



# **DOLLY VARDEN SILVER CORPORATION**

## **CONDENSED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

**UNAUDITED – Prepared by Management**  
**(Expressed in Canadian Dollars)**

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## **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 condensed 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 March 31, 2018 and 2017 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 month periods ended March 31, 2018 and 2017.

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

	March 31, 2018	December 31, 2017
<b>Current</b>		
Cash	\$ 5,818,375	\$ 5,872,805
Prepaid expenses (Note 3)	45,238	75,655
Receivables (Note 4)	17,541	67,574
	5,881,154	6,016,034
<b>Non-current</b>		
Equipment (Note 5)	57,134	59,692
Deposits (Note 6)	91,000	91,000
Exploration and evaluation assets (Note 6)	3,726,426	3,626,426
	\$ 9,755,714	\$ 9,793,152
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 7 and 10)	\$ 283,188	\$ 359,746
<b>Non-current liabilities</b>		
Liability on flow-through share issuance (Note 8)	217,238	228,741
	500,426	588,487
<b>Shareholders' Equity</b>		
Share capital (Note 8)	43,526,964	42,968,375
Reserves (Note 8)	6,493,620	5,850,433
Deficit	(40,765,296)	(39,614,143)
	9,255,288	9,204,665
	\$ 9,755,714	\$ 9,793,152

Nature of Operations and Going Concern – Note 1  
Subsequent Events – Note 12

Approved on behalf of the Board on May 24, 2018:

\_\_\_\_\_  
*“Jim Sabala”*  
Director

\_\_\_\_\_  
*“Annette Cusworth”*  
Director

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

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

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
<b>EXPENSES</b>		
Exploration and evaluation (Note 6)	\$ 114,910	\$ 101,456
Consulting fees (Note 10)	17,001	15,637
Directors' fees (Note 8, 10)	19,606	31,210
Management fees (Note 10)	86,000	75,000
Marketing and communications (Note 10)	65,492	61,257
Office and administration (Note 10)	56,464	71,237
Professional fees	11,858	30,828
Rent and maintenance	15,000	3,207
Salaries and benefits (Note 10)	-	81,642
Share-based compensation (Note 8)	768,000	11,284
Transfer agent and filing fees	9,444	7,953
Travel and accommodation	7,156	1,967
Operating loss	(1,170,931)	(492,678)
Recovery on flow-through premium (Note 8)	11,503	13,786
Part XII.6 tax	(2,591)	-
Interest income	10,866	11,044
<b>Loss and comprehensive loss for the period</b>	<b>\$ (1,151,153)</b>	<b>\$ (467,848)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.03)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>45,552,406</b>	<b>35,392,973</b>

(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
<b>Balance, December 31, 2016</b>	34,464,759	\$ 35,936,719	\$ 5,340,511	\$ (33,343,678)	\$ 7,933,552
Issuance of flow through common shares	1,176,470	1,000,000	-	-	1,000,000
Issuance of common shares	1,369,863	1,000,000	-	-	1,000,000
Flow-through premium	-	(141,176)	-	-	(141,176)
Share issuance costs	-	(131,900)	-	-	(131,900)
Exercise of stock options	25,000	11,530	(4,030)	-	7,500
Share-based compensation	-	-	11,284	-	11,284
Loss and comprehensive loss for the period	-	-	-	(467,848)	(467,848)
<b>Balance, March 31, 2017</b>	<b>37,036,092</b>	<b>\$ 37,675,173</b>	<b>\$ 5,347,765</b>	<b>\$ (33,811,526)</b>	<b>\$ 9,211,412</b>
Issuance of flow through common shares	3,529,411	2,999,999	-	-	2,999,999
Issuance of common shares	3,819,265	2,773,746	-	-	2,773,746
Flow-through premium	-	(423,530)	-	-	(423,530)
Share issuance costs	-	(343,264)	-	-	(343,264)
Exercise of warrants	625,000	240,625	-	-	240,625
Transfer from reserves on exercise of warrants	-	45,626	(45,626)	-	-
Exercise of stock options	-	(4,030)	4,030	-	-
Transfer from reserves on exercise of stock	-	4,030	(4,030)	-	-
Share-based compensation	-	-	548,294	-	548,294
Loss and comprehensive loss for the period	-	-	-	(5,802,617)	(5,802,617)
<b>Balance, December 31, 2017</b>	<b>45,009,768</b>	<b>\$ 42,968,375</b>	<b>\$ 5,850,433</b>	<b>\$ (39,614,143)</b>	<b>\$ 9,204,665</b>
Exercise of warrants	815,000	313,776	-	-	313,776
Transfer from reserves on exercise of warrants	-	59,495	(59,495)	-	-
Exercise of stock options	150,000	120,000	-	-	120,000
Transfer from reserves on exercise of stock	-	65,318	(65,318)	-	-
Share-based compensation	-	-	768,000	-	768,000
Loss and comprehensive loss for the period	-	-	-	(1,151,153)	(1,151,153)
<b>Balance, March 31, 2018</b>	<b>45,974,768</b>	<b>\$ 43,526,964</b>	<b>\$ 6,493,620</b>	<b>\$ (40,765,296)</b>	<b>\$ 9,255,288</b>

