# DOLLY VARDEN SILVER CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

UNAUDITED –Prepared by Management

(Expressed in Canadian Dollars)

# TO THE SHAREHOLDERS OF DOLLY VARDEN SILVER CORPORATION

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

The accompanying unaudited condensed interim financial statements of the Company as at and for the periods ended September 30, 2014 have been prepared by management and have been reviewed and approved by the Company's Audit Committee and Board of Directors.

The Company's independent auditor, Davidson & Company LLP, has not performed a review of these condensed interim financial statements for the three and nine month periods ended September 30, 2014 and 2013.

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | $ 2,535,775 | $ 358,619 |
| Prepaid expenses (Note 3) | 215,515 | 12,138 |
| Receivables (Note 4) | 842,206 | 1,578,931 |
| | 3,593,496 | 1,949,688 |
| **Non-Current** | | |
| Deposits (Note 6) | 105,000 | 50,000 |
| Exploration and evaluation advances (Note 6) | 176,004 | 106,347 |
| Equipment (Note 5) | 195,270 | 236,568 |
| Exploration and evaluation assets (Note 6) | 16,923,402 | 13,697,045 |
| | $ 20,993,172 | $ 16,039,648 |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Accounts payable & accrued liabilities (Note 7 and 10) | $ 827,593 | $ 502,300 |
| | 827,593 | 502,300 |
| **Non-current liabilities** | | |
| Liability on flow-through share issuance (Note 8) | - | 42,000 |
| | - | 42,000 |
| **Shareholders' equity** | | |
| Share Capital (Note 8) | 26,798,884 | 21,449,491 |
| Reserves | 2,979,101 | 2,795,137 |
| Deficit | (9,612,406) | (8,749,280) |
| | 20,165,579 | 15,495,348 |
| | $ 20,993,172 | $ 16,039,648 |

Nature of Operations and Going Concern - Note 1
Subsequent event - Note 12

APPROVED ON BEHALF OF THE BOARD:

| | |
|---|---|
| ***"Allan Marter"*** | ***"Rosie Moore"*** |
| 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 –Prepared by Management
(Expressed in Canadian Dollars)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Expenses** | | | | |
| Administrative & consulting fees | $ 31,900 | $ 29,445 | $ 92,575 | $ 78,279 |
| Depreciation of office equipment | 1,032 | - | 3,095 | - |
| Directors' fees (Note 8) | (36,828) | 45,489 | 21,279 | 106,489 |
| Management fees | 48,500 | 46,500 | 139,250 | 164,000 |
| Marketing and communications | 95,433 | 65,612 | 197,529 | 224,747 |
| Office | 18,566 | 26,361 | 48,536 | 51,988 |
| Professional fees | 28,364 | 32,865 | 96,254 | 136,049 |
| Rent and maintenance | 6,246 | 14,355 | 18,105 | 44,065 |
| Salaries and benefits | 20,129 | 16,804 | 52,070 | 106,202 |
| Share-based compensation (Note 8) | 5,436 | 628,036 | 69,920 | 734,851 |
| Transfer agent and filing fees | 4,431 | 12,943 | 22,982 | 30,237 |
| Travel & Accommodation | 31,344 | 86,298 | 156,607 | 200,279 |
| Exchange (gain)/loss | 79 | (168) | 286 | (596) |
| Operating loss | (254,632) | (1,004,540) | (918,488) | (1,876,590) |
| Interest income | 4,593 | 13,467 | 13,362 | 29,100 |
| Other - flow through premium reversal (Note 8) | 42,000 | - | 42,000 | - |
| **Total loss and comprehensive loss for period** | $ (208,039) | $ (991,073) | $ (863,126) | $ (1,847,490) |
| **Loss per common share, basic and diluted** | $ (0.00) | $ (0.01) | $ (0.01) | $ (0.02) |
| **Weighted average number of common shares outstanding** | 160,632,550 | 131,397,919 | 143,523,143 | 122,645,489 |

