DOLLY VARDEN SILVER CORPORATION

DOLLY VARDEN SILVER CORPORATION

(Formerly Dolly Varden Silver Ltd.)

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2013 AND 2012

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 at June 30, 2013 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, 2013 and 2012.

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

		June 30, 2013		December 31, 2012
Assets				
Current				
Cash	$	3,395,743	$	1,270,135
Prepaid expenses (Note 3)		19,565		17,399
Receivables (Note 4)		1,480,537		349,073
		4,895,845		1,636,607
Non-Current				
Deposits (Note 6)		50,000		50,000
Exploration and evaluation advances (Note 6)		189,877		141,033
Equipment (Note 5)		257,323		267,999
Exploration and evaluation assets (Note 6)		11,727,676		11,314,347
	$	17,120,721	$	13,409,986
Liabilities and shareholders' equity				
Current				
Accounts payable & accrued liabilities (Note 7)	$	944,999	$	1,145,293
		944,999		1,145,293
Shareholders' equity				
Share Capital (Note 8)		21,346,291		16,710,441
Reserves		2,153,226		2,021,630
Deficit		(7,323,795)		(6,467,378)
		16,175,722		12,264,693
	$	17,120,721	$	13,409,986

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

APPROVED ON BEHALF OF THE BOARD:

"Allan Marter"	*"John King Burns"*
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	
	2013	**2012**	**2013**	**2012**
Expenses				
Administrative fees	$ 10,126	$ 5,000	$ 11,834	$ 7,803
Consulting fees	37,000	350	37,000	23,550
Directors fees (Note 7)	30,500	-	61,000	-
Management fees	52,000	58,500	117,500	119,500
Marketing and communications	75,522	97,242	159,135	182,173
Office	13,231	11,521	25,627	52,258
Professional fees	87,759	43,113	103,184	168,879
Rent and maintenance	14,355	25,088	29,710	47,278
Salaries and benefits	54,211	48,427	89,398	92,103
Share-based compensation (Note 8)	86,655	12,913	106,815	1,438,289
Transfer agent and filing fees	8,315	17,491	17,294	100,415
Travel & Accommodation	51,911	11,459	113,981	43,887
Cost of public listing (Note 9)	-	-	-	1,854,417
Exchange loss (gain)	719	(4,010)	(428)	434
Operating loss	(522,304)	(327,094)	(872,050)	(4,130,986)
Interest income	13,862	6,752	15,633	6,752
Other - flow through premium	-	-	-	18,000
Total loss and comprehensive loss for period	$ (508,442)	$ (320,342)	$ (856,417)	$ (4,106,234)
Loss per common share, basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.05)
Weighted average number of common shares outstanding	128,719,750	80,290,000	118,172,024	79,320,082

