



DOLLY VARDEN SILVER CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

UNAUDITED – Prepared by Management
(Expressed in Canadian Dollars)

TO THE SHAREHOLDERS OF DOLLY VARDEN SILVER CORPORATION

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the 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 September 30, 2019 and 2018 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 nine month periods ended September 30, 2019 and 2018.

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

	September 30, 2019	December 31, 2018
Current		
Cash	\$ 4,486,316	\$ 2,562,774
Prepaid expenses (Note 3)	173,079	108,472
Receivables (Note 4)	181,775	272,724
	4,841,170	2,943,970
Non-current		
Equipment (Note 5)	90,846	105,898
Deposits (Note 6)	91,000	91,000
Exploration and evaluation assets (Note 6)	3,726,426	3,726,426
	\$ 8,749,442	\$ 6,867,294
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7 and 10)	\$ 326,423	\$ 153,468
Liability on flow-through share issuance (Note 8)	311,689	155,169
	638,112	308,637
Shareholders' Equity		
Share capital (Note 8)	54,959,710	48,556,081
Reserves (Note 8)	6,090,097	5,998,267
Deficit	(52,938,477)	(47,995,691)
	8,111,330	6,558,657
	\$ 8,749,442	\$ 6,867,294

Nature of Operations and Going Concern – Note 1

Approved on behalf of the Board on November 21, 2019:

“James Sabala”
Director

“Thomas E Wharton “
Director

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

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

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
EXPENSES				
Exploration and evaluation (Note 6, 10)	\$ 3,071,145	\$ 4,835,293	\$ 4,574,390	\$ 6,609,135
Consulting fees (Note 10)	17,001	17,001	51,003	51,003
Directors' fees (Note 8, 10)	36,041	11,450	56,012	30,513
Management fees (Note 10)	70,596	70,947	212,642	227,894
Marketing and communications (Note 10)	60,568	31,227	137,709	110,037
Office and administration (Note 10)	45,227	35,319	129,602	120,654
Professional fees	11,487	12,255	42,493	48,630
Rent and maintenance	15,000	17,661	45,000	47,647
Share-based compensation (Note 8)	-	-	91,830	768,000
Transfer agent and filing fees	2,234	10,506	15,647	29,872
Travel and accommodation	2,645	13,225	12,602	29,219
Operating loss	(3,331,944)	(5,054,884)	(5,368,930)	(8,072,604)
Recovery on flow-through premium (Note 8)	222,581	388,748	397,766	535,165
Part XII.6 tax	-	-	(3,249)	(5,294)
Interest income	16,661	21,918	31,627	53,210
Loss and comprehensive loss for the period	\$ (3,092,702)	\$ (4,644,218)	\$ (4,942,786)	\$ (7,489,523)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.09)	\$ (0.08)	\$ (0.16)
Weighted average number of common shares outstanding	73,374,073	50,173,925	62,864,155	47,383,871

