reserves | | 4,807,541 | | 3,419,980 |
| Deficit | | (31,339,810) | | (28,375,726) |
| | | 7,229,615 | | 1,842,740 |
| | $ | 7,738,249 | $ | 3,972,054 |

Nature of Operations and Going Concern - Note 1

APPROVED ON BEHALF OF THE BOARD:

| | |
|---|---|
| ***"James Sabala"*** | ***"Rosie Moore"*** |
| DIRECTOR | DIRECTOR |

(The accompanying notes are an integral part of these condensed interim financial statements)

**DOLLY VARDEN SILVER CORPORATION**
**Condensed Interim Statement of Loss and Comprehensive Loss**
Unaudited –Prepared by Management
(Expressed in Canadian Dollars)

| | Three months ended Sept. 30 | | Nine months ended Sept. 30 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Expenses** | | | | |
| Exploration and evaluation (Note 6) | $ 308,280 | $ 500,041 | $ 379,051 | $ 787,977 |
| Administrative & consulting fees | 90,707 | 7,958 | 106,252 | 63,799 |
| Directors' fees (Note 9) | 106,770 | 47,282 | 199,604 | 7,192 |
| Management fees | 60,000 | 45,000 | 133,378 | 127,962 |
| Marketing and communications | 9,526 | 22,828 | 14,164 | 189,037 |
| Office | 8,612 | 10,746 | 28,128 | 33,711 |
| Professional fees | 668,029 | 52,723 | 728,706 | 179,393 |
| Rent and maintenance | 690 | 4,690 | 2,070 | 21,465 |
| Salaries and benefits | 29,761 | 7,168 | 29,761 | 44,137 |
| Share-based compensation (Note 9) | 1,020,977 | - | 1,020,977 | 84,653 |
| Transfer agent and filing fees | 12,485 | 16,315 | 10,355 | 41,894 |
| Travel & accommodation | - | 4,261 | 1,162 | 13,072 |
| Exchange (gain)/loss | 1,170 | 8 | 3,248 | (190) |
| Operating loss | (2,317,007) | (719,020) | (2,656,856) | (1,594,102) |
| Finance and interest charges (Note 8) | (276,706) | (461,678) | (324,555) | (461,678) |
| (Loss)/gain on sale of equipment | (1,520) | - | 10,861 | - |
| Interest income | 6,078 | 1,569 | 6,466 | 8,364 |
| **Total loss and comprehensive loss for period** | $ (2,589,155) | $ (1,179,129) | $ (2,964,084) | $ (2,047,416) |
| **Loss per common share, basic and diluted** | $ (0.10) | $ (0.06) | $ (0.14) | $ (0.11) |
| **Weighted average number of common shares outstanding (Note 9)** | 26,585,151 | 18,268,963 | 21,141,375 | 18,268,963 |

(The accompanying notes are an integral part of these condensed interim financial statements)

**DOLLY VARDEN SILVER CORPORATION**
**Condensed Interim Statement of Changes in Equity**
Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

| | Share Capital | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | | Amount | | Reserves | | Deficit | | Total |
| **Balance - December 31, 2014** | **18,268,963** | **$** | **26,798,884** | **$** | **2,961,213** | **$** | **(24,811,071)** | **$** | **4,949,026** |
| Share issuance costs | - | | (398) | | - | | - | | (398) |
| Fair value assigned to warrants | - | | - | | 311,678 | | - | | 311,678 |
| Share-based compensation | - | | - | | 84,653 | | - | | 84,653 |
| Total loss and comprehensive loss for the period | - | | - | | - | | (2,047,416) | | (2,047,416) |
| **Balance - September 30, 2015** | **18,268,963** | | **26,798,486** | | **3,357,544** | | **(26,858,487)** | **$** | **3,297,543** |
| Share-based compensation | - | | - | | 62,436 | | - | | 62,436 |
| Total loss and comprehensive loss for the period | - | | - | | - | | (1,517,239) | | (1,517,239) |
| **Balance - December 31, 2015** | **18,268,963** | | **26,798,486** | | **3,419,980** | | **(28,375,726)** | | **1,842,740** |
| Issuance of flow through common shares | 2,142,857 | | 1,500,000 | | - | | - | | 1,500,000 |
| Issuance of common shares | 9,115,861 | | 5,651,834 | | - | | - | | 5,651,834 |
| Issuance of common shares as finders' fee | 558,606 | | - | | - | | - | | - |
| Fair value assigned to finders' warrants | - | | (232,718) | | 232,718 | | - | | - |
| Issuance of warrants for cash | - | | 43,758 | | - | | - | | 43,758 |
| Share issuance costs | - | | (125,716) | | - | | - | | (125,716) |
| Exercise of stock options | 125,000 | | 77,500 | | - | | - | | 77,500 |
| Transfer from Reserves on exercise of stock options | - | | 48,740 | | (48,740) | | - | | - |
| Share-based compensation | - | | - | | 1,020,976 | | - | | 1,020,976 |
| Fair value assigned to lenders' warrants | - | | - | | 182,607 | | - | | 182,607 |
| Total loss and comprehensive loss for the period | - | | - | | - | | (2,964,084) | | (2,964,084) |
| **Balance - September 30, 2016** | **30,211,287** | **$** | **33,761,884** | **$** | **4,807,541** | **$** | **(31,339,810)** | **$** | **7,229,615** |

