DOLLY VARDEN SILVER CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Dolly Varden Silver Corp.

We have audited the accompanying financial statements of Dolly Varden Silver Corp., which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, 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 Corp. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 Accountants

April 23, 2015

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

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

		December 31, 2014		December 31, 2013
Assets				
Current				
Cash	$	1,559,040	$	358,619
Prepaid expenses (Note 3)		147,224		12,138
Receivables (Note 4)		134,342		1,578,931
		1,840,606		1,949,688
Non-Current				
Equipment (Note 5)		178,129		236,568
Exploration and evaluation advances (Note 6)		97,382		106,347
Deposits (Note 6)		91,000		50,000
Exploration and evaluation assets (Note 6)		18,171,972		13,697,045
	$	20,379,089	$	16,039,648
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities (Note 7 and 10)	$	497,850	$	502,300
		497,850		502,300
Non-current liabilities				
Liability on flow-through share issuance (Note 8)		-		42,000
		-		42,000
Shareholders' equity				
Share capital (Note 8)		26,798,884		21,449,491
Reserves		2,961,213		2,795,137
Deficit		(9,878,858)		(8,749,280)
		19,881,239		15,495,348
	$	20,379,089	$	16,039,648

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

APPROVED ON BEHALF OF THE BOARD:

"Allan Marter"	***"Rosie Moore"***
DIRECTOR	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)

	Year ended December 31	
	2014	**2013**
Expenses		
Administrative and consulting fees	$ 115,275	$ 97,903
Depreciation of office equipment	7,501	2,845
Directors' fees (Note 8)	44,375	134,543
Management fees	154,250	209,000
Marketing and communications	286,323	340,286
Office	59,510	63,751
Professional fees	169,157	182,103
Rent and maintenance	24,351	58,420
Salaries and benefits	83,592	122,658
Share-based compensation (Note 8)	52,032	750,726
Transfer agent and filing fees	38,512	31,408
Travel and accommodation	158,892	253,177
Exchange loss/(gain)	47	(41)
Operating loss	(1,193,817)	(2,246,779)
Interest income	22,239	30,908
Write down of exploration and evaluation assets (Note 6)	-	(93,031)
Other - flow through premium reversal (Note 8)	42,000	27,000
Loss and comprehensive loss for the year	$ (1,129,578)	$ (2,281,902)
Loss per common share, basic and diluted	$ (0.01)	$ (0.02)
Weighted average number of common shares outstanding	153,395,243	124,802,491

The accompanying notes are an integral part of these financial statements

(Expressed in Canadian Dollars)

	Share Capital				
	Number	**Amount**	**Reserves**	**Deficit**	**Total**
Balance - December 31, 2012	**103,327,500**	**$ 16,710,441**	**$ 2,021,630**	**$ (6,467,378)**	**$ 12,264,693**
Issuance of flow-through common shares for cash	2,087,508	347,502	-	-	347,502
Issuance of common shares for cash	25,850,411	4,643,560	-	-	4,643,560
Share issuance costs	-	(459,106)	-	-	(459,106)
Exercise of warrants	1,532,500	229,875	-	-	229,875
Fair value assigned to exercised warrants	-	153,250	(153,250)	-	-
Fair value assigned to issued finders' warrants	-	(176,031)	176,031	-	-
Share-based compensation	-	-	750,726	-	750,726
Total loss and comprehensive loss for the year	-	-	-	(2,281,902)	(2,281,902)
Balance - December 31, 2013	**132,797,919**	**21,449,491**	**2,795,137**	**(8,749,280)**	**15,495,348**
Issuance of flow-through common shares	46,441,711	5,573,005	-	-	5,573,005
Issuance of common shares	750,000	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	2,700,000	270,000	-	-	270,000
Share-based compensation	-	-	52,032	-	52,032
Total loss and comprehensive loss for the year	-	-	-	(1,129,578)	(1,129,578)
Balance - December 31, 2014	**182,689,630**	**$ 26,798,884**	**$ 2,961,213**	**$ (9,878,858)**	**$ 19,881,239**

