DOLLY VARDEN SILVER CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Dolly Varden Silver Corporation

We have audited the accompanying financial statements of Dolly Varden Silver Corporation, which comprise the statements of financial position as at December 31, 2015 and 2014 and January 1, 2014 and the statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2015 and 2014 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Dolly Varden Silver Corporation as at December 31, 2015 and 2014 and January 1, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Dolly Varden Silver Corp.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

April 29, 2016

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

	December 31, 2015	December 31, 2014 (Restated Note 14)	January 1, 2014 (Restated Note 14)
Assets			
Current			
Cash	$ 212,403	$ 1,559,040	$ 358,619
Prepaid expenses (Note 3)	20,824	147,224	12,138
Receivables (Note 4)	74,473	134,342	1,578,931
	307,700	1,840,606	1,949,688
Non-Current			
Equipment (Note 5)	140,262	178,129	236,568
Exploration and evaluation advances (Note 6)	-	97,382	106,347
Deposits (Note 6)	91,000	91,000	50,000
Exploration and evaluation assets (Note 6)	3,433,092	3,239,759	3,006,426
	$ 3,972,054	$ 5,446,876	$ 5,349,029
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable & accrued liabilities (Note 7 and 11)	$ 610,564	$ 497,850	$ 502,300
Liability on flow-through share issuance	-	-	42,000
Loan and interest payable (Note 8)	1,518,750	-	-
	2,129,314	497,850	544,300
Shareholders' equity			
Share Capital (Note 9)	26,798,486	26,798,884	21,449,491
Reserves	3,419,980	2,961,213	2,795,137
Deficit	(28,375,726)	(24,811,071)	(19,439,899)
	1,842,740	4,949,026	4,804,729
	$ 3,972,054	$ 5,446,876	$ 5,349,029

Nature of Operations and Going Concern - Note 1
Subsequent Events - Note 15

APPROVED ON BEHALF OF THE BOARD:

"Tom Wharton"
DIRECTOR

"Rosie Moore"
DIRECTOR

The accompanying notes are an integral part of these financial statements

DOLLY VARDEN SILVER CORPORATION
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	For the Years Ended December 31, 2015	2014 (Restated Note 14)
Expenses		
Exploration and evaluations (Note 6)	$ 2,106,174	$ 4,241,594
Adminstrative and consulting fees (Note 11)	88,081	115,275
Depreciation of office equipment	-	7,501
Directors' fees (Note 9)	(30,595)	44,375
Management fees (Note 11)	170,323	154,250
Marketing and communications	191,758	286,323
Office	42,946	59,510
Professional fees	195,783	169,157
Rent and maintenance	30,155	24,351
Salaries and benefits	54,284	83,592
Share-based compensation (Note 9)	147,089	52,032
Transfer agent and filing fees	43,527	38,512
Travel and Accomodation	28,354	158,892
Exchange (gain)/loss	(189)	47
Operating loss	(3,067,690)	(5,435,411)
Finance and interest charges (Note 8 and 9)	(495,296)	-
Part XII Interest	(10,087)	-
Interest income	8,418	22,239
Other - flow through premium reversal	-	42,000
Total loss and comprehensive loss for year	$ (3,564,655)	$ (5,371,172)
Loss per common share, basic and diluted	$ (0.20)	$ (0.35)
Weighted average number of common shares outstanding	18,268,963	15,339,524

The accompanying notes are an integral part of these financial statements

DOLLY VARDEN SILVER CORPORATION
Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital								
	Number		Amount		Reserves		Deficit		Total
Balance - December 31, 2013- (Restated - Note 14)	**13,279,792**	**$**	**21,449,491**	**$**	**2,795,137**	**$**	**(19,439,899)**	**$**	**4,804,729**
Issuance of flow-through common shares for cash	4,644,171		5,573,005		-		-		5,573,005
Isuuance of common shares	75,000		90,000		-		-		90,000
Share issuance costs	-		(469,568)		-		-		(469,568)
Fair value assigned to issued finders' warrants	-		(114,044)		114,044		-		-
Exercise of warrants	270,000		270,000		-		-		270,000
Share-based compensation	-		-		52,032		-		52,032
Total loss and comprehensive loss for the year	-		-		-		(5,371,172)		(5,371,172)
Balance - December 31, 2014 - (Restated - Note 14)	**18,268,963**		**26,798,884**		**2,961,213**		**(24,811,071)**		**4,949,026**
Share issuance costs	-		(398)		-		-		(398)
Fair value assigned to warrants	-		-		311,678		-		311,678
Share-based compensation	-		-		147,089		-		147,089
Total loss and comprehensive loss for the year	-		-		-		(3,564,655)		(3,564,655)
Balance - December 31, 2015	**18,268,963**	**$**	**26,798,486**	**$**	**3,419,980**	**$**	**(28,375,726)**	**$**	**1,842,740**

