



DOLLY VARDEN SILVER CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Dolly Varden Silver Corporation

We have audited the accompanying financial statements of Dolly Varden Silver Corporation, which comprise the statements of financial position as at December 31, 2017 and 2016 and the statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Dolly Varden Silver Corporation as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 26, 2018



DOLLY VARDEN SILVER CORPORATION

Statements of Financial Position

(Expressed in Canadian Dollars)

	December 31, 2017	December 31, 2016
Current		
Cash	\$ 5,872,805	\$ 4,668,128
Prepaid expenses (Note 3)	75,655	252,632
Receivables (Note 4)	67,574	164,330
	6,016,034	5,085,090
Non-current		
Equipment (Note 5)	59,692	74,905
Deposits (Note 6)	91,000	91,000
Exploration and evaluation assets (Note 6)	3,626,426	3,524,092
	\$ 9,793,152	\$ 8,775,087
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7 and 11)	\$ 359,746	\$ 563,757
Non-current liabilities		
Liability on flow-through share issuance (Note 9)	228,741	277,778
	588,487	841,535
Shareholders' Equity		
Share capital (Note 9)	42,968,375	35,936,719
Reserves (Note 9)	5,850,433	5,340,511
Deficit	(39,614,143)	(33,343,678)
	9,204,665	7,933,552
	\$ 9,793,152	\$ 8,775,087

Nature of Operations and Going Concern – Note 1

Subsequent Events – Note 14

Approved on behalf of the Board on April 26, 2018:

“James Sabala”

Director

“Annette Cusworth”

Director

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

DOLLY VARDEN SILVER CORPORATION

Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Year ended December 31, 2017	Year ended December 31, 2016
EXPENSES		
Exploration and evaluation (Note 6)	\$ 4,964,563	\$ 1,631,724
Consulting fees (Note 11)	73,310	131,258
Directors' fees (Note 9, 11)	82,703	192,884
Exchange (gain)/loss	2,471	3,112
Management fees (Note 11)	391,049	16,000
Marketing and communications (Note 11)	271,775	214,656
Office and administration (Note 11)	238,841	40,819
Professional fees	79,398	769,586
Rent and maintenance	55,968	8,790
Salaries and benefits (Note 11)	140,986	428,924
Share-based compensation (Note 9)	559,578	1,393,157
Transfer agent and filing fees	25,342	19,222
Travel and accommodation	25,070	7,560
Operating loss	(6,911,054)	(4,857,692)
Finance and interest charges (Note 8)	-	(324,555)
Recovery on flow-through premium (Note 9)	613,743	171,429
Part XII.6 tax	(9,633)	-
Gain on sale of equipment	-	29,355
Interest income	36,479	13,511
Loss and comprehensive loss for the year	\$ (6,270,465)	\$ (4,967,952)
Basic and diluted loss per common share	\$ (0.16)	\$ (0.21)
Weighted average number of common shares outstanding	38,971,638	23,567,330

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

DOLLY VARDEN SILVER CORPORATION
Statement of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Common Shares	Share Capital	Reserves	Deficit	Total Shareholders' Equity
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	5,615,079	4,000,000	-	-	4,000,000
Issuance of common shares	9,897,111	6,151,834	-	-	6,151,834
Issuance of common shares as finders 'fee	558,606	346,336	-	-	346,336
Fair value assigned to finders' warrants	-	(349,750)	349,750	-	-
Issuance of warrants for cash	-	-	43,758	-	43,758
Flow-through premium	-	(449,207)	-	-	(449,207)
Share issuance costs	-	(687,220)	-	-	(687,220)
Exercise of stock options	125,000	77,500	-	-	77,500
Transfer from reserves on exercise of stock	-	48,740	(48,740)	-	-
Share-based compensation	-	-	1,393,157	-	1,393,157
Value assigned to lenders warrants	-	-	182,606	-	182,606
Loss and comprehensive loss for the year	-	-	-	(4,967,952)	(4,967,952)
Balance, December 31, 2016	34,464,759	35,936,719	5,340,511	(33,343,678)	7,933,552
Issuance of flow through common shares	4,705,881	3,999,999	-	-	3,999,999
Issuance of common shares	5,189,128	3,773,746	-	-	3,773,746
Flow-through premium	-	(564,706)	-	-	(564,706)
Share issuance costs	-	(475,164)	-	-	(475,164)
Exercise of warrants	625,000	240,625	-	-	240,625
Transfer from reserves on exercise of warrants	-	45,626	(45,626)	-	-
Exercise of stock options	25,000	7,500	-	-	7,500
Transfer from reserves on exercise of stock	-	4,030	(4,030)	-	-
Share-based compensation	-	-	559,578	-	559,578
Loss and comprehensive loss for the year	-	-	-	(6,270,465)	(6,270,465)
Balance, December 31, 2017	45,009,768	\$ 42,968,375	\$ 5,850,433	\$ (39,614,143)	\$ 9,204,665

