



FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Dolly Varden Silver Corporation

Opinion

We have audited the accompanying financial statements of Dolly Varden Silver Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Catherine Tai.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

March 28, 2022

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

As At	Notes	December 31, 2021	December 31, 2020
ASSETS			
Current			
Cash		\$ 15,480,067	\$ 23,645,088
Prepaid expenses	3	250,351	126,635
Amounts receivable	4	96,520	96,817
		15,826,938	23,868,540
Non-current			
Equipment	5	246,144	83,599
Deposits	6	91,000	91,000
Exploration and evaluation assets	6	4,029,234	4,029,234
		\$ 20,193,316	\$ 28,072,373
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	9	\$ 121,415	\$ 93,385
Accrued liabilities	9	87,585	164,836
Liability on flow-through share issuances	7	134,673	1,157,254
		343,673	1,415,475
Shareholders' Equity			
Share capital	7	79,996,264	79,833,699
Reserves	7	8,306,033	7,072,193
Deficit		(68,452,654)	(60,248,994)
		19,849,643	26,656,898
		\$ 20,193,316	\$ 28,072,373

Nature of and Continuance of Operations (Note 1)
Subsequent Events (Note 12)

These financial statements were approved for issue by the Board of Directors on March 28, 2022 and signed on its behalf by:

"Shawn Khunkhun"

Director

"James Sabala"

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)

	Notes	Year Ended December 31, 2021	Year Ended December 31, 2020
EXPENSES			
Consulting fees	9	\$ 245,198	\$ 198,079
Directors' fees	7,9	76,572	112,578
Exploration and evaluation	6,9	6,286,540	5,245,880
Management fees	9	371,700	606,567
Marketing and communications	9	586,071	322,203
Office and administration	9	243,900	260,966
Professional fees		88,577	121,200
Rent and maintenance	9	53,400	75,250
Share-based payments	7,9	1,277,655	659,096
Transfer agent and filing fees		60,179	39,150
Travel and accommodation		10,090	8,894
Operating loss		(9,299,882)	(7,649,863)
Recovery on flow-through premium	7	1,022,581	300,001
Part XII.6 tax expense		-	(10,682)
Interest and other income		73,641	82,224
Loss and comprehensive loss for the year		\$ (8,203,660)	\$ (7,278,320)
Basic and diluted loss per common share		\$ (0.06)	\$ (0.07)
Weighted average number of common shares outstanding		130,720,286	102,790,518

The accompanying notes are an integral part of these financial statements

DOLLY VARDEN SILVER CORPORATION
Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Common Shares	Share Capital	Reserves	Deficit	Total Shareholders' Equity
Balance, December 31, 2019	83,464,049	\$ 54,628,282	\$ 6,371,522	\$ (52,970,674)	\$ 8,029,130
Issuance of flow-through common shares	24,039,697	13,870,000	-	-	13,870,000
Issuance of common shares	19,198,577	12,933,023	-	-	12,933,023
Issuance of common shares for termination fee	489,795	120,000	-	-	120,000
Issuance of common shares for acquisition of exploration and evaluation assets	192,061	149,808	-	-	149,808
Share issuance costs – cash	-	(1,609,464)	-	-	(1,609,464)
Share issuance costs – warrants	-	(468,845)	468,845	-	-
Share issuance costs – shares	418,182	-	-	-	-
Flow-through share premium	-	(1,201,900)	-	-	(1,201,900)
Exercise of stock options	2,745,500	1,412,795	(427,270)	-	985,525
Share-based compensation	-	-	659,096	-	659,096
Loss and comprehensive loss for the year	-	-	-	(7,278,320)	(7,278,320)
Balance, December 31, 2020	130,547,861	79,833,699	7,072,193	(60,248,994)	26,656,898
Exercise of stock options	340,000	162,565	(43,815)	-	118,750
Share-based payments	-	-	1,277,655	-	1,277,655
Loss and comprehensive loss for the year	-	-	-	(8,203,660)	(8,203,660)
Balance, December 31, 2021	130,887,861	\$ 79,996,264	\$ 8,306,033	\$ (68,452,654)	\$ 19,849,643

