DOLLY VARDEN
SILVER CORP

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(Unaudited – Expressed in Canadian Dollars)

NOTICE TO READER

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

The accompanying unaudited condensed interim financial statements of Dolly Varden Silver Corporation (the “Company”) have been prepared by and are the responsibility of management. These condensed interim financial statements for the nine months ended September 30, 2020 have not been reviewed or audited by the Company’s independent auditors. All amounts are stated in Canadian dollars.

(Expressed in Canadian Dollars)

As At		September 30, 2020 (Unaudited)		December 31, 2019 (Audited)
ASSETS				
Current				
Cash	$	18,565,212	$	3,821,997
Prepaid expenses		116,635		98,917
Amounts receivable (Note 4)		168,549		566,635
		18,850,396		4,487,549
Non-current				
Equipment (Note 5)		74,821		87,137
Deposits (Note 6)		91,000		91,000
Exploration and evaluation assets (Note 6)		3,726,426		3,726,426
	$	22,742,643	$	8,392,112
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable (Note 9)	$	719,022	$	43,398
Accrued liabilities (Note 9)		169,970		64,229
Liability on flow-through share issuance (Note 7)		-		255,355
		888,992		362,982
Shareholders' Equity				
Share capital (Note 7)		72,919,317		54,628,282
Reserves (Note 7)		7,381,530		6,371,522
Deficit		(58,447,196)		(52,970,674)
		21,853,651		8,029,130
	$	22,742,643	$	8,392,112

Nature of Operations (Note 1)
Subsequent Event (Note 11)

These condensed interim financial statements were approved for issue by the Board of Directors on November 19, 2020 and signed on its behalf by:

"James Sabala"
Director

"Shawn Khunkhun"
Director

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
EXPENSES				
Consulting fees (Note 9)	$ 38,700	$ 17,001	$ 113,038	$ 51,003
Directors' fees (Notes 7, 9)	30,676	36,041	91,908	56,012
Exploration and evaluation (Notes 6, 9)	3,400,563	3,071,145	3,879,144	4,574,390
Management fees (Note 9)	73,500	70,596	498,567	212,642
Marketing and communications (Note 9)	144,656	60,568	238,318	137,709
Office and administration (Note 9)	65,090	45,227	183,190	129,602
Professional fees	35,951	11,487	87,909	42,493
Rent and maintenance (Note 9)	15,000	15,000	60,250	45,000
Share-based payments (Notes 7, 9)	225,184	-	571,316	91,830
Transfer agent and filing fees	37,072	2,234	47,903	15,647
Travel and accommodation	2,428	2,645	8,895	12,602
Operating loss	(4,068,820)	(3,331,944)	(5,780,438)	(5,368,930)
Recovery on flow-through premium (Note 7)	188,643	222,581	255,355	397,766
Part XII.6 tax	25,512	-	(10,683)	(3,249)
Interest income	24,641	16,661	59,244	31,627
Loss and comprehensive loss for the period	$ (3,830,024)	$ (3,092,702)	$ (5,476,522)	$ (4,942,786)
Basic and diluted loss per common share	$ (0.03)	$ (0.04)	$ (0.06)	$ (0.08)
Weighted average number of common shares outstanding	112,275,199	73,374,073	94,921,652	62,864,155

(Unaudited – Expressed in Canadian Dollars)

	Common Shares	Share Capital	Reserves	Deficit	Total Shareholders' Equity
Balance, December 31, 2018	57,372,404	$ 48,556,081	$ 5,998,267	$ (47,995,691)	$ 6,558,657
Issuance of flow-through common shares	17,714,286	5,000,000	-	-	5,000,000
Issuance of common shares	6,948,026	2,014,273	-	-	2,014,273
Share issuance costs – cash	-	(56,358)	-	-	(56,358)
Share issuance costs – shares	1,429,333	-	-	-	-
Flow-through share premium	-	(554,286)	-	-	(554,286)
Share-based payments on option repricing	-	-	91,830	-	91,830
Loss and comprehensive loss for the period		-	-	(4,942,786)	(4,942,786)
Balance, September 30, 2019	83,464,049	54,959,710	6,090,097	(52,938,477)	8,111,330
Flow-through share premium	-	(331,428)	-	-	(331,428)
Share-based payments	-	-	281,425	-	281,425
Loss and comprehensive loss for the period	-	-	-	(32,197)	(32,197)
Balance, December 31, 2019	83,464,049	54,628,282	6,371,522	(52,970,674)	8,029,130
Issuance of flow-through common shares	16,969,697	6,800,000	-	-	6,800,000
Issuance of common shares	18,390,731	12,214,040	-	-	12,214,040
Issuance of common shares	489,795	120,000	-	-	120,000
Share issuance costs – cash	-	(1,133,063)	-	-	(1,133,063)
Share issuance costs – warrants	-	(468,845)	468,845	-	-
Share issuance costs – shares	418,182	-	-	-	-
Exercise of stock options	2,050,000	758,903	(30,153)	-	728,750
Share-based compensation	-	-	571,316	-	571,316
Loss and comprehensive loss for the period	-	-	-	(5,476,522)	(5,476,522)
Balance, September 30, 2020	121,782,454	$ 72,919,317	$ 7,381,530	$ (58,447,196)	$ 21,853,651