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

DOLLY VARDEN SILVER CORPORATION**Statement of Cash Flows**

(Expressed in Canadian Dollars)

	Year ended December 31, 2017	Year ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (6,270,465)	\$ (4,967,952)
Items not affecting cash:		
Share-based compensation	559,578	1,393,157
Directors' fees	69,196	86,919
Finance charges	-	182,606
Gain on sale of equipment	-	(29,355)
Recovery on flow-through premium	(613,743)	(171,429)
Depreciation of equipment	15,213	19,290
Changes in non-cash working capital items:		
Decrease (increase) in receivables	96,756	(89,857)
Decrease (increase) in prepaid expenses	176,977	(208,386)
Increase (decrease) in accounts payable and accrued liabilities	(273,207)	(133,726)
Cash used in operating activities	(6,239,695)	(3,918,733)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets	(102,334)	(91,000)
Proceeds from disposal of equipment	-	52,000
Cash used in investing activities	(102,334)	(39,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	-	3,000,000
Repayment of loans	-	(4,500,000)
Repayment of accrued interest payable	-	(18,750)
Proceeds from issuance of common shares	7,773,745	10,229,334
Issuance of warrants for cash	-	43,758
Exercise of warrants	240,625	-
Exercise of options	7,500	-
Share issuance costs	(475,164)	(340,884)
Cash provided by financing activities	7,546,706	8,413,458
Increase in cash during the year	1,204,677	4,455,725
Cash, beginning of year	4,668,128	212,403
Cash, end of year	\$ 5,872,805	\$ 4,668,128
Supplemental disclosure with respect to cash flows:		
Interest received in cash	\$ 25,392	\$ 4,873
Interest paid in cash	-	116,599
Income taxes paid in cash	-	-
Non-cash transactions:		
Fair value of warrants exercised	\$ 45,626	\$ -
Fair value of finders warrants issued	-	349,750
Fair value of finders common shares issued	-	346,336
Fair value of stock options exercised	4,030	48,740
Premium liability on flow-through shares	564,706	449,207
Disposal of equipment in exchange for prepaid expenses	-	23,422

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

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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, and evaluation of exploration and evaluation assets. The Company is considered to be in the exploration and evaluation stage. The Company’s head office is suite 1130-1055 Hastings St. W., Vancouver, BC, V6E 2E9. The registered address and records office of the Company is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC, Canada, V6C 2X8

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 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 December 31, 2017, the Company had incurred accumulated losses of \$39,614,143 (December 31, 2016: accumulated loss of \$33,343,678) since inception and has a Working Capital Surplus of \$5,656,288 (December 31, 2016 - \$4,521,333). The Company believes its current working capital is sufficient to maintain its activities and operations for fiscal 2018. The Company will continue to have to raise funds beyond its current working capital balance in order to continue to advance the Dolly Varden Property.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with IAS 1 “Presentation of Financial Statements” (“IAS 1”) using accounting policies consistent with 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 April 26, 2018.

(b) Basis of Presentation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(d) Equipment

The Company records equipment on the cost method, whereby equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recorded over the useful lives of the assets on a declining balance basis at the following annual rates.

Dock	5%
Gas tank	10%
Boat	15%
Tents and trailers	30%
General equipment	20%
Vehicles	30%

An item of 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.

Where an item of equipment is composed of 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.