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

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

	Common Shares	Share Capital	Reserves	Deficit	Total Shareholders' Equity
Balance, December 31, 2017	45,009,768	\$ 42,968,375	\$ 5,850,433	\$ (39,614,143)	\$ 9,204,665
Issuance of flow through common shares	7,637,636	4,200,700	-	-	4,200,700
Share issuance costs	-	(286,784)	-	-	(286,784)
Flow-through share premium	-	(656,511)	-	-	(656,511)
Exercise of warrants	4,375,000	1,471,875	-	-	1,471,875
Transfer from reserves on exercise of warrants	-	448,581	(448,581)	-	-
Exercise of stock options	350,000	216,250	-	-	216,250
Transfer from reserves on exercise of stock options	-	130,301	(130,301)	-	-
Share-based compensation	-	-	768,000	-	768,000
Loss and comprehensive loss for the period	-	-	-	(7,489,523)	(7,489,523)
Balance, September 30, 2018	57,372,404	\$ 48,492,787	6,039,551	(47,103,666)	7,428,672
Flow-through share premium	-	22,010	-	-	22,010
Transfer from reserves on exercise of stock options	-	41,284	(41,284)	-	-
Loss and comprehensive loss for the period	-	-	-	(892,025)	(892,025)
Balance, December 31, 2018	57,372,404	\$ 48,556,081	5,998,267	(47,995,691)	6,558,657
Issuance of flow-through common shares	17,714,286	5,000,000	-	-	5,000,000
Issuance of common shares	6,948,026	2,014,273	-	-	2,014,273
Share issuance costs - cash	-	(56,358)	-	-	(56,358)
Share issuance costs - shares	1,429,333	464,769	-	-	464,769
Share issuance costs – shares	-	(464,769)	-	-	(464,769)
Flow-through share premium	-	(554,286)	-	-	(554,286)
Share-based compensation on option revaluation	-	-	91,830	-	91,830
Loss and comprehensive loss for the period	-	-	-	(4,942,786)	(4,942,786)
Balance, September 30, 2019	83,464,049	\$ 54,959,710	\$ 6,090,097	\$ (52,938,477)	\$ 8,111,330

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

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

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (4,942,786)	\$ (7,489,523)
Items not affecting cash:		
Share-based compensation	91,830	768,000
Directors' fees	(3,613)	(29,112)
Recovery on flow-through premium	(397,766)	(535,165)
Depreciation of equipment	15,052	11,449
Changes in non-cash working capital items:		
Receivables	90,949	(183,295)
Prepaid expenses	(64,607)	(115,360)
Accounts payable and accrued liabilities	176,568	760,574
Cash used in operating activities	(5,034,373)	(6,812,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	-	(64,206)
Acquisition of exploration and evaluation assets	-	(100,000)
Cash used in investing activities	-	(164,206)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	7,014,273	4,200,700
Exercise of warrants	-	1,471,875
Exercise of options	-	216,250
Share issuance costs	(56,358)	(286,784)
Cash provided by financing activities	6,957,915	5,602,041
Change in cash during the period	1,923,542	(1,374,597)
Cash, beginning of period	2,562,774	5,872,805
Cash, end of period	\$ 4,486,316	\$ 4,498,208
Supplemental disclosure with respect to cash flows:		
Interest income received in cash	\$ 30,701	\$ 51,453
Non-cash transactions:		
Fair value of finders' shares	\$ 464,769	-
Premium liability on flow-through shares	554,286	656,511
Fair value of warrants exercised	-	448,581
Fair value of stock options exercised	-	130,301

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

DOLLY VARDEN SILVER CORPORATION
Notes to the Condensed Interim Financial Statements
For the nine months ended September 30, 2019 and 2018
Unaudited – Prepared by Management
(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 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 condensed interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At September 30, 2019, the Company had incurred accumulated losses of \$52,938,477 (December 31, 2018 - accumulated losses of \$47,995,691) and incurred a loss of \$4,942,786 (2018 - \$7,489,523) and has a working capital surplus of \$4,203,058 (December 31, 2018 - \$2,635,333). 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. While the Company has been successful in obtaining certain funding in 2018, there is no assurance that such future financing will be available or be available on favourable terms. These material uncertainties may cast significant doubt as to the Company’s ability to continue as a going concern.

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 condensed interim financial statements were approved by the board of directors of the Company on November 21, 2019.

(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 using 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 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-Financial Assets

Non-financial assets are evaluated at least annually by management for indicators that the carrying value is impaired and may not be recoverable. The Company's non-financial 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-Financial 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 rate. 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) Financial Instruments

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 Company's financial statements as a result of transitioning to IFRS 9.

The adoption of IFRS 9 has not had a significant effect on the Company'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 Company's financial assets which consist of deposits, and receivables, are classified as amortized cost. Cash is classified as FVTPL.

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

The Company'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 profit or 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 loss and comprehensive 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 Company's financial assets measured at amortized cost are subject to the ECL model.