(Unaudited – Expressed in Canadian Dollars)

For the nine months ended		September 30, 2020		September 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	$	(5,476,521)	$	(4,942,786)
Items not affecting cash:				
Share-based payments		571,316		91,830
Revaluation of deferred share units		23,360		(3,613)
Recovery on flow-through premium		(255,355)		(397,766)
Depreciation of equipment		12,316		15,052
Changes in non-cash working capital items:				
Prepaid expenses		(17,718)		(64,607)
Amounts receivable		398,086		90,949
Accounts payable and accrued liabilities		758,004		176,568
Cash used in operating activities		(3,986,512)		(5,034,373)
CASH FLOWS FROM FINANCING ACTIVITIES				
Private placement, net of share issuance costs		18,000,977		6,957,915
Exercise of options		728,750		-
Cash provided by financing activities		18,729,727		6,957,915
Change in cash during the period		14,743,215		1,923,542
Cash, beginning of period		3,821,997		2,562,774
Cash, end of period	$	18,565,212	$	4,486,316
Supplemental disclosure with respect to cash flows:				
Interest income received in cash	$	29,587	$	30,701
Non-cash transactions:				
Fair value of finders' shares	$	138,000	$	464,769
Fair value of finders' compensation warrants	$	468,845	$	-
Premium liability on flow-through shares	$	-	$	554,286

1 NATURE OF OPERATIONS

Dolly Varden Silver Corporation (the "Company") was incorporated under the *Canada Business Corporation Act* in the province of British Columbia on March 4, 2011. The Company's primary business is the acquisition, exploration and evaluation of exploration and evaluation assets. The Company is considered to be in the exploration and evaluation stage. The Company's head office is Suite 1800 – 555 Burrard Street, Vancouver, British Columbia, Canada, V7X 1E5. The registered address and records office of the Company is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8.

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

These condensed interim financial statements have been prepared using 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; these condensed interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. For the nine months ended September 30, 2020, the Company incurred a loss of $5,476,521 (2019 - $4,942,786). As at September 30, 2020, the Company had incurred accumulated losses of $58,447,196 (December 31, 2019 - $52,970,674) and had a working capital surplus of $17,961,404 (December 31, 2019 - $4,124,567). The Company will continue to have to raise funds beyond its current working capital balance in order to continue to advance the Company's mineral properties. While the Company has been successful in obtaining certain funding in the past, there is no assurance that such future financing will be available or be available on favourable terms. These material uncertainties may cast significant doubt as to the Company's ability to continue as a going concern.

The recent outbreak of the coronavirus, also known as COVID-19, continues to impact worldwide economic activity. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and, as such, the Company cannot determine their long-term financial impact at this time. Federal, provincial and local governments issued public health orders in response to COVID-19, which caused some delay to the start of the Company's 2020 drilling program.

2 BASIS OF PRESENTATION

(a) Statement of Compliance

The condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended December 31, 2019, which have been prepared in accordance with IFRS.

The condensed interim financial statements were approved by the Board of Directors on November 19, 2020.

(b) Basis of Measurement

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.

2 BASIS OF PRESENTATION (cont'd)

(c) Functional and Foreign Currency

These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

(d) Use of Estimates and Judgments

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim financial statements, and the reported amounts of revenues and expenses during the period. These and other estimates are subject to measurement uncertainty and the effect on the condensed interim 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 that have the most significant effect on the amounts recognized in the condensed interim 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 a 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 amounts of assets and liabilities include, but are not limited to, the following:

i) <u>Share-based payments</u>

The fair value of share-based payments is determined using the 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>Useful life of equipment</u>

Depreciation of equipment is charged to write-down the value of those assets to their residual value over their respective estimated useful lives. Management is required to assess the useful economic lives and residual values of the assets such that depreciation is charged on a systematic basis to the current carrying amount. The useful lives are estimated having regard to such factors as asset maintenance, rate of technical and commercial obsolescence, and asset usage. The useful lives of key assets are reviewed annually.

