DOLLY VARDEN SILVER CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2014 AND 2013

UNAUDITED –Prepared by Management

(Expressed in Canadian Dollars)

TO THE SHAREHOLDERS OF DOLLY VARDEN SILVER CORPORATION

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company at June 30, 2014 have been prepared by management and have been reviewed and approved by the Company's Audit Committee and Board of Directors.

The Company's independent auditor, Davidson & Company LLP, has not performed a review of these condensed interim financial statements for the three and six month periods ended June 30, 2014 and 2013.

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

		June 30, 2014		December 31, 2013
Assets				
Current				
Cash	$	386,116		358,619
Prepaid expenses (Note 3)		46,238		12,138
Receivables (Note 4)		697,831		1,578,931
		1,130,185		1,949,688
Non-Current				
Deposits (Note 6)		70,000		50,000
Exploration and evaluation advances (Note 6)		191,786		106,347
Equipment (Note 5)		209,036		236,568
Exploration and evaluation assets (Note 6)		14,259,403		13,697,045
	$	15,860,410	$	16,039,648
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable & accrued liabilities (Note 7 and 10)	$	646,779		502,300
		646,779		502,300
Non-current liabilities				
Liability on flow-through share issuance (Note 8)		42,000		42,000
		42,000		42,000
Shareholders' equity				
Share Capital (Note 8)		21,716,377		21,449,491
Reserves		2,859,621		2,795,137
Deficit		(9,404,367)		(8,749,280)
		15,171,631		15,495,348
	$	15,860,410	$	16,039,648

Nature of Operations and Going Concern - Note 1
Contingent Liability - Note 12
Subsequent Event - Note 13

APPROVED ON BEHALF OF THE BOARD:

"Allan Marter"	*"John King Burns"*
DIRECTOR	DIRECTOR

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

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

	Three months ended June 30		Six months ended June 30	
	2014	**2013**	**2014**	**2013**
Expenses				
Administrative & consulting fees	$ 32,875	$ 47,126	$ 60,675	$ 48,834
Depreciation of office equipment	1,031	-	2,063	-
Directors' fees (Note 8)	38,261	30,500	58,106	61,000
Management fees	42,000	52,000	90,750	117,500
Marketing and communications	43,310	75,522	102,096	159,135
Office	14,991	13,231	29,971	25,627
Professional fees	52,002	87,759	67,890	103,184
Rent and maintenance	6,028	14,355	11,860	29,710
Salaries and benefits	16,471	54,211	31,941	89,398
Share-based compensation (Note 8)	46,545	86,655	64,484	106,815
Transfer agent and filing fees	8,660	8,315	18,550	17,294
Travel & Accommodation	79,346	51,911	125,263	113,981
Exchange (gain)/loss	(237)	719	207	(428)
Operating loss	(381,283)	(522,304)	(663,856)	(872,050)
Interest income	1,840	13,862	8,769	15,633
Total loss and comprehensive loss for period	$ (379,443)	$ (508,442)	$ (655,087)	$ (856,417)
Loss per common share, basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)
Weighted average number of common shares outstanding	135,497,919	128,719,750	134,804,476	118,172,024

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

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

	Share Capital								
	Number		Amount		Reserves		Deficit		Total
Balance - December 31, 2012	**103,327,500**	**$**	**16,710,441**	**$**	**2,021,630**	**$**	**(6,467,378)**	**$**	**12,264,693**
Issuance of flow-through common shares for cash	687,508		137,501		-		-		137,501
Issuance of common shares for cash	25,850,411		4,643,560		-		-		4,643,560
Share issuance costs	-		(350,305)		-		-		(350,305)
Exercise of warrants	1,532,500		229,875		-		-		229,875
Fair value assigned to exercised warrants	-		153,250		(153,250)		-		-
Fair value assigned to issued finders' warrants	-		(176,031)		176,031		-		-
Share-based compensation	-		-		106,815		-		106,815
Total loss and comprehensive loss for the period	-		-		-		(856,417)		(856,417)
Balance - June 30, 2013	**131,397,919**	**$**	**21,348,291**	**$**	**2,151,226**	**$**	**(7,323,795)**	**$**	**16,175,722**
Issuance of flow-through common shares for cash	1,400,000		210,001		-		-		210,001
Share issuance costs	-		(108,801)		-		-		(108,801)
Share-based compensation	-		-		643,911		-		643,911
Total loss and comprehensive loss for the period	-		-		-		(1,425,485)		(1,425,485)
Balance - December 31, 2013	**132,797,919**	**$**	**21,449,491**	**$**	**2,795,137**		**(8,749,280)**	**$**	**15,495,348**
Share issuance costs	-		(3,114)		-		-		(3,114)
Exercise of warrants	2,700,000		270,000		-		-		270,000
Share-based compensation	-		-		64,484		-		64,484
Total loss and comprehensive loss for the period	-		-		-		(655,087)		(655,087)
Balance - June 30, 2014	**135,497,919**	**$**	**21,716,377**	**$**	**2,859,621**	**$**	**(9,404,367)**	**$**	**15,171,631**

