DOLLY VARDEN SILVER CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

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 June 30, 2016 and 2015 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 six month periods ended June 30, 2016 and 2015.

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

		June 30, 2016		December 31, 2015
Assets				
Current				
Cash	$	191,896	$	212,403
Prepaid Expenses (Note 3)		29,716		20,824
Receivables (Note 4)		5,695		74,473
Deferred short term finance charge (Note 8)		87,938		-
		315,245		307,700
Non-Current				
Equipment (Note 5)		105,222		140,262
Deposits (Note 6)		91,000		91,000
Exploration and evaluation assets (Note 6)		3,524,092		3,433,092
	$	4,035,559	$	3,972,054
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable & accrued liabilities (Note 7 and 11)	$	501,150	$	610,564
Loan and interest payable (Note 8)		2,066,598		1,518,750
		2,567,748		2,129,314
Shareholders' equity				
Share Capital (Note 9)		26,798,486		26,798,486
Reserves		3,419,980		3,419,980
Deficit		(28,750,655)		(28,375,726)
		1,467,811		1,842,740
	$	4,035,559	$	3,972,054

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

APPROVED ON BEHALF OF THE BOARD:

"Tom Wharton"	*"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 June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
Expenses				
Exploration and evaluation (Note 6)	$ 29,334	$ 128,502	$ 70,771	$ 287,936
Administrative & consulting fees	6,905	41,437	15,545	55,841
Directors' fees (Note 9)	89,348	(60,752)	92,834	(40,090)
Management fees	36,056	45,000	73,378	82,962
Marketing and communications	3,747	69,963	4,638	166,209
Office	8,881	10,764	19,516	22,965
Professional fees	52,937	48,864	60,677	126,670
Rent and maintenance	690	8,922	1,380	16,775
Salaries and benefits	-	12,755	-	36,969
Share-based compensation (Note 9)	-	-	-	84,653
Transfer agent and filing fees	1,587	18,265	(2,130)	25,579
Travel & Accommodation	1,162	41	1,162	8,811
Exchange (gain)/loss	2,078	209	2,078	(198)
Operating loss	(232,725)	(323,970)	(339,849)	(875,082)
Finance and interest charges (Note 8)	(24,932)	-	(47,849)	-
Gain on sale of equipment	-	-	12,381	-
Interest income	388	2,761	388	6,795
Total loss and comprehensive loss for period	$ (257,269)	$ (321,209)	$ (374,929)	$ (868,287)
Loss per common share, basic and diluted	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.05)
Weighted average number of common shares outstanding (Note 9)	18,268,963	18,268,963	18,268,963	18,268,963

(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, 2014	**18,268,963**	**$ 26,798,884**	**$ 2,961,213**	**$ (24,811,071)**	**$ 4,949,026**
Share issuance costs	-	(398)	-	-	(398)
Share-based compensation	-	-	84,653	-	84,653
Total loss and comprehensive loss for the period	-	-	-	(868,288)	(868,288)
Balance - June 30, 2015	**18,268,963**	**26,798,486**	**3,045,866**	**(25,679,359)**	**$ 4,164,993**
Fair value assigned to issued finders' warrants	-	-	311,678	-	311,678
Share-based compensation	-	-	62,436	-	62,436
Total loss and comprehensive loss for the period	-	-	-	(2,696,367)	(2,696,367)
Balance - December 31, 2015	**18,268,963**	**26,798,486**	**3,419,980**	**(28,375,726)**	**$ 1,842,740**
Total loss and comprehensive loss for the period	-	-	-	(374,929)	(374,929)
Balance - June 30, 2016	**18,268,963**	**$ 26,798,486**	**$ 3,419,980**	**$ (28,750,655)**	**$ 1,467,811**

