DOLLY VARDEN SILVER CORPORATION

FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Dolly Varden Silver Corporation

We have audited the accompanying financial statements of Dolly Varden Silver Corporation, which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Dolly Varden Silver Corporation as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Dolly Varden Silver Corporation's ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada Chartered Accountants

April 24, 2014

DOLLY VARDEN SILVER CORPORATION
Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2013	December 31, 2012
Assets		
Current		
Cash	$ 358,619	$ 1,270,135
Prepaid expenses (Note 3)	12,138	17,399
Receivables (Note 4)	1,578,931	349,073
	1,949,688	1,636,607
Non-Current		
Deposits (Note 6)	50,000	50,000
Exploration and evaluation advances (Note 6)	106,347	141,033
Equipment (Note 5)	236,568	267,999
Exploration and evaluation assets (Note 6)	13,697,045	11,314,347
	$ 16,039,648	$ 13,409,986
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 7 and 11)	$ 502,300	$ 1,145,293
	502,300	1,145,293
Non-current Liabilities		
Liability on flow-through share issuance (Note 8)	42,000	-
	544,300	1,145,293
Shareholders' equity		
Share Capital (Note 8)	21,449,491	16,710,441
Reserves	2,795,137	2,021,630
Deficit	(8,749,280)	(6,467,378)
	15,495,348	12,264,693
	$ 16,039,648	$ 13,409,986

Nature of Operations and Going Concern - Note 1
Contingent Liability - Note 14
Subsequent Event - Note 15

APPROVED ON BEHALF OF THE BOARD:

"Allan Marter"	***"John King Burns"***
DIRECTOR	DIRECTOR

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

DOLLY VARDEN SILVER CORPORATION
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year ended December 31	
	2013	**2012**
Expenses		
Administrative & consulting fees	$ 97,903	$ 69,996
Depreciation of office equipment	2,845	-
Directors fees	134,543	-
Management fees	209,000	234,000
Marketing and communications	340,286	374,254
Office	63,751	77,883
Professional fees	182,103	233,830
Rent and maintenance	58,420	87,782
Salaries and benefits	122,658	177,089
Share-based compensation (Note 8)	750,726	1,487,877
Transfer agent and filing fees	31,408	105,441
Travel & accommodation	253,177	125,522
Cost of public listing (Note 9)	-	1,854,417
Bad debt	-	10,660
Exchange (gain)/loss	(41)	4,874
Operating loss	(2,246,779)	(4,843,625)
Interest income	30,908	17,043
Write down of exploration and evaluation assets (Note 6)	(93,031)	-
Flow-through premium (Note 8)	27,000	18,000
Total loss and comprehensive loss for year	$ (2,281,902)	$(4,808,582)
Loss per common share, basic and diluted	$ (0.02)	$ (0.06)
Weighted average number of common shares outstanding	124,802,491	86,375,885

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

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

	Share Capital Number	Share Capital Amount	Share subscriptions 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
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 stock options	25,000	3,750	-	-	-	3,750
Fair value assigned to exercised stock options	-	2,500	-	(2,500)	-	-
Exercise of warrants	377,500	56,625	-	-	-	56,625
Fair value assigned to exercised warrants	-	37,750	-	(37,750)	-	-
Fair value assigned to issued finders' warrants	-	(25,681)	-	25,681	-	-
Share subcriptions receivable	-	-	110,500	-	-	110,500
Share-based compensation	-	-	-	1,487,877	-	1,487,877
Total loss for the year	-	-	-	-	(4,808,582)	(4,808,582)
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	2,087,508	347,502	-	-	-	347,502
Issuance of common shares for cash	25,850,411	4,643,560	-	-	-	4,643,560
Share issuance costs	-	(459,106)	-	-	-	(459,106)
Exercise of warrants	1,532,500	229,875	-	-	-	229,875
Fair value assigned to exercised warrants	-	153,250	-	(153,250)	-	-
Fair value assigned to issued finders' warrants	-	(176,031)	-	176,031	-	-
Share-based compensation	-	-	-	750,726	-	750,726
Total loss for the year	-	-	-	-	(2,281,902)	(2,281,902)
Balance - December 31, 2013	**132,797,919**	**$ 21,449,491**	**$ -**	**$ 2,795,137**	**$ (8,749,280)**	**$ 15,495,348**

