DOLLY VARDEN
SILVER CORPORATION

DOLLY VARDEN SILVER CORPORATION

(Formerly Dolly Varden Silver Ltd.)

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2013 AND 2012

(Unaudited – Prepared by Management)

TO THE SHAREHOLDERS OF DOLLY VARDEN SILVER CORPORATION.

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

The accompanying unaudited condensed interim financial statements of the Company at March 31, 2013 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 auditors, Davidson & Company LLP, has not performed a review of these condensed interim financial statements for the three month period ended March 31, 2013.

DOLLY VARDEN SILVER CORPORATION
Condensed Interim Statement of Financial Position
(Unaudited - Expressed in Canadian Dollars)

		March 31, 2013		December 31, 2012
Assets				
Current				
Cash	$	1,583,348	$	1,270,135
Prepaid expenses (Note 3)		4,472		17,399
Receivables (Note 4)		433,183		349,073
		2,021,003		1,636,607
Non-Current				
Deposits (Note 6)		50,000		50,000
Exploration and evaluation advances (Note 6)		143,859		141,033
Equipment (Note 5)		252,425		267,999
Exploration and evaluation assets (Note 6)		12,099,945		11,314,347
	$	14,567,232	$	13,409,986
Liabilities and shareholders' equity				
Current				
Accounts payable & accrued liabilities (Note 7)	$	661,746	$	1,145,293
		661,746		1,145,293
Shareholders' equity				
Share Capital (Note 8)		18,691,806		16,710,441
Reserves		2,029,033		2,021,630
Deficit		(6,815,353)		(6,467,378)
		13,905,486		12,264,693
	$	14,567,232	$	13,409,986

Nature of Operations and Going Concern - Note 1
Subsequent events - Note 13

APPROVED ON BEHALF OF THE BOARD:

"Ron F. Nichols"	*"John King Burns"*
DIRECTOR	DIRECTOR

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

DOLLY VARDEN SILVER CORPORATION
Condensed Interim Statement of Loss and Comprehensive Loss
(Unaudited - Expressed in Canadian Dollars)

	Three months ended March 31, 2013		2012
Expenses			
Adminstrative fees	$	1,708	$ 2,803
Consulting fees		-	22,000
Directors' fees (Note 7)		30,500	-
Management fees		65,500	61,000
Marketing and communications		83,613	84,931
Office		12,396	41,937
Professional fees		15,425	125,766
Rent and maintenance		15,355	22,190
Salaries and benefits		35,187	43,676
Share-based compensation		20,160	1,425,376
Transfer agent and filing fees		8,979	82,924
Travel & Accomodation		62,070	32,428
Cost of public listing (Note 9)		-	1,854,417
Exchange loss (gain)		(1,147)	4,444
Operating loss		(349,746)	(3,803,892)
Interest income		1,771	-
Other - flow-through premium		-	18,000
Total loss and comprehensive loss for period	$	(347,975)	$ (3,785,892)
Loss per common share, basic and diluted	$	(0.00)	$ (0.05)
Weighted average number of common shares outstanding		107,479,793	70,187,397