The accompanying notes are an integral part of these financial statements

DOLLY VARDEN SILVER CORPORATION
Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the Years Ended December 31, 2015	2014 Restated (Note 2 and 15)
Cash flows from operating activities		
Loss for the year	$ (3,564,655)	$ (5,371,172)
Items not affecting cash:		
Share-based compensation	147,089	52,032
Directors' fees (Note 9)	(75,592)	44,375
Finance charges	424,546	-
Depreciation of equipment	37,867	58,439
Other income- flow through premium reserval	-	(42,000)
Changes in non-cash working capital items:		
Decrease in receivables	59,869	1,444,589
Decrease (increase) in prepaid expenses	126,400	30,514
Decrease in accounts payable & accrued liabilities	285,688	(39,860)
Net cash used in operating activities	(2,558,788)	(3,823,083)
Cash flows from investing activities		
Exploration and evaluation assets	(193,333)	(233,333)
Addition to deposit	-	(41,000)
Net cash used in investing activities	(193,333)	(274,333)
Cash flows from financing activities		
Proceeds from loan, net	1,405,882	-
Issuance of common shares for cash	-	5,767,405
Share issuance costs	(398)	(469,568)
Net cash provided by financing activities	1,405,484	5,297,837
Net change in cash for the year	(1,346,637)	1,200,421
Cash - beginning of the year	1,559,040	358,619
Cash - end of the year	$ 212,403	$ 1,559,040
Supplemental disclosure with respect to cash flows:		
Interest received in cash	$ 13,409	$ 18,851
Non-cash transactions:		
Fair Value of finders warrant issued	$ -	$ 114,044
Shares issued for prepaid services	$ -	$ 165,600

The accompanying notes are an integral part of these 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 and evaluation 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 970 – 800 West Pender Street, Vancouver, BC V6C 2V6.

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.

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 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 statementsdo 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 December 31, 2015, the Company had incurred accumulated losses of $28,375,726 (December 31, 2014: accumulated loss of $24,811,071) since inception, and has a working capital deficiency of $1,871,613 (December 31, 2014: Working Capital $1,342,756). The Company expects to incur further losses in the development of its business and accordingly there is material uncertainty that may cast significant doubt upon 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 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 April 27, 2016.

(b) Basis of Presentation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial andoperating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(d) Equipment

The Company records equipment on the cost method, whereby equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recorded over the useful lives of the assets on a declining balance basis at the following annual rates.

Dock	5%
Gas tank	10%
Boat	15%
Tents and trailers	30%
General equipment	20%
Vehicles	30%

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately including major inspection and overhaul expenditures, are capitalized.

(e) Exploration and Evaluation Assets

Upon acquiring the legal right to explore a mineral property (exploration and evaluation assets), all direct costs related to the acquisition of a mineral property are capitalized. Exploration and evaluation and expenditures incurred prior to the determination of the feasibility of mining operations and the decision to proceed with development are recognized in profit or loss as incurred, net of recoveries. Costs incurred before the Company has obtained the legal rights to explore an area are charged to profit or loss. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within equipment. Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(f) Exploration and evaluation assets – Change in accounting policy

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 releated 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 this financial statements, on a retrospective basis (Note 14). This change in accounting policy brings these financial statements more in line with other comparable companies.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(g) Impairment of Non-Current Assets

Non-current assets are evaluated at least annually by management for indicators that the carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent that the carrying amount exceeds the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Additionally, the reviews take into account factors such as political, social and legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and resources and expected future production revenues and expenses.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit ("CGU") is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

(h) Decommisioning liabilities

The Company recognizes a provision for statutory, contractual, constructive or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or evaluation of exploration and evaluation assets, and equipment. Provisions for site closure and decommissioning are recognized in the period in which the obligation is incurred or acquired, and are measured based on expected future cash flows to settle the obligation, discounted to the their present value. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability including risks specific to the countries in which the related operation is located.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in exploration and evaluation assets and equipment. These costs are depreciated using either the unit of production or straight line method depending on the asset to which the obligation relates.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(h) Decommisioning liabilities (cont'd)

The obligation is increased for the accretion and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flows, and changes in the discount. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in profit or loss.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and decommissioning costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and as new information concerning the Company's closure and decommissioning liabilities becomes available.