(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		Share	Share			
	Number	Amount	subscriptions received	subscriptions receivable	Reserves	Deficit	Total
Balance - December 31, 2011	**74,615,000**	**$ 11,597,366**	**$ -**	**$ (110,500)**	**$ 33,204**	**$ (1,658,796)**	**$ 9,861,274**
Fair value assigned to the shares on reverse takeover transaction	5,650,000	1,412,500	-	-	-	-	1,412,500
Fair value assigned to the stock options and warrants on reverse takeover transaction	-	-	-	-	515,118	-	515,118
Exercise of stock options	25,000	3,750	-	-	-	-	3,750
Fair value assigned to exercised stock options	-	2,500	-	-	(2,500)	-	-
Share subcriptions receivable	-	-	-	110,500	-	-	110,500
Share-based compensation	-	-	-	-	1,438,289	-	1,438,289
Total loss and comprehensive loss for the year	-	-	-	-	-	(4,106,234)	(4,106,234)
Balance - June 30, 2012	**80,290,000**	**$ 13,016,116**	**$ -**	**$ -**	**$ 1,984,111**	**$ (5,765,030)**	**$ 9,235,197**
Issuance of common shares for cash	20,000,000	3,200,000	-	-	-	-	3,200,000
Issuance of flow-through common shares for cash	2,660,000	532,000	-	-	-	-	532,000
Share issuance costs	-	(106,369)	-	-	-	-	(106,369)
Exercise of warrants	377,500	56,625	-	-	-	-	56,625
Fair value assigned to exercised warrants	-	37,750	-	-	(37,750)	-	-
Fair value assigned to finders warrants	-	(25,681)	-	-	25,681	-	-
Share-based compensation	-	-	-	-	49,588	-	49,588
Total loss and comprehensive loss for the period	-	-	-	-	-	(702,348)	(702,348)
Balance - December 31, 2012	**103,327,500**	**$ 16,710,441**	**$ -**	**$ -**	**$ 2,021,630**	**$ (6,467,378)**	**$ 12,264,693**
Issuance of flow-through common shares for cash	687,508	137,501	-	-	-	-	137,501
Issuance of common shares for cash	25,850,411	4,643,560	-	-	-	-	4,643,560
Share issuance costs	-	(350,305)	-	-	-	-	(350,305)
Exercise of warrants	1,532,500	229,875	-	-	-	-	229,875
Fair value assigned to exercised warrants	-	153,250	-	-	(153,250)	-	-
Fair value assigned to issued finders' warrants	-	(176,031)	-	-	176,031	-	-
Share-based compensation	-	-	-	-	106,815	-	106,815
Total loss and comprehensive loss for the year	-	-	-	-	-	(856,417)	(856,417)
Balance - June 30, 2013	**131,397,919**	**$ 21,348,291**	**$ -**	**$ -**	**$ 2,151,226**	**$ (7,323,795)**	**$ 16,175,722**

(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, 2013	2012
Cash flows from operating activities		
Loss for the period	$ (856,417)	$ (4,106,234)
Items not affecting cash:		
Cost of public listing	-	1,854,417
Share-based compensation	106,815	1,438,289
Other income - Flow-through premium	-	(18,000)
Changes in non-cash working capital items:		
Decrease (increase) in receivables	185,868	632,446
(Increase) decrease in prepaid expenses	(2,166)	82,604
Increase (decrease) in accounts payable & accrued liabilities	80,522	(175,824)
Net cash used in operating activities	(485,378)	(292,302)
Cash flows from investing activities		
Exploration and evaluation assets	(1,980,004)	(676,065)
Equipment	(20,797)	-
Exploration and evaluation assets advances	(48,844)	-
Cash acquired in reverse takeover transaction	-	71,207
Net cash used in investing activities	(2,049,645)	(604,858)
Cash flows from financing activities		
Issuance of common shares for cash	5,010,936	3,750
Subscriptions received in advance	-	110,500
Share issuance costs	(350,305)	-
Net cash provided by financing activities	4,660,631	114,250
Net change in cash for the period	2,125,608	(782,910)
Cash - beginning of the period	1,270,135	2,183,734
Cash - end of the period	$ 3,395,743	$ 1,400,824

Supplemental disclosure with respect to cash flows:		
Interest received in cash	4,529	473
Interest paid in cash	-	-
Income taxes paid in cash	-	-
Non-cash transactions:		
Accrual of exploration and evaluation asset expenditures	755,833	122,412
Accrual of BC METC (Note 4)	1,317,332	-
Reverse takeover transaction with Twin Glacier (Note 9)	-	1,854,417
Property acquisition upon consolidation	-	46,801
Depreciation included in exploration and evaluation assets	31,473	37,753
Fair value of warrants exercised	153,250	-
Fair value of finders warrants issued	176,031	
Fair value of options exercised	-	2,500

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

1 NATURE OF OPERATIONS AND GOING CONCERN

On January 30, 2012, an amalgamation of Twin Glacier Resources Ltd. ("Twin") and Dolly Varden Silver Ltd. ("Dolly") by way of a reverse takeover ("RTO") (Note 9) created Dolly Varden Silver Corporation (the "Company"). The Company was incorporated under the Canada Business Corporation Act in the Province of British Columbia on March 4, 2011. The Company's primary business is the acquisition, exploration, evaluation and development of exploration and evaluation assets and it is considered to be in the exploration and evaluation stage. The Company's registered head office is suite 910 – 355 Burrard Street, Vancouver, BC V6C 2G8.