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

	Share Capital		Share subscriptions	Share subscriptions			
	Number	Amount	received	receivable	Reserves	Deficit	Total
Balance - December 31, 2011	**74,615,000**	**$ 11,597,366**	**$ -**	**$ (110,500)**	**$ 33,204**	**$ (1,658,796)**	**$ 9,861,274**
Fair value assigned to the shares on reverse takeover transaction	5,650,000	1,412,500	-	-	-	-	1,412,500
Fair value assigned to the stock options and warrants on reverse takeover transaction	-	-	-	-	515,118	-	515,118
Exercise of stock options	25,000	3,750	-	-	-	-	3,750
Fair value assigned to exercised stock options	-	2,500	-	-	(2,500)	-	-
Share subscriptions received	-	-	-	110,500	-	-	110,500
Share-based compensation	-	-	-	-	1,425,376	-	1,425,376
Total loss and comprehensive loss for the period	-	-	-	-	-	(3,785,892)	(3,785,892)
Balance - March 31, 2012	**80,290,000**	**$ 13,016,116**	**$ -**	**$ -**	**$ 1,971,198**	**$ (5,444,688)**	**$ 9,542,626**
Issuance of common shares for cash	20,000,000	3,200,000	-	-	-	-	3,200,000
Issuance of flow through common shares for cash	2,660,000	532,000	-	-	-	-	532,000
Share issuance costs	-	(106,369)	-	-	-	-	(106,369)
Exercise of warrants	377,500	56,625	-	-	-	-	56,625
Fair value assigned to exercised warrants	-	37,750	-	-	(37,750)	-	-
Fair value assigned to finders warrants	-	(25,681)	-	-	25,681	-	-
Share-based compensation	-	-	-	-	62,501	-	62,501
Total loss and comprehensive loss for the period	-	-	-	-	-	(1,022,690)	(1,022,690)
Balance - December 31, 2012	**103,327,500**	**$ 16,710,441**	**$ -**	**$ -**	**$ 2,021,630**	**$ (6,467,378)**	**$ 12,264,693**
Issuance of flow-through common shares for cash	687,508	137,501	-	-	-	-	137,501
Issuance of common shares for cash	10,785,711	1,931,914	-	-	-	-	1,931,914
Share issuance costs	-	(330,682)	-	-	-	-	(330,682)
Exercise of warrants	1,532,500	229,875	-	-	-	-	229,875
Fair value assigned to exercised warrants	-	153,250	-	-	(153,250)	-	-
Fair value assigned to finders' warrants	-	(140,493)	-	-	140,493	-	-
Share-based compensation	-	-	-	-	20,160	-	20,160
Total comprehensive loss for the period	-	-	-	-	-	(347,975)	(347,975)
Balance - March 31, 2013	**116,333,219**	**$ 18,691,806**	**-**	**$ -**	**$ 2,029,033**	**$ (6,815,353)**	**$ 13,905,486**

DOLLY VARDEN SILVER CORPORATION
Condensed Interim Statement of Cash Flows
(An Exploration Stage Company)
(Unaudited - Expressed in Canadian Dollars)

Cash flows from operating activities				
Loss for the period	$	(347,975)	$	(3,785,892)
Items not affecting cash				
Cost of public listing		-		1,854,417
Other income		-		(18,000)
Share-based compensation		20,160		1,425,376
Changes in non-cash working capital items				
(Increase) decrease in receivables		(84,110)		597,473
Decrease in prepaid expenses		12,927		55,926
Increase (decrease) accounts payable & accrued liabilities		25,701		(213,219)
Net cash used in operating activities		(373,297)		(83,919)
Cash flows from investing activities				
Exploration and evaluation assets		(1,279,272)		(348,697)
Exploration and evaluation advances		(2,826)		-
Cash acquired in reverse takeover transaction		-		71,207
Net cash used in investing activities		(1,282,098)		(277,490)
Cash flows from financing activities				
Issuance of common shares for cash		2,299,290		3,750
Share issuance costs		(330,682)		-
Share subscriptions received		-		110,500
Net cash provided by financing activities		1,968,608		114,250
Net change in cash for the period		313,213		(247,159)
Cash, beginning of the period		1,270,135		2,183,734
Cash, end of the period	$	1,583,348	$	1,936,575
Supplemental disclosure with respect to cash flows:				
Interest received in cash		1,771		-
Interest paid in cash		-		-
Income taxes paid in cash		-		-
Non-cash transactions:				
Reverse takeover transaction with Twin Glacier (Note 9)		-		1,854,417
Accrual of exploration and evaluation assets expenditures		527,401		89,565
Property acquisition upon consolidation		-		46,801
Depreciation included in exploration and evaluation asset		15,574		18,876
Fair value of warrants exercised		153,250		-
Fair value of finders warrants issued		140,493		2,500

1 NATURE OF OPERATIONS AND GOING CONCERN

On January 30, 2012, an amalgamation with Twin Glacier Resources Ltd. ("Twin") and Dolly Varden Silver Ltd. ("Dolly") by way of a reverse takeover ("RTO") (Note 9) became Dolly Varden Silver Corporation (the "Company"). The Company was incorporated under the Canada Business Corporation Act in the Province of British Columbia on March 4, 2011. The Company's primary business is the acquisition, exploration, evaluation and development of exploration and evaluation assets and it is considered to be in the exploration and evaluation stage. The Company's registered head office is suite 910 – 355 Burrard Street, Vancouver, BC V6C 2G8.