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

DOLLY VARDEN SILVER CORPORATION
Statements of Cash Flows
(Expressed in Canadian Dollars)

		Year ended December 31, 2013		2012
Cash flows from operating activities				
Loss for the year	$	(2,281,902)	$	(4,808,582)
Items not affecting cash:				
Cost of public listing		-		1,854,417
Share-based compensation		750,726		1,487,877
Depreciation of office equipment		2,845		-
Flow-through premium		(27,000)		(18,000)
Bad debt expense		-		10,660
Changes in non-cash working capital items:				
Decrease in receivables		317,083		334,288
Decrease in prepaid expenses		5,261		234,380
Increase (decrease) in accounts payable & accrued liabilities		184,904		(132,944)
Net cash used in operating activities		(1,048,083)		(1,037,904)
Cash flows from investing activities				
Exploration and evaluation assets		(4,553,471)		(3,567,935)
Equipment		(37,047)		(34,440)
Exploration and evaluation assets advances		(103,746)		(141,033)
Cash acquired in reverse takeover transaction		-		71,207
Net cash used in investing activities		(4,694,264)		(3,672,201)
Cash flows from financing activities				
Issuance of common shares for cash		5,220,936		3,902,875
Share issuance costs		(390,105)		(106,369)
Net cash provided by financing activities		4,830,831		3,796,506
Net change in cash for the year		(911,516)		(913,599)
Cash - beginning of the year		1,270,135		2,183,734
Cash - end of the year	$	358,619	$	1,270,135

Supplemental disclosure with respect to cash flows:				
Interest received in cash	$	29,305	$	17,043
Interest paid in cash		-		-
Income taxes paid in cash		-		-
Non-cash transactions:				
Accrual of exploration and evaluation asset expenditures	$	208,752	$	1,036,649
Accrual of BC METC (Note 4)	$	1,546,941	$	-
Reverse takeover transaction with Twin Glacier (Note 9)	$	-	$	1,854,417
Depreciation included in exploration and evaluation assets	$	65,633	$	79,733
Fair value of warrants exercised	$	153,250	$	37,750
Fair value of warrants issued	$	176,031	$	25,681
Fair value of options exercised	$	-	$	2,500
Premium liability on flow-through shares	$	69,000	$	-
Allocation of exploration and evaluation advances	$	138,432	$	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

On January 30, 2012, an amalgamation of Twin Glacier Resources Ltd. ("Twin") and Dolly Varden Silver Ltd. ("Dolly") by way of a reverse takeover ("RTO") (Note 9) created 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 611 – 675 West Hastings Street, Vancouver, BC V6B 1N2.

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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2013, the Company had incurred accumulated losses of $8,749,280 since inception, and has a working capital of $1,447,388. The Company expects to incur further losses in the development of its business and accordingly there is material uncertainty that may cast significant doubt in the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to continue to raise adequate financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These 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 April 24, 2014.

(b) Basis of Presentation

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

(c) Related Party Transactions

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

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 proceds 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

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are charged to profit or loss. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

(f) Impairment of Non-Current Assets

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

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

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

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.

Additionally, the reviews take into account 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) Decommisioning 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 the 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.

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(h) Use of estimates and judgments

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

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) <u>Recoverability of the carrying value of the Company's exploration and evaluation assets</u>
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) <u>Share-based compensation</u> – 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) <u>Estimating useful life of equipment</u> – Depreciation of equipment is charged so as 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) <u>Deferred income taxes</u> – 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.

