DOLLY VARDEN SILVER CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

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 March 31, 2017 and 2016 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 month periods ended March 31, 2017 and 2016.

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

		March 31, 2017		December 31, 2016
Assets				
Current				
Cash	$	5,883,716	$	4,668,128
Prepaid expenses (Note 3)		174,885		252,632
Receivables (Note 4)		127,880		164,330
		6,186,481		5,085,090
Non-Current				
Equipment (Note 5)		71,544		74,905
Deposits (Note 6)		91,000		91,000
Exploration and evaluation assets (Note 6)		3,626,426		3,524,092
	$	9,975,451	$	8,775,087
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable & accrued liabilities (Note 7 and 11)	$	358,871	$	563,757
		358,871		563,757
Non-current liabilities				
Liability on flow-through share issuance (Note 9)		405,168		277,778
	$	764,039	$	841,535
Shareholders' equity				
Share capital (Note 9)		37,675,173		35,936,719
Reserves (Note 9)		5,347,765		5,340,511
Deficit		(33,811,526)		(33,343,678)
		9,211,412		7,933,552
	$	9,975,451	$	8,775,087

Nature of Operations and Going Concern - Note 1

APPROVED ON BEHALF OF THE BOARD:

"James Sabala"	"Annette Cusworth"
DIRECTOR	DIRECTOR

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

	For the Three Months Ended March 31, 2017	2016
Expenses		
Exploration and evaluation (Note 6)	$ 101,456	$ 41,437
Administrative & consulting fees (Note 11)	15,637	8,640
Directors' fees (Note 9, 11)	31,210	3,486
Management fees (Note 11)	75,000	37,322
Marketing and communications	61,257	891
Office (Note 11)	70,571	10,635
Professional fees	30,828	7,740
Rent and maintenance	3,207	690
Salaries and benefits (Note 11)	81,642	-
Share-based compensation (Note 9)	11,284	-
Transfer agent and filing fees (recovery)	7,953	(3,718)
Travel & accommodation	1,967	-
Exchange loss	666	-
Operating loss	(492,678)	(107,123)
Finance and interest charges (Note 8)	-	(22,917)
Recovery on flow-through premium (Note 9)	13,786	-
Gain on sale of equipment	-	12,381
Interest income	11,044	-
Total loss and comprehensive loss for the year	$ (467,848)	$ (117,659)
Loss per common share, basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding (Note 9)	35,392,973	18,268,963

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, 2015	**18,268,963**	**$ 26,798,486**	**$ 3,419,980**	**$ (28,375,726)**	**$ 1,842,740**
Total loss and comprehensive loss for the period	-	-	-	(117,659)	(117,659)
Balance - March 31, 2016	**18,268,963**	**26,798,486**	**3,419,980**	**(28,493,385)**	**1,725,081**
Issuance of flow through common shares	5,615,079	4,000,000	-	-	4,000,000
Issuance of common shares	9,897,111	6,151,834	-	-	6,151,834
Issuance of common shares as finders' fee	558,606	346,336	-	-	346,336
Fair value assigned to finders' warrants	-	(349,750)	349,750	-	-
Issuance of warrants for cash	-	-	43,758	-	43,758
Flow-through premium	-	(449,207)	-	-	(449,207)
Share issuance costs	-	(687,220)	-	-	(687,220)
Exercise of stock options	125,000	77,500	-	-	77,500
Transfer from reserves on exercise of stock options	-	48,740	(48,740)	-	-
Share-based compensation	-	-	1,393,157	-	1,393,157
Value assigned to lenders' warrants	-	-	182,606	-	182,606
Total loss and comprehensive loss for the period	-	-	-	(4,850,293)	(4,850,293)
Balance - December 31, 2016	**34,464,759**	**35,936,719**	**5,340,511**	**(33,343,678)**	**7,933,552**
Issuance of flow through common shares	1,176,470	1,000,000	-	-	1,000,000
Issuance of common shares	1,369,863	1,000,000	-	-	1,000,000
Exercise of stock options	25,000	11,530	(4,030)	-	7,500
Flow-through premium	-	(141,176)	-	-	(141,176)
Share issuance costs	-	(131,900)	-	-	(131,900)
Share-based compensation	-	-	11,284	-	11,284
Total loss and comprehensive loss for the period	-	-	-	(467,848)	(467,848)
Balance - March 31, 2017	**37,036,092**	**$ 37,675,173**	**$ 5,347,765**	**$ (33,811,526)**	**$ 9,211,412**