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

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

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | Number | Amount | Reserves | Deficit | Total |
| **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 | 25,850,411 | 4,643,560 | - | - | 4,643,560 |
| Share issuance costs | - | (350,305) | - | - | (350,305) |
| 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 | - | - | 734,851 | - | 734,851 |
| Total loss and comprehensive loss for the period | - | - | - | (1,847,490) | (1,847,490) |
| **Balance - September 30, 2013** | **131,397,919** | **21,348,291** | **2,779,262** | **(8,314,868)** | **15,812,685** |
| Issuance of flow-through common shares for cash | 1,400,000 | 210,001 | - | - | 210,001 |
| Share issuance costs | - | (108,801) | - | - | (108,801) |
| Share-based compensation | - | - | 15,875 | - | 15,875 |
| Total loss and comprehensive loss for the period | - | - | - | (434,412) | (434,412) |
| **Balance - December 31, 2013** | **132,797,919** | **21,449,491** | **2,795,137** | **(8,749,280)** | **15,495,348** |
| Issuance of flow-through common shares for cash | 46,441,711 | 5,573,005 | - | - | 5,573,005 |
| Issuance of common shares for cash | 750,000 | 90,000 | - | - | 90,000 |
| Share issuance costs | - | (469,568) | - | - | (469,568) |
| Fair value assigned to issued finders' warrants | - | (114,044) | 114,044 | - | - |
| Exercise of warrants | 2,700,000 | 270,000 | - | - | 270,000 |
| Share-based compensation | - | - | 69,920 | - | 69,920 |
| Total loss and comprehensive loss for the period | - | - | - | (863,126) | (863,126) |
| **Balance - September 30, 2014** | **182,689,630** | **$ 26,798,884** | **$ 2,979,101** | **$ (9,612,406)** | **$ 20,165,579** |

**DOLLY VARDEN SILVER CORPORATION**
**Condensed Interim Statement of Cash Flows**
Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

| | Nine months ended September 30, 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the period | $ (863,126) | $ (1,847,490) |
| Items not affecting cash: | | |
| Share-based compensation | 69,920 | 734,851 |
| Directors' fees (note 8) | 21,279 | 106,489 |
| Depreciation of office equipment | 3,095 | 1,423 |
| Other income - flow through premium reversal (note 8) | (42,000) | - |
| Changes in non-cash working capital items: | | |
| Decrease in receivables | 736,725 | 205,544 |
| Increase in prepaid expenses | (203,377) | (18,396) |
| Decrease in accounts payable & accrued liabilities | (105,813) | (17,053) |
| Net cash used in operating activities | (383,297) | (834,632) |
| **Cash flows from investing activities** | | |
| Exploration and evaluation assets | (1,316,587) | (3,980,113) |
| Equipment | - | (37,047) |
| Addition to deposit | (55,000) | - |
| Exploration and evaluation assets advances | (1,531,397) | (103,747) |
| Net cash used in investing activities | (2,902,984) | (4,120,907) |
| **Cash flows from financing activities** | | |
| Issuance of common shares for cash | 5,933,005 | 5,010,936 |
| Share issuance costs | (469,568) | (350,305) |
| Net cash provided by financing activities | 5,463,437 | 4,660,631 |
| **Net change in cash for the period** | 2,177,156 | (294,908) |
| **Cash - beginning of the period** | 358,619 | 1,270,135 |
| **Cash - end of the period** | $ 2,535,775 | $ 975,227 |

| | | |
|---|---|---|
| Supplemental disclosure with respect to cash flows: | | |
| Interest received in cash | $ 11,126 | $ 23,736 |
| Interest paid in cash | $ - | $ - |
| Income taxes paid in cash | $ - | $ - |
| *Non-cash transactions:* | | |
| Accrual of exploration and evaluation asset expenditures | $ 618,579 | $ 424,665 |
| Accrual of BC METC (Note 4) | $ 6,050 | $ 758,879 |
| Depreciation included in exploration and evaluation assets | $ 38,203 | $ 43,382 |
| Fair value of warrants exercised | $ - | $ 153,250 |
| Fair value of finders warrants issued | $ 114,044 | $ 176,031 |
| Allocation of exploration and evaluation advances | $ 1,461,740 | $ 116,309 |

(The accompanying notes are an integral part of these condensed interim 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 condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At September 30, 2014, the Company had incurred accumulated losses of $9,612,406 (December 31, 2013: accumulated loss of $8,749,280) since inception, and has a working capital of $2,765,903 (December 31, 2013: $1,447,388). The Company expects to incur further losses in the development of its business and accordingly there is material uncertainty 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 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 November 20, 2014.

### (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.

(Expressed in Canadian Dollars)

## 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, 2013 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, 2013.

For the comparative financial statements, the Company re-classified certain 2013 accounts in order to conform with the 2014 presentation.