(i) Use of estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. These and other estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant accounting judgments

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

i) <u>Recoverability of the carrying value of the Company's exploration and evaluation assets -</u> Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of these properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

Critical accounting estimates

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities include, but are not limited to, the following:

i) <u>Share-based compensation</u> – The fair value of share-based payments is determined using a Black-Scholes Option pricing model. Such option pricing models require the input of subjective assumptions including the expected price volatility, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(i) Use of estimates and judgments – (cont'd)

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

iii) Deferred income taxes– Judgement is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

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

The provincial government of BC provides for a refundable tax on net qualified mining exploration expenditures incurred in BC by companies resident in BC. The credit is calculated as 20% of qualified mining exploration expenses less the amount of any assistance received or receivable. Management has estimated and accrued the likely refundable amount arising from expenses incurred in the current year. The determination of the expenditures which would qualify as mining exploration expenses was based on the previous years tax filings and subsequent reviews by government auditors.

(j) Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables are classified as loans and receivables and the Company's deposits are classified as held to maturity. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. The Company has not classified any financial assets as available for sale for the years presented.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(j) Financial Instruments – (cont'd)

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. The Company has not classified any financial liabilities as FVTPL for the years presented.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and loan payable are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

(k) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

Flow-through shares are a type of common share and are securities permitted by Canadian Income Tax Legislation whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby any premium paid for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to flow-through premium liability and included in profit or loss as the qualifying expenditures are made.

(l) Income taxes

Current income taxes

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(l) Income taxes (cont'd)

Deferred income tax

Deferred income tax is recognized as the temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(m) Foreign currency translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Revenue and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Foreign exchange gains and losses are included in profit or loss.

(n) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share amounts are calculated assuming that the proceeds received from the exercise of stock options and warrants would be used to repurchase shares at the prevailing market rate. When a loss is incurred during the period, this calculation is considered to be anti-dilutive.

(o) Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in profit or loss. The Company currently has incurred no comprehensive income or loss.

(p) Share-based compensation

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as share-based compensation expense offset by reserves. The fair value of share-based compensation is determined as using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed.No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in the reserves, are credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration can not be specifically identified, they are measured at fair value of the equity instruments. Otherwise, share based compensation are measured at the fair value of goods or services received.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(p) Share-based compensation cont'd

The Company also grants its directors deferred share units (DSUs) whereby each DSU entitles a director to receive, upon his or her retirement from the Company, the cash equivalent of the market value of number of DSUs they have accumulated during their directorship, where each DSU is equal to one common share of the Company. DSUs are earned in lieu of receiving cash for directors' fees and are calculated at the end of each quarter, based on the market value of the Company's common shares.

(q) New accounting standards, amendments and interpretations adopted

During fiscal year 2015, the Company adopted the following IFRS standards:

IFRS 2 – Share Based Payment (Amendment): This amendment clarifies vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition.

IAS24 – Related Party Disclosure (Amendments): These amendments clarify that management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation.

These new accounting standards had no material impact on the results or financial position of the Company.

(r) 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 year ended December 31, 2015, and have not been applied in preparing these financial statements.

IAS16 & IAS 38 – Classification of Acceptable Methods of Depreciation and Amortization clarifies that the use of a revenue-based depreciation and amortization method is not appropriated, and provides a rebuttable presumption for intangible assets. The effective date of IAS 16 & IAS 38 is January 1, 2016. The Company is assessing the impact of this new standard, if any, on the 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.

(Expressed in Canadian Dollars)

3 PREPAID EXPENSES

Prepaid expenses consist of:

	December 31, 2015	December 31, 2014	January 1, 2014
Trade show/Conference	-	$ 3,441	$ 5,521
Insurance	17,812	3,666	3,117
Marketing services [1]	-	138,750	-
Other	3,012	1,367	3,500
	$ 20,824	$ 147,224	$ 12,138

[1] In August 2014, the Company engaged two separate firms to perform marketing services for the following 12 months and prepaid the contracts. The amount as at December 31, 2014 represents the unexpensed amounts for future service.