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, 2013, the Company had incurred accumulated losses of $7,323,795 (December 31, 2012: accumulated loss of $6,467,378) since inception, and has a working capital of $3,950,846 (December 31, 2012: $491,314). The Company expects to incur further losses in the development of its business and accordingly there is material uncertainty in the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to continue to raise adequate financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These condensed interim financial statements have been prepared in accordance with IAS 1 "Presentation of Financial Statements' ("IAS 1") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements were approved by the board of directors of the Company on August 29, 2013.

(b) Basis of Presentation

The condensed interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these condensed interim financial statements are in accordance with IFRS and have not been audited.

The preparation of the condensed interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

These condensed interim financial statements do not include all of the notes required for full annual financial statements.

The significant accounting policies for the periods are consistent with those disclosed in the audited annual financial statements of the Company for the year ended December 31, 2012 except as specified below. The accompanying unaudited condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2012.

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

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2013, and have not been applied in preparing these financial statements.

Effective for annual periods beginning on or after January 1, 2013

IFRS 7 – Financial Instruments: Disclosures applied to offsetting financial assets and financial liabilities in accordance with IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

IFRS 10 – Consolidation replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The amendments are effective for annual periods beginning on or after January 1, 2013.

IFRS 11 – Joint Arrangements requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for joint operations, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers. This amendment is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 – Disclosure of Interest in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces additional disclosures addressing the nature of, and risks associated with, an entity's interests in other entities. This amendment is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

Effective for annual periods beginning on or after January 1, 2015

IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The amendments are effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

The Company does not anticipate that the above items will have a significant impact on its financial statements.

3 PREPAID EXPENSES

Prepaid expenses consist of:

	June 30, 2013	December 31, 2012
Trade show/Conference	$ 7,101	$ 9,604
Insurance	7,792	3,198
Other	4,672	4,597
	$ 19,565	$ 17,399

4 RECEIVABLES

Receivables consist of:

	June 30, 2013	December 31, 2012
GST/HST	$ 62,171	$ 259,143
Accrued interest on GICs	11,104	-
BC METC [1]	1,317,332	-
Other (Note 11)	89,930	89,930
	$ 1,480,537	$ 349,073

[1] Refers to the BC Mining Exploration Tax Credit, a government assistance program that gives refundable tax credits at 20% of certain qualified mining exploration expenditures. The amount represents the tax credit assessed for the 2011 fiscal year ($558,453) and the amount filed for the 2012 fiscal year ($758,879).

5 EQUIPMENT

	Boat	Dock	Tents & trailers	Equipment	Vehicles	Gas tank	Total
Cost							
At December 31, 2012	$ 43,095	$ 15,571	$ 132,617	$ 31,082	$ 129,136	$ 40,000	$ 391,501
Additions	-	-	-	20,797	-	-	20,797
At June 30, 2013	**$ 43,095**	**$ 15,571**	**$ 132,617**	**$ 51,879**	**$ 129,136**	**$ 40,000**	**$ 412,298**
Accumulated depreciation							
At December 31, 2012	$ 9,212	$ 1,148	$ 49,982	$ 5,315	$ 52,045	$ 5,800	$ 123,502
Depreciation for the period	2,542	360	12,396	2,901	11,564	1,710	31,473
At June 30, 2013	**$ 11,754**	**$ 1,508**	**$ 62,378**	**$ 8,216**	**$ 63,609**	**$ 7,510**	**$ 154,975**
NET BOOK VALUE							
At December 31, 2012	**$ 33,883**	**$ 14,423**	**$ 82,635**	**$ 25,767**	**$ 77,091**	**$ 34,200**	**$ 267,999**
At June 30, 2013	**$ 31,341**	**$ 14,063**	**$ 70,239**	**$ 43,663**	**$ 65,527**	**$ 32,490**	**$ 257,323**

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS

Dolly Varden Property

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

The Company has entered into a Master Services agreement (the "MSA") on September 1, 2012 with a company controlled by a director for ongoing exploration, including a range of geological and geoscience services and project management. The MSA includes an additional 4% overall fee on costs related to the project. Upon signing the MSA, an additional fee of $185,000 was paid.