The accompanying notes are an integral part of these financial statements

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (8,203,660)	\$ (7,278,320)
Items not affecting cash:		
Share-based payments	1,277,655	659,096
Revaluation of deferred share units	(14,853)	24,156
Recovery on flow-through premium	(1,022,581)	(300,001)
Shares issued for termination fee	-	120,000
Loss on disposal of equipment	-	5,119
Depreciation of equipment	37,039	17,517
Changes in non-cash working capital items:		
Prepaid expenses	(123,716)	(27,718)
Amounts receivable	297	469,818
Accounts payable and accrued liabilities	(34,368)	126,438
Cash used in operating activities	(8,084,187)	(6,183,895)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	(199,584)	(19,098)
Acquisition of exploration and evaluation assets	-	(153,000)
Cash used in investing activities	(199,584)	(172,098)
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placement, net of share issuance costs	-	25,193,559
Exercise of stock options	118,750	985,525
Cash provided by financing activities	118,750	26,179,084
Change in cash during the year	(8,165,021)	19,823,091
Cash, beginning of year	23,645,088	3,821,997
Cash, end of year	\$ 15,480,067	\$ 23,645,088
Supplemental disclosure with respect to cash flows:		
Interest income received in cash	\$ 61,258	\$ 38,956
Non-cash transactions:		
Fair value of finders' shares	\$ -	\$ 138,000
Fair value of shares issued for acquisition of E&E assets	\$ -	\$ 149,808
Fair value of finders' compensation warrants	\$ -	\$ 468,845
Premium liability on flow-through shares	\$ -	\$ 1,201,900

The accompanying notes are an integral part of these financial statements

1 NATURE OF AND CONTINUANCE OF OPERATIONS

Dolly Varden Silver Corporation (the “Company”) was incorporated under the *Canada Business Corporations Act* in the province of British Columbia on March 4, 2011 and is a public company listed on the TSX Venture Exchange (the “Exchange”) under the symbol “DV”. The Company’s primary business is the acquisition and exploration of properties in Canada. The Company’s head office is Suite 1800 – 555 Burrard Street, Vancouver, British Columbia, Canada, V7X 1E5. The registered address and records office of the Company is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8.

The Company owns interests in multiple mineral titles and claims in British Columbia, Canada. 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. Management believes that the Company has sufficient working capital to maintain its operations and activities for the next fiscal year.

The outbreak of the coronavirus, also known as COVID-19, continues to impact worldwide economic activity. The extent to which the coronavirus may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain, and as such, the Company cannot determine their long-term financial impact at this time. Federal, provincial and local governments issued public health orders in response to COVID-19, which caused the Company to allocate additional resources to ensure compliance with health orders. Other draft federal COVID-19 relief initiatives also impacted the flow-through share program, extending the allowable renouncement period by one additional year. As such, the Company has not made any allowance for Part XII.6 tax during the year ended December 31, 2021.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretation issued by the International Reporting Interpretation Committee (“IFRIC”) effective for the year ended December 31, 2021. These financial statements were approved by the Company’s Board of Directors on March 28, 2022.

(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) Functional and Foreign Currency

The financial statements are presented in Canadian dollars, which is the Company’s functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) 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.

(e) Equipment

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

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

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

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

(f) Exploration and Evaluation Assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Impairment of Non-Financial Assets

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

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

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

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

(h) Decommissioning 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 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 rate. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

(i) Use of Estimates and Judgments

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. 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 during the year 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 a 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 amounts of assets and liabilities include, but are not limited to, the following:

- i) Share-based payments
The fair value of share-based payments is determined using the 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 date.
- ii) Estimating useful life of equipment
Depreciation of equipment is charged 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.

2 BASIS OF PRESENTATION (cont'd)

(i) Use of Estimates and Judgments (cont'd)

(iii) Deferred income taxes

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

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

The provincial government of British Columbia provides for a refundable tax on net qualified mining exploration expenditures incurred in British Columbia. The credit is calculated as 20% of qualified mining exploration expenses less the amount of any assistance received or receivable. The determination of the expenditures that would qualify as mining exploration expenses was based on the previous years' tax filings and subsequent reviews by government auditors. BC METC will be recorded in net income or loss upon cash receipt or when reasonable assurance exists that the tax filings are assessed and the expenditures are qualified as mining exploration expenses.