4 RECEIVABLES

Receivables consist of:

	December 31, 2015	December 31, 2014	January 1, 2014
GST/HST	$ 69,175	$ 69,244	$ 30,387
Accrued interest on GICs	-	4,991	1,603
BC METC [1]	-	40,000	1,546,941
Other	5,298	20,107	-
	$ 74,473	$ 134,342	$ 1,578,931

[1] Refers to the BC Mining Exploration Tax Credit ("BC METC"), a government assistance program that givesrefundable tax credits at 20% of certain qualified mining exploration expenditures.

5 EQUIPMENT

	Boat	Dock	Tents & trailers	Equipment	Vehicles	Gas tank	Computer Hardware	Total
Cost								
At January 1, 2014	$ 43,095	$ 15,571	$ 138,521	$ 51,879	$ 129,136	$ 40,000	$ 10,346	$ 428,548
Additions	-	-	-	-	-	-	-	-
At December 31, 2014	$ 43,095	$ 15,571	$ 138,521	$ 51,879	$ 129,136	$ 40,000	$ 10,346	$ 428,548
Additions	-	-	-	-	-	-	-	-
At December 31, 2015	**$ 43,095**	**$ 15,571**	**$ 138,521**	**$ 51,879**	**$ 129,136**	**$ 40,000**	**$ 10,346**	**$ 428,548**
Accumulated depreciation								
At January 1, 2014	$ 14,295	$ 1,869	$ 75,511	$ 13,068	$ 75,172	$ 9,220	$ 2,845	$ 191,980
Depreciation for the year	4,320	685	18,903	7,763	16,189	3,078	7,501	58,439
At December 31, 2014	$ 18,615	$ 2,554	$ 94,414	$ 20,831	$ 91,361	$ 12,298	$ 10,346	$ 250,419
Depreciation for the year	3,672	651	13,232	6,210	11,332	2,770	-	37,867
At December 31, 2015	**$ 22,287**	**$ 3,205**	**$ 107,646**	**$ 27,041**	**$ 102,693**	**$ 15,068**	**$ 10,346**	**$ 288,286**
NET BOOK VALUE								
At January 1, 2014	**$ 28,800**	**$ 13,702**	**$ 63,010**	**$ 38,811**	**$ 53,964**	**$ 30,780**	**$ 7,501**	**$ 236,568**
At December 31, 2014	**$ 24,480**	**$ 13,017**	**$ 44,107**	**$ 31,048**	**$ 37,775**	**$ 27,702**	**$ -**	**$ 178,129**
At December 31, 2015	**$ 20,808**	**$ 12,366**	**$ 30,875**	**$ 24,838**	**$ 26,443**	**$ 24,932**	**$ -**	**$ 140,262**

(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 and evaluation assets and to the best of its knowledge, title to all of it 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 January 1, 2014	$ 2,645,020	$ 361,406	$ 3,006,426
Additions	-	233,333	233,333
Balance as of December 31, 2014	2,645,020	594,739	3,239,759
Additions	-	193,333	193,333
Balance as of December 31, 2015	$ 2,645,020	$ 788,072	$ 3,433,092

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 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 License agreement for use of the nearby property was extended from July 1 to December 31, 2014 at a monthly cost of $3,000; and was again extended from January 1. 2015 to December 31, 2015, which was paid in a single instalment of $42,000 on April 16, 2015.

The Company has provided deposits totalling $91,000 (2014 - $91,000) as reclamation bonds for the property.

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

Musketeer Property

On March 18, 2013, the Company entered into an option agreement to acquire a 100% interest in the Musketeer property located in Northwestern 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 paid with the February 2015 payment of $183,333. Subsequent to December 31, 2015, the agreement was further amended for a fee of $10,000 and the remaining option payments are due as follows:

February 12, 2016	$ 81,000 + $10,000 fee (paid subsequent to year end)
February 12, 2017	$102,334
February 11, 2018	$100,000

The following tables summarize exploration and evaluation expenditures for the years ended December 31, 2015 and 2014:

	Dolly Varden Property	Musketeer Property	Total 2015
Exploration Costs			
Assay	$ 121,894	$ 13,544	$ 135,438
Camp, food, supplies and miscellaneous	202,269	22,474	224,743
Claim maintenance	52,379	5,820	58,199
Data and sampling analysis	-	-	-
Depreciation	34,081	3,787	37,868
Drilling	245,392	27,266	272,658
Equipment and warehouse rental	145,155	16,128	161,283
Field labour and support	28,586	3,176	31,762
Field project and management	79,953	8,884	88,837
Fuel	67,837	7,537	75,374
Geological and geoscience consulting	265,571	29,508	295,079
Geotechnical studies	105,369	11,708	117,077
Mapping and modelling	96,735	10,748	107,483
Road and drill pad preparation	60,117	6,680	66,797
Site preparation	48,773	5,419	54,192
Survey and assessment	-	-	-
Transport, travel and accomodations	340,567	37,841	378,408
Cost recovery - BC METC	878	98	$ 976
Total Exploration Costs	**$ 1,895,556**	**$ 210,618**	**$ 2,106,174**

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

	Dolly Varden Property	Musketeer Property	Total 2014
Exploration Costs			
Assay	$ 151,560	$ 54,085	$ 205,645
Camp, food, supplies and misc.	412,574	147,228	559,802
Claim maintenance	35,056	12,759	47,815
Data and sampling analysis	38,928	13,892	52,820
Depreciation	37,541	13,396	50,937
Drilling	440,408	157,160	597,568
Equipment and warehouse rental	285,717	101,959	387,676
Field labour and support	50,700	18,092	68,792
Field project and management	83,766	29,892	113,658
Fuel	78,835	28,133	106,968
Geological and geoscience consulting	357,473	127,565	485,038
Geotechnical studies	149,040	53,186	202,226
Mapping and modelling	182,813	65,238	248,051
Road and drill pad preparation	109,808	39,185	148,993
Site preparation	6,486	2,314	8,800
Survey and assessment	3,796	1,354	5,150
Transport, travel and accomodation	735,309	262,396	997,705
Cost recovery - BC METC	(35,650)	(10,400)	(46,050)
Total exploration costs	$ 3,124,160	$ 1,117,434	$ 4,241,594

At December 31, 2015, the Company has advanced $Nil (December 31, 2014 - $97,382) for upcoming exploration work to various suppliers.

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	December 31, 2015	December 31, 2014	January 1, 2014
Trade payables [1,2,3]	$ 499,030	$ 294,059	$ 316,257
Other accrual [4]	111,534	203,791	186,043
	$ 610,564	$ 497,850	$ 502,300

(1) Includes $6,824 (December 31, 2014 - $8,432) owed to directors and officers.

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES – (cont'd)

(2) Includes $158,141 (December 31, 2014 - $158,141) payable to a company owned by a former director and officer of the company.

(3) Includes $41,293 (December 31, 2014 - $Nil) payable to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in note 9.

(4) Includes $44,293 (December 31, 2014 - $161,151) accrued to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in note 9.

8 LOAN FACILITIES

On September 30, 2015, the Company entered into a definitive agreement with Hecla Canada Ltd and Robert L. Gipson (each a "Lender", and together the "Lenders") up to $2,000,000 senior secured loan facility (the "Facility"). As of December 31, 2015 , the Company has drawn down $1,500,000 from the Facility. Subsequent to December 31, 2015, the remaining $500,000 was drawn down.

The Facility bears interest at a rate of 5% per annum and is repayable after one year, or can be repaid earlier with no penalty. As at December 31, 2015, the Company accrued $18,750 in interest.

In connection with the Facility, the Company issued 1,250,000 warrants to each lender, for a total of 2,500,000 warrants 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). The Company also incurred transaction costs of $164,868.

9 SHARE CAPITAL AND RESERVES

Share Capital:

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.

a) Authorized Share Capital

The authorized share capital of the Company is an unlimited number of common shares, without par value. All issued shares, consisting only of common shares are fully paid.

b) Issued Share Capital

During the year ended December 31, 2015, the Compamy issued the following common shares:

No common shares issued by the Company during the year ended December 31, 2015.

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)

b) Issued Share Capital (cont'd)

During the year ended December 31, 2014, the Compamy issued the following common shares:

On February 14, 2014, the Company issued 270,000 common shares pursuant to the exercise of warrants for proceeds of $270,000.

On July 30, 2014, the Company completed its first tranche of a non-brokered private placement by issuing 75,000 common shares at $1.20 per share and 554,171 flow-through shares at $1.20 per share for total gross proceeds of $665,005 in cash and $90,000 in prepaid services. The Company issued 25,263 warrants as finders' fees, exercisable at $1.50 per share, expiring on July 29, 2015. The warrants had a fair value of $9,852, measured using the Black-Scholes method.