The Company has provided a $50,000 deposit for the reclamation bond for the property.

Iskut Property

On January 30, 2012, the Company, as part of the amalgamation with Twin as disclosed in Note 9, acquired 100% ownership in the Iskut property in Northern BC.

Musketeer Property

On March 18, 2013, the Company entered into an option agreement to acquire 100% interest in the Musketeer property located in northwestern British Columbia, Canada for a purchase price of $1,050,000 payable over four years, subject to a 2% NSR. The Company has the option to reduce the NSR by 1% by paying $1,750,000 to the royalty holders within 3 years of acquiring the Musketeer property.

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

February 14, 2014	$233,333
February 13, 2015	$233,333
February 12, 2016	$233,334

The following is a summary of acquisition costs and exploration expenditures in exploration and evaluation assets for the six months ended June 30, 2013:

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

	Balance as at December 31, 2012	Dolly Varden Property	Iskut Property	Musketeer Property	Balance as at June 30, 2013
Acquisition Costs					
Finders' fees	$ 62,500	$ -	$ -	$ -	$ 62,500
Legal fees	82,520	-	-	11,303	93,823
Property acquisition	2,546,801	-	-	350,000	2,896,801
Total acquisition costs	$ 2,691,821	$ -	$ -	$ 361,303	$ 3,053,124
Exploration Costs					
Assay	$ 117,340	$ 840	$ -	$ -	$ 118,180
Camp, food, supplies and misc.	688,418	65,198	-	-	753,616
Claim maintenance	73,608	24,033	-	196	97,837
Data and sampling analysis	218,695	46,012	-	-	264,707
Depreciation	123,503	31,473	-	-	154,976
Drilling	815,229	-	-	-	815,229
Equipment and warehouse rental	451,845	102,005	-	-	553,850
Field labour and support	614,025	32,223	-	-	646,248
Field project and management	1,557,955	414,875	-	-	1,972,830
Fuel	271,364	28,775	-	-	300,139
Geological and Geoscience consulting	1,026,536	272,206	-	-	1,298,742
Geotechnical studies	250,410	39,250	-	-	289,660
Mapping and modelling	370,635	181,508	-	-	552,143
Road and drill pad preparation	497,375	21,456	-	-	518,831
Site preparation	61,578	9,928	-	-	71,506
Survey and assessment	357,070	12,430	-	-	369,500
Transport, travel and accomodation	1,126,940	86,950	-	-	1,213,890
Cost recovery - BC METC	-	(1,317,332)	-	-	(1,317,332)
Total exploration costs	$ 8,622,526	$ 51,830	$ -	$ 196	$ 8,674,552
Total Exploration and Evaluation Assets	$ 11,314,347	$ 51,830	$ -	$ 361,499	$ 11,727,676

At June 30, 2013, the Company has advanced $189,877 (December 31, 2012- $141,033) for upcoming exploration work to various suppliers.

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	June 30, 2013	December 31, 2012
Trade payables (1)	$ 79,135	$ 69,481
Exploration and evaluation asset payables and accruals (2)	755,833	1,036,649
Other accrual (3)	110,031	39,163
	$ 944,999	$ 1,145,293

(1) Includes $5,488 (December 31, 2012- $Nil) owed to directors and officers for consulting fees and travelling expenses.

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd)

(2) Includes $603,866 (December 31, 2012- $1,031,858) payable to a Company owned by a director who is also an officer of the company.

(3) Includes $Nil (December 31, 2012- $8,125) payable to an officer of the company and $61,000 (December 31, 2012 - $Nil) to independent directors for directors' fees.