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

		Year ended December 31, 2014		2013
Cash flows from operating activities				
Loss for the year	$	(1,129,578)	$	(2,281,902)
Items not affecting cash:				
Share-based compensation		52,032		750,726
Directors' fees (note 8)		44,375		-
Depreciation of office equipment		7,501		2,845
Other income - flow through premium reversal (note 8)		(42,000)		(27,000)
Changes in non-cash working capital items:				
(Increase)/decrease in receivables		(68,402)		317,083
Decrease in prepaid expenses		30,514		5,261
(Decrease)/increase in accounts payable & accrued liabilities		(78,100)		184,904
Net cash provided by (used in) operating activities		(1,183,658)		(1,048,083)
Cash flows from investing activities				
Cost recovery - BCMETC		1,552,991		-
Exploration and evaluation assets		(4,328,367)		(4,553,471)
Equipment		-		(37,047)
Addition to deposit		(41,000)		-
Exploration and evaluation assets advances		(97,382)		(103,746)
Net cash used in investing activities		(2,913,758)		(4,694,264)
Cash flows from financing activities				
Issuance of common shares for cash		5,767,405		5,220,936
Share issuance costs		(469,568)		(390,105)
Net cash provided by financing activities		5,297,837		4,830,831
Net change in cash for the year		1,200,421		(911,516)
Cash - beginning of the year		358,619		1,270,135
Cash - end of the year	$	1,559,040	$	358,619

		2014		2013
Supplemental disclosure with respect to cash flows:				
Interest received in cash	$	18,851	$	29,305
Interest paid in cash	$	-	$	-
Income taxes paid in cash	$	-	$	-
Non-cash transactions:				
Accrual of exploration and evaluation asset expenditures	$	238,027	$	208,752
Accrual of BC METC (Note 4)	$	40,000	$	1,546,941
Depreciation included in exploration and evaluation assets	$	50,938	$	65,633
Fair value of warrants exercised	$	-	$	153,250
Fair value of finders warrants issued	$	114,044	$	176,031
Premium liability on flow-through shares	$	-	$	69,000
Allocation of exploration and evaluation advances	$	106,347	$	138,432
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, evaluation and development of exploration and evaluation assets and it is considered to be in the exploration and evaluation stage. The Company's registered head office is suite 611 – 675 West Hastings Street, Vancouver, BC V6B 1N2.

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 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 December 31, 2014, the Company had incurred accumulated losses of $9,878,858 (December 31, 2013: accumulated loss of $8,749,280) since inception, and has a working capital of $1,342,756 (December 31, 2013: $1,447,388). The Company expects to incur further losses in the development of its business and accordingly there is material uncertainty in the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to continue to raise adequate financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These 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 23, 2015.

(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 and operating 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 proceds 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

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. 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) 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.

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(f) Impairment of Non-Current Assets – (cont'd)

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.

(g) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(h) 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) Recoverability of the carrying value of the Company's exploration and evaluation assets
Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of these properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that 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) Share-based compensation – 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

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

Critical accounting estimates – (cont'd)

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.

(i) 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.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(j) 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 at the same time the qualifying expenditures are made.

(k) 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.

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

(l) 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.

(m) 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.

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(n) 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.

(o) 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.

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.

(p) New accounting standards, amendments and interpretations adopted

IAS 32 – Financial Instruments: Presentation ("IAS 32")

The amendments to IAS 32 were made to clarify certain aspects because of diversity in application of the offsetting rules. IAS 32 was adopted effective January 1, 2014 and had no significant impact on the Company's financial statements.

IAS 36 – Impairment of Assets ("IAS 36")

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less cost of disposal. IAS 36 was adopted effective January 1, 2014 and had no significant impact on the Company's financial statements.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

(q) 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, 2014, and have not been applied in preparing these financial statements.

IFRS 7 – Financial Instruments: Disclosure applies to additional disclosures required on transition from IAS 39 to IFRS 9. The effective date of IFRS 7 is January 1, 2015. The Company is assessing the impact of this new standard, if any, on the financial statements.

IAS 16 & 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.

3 PREPAID EXPENSES

Prepaid expenses consist of:

	December 31, 2014	December 31, 2013
Trade show/Conference	$ 3,441	$ 5,521
Insurance	3,666	3,117
Marketing services[1]	138,750	-
Other	1,367	3,500
	$ 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, 2014	December 31, 2013
GST/HST	$ 69,244	$ 30,387
Accrued interest on GICs	4,991	1,603
BC METC[1]	40,000	1,546,941
Other[2]	20,107	-
	$ 134,342	$ 1,578,931

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

[2] Refers to collateral of $20,000 and accrued interest for a corporate credit card. The card was cancelled in late 2014 and the collateral and interest received subsequent to year end.