On August 15, 2014, the Company completed the second and final tranche of the non-brokered private placement by issuing 4,090,000 flow-through shares at $1.20 per share for total gross proceeds of $4,832,400 in cash and $75,600 in prepaid services. The Company issued 325,600 warrants as finders' fees, exercisable at $1.50 per share, expiring on August 14, 2015. The warrants had a fair value of $104,192, measured using the Black-Scholes method.

Additionally, the Company paid a total of $421,036 in finders' fees for both tranches.

c) Warrants

Warrant transactions summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, January 1, 2014	682,655	$	1.20
Issued for financing	350,863	$	1.50
Expired	(251,280)	$	1.10
Exercised	(270,000)	$	1.00
Balance, December 31, 2014	512,238	$	1.59
Issued for loan facility	2,500,000	$	0.30
Expired	(512,238)	$	1.59
Balance, December 31, 2015	2,500,000	$	0.30

At December 31, 2015, share purchase warrants outstanding were as follows:

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

During the year ended December 31, 2015, the Company issued in connection with the the loan facilities (Note 8) 2,500,000 (2014 – 350,863) warrants with a fair value of $311,678 (2014 - $114,044) or $0.12 (2014 - $0.33) per warrant.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (cont'd)

c) Warrants (cont'd)

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

	Year ended December 31, 2015	2014
Risk free interest rate	0.54%	1.06%
Expected life of warrants	3 year	1 year
Annualized stock price volatility	125.0%	100.3%
Expected dividend yield	0%	0%

d) 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.

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Outstanding at - January 1, 2014	1,313,975	$ 2.20
Granted for services	46,025	$ 1.60
Forfeited	(190,000)	$ 2.10
Outstanding at - December 31, 2014	1,170,000	$ 2.16
Granted for services	530,000	$ 0.46
Forfeited	(345,000)	$ 2.14
Outstanding at -December 31, 2015	1,355,000	$ 1.50
Number of options exercisable at December 31, 2015	1,355,000	$ 1.50

(Expressed in Canadian Dollars)

9 SHARE CAPITAL AND RESERVES (cont'd)

d) Stock Options (cont'd)

As at December 31, 2015, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of options	Price	Date
330,000	$ 2.50	January 30, 2017
75,000	$ 3.50	March 1, 2017
50,000	$ 2.00	June 4, 2017
40,000	$ 1.80	March 18, 2018
283,975	$ 1.60	July 26, 2018
6,025	$ 1.60	February 14, 2019
40,000	$ 1.60	June 16, 2019
50,000	$ 0.70	February 26, 2017
165,000	$ 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 December 31, 2015, was 2.77 years.

During the year ended December 31, 2015, the Company granted 530,000 (2014 – 46,025) stock options to directors, employees and consultants with a total fair value of $146,886 (2014 - $44,847) or $0.28 (2014 - $1.00) per option. During the year ended December 31, 2015, the Company recognized a total of $147,089 (2014 - $52,032) in share-based compensation. For fiscal year 2015 $203 (2014 - $7,185) was related to the portion of stock options issued in 2012 that vested in 2015.

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

	Year ended December 31, 2015	2014
Risk free interest rate	0.71%	1.58%
Expected dividend yield	0%	0%
Annualized stock price volatility	120.28%	121.00%
Expected life of options	5 years	5 years
Expected forfeiture rate	0%	0%

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. For the year ended December 31, 2015, the Company recognized share based compensation related to the DSU of $97,950 (2014 – $147,278) as directors' fees. In addition, the Company has recognized a change in the fair value of the DSU units of $173,541 (2014 - $102,903) in directors fees as a result of the change in the Company's common share price. In addition to the DSU plan, the Company paid director's fee of $44,997 (2014 - $Nil) to certain directors during the the year ended December 31, 2015.

(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 other than decribed in Note 8. Other than the issuance of debt, there have been no further changes to the Company's approach to capital management during the year ended December 31, 2015.