(e) Exploration and Evaluation Assets

Upon acquiring the legal right to explore a mineral property (exploration and evaluation assets), all direct costs related to the acquisition of a mineral property are capitalized. Exploration and evaluation and expenditures incurred prior to the determination of the feasibility of mining operations and the decision to proceed with development are recognized in profit or loss as incurred, net of recoveries. Costs incurred before the Company has obtained the legal rights to explore an area are charged to profit or loss. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within equipment. Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(f) Impairment of Non-Current Assets

Non-current assets are evaluated at least annually by management for indicators that the carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent that the carrying amount exceeds the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(f) Impairment of Non-Current Assets– (cont'd)

Additionally, the reviews consider factors such as political, social and legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and resources and expected future production revenues and expenses.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit (“CGU”) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

(g) Decommissioning liabilities

The Company recognizes a provision for statutory, contractual, constructive or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or evaluation of exploration and evaluation assets, and equipment. Provisions for site closure and decommissioning are recognized in the period in which the obligation is incurred or acquired and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability including risks specific to the countries in which the related operation is located.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in exploration and evaluation assets and equipment. These costs are depreciated using either the unit of production or straight line method depending on the asset to which the obligation relates.

The obligation is increased for the accretion and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flows, and changes in the discount. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in profit or loss.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and decommissioning costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and as new information concerning the Company’s closure and decommissioning liabilities becomes available.

(h) Use of estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. These and other estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(h) Use of estimates and judgments – (cont'd)

Significant accounting judgments

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

i) Recoverability of the carrying value of the Company's exploration and evaluation assets

Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of these properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

Critical accounting estimates

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities include, but are not limited to, the following:

i) Share-based compensation

The fair value of share-based payments is determined using a Black-Scholes Option pricing model. Such option pricing models require the input of subjective assumptions including the expected price volatility, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant.

ii) Estimating useful life of equipment

Depreciation of equipment is charged to write down the value of those assets to their residual value over their respective estimated useful lives. Management is required to assess the useful economic lives and residual values of the assets such that depreciation is charged on a systematic basis to the current carrying amount. The useful lives are estimated having regard to such factors as asset maintenance, rate of technical and commercial obsolescence, and asset usage. The useful lives of key assets are reviewed annually.

iii) Deferred income taxes

Judgement is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

iv) Accrual of BC Mineral Exploration Tax Credit ("BC METC")

The provincial government of BC provides for a refundable tax on net qualified mining exploration expenditures incurred in BC. The credit is calculated as 20% of qualified mining exploration expenses less the amount of any assistance received or receivable. Management has estimated and accrued the likely refundable amount arising from expenses incurred in the current year. The determination of the expenditures which would qualify as mining exploration expenses was based on the previous years' tax filings and subsequent reviews by government auditors.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(i) Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company’s cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company’s receivables are classified as loans and receivables and the Company’s deposits are classified as held to maturity. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. The Company has not classified any financial assets as available for sale for the years presented.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. The Company has not classified any financial liabilities as FVTPL for the years presented.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company’s accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

(j) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

Flow-through shares are a type of common share and are securities permitted by Canadian Income Tax Legislation whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to flow-through premium liability. The flow-through premium liability is included in profit or loss as the qualifying expenditures are made.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(k) Income taxes

Current income taxes

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is recognized as the temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(l) Foreign currency translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Revenue and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Foreign exchange gains and losses are included in profit or loss.

(m) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share amounts are calculated assuming that the proceeds received from the exercise of stock options and warrants would be used to repurchase shares at the prevailing market rate. When a loss is incurred during the period, this calculation is considered to be anti-dilutive.

(n) Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in profit or loss. The Company currently has incurred no comprehensive income or loss.

(o) Share-based compensation

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as share-based compensation expense offset by reserves. The fair value of share-based compensation is determined as using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in the reserves, are credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the equity instruments. Otherwise, share based compensation are measured at the fair value of goods or services received.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(o) Share-based compensation cont'd

The Company has granted its directors deferred share units (DSUs) in the past whereby each DSU entitles a director to receive, upon his or her retirement from the Company, the cash equivalent of the market value of number of DSUs they have accumulated during their directorship, where each DSU is equal to one common share of the Company. DSUs are earned in lieu of receiving cash for directors' fees and are calculated at the end of each quarter, based on the market value of the Company's common shares.

(p) Accounting standards, amendments and interpretations issued but not yet effective

The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these financial statements.

IFRS 9 – Financial Instruments: Classification and Measurement

This standard applies to classification and measurement of financial assets and liabilities as well as derecognition of financial instruments. IFRS 9 will replace IAS 39. The effective date of IFRS 9 is January 1, 2018.