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

		Six months ended June 30,		
		2014		2013
Cash flows from operating activities				
Loss for the period	$	(655,087)	$	(856,417)
Items not affecting cash:				
Share-based compensation		64,484		106,815
Directors' fees		58,106		61,000
Depreciation of office equipment		2,063		-
Changes in non-cash working capital items:				
Decrease (increase) in receivables		881,100		185,868
(Increase) decrease in prepaid expenses		(34,100)		(2,166)
(Decrease) increase in accounts payable & accrued liabilities		(28,508)		19,522
Net cash used in operating activities		288,058		(485,378)
Cash flows from investing activities				
Exploration and evaluation assets		(318,022)		(1,980,004)
Equipment		-		(20,797)
Addition to deposit		(20,000)		-
Exploration and evaluation assets advances		(189,425)		(48,844)
Net cash used in investing activities		(527,447)		(2,049,645)
Cash flows from financing activities				
Issuance of common shares for cash		270,000		5,010,936
Share issuance costs		(3,114)		(350,305)
Net cash provided by financing activities		266,886		4,660,631
Net change in cash for the period		27,497		2,125,608
Cash - beginning of the period		358,619		1,270,135
Cash - end of the period	$	386,116	$	3,395,743

Supplemental disclosure with respect to cash flows:				
Interest received in cash	$	9,268	$	4,529
Interest paid in cash		-		-
Income taxes paid in cash		-		-
Non-cash transactions:				
Accrual of exploration and evaluation asset expenditures	$	323,633	$	755,833
Accrual of BC METC (Note 4)		-	$	1,317,332
Depreciation included in exploration and evaluation assets	$	25,469	$	31,473
Fair value of warrants exercised		-	$	153,250
Fair value of finders warrants issued		-	$	176,031
Allocation of exploration and evaluation advances	$	103,986	$	18,181

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

1 NATURE OF OPERATIONS AND GOING CONCERN

On January 30, 2012, an amalgamation of Twin Glacier Resources Ltd. ("Twin") and Dolly Varden Silver Ltd. ("Dolly") by way of a reverse takeover ("RTO") (Note 9) created Dolly Varden Silver Corporation (the "Company"). The Company was incorporated under the Canada Business Corporation Act in the Province of British Columbia on March 4, 2011. The Company's primary business is the acquisition, exploration, evaluation and development of exploration and evaluation assets and it is considered to be in the exploration and evaluation stage. The Company's registered head office is suite 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 condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At June 30, 2014, the Company had incurred accumulated losses of $9,404,367 (December 31, 2013: accumulated loss of $8,749,280) since inception, and has a working capital of $483,406 (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 condensed interim financial statements have been prepared in accordance with IAS 1 "Presentation of Financial Statements' ("IAS 1") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements were approved by the board of directors of the Company on August 21, 2014.

(b) Basis of Presentation

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

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

The significant accounting policies for the periods are consistent with those disclosed in the audited annual financial statements of the Company for the year ended December 31, 2013 except as specified

(Expressed in Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

below. The accompanying unaudited condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2013.

For the comparative financial statements, the Company re-classified certain 2013 accounts in order to conform with the 2014 presentation.

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

The following new standard is not yet effective for the year ended December 31, 2014, and has not been applied in preparing these financial statements.

IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The tentative 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:

	June 30, 2014	December 31, 2013
Trade show/Conference	$ 17,472	$ 5,521
Insurance	9,167	3,117
Investor relations	10,000	-
Other	9,599	3,500
	$ 46,238	$ 12,138

4 RECEIVABLES

Receivables consist of:

	June 30, 2014	December 31, 2013
GST/HST	$ 15,065	$ 30,387
Accrued interest on GICs	1,104	1,603
BC METC (1)	681,662	1,546,941
	$ 697,831	$ 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. The amount as at June 30, 2014 represents the amount filed for the 2013 fiscal year.