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 cause of business for the foreseeable future. Realization values may be substantially different from carrying values as shown and these financial statements and 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. Management estimates that the Company will have sufficient working capital to continue operations for the upcoming year based on subsequent financing (Note 13) and additional financing.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 1 "Presentation of Financial Statements' ("IAS 1") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements were approved by the board of directors of the Company on May 29, 2013.

(b) Basis of presentation

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

The preparation of the condensed interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

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

The significant accounting policies for the periods are consistent with those disclosed in the audited annual financial statements of the Company for the year ended December 31, 2012 except as specified below. The accompanying unaudited condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2012.

(c) Accounting Standards, amendments and interpretations issued but not yet effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended March 31, 2013, and have not been applied in preparing these financial statements.

Effective for annual periods beginning on or after January 1, 2013
IFRS 7 – Financial Instruments: Disclosures applied to offsetting financial assets and financial liabilities in accordance with IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

IFRS 10 – Consolidation replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The amendments are effective for annual periods beginning on or after January 1, 2013.

IFRS 11 – Joint Arrangements requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas joint operations, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers. This amendment is effective for annual periods beginning on or after January 1, 2013. This policy is not expected to have an effect on the Company's reported financial position or results of operations.

IFRS 12 – Disclosure of Interest in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces additional disclosures addressing the nature of, and risks associated with, an entity's interests in other entities. This amendment is effective for annual periods beginning on or after January 1, 2013. This policy is not expected to have an effect on the Company's reported financial position or results of operations.

IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

Effective for annual periods beginning on or after January 1, 2015

IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The amendments are effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

The Company does not anticipate that the above items will have a significant impact on its financial statements.

(Unaudited - Expressed in Canadian Dollars)

3 PREPAID EXPENSES

Prepaid expenses consist of:

	March 31, 2013	December 31, 2012
Shareholder information	$ -	$ 9,604
Insurance	800	3,198
Other	3,672	4,597
	$ 4,472	$ 17,399

4 RECEIVABLES

Receivables consist of:

	March 31, 2013	December 31, 2012
HST (Note 13)	$ 343,253	$ 259,143
Other (Note 11)	89,930	89,930
	$ 433,183	$ 349,073

5 EQUIPMENT

	Boat	Dock	Tents & trailers	Equipment	Vehicles	Gas tank	Total
	$	$	$	$	$	$	$
Cost							
At December 31, 2012	43,095	15,571	132,617	31,082	129,136	40,000	391,501
Additions	-	-	-	-	-	-	-
At March 31, 2013	**43,095**	**15,571**	**132,617**	**31,082**	**129,136**	**40,000**	**391,501**
Accumulated depreciation							
At December 31, 2012	9,212	1,148	49,982	5,315	52,045	5,800	123,502
Depreciation for the period	1,270	181	6,198	1,288	5,782	855	15,574
At March 31, 2013	**10,482**	**1,329**	**56,180**	**6,603**	**57,827**	**6,655**	**139,076**
NET BOOK VALUE							
At December 31, 2012	**33,883**	**14,423**	**82,635**	**25,767**	**77,091**	**34,200**	**267,999**
At March 31, 2013	**32,613**	**14,242**	**76,437**	**24,479**	**71,309**	**33,345**	**252,425**

(Unaudited - Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS

Dolly Varden Property

During the fiscal 2011 period, 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 returns royalty ("NSR") of which one half (or 1% NSR) can be repurchased by the Company for $1,000,000. A company in which a director holds an indirectly 20% interest holds the 2% NSR and holds a License agreement for use of nearby property at a monthly cost of $2,500 through to June 30, 2014. Other directors no longer have any entitlement of interest in the Company that holds the 2% NSR and License agreement.