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

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

	Six months ended June 30, 2016	2015
Cash flows from operating activities		
Loss for the period	$ (374,929)	$ (868,287)
Items not affecting cash:		
Share-based compensation	-	84,653
Directors' fees (note 9)	92,834	(79,993)
Finance charges	47,849	-
Gain on sale of equipment	(12,381)	-
Depreciation of equipment	-	18,934
Changes in non-cash working capital items:		
Decrease in receivables	68,778	69,831
Decrease (increase) in prepaid expenses	14,529	83,240
Decrease in accounts payable & accrued liabilities	(290,187)	(5,928)
Net cash used in operating activities	(453,507)	(697,550)
Cash flows from investing activities		
Exploration and evaluation assets	(91,000)	(193,333)
Proceeds from disposal of equipment	24,000	-
Net cash used in investing activities	(67,000)	(193,333)
Cash flows from financing activities		
Proceeds from loan	500,000	-
Share issuance costs	-	(398)
Net cash provided by financing activities	500,000	(398)
Net change in cash for the period	(20,507)	(891,281)
Cash - beginning of the period	212,403	1,559,040
Cash - end of the period	$ 191,896	$ 667,759

Supplemental disclosure with respect to cash flows:		
Interest received in cash	$ 388	$ 6,114
Interest paid in cash	-	-
Income taxes paid in cash	-	-

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

1 NATURE OF OPERATIONS AND GOING CONCERN

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, evaluation and development of exploration and evaluation assets. The Company is considered to be in the exploration and evaluation stage. The Company's registered head office is suite 970 -800 West Pender Street, Vancouver, BC, V6C 2V6.

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 June 30, 2016, the Company had incurred accumulated losses of $28,750,655 (December 31, 2015: accumulated loss of $28,375,726) since inception, and has a Working Capital Deficiency of $2,252,503 (December 31, 2015: Working Capital Deficiency of $1,821,614) 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 the future 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 August 25, 2016.

(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.

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, 2015 except as specified

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

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, 2015..

For the comparative financial statements, the Company re-classified certain 2015 accounts in order to conform with the 2016 presentation.

(c) Change in Accounting Policy – Exploration and evaluation expenditures

During fiscal 2015, the Company changed its accounting policy with respect to exploration and evaluation expenditures. In prior years, the Company's policy was to capitalize by property all costs directly related to the exploration and evaluation of mineral properties classified as exploration and evaluation assets. The Company has changed this accounting policy to now expense to operations exploration expenditures as incurred, effective with the presentation of the December 31, 2015 financial statements, on a retrospective basis. Accordingly, certain 2015 comparative amounts have been restated from amounts presented in 2015 to reflect this change in accounting policy.

3 PREPAID EXPENSES

Prepaid expenses consist of:

	June 30, 2016	December 31, 2015
Insurance	$ 10,979	$ 17,812
Other	18,737	3,012
	$ 29,716	$ 20,824

4 RECEIVABLES

Receivables consist of:

	June 30, 2016	December 31, 2015
GST/HST	$ 4,695	$ 69,175
Other	1,000	5,298
	$ 5,695	$ 74,473

(Expressed in Canadian Dollars)

5 EQUIPMENT

	Boat	Dock	Tents & trailers	Equipment	Vehicles	Gas tank	Computer Hardware	Total
Cost								
At December 31, 2015	$ 43,095	$ 15,571	$ 138,521	$ 51,879	$ 129,136	$ 40,000	$ 10,346	$ 428,548
Additions /(Disposals)	(29,095)	-	-	-	(102,431)	-	-	(131,526)
At June 30, 2016	**$ 14,000**	**$ 15,571**	**$ 138,521**	**$ 51,879**	**$ 26,705**	**$ 40,000**	**$ 10,346**	**$ 297,022**
Accumulated depreciation								
At December 31, 2015	$ 22,287	$ 3,205	$ 107,646	$ 27,041	$ 102,693	$ 15,068	$ 10,346	$ 288,286
Additions /(Disposals)	(15,047)	-	-	-	(81,439)	-	-	(96,486)
Depreciation for the period	-	-	-	-	-	-	-	-
At June 30, 2016	**$ 7,240**	**$ 3,205**	**$ 107,646**	**$ 27,041**	**$ 21,254**	**$ 15,068**	**$ 10,346**	**$ 191,800**
NET BOOK VALUE								
At December 31, 2015	**$ 20,808**	**$ 12,366**	**$ 30,875**	**$ 24,838**	**$ 26,443**	**$ 24,932**	**$ -**	**$ 140,262**
At June 30, 2016	**$ 6,760**	**$ 12,366**	**$ 30,875**	**$ 24,838**	**$ 5,451**	**$ 24,932**	**$ -**	**$ 105,222**

6 EXPLORATION AND EVALUATION ASSETS

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% 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 staging area 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 staging area was extended through 2014 and 2015. To date, $2,656,426 of acquisition costs have been capitalized.

