



CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

(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 three months ended March 31, 2021 have not been reviewed or audited by the Company's independent auditors. All amounts are stated in Canadian dollars.

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

As At	Notes	March 31, 2021 (unaudited)	December 31, 2020 (audited)
ASSETS			
Current			
Cash		\$ 22,911,523	\$ 23,645,088
Prepaid expenses	4	154,147	126,635
Amounts receivable	5	44,577	96,817
		23,110,247	23,868,540
Non-current			
Equipment	6	79,812	83,599
Deposits	7	91,000	91,000
Exploration and evaluation assets	7	4,029,234	4,029,234
		\$ 27,310,293	\$ 28,072,373
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	10	\$ 109,780	\$ 93,385
Accrued liabilities	10	140,952	164,836
Liability on flow-through share issuance	8	1,099,093	1,157,254
		1,349,825	1,415,475
Shareholders' Equity			
Share capital	8	79,865,960	79,833,699
Reserves	8	7,499,614	7,072,193
Deficit		(61,405,106)	(60,248,994)
		25,960,468	26,656,898
		\$ 27,310,293	\$ 28,072,373

Nature of and Continuance of Operations (Note 1)

These condensed interim financial statements were approved for issue by the Board of Directors on May 27, 2021 and signed on its behalf by:

"James Sabala"

Director

"Shawn Khunkhun"

Director

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

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

For the three months ended	Notes	March 31, 2021	March 31, 2020
EXPENSES			
Consulting fees	10	\$ 67,527	\$ 46,669
Directors' fees	8, 10	5,431	16,015
Exploration and evaluation	7, 10	412,948	213,015
Management fees	10	103,500	344,067
Marketing and communications	10	81,627	75,070
Office and administration	10	68,567	51,908
Professional fees		8,719	37,766
Rent and maintenance	10	16,100	20,250
Share-based payments	8, 10	443,432	91,779
Transfer agent and filing fees		15,901	3,020
Travel and accommodation		-	6,467
Operating loss		(1,223,752)	(906,026)
Recovery on flow-through premium	8	58,161	21,493
Part XII.6 tax		(11,800)	(2,200)
Interest income		21,279	17,801
Loss and comprehensive loss for the period		\$ (1,156,112)	\$ (868,932)
Basic and diluted loss per common share		\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding – basic and diluted		130,582,972	83,636,285

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

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

	Common Shares	Share Capital	Reserves	Deficit	Total Shareholders' Equity
Balance, December 31, 2019	83,464,049	\$ 54,628,282	\$ 6,371,522	\$ (52,970,674)	\$ 8,029,130
Issuance of common shares	489,795	120,000	-	-	120,000
Share-based payments	-	-	91,779	-	91,779
Loss and comprehensive loss for the period	-	-	-	(868,932)	(868,932)
Balance, March 31, 2020	83,953,844	54,748,282	6,463,301	(53,839,606)	7,371,977
Issuance of flow-through common shares	24,039,697	13,870,000	-	-	13,870,000
Issuance of common shares	19,198,577	12,933,023	-	-	12,933,023
Issuance of common shares for acquisition of exploration and evaluation assets	192,061	149,808	-	-	149,808
Share issuance costs – cash	-	(1,609,464)	-	-	(1,609,464)
Share issuance costs – warrants	-	(468,845)	468,845	-	-
Share issuance costs – shares	418,182	-	-	-	-
Flow-through share premium	-	(1,201,900)	-	-	(1,201,900)
Exercise of stock options	2,745,500	1,412,795	(427,270)	-	985,525
Share-based payments	-	-	567,317	-	567,317
Loss and comprehensive loss for the period	-	-	-	(6,409,388)	(6,409,388)
Balance, December 31, 2020	130,547,861	79,833,699	7,072,193	(60,248,994)	26,656,898
Exercise of stock options	65,000	32,261	(16,011)	-	16,250
Share-based payments	-	-	443,432	-	443,432
Loss and comprehensive loss for the period	-	-	-	(1,156,112)	(1,156,112)
Balance, March 31, 2021	130,612,861	\$ 79,865,960	\$ 7,499,614	\$ (61,405,106)	\$ 25,960,468

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

DOLLY VARDEN SILVER CORPORATION
Condensed Interim Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars)