(Unaudited – Expressed in Canadian Dollars)

2 BASIS OF PRESENTATION (cont'd)

(d) Use of Estimates and Judgments (cont'd)

iii) Deferred income taxes

Judgment is required in determining whether deferred tax assets are recognized in the condensed interim 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 forecasted 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 condensed interim statement of financial position could be impacted.

iv) Accrual of British Columbia Mineral Exploration Tax Credit ("BC METC")

The Government of British Columbia provides for a refundable tax on net qualified mining exploration expenditures incurred in British Columbia. The credit is calculated as 20% of qualified mining exploration expenses less the amount of any assistance received or receivable. The determination of the expenditures that would qualify as mining exploration expenses was based on the previous years' tax filings and subsequent reviews by government auditors.

(e) Comparative Figures

Certain prior period comparative figures have been reclassified to conform to the current period presentation.

3 SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statements for the fiscal year ended December 31, 2019.

4 AMOUNTS RECEIVABLE

Amounts receivable consist of:

	September 30, 2020	December 31, 2019
GST receivable	$ 168,549	$ 29,400
BC METC	-	530,071
Other	-	7,164
	$ 168,549	$ 566,635

(Unaudited – Expressed in Canadian Dollars)

5 EQUIPMENT

	Dock	Tents and Trailers	Equipment	Vehicles	Gas Tank	Boat	Total
Cost:							
At December 31, 2018	$ 15,571	$ 138,521	$ 58,509	$ 47,676	$ 40,000	$ 24,345	$ 324,622
Additions	-	-	1,378	-	-	-	1,378
At December 31, 2019	15,571	138,521	59,887	47,676	40,000	24,345	326,000
Additions (disposals)	-	-	-	-	-	-	-
At September 30, 2020	$ 15,571	$ 138,521	$ 59,887	$ 47,676	$ 40,000	$ 24,345	$ 326,000
Accumulated Depreciation:							
At December 31, 2018	$ 6,597	$ 127,742	$ 31,589	$ 29,270	$ 21,709	$ 1,817	$ 218,724
Depreciation	449	3,234	5,453	5,522	1,829	3,652	20,139
At December 31, 2019	7,046	130,976	37,042	34,792	23,538	5,469	238,863
Depreciation	320	1,697	3,427	2,898	1,235	2,739	12,316
At September 30, 2020	$ 7,366	$ 132,673	$ 40,469	$ 37,690	$ 24,773	$ 8,208	$ 251,179
Net Book Value:							
At December 31, 2019	$ 8,525	$ 7,545	$ 22,845	$ 12,884	$ 16,462	$ 18,876	$ 87,137
At September 30, 2020	$ 8,205	$ 5,848	$ 19,418	$ 9,986	$ 15,227	$ 16,137	$ 74,821

6 EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to all of its exploration and evaluation assets and to the best of its knowledge, title to all of its properties are in good standing.

Exploration and evaluation assets costs are set out below:

	Dolly Varden Property	Musketeer Property	Dolly Varden Project Total
Balance as of December 31, 2018 and 2019	$ 2,645,020	$ 1,081,406	$ 3,726,426
Additions	-	-	-
Balance as of September 30, 2020	$ 2,645,020	$ 1,081,406	$ 3,726,426

Dolly Varden Property

During 2011, the Company purchased the Dolly Varden Property, consisting of fee simple titles, mineral claims and mineral tenures in respect of certain lands located in the Kitsault area of British Columbia. A finder’s fee of $62,500 was paid through the issuance of shares to a shareholder of the Company. The property is subject to a 2% net smelter return royalty (“NSR”) of which one-half (or 1%) of the NSR can be repurchased by the Company for $1,000,000 at any time. As of September 30, 2020, $2,645,020 of acquisition costs have been capitalized.

As of September 30, 2020, the Company has provided deposits totalling $91,000 (December 31, 2019 - $91,000) as reclamation bonds for the property.

(Unaudited – Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

Musketeer Property

On March 18, 2013, the Company entered into an option agreement to acquire a 100% interest in the Musketeer Property located in northwestern British Columbia for $1,050,000 payable over four years, subject to a 2% NSR.