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

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

Critical accounting estimates – (cont'd)

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

(i) Financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

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

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

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.

(k) Income taxes

Current income taxes

Current 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.

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(n) Comprehensive income (loss)

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

(o) Share-based compensation

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

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration can not 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 also grants its directors deferred share units (DSUs) whereby each DSU entitles a director to receive, upon his or her retirement from the Company, the cash equivalent of the market value of number of DSUs they have accumulated during their directorship, where each DSU is equal to one common share of the Company. DSUs are earned in lieu of receiving cash for directors' fees and are calculated at the end of each quarter, based on the market value of the Company's common shares.

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

The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these financial statements.

IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The tentative effective date of IFRS 9 is January 1, 2018. The Company is assessing the impact of this new standard, if any, on the financial statements.

IFRIC 21 Levies ("IFRIC 21") was issued in May 2013 and is an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. IFRIC 21 clarifies that the obligating is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014 and the Company is assessing the impact of this new standard, if any, on the financial statements.

(Expressed in Canadian Dollars)

3. PREPAID EXPENSES

Prepaid expenses consist of:

	December 31, 2013	December 31, 2012
Trade show/Conference	$ 5,521	$ 9,604
Insurance	3,117	3,198
Other	3,500	4,597
	$ 12,138	$ 17,399

4. RECEIVABLES

Receivables consist of:

	December 31, 2013	December 31, 2012
GST/HST	$ 30,387	$ 259,143
Accrued interest on GICs	1,603	-
BC METC (1)	1,546,941	-
Other (Note 11)	-	89,930
	$ 1,578,931	$ 349,073

(1) Refers to the BC Mining Exploration Tax Credit ("BC METC"), a government assistance program that gives refundable tax credits at 20% of certain qualified mining exploration expenditures. The amount represents the amounts filed for the 2012 and 2013 fiscal years. Subsequent to year end, the Company received $865,279 for its 2012 BC METC.

5. EQUIPMENT

	Boat	Dock	Tents & trailers	Equipment	Vehicles	Gas tank	Computer Hardware	Total
Cost								
At December 31, 2011	$ 43,095	$ 15,571	$ 117,998	$ 12,260	$ 128,137	$ 40,000	$ -	$ 357,061
Additions	-	-	14,619	18,822	999	-	-	$ 34,440
At December 31, 2012	$ 43,095	$ 15,571	$ 132,617	$ 31,082	$ 129,136	$ 40,000	$ -	$ 391,501
Additions	-	-	5,904	20,797	-	-	10,346	$ 37,047
At December 31, 2013	**$ 43,095**	**$ 15,571**	**$ 138,521**	**$ 51,879**	**$ 129,136**	**$ 40,000**	**$ 10,346**	**$ 428,548**
Accumulated depreciation								
At December 31, 2011	$ 3,233	$ 389	$ 17,700	$ 1,226	$ 19,221	$ 2,000	$ -	$ 43,769
Depreciation for the year	5,979	759	32,282	4,089	32,824	3,800	-	79,733
At December 31, 2012	$ 9,212	$ 1,148	$ 49,982	$ 5,315	$ 52,045	$ 5,800	$ -	$ 123,502
Depreciation for the year	5,083	721	25,529	7,753	23,127	3,420	2,845	68,478
At December 31, 2013	**$ 14,295**	**$ 1,869**	**$ 75,511**	**$ 13,068**	**$ 75,172**	**$ 9,220**	**$ 2,845**	**$ 191,980**
NET BOOK VALUE								
At December 31, 2012	**$ 33,883**	**$ 14,423**	**$ 82,635**	**$ 25,767**	**$ 77,091**	**$ 34,200**	**$ -**	**$ 267,999**
At December 31, 2013	**$ 28,800**	**$ 13,702**	**$ 63,010**	**$ 38,811**	**$ 53,964**	**$ 30,780**	**$ 7,501**	**$ 236,568**