The Company has provided deposits totalling $91,000 (December 31, 2015 - $91,000) as reclamation bonds for the property.

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 BC Canada for $1,050,000 payable over four years, subject to a 2% NSR.

The Company paid an aggregate option payment of $350,000 in fiscal 2013 and the second option payment of $233,333 in fiscal 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. To date, $867,666 of acquisition costs have been capitalized.

The remaining option payments are due as follows:

February 12, 2016	$81,000 + $10,000 (paid)
February 12, 2017	$102,334
February 11, 2018	$100,000

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

As described in Note 2(c), the Company now expenses the exploration expenditures as incurred.

The following tables summarize the exploration costs incurred for the six months ended June 30, 2016:

	Dolly Varden Property	Musketeer Property	Total
Exploration Costs			
Assay	$ 2,938	$ 326	$ 3,264
Camp, food, supplies and misc.	5,406	601	6,007
Claim maintenance	2,350	261	2,611
Equipment and warehouse rental	33,902	3,767	37,669
Field project and management	4,844	538	5,382
Geological and Geoscience consulting	10,674	1,186	11,860
Geotechnical studies	156	17	173
Mapping and modelling	3,341	371	3,712
Survey and assessment	84	9	93
Total Exploration Costs	$ 63,695	$ 7,076	$ 70,771

The following tables summarize the exploration costs incurred for the six months ended June 30, 2015:

	Dolly Varden Property	Musketeer Property	Total
Exploration Costs			
Assay	$ 2,924	$ 1,044	$ 3,968
Camp, food, supplies and misc.	4,690	1,673	6,363
Claim maintenance	19,528	7,136	26,664
Depreciation	13,955	4,979	18,934
Equipment and warehouse rental	29,047	10,917	39,964
Field project and management	17,563	6,268	23,831
Geological and Geoscience consulting	80,851	28,852	109,703
Mapping and modelling	38,746	13,827	52,573
Transport, travel and accomodations	4,205	1,731	5,936
Total Exploration Costs	$ 211,509	$ 76,427	$ 287,936

(Expressed in Canadian Dollars)

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

		June 30, 2016		December 31, 2015
Trade payables (1,2,3,5)	$	356,473	$	499,030
Other accrual (4)		144,677		111,534
	$	501,150	$	610,564

(1) Includes $2,951 (December 31, 2015 - $6,824) owed to directors and officers.

(2) Includes $158,141 (December 31, 2015 - $158,141) payable to a Company owned by a former director and officer of the company.

(3) Incudes $Nil (December 31, 2015 - $41,293) payable to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in note 9.

(4) Includes $117,373 (December 31, 2015 - $44,293) payable to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in note 9.

(5) Includes $87,938 (December 31, 2015 - $Nil) of deferred finance charges payable in respect of the Sprott/K2 Loan which closed subsequent to the period end on July 4, 2016 and more fully described in notes 8 and 13.

8 LOAN FACILITIES

On September 30, 2015, the Company entered into a definitive agreement with Hecla Canada Ltd. and Robert L. Gipson for up to $2,000,000 senior secured loan facility (the "Hecla/Gibson Loan"). As of June 30, 2016, the Company had drawn down the full $2,000,000 of the Hecla/Gibson Loan (December 31, 2015 – $1,500,000).

The Hecla/Gibson Loan bears interest at the rate of 5% per annum and will be repayable after one year, or repaid earlier with no penalty, under certain circumstances.

In connection with the Hecla/Gibson Loan, the Company issued 1,250,000 warrants to each lender, for a total of 2,500,000, valued at $311,678. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.30 for a period of three years from the date of issuance (See Note 9).