(The accompanying notes are an integral part of these condensed interim financial statements)

**DOLLY VARDEN SILVER CORPORATION**
**Condensed Interim Statement of Cash Flows**
Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

| | Nine months ended September 30, 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the period | $ (2,964,084) | $ (2,047,416) |
| Items not affecting cash: | | |
| Share-based compensation | 1,020,977 | 84,653 |
| Directors' fees (note 9) | 115,104 | (37,805) |
| Finance charges | 182,607 | 311,678 |
| Gain on sale of equipment | (10,861) | - |
| Depreciation of equipment | 4,772 | 28,401 |
| Changes in non-cash working capital items: | | |
| Decrease in receivables | 7,900 | 98,052 |
| (Increase) decrease in prepaid expenses | (1,041,394) | 100,448 |
| (Decrease) increase in accounts payable & accrued liabilities | (217,034) | 271,450 |
| Net cash used in operating activities | (2,902,013) | (1,190,539) |
| **Cash flows from investing activities** | | |
| Exploration and evaluation assets | (91,000) | (193,333) |
| Proceeds from disposal of equipment | 27,000 | - |
| Net cash used in investing activities | (64,000) | (193,333) |
| **Cash flows from financing activities** | | |
| Proceeds from loans | 3,000,000 | - |
| Repayment of loans | (4,500,000) | - |
| Repayment of accrued interest payable | (18,750) | - |
| Issuance of common shares for cash | 7,229,334 | - |
| Issuance of warrants for cash | 43,758 | - |
| Share issuance costs | (125,716) | (398) |
| Net cash provided by financing activities | 5,628,626 | (398) |
| **Net change in cash for the period** | 2,662,613 | (1,384,270) |
| **Cash - beginning of the period** | 212,403 | 1,559,040 |
| **Cash - end of the period** | $ 2,875,016 | $ 174,770 |

| | | |
|---|---|---|
| Supplemental disclosure with respect to cash flows: | | |
| Interest received in cash | $ 1,781 | $ 9,273 |
| Interest paid in cash | 116,599 | - |
| Income taxes paid in cash | - | - |

(The accompanying notes are an integral part of these condensed interim financial statements)

## 1 NATURE OF OPERATIONS AND GOING CONCERN

Dolly Varden Silver Corporation (the "Company") was incorporated under the Canada Business Corporation Act in the Province of British Columbia on March 4, 2011. The Company's primary business is the acquisition, exploration, evaluation and development of exploration and evaluation assets. The Company is considered to be in the exploration and evaluation stage. The Company's registered head office is suite 910-409 Granville, Vancouver, BC, V6C 1T2.

The Company owns interests in multiple mineral titles and claims. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements and to complete the development of properties and upon future profitable production or proceeds from the disposition thereof.

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a Going Concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At September 30, 2016, the Company had incurred accumulated losses of $31,339,810 (December 31, 2015: accumulated loss of $28,375,726) since inception, and has a Working Capital Surplus of $3,518,593 (December 31, 2015: Working Capital Deficiency of $1,821,614). The Company expects to incur further losses in the development of its business and accordingly there is material uncertainty in the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to continue to raise adequate financing in the future to meet its obligations and repay its liabilities arising from normal business operations when they come due.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of Compliance

These condensed interim financial statements have been prepared in accordance with IAS 1 "Presentation of Financial Statements' ("IAS 1") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements were approved by the board of directors of the Company on November 25, 2016.