8 SHARE CAPITAL AND RESERVES

Share Capital:

Authorized: Unlimited common shares without par value

(a) During the year ended December 31, 2012, the Company issued the following common shares:

(i) On January 30, 2012, the Company completed its securities amalgamation as disclosed in Note 9. Under the amalgamation, the Company issued 74,615,000 common shares to former shareholders of Dolly and 5,650,000 common shares to former shareholders of Twin. In addition, the Company issued 5,329,400 new share purchase warrants to replace the pre-amalgamation warrants of the Company and issued 5,150,000 new share purchase warrants and 25,000 new stock options to replace the share purchase warrants and stock options of Twin. Of these share purchase warrants, 4,450,000 are each exercisable into one common share at $0.15 per common share, while 700,000 are each exercisable into one common share at $0.25 per common share each with an expiry date of January 8, 2013. The stock options issued to replace the stock options of Twin are each exercisable into one common share at $0.15 per common share with an expiry date of March 20, 2016.

(ii) On September 4, 2012, the Company issued 20,000,000 common shares pursuant to an ancillary rights agreement with a wholly owned subsidiary of Hecla Mining Company ("Hecla") for a total consideration of $3,200,000. According to the terms of the ancillary rights agreement, Hecla was granted various rights as long as Hecla holds more than 10% interest in the Company. These rights include: (a) a right to nominate one person to Dolly Varden's board of directors, (b) a right to nominate one person to a technical committee, to be established to design and execute the Company's exploration programs, (c) a right of first refusal in respect of any proposed transfer or sale of the Company's properties, and (d) a pre-emptive right to participate in any future financing to maintain Hecla's pro rata interest. Hecla also agreed to a voting agreement whereby Hecla will vote in favour of management's proposals on matters of routine business (being the election of directors, the appointment of auditors, and the approval of the Company' stock option plan) for a period of 12 months from the closing of the Financing and a 12 month standstill.

(iii) On December 28, 2012, the Company completed a non-brokered private placement through the issuance of 2,660,000 flow-through common shares at $0.20 per share for gross proceeds of $532,000. The Company paid or accrued $43,167 and issued 212,800 finders' warrants valued at $25,681 as finders' fees in connection with the transaction. Each finders' warrant is exercisable into one common share at $0.20 per common share until December 28, 2014.

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

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'd)

(b) During the six months ended June 30, 2013, the Company issued the following common shares:

(i) On January 22, 2013, Hecla exercised its pre-emptive right on financing to maintain its pro rata interest in the Company by acquiring 662,508 flow-through shares at $0.20 per share and 475,711 common shares at $0.16 per share for gross proceeds of $208,615.

(ii) On March 15, 2013, the Company completed its first tranche of a non-brokered private placement by issuing 10,310,000 common shares at $0.18 per share and 25,000 flow-through shares at $0.20 per share for total gross proceeds of $1,860,800. In connection with the first tranche, the Company paid total financing fees of $290,500. Additionally, the Company issued 1,613,750 warrants for financing fees, of which 1,612,500 warrants are exercisable at $0.18 and 1,250 warrants are exercisable at $0.20 per share, expiring on March 15, 2015.

(iii) On April 17, 2013, the Company issued 15,064,700 common shares at $0.18 to Hecla, as it again exercised its pre-emptive right to maintain its 19.94% interest. This financing, in part, replaces the 10,000,000 shares traded by Hecla in February 2013.

(iv) During the six months ended June 30, 2013 the Company issued 1,532,500 common shares pursuant to the exercise of warrants for proceeds of $229,875.

Included in the common shares outstanding at June 30, 2013 are 1,900,000 (December 31, 2012- 3,800,000) common shares held in escrow. The escrowed common shares may not be transferred, assigned or otherwise dealt without the consent of the regulators.

The common shares will be released from escrow as follows:

Date	Number of Common Shares	
August 13, 2013	1,900,000	(subsequently released)
	1,900,000	

Certain common shares released from escrow are subject to Seed Share Resale Restrictions ("SSRR") and will be released at 20% every three months over a period of one year.