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

The following new standard is not yet effective for the year ended December 31, 2014, and has 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.

## 3 PREPAID EXPENSES

Prepaid expenses consist of:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Trade show/Conference | $ 3,441 | $ 5,521 |
| Insurance | 6,416 | 3,117 |
| Investor relations | 10,000 | - |
| Marketing services[1] | 194,250 | - |
| Other | 1,408 | 3,500 |
| | $ 215,515 | $ 12,138 |

[1] In August 2014, the Company engaged two separate firms to perform marketing services for the following 12 months and prepaid the contracts. The amount as at September 30, 2014 represents the unexpensed amounts for future service.

## 4 RECEIVABLES

Receivables consist of:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| GST/HST | $ 150,655 | $ 30,387 |
| Accrued interest on GICs | 3,839 | 1,603 |
| BC METC[1] | 687,712 | 1,546,941 |
| | $ 842,206 | $ 1,578,931 |

[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 as at September 30, 2014 represents the amount filed for the 2013 fiscal year. The amount was

(Expressed in Canadian Dollars)

## 4 RECEIVABLES – (cont'd)

increased by $6,050 in the current period, based on the assessment. The Company received the refund subsequent to the end of the period.

## 5 EQUIPMENT

| | Boat | Dock | Tents & trailers | Equipment | Vehicles | Gas tank | Computer Hardware | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **At December 31, 2013** | $ 43,095 | $ 15,571 | $ 138,521 | $ 51,879 | $ 129,136 | $ 40,000 | $ 10,346 | $ 428,548 |
| Additions | - | - | - | - | - | - | - | - |
| **At September 30, 2014** | **$ 43,095** | **$ 15,571** | **$ 138,521** | **$ 51,879** | **$ 129,136** | **$ 40,000** | **$ 10,346** | **$ 428,548** |
| **Accumulated depreciation** | | | | | | | | |
| **At December 31, 2013** | $ 14,295 | $ 1,869 | $ 75,511 | $ 13,068 | $ 75,172 | $ 9,220 | $ 2,845 | $ 191,980 |
| Depreciation for the period | 3,240 | 514 | 14,177 | 5,822 | 12,142 | 2,309 | 3,094 | 41,298 |
| **At September 30, 2014** | **$ 17,535** | **$ 2,383** | **$ 89,688** | **$ 18,890** | **$ 87,314** | **$ 11,529** | **$ 5,939** | **$ 233,278** |
| **NET BOOK VALUE** | | | | | | | | |
| **At December 31, 2013** | **$ 28,800** | **$ 13,702** | **$ 63,010** | **$ 38,811** | **$ 53,964** | **$ 30,780** | **$ 7,501** | **$ 236,568** |
| **At September 30, 2014** | **$ 25,560** | **$ 13,188** | **$ 48,833** | **$ 32,989** | **$ 41,822** | **$ 28,471** | **$ 4,407** | **$ 195,270** |

## 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 held 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 License agreement for use of the nearby property was extended from July 1 to December 31, 2014 at a monthly cost of $3,000.

The Company has provided deposits totalling $85,000 as reclamation bonds for the property.

***Iskut Property***

On January 30, 2012, the Company, as part of the amalgamation with Twin, 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 BC Canada for a purchase price of $1,050,000 payable

(Expressed in Canadian Dollars)

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

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 in the first quarter of 2013 and the second option payment of $233,333 in the first quarter of 2014. The remaining option payments are due as follows:

| | |
|---|---|
| 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 nine months ended September 30, 2014:

(Expressed in Canadian Dollars)