For the three months ended	March 31, 2021	March 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (1,156,112)	\$ (868,932)
Items not affecting cash:		
Share-based payments	443,432	91,779
Revaluation of deferred share units	(14,444)	(3,860)
Recovery on flow-through premium	(58,161)	(21,493)
Shares issued for termination fee	-	120,000
Depreciation of equipment	3,787	4,105
Changes in non-cash working capital items:		
Prepaid expenses	(27,512)	8,167
Amounts receivable	52,240	539,660
Accounts payable and accrued liabilities	6,955	25,601
Cash used in operating activities	(749,815)	(104,973)
CASH FLOWS FROM FINANCING ACTIVITY		
Exercise of stock options	16,250	-
Cash provided by financing activity	16,250	-
Change in cash during the period	(733,565)	(104,973)
Cash, beginning of period	23,645,088	3,821,997
Cash, end of period	\$ 22,911,523	\$ 3,717,024
Supplemental disclosure with respect to cash flows:		
Interest income received in cash	\$ 21,047	\$ -

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

DOLLY VARDEN SILVER CORPORATION
Notes to the Condensed Interim Financial Statements
For the three months ended March 31, 2021 and 2020
(Unaudited – Expressed in Canadian Dollars)

1 NATURE OF AND CONTINUANCE 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 and is a public company listed on the TSX Venture Exchange (the “Exchange”) under the symbol “DV”. The Company’s primary business is the acquisition and exploration of properties in Canada. 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 in British Columbia, Canada. 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. Management believes that the Company has sufficient working capital to maintain its operations and activities for the next fiscal year.

The 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 the Company to allocate additional resources to ensure compliance with health orders.

2 BASIS OF PRESENTATION

(a) Statement of Compliance

These 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 financial statements for the fiscal year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board, and interpretations issued by the International Financial Reporting Interpretation Committee.

These condensed interim financial statements were approved by the Board of Directors on May 27, 2021.

(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.

(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.

2 BASIS OF PRESENTATION (cont'd)

(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 and 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) Recoverability of the carrying value of the Company's exploration and evaluation assets
Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of these properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that 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) Share-based payments
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 date.
- ii) Estimating useful life of equipment
Depreciation of equipment is charged to write-down the value of those assets to their residual value over their respective estimated useful lives. Management is required to assess the useful economic lives and residual values of the assets such that depreciation is charged on a systematic basis to the current carrying amount. The useful lives are estimated having regard to such factors as asset maintenance, rate of technical and commercial obsolescence, and asset usage. The useful lives of key assets are reviewed annually.

DOLLY VARDEN SILVER CORPORATION
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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 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 condensed interim statement of financial position could be impacted.

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

The provincial government of BC provides for a refundable tax on net qualified mining exploration expenditures incurred in BC. The credit is calculated as 20% of qualified mining exploration expenses less the amount of any assistance received or receivable. 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. BC METC will be recorded in net income or loss upon cash receipt or when reasonable assurance exists that the tax filings are assessed and the expenditures are qualified as mining exploration expenses.

(e) Comparative Figures

Certain prior period comparative figures on the condensed interim statements of cash flows 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, 2020.

4 PREPAID EXPENSES

Prepaid expenses consists of:

	March 31, 2021		December 31, 2020	
Advances for exploration expenditures	\$	35,995	\$	35,995
Insurance and other administrative expenses		118,152		90,640
	\$	154,147	\$	126,635

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5 AMOUNTS RECEIVABLE

Amounts receivable consists of:

	March 31, 2021	December 31, 2020
GST receivable	\$ 34,924	\$ 92,721
Other	9,653	4,096
	\$ 44,577	\$ 96,817

6 EQUIPMENT

Equipment consists of:

	Dock	Tents and Trailers	Equipment	Vehicles	Gas Tank	Boat	Total
Cost:							
At December 31, 2019	\$ 15,571	\$ 138,521	\$ 59,887	\$ 47,676	\$ 40,000	\$ 24,345	\$ 326,000
Additions	-	5,692	13,406	-	-	-	19,098
Disposals	-	-	(24,867)	(26,705)	-	-	(51,572)
At December 31, 2020 and March 31, 2021	\$ 15,571	\$ 144,213	\$ 48,426	\$ 20,971	\$ 40,000	\$ 24,345	\$ 293,526
Accumulated Depreciation:							
At December 31, 2019	\$ 7,046	\$ 130,976	\$ 37,042	\$ 34,792	\$ 23,538	\$ 5,469	\$ 238,863
Depreciation	426	2,690	5,239	3,864	1,646	3,652	17,517
Disposals	-	-	(20,453)	(26,000)	-	-	(46,453)
At December 31, 2020	7,472	133,666	21,828	12,656	25,184	9,121	209,927
Depreciation	101	791	1,331	623	370	571	3,787
At March 31, 2021	\$ 7,573	\$ 134,457	\$ 23,159	\$ 13,279	\$ 25,554	\$ 9,692	\$ 213,714
Net Book Value:							
At December 31, 2020	\$ 8,099	\$ 10,547	\$ 26,598	\$ 8,315	\$ 14,816	\$ 15,224	\$ 83,599
At March 31, 2021	\$ 7,998	\$ 9,756	\$ 25,267	\$ 7,692	\$ 14,446	\$ 14,653	\$ 79,812

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7 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 is in good standing.