The Company expects that this new IFRS standard will have an insignificant effect on its financial statements other than increased note disclosure.

IFRS 16 - Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases the new leases standard. The standard is effective for periods beginning on or after January 1, 2019.

The Company is in the process of assessing the impact that this new IFRS standard will have on its financial statements.

3 PREPAID EXPENSES

Prepaid expenses consist of:

	December 31, 2017		December 31, 2016	
Advances for exploration	\$	49,000	\$	45,582
Insurance		21,692		21,816
Management fees (Note 11)		-		40,000
Marketing and communications fees		-		130,733
Other		4,963		14,501
Total	\$	75,655	\$	252,632

4 RECEIVABLES

Receivables consist of:

	December 31, 2017		December 31, 2016	
GST and HST	\$	39,086	\$	144,318
BCMETC		-		11,374
Other		28,488		8,638
Total	\$	67,574	\$	164,330

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

5 EQUIPMENT

	Boat	Dock	Tents and Trailers	Equipment	Vehicles	Gas Tank	Total
Cost							
At December 31, 2015	\$ 43,095	\$ 15,571	\$ 138,521	\$ 51,879	\$ 129,136	\$ 40,000	\$ 418,202
Additions / (disposals)	(43,095)	-	-	(12,260)	(102,431)	-	(157,786)
At December 31, 2016	-	15,571	138,521	39,619	26,705	40,000	260,416
Additions / (disposals)	-	-	-	-	-	-	-
At December 31, 2017	\$ -	\$ 15,571	\$ 138,521	\$ 39,619	\$ 26,705	\$ 40,000	\$ 260,416
Accumulated Depreciation							
At December 31, 2015	\$ 22,287	\$ 3,205	\$ 107,646	\$ 27,041	\$ 102,693	\$ 15,068	\$ 277,940
Additions / (disposals)	(22,540)	-	-	(7,740)	(81,439)	-	(111,719)
Depreciation for the year	253	559	8,881	4,732	2,518	2,347	19,290
At December 31, 2016	-	3,764	116,527	24,033	23,772	17,415	185,511
Depreciation for the year	-	2,361	6,596	3,116	880	2,260	15,213
At December 31, 2017	\$ -	\$ 6,125	\$ 123,123	\$ 27,149	\$ 24,652	\$ 19,675	\$ 200,724
Net Book Value							
At December 31, 2016	\$ -	\$ 11,807	\$ 21,994	\$ 15,586	\$ 2,933	\$ 22,585	\$ 74,905
At December 31, 2017	\$ -	\$ 9,446	\$ 15,398	\$ 12,470	\$ 2,053	\$ 20,325	\$ 59,692

During the year ended December 31, 2016, the Company sold a vehicle and a small boat in exchange for the storage of certain equipment until December 2017 at a value of \$23,422, which was initially recorded to prepaid expenses.

6 EXPLORATION AND EVALUATION ASSETS

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 exploration and evaluation assets. 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 properties are in good standing.

Exploration and evaluation assets costs are set out below:

	Dolly Varden Property	Musketeer Property	Dolly Varden Project Total
Balance as of December 31, 2015	\$ 2,645,020	\$ 788,072	\$ 3,433,092
Additions	-	91,000	91,000
Balance as of December 31, 2016	2,645,020	879,072	3,524,092
Additions	-	102,334	102,334
Balance of December 31, 2017	\$ 2,645,020	\$ 981,406	\$ 3,626,426

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)*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. To date, \$2,645,020 of acquisition costs have been capitalized.

The Company has provided deposits totalling \$91,000 (December 31, 2016 - \$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. During fiscal 2017 a further option payment of \$102,334 was made. To date, \$981,406 of acquisition costs have been capitalized.

The final option payment of \$100,000, which was due on February 11, 2018 has been paid subsequent to the year ended December 31, 2017.