(Expressed in Canadian Dollars)

5 EQUIPMENT

	Boat	Dock	Tents & trailers	Equipment	Vehicles	Gas tank	Computer Hardware	Total
Cost								
At December 31, 2013	$ 43,095	$ 15,571	$ 138,521	$ 51,879	$ 129,136	$ 40,000	$ 10,346	$ 428,548
Additions	-	-	-	-	-	-	-	-
At June 30, 2014	**$ 43,095**	**$ 15,571**	**$ 138,521**	**$ 51,879**	**$ 129,136**	**$ 40,000**	**$ 10,346**	**$ 428,548**
Accumulated depreciation								
At December 31, 2013	$ 14,295	$ 1,869	$ 75,511	$ 13,068	$ 75,172	$ 9,220	$ 2,845	$ 191,980
Depreciation for the period	2,160	342	9,452	3,881	8,095	1,539	2,063	27,532
At June 30, 2014	**$ 16,455**	**$ 2,211**	**$ 84,963**	**$ 16,949**	**$ 83,267**	**$ 10,759**	**$ 4,908**	**$ 219,512**
NET BOOK VALUE								
At December 31, 2013	**$ 28,800**	**$ 13,702**	**$ 63,010**	**$ 38,811**	**$ 53,964**	**$ 30,780**	**$ 7,501**	**$ 236,568**
At June 30, 2014	**$ 26,640**	**$ 13,360**	**$ 53,558**	**$ 34,930**	**$ 45,869**	**$ 29,241**	**$ 5,438**	**$ 209,036**

6 EXPLORATION AND EVALUATION ASSETS

Dolly Varden Property

During the period from inception March 4, 2011 to October 31, 2011, the Company purchased the Dolly Varden Property, consisting of fee simple titles, mineral claims and mineral tenures in respect of certain lands located in the Kitsault area of British Columbia. A finder’s fee of $62,500 was paid through the issuance of shares to a shareholder of the Company. The property is subject to a 2% net smelter return royalty (“NSR”) of which one half (or 1% NSR) can be repurchased by the Company for $1,000,000 at any time. A company in which a 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 Company has provided a $50,000 deposit for the reclamation bond for the property.

Iskut Property

On January 30, 2012, the Company, as part of the amalgamation with Twin as disclosed in Note 9, acquired 100% ownership in the Iskut property in Northern BC. 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 100% interest in the Musketeer property located in northwestern British Columbia, Canada for a purchase price of $1,050,000 payable over four years, subject to a 2% NSR. The Company has the option to reduce the NSR by 1% by paying $1,750,000 to the royalty holders within 3 years of acquiring the Musketeer property.

(Expressed in Canadian Dollars)

6 EXPLORATION AND EVALUATION ASSETS (cont'd)

The Company paid an aggregate option payment of $350,000 in the first quarter of 2013 and the second option payment of $233,333 in the first quarter of 2014. The remaining option payments are due as follows:

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

The following is a summary of acquisition costs and exploration expenditures in exploration and evaluation assets for the six months ended June 30, 2014:

	Balance as at December 31, 2013	Dolly Varden Property	Musketeer Property	Balance as at June 30, 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	$ 11,476	$ -	$ 263,451
Camp, food, supplies and misc.	960,598	4,514	-	965,112
Claim maintenance	119,631	18,802	184	138,617
Data and sampling analysis	342,642	-	-	342,642
Depreciation	189,136	25,469	-	214,605
Drilling	1,132,384	-	-	1,132,384
Equipment and warehouse rental	729,417	40,739	-	770,156
Field labour and support	739,272	-	-	739,272
Field project and management	2,413,585	-	-	2,413,585
Fuel	378,431	-	-	378,431
Geological and Geoscience consulting	1,611,705	90,417	-	1,702,122
Geotechnical studies	426,930	4,027	-	430,957
Mapping and modelling	724,623	114,016	-	838,639
Road and drill pad preparation	605,556	-	-	605,556
Site preparation	147,518	-	-	147,518
Survey and assessment	380,823	-	-	380,823
Transport, travel and accomodation	1,688,017	19,381	-	1,707,398
Cost recovery - BC METC	(2,105,394)	-	-	(2,105,394)
Total exploration costs	$ 10,736,849	$ 328,841	$ 184	$ 11,065,874
Write-down of Exploration and Evaluation Assets	$ (93,031)	$ -	$ -	$ (93,031)
Total Exploration and Evaluation Assets	$ 13,697,045	$ 328,841	$ 233,517	$ 14,259,403

At June 30, 2014, the Company has advanced $191,786 (December 31, 2013 - $106,347) for upcoming exploration work to various suppliers.

(Expressed in Canadian Dollars)

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Consists of:

	June 30, 2014	December 31, 2013
Trade payables [(1)]	$ 95,232	$ 107,505
Exploration and evaluation asset payables and accruals [(2)]	315,077	208,752
Other accrual [(3)]	236,470	186,043
	$ 646,779	$ 502,300

(1) Includes $30,663 (December 31, 2013 - $14,536) owed to directors and officers.

(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 $192,650 (December 31, 2013 - $134,543) payable to independent directors for directors' fees.

8 SHARE CAPITAL AND RESERVES

Share Capital:

Authorized: Unlimited common shares without par value

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

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

(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.

(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.

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'd)

(b) During the six months ended June 30, 2014, the Company issued the following common shares:

(i) During the six months ended June 30, 2014, the Company issued 2,700,000 common shares pursuant to the exercise of warrants for proceeds of $270,000.