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

	For the Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Loss for the period	$ (467,848)	$ (117,659)
Items not affecting cash:		
Share-based compensation	11,284	-
Directors' fees	11,335	(3,486)
Finance charges	-	22,917
Gain on sale of equipment	-	(12,381)
Recovery on flow-through premium	(13,786)	-
Depreciation of equipment	3,361	-
Changes in non-cash working capital items:		
Decrease in receivables	36,450	67,130
Decrease in prepaid expenses	77,747	9,958
Decrease in accounts payable & accrued liabilities	(216,221)	(328,453)
Net cash used in operating activities	(557,678)	(361,974)
Cash flows from investing activities		
Exploration and evaluation assets	(102,334)	(91,000)
Proceeds from disposal of equipment	-	24,000
Net cash used in investing activities	(102,334)	(67,000)
Cash flows from financing activities		
Proceeds from loans	-	500,000
Proceeds from exercise of options	7,500	-
Issuance of common shares for cash	2,000,000	-
Share issuance costs	(131,900)	-
Net cash provided by financing activities	1,875,600	500,000
Net change in cash for the period	1,215,588	71,026
Cash - beginning of the period	4,668,128	212,403
Cash - end of the period	$ 5,883,716	$ 283,429

Supplemental disclosure with respect to cash flows:		
Interest received in cash	$ -	$ -
Interest paid in cash	-	-
Income taxes paid in cash	-	-
Non-cash transactions:		
Fair value of stock options exercised	$ 4,030	$ -
Premium liability on flow-through shares	141,176	-

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, and evaluation of exploration and evaluation assets. The Company is considered to be in the exploration and evaluation stage. The Company's head office is suite 1130-1055 Hastings St. W., Vancouver, BC, V6E 2E9. The registered address and records office of the Company is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC, Canada, V6C 2X8

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

These condensed interim financial statements have been prepared 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 March 31, 2017, the Company had incurred accumulated losses of $33,811,526 (December 31, 2016: accumulated loss of $33,343,678) since inception, and has a working capital surplus of $5,827,610 (December 31, 2016: Working Capital Surplus of $4,521,333). The Company believes its current working capital are sufficient to meet its fiscal year 2017 exploration plans and general corporate overhead. The Company will continue to have to raise funds beyond its current working balance in order to continue to advance the Dolly Varden Property.

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 May 18, 2017

(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, 2016 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, 2016.

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

The following new standards, and amendments to standards and interpretations, are not yet effective for the three months ended March 31, 2017, and have not been applied in preparing these financial statements.

IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as well as derecognition of financial instruments. IFRS 9 will replace IAS 39. The effective date of IFRS 9 is January 1, 2018. The Company is assessing the impact of this new standard, if any, on the financial statements.

3 PREPAID EXPENSES

Prepaid expenses consist of:

	March 31, 2017	December 31, 2016
Advances for exploration	$ 56,130	$ 45,582
Insurance	11,337	21,816
Management fees (Note 11)	-	40,000
Marketing and communications fees	98,050	130,733
Other	9,368	14,501
	$ 174,885	$ 252,632

4 RECEIVABLES

Receivables consist of:

	March 31, 2017	December 31, 2016
GST/HST	$ 97,115	$ 144,318
BC METC	11,374	11,374
Other	19,391	8,638
	$ 127,880	$ 164,330