The Company paid an aggregate option payment of $350,000 in 2013 and the second option payment of $233,333 in 2014. In early 2015, the remaining two payments were renegotiated for a fee of $10,000 included with the February 2015 payment of $183,333. In February 2016, the agreement was further renegotiated for a fee of $10,000 and the option payment of $81,000 was paid. During fiscal 2017, a further option payment of $102,334 was made. During the year ended December 31, 2018, the final option payment of $100,000 was made. As of September 30, 2020, $1,081,406 of acquisition costs have been capitalized. The Company now refers to the Musketeer Property as part of the Dolly Varden Property, as the final option payment was paid during the year ended December 31, 2018.

The following table summarizes the exploration and evaluation expenses incurred at the Dolly Varden Project:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Analytical and sample related	$ 70,822	$ 210,458	$ 96,703	$ 249,459
Camp, food, supplies and related	685,525	538,344	740,742	916,810
Claim maintenance	3,760	1,546	8,154	8,299
Community relations and related	5,955	12,585	23,335	21,860
Depreciation	4,105	5,017	12,316	15,052
Drilling	1,708,216	1,602,447	1,714,771	1,971,340
Equipment and warehouse rental	181,071	137,056	206,661	233,353
Fuel	170,844	112,847	170,844	228,685
Geological and geoscience	375,428	323,168	519,115	462,507
Lease payments on land	6,000	6,000	18,000	18,000
Mapping and modelling	-	10,500	21,000	31,500
Project supervision	53,245	75,000	209,865	225,000
Resource and metallurgy	-	3,590	-	104,564
Road and drill pad preparation	124,590	19,813	126,636	61,154
Transport, travel and related	11,002	12,774	11,002	26,807
Total	$ 3,400,563	$ 3,071,145	$ 3,879,144	$ 4,574,390

7 SHARE CAPITAL AND RESERVES

Share Capital

Authorized: Unlimited number of common shares without par value

Issued:

On August 21, 2020, the Company closed a private placement of units of the Company (the "Units") pursuant to which the Company issued 14,084,500 Units at a price of $0.71 per Unit (the "Offering Price") for aggregate gross proceeds of approximately $10,000,000 (the "Offering"). The Offering was led by Mackie Research Capital Corporation, as sole bookrunner, and Eventus Capital Corp. as co-lead agents (together, the "Agents"). Each Unit is comprised of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant is exercisable to acquire one common share (a "Warrant Share") at a price of $1.10 per Warrant Share for a period of 24 months from the closing of the Offering. Provided that if, at any time prior to the expiry date of the Warrants, the closing price of the common shares on the TSX Venture Exchange (the "Exchange"), or other principal exchange on which the common shares are listed, is greater than $1.75 for 10 consecutive trading days, the Company may, at the Company's discretion, and at any time going forward, within 15 days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period.

Pursuant to the ancillary rights agreement between Hecla Canada Ltd. ("Hecla") and the Company, dated September 4, 2012, Hecla exercised its anti-dilution right in respect of the Offering and acquired 1,881,896 Units at the Offering Price for proceeds of approximately $1,300,000 to maintain its pro rata equity interest in the Company. The Units issued to Hecla were in addition to those issued as part of the Offering.

The Agents received an aggregate cash fee equal to 6% of the gross proceeds from the Offering. In addition, the Company issued to the Agents 845,070 non-transferable compensation warrants (the "Compensation Warrants"). Each Compensation Warrant entitles the holder thereof to purchase one common share at an exercise price equal to the Offering Price for a period of 24 months following the closing of the Offering. The fair value of $468,845 of 845,070 Compensation Warrants was estimated using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 0.28%, estimated annualized volatility of 91.51%, an expected life of 2 years, nil dividend yield, a $0.98 share price, and exercise price of $0.71.

On June 10, 2020, the Company closed two private placements and raised gross proceeds of $7,677,895 through the sale of 16,969,697 flow-shares common shares and 2,424,335 common shares. The offerings consisted of the sale of: (i) 6,969,697 flow-through common shares of the Company at a price of $0.33 per share; (ii) 10,000,000 flow-through common shares at a price of $0.45 per share; and (iii) the sale of 2,424,335 common shares to Hecla pursuant to the ancillary rights agreement to maintain its pro rata equity interest in the Company. The Company paid a finders' fee of $270,000 in cash and 418,182 in common shares, where the finders' shares had a fair value $138,000.

On February 28, 2020, the Company issued 489,795 common shares at a price of $0.25 to the former president and Chief Executive Officer as part of his departure.