Warrants:

Warrant transactions summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2012	5,329,400	$ 0.11
Issued for RTO	5,150,000	$ 0.17
Issued for financing	212,800	$ 0.17
Expired	(307,200)	$ 0.23
Exercised	(377,500)	$ 0.15
Balance, December 31, 2012	10,007,500	$ 0.13
Issued for financing	1,613,750	$ 0.18
Expired	(3,262,200)	$ 0.17
Exercised	(1,532,500)	$ 0.15
Balance, June 30, 2013	6,826,550	$ 0.12

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'd)

At June 30, 2013, share purchase warrants were outstanding as follows:

Number of warrants		Exercise Price	Expiry Date
5,000,000	$	0.10	February 14, 2014
212,800	$	0.20	December 28, 2014
1,612,500	$	0.18	March 15, 2015
1,250	$	0.20	March 15, 2015
6,826,550			

The weighted average remaining contractual life of the warrants outstanding as at June 30, 2013 was 0.91 years.

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

	Six months ended June 30, 2013	2012
Risk free interest rate	1.20%	1.00%
Expected life of warrants	2 years	0.14 years
Annualized stock price volatility	131.50%	100%
Expected dividend yield	0%	0%

Included in the warrants outstanding at June 30, 2013 are 795,000 (December 31, 2012- 1,590,000) warrants held in escrow. These warrants were released from escrow on August 13, 2013. The escrowed warrants may not be transferred, assigned or otherwise dealt without the consent of the regulators.

The warrants will be released from escrow as follows:

Date	Number of Warrants	
August 13, 2013	795,000	(subsequently released)

Certain warrants released from escrow are subject to Seed Share Resale Restrictions and will be released at 20% every three months over a period of one year.

Stock Options:

The Company has a stock option plan under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option shall be no less than the discounted market price of the Company's shares prior to the grant as in accordance with TSX Venture Exchange policies. Options are granted for a maximum term of 10 years. Vesting is at the discretion of the Board of directors. In the absence of a vesting schedule, such options shall vest immediately.

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'd)

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Outstanding at - January 1, 2012	-	$ -
Granted for services	7,700,000	$ 0.26
Granted for RTO	25,000	$ 0.15
Exercised	(25,000)	$ 0.15
Forfeited	(100,000)	$ 0.35
Outstanding at - December 31, 2012	7,600,000	$ 0.26
Granted for services	1,150,000	$ 0.18
Outstanding at - June 30, 2013	8,750,000	$ 0.25
Number of options exercisable at June 30, 2013	8,093,750	$ 0.25

As at June 30, 2013, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of options	Exercise Price	Expiry Date
6,350,000	$ 0.25	January 30, 2017
750,000	$ 0.35	March 1, 2017
500,000	$ 0.20	June 4, 2017
1,150,000	$ 0.18	March 18, 2018
8,750,000		

The weighted average remaining contractual life of the stock options outstanding as at June 30, 2013, was 4.07 years.

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

	Six months ended June 30, 2013	2012
Risk free interest rate	1.30% - 1.54%	1.29%
Expected dividend yield	0%	0%
Annualized stock price volatility	131.39% - 131.50%	103%
Expected life of options	4 - 5 years	4.98 years
Expected forfeiture rate	0%	0%

(Expressed in Canadian Dollars)

9 REVERSE TAKEOVER TRANSACTION (AMALGAMATION)

As described in Note 1, on January 30, 2012, Dolly completed a merger with Twin resulting in Dolly owning all of the issued and outstanding securities of Twin. Pursuant to the amalgamation, all of the issued and outstanding common shares of Dolly ("Dolly Shares") and Twin ("Twin Shares") were exchanged for common shares of Amalco ("the Company Shares") on the basis of one Company share for each Dolly share and one Company share for each Twin share. All stock options, warrants, and other securities convertible into common shares of Dolly and Twin were exchanged for stock options, warrants or other securities convertible into common shares of the Company at the same exercise price and on the same ratio as the exchange of Dolly Shares or Twin Shares for the Company Shares, as the case may be.