(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)	(43,095)	-	-	(12,260)	(102,431)	-	-	(157,786)
At December 31, 2016	$ -	$ 15,571	$ 138,521	$ 39,619	$ 26,705	$ 40,000	$ 10,346	$ 270,762
Additions /(disposals)	-	-	-	-	-	-	-	-
At March 31, 2017	**$ -**	**$ 15,571**	**$ 138,521**	**$ 39,619**	**$ 26,705**	**$ 40,000**	**$ 10,346**	**$ 270,762**
Accumulated depreciation								
At December 31, 2015	$ 22,287	$ 3,205	$ 107,646	$ 27,041	$ 102,693	$ 15,068	$ 10,346	$ 288,286
Additions /(disposals)	(22,540)	-	-	(7,740)	(81,439)	-	-	(111,719)
Depreciation for the period	253	559	8,881	4,732	2,518	2,347	-	19,290
At December 31, 2016	$ -	$ 3,764	$ 116,527	$ 24,033	$ 23,772	$ 17,415	$ 10,346	$ 195,857
Additions /(disposals)	-	-	-	-	-	-	-	-
Depreciation for the period	-	148	1,649	779	220	565	-	3,361
At March 31, 2017	**$ -**	**$ 3,912**	**$ 118,176**	**$ 24,812**	**$ 23,992**	**$ 17,980**	**$ 10,346**	**$ 199,218**
NET BOOK VALUE								
At December 31, 2015	**$ 20,808**	**$ 12,366**	**$ 30,875**	**$ 24,838**	**$ 26,443**	**$ 24,932**	**$ -**	**$ 140,262**
At December 31, 2016	**$ -**	**$ 11,807**	**$ 21,994**	**$ 15,586**	**$ 2,933**	**$ 22,585**	**$ -**	**$ 74,905**
At March 31, 2017	**$ -**	**$ 11,659**	**$ 20,345**	**$ 14,807**	**$ 2,713**	**$ 22,020**	**$ -**	**$ 71,544**

During the year ended December 31, 2016, the Company sold a vehicle and a small boat in exchange for the storage of certain equipment until December 2017 at a value of $23,422, which was recorded to prepaid expenses.

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS

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

Exploration and evaluation assets costs are set out below:

		Dolly Varden Property		Musketeer Property		Dolly Varden Project Total
Balance as of December 31, 2015	$	2,645,020	$	788,072	$	3,433,092
Additions		-		91,000		91,000
Balance as of December 31, 2016		2,645,020		879,072		3,524,092
Additions		-		102,334		102,334
Balance as of March 31, 2017	$	2,645,020	$	981,406	$	3,626,426

Dolly Varden Property

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

The Company has provided deposits totalling $91,000 (December 31, 2016 - $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 and the option payment of $81,000 was paid. To date, $981,406 of acquisition costs have been capitalized.

The remaining option payments are due as follows:

February 11, 2017	$102,334 (Paid)
February 11, 2018	$100,000

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

The following table summarizes the exploration costs incurred for the period ended March 31, 2017:

	Dolly Varden Property	Musketeer Property	Total
Exploration Costs			
Assay	$ 7,132	$ 792	$ 7,924
Camp, food, supplies and misc.	106	12	118
Depreciation	3,025	336	3,361
Equipment and warehouse rental	1,286	143	1,429
Field labour and support	6,423	714	7,137
Geological and geoscience consulting	6,780	753	7,533
Mapping and modelling	18,286	2,032	20,318
Project supervision & Geoscience	47,250	5,250	52,500
Transport, travel and accomodation	1,022	114	1,136
Total Exploration Costs	$ 91,310	$ 10,146	$ 101,456

The following table summarizes the exploration costs incurred for the period ended March 31, 2016:

	Dolly Varden Property	Musketeer Property	Total
Exploration Costs			
Assay	$ 2,846	$ 316	$ 3,162
Camp, food, supplies and misc.	328	36	364
Equipment and warehouse rental	16,697	1,855	18,552
Field project and management	4,844	538	5,382
Geological and geoscience consulting	9,000	1,000	10,000
Geotechnical studies	155	17	172
Mapping and modelling	3,341	371	3,712
Survey and assessment	84	9	93
Total Exploration Costs	$ 37,295	$ 4,142	$ 41,437

(Expressed in Canadian Dollars)

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	March 31, 2017	December 31, 2016
Trade payables [1,2,3]	$ 228,678	$ 224,836
Other accrual [4,5]	130,193	338,921
	$ 358,871	$ 563,757

(1) Includes $Nil (December 31, 2016 - $25,018) owed to directors and officers and a former officer.

(2) Includes $158,141 (December 31, 2016 - $158,141) payable to a company owned by a former director/ officer of the company.