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

(Unaudited – Expressed in Canadian Dollars)

7 SHARE CAPITAL AND RESERVES (cont'd)

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

Common Share Purchase Warrants

Common share purchase warrant transactions and the number of common share purchase warrants outstanding are summarized below:

	Number of Warrants	Weighted Average Exercise Price $
Balance, December 31, 2019	-	-
Issued	7,983,198	1.10
Balance, September 30, 2020	7,983,198	1.10

Date of Expiry	Number of Warrants Outstanding	Exercise Price $
August 22, 2020	7,983,198	1.10
Balance, September 30, 2020	7,983,198	

The remaining life of the common share purchase warrants as of September 30, 2020 is 1.89 years (December 31, 2019 - nil).

Compensation Warrants

Compensation warrant transactions and the number of compensation warrants outstanding are summarized below:

	Number of Warrants	Weighted Average Exercise Price $
Balance, December 31, 2019	-	-
Issued	845,070	0.71
Balance, September 30, 2020	845,070	0.71

Date of Expiry	Number of Warrants Outstanding	Exercise Price $
August 22, 2020	845,070	0.71
Balance, September 30, 2020	845,070	

The remaining life of the compensation warrants as of September 30, 2020 is 1.89 years (December 31, 2019 - nil).

(Unaudited – Expressed in Canadian Dollars)

7 SHARE CAPITAL AND RESERVES (cont'd)

Stock Options

The Company has a stock option plan under which it is authorized to grant share purchase options to executive officers, directors, employees and consultants enabling the holder to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option shall be no less than the discounted market price of the Company's shares prior to the grant in accordance with 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.

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2018	4,070,000	$ 0.70
Issued	1,400,000	$ 0.30
Forfeited/expired	(630,000)	$ 0.80
Balance, December 31, 2019	4,840,000	$ 0.37
Issued	3,550,000	$ 0.26
Exercised	(2,050,000)	$ 0.36
Forfeited/expired	(400,000)	$ 0.39
Balance, September 30, 2020	5,940,000	$ 0.30

The Company had outstanding stock options enabling the holders to acquire common shares as follows:

Date of Expiry	Exercise Price	September 30, 2020	December 31, 2019
October 23, 2020	$ 0.30	165,000	190,000
July 29, 2021	$ 0.40	500,000	500,000
December 2, 2021	$ 0.40	650,000	650,000
May 18, 2022	$ 0.40	175,000	925,000
February 15, 2023	$ 0.40	525,000	1,175,000
December 12, 2024	$ 0.30	450,000	1,400,000
February 18, 2025	$ 0.25	2,500,000	-
February 28, 2025	$ 0.25	200,000	-
March 17, 2025	$ 0.25	675,000	-
June 14, 2025	$ 0.45	100,000	-
Total Outstanding		5,940,000	4,840,000
Total Exercisable [(1)]		3,340,000	4,840,000

[(1)] Subsequent to September 30, 2020, a total of 337,500 stock options were exercised.

During the nine months ended September 30, 2020, the Company granted 3,550,000 (2019 - nil) stock options to directors, employees and consultants with a total fair value of $719,025 (2019 - $nil) that will be recognized over the vesting term. During the nine months ended September 30, 2020, the Company recognized a total of $571,316 (2019 - $nil) in share-based payments for the options vested during the period.

During the year ended December 31, 2019, 3,250,000 options were repriced to an exercise price of $0.40 per option. The Company recognized share-based payments of $91,830 as a result of the repricing.

(Unaudited – Expressed in Canadian Dollars)

7 SHARE CAPITAL AND RESERVES (cont'd)

Stock Options (cont'd)

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

Nine months ended	September 30, 2020	September 30, 2019
Risk-free interest rate	1.16%	N/A
Expected dividend yield	0%	N/A
Annualized stock price volatility	105%	N/A
Expected life of options	5 years	N/A
Expected forfeiture rate	0%	N/A

Deferred Share Units ("DSU")

The Company has a DSU plan that entitles certain directors and officers to receive the cash equivalent of the DSUs when they retire from the Company. In October 2015, the Company ceased further accruals under the DSU plan. During the nine months ended September 30, 2020, the Company has recognized an increase in the fair value liability of the remaining DSUs of $23,360 (2019 - decrease of $3,613) in directors' fees as a result of the change in the Company's common share price.

During the nine months ended September 30, 2020, the Company paid, in addition to the DSU plan, directors' fees of $59,625 (2019 - $59,625).