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

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

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

	For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,151,153)	\$ (467,848)
Items not affecting cash:		
Share-based compensation	768,000	11,284
Directors' fees	269	11,335
Recovery on flow-through premium	(11,503)	(13,786)
Depreciation of equipment	2,558	3,361
Changes in non-cash working capital items:		
Decrease in receivables	36,188	36,450
Decrease in prepaid expenses	44,262	77,747
Decrease in accounts payable and accrued liabilities	(76,827)	(216,221)
Cash used in operating activities	(388,206)	(557,678)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of exploration and evaluation assets	(100,000)	(102,334)
Cash used in investing activities	(100,000)	(102,334)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common shares	-	2,000,000
Exercise of warrants	313,776	-
Exercise of options	120,000	7,500
Share issuance costs	-	(131,900)
Cash provided by financing activities	433,776	1,875,600
<b>Change in cash during the period</b>	<b>(54,430)</b>	<b>1,215,588</b>
<b>Cash, beginning of period</b>	<b>5,872,805</b>	<b>4,668,128</b>
<b>Cash, end of period</b>	<b>\$ 5,818,375</b>	<b>\$ 5,883,716</b>
Non-cash transactions:		
Fair value of warrants exercised	\$ 59,495	\$ -
Fair value of stock options exercised	65,318	4,030
Premium liability on flow-through shares	-	141,176

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

## **DOLLY VARDEN SILVER CORPORATION**

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and 2017

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

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### **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 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 March 31, 2018, the Company had incurred accumulated losses of \$40,765,296 (December 31, 2017: accumulated loss of \$39,614,143) since inception and has a Working Capital Surplus of \$5,597,966 (December 31, 2017 - \$5,656,288). 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 condensed interim 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 May 24, 2018.

#### **(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.

#### **(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.

**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 not included in the financial instruments section are evaluated at least annually by management for indicators that the carrying value is impaired and may not be recoverable. The Company's non-current assets are equipment and exploration and evaluation assets. 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.



**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 condensed interim 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.

**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 period. 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.

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

**(i) Adoption of New Accounting Standards, Amendments and Interpretations**

Effective January 1, 2018, The Company adopted IFRS 9 – Financial Instruments retrospectively. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. Prior periods were not restated and there was no material impact to the Corporation's financial statements as a result of transitioning to IFRS 9.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies related to financial liabilities and financial assets. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

(i) Classification and measurement of financial assets and liabilities

Under IFRS 9, financial assets, on initial recognition, are recognized at fair value and subsequently classified and measured at: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). It eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The classification of financial assets depends on the purpose for which the financial assets were acquired. The Corporation's financial assets which consist primarily of cash, deposits, and receivables, are classified as amortized cost.

Cash has changed classification from FVTPL to amortized cost. The carrying value is equal to its fair value given the short-term nature of the asset, therefore, there is no change in the carrying value as a result of the change in classification.

Financial assets are classified as current assets or non-current assets based on their maturity date.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is substantially unchanged. The Corporation's financial liabilities which consist of accounts payable and accrued liabilities are classified as amortized cost.

(ii) Impairment of financial assets

An 'expected credit loss' (ECL) model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The ECL model requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the statement of income (loss) for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the statement of income (loss) to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The Corporation's financial assets measured at amortized cost are subject to the ECL model. The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company's financial assets given the receivables are substantially all due from the Government of Canada there is minimal level of default.

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

**(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.

**(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.

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Notes to the Condensed Interim Financial Statements  
For the three months ended March 31 2018 and 2017  
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**2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)**

**(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.

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 standard, and amendments to standard and interpretations, are not yet effective for the three month period ended March 31, 2018, and have not been applied in preparing these financial statements.