(j) Financial Instruments

(i) Classification and measurement of financial assets and liabilities

Under IFRS 9, Financial assets, on initial recognition, are recognized at fair value and subsequently classified and measured at: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets depends on the purpose for which the financial assets were acquired. The Company's financial assets which consist of cash, deposits and amounts receivable, are classified as amortized cost.

Financial assets are classified as current assets or non-current assets based on their maturity date.

The Company's financial liabilities which consist of accounts payable and accrued liabilities are classified as amortized cost.

(ii) Impairment of financial assets

An 'expected credit loss' (ECL) model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The ECL model requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the statement of loss and comprehensive loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The Company's financial assets measured at amortized cost are subject to the ECL model.

2 BASIS OF PRESENTATION (cont'd)

(k) Share capital

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

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

The Company may issue units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the common shares based on their market price on the share issuance date. The residual difference, if any, between the unit price and the fair value of each common share represents the fair value attributable to each warrant.

(l) Income taxes

Current income taxes

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

Deferred income tax

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

(m) Foreign currency translation

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.

2 BASIS OF PRESENTATION (cont'd)

(n) Loss per share

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

(o) Comprehensive income (loss)

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

(p) Share-based payments

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 using the Black-Scholes option pricing model. 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 cannot be specifically identified, they are measured at fair value of the equity instruments. Otherwise, share based compensation are measured at the fair value of the goods or the services received.

The Company has granted 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 can be earned in lieu of receiving cash for directors' fees, the Company recognizes the expense based on the quoted market price at the end of each quarter and a corresponding increase in equity for the eventual redemption when the DSUs are issued.

(q) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and it has the right to direct the use of the asset.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2 BASIS OF PRESENTATION (cont'd)

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, and amounts expected to be payable at the end of the lease term.

The Company has elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less. The lease payments associated with these leases are charged directly to income on a straight-line basis over the lease term.

(r) New accounting pronouncements but not yet effective

The Company has not applied the following revised IFRS that has been issued but was not yet effective at December 31, 2021. This accounting standard is not currently expected to have a significant effect on the Company's accounting policies or financial statements.

- IAS 16, Property, Plant and Equipment - Proceeds before Intended Use (effective January 1, 2022). The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in profit or loss.

3 PREPAID EXPENSES

Prepaid expenses consist of:

	December 31, 2021	December 31, 2020
Advances for exploration expenditures	\$ 28,006	\$ 35,995
Insurance and other administrative expenses	222,345	90,640
	<u>\$ 250,351</u>	<u>\$ 126,635</u>

4 AMOUNTS RECEIVABLE

Amounts receivable consists of:

	December 31, 2021	December 31, 2020
Goods and services tax receivable	\$ 87,658	\$ 92,721
Other	8,862	4,096
	<u>\$ 96,520</u>	<u>\$ 96,817</u>

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5 EQUIPMENT

Equipment consists of:

	Dock	Tents and Trailers	Equipment	Vehicles	Gas Tank	Boat	Total
Cost:							
At December 31, 2019	\$ 15,571	\$ 138,521	\$ 59,887	\$ 47,676	\$ 40,000	\$ 24,345	\$ 326,000
Additions	-	5,692	13,406	-	-	-	19,098
Disposals	-	-	(24,867)	(26,705)	-	-	(51,572)
At December 31, 2020	15,571	144,213	48,426	20,971	40,000	24,345	293,526
Additions	-	19,743	93,466	18,965	-	67,410	199,584
At December 31, 2021	\$ 15,571	\$ 163,956	\$ 141,892	\$ 39,936	\$ 40,000	\$ 91,755	\$ 493,110
Accumulated Depreciation:							
At December 31, 2019	\$ 7,046	\$ 130,976	\$ 37,042	\$ 34,792	\$ 23,538	\$ 5,469	\$ 238,863
Depreciation	426	2,690	5,239	3,864	1,646	3,652	17,517
Disposals	-	-	(20,453)	(26,000)	-	-	(46,453)
At December 31, 2020	7,472	133,666	21,828	12,656	25,184	9,121	209,927
Depreciation	405	4,916	17,004	4,629	1,482	8,603	37,039
At December 31, 2021	\$ 7,877	\$ 138,582	\$ 38,832	\$ 17,285	\$ 26,666	\$ 17,724	\$ 246,966
Net Book Value:							
At December 31, 2020	\$ 8,099	\$ 10,547	\$ 26,598	\$ 8,315	\$ 14,816	\$ 15,224	\$ 83,599
At December 31, 2021	\$ 7,694	\$ 25,374	\$ 103,060	\$ 22,651	\$ 13,334	\$ 74,031	\$ 246,144