(Expressed in Canadian Dollars)

5 EQUIPMENT

	Boat	Dock	Tents & trailers	Equipment	Vehicles	Gas tank	Computer Hardware	Total
Cost								
At December 31, 2012	$ 43,095	$ 15,571	$ 132,617	$ 31,082	$ 129,136	$ 40,000	$ -	$ 391,501
Additions	-	-	5,904	20,797	-	-	10,346	37,047
At December 31, 2013	$ 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**
Accumulated depreciation								
At December 31, 2012	$ 9,212	$ 1,148	$ 49,982	$ 5,315	$ 52,045	$ 5,800	$ -	$ 123,502
Depreciation for the year	5,083	721	25,529	7,753	23,127	3,420	2,845	68,478
At December 31, 2013	$ 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**
NET BOOK VALUE								
At December 31, 2013	**$ 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**

6 EXPLORATION AND EVALUATION ASSETS

Dolly Varden Property

During 2011, the Company purchased the Dolly Varden Property, consisting of fee simple titles, mineral claims and mineral tenures in respect of certain lands located in the Kitsault area of British Columbia. A finder's fee of $62,500 was paid through the issuance of shares to a shareholder of the Company. The property is subject to a 2% net smelter return royalty ("NSR") of which one half (or 1% NSR) can be repurchased by the Company for $1,000,000 at any time. A company in which a former director holds an indirect 20% interest holds the 2% NSR and held a License agreement for use of nearby 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 at a monthly cost of $3,500 (paid in full April 16, 2015).

The Company has provided deposits totalling $91,000 (2013 - $50,000) as reclamation bonds for the property.

Iskut Property

On January 30, 2012, the Company acquired 100% ownership in the Iskut property in Northern BC. In December 2013, the Iskut property claims were allowed to lapse and the Company wrote down the capitalized costs related to the property to $Nil. The total amount of the write down was $93,031.

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 has the option to reduce the NSR by 1% by paying $1,750,000 to the royalty holders within 3 years of acquiring the Musketeer property.

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

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 such that $100,000 is deferred until February 2018 ($50,000 from each of the 2015 and 2016 payments), with a renegotiation fee of $10,000 due with the February 2015 payment. The remaining option payments are due as follows:

February 13, 2015	$193,333 (paid)
February 12, 2016	$183,334
February 11, 2018	$100,000

The following is a summary of acquisition costs and exploration expenditures in exploration and evaluation assets for the years ended December 31, 2013 and 2014:

	Balance as at December 31, 2013	Dolly Varden Property	Musketeer Property	Balance as at December 31, 2014
Acquisition Costs				
Finders' fees	$ 62,500	$ -	$ -	$ 62,500
Legal fees	93,926	-	-	93,926
Property acquisition	2,896,801	-	233,333	3,130,134
Total acquisition costs	$ 3,053,227	$ -	$ 233,333	$ 3,286,560
Exploration Costs				
Assay	$ 251,975	$ 151,560	$ 54,085	$ 457,620
Camp, food, supplies and misc.	960,598	412,574	147,228	1,520,400
Claim maintenance	119,631	35,056	12,759	167,446
Data and sampling analysis	342,642	38,928	13,892	395,462
Depreciation	189,136	37,541	13,396	240,073
Drilling	1,132,384	440,408	157,160	1,729,952
Equipment and warehouse rental	729,417	285,717	101,959	1,117,093
Field labour and support	739,272	50,700	18,092	808,064
Field project and management	2,413,585	83,766	29,892	2,527,243
Fuel	378,431	78,835	28,133	485,399
Geological and Geoscience consulting	1,611,705	357,473	127,565	2,096,743
Geotechnical studies	426,930	149,040	53,186	629,156
Mapping and modelling	724,623	182,813	65,238	972,674
Road and drill pad preparation	605,556	109,808	39,185	754,549
Site preparation	147,518	6,486	2,314	156,318
Survey and assessment	380,823	3,796	1,354	385,973
Transport, travel and accomodation	1,688,017	735,309	262,396	2,685,722
Cost recovery - BC METC	(2,105,394)	(35,650)	(10,400)	(2,151,444)
Total exploration costs	$ 10,736,849	$ 3,124,160	$ 1,117,434	$ 14,978,443
Write-down of Exploration and Evaluation Assets	$ (93,031)	$ -	$ -	$ (93,031)
Total Exploration and Evaluation Assets	$ 13,697,045	$ 3,124,160	$ 1,350,767	$ 18,171,972