| | Balance as at December 31, 2013 | Dolly Varden Property | Musketeer Property | Balance as at September 30, 2014 |
|---|---|---|---|---|
| **Acquisition Costs** | | | | |
| Finders' fees | $ 62,500 | $ - | $ - | $ 62,500 |
| Legal fees | 93,926 | - | - | 93,926 |
| Property acquisition | 2,896,801 | - | 233,333 | 3,130,134 |
| Total acquisition costs | $ 3,053,227 | $ - | $ 233,333 | $ 3,286,560 |
| **Exploration Costs** | | | | |
| Assay | $ 251,975 | $ 36,563 | $ 13,048 | $ 301,586 |
| Camp, food, supplies and misc. | 960,598 | 333,892 | 119,150 | 1,413,640 |
| Claim maintenance | 119,631 | 24,768 | 8,838 | 153,237 |
| Data and sampling analysis | 342,642 | 38,928 | 13,892 | 395,462 |
| Depreciation | 189,136 | 28,156 | 10,047 | 227,339 |
| Drilling | 1,132,384 | 291,798 | 104,128 | 1,528,310 |
| Equipment and warehouse rental | 729,417 | 177,938 | 63,498 | 970,853 |
| Field labour and support | 739,272 | 43,477 | 15,515 | 798,264 |
| Field project and management | 2,413,585 | 44,189 | 15,769 | 2,473,543 |
| Fuel | 378,431 | 76,208 | 27,196 | 481,835 |
| Geological and Geoscience consulting | 1,611,705 | 266,322 | 95,037 | 1,973,064 |
| Geotechnical studies | 426,930 | 92,964 | 33,175 | 553,069 |
| Mapping and modelling | 724,623 | 133,147 | 47,514 | 905,284 |
| Road and drill pad preparation | 605,556 | 85,156 | 30,388 | 721,100 |
| Site preparation | 147,518 | 6,486 | 2,314 | 156,318 |
| Survey and assessment | 380,823 | 3,796 | 1,354 | 385,973 |
| Transport, travel and accomodation | 1,688,017 | 526,530 | 187,893 | 2,402,440 |
| Cost recovery - BC METC | (2,105,394) | (6,050) | - | (2,111,444) |
| Total exploration costs | $ 10,736,849 | $ 2,204,268 | $ 788,756 | $ 13,729,873 |
| **Write-down of Exploration and Evaluation Assets** | $ (93,031) | $ - | $ - | $ (93,031) |
| Total Exploration and Evaluation Assets | $ 13,697,045 | $ 2,204,268 | $ 1,022,089 | $ 16,923,402 |

At September 30, 2014, the Company has advanced $176,004 (December 31, 2013 - $106,347) for upcoming exploration work to various suppliers.

(Expressed in Canadian Dollars)

## 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Trade payables (1) | $ 47,082 | $ 107,505 |
| Exploration and evaluation asset payables and accruals (2) | 610,023 | 208,752 |
| Other accrual (3) | 170,488 | 186,043 |
| | $ 827,593 | $ 502,300 |

(1) Includes $6,383 (December 31, 2013 - $14,536) owed to directors and officers.

(2) Includes $158,141 (December 31, 2013 - $158,141) payable to a Company owned by a former director and officer of the company.

(3) Includes $144,508 (December 31, 2013 - $134,543) payable to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in note 8.

## 8 SHARE CAPITAL AND RESERVES

**Share Capital:**

Authorized: Unlimited common shares without par value

*(a) 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 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. The liability was subsequently reversed and recognized in income in the third quarter of 2014 as the Company incurred the expenditures.

(Expressed in Canadian Dollars)

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

(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.

*(b) During the nine months ended September 30, 2014, the Company issued the following common shares:*

(i) During the nine months ended September 30, 2014, the Company issued 2,700,000 common shares pursuant to the exercise of warrants for proceeds of $270,000.

(ii) On July 30, 2014, the Company completed its first tranche of a non-brokered private placement by issuing 750,000 common shares at $0.12 per share and 5,541,711 flow-through shares at $0.12 per share for total gross proceeds of $755,005. The Company issued 252,632 warrants as finders' fees, exercisable at $0.15 per share, expiring on July 29, 2015. The warrants had a fair value of $9,852, measured using the Black-Scholes method. The shares and warrants are subject to a four-month hold period, which expires on November 29, 2014.

On August 15, 2014, the completed the second and final tranche of the non-brokered private placement by issuing 40,900,000 flow-through shares at $0.12 per share for total gross proceeds of $4,908,000. The Company issued 3,256,000 warrants as finders' fees, exercisable at $0.15 per share, expiring on August 14, 2015. The warrants had a fair value of $104,192, measured using the Black-Scholes method. The shares and warrants are subject to a four-month hold period, which expires on December 14, 2014.

Additionally, the Company paid a total of $421,036 in finders' fees for both tranches.