### (b) Basis of Presentation

The condensed interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these condensed interim financial statements are in accordance with IFRS and have not been audited.

These condensed interim financial statements do not include all of the notes required for full annual financial statements.

The significant accounting policies for the periods are consistent with those disclosed in the audited annual financial statements of the Company for the year ended December 31, 2015 except as specified

(Expressed in Canadian Dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

below. The accompanying unaudited condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2015.

For the comparative financial statements, the Company re-classified certain 2015 accounts in order to conform with the 2016 presentation.

### (c) Change in Accounting Policy – Exploration and evaluation expenditures

During fiscal 2015, the Company changed its accounting policy with respect to exploration and evaluation ("E&E") expenditures. In prior years, the Company's policy was to capitalize by property all costs directly related to the exploration and evaluation of mineral properties classified as exploration and evaluation assets. The Company has changed this accounting policy to now expense to operations exploration expenditures as incurred, effective with the presentation of the December 31, 2015 financial statements, on a retrospective basis. Accordingly, certain 2015 comparative amounts have been restated from amounts presented in 2015 to reflect this change in accounting policy.

## 3 PREPAID EXPENSES

Prepaid expenses consist of:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Advances for E&E | $ 1,040,671 | $ - |
| Insurance | 25,333 | 17,812 |
| Other | 19,634 | 3,012 |
| | $ 1,085,638 | $ 20,824 |

## 4 RECEIVABLES

Receivables consist of:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| GST/HST | $ 61,889 | $ 69,175 |
| Other | 4,684 | 5,298 |
| | $ 66,573 | $ 74,473 |

(Expressed in Canadian Dollars)

## 5 EQUIPMENT

| | Boat | Dock | Tents & trailers | Equipment | Vehicles | Gas tank | Computer Hardware | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **At December 31, 2015** | $ 43,095 | $ 15,571 | $ 138,521 | $ 51,879 | $ 129,136 | $ 40,000 | $ 10,346 | $ 428,548 |
| Additions /(Disposals) | (29,095) | - | - | (12,260) | (102,431) | - | - | (143,786) |
| **At September 30, 2016** | **$ 14,000** | **$ 15,571** | **$ 138,521** | **$ 39,619** | **$ 26,705** | **$ 40,000** | **$ 10,346** | **$ 284,762** |
| **Accumulated depreciation** | | | | | | | | |
| **At December 31, 2015** | $ 22,287 | $ 3,205 | $ 107,646 | $ 27,041 | $ 102,693 | $ 15,068 | $ 10,346 | $ 288,286 |
| Additions /(Disposals) | (15,047) | - | - | (7,740) | (81,439) | - | - | (104,226) |
| Depreciation for the period | 253 | 155 | 2,316 | 1,016 | 409 | 623 | - | 4,772 |
| **At September 30, 2016** | **$ 7,493** | **$ 3,360** | **$ 109,962** | **$ 20,317** | **$ 21,663** | **$ 15,691** | **$ 10,346** | **$ 188,832** |
| **NET BOOK VALUE** | | | | | | | | |
| **At December 31, 2015** | **$ 20,808** | **$ 12,366** | **$ 30,875** | **$ 24,838** | **$ 26,443** | **$ 24,932** | **$ -** | **$ 140,262** |
| **At September 30, 2016** | **$ 6,507** | **$ 12,211** | **$ 28,559** | **$ 19,302** | **$ 5,042** | **$ 24,309** | **$ -** | **$ 95,930** |

During the nine months ended September 30, 2016 , the Company negotiated the sale of a vehicle and a small boat in exchange for storage of core and mining equipment until December, 2017. The $23,420 fair value of the storage is recorded in Prepaid Expenses.