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 incurred.

(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.

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 using the Black-Scholes option pricing model. 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) Comparatives

Certain comparatives have been reclassified to conform to the current period’s presentation.

(q) Leases

The Company has adopted the requirements of IFRS 16 Leases (“IFRS 16”) as of January 1, 2019. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for leases. The details of the new accounting policy are described below.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and it has the right to direct the use of the asset.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, and amounts expected to be payable at the end of the lease term.

The application of IFRS 16 did not have any impact on the amount recognized in the condensed interim financial statements. The Company has elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less. The lease payments associated with these leases are charged directly to income on a straight-line basis over the lease term.

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For the nine months ended September 30, 2019 and 2018
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(Expressed in Canadian Dollars)

3 PREPAID EXPENSES

Prepaid expenses consist of:

	September 30, 2019		December 31, 2018	
Advances for exploration expenditures	\$	43,115	\$	72,880
Insurance		129,964		35,592
Total	\$	173,079	\$	108,472

4 RECEIVABLES

Receivables consist of:

	September 30, 2019		December 31, 2018	
GST and HST	\$	133,853	\$	270,351
Other		47,922		2,373
Total	\$	181,775	\$	272,724

5 EQUIPMENT

	Dock	Tents and Trailers	Equipment	Vehicles	Gas Tank	Boat	Total
Cost							
At December 31, 2017	\$ 15,571	\$ 138,521	\$ 39,619	\$ 26,705	\$ 40,000	\$ -	\$ 260,416
Additions / (disposals)	-	-	18,890	20,971	-	24,345	64,206
At December 31, 2018	15,571	138,521	58,509	47,676	40,000	24,345	324,622
Additions / (disposals)	-	-	-	-	-	-	-
At September 30, 2019	\$ 15,571	\$ 138,521	\$ 58,509	\$ 47,676	\$ 40,000	\$ 24,345	\$ 324,622
Accumulated Depreciation							
At December 31, 2017	\$ 6,125	\$ 123,123	\$ 27,149	\$ 24,652	\$ 19,675	\$ -	\$ 200,724
Depreciation for the period	472	4,619	4,440	4,618	2,034	1,817	18,000
At December 31, 2018	6,597	127,742	31,589	29,270	21,709	1,817	218,724
Depreciation for the period	337	2,425	4,038	4,141	1,372	2,739	15,052
At September 30, 2019	\$ 6,934	\$ 130,167	\$ 35,627	\$ 33,411	\$ 23,081	\$ 4,556	\$ 233,776
Net Book Value							
At December 31, 2018	\$ 8,974	\$ 10,779	\$ 26,920	\$ 18,406	\$ 18,291	\$ 22,528	\$ 105,898
At September 30, 2019	\$ 8,637	\$ 8,354	\$ 22,882	\$ 14,265	\$ 16,919	\$ 19,789	\$ 90,846

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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, 2017	\$ 2,645,020	\$ 981,406	\$ 3,626,426
Additions	-	100,000	100,000
Balance as of December 31, 2018	2,645,020	1,081,406	3,726,426
Additions	-	-	-
Balance as of September 30, 2019	\$ 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, 2018 - \$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 year ended December 31, 2018 the final option payment of \$100,000 was made. To date, \$1,081,406 of acquisition costs have been capitalized. The Company now refers to the Musketeer Property as part of the Dolly Varden Property as the final option payment was paid during the year ended December 31, 2018.