The Company has entered into a Master Services Agreement (the "MSA") on September 1, 2012 with a company controlled by a director for ongoing exploration including a range of geological and geoscience services and project management. The MSA includes an additional 4% overall fee on costs related to the project. Upon signing the MSA, an additional fee of $185,000 was paid.

The Company has provided a $50,000 deposit for the reclamation bond for the property.

Iskut Property

On January 30, 2012 the Company, as part of the amalgamation with Twin as disclosed in Note 9, acquired 100% ownership in the Iskut property in Northern BC.

Musketeer Property

On March 18, 2013, the Company entered into an option agreement to acquire 100% interest in the Musketeer property located in northwestern British Columbia, Canada for a purchase price of $1,050,000 payable over fours years, subject to a 2% NSR. The Company has the option to reduce the NSR by 1% by paying $1,750,000 to the royalty holders within 3 years of acquiring the Musketeer property.

The Company paid an aggregrate option payment of $350,000 on March 18, 2013 and the remainng option payments are due as follow:

February 14, 2014	$233,333
February 13, 2015	$233,333
February 12, 2016	$233,334

The following is a summary of acquisition costs and exploration expenditures in exploration and evaluation assets for the three months ended March 31, 2013:

(Unaudited - Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (Cont'd)

	Balance as at December 31, 2012	Dolly Varden Property	Iskut Property	Musketeer Property	Balance as at March 31, 2013
Acquisition Costs					
Finders' fees	$ 62,500	$ -	$ -	$ -	$ 62,500
Legal fees	82,520	-	-	8,567	91,087
Property acquisition	2,546,801	-	-	350,000	2,896,801
Total acquisition costs	$ 2,691,821	$ -	$ -	$ 358,567	$ 3,050,388
Exploration Costs					
Assay	$ 117,340	$ 25	$ -	$ -	$ 117,365
Camp, food, supplies & misc.	688,418	861	-	-	689,279
Claim maintenance	73,608	9,250	-	-	82,858
Data and sampling analysis	218,695	16,040	-	-	234,735
Depreciation	123,503	15,573	-	-	139,076
Drilling	815,229	-	-	-	815,229
Equipment, warehouse rental	451,845	22,472	-	-	474,317
Field labour and support	614,025	2,860	-	-	616,885
Field project and management	1,557,955	172,285	-	-	1,730,240
Fuel	271,364	-	-	-	271,364
Geological and geosciense consulting	1,026,536	81,533	-	-	1,108,069
Geotechnical studies	250,410	-	-	-	250,410
Mapping and modelling	370,635	93,487	-	-	464,122
Road and drill pad preparation	497,375	-	-	-	497,375
Site preparation	61,578	-	-	-	61,578
Survey and assessment	357,070	6,900	-	-	363,970
Transport, travel & accomodations	1,126,940	5,745	-	-	1,132,685
Total exploration costs	$ 8,622,526	$ 427,031	$ -	$ -	$ 9,049,557
Total Exploration and Evaluation Assets	$ 11,314,347	$ 427,031	$ -	$ 358,567	$ 12,099,945

At March 31, 2013, the Company has advanced $143,859 (December 31, 2012- $141,033) for upcoming exploration work to various suppliers.

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	March 31, 2013	December 31, 2012
Trade payables (1)	$ 67,720	$ 69,481
Accrual of exploration and evaluation asset expenditures (2)	527,401	1,036,649
Other accrual (3)	66,625	39,163
	$ 661,746	$ 1,145,293

(1) Included in trade payables is $16,533 (December 31, 2012- $Nil) owed to directors and officers for travelling expenses.

(2) Included in accrual of exploration and evaluation asset expenditures is $497,143 (December 31, 2012- $1,031,858) payable to a Company owned by a director who is also an officer of the company.