## 6 EXPLORATION AND EVALUATION ASSETS

***Dolly Varden Property***

During 2011, the Company purchased the Dolly Varden Property, consisting of fee simple titles, mineral claims and mineral tenures in respect of certain lands located in the Kitsault area of British Columbia. A finder's fee of $62,500 was paid through the issuance of shares to a shareholder of the Company. The property is subject to a 2% net smelter return royalty ("NSR") of which one half (or 1% NSR) can be repurchased by the Company for $1,000,000 at any time. A company in which a former director holds an indirect 20% interest holds the 2% NSR and held a License agreement for use of nearby staging area at a monthly cost to the Company of $2,500 through to June 30, 2014. Other directors no longer have any entitlement of interest in the company that holds the 2% NSR and License agreement. The License agreement for use of the nearby staging area was extended through 2014 and 2015. The License agreement is currently extended through December 2016 at a cost of $3,500 per month. To date, $2,656,426 of acquisition costs have been capitalized.

The Company has provided deposits totalling $91,000 (December 31, 2015 - $91,000) as reclamation bonds for the property.

***Musketeer Property***

On March 18, 2013, the Company entered into an option agreement to acquire a 100% interest in the Musketeer property located in Northwestern BC Canada for $1,050,000 payable over four years, subject to a 2% NSR.

The Company paid an aggregate option payment of $350,000 in fiscal 2013 and the second option payment of $233,333 in fiscal 2014. In early 2015, the remaining two payments were renegotiated for a fee of $10,000 included with the February 2015 payment of $183,333. In February 2016, the agreement was further renegotiated for a fee of $10,000 and the option payment of $81,000 was paid. To date, $867,666 of acquisition costs have been capitalized.

(Expressed in Canadian Dollars)

## 6 EXPLORATION AND EVALUATION ASSETS (cont'd)

The remaining option payments are due as follows:

| | |
|---|---|
| February 12, 2017 | $102,334 |
| February 11, 2018 | $100,000 |

As described in Note 2(c), the Company now expenses the exploration expenditures as incurred.

The following tables summarize the exploration costs incurred for the nine months ended September 30, 2016:

| | Dolly Varden Property | Musketeer Property | Total |
|---|---|---|---|
| **Exploration Costs** | | | |
| Assay | $ 2,938 | $ 326 | $ 3,264 |
| Camp, food, supplies and misc. | 38,881 | 4,320 | 43,201 |
| Claim maintenance | 6,417 | 713 | 7,130 |
| Data and sampling analysis | 1,395 | 155 | 1,550 |
| Depreciation | 4,295 | 477 | 4,772 |
| Drilling | 220,929 | 24,548 | 245,477 |
| Equipment and warehouse rental | 44,313 | 4,924 | 49,237 |
| Field project and management | 4,844 | 538 | 5,382 |
| Fuel | 81,404 | 9,045 | 90,449 |
| Geological and geoscience consulting | 21,564 | 2,396 | 23,960 |
| Geotechnical studies | 1,611 | 179 | 1,790 |
| Lease payments on land | 37,800 | 4,200 | 42,000 |
| Mapping and modelling | 8,155 | 906 | 9,061 |
| Project supervision | 2,066 | 229 | 2,295 |
| Recovery of prior year amount | (135,549) | (15,061) | (150,610) |
| Survey and assessment | 84 | 9 | 93 |
| **Total Exploration Costs** | $ 341,147 | $ 37,904 | $ 379,051 |

(Expressed in Canadian Dollars)

## 6 EXPLORATION AND EVALUATION ASSETS (cont'd)

The following tables summarize the exploration costs incurred for the nine months ended September 30, 2015:

| | | Dolly Varden Property | | Musketeer Property | | Total |
|---|---|---|---|---|---|---|
| **Exploration Costs** | | | | | | |
| Assay | $ | 36,481 | $ | 1,044 | $ | 37,525 |
| Camp, food, supplies and misc. | $ | 4,121 | $ | 611 | $ | 4,732 |
| Claim maintenance | $ | 31,914 | $ | 7,137 | $ | 39,051 |
| Depreciation | $ | 23,421 | $ | 4,979 | $ | 28,400 |
| Equipment and warehouse rental | $ | 100,296 | $ | 10,917 | $ | 111,213 |
| Field labour and support | $ | 16,163 | $ | - | $ | 16,163 |
| Field project and management | $ | 38,057 | $ | 6,267 | $ | 44,324 |
| Fuel | $ | 5,129 | $ | - | $ | 5,129 |
| Geological and geoscience consulting | $ | 173,950 | $ | 45,281 | $ | 219,231 |
| Geotechnical studies | $ | 45,909 | $ | - | $ | 45,909 |
| Lease payments on land | $ | 27,426 | $ | 4,074 | $ | 31,500 |
| Mapping and modelling | $ | 77,347 | $ | 13,827 | $ | 91,174 |
| Site preparation | $ | 19,397 | $ | - | $ | 19,397 |
| Transport, travel and accomodation | $ | 92,054 | $ | 2,175 | $ | 94,229 |
| **Total Exploration Costs** | $ | 691,665 | $ | 96,312 | $ | 787,977 |