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

Dolly Varden Property

During the period from inception March 4, 2011 to October 31, 2011, the Company purchased the Dolly Varden Property, consisting of fee simple titles, mineral claims and mineral tenures in respect of certain lands located in the Kitsault area of British Columbia. A finder's fee of $62,500 was paid through the issuance of shares to a shareholder of the Company. The property is subject to a 2% net smelter return royalty ("NSR") of which one half (or 1% NSR) can be repurchased by the Company for $1,000,000 at any time. A company in which a former director holds an indirect 20% interest, holds the 2% NSR and holds a license agreement for use of nearby property at a monthly cost to the Company of $2,500 through to June 30, 2014. Other directors no longer have any entitlement of interest in the company that holds the 2% NSR and License agreement.

The Company has entered into a Master Services agreement (the "MSA") on September 1, 2012 with a company controlled by a former director who continues as an officer 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. In December 2013, the Iskut property claims were allowed to lapse and the Company wrote down the capitalized costs related to the property to $Nil. The total amount of the write down was $93,031.

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 four 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 aggregate option payment of $350,000 on March 18, 2013 and the remaining option payments are due as follows:

February 14, 2014 (subsequently paid)	$233,333
February 13, 2015	$233,333
February 12, 2016	$233,334

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd)

The following are summaries of acquisition costs, exploration expenditures, and write-downs in exploration and evaluation assets for the years ended December 31, 2012 and 2013:

	Balance as at December 31, 2011	Dolly Varden Property	Iskut Property	Balance as at December 31, 2012
Acquisition Costs				
Finders' fees	$ 62,500	$ -	$ -	$ 62,500
Legal fees	82,520	-	-	82,520
Property acquisition	2,500,000	-	46,801	2,546,801
Total acquisition costs	$ 2,645,020	$ -	$ 46,801	$ 2,691,821
Exploration Costs				
Assay	$ 16,445	$ 100,895	$ -	$ 117,340
Camp, food, supplies and misc.	451,961	236,457	-	688,418
Claim maintenance	35,577	38,031	-	73,608
Data and sampling analysis	99,750	118,945	-	218,695
Depreciation	43,769	79,734	-	123,503
Drilling	564,381	250,848	-	815,229
Equipment and warehouse rental	215,941	235,904	-	451,845
Field labour and support	351,580	262,445	-	614,025
Field project supervision and management	748,500	799,015	10,440	1,557,955
Fuel	143,883	127,481	-	271,364
Geological and Geoscience consulting	291,666	709,130	25,740	1,026,536
Geotechnical studies	46,200	204,210	-	250,410
Mapping and modelling	151,875	214,710	4,050	370,635
Road and drill pad preparation	291,350	206,025	-	497,375
Site preparation	-	61,578	-	61,578
Survey and assessment	154,238	196,832	6,000	357,070
Transport, travel and accomodation	544,580	582,360	-	1,126,940
Total exploration costs	$ 4,151,696	$ 4,424,600	$ 46,230	$ 8,622,526
Total Exploration and Evaluation Assets	$ 6,796,716	$ 4,424,600	$ 93,031	$ 11,314,347