(3) Included in other accrual $8,125 (December 31, 2012 - $8,125) payable to an officer of the company and $30,500 (December 31, 2012 - $Nil) to independent directors for directors' fees.

8 SHARE CAPITAL AND RESERVES

Share Capital:

Authorized: Unlimited common shares without par value

During the year ended December 31, 2012, the Company issued the following common shares:

(i) On January 30, 2012, the Company completed its securities amalgamation as disclosed in Note 9. Under the amalgamation, the Company issued 74,615,000 common shares to former shareholders of Dolly and 5,650,000 common shares to former shareholders of Twin. In addition, the Company issued 5,329,400 new share purchase warrants to replace the pre-amalgamation warrants of the Company and issued 5,150,000 new share purchase warrants and 25,000 new stock options to replace the share purchase warrants and stock options of Twin. Of these share purchase warrants, 4,450,000 are each exercisable into one common share at $0.15 per common share, while 700,000 are each exercisable into one common share at $0.25 per common share, each with an expiry date of January 8, 2013. The stock options issued to replace the stock options of Twin are each exercisable into one common share at $0.15 per common share with an expiry date of March 20, 2016.

(ii) On September 4, 2012, the Company issued 20,000,000 common shares pursuant to an ancillary rights agreement with a wholly owned subsidiary of Hecla Mining Company ("Hecla") for a total consideration of $3,200,000. According to the terms of the ancillary rights agreement, Hecla was granted various rights as long as Hecla holds more than 10% interest in the Company. These rights include: (a) a right to nominate one person to Dolly Varden's board of directors, (b) a right to nominate one person to a technical committee, to be established to design and execute the Company's exploration programs, (c) a right of first refusal in respect of any proposed transfer or sale of the Company's properties, and (d) a pre-emptive right to participate in any future financing to maintain Hecla's pro rata interest. Hecla also agreed to a voting agreement whereby Hecla will vote in favour of management's proposals on matters of routine business (being the election of directors, the appointment of auditors, and the approval of the Company' stock option plan) for a period of 12 months from the closing of the Financing and a 12 month standstill.

(iii) On December 28, 2012, the Company completed a non-brokered private placement through the issuance of 2,660,000 flow-through common shares at $0.20 per share for gross proceeds of $532,000. The Company paid or accrued $43,167 and issued 212,800 finders' warrants valued at $25,681 as finders' fees in connection with the transaction. Each finders warrants is exercisable into one common share at $0.20 per common share until December 28, 2014.

(iv) During fiscal 2012, the Company issued 25,000 common shares pursuant to the exercise of stock options for total proceeds of $3,750 and issued 410,500 common shares pursuant to the exercise of warrants for proceeds of $56,625.

During the three months period ended March 31, 2013, the Company issued the following common shares:

(i) On January 22, 2013, Hecla Canada Ltd. has exercised its pre-emptive right on financing to maintain its pro rata interest in the Company by acquiring 662,508 flow-through shares at $0.20 per share and 475,711 common shares at $0.16 per share for gross proceeds of $208,615.

(Unaudited - Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (Cont'd)

(ii) On March 15, 2013, the Company completed its first tranche of a non-brokered private placement by issuing 10,310,000 common shares at $0.18 per share and 25,000 flow-through shares at $0.20 per share for total gross proceeds of $1,860,800. In connection to the first tranche, the Company paid a total financing fees of $290,500. Additionally, the Company issued 1,613,750 warrants for financing fees of which 1,612,500 warrants are exercisable at $0.18 and 1,250 warrants are exerciable at $0.20 per share expiring on March 15, 2015.

(iii) During the quarter ended March 31, 2013, the Company issued 1,532,500 common shares pursuant to the exercise of warrants for proceeds of $229,875.

Included in the common shares outstanding at March 31, 2013 are 1,900,000 (December 31, 2012- 3,800,00) common shares held in escrow. These common shares will be released from escrow on August 13, 2013. The escrowed common shares may not be transferred, assigned or otherwise dealt without the consent of the regulators.