11 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2015 and 2014, 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:

	Year ended December 31, 2015	Year ended December 31, 2014
Costs included in exploration and evaluation expenditures	$ 148,125	$ 150,000
Directors' fees (note 8 - Deferred share units)	142,946	147,298
Management and consulting fees	247,054	250,125
Share-based compensation	146,888	-
	$ 685,013	$ 547,423

At December 31, 2015, included in accounts payable and accrued liabilities is $255,831 (2014- $327,724) 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, and accounts payable and accrued liabilities and loan 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, loan and interest payable 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.

(Expressed in Canadian Dollars)

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

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 December 31, 2015, the Company had a cash balance of $212,403 to settle current liabilities of $2,129,314. The Company is exposed to liquidity risk.

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 marketprices 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 INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

For the Year ended December 31,		**2015**		**2014**
Loss for the year	$	(3,564,655)	$	(5,371,172)
Expected income tax (recovery)	$	(927,000)	$	(1,396,000)
Change in statutory rates and other		66,000		(15,000)
Permanent Difference		38,000		3,000
Impact of flow through share		465,000		1,039,000
Share issue cost		-		(101,000)
Adjustment to prior year provision versus statutory tax return		-		(125,000)
Change in unrecognized deductible temporary difference		358,000		595,000
Total income tax expense (recovery)	**$**	**-**		**-**

(Expressed in Canadian Dollars)

13 INCOME TAXES (cont'd)

The significant components of the Company's unrecorded deferred tax assets and liabilities are as follows:

As at December 31,	**2015**	**2014**
Deferred Tax Assets		
Exploration and evaluation assets	$ 2,893,000	$ 2,809,000
Property and equipment	82,000	72,000
Share issue costs	119,000	171,000
Non-capital losses available for future periods	1,956,000	1,645,000
	$ 5,050,000	$ 4,697,000
Unrecognized deferred tax assets	(5,050,000)	(4,697,000)
Net deferred tax assets	$ -	$ -

The significant components of the Company's temporary differences and tax are as follows:

As at December 31,	**2015**	**Expiry Date Range**	**2014**	**Expiry Date Range**
Temporary Differences				
Investment tax credit	711,000	2031 to 2033	711,000	2031 to 2033
Property and equipment	314,000	No expiry date	276,000	No expiry date
Exploration and evaluation assets	9,104,000	No expiry date	8,779,000	No expiry date
Share issue costs	459,000	2034 to 2038	657,000	2033 to 2038
Non-capital losses available for future periods	7,524,000	2015 to 2034	6,326,000	2014 to 2033
Canadian eligible capital	1,000	No expiry date	-	No expiry date

14. CHANGE IN ACCOUNTING POLICY

The Company has adopted a new accounting policy with respect to exploration and evaluation assets and 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 evalution assets. The Company changed this accounting policy to now charge to operations exploration expenditures as incurred, effective with the presentation of these financial statements, on a retrospective basis.

The accounting policies in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information for the year ended December 31, 2014, and the preparation of an opening statement of financial position on January 1, 2014.

In preparing its opening statement of financial position, the Company has adjusted amounts reported in previously in the financial statements. An explanation of how the transition from the amounts previously reported has affected the Company's financial position, financial performance, and cash flows is set out below.

(Expressed in Canadian Dollars)

14 CHANGE IN ACCOUNTING POLICY (cont'd)

STATEMENT OF FINANCIAL POSITION - as at Janaury 1, 2014

	As previously reported January 1, 2014	Note	Effect of Policy Change	Restated under new policy January 1, 2014
Assets				
Cash	358,619		-	358,619
Prepaid expenses	12,138		-	12,138
Receivables	1,578,931		-	1,578,931
	1,949,688		-	1,949,688
Equipment	236,568		-	236,568
Exploration and evaluation advances	106,347		-	106,347
Deposits	50,000		-	50,000
Exploration and evaluation assets	13,697,045	15(a)	(10,690,619)	3,006,426
Total Assets	16,039,648		(10,690,619)	5,349,029
Liabilities				
Accounts payable and accrued liabilities	502,300		-	502,300
	502,300		-	502,300
Liability on flow-through share issuance	42,000		-	42,000
	42,000		-	42,000
Shareholders' Equity				
Share Capital	21,449,491		-	21,449,491
Reserves	2,795,137		-	2,795,137
Deficit	(8,749,280)	15(a)	(10,690,619)	(19,439,899)
	15,495,348		(10,690,619)	4,804,729
Total Liabilities and Shareholders' Equity	16,039,648		(10,690,619)	5,349,029

(Expressed in Canadian Dollars)