## 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

| | | September 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Trade payables (1,2,3) | $ | 333,747 | $ | 499,030 |
| Other accrual (4) | | 174,887 | | 111,534 |
| | $ | 508,634 | $ | 610,564 |

(1) Includes $Nil (December 31, 2015 - $6,824) owed to directors and officers.

(2) Includes $Nil (December 31, 2015 - $158,141) payable to a Company owned by a former director and officer of the company.

(3) Includes $Nil (December 31, 2015 - $41,293) payable to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in note 9.

(4) Includes $139,543 (December 31, 2015 - $44,265) accrued to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in Note 9.

## 8 LOAN FACILITIES

On September 30, 2015, the Company entered into a definitive agreement with Hecla Canada Ltd. and Robert L. Gipson for up to $2,000,000 senior secured loan facility (the "Hecla/Gipson Loan"). In the fall of 2015, the Company drew down $1,500,000 of the loan and then drew a further $500,000 in early 2016. In July 2016, the Hecla/Gipson loan was repaid in full and replaced with a new short-term loan of $2,500,000 (the "Sprott/K2 Loan"). The loan was accounted for at amortized cost using the effective interest rate method using an effective interest rate of 18%. The Sprott/K2 Loan was repaid in full in August 2016.

The Hecla/Gipson Loan bore interest at the rate of 5% per annum and was repayable after one year, or earlier with no penalty. The Sprott/K2 Loan bore interest at the rate of 4% per annum and was repayable in six months, or earlier with the full 6 months interest guaranteed.

In connection with the Hecla/Gipson Loan, the Company issued 1,250,000 warrants to each lender, for a total of 2,500,000, valued at $311,678. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.30 for a period of three years from the date of issuance (See Note 9).

In connection with the Sprott/K2 Loan, the Company issued 1,250,000 warrants to each lender, for a total of 2,500,000, valued at $182,607. Each warrant entitles the holder to acquire on common share of the Company at a price of $0.385 for a period of two years from the date of issuance (See Note 9).

## 9 SHARE CAPITAL AND RESERVES

During the year ended December 31, 2015, the Company consolidated its share capital on a 10:1 basis. All share and per share amounts have been retroactively restated.

**Share Capital:**

Authorized: Unlimited common shares without par value

There were no common shares issued by the Company during the year ended December 31, 2015.

During the nine months ended September 30, 2016, the Company issued 11,942,324 common shares for proceeds of $7,103,619 net of share issue costs of $125,715.

A private placement on July 26, 2016 raised gross proceeds of $7,195,591 through the sale of 9,115,861 common shares at a price of $0.62 per share and 2,142,857 flow through shares at a price of $0.70 per share and the sale of 101,762 common share purchase warrants, which were purchased by Hecla Canada Ltd. at $0.43 per warrant. In connection with this private placement, 558,606 common shares and 541,205 common share purchase warrants were issued as a finder's fee. The common share purchase warrants are exercisable at $0.70 for a period of two years.

In July and August 2016, a total of 125,000 stock options were exercised at a weighted average price of $0.62 per share for gross proceeds of $77,500.

(Expressed in Canadian Dollars)

## 9 SHARE CAPITAL AND RESERVES (cont'd)

**Warrants:**

Warrant transactions summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance, January 1, 2015 | 512,238 | $ 1.59 |
| Issued for Facility (Note 8) | 2,500,000 | $ 0.30 |
| Expired | (512,238) | $ 1.60 |
| Balance, December 31, 2015 | 2,500,000 | $ 0.30 |
| Issued for New Facility (Note 8) | 2,500,000 | $ 0.39 |
| Issued for Financing | 541,205 | $ 0.70 |
| Issued for Cash | 101,762 | $ 0.70 |
| Balance, September 30, 2016 | 5,642,967 | $ 0.38 |

At September 30, 2016, share purchase warrants were outstanding as follows:

| Number of Warrants | Price | Date |
|---|---|---|
| 2,500,000 | $ 0.39 | July 5, 2018 |
| 642,967 | $ 0.70 | July 27, 2018 |
| 2,500,000 | $ 0.30 | September 30, 2018 |
| 5,642,967 | | |

The weighted average remaining contractual life of the warrants outstanding as at September 30, 2016 was 1.87 years.