The following table summarizes the exploration and evaluation expenses incurred for the year ended December 31, 2017:

	Dolly Varden Property		Musketeer Property		Total
Assay	\$	355,196	\$	39,464	\$ 394,660
Camp, food, supplies and misc.		715,066		79,452	794,518
Claim maintenance		11,152		1,239	12,391
Data and sampling analysis		4,143		460	4,603
Depreciation		13,692		1,521	15,213
Drilling		1,929,752		214,417	2,144,169
Equipment and warehouse rental		270,419		30,047	300,466
Field project and management		124,583		13,843	138,426
Fuel		186,513		20,724	207,237
Geological and geoscience consulting		300,454		33,384	333,838
Geotechnical studies		79,982		8,887	88,869
Lease payments on land		21,600		2,400	24,000
Mapping and modelling		65,687		7,299	72,986
Project supervision		226,050		25,117	251,167
Road and drill pad preparation		141,284		15,698	156,982
Transport, travel and accommodation		63,409		7,045	70,454
Cost recovery: BCMETC		(40,874)		(4,542)	(45,416)
Total	\$	4,468,108	\$	496,455	\$ 4,964,563

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

The following table summarizes the exploration and evaluation expenses incurred for the year ended December 31, 2016:

	Dolly Varden Property	Musketeer Property	Total
Assay	\$ 74,407	\$ 8,268	\$ 82,675
Camp, food, supplies and misc.	241,460	26,829	268,289
Claim maintenance	6,693	744	7,437
Data and sampling analysis	4,540	505	5,045
Depreciation	17,361	1,929	19,290
Drilling	390,954	43,439	434,393
Equipment and warehouse rental	151,592	16,843	168,435
Field project and management	4,844	538	5,382
Fuel	94,578	10,509	105,087
Geological and geoscience consulting	122,733	13,637	136,370
Geotechnical studies	58,568	6,508	65,076
Lease payments on land	37,800	4,200	42,000
Mapping and modelling	46,566	5,174	51,740
Project supervision	2,066	229	2,295
Road and drill pad preparation	97,529	10,836	108,365
Transport, travel and accommodation	127,097	14,122	141,219
Cost recovery: BCMETC	(10,237)	(1,137)	(11,374)
Total	\$ 1,468,551	\$ 163,173	\$ 1,631,724

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	December 31, 2017	December 31, 2016
Trade payables (1, 2)	\$ 290,550	\$ 224,836
Other accrual (3,4)	69,196	338,921
Total	\$ 359,746	\$ 563,757

- (1) Includes \$Nil (December 31, 2016 - \$25,018) owed to directors and officers and a former officer.
- (2) Includes \$Nil (December 31, 2016 - \$158,141) payable to a company owned by a former director/ officer of the Company.
- (3) Includes \$69,196 (December 31, 2016 - \$111,358) accrued to independent directors for directors' fees outstanding as deferred share units, "DSU", described more fully in Note 9.
- (4) Includes \$Nil (December 31, 2016 - \$198,657) payable to two former officers and a former director/officer of the Company.

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 Sprott/K2 Loan was repaid in full in August 2016.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

8 LOAN FACILITIES (cont'd)

The Hecla/Gipson Loan bore interest at the rate of 5% per annum. The Sprott/K2 Loan bore interest at the rate of 4% per annum.

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. The Company also incurred transactions costs of \$164,868. 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 2,500,000 warrants valued at \$182,606. Each warrant entitles the holder to acquire one 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

Share Capital:

Authorized: Unlimited common shares without par value

During the year ended December 31, 2016, the Company completed the following financings:

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 common 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. ("Hecla") at \$0.43 per warrant. In connection with this private placement, 558,606 common shares with a fair value of \$346,336 and 541,205 common share purchase warrants at a value of \$232,718 were issued as a finder's fee. The common share purchase warrants are exercisable at \$0.70 for a period of two years. The Company recorded a flow-through premium liability of \$171,429 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

A private placement on December 19, 2016 raised gross proceeds of \$3,000,000 through the sale of 781,250 common shares at a price of \$0.64 per share and 3,472,222 flow-through shares at a price of \$0.72 per share. In connection with this private placement, 249,583 common share purchase warrants at a value of \$117,032 were issued as a finder's fee and are exercisable at \$0.72 per share for a period of two years. The Company recorded a flow-through premium liability \$277,778 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

During the year ended December 31, 2017, the Company completed the following financings:

A private placement on February 28, 2017 raised gross proceeds of \$2,000,000 through the sale of 1,369,863 common shares at a price of \$0.73 per share and 1,176,470 flow-through common shares at a price of \$0.85 per share. In connection with this private placement, the Company paid a finder's fee of \$120,000, equal to 6% of the gross proceeds in the offering and share issuance costs of \$17,895. The Company recorded a flow-through premium liability of \$141,177 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