(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 December 31, 2013
Acquisition Costs					
Finders' fees	$ 62,500	$ -	$ -	$ -	$ 62,500
Legal fees	82,520	-	-	11,406	93,926
Property acquisition	2,546,801	-	-	350,000	2,896,801
Total acquisition costs	$ 2,691,821	$ -	$ -	$ 361,406	$ 3,053,227
Exploration Costs					
Assay	$ 117,340	$ 134,635	$ -	$ -	$ 251,975
Camp, food, supplies and misc.	688,418	272,180	-	-	960,598
Claim maintenance	73,608	45,827	-	196	119,631
Data and sampling analysis	218,695	123,947	-	-	342,642
Depreciation	123,503	65,633	-	-	189,136
Drilling	815,229	317,155	-	-	1,132,384
Equipment and warehouse rental	451,845	277,572	-	-	729,417
Field labour and support	614,025	125,247	-	-	739,272
Field project and management	1,557,955	855,630	-	-	2,413,585
Fuel	271,364	107,067	-	-	378,431
Geological and Geoscience consulting	1,026,536	585,169	-	-	1,611,705
Geotechnical studies	250,410	176,520	-	-	426,930
Mapping and modelling	370,635	353,988	-	-	724,623
Road and drill pad preparation	497,375	108,181	-	-	605,556
Site preparation	61,578	85,940	-	-	147,518
Survey and assessment	357,070	23,753	-	-	380,823
Transport, travel and accomodation	1,126,940	561,077	-	-	1,688,017
Cost recovery - BC METC	-	(2,105,394)	-	-	(2,105,394)
Total exploration costs	$ 8,622,526	$ 2,114,127	$ -	$ 196	$ 10,736,849
Write-down of Exploration and Evaluation Assets	$ -	$ -	$ (93,031)	$ -	$ (93,031)
Total Exploration and Evaluation Assets	$ 11,314,347	$ 2,114,127	$ (93,031)	$ 361,602	$ 13,697,045

At December 31, 2013, the Company has advanced $106,347 (December 31, 2012 - $141,033) for upcoming exploration work to various suppliers.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	December 31, 2013	December 31, 2012
Trade payables (1)	$ 107,505	$ 69,481
Exploration and evaluation asset payables and accruals (2)	208,752	1,036,649
Other accrual (3)	186,043	39,163
	$ 502,300	$ 1,145,293

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES – (cont'd)

(1) Includes $14,536 (December 31, 2012 - $Nil) owed to directors and officers.

(2) Includes $158,141 (December 31, 2012 - $1,031,858) payable to a Company owned by a former director who is also an officer of the company.

(3) Includes $Nil (December 31, 2012- $8,125) payable to an officer of the company and $134,543 (December 31, 2012 - $Nil) to independent directors.

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 which has expired.

(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' warrant is exercisable into one common share at $0.20 per common share until December 28, 2014.

(iv) During the year ended December 31, 2012, the Company issued 25,000 common shares pursuant to the exercise of stock options for total proceeds of $3,750 and issued 377,500 common shares pursuant to the exercise of warrants for proceeds of $56,625.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL AND RESERVES - (cont'd)

During the year ended December 31, 2013, the Company issued the following common shares:

(i) On January 22, 2013, Hecla 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. The Company recorded a liability on the flow-through share premium of $26,500 for the difference between the fair market value of its common shares and the issuance price of its flow-through common shares. The liability was subsequently reversed and recognized in profit or loss during the year as the Company incurred the expenditures.

(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 with the first tranche, the Company paid total financing fees of $290,500. Additionally, the Company issued 1,613,750 warrants as financing fees, of which 1,612,500 warrants are exercisable at $0.18 and 1,250 warrants are exercisable at $0.20 per share, expiring on March 15, 2015. The warrants had a fair value of $176,031, measured using the Black-Scholes method. The Company recorded a liability on the flow-through share premium of $500 for the difference between the fair market value of its common shares and the issuance price of its flow-through common shares. The liability was subsequently reversed and recognized in income during the year as the Company incurred the expenditures.

(iii) On April 17, 2013, the Company issued 15,064,700 common shares at $0.18 per share to Hecla for gross proceeds of $2,711,646, as it again exercised its pre-emptive right to maintain its pro-rata interest.

(iv) On December 30, 2013, the Company completed a non-brokered private placement through the issuance of 1,400,000 flow-through common shares at $0.15 per share for gross proceeds of $210,000. The Company recorded a liability on the flow-through share premium of $42,000 for the difference between the fair market value of its common shares and the issuance price of its flow-through common shares. This has been recorded as a flow-through common share issuance liability.