During the year ended December 31, 2015, the Company issued in connection with the Hecla/Gipson Loan (Note 8), 2,500,000 warrants with a fair value of $311,678. The fair value of the warrants was determined using the Black-Scholes option pricing model using the following assumptions: Risk-free interest rate of 0.54%, expected life of 3.0 years, expected volatility of 125% and a dividend rate of 0%.

During the nine months ended September 30, 2016, the Company issued in connection with the Sprott/K2 Loan (Note 8), 2,500,000 warrants with a fair value of $182,607. The fair value of the warrants was determined using the residual value method for a compound instrument with the assumption that a similar debt instrument without warrants would have been issued bearing interest of 18% per annum.
The fair value of the 541,205 warrants issued as part of the finder's fee were determined to have a fair value of $232,718 or $0.43 per warrant based on the price negotiated with Hecla Canada Ltd, as they purchased 101,762 warrants for cash of $0.43 per warrant on the same date.

**Stock Options:**

The Company has a stock option plan under which it is authorized to grant share purchase options to executive officers, directors, employees and consultants enabling the holder to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option shall be no less than the discounted market price of the Company's shares prior to the grant as in accordance with TSX Venture Exchange policies. Options are granted for a maximum term of 10 years.

(Expressed in Canadian Dollars)

## 9 SHARE CAPITAL AND RESERVES (cont'd)

Vesting is at the discretion of the Board of directors. In the absence of a vesting schedule, such options shall vest immediately.

Stock option transactions are summarized as follows:

| | Number of options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at - January 1, 2015 | 1,170,000 | $ 2.16 |
| Granted for services | 530,000 | $ 0.46 |
| Forfeited | (345,000) | $ 2.14 |
| Outstanding at - December 31, 2015 | 1,355,000 | $ 1.50 |
| Granted for services | 1,350,000 | $ 0.76 |
| Exercised | (125,000) | $ 0.62 |
| Forfeited | (275,000) | $ 2.44 |
| Outstanding at - September 30, 2016 | 2,305,000 | $ 1.00 |
| | | |
| Number of options exercisable at September 30, 2016 | 2,155,000 | |

As at September 30, 2016, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 100,000 | $ 2.50 | November 17, 2016 |
| 80,000 | $ 2.50 | January 30, 2017 |
| 50,000 | $ 0.70 | March 19, 2017 |
| 75,000 | $ 2.50 | March 19, 2017 |
| 40,000 | $ 1.80 | March 18, 2018 |
| 75,000 | $ 1.60 | July 16, 2018 |
| 133,975 | $ 1.60 | July 26, 2018 |
| 150,000 | $ 0.80 | August 12, 2018 |
| 6,025 | $ 1.60 | February 14, 2019 |
| 40,000 | $ 1.60 | June 16, 2019 |
| 65,000 | $ 0.70 | February 25, 2020 |
| 290,000 | $ 0.30 | October 23, 2020 |
| 1,000,000 | $ 0.75 | July 29, 2021 |
| 200,000 | $ 0.80 | August 16, 2021 |
| 2,305,000 | | |

The weighted average remaining contractual life of the stock options outstanding as at September 30, 2016, was 3.54 years.

During the nine months ended September 30, 2016, the Company granted 1,350,000 (2015 – 215,000) stock options to directors, employees and consultants with a total fair value of $1,132,169 (2015 - $84,450) or $0.84 (2015 - $0.39) per option. During the nine months ended September 30, 2016, the Company recognized a total of $1,020,977 (2015 - $84,653) in share-based compensation. For the nine months ended September 30, 2016, $111,192 (2015-$Nil) of the fair value granted in the period had not yet been recognized as they relate to a grant which vests every three months over a one year period. In

(Expressed in Canadian Dollars)