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

	Balance as at December 31, 2012	Dolly Varden Property	Iskut Property	Musketeer Property	Balance as at December 31, 2013
Acquisition Costs					
Finders' fees	$ 62,500	$ -	$ -	$ -	$ 62,500
Legal fees	82,520	-	-	11,406	93,926
Property acquisition	2,546,801	-	-	350,000	2,896,801
Total acquisition costs	$ 2,691,821	$ -	$ -	$ 361,406	$ 3,053,227
Exploration Costs					
Assay	$ 117,340	$ 134,635	$ -	$ -	$ 251,975
Camp, food, supplies and misc.	688,418	272,180	-	-	960,598
Claim maintenance	73,608	45,827	-	196	119,631
Data and sampling analysis	218,695	123,947	-	-	342,642
Depreciation	123,503	65,633	-	-	189,136
Drilling	815,229	317,155	-	-	1,132,384
Equipment and warehouse rental	451,845	277,572	-	-	729,417
Field labour and support	614,025	125,247	-	-	739,272
Field project and management	1,557,955	855,630	-	-	2,413,585
Fuel	271,364	107,067	-	-	378,431
Geological and Geoscience consulting	1,026,536	585,169	-	-	1,611,705
Geotechnical studies	250,410	176,520	-	-	426,930
Mapping and modelling	370,635	353,988	-	-	724,623
Road and drill pad preparation	497,375	108,181	-	-	605,556
Site preparation	61,578	85,940	-	-	147,518
Survey and assessment	357,070	23,753	-	-	380,823
Transport, travel and accomodation	1,126,940	561,077	-	-	1,688,017
Cost recovery - BC METC	-	(2,105,394)	-	-	(2,105,394)
Total exploration costs	$ 8,622,526	$ 2,114,127	$ -	$ 196	$ 10,736,849
Write-down of Exploration and Evaluation Assets	$ -	$ -	$ (93,031)	$ -	$ (93,031)
Total Exploration and Evaluation Assets	$ 11,314,347	$ 2,114,127	$ (93,031)	$ 361,602	$ 13,697,045

At December 31, 2014, the Company has advanced $97,382 (December 31, 2013 - $106,347) for upcoming exploration work to various suppliers.

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	December 31, 2014	December 31, 2013
Trade payables (1)	$ 56,032	$ 107,505
Exploration and evaluation asset payables and accruals (2)	238,027	208,752
Other accrual (3)	203,791	186,043
	$ 497,850	$ 502,300

(1) Includes $8,432 (December 31, 2013 - $14,536) owed to directors and officers.

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

(2) Includes $158,141 (December 31, 2013 - $158,141) payable to a Company owned by a former director and officer of the company.

(3) Includes $161,151 (December 31, 2013 - $134,543) payable to independent directors for directors' fees outstanding as deferred share units "DSU", described more fully in note 8.

8 SHARE CAPITAL AND RESERVES

Share Capital:

Authorized: Unlimited common shares without par value

(a) During the year ended December 31, 2014, the Company issued the following common shares:

(i) On February 14, 2014, the Company issued 2,700,000 common shares pursuant to the exercise of warrants for proceeds of $270,000.

(ii) On July 30, 2014, the Company completed its first tranche of a non-brokered private placement by issuing 750,000 common shares at $0.12 per share and 5,541,711 flow-through shares at $0.12 per share for total gross proceeds of $665,005 in cash and $90,000 in prepaid services. The Company issued 252,632 warrants as finders' fees, exercisable at $0.15 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 40,900,000 flow-through shares at $0.12 per share for total gross proceeds of $4,832,400 in cash and $75,600 in prepaid services. The Company issued 3,256,000 warrants as finders' fees, exercisable at $0.15 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.

(b) During the year ended December 31, 2013, the Company issued the following common shares:

(i) On January 22, 2013, Hecla Mining Company "Hecla" exercised its pre-emptive right on financing (a right first acquired in 2012 and available as long as Hecla holds more than 10% interest in the Company) to maintain its pro rata interest in the Company by acquiring 662,508 flow-through shares at $0.20 per share and 475,711 common shares at $0.16 per share for gross proceeds of $208,615. The Company recorded a liability on the flow-through share premium of $26,500 for the difference between the fair market value of its common shares and the issuance price of its flow-through common shares. The liability was subsequently reversed and recognized in profit or loss during the year as the Company incurred the expenditures.