14 CHANGE IN ACCOUNTING POLICY (cont'd)

STATEMENT OF FINANCIAL POSITION - as at December 31, 2014

	As previously reported December 31, 2014	Note	Effect of Policy Change	Restated under new policy December 31, 2014
Assets				
Cash	1,559,040		-	1,559,040
Prepaid expenses	147,224		-	147,224
Receivables	134,342		-	134,342
	1,840,606		-	1,840,606
Equipment	178,129		-	178,129
Exploration and evaluation advances	97,382		-	97,382
Deposits	91,000		-	91,000
Exploration and evaluation assets	18,171,972	15(b)	(14,932,213)	3,239,759
Total Assets	20,379,089		(14,932,213)	5,446,876
Liabilities				
Accounts payable and accrued liabilities	497,850		-	497,850
	497,850		-	497,850
Shareholders' Equity				
Share Capital	26,798,884		-	26,798,884
Reserves	2,961,213		-	2,961,213
Deficit	(9,878,858)	15(b)	(14,932,213)	(24,811,071)
	19,881,239		(14,932,213)	4,949,026
Total Liabilities and Shareholders' Equity	20,379,089		(14,932,213)	5,446,876

(Expressed in Canadian Dollars)

14 CHANGE IN ACCOUNTING POLICY (cont'd)

STATEMENT OF LOSS AND COMPREHENSIVE LOSS - year ended December 31, 2014

	As previously reported December 31, 2014	Note	Effect of Policy Change	Restated under new policy December 31, 2014
Expenses				
Exploration expenditures (net of recoveries)	-	15(c)	4,241,594	4,241,594
Admininstrative and consulting fees	115,275		-	115,275
Depreciation of office equipment	7,501		-	7,501
Directors fees	44,375		-	44,375
Management fees	154,250		-	154,250
Marketing and communications	286,323		-	286,323
Office	59,510		-	59,510
Professional fees	169,157		-	169,157
Renta and maintenance	24,351		-	24,351
Salareis and benefits	83,592		-	83,592
Share-based compensation	52,032		-	52,032
Transfer agent and filing fees	38,512		-	38,512
Travel and accommodation	158,892		-	158,892
Exchange loss/(gain)	47		-	47
Operating Loss	(1,193,817)		(4,241,594)	(5,435,411)
Interest income	22,239		-	22,239
Other -flow through premium reversal	42,000		-	42,000
Loss and comprehensive loss for the year	(1,129,578)		(4,241,594)	(5,371,172)
Loss per shares, basic and diluted	($0.07)			($0.35)
Weighted average number of common shares outstanding	15,339,524		-	15,339,524

14 CHANGE IN ACCOUNTING POLICY (cont'd)

An explanation of how the transition from the amounts previously reported has affected the Company's financial position and financial performance is set out below.

a) Statement of Financial Position – as at Janaury 1, 2014

(i) Exploration and evaluation assets decreased by $10,690,619 representing net exploration expenditures previously capitalized, which have been charged to deficit
(ii) The remaining balance of $3,006,426 represents the costs incurred to acquire the exploration and evaluation assets.

b) Statement of Financial Position – as at December 31, 2014

(i) Exploration and evaluation assets decreased by $14,932,213 representing net exploration expenditures previously capitalized, which have been charged to deficit
(ii) The remaining balance of $3,239,759 represents the costs incurred to acquire the exploration and evaluation assets.

c) Statement of Loss and Comprehensive Loss – year ended December 31, 2014

(i) Exploration expenditures increased by $4,241,594 representing net exploration expenditures incurred in year ended December 31, 2014, with an offsetting entry to exploration and evaluation assets.

The change in the accounting policy had no effect on the Company's statement of changes in shareholders' equity, other than the changes to deficit, share capital and reserves, as already shown and described above. Accordingly, no separate statement of changes in shareholders' equity is shown.

The changes to the statement of cash flow for the year ended December 31, 2014 are summarized as follows:

(i) Net cash used in operating activities decreased to $3,832,048 based on allocation of net expenditures from investing activities of $4,241,594 being incorporated in loss for the year.
(ii) Net cash used in investing activities decreased by a corresponding amount as described in above note (i).

15 SUBSEQUENT EVENTS

In February 2016, the Company renegotiated the timing of the remaining option payments of the Musketeer property as detailed in Note 6.

In February 2016, the Company drew down the remaining $500,000 from the loan facility as detailed in Note 8.