On February 14, 2012, under the amalgamation, the Company issued 74,615,000 new common shares to the shareholders of Dolly and 5,650,000 common shares to former shareholders of Twin. In addition, the Company also issued 5,329,400 new warrants to replace the pre-amalgamation warrants of Dolly, and 5,150,000 warrants and 25,000 options of Twin.

Although the transaction resulted in a single entity, control passed to the former shareholders of Dolly and the transaction constitutes a reverse take-over of Twin by Dolly and has been accounted for as a reverse takeover transaction in accordance with guidance provided in IFRS 2 *Share-based Payment* and IFRS 3 *Business Combinations*. As Twin did not qualify as a business according to the definition in IFRS 3, this reverse takeover transaction does not constitute a business combination; rather it is treated as an issuance of shares by the Company for the net assets of Twin and its public listing.

The net assets of Twin received were as follows:

Net assets acquired		
Cash	$	71,207
Receivables		6,482
Exploration and evaluation assets		46,801
Accounts payable and accrued liability		(51,290)
	$	73,200
Consideration provided		
5,650,000 common shares of Amalco	$	1,412,500
Twin - 700,000 warrants at $0.25		67,551
Twin - 4,450,000 warrants at $0.15		445,066
Twin - 25,000 options		2,500
	$	1,927,617
Cost of public listing	$	1,854,417

The transaction was measured at the fair value of the shares that the Company would have had to issue for the ratio of ownership interest in the combined entity to be equivalent to the ratio of ownership interest (between new and former owners) in the combined entity if the transaction had taken the legal form of Dolly acquiring Twin. This share value was determined based on the Dolly share value and is considered as a significant estimate and judgement. This value of the stock exchange listing of $1,854,417 has been charged to profit or loss as a listing expense.

(Expressed in Canadian Dollars)

10 CAPITAL DISCLOSURE

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

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

The Company is dependent on the capital markets as its main source of operating capital and the Company's capital resources are largely determined by the strength of the junior public markets, by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the six month period ended June 30, 2013.

11 RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2013 and 2012, the Company incurred the following amounts charged by officers and directors (being key management personnel) and companies controlled and/or owned by officers and directors of the Company in addition to the related parties transactions disclosed elsewhere in these financial statements:

	Six months ended June 30, 2013	Six months ended June 30, 2012
Costs included in exploration and evaluation assets	$ 1,002,896	$ 455,152
Directors' fees	61,000	-
Other fees and charges	130,044	139,673
Salaries and benefits	84,278	73,683
Share-based compensation	-	1,077,083
	$ 1,278,218	$ 1,745,591

At June 30, 2013, included in accounts payable and accrued liabilities is $670,353 (December 31, 2012- $1,039,983) owed to directors, an officer, and a company owned by a director who is also an officer of the Company. These amounts are unsecured, non-interest bearing and are due on demand.

At June 30, 2013, included in receivables is $89,930 (December 31, 2012 - $89,930) owed by a director who is also an officer of the Company.

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

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

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

Financial instruments

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

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

Credit risk

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

Liquidity risk

The Company's ability to remain liquid over the long term depends on its ability to obtain additional financing through the issuance of additional securities, the entering into credit facilities or the entering into joint ventures, partnerships or other similar arrangements. As at June 30, 2013, the Company had a cash balance of $3,395,743 to settle current liabilities of $944,999. The Company's current policy is to invest excess cash in demand Guaranteed Investment Certificates issued by its banking institutions.

Interest rate risk

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

Price risk

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

13 SUBSEQUENT EVENTS

(i) On August 3, 2013, the Board of Directors approved the grant of 4,389,750 stock options to directors, officers, employees and consultants, pursuant to the Company's approved stock option plan. The options are exercisable at a price of $0.16 per share, have a term of 5 years, and vest immediately.

(ii) On August 6, 2013, the Company received legal notice that a former officer was seeking remuneration based on specific terms of her employment contract. The Company disputes that these terms apply and has provided for only those expenses which it believes are likely to be payable.