(ii) On March 15, 2013, the Company completed its first tranche of a non-brokered private placement by issuing 10,310,000 common shares at $0.18 per share and 25,000 flow-through shares at $0.20 per share for total gross proceeds of $1,860,800. In connection with the first tranche, the Company paid total financing fees of $290,500. Additionally, the Company issued 1,613,750 warrants as financing fees, of which 1,612,500 warrants are exercisable at $0.18 and 1,250 warrants are exercisable at $0.20 per share, expiring on March 15, 2015. The warrants had a fair value of $176,031, measured using the Black-Scholes method. The Company recorded a liability on the flow-through share premium of $500 for the difference between the fair market value of its common shares and the issuance price of its flow-through common shares. The liability was subsequently reversed and recognized in income during the year as the Company incurred the expenditures.

(iii) On April 17, 2013, the Company issued 15,064,700 common shares at $0.18 per share to Hecla for gross proceeds of $2,711,646, as it exercised its pre-emptive right to maintain its pro-rata interest.

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'd)

(iv) On December 30, 2013, the Company completed a non-brokered private placement through the issuance of 1,400,000 flow-through common shares at $0.15 per share for gross proceeds of $210,000. The Company recorded a liability on the flow-through share premium of $42,000 for the difference between the fair market value of its common shares and the issuance price of its flow-through common shares. This has been recorded as a flow-through common share issuance liability. The liability was subsequently reversed and recognized in income in the third quarter of 2014 as the Company incurred the expenditures.

(v) During the year ended December 31, 2013, the Company issued 1,532,500 common shares pursuant to the exercise of warrants for proceeds of $229,875.

Warrants:

Warrant transactions summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2012	10,007,500	$ 0.13
Issued for financing	1,613,750	$ 0.18
Expired	(3,262,200)	$ 0.17
Exercised	(1,532,500)	$ 0.15
Balance, December 31, 2013	6,826,550	$ 0.12
Issued for financing	3,508,632	$ 0.15
Expired	(2,512,800)	$ 0.11
Exercised	(2,700,000)	$ 0.10
Balance, December 31, 2014	5,122,382	$ 0.16

At December 31, 2014, share purchase warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
1,612,500	$ 0.18	March 15, 2015
1,250	$ 0.20	March 15, 2015
252,632	$ 0.15	July 29, 2015
3,256,000	$ 0.15	August 14, 2015
5,122,382		

The weighted average remaining contractual life of the warrants outstanding as at December 31, 2014 was 0.49 years.

During the year ended December 31, 2014, the Company issued 3,508,632 (2013 – 1,613,750) warrants with a fair value of $114,044 (2013 - $176,031) or $0.03 (2013 - $0.11) per warrant.

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'd)

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

	Year ended December 31, 2014	2013
Risk free interest rate	1.06%	1.20%
Expected life of warrants	1 year	2 years
Annualized stock price volatility	100.3%	132.0%
Expected dividend yield	0%	0%

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 - December 31, 2012	7,600,000	$ 0.26
Granted for services	5,539,750	$ 0.16
Outstanding at - December 31, 2013	13,139,750	$ 0.22
Granted for services	460,250	$ 0.16
Forfeited	(1,900,000)	$ 0.21
Outstanding at -December 31, 2014	11,700,000	$ 0.22
Number of options exercisable at December 31, 2014	11,606,250	$ 0.22

As at December 31, 2014, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of options	Exercise Price	Expiry Date
5,200,000	$ 0.25	January 30, 2017
750,000	$ 0.35	March 1, 2017
500,000	$ 0.20	June 4, 2017
1,150,000	$ 0.18	March 18, 2018
3,639,750	$ 0.16	July 26, 2018
60,250	$ 0.16	February 14, 2019
400,000	$ 0.16	June 16, 2019
11,700,000		

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'd)

The weighted average remaining contractual life of the stock options outstanding as at December 31, 2014, was 2.77 years.

During the year ended December 31, 2014, the Company granted 460,250 (2013 – 5,539,750) stock options to directors, employees and consultants with a total fair value of $44,847 (2013 - $759,886) or $0.10 (2013 - $0.14) per option. During the year ended December 31, 2014, the Company recognized a total of $52,032 (2013 - $750,726) in share-based compensation. Of this amount $7,185 was related to the portion of stock options issued in 2012 that vested in 2014. The remaining amount of $44,847 was the fair value of the vested portion of the stock options that were granted in fiscal 2014.