(3) Includes $2,840 (December 31, 2016 - $Nil) payable to independent directors for directors' fees.

(4) Includes $122,693 (December 31, 2016 - $111,358) accrued to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in Note 9.

(5) Includes $Nil (December 31, 2016-$198,657) payable to two former officers and a former director/officer of the Company.

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/Gipson Loan"). In the fall of 2015, the Company drew down $1,500,000 of the loan and then drew a further $500,000 in early 2016. In July 2016, the Hecla/Gipson loan was repaid in full and replaced with a new short-term loan of $2,500,000 (the "Sprott/K2 Loan"). The Sprott/K2 Loan was repaid in full in August 2016.

The Hecla/Gipson Loan bore interest at the rate of 5% per annum and was repayable after one year, or earlier with no penalty. As of December 31, 2015, the Company accrued interest of $18,750. The Sprott/K2 Loan bore interest at the rate of 4% per annum and was repayable in six months, or earlier with the full 6 months interest guaranteed.

In connection with the Hecla/Gipson Loan, the Company issued 1,250,000 warrants to each lender, for a total of 2,500,000, valued at $311,678. The Company also incurred transactions costs of $164,868. 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).

In connection with the Sprott/K2 Loan, the Company issued 2,500,000 warrants valued at $182,606. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.385 for a period of two years from the date of issuance (See Note 9).

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES

Authorized

Unlimited number of common shares without par value.

Private placements

During the year ended December 31, 2016, the Company completed the following financings:

A private placement on July 26, 2016 raised gross proceeds of $7,195,591 through the sale of 9,115,861 common shares at a price of $0.62 per share and 2,142,857 flow through shares at a price of $0.70 per share and the sale of 101,762 common share purchase warrants, which were purchased by Hecla Canada Ltd. at $0.43 per warrant. In connection with this private placement, 558,606 common shares with a fair value of $346,336 and 541,205 common share purchase warrants at a value of $232,718 were issued as a finder's fee. The common share purchase warrants are exercisable at $0.70 for a period of two years. The Company recorded a flow-through premium liability of $171,429 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

A private placement on December 19, 2016 raised gross proceeds of $3,000,000 through the sale of 781,250 common shares at a price of $0.64 per share and 3,472,222 flow through shares at a price of $0.72 per share. In connection with this private placement, 249,583 common share purchase warrants at a value of $117,032 were issued as a finder's fee and are exercisable at $0.72 per share for a period of two years. The Company recorded a flow-through premium liability $277,778 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

During the three months ended March 31, 2017, the Company completed the following financings:

A private placement on February 28, 2017 raised gross proceeds of $2,000,000 through the sale of 1,369,863 common shares at a price of $0.73 per share and 1,176,470 flow through shares at a price of $0.85 per share. In connection with this private placement, the Company paid a finder's fee of $120,000, equal to 6% of the gross proceeds in the offering and share issuance costs of $11,900. The Company recorded a flow-through premium liability $141,176 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

Warrants:

At March 31, 2017, share purchase warrants were outstanding as follows:

Number of Warrants		Price	Date
2,500,000	$	0.39	July 5, 2018
642,967	$	0.70	July 27, 2018
2,500,000	$	0.30	September 30, 2018
249,583	$	0.72	December 19, 2018
5,892,550			

During the year ended December 31, 2015, the Company issued in connection with the Hecla/Gipson Loan (Note 8), 2,500,000 warrants with a fair value of $311,678.

During the year ended December 31, 2016, the Company issued in connection with the Sprott/K2 Loan (Note 8), 2,500,000 warrants with a fair value of $182,606. The value of the warrants was determined using the residual value method for a compound instrument with the assumption that a similar debt instrument without warrants would have been issued bearing interest of 18% per annum.

9 SHARE CAPITAL AND RESERVES (cont'd)

Warrants (cont'd…)

The fair value of the 541,205 warrants issued in July 2016 as part of the finder's fee were determined to have a fair value of $232,718 or $0.43 per warrant based on the price negotiated with Hecla Canada Ltd, for the purchase of 101,762 warrants for cash at $0.43 per warrant on the same date.