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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 September 30, 2019:

	Dolly Varden Property
Assay	\$ 249,459
Camp, food, supplies and misc.	916,810
Claim maintenance	8,299
Depreciation	15,052
Drilling	1,971,340
Equipment and warehouse rental	233,353
Fuel	228,685
Geological and geoscience consulting	462,507
Lease payments on land	18,000
Mapping and modelling	31,500
Project supervision	225,000
Resource and metallurgy	104,564
Road and drill pad preparation	61,154
Transport, travel and accommodation	26,807
Community relations and professional fees	21,860
Total	\$ 4,574,390

The following table summarizes the exploration and evaluation expenses incurred for the period ended September 30, 2018:

	Dolly Varden Property	Musketeer Property	Total
Assay	\$ 171,138	\$ 19,015	\$ 190,153
Camp, food, supplies and misc.	955,840	106,205	1,062,045
Claim maintenance	23,849	2,650	26,499
Depreciation	10,304	1,145	11,449
Drilling	3,386,670	376,297	3,762,967
Equipment and warehouse rental	194,381	21,598	215,979
Field project and management	92,606	10,290	102,896
Fuel	274,714	30,524	305,238
Geological and geoscience consulting	439,004	48,778	487,782
Lease payments on land	16,200	1,800	18,000
Mapping and modelling	28,350	3,150	31,500
Project supervision	175,590	19,510	195,100
Road and drill pad preparation	85,628	9,514	95,142
Transport, travel and accommodation	51,918	5,769	57,687
Community relations and professional fees	42,028	4,670	46,698
Total	\$ 5,948,220	\$ 660,915	\$ 6,609,135

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7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	September 30, 2019		December 31, 2018	
Trade payables and accrued liabilities	\$	287,349	\$	110,782
Other accrual (1)		39,074		42,686
Total	\$	326,423	\$	153,468

(1) Includes \$39,074 (December 31, 2018 - \$42,686) accrued to independent directors for directors' fees outstanding as deferred share units, "DSU", described more fully in Note 10.

8 SHARE CAPITAL AND RESERVES

Share Capital:

Authorized: Unlimited common shares without par value

During the year ended December 31, 2018 the Company issued 4,375,000 common shares on the exercise of warrants for proceeds of \$1,471,875 and issued 350,000 common shares on exercise of options for proceeds of \$216,250.

On August 24, 2018 the Company closed the first tranche of its private placement and raised gross proceeds of \$3,700,200 through the sale of 6,727,636 flow-through shares at a price of \$0.55 per share. On September 28, 2018 the Company closed the final tranche of its private placement financing to raise gross proceeds of \$500,500 through the sale of 910,000 flow-through shares at a price of \$0.55 per common share. Total gross proceeds raised in both the first and final tranche was \$4,200,700 from the sale of 7,637,636 flow-through shares at \$0.55 per share. A finders' fee of 6% of the gross proceeds, totalling \$252,042, which included \$226,302 paid to Eventus Capital Corp., \$23,925 paid to PI Financial Corp. and \$1,815 paid to Industrial Alliance Securities Inc. The Company recorded a flow-through premium liability of \$634,501 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

On June 28, 2019 the Company closed its private placement and raised gross proceeds of \$3,140,270 through the sale of 12,000,000 flow-shares shares at a price of \$0.25 per share and 701,351 common shares at \$0.20 per share. The sale of common shares was to Hecla Canada Ltd. pursuant to the ancillary rights agreement to maintain its pro-rata equity interest in the Company. A finders' fee was paid to Eventus Capital Corp. who received 846,000 common shares with a fair value of \$228,420, Sprott Capital Partners LP received \$9,000 and Industrial Alliance Securities Inc. received \$900. The Company recorded a flow-through premium liability of \$240,000 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

On September 12, 2019 the Company closed its private placement and raised gross proceeds of \$3,500,000 from the sale of 5,714,286 flow-through shares at \$0.35 per share and 5,000,000 common shares at \$0.30 per share. Pursuant to the ancillary rights agreement between the Company and Hecla, Hecla purchased 1,246,675 common shares at a price of \$0.30 per share in order to maintain its pro-rata equity interest in the Company. A finders' fee was paid to Mackie Research Capital Corp. who received 583,333 common shares with a fair value of \$236,349. The Company recorded a flow-through premium liability of \$314,286 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

Warrants:

At September 30, 2019, there were no share purchase warrants outstanding.