A private placement on September 14, 2017 raised gross proceeds of \$5,729,999 through the sale of 3,739,726 common shares at a price of \$0.73 per share and 3,529,411 flow-through shares at a price of \$0.85 per common share. In connection with this private placement, the Company paid a finder's fee of \$299,388, equal to 6% of the gross proceeds in the offering and share issuance costs of \$37,881. The Company recorded a flow-through premium liability \$423,529 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares. In connection with the September 14, 2017 private placement Hecla exercised its pre-emptive right under the Ancillary Rights Agreement dated September 4, 2012 between the Company and Hecla to maintain its ownership interest in the Company. Of the 3,739,726 common shares issued at a price of \$0.73 per share, Hecla subscribed to 1,000,000 common shares

On September 29, 2017 Hecla exercised its pre-emptive right under the Ancillary Rights Agreement and subscribed for 79,539 shares at \$0.55 per common share for proceeds of \$43,746.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)**Warrants:**

At December 31, 2017, share purchase warrants were outstanding as follows:

Number of Warrants		Price	Date
1,875,000	\$	0.385	July 5, 2018
642,967	\$	0.70	July 27, 2018
2,500,000	\$	0.30	September 29, 2018
249,583	\$	0.72	December 19, 2018
5,267,550			

During the year ended December 31, 2016, the Company issued in connection with the Sprott/K2 Loan (Note 8), 2,500,000 warrants with a fair value of \$182,606. The 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 in July 2016 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, for the purchase of 101,762 warrants for cash at \$0.43 per warrant on the same date.

The fair value of the 249,583 warrants issued in December 2016 as part of the finder's fee were determined to have a fair value of \$117,032 or \$0.47 per warrant using the Black-Scholes option pricing model.

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

	Year ended December 31	
	2017	2016
Risk free interest rate	NA	0.54%
Expected dividend yield	NA	0%
Annualized stock price volatility	NA	206.35%
Expected life of warrants	NA	2 years
Expected forfeiture rate	NA	0%

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.

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

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)**Stock Options:- (cont'd)**

As at December 31, 2017, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of Options	Exercise		Expiry Date
		Price	
75,000	\$	1.60	July 16, 2018
100,000		1.60	July 26, 2018
150,000		0.80	August 12, 2018
40,000		1.60	June 16, 2019
15,000		0.70	December 5, 2019
75,000		0.30	December 5, 2019
450,000		0.75	December 5, 2019
50,000		0.70	December 14, 2019
50,000		0.75	December 14, 2019
190,000		0.30	October 23, 2020
500,000		0.75	July 29, 2021
650,000		0.65	December 2, 2021
1,085,000		0.59	May 18, 2022
3,430,000			

During the year ended December 31, 2017, the Company granted 1,085,000 (2016 - 2,000,000) stock options to directors, employees and consultants with a total fair value of \$531,996 (2016 - \$1,412,343) or \$0.49 (2016 - \$0.71) per option. During the year ended December 31, 2017, the Company recognized a total of \$559,578 (2016 - \$1,393,157) in share-based compensation for the options vested during the year.

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

	Year ended December 31	
	2017	2016
Risk free interest rate	0.92%	0.74%
Expected dividend yield	0%	0%
Annualized stock price volatility	122%	150%
Expected life of options	5 years	4.78 years
Expected forfeiture rate	0%	0%

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)**Stock options and warrants:**

Stock option and warrant transactions summarized as follows:

	Warrants		Stock Options	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, December 31, 2015	2,500,000	\$ 0.30	1,355,000	\$ 1.50
Granted	3,392,550	0.47	2,000,000	0.73
Exercised	-	-	(125,000)	0.62
Forfeited	-	-	(275,000)	2.44
Outstanding, December 31, 2016	5,892,550	0.40	2,955,000	0.93
Granted	-	-	1,085,000	0.59
Exercised	(625,000)	0.39	(25,000)	0.30
Forfeited	-	-	(585,000)	1.66
Outstanding, December 31, 2017	5,267,550	\$ 0.40	3,430,000	\$ 0.70
Exercisable, December 31, 2017	5,267,550	\$ 0.40	3,430,000	\$ 0.70

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. The Company has recognized a discharge of liability of \$45,366 during the year ended December 31, 2017 (2016- \$19,826) upon payment to a retired director, and an increase in the fair value liability of the remaining DSU Units of \$9,226 (2016 - increase of \$86,919) in directors’ fees as a result of the change in the Company’s common share price.