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6 EXPLORATION AND EVALUATION ASSETS

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

Exploration and evaluation asset costs are set out below:

	Dolly Varden Property
Balance, December 31, 2019	\$ 3,726,426
Addition	302,808
Balance, December 31, 2021 and 2020	\$ 4,029,234

During the years ended December 31, 2011 to 2018, 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. The property is subject to a 2% net smelter return royalty ("NSR") of which one-half (or 1%) of the NSR can be repurchased by the Company for \$2,750,000 at any time.

During the year ended December 31, 2020, the Company acquired surface rights and fee simple lands where the exploration camp, offices, logging and sampling facilities, as well as core storage areas are currently located. The acquisition included a parcel of land located at waterfront. The total package had been previously leased annually by the Company from private owners. The transaction involves a payment of \$153,000 in cash and issuance of 192,061 common shares of the Company for a value of \$149,808.

As of December 31, 2021, the Company has deposits totaling \$91,000 (2020 - \$91,000) as reclamation bonds for the property.

The following table summarizes the exploration and evaluation expenses incurred at the Dolly Varden Property:

For the years ended	December 31, 2021	December 31, 2020
Analytical & sample related	\$ 505,293	\$ 168,620
Camp, food, supplies and related	1,521,515	1,008,977
Claim maintenance	14,934	9,890
Community relations and related	13,750	27,085
Depreciation	37,038	17,518
Drilling	2,410,706	2,213,940
Equipment and warehouse rental	264,271	297,524
Fuel	253,769	194,659
Geological and geoscience	756,146	760,974
Lease payments on land	-	24,000
Mapping and modelling	41,122	24,533
Project supervision	385,875	363,027
Road & drill pad preparation	63,833	122,914
Transport, travel and related	23,658	12,219
Cost recovery: BC METC	(5,369)	-
Total	\$ 6,286,540	\$ 5,245,880

7 SHARE CAPITAL

Authorized: Unlimited number of common shares without par value.

Issued:

During the year ended December 31, 2021, the Company issued 340,000 common shares pursuant to the exercise of stock options for proceeds of \$118,750.

On December 11, 2020, the Company issued 192,061 common shares at a price of \$0.78 for a total of \$149,808 to acquire surface rights and fee simple lands within the community of Alice Arm located on the Pacific Ocean in Northwest BC, in support of exploration infrastructure (note 6).

On November 16, 2020, the Company closed its private placement and raised gross proceeds of \$7,070,000 through the sale of 7,070,000 flow-shares shares at a price of \$1.00 per share and gross proceeds of \$718,983 through the sale of 807,846 common shares at \$0.89 per share. The sale of common shares was to Hecla Canada Ltd. ("Hecla") pursuant to the ancillary rights agreement to maintain its pro rata equity interest in the Company. Total finders' fees of \$408,600 was paid to the brokers. The Company recorded a flow-through premium liability of \$1,201,900 for the difference between the fair value of its common shares and the issuance price of its flow-through common shares.

On August 21, 2020, the Company closed a private placement of units of the Company (the "Units") pursuant to which the Company issued 14,084,500 Units at a price of \$0.71 per Unit (the "Offering Price") for aggregate gross proceeds of \$9,999,995 (the "Offering"). Each Unit is comprised of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant").

Each Warrant is exercisable to acquire one common share (a "Warrant Share") at a price of \$1.10 per Warrant Share for a period of 24 months from the closing of the Offering. Provided that if, at any time prior to the expiry date of the Warrants, the closing price of the common shares on the TSX Venture Exchange (the "Exchange"), or other principal exchange on which the common shares are listed, is greater than \$1.75 for 10 consecutive trading days, the Company may, at the Company's discretion, and at any time going forward, within 15 days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period.