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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.

As at September 30, 2019, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of Options	Exercise Price	Expiry Date
15,000	0.70	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	0.40	July 29, 2021
650,000	0.40	December 2, 2021
925,000	0.40	May 18, 2022
1,175,000	0.40	February 15, 2023
4,005,000		

During the nine months ended September 30, 2019, the Company granted Nil (2018 - 1,200,000) stock options to directors, employees and consultants with a total fair value of \$Nil (2018 - \$768,000) or \$Nil (2018 - \$0.64) per option. During the nine month period ended September 30, 2019, the Company recognized a total of \$Nil (2018 - \$768,000) in share-based compensation for the options vested during the period.

During period ended September 30, 2019, 3,250,000 options were re-priced to an exercise price of \$0.40 per option. The Company recognised share-based compensation of \$91,830 as a result of the re-pricing (2018 - \$Nil).

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

	Nine months ended September 30	
	2019	2018
Risk free interest rate	1.47%	2.15%
Expected dividend yield	0%	0%
Annualized stock price volatility	85%	114%
Expected life of options	3 years	5 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, 2017	5,267,550	\$ 0.40	3,430,000	\$ 0.70
Granted	-	-	1,200,000	0.79
Exercised	(4,375,000)	0.34	(350,000)	0.55
Forfeited	(642,967)	0.70	(185,000)	1.55
Outstanding, September 30, 2018	249,583	0.72	4,095,000	0.70
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited / expired	(249,583)	0.72	(25,000)	0.70
Outstanding, December 31, 2018	-	\$ -	4,070,000	\$ 0.70
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited / expired	-	-	(65,000)	1.28
Outstanding, September 30, 2019	-	\$ -	4,005,000	\$ 0.44
Exercisable, September 30, 2019	-	\$ -	4,005,000	\$ 0.44

Deferred share units (“DSU”):

The Company has a DSU plan which entitles certain directors and officers 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 \$3,613 (2018 – decrease of \$20,687) in directors’ fees as a result of the change in the Company’s common share price.

During the nine month period ended September 30, 2019, the Company paid, in addition to the DSU plan, directors’ fees of \$59,625 (2018 - \$ 59,625).

Flow-Through Premium Liability:

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

Balance as of December 31, 2017	\$ 228,741
Flow-through premium liability additions	634,501
Settlement of flow-through share premium liability pursuant to qualifying expenditures	(708,073)
Balance as of December 31, 2018	155,169
Flow-through premium liability additions	554,286
Settlement of flow-through share premium liability pursuant to qualifying expenditures	(397,766)
Balance as of September 30, 2019	\$ 311,689

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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 items within shareholders' equity.

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. There have been no changes to the Company's approach to capital management during the period ended September 30, 2019.

10 RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2019 and 2018, the Company incurred the following amounts charged by officers and directors (being key management personnel) and companies controlled and/or owned by officers and directors of the Company in addition to the related parties transactions disclosed elsewhere in these financial statements:

	Nine months ended September 30,	
	2019	2018
Directors' fees (dollar value before share price adjustment)	\$ 59,625	\$ 59,625
Management fees	180,000	185,000
Share-based compensation	55,642	336,000
	\$ 295,267	\$ 580,625

Other related party transactions are as follows:

	Nine months ended September 30,	
	2019	2018
Management fees *	32,642	32,894
Marketing and communications *	70,152	68,767
Office and administration *	73,338	87,195
Rent and maintenance *	45,000	45,000
Costs included in exploration and evaluation expense**	64,000	31,500
Share-based compensation	10,006	112,000
	\$ 295,138	\$ 377,356

* 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 September 30, 2019, included in accounts payable and accrued liabilities is \$138 (December 31, 2018 - \$76,585) 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.

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 September 30, 2019, the Company had a cash balance of \$4,486,316 to settle current liabilities of \$326,423, excluding the liability on flow-through share issuance.

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.