Exploration and evaluation assets costs are set out below:

	Dolly Varden Property
Balance, December 31, 2019	\$ 3,726,426
Addition	302,808
Balance, December 31, 2020 and March 31, 2021	\$ 4,029,234

During the years ended December 31, 2011 to 2018, 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. 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 \$2,750,000 at any time.

During the year ended December 31, 2020, the Company acquired surface rights and fee simple lands where the exploration camp, offices, logging and sampling facilities, as well as core storage areas are currently located. The acquisition included a parcel of land located at waterfront. The total package had been previously leased annually by the Company from private owners. The transaction involves a payment of \$153,000 in cash and issuance of 192,061 common shares of the Company for a value of \$149,808.

As of March 31, 2021, the Company has deposits totalling \$91,000 (December 31, 2020 - \$91,000) as reclamation bonds for the property.

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

Three months ended	March 31, 2021	March 31, 2020
Analytical and samples	\$ 155,429	\$ 12,623
Camp, food, supplies and related	74,210	-
Claim maintenance	5,587	1,125
Community relations and related	3,750	9,220
Depreciation	3,787	4,105
Equipment and warehouse rental	13,242	10,228
Geological and geoscience	61,122	43,714
Lease payments on land	-	6,000
Mapping and modelling	9,190	21,000
Project supervision	92,000	105,000
Cost recovery: BC METC	(5,369)	-
Total	\$ 412,948	\$ 213,015

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8 SHARE CAPITAL

Authorized: Unlimited number of common shares without par value.

Issued:

During the three months ended March 31, 2021, the Company issued 65,000 common shares pursuant to the exercise of stock options for proceeds of \$16,250.

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, December 31, 2020 and March 31, 2021	7,983,198	1.10

	Number of Warrants Outstanding	Exercise Price \$
August 22, 2022	7,983,198	1.10

The remaining life of the common share purchase warrants as of March 31, 2021 is 1.39 (December 31, 2020 - 1.64) years.

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, December 31, 2020 and March 31, 2021	845,070	0.71

	Number of Warrants Outstanding	Exercise Price \$
August 22, 2022	845,070	0.71

The remaining life of the compensation warrants as of March 31, 2021 is 1.39 (December 31, 2020 - 1.64) years.

DOLLY VARDEN SILVER CORPORATION
Notes to the Condensed Interim Financial Statements
For the three months ended March 31, 2021 and 2020
(Unaudited - Expressed in Canadian Dollars)

8 SHARE CAPITAL (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, 2019	4,840,000	0.37
Granted	3,550,000	0.26
Exercised	(2,745,500)	0.36
Forfeited/expired	(407,000)	0.36
Balance, December 31, 2020	5,237,500	0.30
Granted	2,675,000	0.71
Exercised	(65,000)	0.25
Balance, March 31, 2021	7,847,500	0.44

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

Date of Expiry	Exercise Price	March 31, 2021	December 31, 2020
July 29, 2021	0.40	500,000	500,000
December 2, 2021	0.40	450,000	450,000
May 18, 2022	0.40	25,000	25,000
February 15, 2023	0.40	375,000	375,000
December 12, 2024	0.30	450,000	450,000
February 18, 2025	0.25	2,500,000	2,500,000
February 28, 2025	0.25	200,000	200,000
March 17, 2025	0.25	572,500	637,500
June 14, 2025	0.45	100,000	100,000
March 25, 2026	0.71	2,675,000	-
Total Outstanding		7,847,500	5,237,500
Total Exercisable		4,076,667	2,943,750

During the three months ended March 31, 2021, the Company granted 2,675,000 (December 31, 2020 - 3,550,000) stock options to directors, employees and consultants with a total fair value of \$443,432 (December 31, 2020 - \$659,096) that will be recognized as share-based payments expense over the vesting term. During the three months ended March 31, 2021, the Company recognized a total of \$443,432 (2020 - \$91,779) in share-based payments expense for the options granted and vested during the period.

The weighted average remaining life of the stock options as of March 31, 2021 is 3.75 (December 31, 2020 - 3.36) years.