Pursuant to the ancillary rights agreement between Hecla and the Company, dated September 4, 2012, Hecla exercised its anti-dilution right in respect of the Offering and acquired 1,881,896 Units at the Offering Price for proceeds of approximately \$1,336,146 to maintain its pro rata equity interest in the Company. The Units issued to Hecla were in addition to those issued as part of the Offering.

In connection with the Offering, the Company paid finders' fees of \$930,864 and issued 845,070 non-transferable compensation warrants (the "Compensation Warrants"). Each Compensation Warrant entitles the holder thereof to purchase one common share at an exercise price equal to the Offering Price for a period of 24 months following the closing of the Offering. The fair value of \$468,845 of the 845,070 Compensation Warrants was estimated using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 0.28%, estimated annualized volatility of 91.51%, an expected life of 2 years, nil dividend yield, a \$0.98 share price, and exercise price of \$0.71.

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7 SHARE CAPITAL (cont'd)

On June 10, 2020, the Company closed two private placements and raised gross proceeds of \$7,677,895 through the sale of 16,969,697 flow-shares common shares and 2,424,335 common shares. The offerings consisted of the sale of: (i) 6,969,697 flow-through common shares of the Company at a price of \$0.33 per share; (ii) 10,000,000 flow-through common shares at a price of \$0.45 per share; and (iii) the sale of 1,311,989 common shares at a price of \$0.33 per share and 1,112,346 common shares at a price of \$0.40 per share to Hecla pursuant to the ancillary rights agreement to maintain its pro rata equity interest in the Company. The Company paid a finders' fee of \$270,000 in cash and 418,182 in common shares, where the finders' shares had a fair value \$138,000.

On February 28, 2020, the Company issued 489,795 common shares at a price of \$0.245 for a total value of \$120,000 to the former president and Chief Executive Officer as part of his departure.

Common Share Purchase Warrants

Common share purchase warrant transactions and the number of common share purchase warrants outstanding are summarized below:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, December 31, 2020 and 2019	7,983,198	1.10
Issued	-	-
Balance, December 31, 2021	7,983,198	1.10
	Number of Warrants Outstanding	Exercise Price \$
Date of Expiry		
August 22, 2022	7,983,198	1.10

The remaining life of the common share purchase warrants as of December 31, 2021 is 0.64 (2020 - 1.64) years.

Compensation Warrants

Compensation warrant transactions and the number of compensation warrants outstanding are summarized below:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, December 31, 2020 and 2019	845,070	0.71
Issued	-	-
Balance, December 31, 2021	845,070	0.71
	Number of Warrants Outstanding	Exercise Price \$
Date of Expiry		
August 22, 2022	845,070	0.71

The remaining life of the compensation warrants as of December 31, 2021 is 0.64 (2020 - 1.64) years.

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7 SHARE CAPITAL (cont'd)

Stock Options

The Company has a stock option plan under which it is authorized to grant share purchase options to executive officers, directors, employees and consultants enabling the holder to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option shall be no less than the discounted market price of the Company's shares prior to the grant in accordance with 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.

	Number of Options	Weighted Average Exercise Price \$
Balance, December 31, 2019	4,840,000	0.37
Granted	3,550,000	0.26
Exercised	(2,745,500)	0.36
Forfeited/expired	(407,000)	0.36
Balance, December 31, 2020	5,237,500	0.30
Granted	2,775,000	0.71
Exercised	(340,000)	0.35
Expired	(275,000)	0.40
Balance, December 31, 2021	7,397,500	0.45

The Company had outstanding stock options enabling the holders to acquire common shares as follows:

Date of Expiry	Exercise Price (\$)	December 31, 2021
December 2, 2021 ⁽¹⁾	0.40	450,000
May 18, 2022	0.40	25,000
February 15, 2023	0.40	375,000
December 12, 2024	0.30	450,000
February 18, 2025	0.25	2,500,000
February 28, 2025	0.25	200,000
March 17, 2025	0.25	522,500
June 14, 2025	0.45	100,000
March 25, 2026	0.71	2,675,000
July 2, 2026	0.71	100,000
Total Outstanding		7,397,500
Total Exercisable		5,370,416

⁽¹⁾ These stock options were restricted due to the Homestake property transaction and the expiry was automatically extended to March 8 pursuant to the stock option plan.