*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:

	March 31, 2018		December 31, 2017	
Advances for exploration	\$	36,593	\$	49,000
Insurance		8,645		21,692
Other		-		4,963
Total	\$	45,238	\$	75,655

**DOLLY VARDEN SILVER CORPORATION**  
Notes to the Condensed Interim Financial Statements  
For the three months ended March 31 2018 and 2017  
Unaudited – Prepared by Management  
(Expressed in Canadian Dollars)

**4 RECEIVABLES**

Receivables consist of:

	March 31, 2018		December 31, 2017	
GST and HST	\$	17,541	\$	39,086
Other		-		28,488
<b>Total</b>	<b>\$</b>	<b>17,541</b>	<b>\$</b>	<b>67,574</b>

**5 EQUIPMENT**

	Dock	Tents and Trailers	Equipment	Vehicles	Gas Tank	Total
<b>Cost</b>						
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
Additions / (disposals)	-	-	-	-	-	-
<b>At March 31, 2018</b>	<b>\$ 15,571</b>	<b>\$ 138,521</b>	<b>\$ 39,619</b>	<b>\$ 26,705</b>	<b>\$ 40,000</b>	<b>\$ 260,416</b>
<b>Accumulated Depreciation</b>						
At December 31, 2016	\$ 3,764	\$ 116,527	\$ 24,033	\$ 23,772	\$ 17,415	\$ 185,511
Depreciation for the period	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
Depreciation for the period	118	1,151	623	154	508	2,558
<b>At March 31, 2018</b>	<b>\$ 6,243</b>	<b>\$ 124,278</b>	<b>\$ 27,772</b>	<b>\$ 24,806</b>	<b>\$ 20,183</b>	<b>\$ 203,282</b>
<b>Net Book Value</b>						
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
<b>At March 31, 2018</b>	<b>\$ 9,328</b>	<b>\$ 14,243</b>	<b>\$ 11,847</b>	<b>\$ 1,899</b>	<b>\$ 19,817</b>	<b>\$ 57,134</b>

**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.

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

Exploration and evaluation assets costs are set out below:

	Dolly Varden Property		Musketeer Property		Dolly Varden Project Total
Balance as of December 31, 2016	\$	2,645,020	\$	879,072	\$ 3,524,092
Additions		-		102,334	102,334
Balance as of December 31, 2017		2,645,020		981,406	3,626,426
Additions		-		100,000	100,000
Balance of March 31, 2018	\$	2,645,020	\$	1,081,406	\$ 3,726,426

***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, 2017 - \$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. During the three months ended March 31, 2018 the final option payment of \$100,000 was made. To date, \$1,081,406 of acquisition costs have been capitalized.

The following table summarizes the exploration and evaluation expenses incurred for the period ended March 31, 2018:

	Dolly Varden Property		Musketeer Property		Total
Assay	\$	1,568	\$	174	\$ 1,742
Camp, food, supplies and misc.		4,294		477	4,771
Claim maintenance		944		105	1,049
Depreciation		2,303		256	2,559
Equipment and warehouse rental		8,798		978	9,776
Field project and management		3,122		346	3,468
Geological and geoscience consulting		5,766		641	6,407
Lease payments on land		5,400		600	6,000
Mapping and modelling		9,450		1,050	10,500
Project supervision		47,250		5,250	52,500
Transport, travel and accommodation		1,051		117	1,168
Community relations and professional fees		13,473		1,497	14,970
<b>Total</b>	\$	103,419	\$	11,491	\$ 114,910

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

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

	Dolly Varden Property		Musketeer Property		Total
Assay	\$	7,132	\$	792	\$ 7,924
Camp, food, supplies and misc.		106		12	118
Depreciation		3,025		336	3,361
Equipment and warehouse rental		1,286		143	1,429
Field project and management		6,423		714	7,137
Geological and geoscience consulting		6,780		753	7,533
Mapping and modelling		18,286		2,032	20,318
Project supervision		47,250		5,250	52,500
Transport, travel and accommodation		1,022		114	1,136
<b>Total</b>	\$	91,310	\$	10,146	\$ 101,456

**7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Consists of:

	March 31, 2018		December 31, 2017	
Trade payables	\$	214,261	\$	290,550
Other accrual (1)		68,927		69,196
<b>Total</b>	\$	283,188	\$	359,746

(1) Includes \$68,927 (December 31, 2017 - \$69,196) accrued to independent directors for directors' fees outstanding as deferred share units, "DSU", described more fully in Note 9.