DOLLY VARDEN SILVER CORPORATION
Notes to the Condensed Interim Financial Statements
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(Unaudited - Expressed in Canadian Dollars)

8 SHARE CAPITAL (cont'd)

Stock Options (cont'd)

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

For the three months ended	March 31, 2021	March 31, 2020
Risk-free interest rate	0.68%	1.18%
Expected dividend yield	0%	0%
Annualized stock price volatility	91%	105%
Expected life of options	5 years	5 years
Expected forfeiture rate	0%	0%

Deferred Share Units ("DSU")

The Company has a DSU plan that entitles certain directors and officers to receive the cash equivalent of the 58,270 DSUs issued when they retire from the Company. In October 2015, the Company ceased further accruals under the DSU plan. During the three months ended March 31, 2021, the Company has recognized a decrease in the fair value of the outstanding DSU liability of \$14,444 (2020 - \$3,860), which was recognized as directors' fees.

During the three months ended March 31, 2021, the Company paid, in addition to the DSU plan, directors' fees of \$19,875 (2020 - \$19,875) (Note 10).

Flow-through Premium Liability

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

Balance, December 31, 2019	\$	255,355
Flow-through premium liability additions		1,201,900
Settlement of flow-through share premium liability pursuant to qualifying expenditures		(300,001)
Balance, December 31, 2020		1,157,254
Settlement of flow-through share premium liability pursuant to qualifying expenditures		(58,161)
Balance, March 31, 2021	\$	1,099,093

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 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 three months ended March 31, 2021.

DOLLY VARDEN SILVER CORPORATION
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(Unaudited - Expressed in Canadian Dollars)

10 RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2021 and 2020, 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:

For the three months ended	March 31, 2021	March 31, 2020
Consulting fees ⁽³⁾	\$ -	\$ 10,000
Directors' fees	19,875	19,875
Exploration and evaluation ⁽³⁾	42,500	11,462
Management fees ⁽¹⁾⁽²⁾⁽⁵⁾	103,500	332,190
Share-based payments ⁽²⁾⁽³⁾⁽⁵⁾	359,358	80,474
Total	\$ 525,233	\$ 454,001

Other related party transactions are as follows:

For the three months ended	March 31, 2021	March 31, 2020
Exploration and evaluation	\$ -	\$ 21,000
Management fees ⁽⁴⁾	-	11,877
Marketing and communications ⁽⁴⁾	-	31,397
Office and administration ⁽⁴⁾⁽⁶⁾	16,500	27,800
Rent and maintenance ⁽⁴⁾	-	15,250
Share-based payments ⁽⁴⁾	-	8,116
Total	\$ 16,500	\$ 115,440

- (1) During the period ended March 31, 2020, a corporation controlled by the former Chief Executive Officer and a former director of the Company received fees of \$152,414 in cash and \$120,000 in shares as 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) The Company entered into a consulting service agreement with S2K Capital Corp. and Mr. Shawn Khunkhun, the Chief Executive Officer and a director of the Company. Pursuant to this consulting agreement, Mr. Khunkhun is compensated at a rate of \$20,000 per month. The Company is required to pay an equivalent to 24 months' pay plus an average of any cash performance bonus paid to Mr Khunkhun in the previous two completed financial years if the consulting agreement is terminated by either party absent an event of default during the twelve-month period following the date of a change in control of the Company. If the agreement is terminated for reasons other than event of default, the Company is required to pay a sum equal to 12 months' pay to Mr. Khunkhun.
- (3) One director provided business consulting services to the Company, and \$10,000 was included in consulting expense for the three months ended March 31, 2020. Another director was paid indirectly through a corporation for technical geological work, which was included in exploration and evaluation expense.
- (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) The Company entered into a consulting service agreement with Fehr & Associates and Mrs. Ann Fehr, the Chief Financial Officer of the Company. Pursuant to this consulting agreement, Fehr & Associates is compensated at a rate of \$10,000 per month where \$4,500 relates to the Chief Financial Officer services.
- (6) \$5,500 of the Fehr & Associates monthly fee relates to bookkeeping or administrative services performed by individuals other than the Chief Financial Officer.

At March 31, 2021, included in accounts payable is \$7,500 (December 31, 2020 - \$20,230) 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 March 31, 2021, included in accrued liabilities is \$37,088 (December 31, 2020 - \$51,532) accrued to independent directors for directors' fees outstanding related to outstanding DSUs.

11 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 amounts receivable, deposits, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments or market rates of interest.

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 amounts receivable. 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.

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 March 31, 2021, the Company had a cash balance of \$22,911,523 (December 31, 2020 - \$23,645,088) to settle current liabilities of \$250,732 (December 31, 2020 - \$258,221), 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.