Warrants:

Warrant transactions summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, January 1, 2013	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
Expired	(2,300,000)	$	0.10
Exercised	(2,700,000)	$	0.10
Balance, June 30, 2014	1,826,550	$	0.18

At June 30, 2014, share purchase warrants were outstanding as follows:

Number of Warrants		Exercise Price	Expiry Date
212,800	$	0.20	December 28, 2014
1,612,500	$	0.18	March 15, 2015
1,250	$	0.20	March 15, 2015
1,826,550			

The weighted average remaining contractual life of the warrants outstanding as at June 30, 2014 was 0.68 years.

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

	Six months ended June 30, 2014	Six months ended June 30, 2013
Risk free interest rate	N/A	1.20%
Expected life of warrants	N/A	2 years
Annualized stock price volatility	N/A	131.5%
Expected dividend yield	N/A	0%

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'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, 2013	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	(1,150,000)	$ 0.19
Outstanding at - June 30, 2014	12,450,000	$ 0.22
Number of options exercisable at June 30, 2014	12,168,750	$ 0.22

As at June 30, 2014, the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of options	Exercise Price	Expiry Date
5,950,000	$ 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
12,450,000		

The weighted average remaining contractual life of the stock options outstanding as at June 30, 2014, was 3.23 years.

(Expressed in Canadian Dollars)

8 SHARE CAPITAL AND RESERVES (cont'd)

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

	Six months ended June 30, 2014	2013
Risk free interest rate	1.57% - 1.64%	1.30% - 1.54%
Expected dividend yield	0%	0%
Annualized stock price volatility	120.09% -124.52%	131.39% - 131.50%
Expected life of options	5 years	4 - 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 period ended June 30, 2014, the Company recognized the compensation cost for DSUs of $58,106 (June 30, 2013 - $61,000) as directors' fees with a corresponding liability recorded as accrued liabilities. The amount represents $74,278 as the dollar value of directors' fees for the period, less a reduction in the total liability for the DSU plan of $16,172, arising as a result of the drop in common share market value.

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 six month period ended June 30, 2014.

10 RELATED PARTY TRANSACTIONS

During the six months ended June 30, 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:

(Expressed in Canadian Dollars)

10 RELATED PARTY TRANSACTIONS (Cont'd)

	Six months ended June 30, 2014	Six months ended June 30, 2013
Costs included in exploration and evaluation assets	$ -	$ 1,002,896
Directors' fees	74,278	61,000
Management & Consulting fees	119,975	130,044
Salaries and benefits	-	84,278
	$ 194,253	$ 1,278,218

At June 30, 2014, included in accounts payable and accrued liabilities is $381,454 (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 Guaranteed Investment Certificates at reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments also included receivables from government agencies. The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions.

11 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

Liquidity risk

The Company's ability to remain liquid over the long term depends on its ability to obtain additional financing through the issuance of additional securities, the entering into credit facilities or the entering into joint ventures, partnerships or other similar arrangements. As at June 30, 2014, the Company had a cash balance of $386,116 to settle current liabilities of $646,779. 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 CONTINGENT LIABILITY

On August 6, 2013, the Company received legal notice that a former officer was seeking remuneration based on specific terms of her employment contract and manner of termination and on November 12, 2013, the Company received Notice of Civil Claim that a related action was filed in The Supreme Court of British Columbia against the Company and the Chairman of the Company. The Company disputes the allegations claimed in the action and no additional remuneration has been provided in the accounts.

13 SUBSEQUENT EVENTS

On July 30, 2014, the Company completed the first tranche of of a non-brokered private placement by issuing 5,541,711 flow-through shares and 750,000 non flow-through shares for gross proceeds of $755,005. Each flow-through share and each non flow-through share was priced at $0.12 per share. The Company issued 252,632 share purchase warrants, representing 8% of the shares placed by finders. Each warrant is non-transferable and may be exercised into non-flow-through shares by the payment of the warrant exercise price of 15 cents for 12 months to July 29, 2015. The shares and warrants are subject to a four month hold period, which expires November 29, 2014.

On August 15, 2014 the Company completed the final tranche of the non-brokered private placement by issuing 40,900,000 flow-through shares for gross proceeds of $4,908,000. Each flow-through share was priced at $0.12 per share. The Company issued 3,256,000 share purchase warrants, representing 8% of the shares placed by finders. Each warrant is non-transferable and may be exercised into non-flow-through shares by the payment of the warrant exercise price of 15 cents for 12 months to August 14, 2015. The shares and warrants are subject to a four month hold period, which expires December 14, 2014.

13 SUBSEQUENT EVENTS (Cont'd)

The Company paid total finders' fees of $421,036, representing 8% of gross proceeds placed by finders in both tranches.