**Warrants:**

Warrant transactions summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price | |
|---|---|---|---|
| Balance, January 1, 2013 | 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 |
| Issued for financing | 3,508,632 | $ | 0.15 |
| Expired | (2,300,000) | $ | 0.10 |
| Exercised | (2,700,000) | $ | 0.10 |
| Balance, September 30, 2014 | 5,335,182 | $ | 0.16 |

At September 30, 2014, share purchase warrants were outstanding as follows:

| Number of Warrants | Exercise Price | | Expiry Date |
|---|---|---|---|
| 212,800 | $ | 0.20 | December 28, 2014 |
| 1,612,500 | $ | 0.18 | March 15, 2015 |
| 1,250 | $ | 0.20 | March 15, 2015 |
| 252,632 | $ | 0.15 | July 29, 2015 |
| 3,256,000 | $ | 0.15 | August 14, 2015 |
| 5,335,182 | | | |

(Expressed in Canadian Dollars)

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

The weighted average remaining contractual life of the warrants outstanding as at September 30, 2014 was 0.72 years.

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

| | Nine months ended September 30, | |
|---|---|---|
| | **2014** | **2013** |
| Risk free interest rate | 1.06% | 1.20% |
| Expected life of warrants | 1 year | 2 years |
| Annualized stock price volatility | 100.3% | 131.5% |
| Expected dividend yield | 0% | 0% |

**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:

| | Number of options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at - January 1, 2013 | 7,600,000 | $ 0.26 |
| Granted for services | 5,539,750 | $ 0.16 |
| Outstanding at - December 31, 2013 | 13,139,750 | $ 0.22 |
| Granted for services | 460,250 | $ 0.16 |
| Forfeited | (1,900,000) | $ 0.21 |
| Outstanding at -September 30, 2014 | 11,700,000 | $ 0.22 |
| Number of options exercisable at September 30, 2014 | 11,512,500 | $ 0.22 |

As at September 30, 2014, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

| Number of options | Exercise Price | Expiry Date |
|---|---|---|
| 5,200,000 | $ 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 |
| 3,639,750 | $ 0.16 | July 26, 2018 |
| 60,250 | $ 0.16 | February 14, 2019 |
| 400,000 | $ 0.16 | June 16, 2019 |
| 11,700,000 | | |

(Expressed in Canadian Dollars)

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

The weighted average remaining contractual life of the stock options outstanding as at September 30, 2014, was 3.02 years.

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

| | Nine months ended September 30, 2014 | 2013 |
|---|---|---|
| Risk free interest rate | 1.58% | 1.63% |
| Expected dividend yield | 0% | 0% |
| Annualized stock price volatility | 120.67% | 124.29% |
| Expected life of options | 5 years | 5 years |
| Expected forfeiture rate | 0% | 0% |

**Deferred share units ("DSU"):**

The Company has a DSU plan which entitles the Directors to receive the cash equivalent of the DSUs when they retire from the Company. For the period ended September 30, 2014, the Company recognized the compensation cost for DSUs of $21,279 (September 30, 2013 - $106,489) as directors' fees with a corresponding liability recorded as accrued liabilities. The amount represents $110,778 as the dollar value of directors' fees for the period, less a reduction in the total liability for the DSU plan of $89,499, arising as a result of the drop in common share market value.

## 9 CAPITAL DISCLOSURE

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

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

The Company is dependent on the capital markets as its main source of operating capital and the Company's capital resources are largely determined by the strength of the junior public markets, by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. 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 nine month period ended September 30, 2014.

## 10 RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2014 and 2013, 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:

(Expressed in Canadian Dollars)

## 10 RELATED PARTY TRANSACTIONS (Cont'd)

| | Nine months ended September 30, 2014 | | Nine months ended September 30, 2013 | |
|---|---|---|---|---|
| Costs included in exploration and evaluation assets | $ | 106,875 | $ | 1,895,055 |
| Directors' fees | | 110,778 | | 106,489 |
| Management & Consulting fees | | 182,975 | | 205,989 |
| Salaries and benefits | | - | | 84,278 |
| Share-based compensation | | - | | 503,700 |
| | $ | 400,628 | $ | 2,795,511 |

At September 30, 2014, included in accounts payable and accrued liabilities is $310,532 (December 31, 2013 - $307,220) owed to directors, an officer, and a company owned by a former director and officer of the Company. These amounts are unsecured, non-interest bearing and are due on demand.

## 11 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

*Financial instruments*

Cash 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 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.

## 11 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

*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 September 30, 2014, the Company had a cash balance of $2,535,775 to settle current liabilities of $827,593. 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.

## 12 SUBSEQUENT EVENT

The Company received the 2013 BC METC amount of $687,712 plus interest on November 1, 2014.