## 9 SHARE CAPITAL AND RESERVES (cont'd)

the nine months ended September 30, 2015, an additional $203 of share based compensation was recognized related to a grant made in 2012 which had a final vesting in March 2015.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

| | Nine months ended September 30, | |
|---|---|---|
| | **2016** | **2015** |
| Risk free interest rate | 0.57% | 0.71% |
| Expected dividend yield | 0% | 0% |
| Annualized stock price volatility | 170.19% | 113.37% |
| Expected life of options | 4 years | 4.3 years |
| Expected forfeiture rate | 0% | 0% |

**Deferred share units ("DSU"):**

The Company has a DSU plan which entitles certain directors and officers to accrue share based compensation and to receive the cash equivalent of the DSUs when they retire from the Company. In October 2015, the Company ceased further accruals under the DSU plan. For the period ended September 30, 2016, the Company recognized share based compensation related to the DSU plan of $Nil (September 30, 2015 - $94,616) as director's fees. In addition, the Company has recognized a discharge of liability of $19,826 upon payment to a retired director, an increase in the fair value liability of the remaining DSU Units of $115,104 (September 30, 2015 – decrease in the fair value liability of $132,421) in director's fees as a result of the change in the Company's common share price, which increased substantially during the period (but decreased in the comparative period of 2015).

During the nine month period ended September 30, 2016, the Company paid, in addition to the DSU plan, director's fees of $ 84,500. In the nine month period ended September 30, 2015, the Company paid, in addition to the DSU plan, director's fees of $44,997.

## 10 CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to pursue other business opportunities and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The capital of the Company consists of share capital, warrants and options.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets.

The Company is dependent on the capital markets as its main source of operating capital and the Company's capital resources are largely determined by the strength of the junior public markets, by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. Other than the issuance and subsequent repayment of debt, there have been no changes to the Company's approach to capital management during the nine month period ended September 30, 2016.

(Expressed in Canadian Dollars)

## 11 RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2016 and 2015, the Company incurred the following amounts charged by officers and directors (being key management personnel) and companies controlled and/or owned by officers and directors of the Company in addition to the related parties transactions disclosed elsewhere in these financial statements:

| | Nine months ended September 30, 2016 | 2015 |
|---|---|---|
| Costs included in exploration and evaluation expenses | $ 6,063 | $ 110,625 |
| Directors' fees (dollar value before share price adjustment) | 84,500 | 139,613 |
| Management & consulting fees | 170,969 | 169,552 |
| Share-based compensation | 978,980 | 70,950 |
| | $ 1,240,512 | $ 490,740 |

At September 30, 2016, included in accounts payable and accrued liabilities is $139,543 (December 31, 2015 - $250,523) owed to directors, an officer, and a company owned by a former director and officer of the Company. These amounts are unsecured, non-interest bearing and are due on demand.

## 12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

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).

The Company’s financial instruments include cash, receivables, deposits, accounts payable and accrued liabilities and loan and interest payable.

*Financial instruments*

Cash and deposits are measured at fair value using level one as the basis for measurement in the fair value hierarchy. The carrying value of receivables, and payables and accrued liabilities, approximate fair value because of the short-term nature of these instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

The Company's credit risk is primarily attributable to cash and receivables. The Company has no significant concentration of credit risk arising from operations. Cash consists of bank balances and demand Guaranteed Investment Certificates at reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments also included receivables from government

## 12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

agencies. The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions.

*Liquidity risk*

The Company's ability to remain liquid over the long term depends on its ability to obtain additional financing through the issuance of additional securities, the entering into credit facilities or the entering into joint ventures, partnerships or other similar arrangements. The Company's ability to continue as a going concern is dependent upon its ability to continue to raise adequate financing in the future to meet its obligations and repay its liabilities arising from normal business operations when they come due. As at September 30, 2016, the Company had a cash balance of $2,875,016 to settle current liabilities of $508,634. The Company is exposed to future liquidity risk.

*Interest rate risk*

The Company has cash balances subject to fluctuations in the prime rate. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes that interest rate risk is remote as investments are redeemable at any time and interest can be earned up to the date of redemption.

*Price risk*

The Company is exposed to price risk with respect to commodity prices. The Company's future mining operations will be significantly affected by changes in the market prices for silver. Precious metal prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities, and stability of exchange rates can all cause significant fluctuations in commodity prices.