On July 4, 2016, subsequent to the period end, the Hecla/Gibson loan was repaid in full on July 4, 2016 and replaced with a new short-term loan facility (the "Sprott/K2 Loan" (See Note 13). Finance charges related to the Sprott/K2 Loan incurred prior to the period end but before closing of the new loan facility were deferred to the following period.

9 SHARE CAPITAL AND RESERVES

During the year ended December 31, 2015, the Company consolidated its share capital on a 10:1 basis. All share and per share amounts have been retroactively restated.

Share Capital:

Authorized: Unlimited common shares without par value

There were no common shares issued by the Company during the six months ended June 30, 2016 or for the year ended December 31, 2015.

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)

Warrants:

Warrant transactions summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, January 1, 2015	512,238	$	1.59
Issued for Facility (Note 8)	2,500,000	$	0.30
Expired	(512,238)	$	1.60
Balance, December 31, 2015 and June 30, 2016	2,500,000	$	0.30

At June 30, 2016, share purchase warrants were outstanding as follows:

Number of Warrants		Exercise Price	Expiry Date
2,500,000	$	0.30	September 30, 2018
2,500,000			

The weighted average remaining contractual life of the warrants outstanding as at June 30, 2016 was 2.25 years.

During the year ended December 31, 2015, the Company issued in connection with the Hecla/Gibson Loan (note 8), 2,500,000 warrants with a fair value of $311,678. The fair value of the warrants was determined using the Black-Scholes option pricing model using the following assumptions: Risk-free interest rate of 0.54%, expected life of 3.0 years, expected volatility of 125% and a dividend rate of 0%.

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 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.

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Outstanding at - January 1, 2015	1,170,000	$ 2.16
Granted for services	530,000	$ 0.46
Forfeited	(345,000)	$ 2.14
Outstanding at - December 31, 2015 and June 30, 2016	1,355,000	$ 1.50
Number of options exercisable at June 30, 2016	1,355,000	

As at June 30, 2016, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of Options	Exercise Price	Expiry Date
100,000	$ 0.70	September 30, 2016
75,000	$ 1.60	September 30, 2016
75,000	$ 2.50	September 30, 2016
75,000	$ 3.50	September 30, 2016
255,000	$ 2.50	January 30, 2017
50,000	$ 0.70	March 19, 2017
50,000	$ 2.00	June 4, 2017
40,000	$ 1.80	March 18, 2018
75,000	$ 1.60	July 16, 2018
133,975	$ 1.60	July 26, 2018
6,025	$ 1.60	February 14, 2019
40,000	$ 1.60	June 16, 2019
65,000	$ 0.70	February 26, 2020
315,000	$ 0.30	October 23, 2020
1,355,000		

The weighted average remaining contractual life of the stock options outstanding as at June 30, 2016, was 1.88 years.

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

	Six months ended June 30, 2016	2015
Risk free interest rate	N/A	0.71%
Expected dividend yield	N/A	0%
Annualized stock price volatility	N/A	113.37%
Expected life of options	N/A	4.3 years
Expected forfeiture rate	N/A	0%

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)

Deferred share units ("DSU"):

The Company has a DSU plan which entitles certain directors and officers to accrue share based compensation and 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. For the period ended June 30, 2016, the Company recognized share based compensation related to the DSU plan of $Nil (June 30, 2015 - $59,615) as durector's fees. In addition, the Company has recognized an increase in the fair value liability of the DSU Units of $92,834 (June 30, 2015 – decrease in the fair value liability of $139,608) in director's fees as a result of the change in the Company's common share price, which increased substantially during the period (but decreased in the comparative period of 2015).

During the six month period ended June 30, 2015, the Company paid, in addition to the DSU plan, director's fees of $ 39,903. No director's fees were paid in the six month period ended June 30, 2016.

10 CAPITAL DISCLOSURE

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

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

The Company is dependent on the capital markets as its main source of operating capital and the Company's capital resources are largely determined by the strength of the junior public markets, by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements other than described in Note 8. Other than the issuance of debt, there have been no changes to the Company's approach to capital management during the six month period ended June 30, 2016.