The fair value of the 249,583 warrants issued in December 2016 as part of the finder's fee were determined to have a fair value of $117,032 or $0.47 per warrant using the Black-Scholes option pricing model.

During the three months ended March 31, 2017, no warrants were issued.

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 options (cont'd…)

As at March 31, 2017, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of Options		Exercise Price	Expiry Date
200,000	$	0.80	April 1, 2017*
40,000	$	1.80	November 9, 2017
75,000	$	1.60	July 16, 2018
100,000	$	1.60	July 26, 2018
150,000	$	0.80	August 12, 2018
40,000	$	1.60	June 16, 2019
50,000	$	0.70	December 5, 2019
75,000	$	0.30	December 5, 2019
450,000	$	0.75	December 5, 2019
15,000	$	0.70	December 14, 2019
50,000	$	0.75	December 14, 2019
25,000	$	0.30	March 31, 2020
165,000	$	0.30	October 23, 2020
500,000	$	0.75	July 29, 2021
650,000	$	0.65	December 2, 2021
2,585,000			

* 200,000 options expired unexercised subsequent to quarter end.

During the three months ended March 31, 2017 and 2016, no options were issued.

During the three months ended March 31, 2017, the Company recognized a total of $11,284 (2016 - $Nil) in share-based compensation for the options vested during the period.

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

	Three months ended March 31	
	2017	2016
Risk free interest rate	0.52%	-
Expected dividend yield	0%	-
Annualized stock price volatility	199%	-
Expected life of options	2.00%	-
Expected forfeiture rate	0%	-

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)

Stock options and warrants:

Stock option and warrant transaction summarized as follows:

	Warrants			Stock options		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2015 and March 31, 2016	2,500,000	$	0.30	1,355,000	$	1.50
Granted	3,392,550		0.30	2,000,000		0.46
Exercised	-		-	(125,000)		0.62
Forfeited	-		-	(275,000)		2.44
Outstanding, December 31, 2016	5,892,550	$	0.30	2,955,000	$	1.50
Granted	-		-	-		-
Exercised	-		-	(25,000)		0.30
Expired	-		-	(305,000)		2.20
Forfeited	-		-	(40,000)		1.60
Outstanding, March 31, 2017	5,892,550	$	0.40	2,585,000	$	0.77
Exercisable, March 31, 2017	5,892,550	$	0.40	2,510,000	$	0.77

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 three months ended March 31, 2017, the Company has recognized an increase in the fair value liability of the remaining DSU Units of $11,335 (2016 – 3,486) in director's fees as a result of the change in the Company's common share price.

During the three month period ended March 31, 2017, the Company paid, in addition to the DSU plan, director's fees of $19,875 (2016 - $32,500).

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)

Flow-Through Premium Liability:

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

Balance as of December 31, 2016		277,778
Flow-through premium liability		141,176
Settlement of flow-through share premium liability pursuant to qualified expenditures		(13,786)
Balance as of March 31, 2017	$	405,168

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. Other than the issuance and repayment of debt in the prior year, there have been no changes to the Company's approach to capital management during the period ended March 31, 2017.

(Expressed in Canadian Dollars)

11 RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2017 and 2016, 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:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Costs included in exploration and evaluation expenses	$ 30,000	$ 11,688
Directors' fees (dollar value before share price adjustment)	19,875	-
Management, consulting fees, salaries and benefits	75,000	42,410
Office administration fee*	54,933	-
	$ 179,808	$ 54,098

*Office administration fees paid to a management service company controlled by the chief executive officer and director of the Company that provides corporate secretary, administraction staff and office operational overhead

At March 31, 2017, included in accounts payable and accrued liabilities is $160,981 (December 31, 2016 - $493,174) owed to directors, officers, and former directors and/or officers of the Company. These amounts are unsecured, non-interest bearing and are due on demand.

At March 31, 2017, included in prepaid expenses is $Nil paid to an officer of the Company (December 31, 2016 - $40,000).

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.

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, deposits, accounts payable 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:

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

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 the future to meet its obligations and repay its liabilities arising from normal business operations when they come due. As at March 31, 2017, the Company had a cash balance of $5,883,716 to settle current liabilities of $358,871.

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 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.