Certain common shares released from escrow are subject to Seed Share Resale Restrictions ("SSRR") and will be released at 20% every three months over a period of one year.

Warrants:

Warrant transactions summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance - January 1, 2012	5,329,400	$	0.11
Issued for RTO	5,150,000	$	0.17
Issued for financing	212,800	$	0.17
Expired	(307,200)	$	0.23
Exercised	(377,500)	$	0.15
Balance - December 31, 2012	**10,007,500**	**$**	**0.13**
Issued	1,613,750	$	0.18
Expired	(3,262,200)	$	0.17
Exercised	(1,532,500)	$	0.15
Balance - March 31, 2013	**6,826,550**	**$**	**0.12**

At March 31, 2013, share purchase warrants were outstanding as follows:

Number		Exercise Price	Expiry Date
5,000,000	$	0.10	February 14, 2014
212,800	$	0.20	December 28, 2014
1,612,500	$	0.18	March 15, 2015
1,250	$	0.20	March 15, 2015
6,826,550			

The weighted average remaining contractual life of the warrants outstanding as at March 31, 2013 was 1.16 years.

(Unaudited - Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (Cont'd)

The following assumptions were used for the Black-Scholes option model for the valuation of warrants:

	March 31, 2013	March 31, 2012
Risk free interest rate	1.12%	1.00%
Expected life	2.00	0.14
Annualized volatility	100%	100%
Dividend yield	0%	0%

Included in the warrants outstanding at March 31, 2013 are 795,000 (December 31, 2012- 1,590,000) warrants held in escrow. These warrants will be released from escrow on August 13, 2013. The escrowed warrants may not be transferred, assigned or otherwise dealt without the consent of the regulators.

Certain warrants released from escrow are subject to Seed Share Resale Restrictions ("SSRR"), and will be released at 20% every three months over a period of one year.

Stock Options:

The Company has a stock option plan under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them 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 option shall vest immediately.

Stock option transactions are summarized as follows :

	Number of options	Weighted Average Exercise Price
Outstanding at - January 1, 2012	-	$ -
Granted for services	7,700,000	$ 0.26
Granted for RTO	25,000	$ 0.15
Exercised	(25,000)	$ 0.15
Forfeited	(100,000)	$ 0.35
Outstanding at - December 31, 2012	7,600,000	$ 0.26
Granted for services	750,000	$ 0.18
Outstanding at - March 31, 2013	8,350,000	$ 0.25
Number of options exercisable at March 31, 2013	7,568,750	$ 0.26

(Unaudited - Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (Cont'd)

As at March 31, 2013, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number	Exercise Price	Expiry Date
6,350,000	$ 0.25	January 30, 2017
750,000	$ 0.35	March 1, 2017
500,000	$ 0.20	June 4, 2017
750,000	$ 0.18	March 18, 2018
8,350,000		

The weighted average remaining contractual life of the stock options outstanding as at March 31, 2013, was 3.88 years.

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

March 31	2013	2012
Risk free interest rate	1.21%	1.30%
Expected dividend yield	-	-
Stock price volatility	100.00%	102.91%
Expected life of options	5 years	4.98 years
Expected forfeiture rate	-	-

9 REVERSE TAKEOVER TRANSACTION (AMALGAMATION)

As described in Note 1, on January 30, 2012, Dolly completed a merger with Twin resulting in Dolly owning all of the issued and outstanding securities of Twin. Pursuant to the Amalgamation all of the issued and outstanding common shares of Dolly ("Dolly Shares") and Twin ("Twin Shares") were exchanged for common shares of Amalco ("the Company Shares") on the basis of one Company share for each Dolly share and one Company share for each Twin share. All stock options, warrants, and other securities convertible into common shares of Dolly and Twin were exchanged for stock options, warrants or other securities convertible into common shares of the Company at the same exercise price and on the same ratio as the exchange of Dolly Shares or Twin Shares for the Company Shares, as the case may be.