**8 SHARE CAPITAL AND RESERVES**

**Share Capital:**

Authorized: Unlimited common shares without par value

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 \$141,176 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.



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**8 SHARE CAPITAL AND RESERVES (cont'd)**

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 \$423,530 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.

**Warrants:**

At March 31, 2018, share purchase warrants were outstanding as follows:

Number of Warrants		Price	Date
1,060,000	\$	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
4,452,550			

**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.

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**8 SHARE CAPITAL AND RESERVES (cont'd)**

**Stock Options: (cont'd)**

As at March 31, 2018, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of Options	Exercise Price	Expiry Date
75,000	\$ 1.60	July 16, 2018
100,000	1.60	July 26, 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
1,075,000	0.59	May 18, 2022
1,200,000	0.79	February 15, 2023
<b>4,470,000</b>		

During the three months ended March 31, 2018, the Company granted 1,200,000 (2017 - \$Nil) stock options to directors, employees and consultants with a total fair value of \$768,000 (2017 - \$Nil) or \$0.64 (2017 - \$Nil) per option. During the three months ended March 31, 2018, the Company recognized a total of \$768,000 (2017 - \$11,284) in share-based compensation for the options vested during the period.

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

	Three months ended March 31	
	2018	2017
Risk free interest rate	2.15%	0.52%
Expected dividend yield	0%	0%
Annualized stock price volatility	114%	199%
Expected life of options	5 years	4.78 years
Expected forfeiture rate	0%	0%

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**8 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, 2016	5,892,550	\$ 0.40	2,955,000	\$ 0.93
Granted	-	-	-	-
Exercised	-	-	(25,000)	0.30
Forfeited	-	-	(345,000)	2.16
Outstanding, March 31, 2017	5,892,550	0.40	2,585,000	0.77
Granted	-	-	1,085,000	0.59
Exercised	(625,000)	0.39	-	-
Forfeited	-	-	(240,000)	0.93
Outstanding, December 31, 2017	5,267,550	0.40	3,430,000	0.70
Granted	-	-	1,200,000	0.79
Exercised	(815,000)	0.39	(150,000)	0.80
Forfeited	-	-	(10,000)	0.59
Outstanding, March 31, 2018	4,452,550	\$ 0.40	4,470,000	\$ 0.72
Exercisable, March 31, 2018	4,452,550	\$ 0.40	4,470,000	\$ 0.72

**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 decrease in the fair value liability of the remaining DSU Units of \$269 (2017 - increase of \$11,335) in directors’ fees as a result of the change in the Company’s common share price.

During the three month period ended March 31, 2018, the Company paid, in addition to the DSU plan, directors’ fees of \$19,875 (2017 - \$19,875).

**Flow-Through Premium Liability:**

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

Balance as of December 31, 2016	\$ 277,778
Flow-through premium liability	564,706
Settlement of flow-through share premium liability pursuant to qualifying expenditures	(613,743)
Balance as of December 31, 2017	228,741
Flow-through premium liability additions	-
Settlement of flow-through share premium liability pursuant to qualifying expenditures	(11,503)
Balance as of March 31, 2018	\$ 217,238

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**9 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 period ended March 31, 2018.

**10 RELATED PARTY TRANSACTIONS**

During the three months ended March 31, 2018 and 2017, 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:

	Three months ended March 31,	
	2018	2017
Directors' fees (dollar value before share price adjustment)	\$ 19,875	19,875
Management, consulting fees, salaries and benefits, and marketing	65,000	75,000
Share-based compensation	336,000	-
	\$ 420,875	\$ 94,875

Other related party transactions are as follows:

	Three months ended March 31,	
	2018	2017
Administration fees *	\$ 111,911	\$ 54,933
Costs included in exploration and evaluation assets **	10,500	-
Share-based compensation	112,000	-
	\$ 234,411	\$ 54,933

\* 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 CFO, 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 March 31, 2018, included in accounts payable and accrued liabilities is \$Nil (December 31, 2017 - \$69,196) 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 March 31, 2018, included in prepaid expenses is \$Nil paid to an officer of the Company (December 31, 2017 - \$4,963).

## 11 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 March 31, 2018, the Company had a cash balance of \$5,818,375 to settle current liabilities of \$238,188.

### *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.

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**12            SUBSEQUENT EVENTS**

Subsequent to the period ended March 31, 2018 the Company:

Issued 200,000 common shares on the exercise of options for proceeds of \$96,250.

Issued 350,000 common shares on the exercise of warrants for proceeds of \$134,750.