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

	Year ended December 31,	
	2014	**2013**
Risk free interest rate	1.58%	1.63%
Expected dividend yield	0%	0%
Annualized stock price volatility	121%	124%
Expected life of options	5 years	5 years
Expected forfeiture rate	0%	0%

Deferred share units ("DSU"):

The Company has a DSU plan which entitles the Directors to receive the cash equivalent of the DSUs when they retire from the Company. For the year ended December 31, 2014, the Company recognized the compensation cost for DSUs of $44,375 (December 31, 2013 - $134,543) as directors' fees with a corresponding liability recorded as accrued liabilities. The amount represents $147,278 as the dollar value of directors' fees for the year, less a reduction in the total liability for the DSU plan of $102,903 arising as a result of the drop in common share market value. Of the amount recorded as accrued liabilities at December 31, 2013, $17,767 was paid to former directors during the year.

9 CAPITAL DISCLOSURE

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

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

The Company is dependent on the capital markets as its main source of operating capital and the Company's capital resources are largely determined by the strength of the junior public markets, by the status of the Company's projects in relation to these markets and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the year ended December 31, 2014.

(Expressed in Canadian Dollars)

10 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2014 and 2013, 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, 2014	Year ended December 31, 2013
Costs included in exploration and evaluation assets	$ 150,000	$ 2,191,982
Directors' fees (note 8 - Deferred share units)	147,278	153,662
Management and consulting fees	250,125	265,314
Salaries and benefits	-	84,738
Share-based compensation	-	503,700
	$ 547,403	$ 3,199,396

At December 31, 2014, included in accounts payable and accrued liabilities is $327,724 (December 31, 2013 - $307,220) 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.

11 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.

Financial instruments

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

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

Credit risk

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

(Expressed in Canadian Dollars)

11 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, 2014, the Company had a cash balance of $1,559,040 to settle current liabilities of $497,850. The Company's current policy is to invest excess cash in demand Guaranteed Investment Certificates issued by its banking institutions.

Interest rate risk

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

Price risk

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

12 INCOME TAXES

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

For the Year ended December 31,		**2014**		**2013**
Loss for the year	$	(1,129,578)	$	(2,281,902)
Expected income tax (recovery)	$	(294,000)	$	(588,000)
Change in statutory rates and other		(15,000)		(34,000)
Permanent Difference		3,000		186,000
Impact of flow through share		1,039,000		35,000
Share issue cost		(101,000)		(100,000)
Impact of ITC		-		(126,000)
Adjustment to prior year provision		(125,000)		605,000
Change in unrecognized deductible		(507,000)		22,000
Total income tax expense (recovery)	**$**	**-**	**$**	**-**
Current income tax	**$**	**-**	**$**	**-**
Deferred tax recovery	**$**	**-**	**$**	**-**

(Expressed in Canadian Dollars)

12 INCOME TAXES (cont'd)

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

As at December 31,		**2014**		**2013**
Deferred Tax Assets				
Property and equipment	$	72,000	$	57,000
Share issue costs		171,000		110,000
Investment tax credit		526,000		519,000
Non-capital losses available for future periods		45,000		635,000
	$	814,000	$	1,321,000
Unrecognized deferred tax assets		(814,000)		(1,321,000)
Net deferred tax assets	$	-	$	-

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

As at December 31,	**2014**	**Expiry Date Range**	**2013**	**Expiry Date Range**
Temporary Differences				
Investment tax credit	711,000	2031 to 2034	701,000	2031 to 2033
Property and equipment	276,000	No expiry date	218,000	No expiry date
Share issue costs	657,000	2033 to 2038	423,000	2033 to 2037
Non-capital losses available for future periods	173,000	2015 to 2034	2,446,000	2014 to 2033

The Company is obligated to spend $1,788,637 in eligible flow-through expenditures by December 31, 2015.

13 SUBSEQUENT EVENTS

In February 2015, the Company renegotiated the timing of the remaining option payments of the Musketeer property as detailed in Note 6.

On February 26, 2015, the Company issued 2,150,000 stock options to directors, officers, employees, and consultants pursuant to the Company's approved stock option plan. The options are exercisable at a price of $0.07 per share, and will vest in accordance with TSX Venture Exchange rules. 500,000 options have a term of two years and the remainder have terms of five years.

Subsequent to year-end, 1,613,750 warrants and 1,900,000 stock options expired unexercised.

Subsequent to year-end, the License agreement (Note 6) for use of the nearby property at the Dolly Varden property was extended from from January 1, 2015 to December 31, 2015 at a monthly cost of $3,500 (paid in full April 16, 2015).