During year ended December 31, 2017, the Company paid, in addition to the DSU plan, directors’ fees of \$79,500 (2016 - \$105,965).

Flow-Through Premium Liability:

The following is a continuity of the liability portion of the flow-through share issuances:

Balance as of December 31, 2015	\$	-
Flow-through premium liability		449,207
Settlement of flow-through share premium liability pursuant to qualifying expenditures		(171,429)
Balance as of December 31, 2016		277,778
Flow-through premium liability additions		564,706
Settlement of flow-through share premium liability pursuant to qualifying expenditures		(613,743)
Balance as of December 31, 2017	\$	228,741

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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 year ended December 31, 2017.

11 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2017 and 2016, 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:

	Year ended December 31,	
	2017	2016
Directors' fees (dollar value before share price adjustment)	\$ 79,500	105,965
Management, consulting fees, salaries and benefits, and marketing	345,000	476,526
Share-based compensation	245,000	1,359,777
	\$ 669,500	\$ 1,942,268

Other related party transactions are as follows:

	Year ended December 31,	
	2017	2016
Administration fees *	\$ 314,395	\$ -
Costs included in exploration and evaluation assets **	95,500	6,063
	\$ 409,895	\$ 6,063

* Administration fees were paid to a management service company controlled by the chief executive officer and director of the Company that provides office space, a corporate secretary, investor relations, accounting and administration staff to the Company on a shared cost basis.

** Paid to a company and a management service company controlled by the chief executive officer and director of the Company.

At December 31, 2017, included in accounts payable and accrued liabilities is \$69,196 (December 31, 2016 - \$493,174) owed to directors, officers, and former directors and/or officers of the Company. These amounts are unsecured, non-interest bearing and are due on demand.

At December 31, 2017, included in prepaid expenses is \$4,963 paid to an officer of the Company (December 31, 2016 - \$40,000).

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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, and accounts payable and accrued liabilities.

Financial instruments

Cash is measured at fair value using level one as the basis for measurement in the fair value hierarchy. The carrying value of receivables, deposits, and accounts payable 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 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 December 31, 2017, the Company had a cash balance of \$5,872,805 to settle current liabilities of \$359,746.

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 daily 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.

DOLLY VARDEN SILVER CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

13 INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

For the year ended December 31,	2017	2016
Loss for the year	\$ (6,270,465)	\$ (4,967,952)
Expected income tax recovery	(1,630,000)	(1,292,000)
Change in statutory rates and other	(213,000)	28,000
Permanent difference	306,000	326,000
Impact of flow through share issuance	1,272,000	390,000
Share issuance costs	(124,000)	(179,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	68,000	-
Change in unrecognized deductible temporary differences	321,000	727,000
Total income tax expense (recovery)	\$ -	\$ -

The significant components of the Company's unrecorded deferred tax assets and liabilities are as follows:

For the year ended December 31,	2017	2016
Deferred tax assets		
Exploration and evaluation assets	\$ 3,004,000	\$ 2,903,000
Property and equipment	86,000	99,000
Share issuance costs	247,000	212,000
Non-capital losses available for future periods	2,761,000	2,563,000
	\$ 6,098,000	\$ 5,777,000
Unrecognized deferred tax assets	(6,098,000)	(5,777,000)
Net deferred tax assets	\$ -	\$ -

The Company's unrecognized deductible temporary differences, tax credits and tax losses are as follows:

As at December 31,	2017	2016
Temporary Differences		
Investment tax credit	\$ 711,000	\$ 711,000
Property and equipment	\$ 319,000	\$ 379,000
Exploration and evaluation assets	\$ 9,202,000	\$ 9,141,000
Share issuance costs	\$ 887,000	\$ 816,000
Non-capital losses available for future periods	\$ 10,228,000	\$ 9,858,000

14 SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2017 the Company:

Granted a total of 1,200,000 options at an exercise price of \$0.79 per option to employees, consultants, officers and directors. The options expire five years from the grant date and vest immediately.

Issued 965,000 common shares on the exercise of warrants for proceeds of \$371,525.

Issued 275,000 common shares on the exercise of options for proceeds of \$193,750.