11 RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2016 and 2015, 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:

	Six months ended June 30, 2016	Six months ended June 30, 2015
Costs included in exploration and evaluation expenses	$ 6,063	$ 73,500
Directors' fees (dollar value before share price adjustment)	-	99,518
Management & Consulting fees	75,245	111,164
Share-based compensation	-	70,950
	$ 81,308	$ 355,132

11 RELATED PARTY TRANSACTIONS (cont'd)

At June 30, 2016, included in accounts payable and accrued liabilities is $278,365 (December 31, 2015 - $250,551) 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.

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

Financial instruments

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

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

Credit risk

The Company's credit risk is primarily attributable to cash and receivables. The Company has no significant concentration of credit risk arising from operations. Cash consists of bank balances and demand Guaranteed Investment Certificates at reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments also included receivables from government agencies. The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions.

Liquidity risk

The Company's ability to remain liquid over the long term depends on its ability to obtain additional financing through the issuance of additional securities, the entering into credit facilities or the entering into joint ventures, partnerships or other similar arrangements. The Company's ability to continue as a going concern is dependent upon its ability to continue to raise adequate financing in 2016 and in the future to meet its obligations and repay its liabilities arising from normal business operations when they come due. As at June 30, 2016, the Company had a cash balance of $191,896 to settle current liabilities of $2,567,748. The Company is exposed to significant liquidity risk. However the raise of equity in the private placement subsequent to the period (Note 13) has greatly reduced this risk.

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

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.

13 SUBSEQUENT EVENTS

- On July 4, 2016, the Company repaid in full all amounts owing under the Hecla/Gibson Loan (more fully described in Note 8) of $2,069,097, fully discharging the outstanding principal and accrued interest. The discharge was financed from proceeds of the Sprott/K2 Loan of $2,500,000 from Sprott Private Resource Lending L.P. and the K2 Principal Fund L.P. The Sprott/K2 Loan, a secured loan, had a term of six months and a 4% interest rate (payable at any time without penalty except payment of interest for the full term). A total of 2,500,000 share purchase warrants were issued to the lenders in connection with the Sprott/K2 Loan. Each warrant entitles the holder to purchase one share in the capital of the Company for a period of two years at a price of $0.385 per share. The Company paid a finder's fee of $31,250 in connection with the Sprott/K2 Loan.

- On July 26, 2016, following favourable decisions by the British Columbia Securities Commission and the Ontario Securities Commission, which denied a request by Hecla Mining Company and its affiliates to stop the Company from completing a previously announced private placement financing, the Company proceeded with and completed the non-brokered private placement. Gross proceeds of $7,195,591 were received through the sale of 9,115,861 common shares of the Company at a price of $0.62 per share and 2,142,857 flow through shares of the Company at a price of $0.70 per flow through share. An additional 101,762 common share purchase warrants were purchased by Hecla Canada Ltd. for $0.43 per warrant. Each warrant has an exercise price of $0.70 per Common share and is exercisable for a period of 24 months. Also in connection with the private placement, the Company paid a finders's fee of 558,606 Common Shares and 541,205 common share purchase warrants exercisable at a price of $0.70 per Common Share for a period of 24 months.

- On July 29, 2016, the Company granted 1,000,000 share purchase options to directors and members of the executive and technical team. Each share purchase option has an exercise price of $0.75 and is exercisable for 5 years.

- On August 12, 2016, the Company repaid in full the New Loan with proceeds of $2,550,000 discharging the outstanding principal and full six month term interest.

13 SUBSEQUENT EVENTS (Cont'd)

- On August 12, 2016 the Company retained Skanderbeg Capital Advisors to perform capital markets advisory services and investor relations activities for a monthly fee of $5,000 and for 150,000 share purchase options vesting in 4 tranches of 37,500 each every 3 months over the 12 month period from the grant date. The options have an exercise price of $0.80 per common share and expire two years from the grant date.

- On or about August 19, 2016, the Company hired a new VP of Exploration and in conjunction with his appointment granted 200,000 share purchase options. Each share purchase option has an exercise price of $0.80 and is exercisable for 5 years.