On February 14, 2012, under the amalgamation, the Company issued 74,615,000 new common shares to the shareholders of Dolly and 5,650,000 common shares to former shareholders of Twin. In addition, the Company also issued 5,329,400 new warrants to replace the pre-amalgamation warrants of Dolly, and 5,150,000 warrants and 25,000 options of Twin.

Although the transaction resulted in a single entity, control passed to the former shareholders of Dolly and the transaction constitutes a reverse take-over of Twin by Dolly and has been accounted for as a reverse takeover transaction in accordance with guidance provided in IFRS 2 *Share-based Payment* and IFRS 3 *Business Combinations*. As Twin did not qualify as a business according to the definition in IFRS 3, this reverse takeover transaction does not constitute a business combination; rather it is treated as an issuance of shares by the Company for the net monetary assets of Twin and its public listing .

(Unaudited - Expressed in Canadian Dollars)

9 REVERSE TAKEOVER TRANSACTION (AMALGAMATION) (Cont'd)

The net assets of Twin received were as follows:

Net assets acquired		
Cash	$	71,207
Receivables		6,482
Exploration and evaluation assets		46,801
Accounts payable and accrued liability		(51,290)
	$	73,200
Consideration provided		
5,650,000 common shares of amalco	$	1,412,500
Twin - 700,000 warrants at $0.25		67,551
Twin - 4,450,000 warrants at $0.15		445,066
Twin - 25,000 options		2,500
	$	1,927,617
Cost of public listing	$	1,854,417

The transaction was measured at the fair value of the shares that the Company would have had to issue for the ratio of ownership interest in the combined entity to be equivalent to the ratio of ownership interest (between new and former owners) in the combined entity if the transaction had taken the legal form of Dolly acquiring Twin. This share value was determined based on Dolly share value and is considered as a significant estimate and judgement. This value of the stock exchange listing of $1,854,417 has been charged to profit or loss as listing expense. Further to the reverse takeover, the unaudited condensed interim financial statements for the period ended March 31, 2013 reflect the assets, liabilities and results of operations of Dolly and Twin. The comparative figures are those of Dolly, prior to the reverse takeover.

10 CAPITAL DISCLOSURE

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

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

The Company is dependent on the capital markets as its main source of operating capital and the Company's capital resources are largely determined by the strength of the junior public markets, by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the three month period ended March 31, 2013.

(Unaudited - Expressed in Canadian Dollars)

11 RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2013 and 2012, the Company incurred the following amounts charged by officers and directors (being key management personel) 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:

	March 31, 2013	March 31, 2012
Cost included in exploration and evaluation assets	$ 373,705	$ 238,095
Fees and charges	97,744	76,000
Salaries and benefits	35,187	34,962
Share-based compensation	-	1,077,083
	$ 506,636	$ 1,426,140

At March 31, 2013, included in accounts payable and accrued liabilities is $544,176 (December 31, 2012- $1,031,858) owed to directors and a company owned by a director who is also an officer of the Company and $8,125 owed to an officer of the Company. These amounts are unsecured, non-interest bearing and are due on demand. The above transactions have been recorded at the exchange amounts being the amounts established and agreed to between the parties.

At March 31, 2013, included in receivables is $89,930 (December 31, 2012 - $89,930) owed by a director who is also an officer of the Company.

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

International Financial Reporting Standards 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

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 at reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments also included receivable 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. As at March 31, 2013, the Company had a cash balance of $1,583,348 to settle current liabilities of $661,746. The Company's current policy is to invest excess cash in demand Guaranteed Investment certificates issued by its banking institutions.

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 is cashable at anytime and interest can be earned up to the date of cashing out.

Price risk

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

13 SUBSEQUENT EVENTS

(i) On April 17, 2013, the Company also issued 10,000,000 common shares for proceeds of $1,800,000. Additionally, Hecla Canada Ltd. has exercised its pre-emptive right on financing to maintain its pro rata interest in the company by acquiring 5,064,700 common shares shares for proceeds of $911,646.

(ii) On May 27, 2013, the Company received the full amount of $343,183 for HST tax credit.