(v) During the year ended December 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 December 31, 2013 are Nil (December 31, 2012- 3,800,000) common shares held in escrow. The escrowed common shares may not be transferred, assigned or otherwise dealt without the consent of the regulators.

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2011	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 for financing	1,613,750	$ 0.18
Expired	(3,262,200)	$ 0.17
Exercised	(1,532,500)	$ 0.15
Balance, December 31, 2013	6,826,550	$ 0.12

(Expressed in Canadian Dollars)

8. SHARE CAPITAL AND RESERVES - (cont'd)

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

Number of warrants	Exercise Price	Expiry Date
5,000,000	$ 0.10	February 14, 2014 (note 15)
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 December 31, 2013 is 0.41 years.

During the year ended December 31, 2013, the Company granted 1,613,750 (2012 – 5,362,800) warrants with a total fair value of $176,031 (2012-$538,298) or $0.11 (2012-$0.10) per warrant.

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

	Year ended December 31, 2013	2012
Risk free interest rate	1.20%	1.00%
Expected life of warrants	2 years	0.27 years
Annualized stock price volatility	131.50%	100%
Expected dividend yield	0%	0%

Included in the warrants outstanding at December 31, 2013 are Nil (December 31, 2012 - 1,590,000) warrants held in escrow.

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 options shall vest immediately.

Stock option transactions are summarized as follows:

(Expressed in Canadian Dollars)

8. SHARE CAPITAL AND RESERVES - (cont'd)

Stock Options – (cont'd)

	Number of options	Weighted Average Exercise Price
Outstanding at - December 31, 2011	-	$ -
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	5,539,750	$ 0.16
Outstanding at - December 31, 2013	13,139,750	$ 0.22
Number of options exercisable at December 31, 2013	12,671,000	$ 0.22

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

Number of options	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
1,150,000	$ 0.18	March 18, 2018
4,389,750	$ 0.16	July 26, 2018
13,139,750		

The weighted average remaining contractual life of the stock options outstanding as at December 31, 2013, is 3.83 years.

During the year ended December 31, 2013, the Company granted 5,539,750 (2012 – 7,700,000) stock options to directors, employees and consultants with a total fair value of $759,886 (2012-$1,499,757) or $0.14 (2012-$0.19) per option. During the year ended December 31, 2013, the Company recognized a total of $750,726 (2012 - $1,487,877) in share-based compensation. Of this amount, $11,880 was related to the portion of stock options issued in 2012, that vested in 2013. The remaining amount of $738,846 was the fair value of the vested portion of the stock options that were granted in fiscal 2013.

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

	Year ended December 31, 2013	2012
Risk free interest rate	1.63%	1.29%
Expected dividend yield	0%	0%
Annualized stock price volatility	124%	103%
Expected life of options	5 years	4.98 years
Expected forfeiture rate	0%	0%

(Expressed in Canadian Dollars)

8. SHARE CAPITAL AND RESERVES - (cont'd)

Deferred share units

The Company has a DSU plan which entitles the Directors to receive the cash equivalent of the DSU's when they retire from the Company. For the year ended December 31, 2013, the Company recognized the compensation cost for DSU's of $134,543 ($Nil in 2012) as directors' fees with a corresponding liability recorded as accrued liabilities.

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 assets of Twin and its public listing.

The net assets of Twin received were as follows:

Cash	$ 71,207
Receivables	6,482
Exploration and evaluation assets	46,801
Accounts payable and accrued liability	(51,290
	$ 73,200

Consideration provide

5,650,000 common shares of Amalco	$ 1,4412,500
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

(Expressed in Canadian Dollars)

9. REVERSE TAKEOVER TRANSACTION (AMALGAMATION) (cont'd)

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 the 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 a listing expense.

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 year ended December 31, 2013.

11. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2013 and 2012, the Company incurred the following amounts charged by officers and directors (being key management personnel) and companies controlled and/or owned by officers and directors of the Company in addition to the related parties transactions disclosed elsewhere in these financial statements:

	Year ended December 31,	
	2013	**2012**
Costs included in exploration and evaluation assets	$ 2,191,982	$ 2,584,710
Directors' fees	134,543	-
Management & Consulting fees	265,314	282,090
Salaries and benefits	84,738	138,125
Share-based compensation	503,700	1,077,083
	$ 3,180,277	$ 4,082,008

At December 31, 2013, included in accounts payable and accrued liabilities is $307,220 (December 31, 2012- $1,039,983) owed to directors, an officer, and a company owned by a former director who is also an officer of the Company. These amounts are unsecured, non-interest bearing and are due on demand.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Financial instruments

Cash and deposits are measured at fair value using level one as the basis for measurement in the fair value hierarchy. The carrying value of receivables, and payables and accrued liabilities, approximate fair value because of the short-term nature of these instruments. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to cash and receivables. The Company has no significant concentration of credit risk arising from operations. Cash consists of bank balances and demand Guaranteed Investment Certificates at reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments also included receivables from government 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 December 31, 2013, the Company had a cash balance of $358,619 to settle current liabilities of $502,300. 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 are redeemable at anytime and interest can be earned up to the date of redemption.

Price risk

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

(Expressed in Canadian Dollars)

13. INCOME TAXES

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

For the Year Ended December 31	**2013**	**2012**
Earnings (loss) for the year	$ (2,281,902)	$ (4,808,582)
Expected income tax (recovery)	$ (588,000)	$ (1,202,000)
Change in statutory, foreign tax, foreign exchange rates and other	(34,000)	-
Permanent Difference	186,000	368,000
Impact of flow through share	35,000	145,000
Share issue cost	(100,000)	(27,000)
Impact of ITC	(126,000)	(229,000)
Adjustment to prior year provision	605,000	-
Change in unrecognized deductible temporary	22,000	945,000
Total income tax expense (recovery)	**$ -**	**$ -**
Current income tax	**$ -**	**$ -**
Deferred tax recovery	**$ -**	**$ -**

The BC provincial corporate income tax rate increased 1% effective April 1, 2013. The Canadian federal corporate income tax rate reduced by 1.5% effective January 31, 2012.

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

As at December 31	**2013**	**2012**
Deferred Tax Assets (liabilities)		
Exploration and evaluation assets	$ (675,000)	$ (482,000)
Property and equipment	57,000	22,000
Share issue costs	110,000	56,000
Investment tax credit	519,000	402,000
Non-capital losses available for future period	1,310,000	1,301,000
	1,321,000	1,299,000
Unrecognized deferred tax assets	(1,321,000)	(1,299,000)
Net deferred tax assets	**$ -**	**$ -**

(Expressed in Canadian Dollars)

13. INCOME TAXES – (cont'd)

The significant components of the Company's temporary differences and tax are as follows:

As at December 31	2013	Expiry Date Range	2012	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	$ (2,594,000)	No expiry date	$(1,932,000)	No expiry date
Investment tax credit	701,000	2031 to 2033	537,000	2031 to 2032
Property and equipment	218,000	No expiry date	89,000	No expiry date
Share issue costs	423,000	2033 to 2037	222,000	2033 to 2036
Non-capital losses available for future periods	5,040,000	2014 to 2033	5,205,000	2014 to 2032

14. CONTINGENT LIABILITY

On August 6, 2013, the Company received legal notice that a former officer was seeking remuneration based on specific terms of her employment contract and manner of termination and on November 12, 2013, the Company received Notice of Civil Claim that a related action was filed in The Supreme Court of British Columbia against the Company and the Chairman of the Company. The Company disputes the allegations claimed in the action and no additional remuneration has been provided in the accounts.

15. SUBSEQUENT EVENT

On February 14, 2014, 2,700,000 common shares were issued pursuant to the exercise of warrants for gross proceeds of $270,000 and 2,300,000 warrants with an exercise price of $0.10 per share expired.