Flow-through Premium Liability

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

Balance as of December 31, 2018	$	155,169
Flow-through premium liability additions		885,714
Settlement of flow-through share premium liability pursuant to qualifying expenditures		(785,528)
Balance as of December 31, 2019		255,355
Settlement of flow-through share premium liability pursuant to qualifying expenditures		(255,355)
Balance as of September 30, 2020	$	-

8 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 that optimizes the cost of capital within a framework of acceptable risk. The capital of the Company consists of items within shareholders' equity.

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

The Company is dependent on the capital markets as its main source of operating capital. The Company's capital resources are largely determined by the strength of the junior public markets, by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. There have been no changes to the Company's approach to capital management during the nine months ended September 30, 2020.

(Unaudited – Expressed in Canadian Dollars)

9 RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2020 and 2019, 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 party transactions disclosed elsewhere in these condensed interim financial statements:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Consulting fees	$ -	$ -	$ 10,000	$ -
Directors' fees	19,875	19,875	59,625	59,625
Exploration and evaluation (3)	26,100	-	83,162	-
Management fees (1)(2)(5)	73,500	60,000	479,190	180,000
Office and administration (5)	16,500	-	36,500	-
Share-based payments (2)(3)(5)	121,064	-	372,339	55,642
Total	$ 257,039	$ 79,875	$ 1,040,816	$ 295,267

Other related party transactions are as follows:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Exploration and evaluation (4)	$ -	$ 30,000	$ 21,000	$ 64,000
Management fees (4)	-	10,596	11,877	32,642
Marketing (4)	-	29,786	31,397	70,152
Office and administration (4)	-	22,836	27,800	73,338
Rent and maintenance (4)	-	15,000	15,250	45,000
Share-based payments (4)	-	-	8,116	10,006
Total	$ -	$ 108,218	$ 115,440	$ 295,138

(1) Fees of $152,414 were paid in cash and $120,000 paid in shares to a corporation controlled by the former Chief Executive Officer and former director of the Company and included a settlement fee on transition to new management. The management fees included this $272,414 paid to the former Chief Executive Officer as a termination fee.

(2) Fees of $20,000 per month were paid to a corporation controlled by the Chief Executive Officer of the Company.

(3) Fees of $7,500 per month plus $1,200 per day for out of scope work was paid to a consulting company controlled by a director of the Company that provided consulting services to the Company during the period.

(4) Fees were paid to corporations controlled by the former Chief Executive Officer and former director of the Company that provided office space, a corporate secretary, investor relations, and accounting and administration staff to the Company on a shared-cost basis.

(5) Fees of $10,000 per month were paid to a corporation controlled by the Chief Financial Officer of the Company where $4,500 relates to the Chief Financial Officer services and $5,500 relates to bookkeeping or administrative services.

At September 30, 2020, included in accounts payable is $17,400 (December 31, 2019 - $11,025) owed to directors, officers, and former directors and/or officers of the Company. These amounts are unsecured, non-interest-bearing and due on demand.

At September 30, 2020, included in accrued liabilities is $50,736 (December 31, 2019 - $27,376) accrued to independent directors for directors' fees outstanding as DSUs.

10 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments recorded at fair value require disclosure as to how the fair value was determined based on significant levels of input 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, accounts payable and accrued liabilities.

Financial Instruments

Cash is measured at fair value using Level 1 as the basis for measurement in the fair value hierarchy. The carrying values of receivables, deposits, accounts payable and accrued liabilities approximate fair values due to 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 include receivables from government agencies.

The Company limits its exposure to credit risk 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, entering into credit facilities, or entering into joint ventures, partnerships or other similar arrangements. The Company's ability to continue as a going concern is dependent upon its ability to continue to raise adequate financing in the future to meet its obligations and repay its liabilities arising from normal business operations when they come due. As at September 30, 2020, the Company had a cash balance of $18,565,212 to settle current liabilities of $888,992, excluding the liability on flow-through share issuance.

Interest Rate Risk

The Company has cash balances subject to fluctuations in the prime rate. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes that interest rate risk is remote, as investments are redeemable at any time and interest can be earned up to the date of redemption.

Price Risk

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

11 SUBSEQUENT EVENT

The Company issued 7,070,000 flow-through shares, as defined under the Income Tax Act (Canada), at a price of $1 per share for proceeds of $7,070,000. The Company paid cash finder's fees of $408,600 in connection with the financing.

Pursuant to the ancillary rights agreement between Hecla and the Company, dated September 4, 2012, Hecla exercised its anti-dilution right in respect of the offerings and acquired 807,846 common shares of the Company at a price of $0.89 per share.