During the year ended December 31, 2021, the Company recognized a total of \$1,277,655 (2020 - \$659,096) in share-based payments expense for the options granted and vested during the year.

The weighted average remaining life of the stock options as of December 31, 2021 is 3.46 (2020 - 3.36) years.

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7 SHARE CAPITAL (cont'd)

Stock Options (cont'd)

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

For the year ended	December 31, 2021	December 31, 2020
Risk-free interest rate	0.90%	1.16%
Expected dividend yield	0%	0%
Annualized stock price volatility	91%	105%
Expected life of options	5 years	5 years
Expected forfeiture rate	0%	0%

Deferred Share Units ("DSU")

The Company has a DSU plan that entitles certain directors and officers to receive the cash equivalent of the 58,270 DSUs issued when they retire from the Company. The value of the DSU on grant date is the market price, being the five-day volume weighted average price of the common shares immediately preceding the grant date. In October 2015, the Company ceased further accruals under the DSU plan. During the year ended December 31, 2021, the Company has recognized a decrease in the fair value of the outstanding DSU liability of \$14,853 (2020 - increase of \$24,156), which was recognized as directors' fees. As at December 31, 2021 the value of DSUs issued was \$36,679 (2020 - \$51,532).

During the year ended December 31, 2021, the Company paid, in addition to the DSU plan, directors' fees of \$91,425 (2020 - \$79,500) (Note 9).

Flow-through Premium Liability

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

Balance, December 31, 2019	\$	255,355
Flow-through premium liability additions		1,201,900
Settlement of flow-through share premium liability pursuant to qualifying expenditures		(300,001)
Balance, December 31, 2020		1,157,254
Settlement of flow-through share premium liability pursuant to qualifying expenditures		(1,022,581)
Balance, December 31, 2021	\$	134,673

8 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 that optimizes the cost of capital within a framework of acceptable risk. The capital of the Company consists of items within shareholders' equity.

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, or acquire or dispose of assets.

The Company is dependent on the capital markets as its main source of operating capital. 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. There have been no changes to the Company's approach to capital management during the year ended December 31, 2021.

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9 RELATED PARTY TRANSACTIONS

During the year ended December 31, 2021 and 2020, 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 party transactions disclosed elsewhere in these financial statements:

	Year ended December 31, 2021	Year ended December 31, 2020
Directors' fees	\$ 91,425	\$ 79,500
Exploration and evaluation ⁽³⁾	110,000	105,662
Management fees ⁽¹⁾⁽²⁾⁽⁵⁾	373,500	587,190
Consulting ⁽³⁾	1,536	33,053
Share-based payments ⁽²⁾⁽³⁾⁽⁵⁾	968,431	400,970
Total	\$ 1,544,892	\$ 1,206,375

Other related party transactions are as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Exploration and evaluation ⁽⁴⁾	\$ -	\$ 21,000
Management fees ⁽⁴⁾	-	11,877
Marketing ⁽⁴⁾	-	31,397
Office and administration ⁽⁴⁾⁽⁶⁾	70,500	82,800
Rent and maintenance ⁽⁴⁾	-	15,250
Share-based payments ⁽⁴⁾	-	8,116
Total	\$ 70,500	\$ 170,440

- (1) A corporation controlled by the former Chief Executive Officer and former director of the Company received fees of \$152,414 in cash and \$120,000 in shares as a settlement fee on transition to new management during the year ended December 31, 2020. The management fees included \$272,414 paid to the former Chief Executive Officer as a termination fee.
- (2) The Company entered into a consulting service agreement with S2K Capital Corp. and Mr. Shawn Khunkhun, the Chief Executive Officer and Director of the Company. Pursuant to this consulting agreement, Mr. Khunkhun is compensated at a rate of \$24,000 (2020 - \$20,000) per month. The Company is required to pay an equivalent to 24 months' pay plus an average of any cash performance bonus paid in the previous two completed financial years if the consulting agreement is terminated by either party absent an event of default during the twelve-month period following the date of a change in control of the Company. If the agreement is terminated for reasons other than event of default, the Company is required to pay a sum equal to 12 months' pay.
- (3) Three directors provided business consulting services to the Company and \$1,536 was included in consulting expense. Another director was paid indirectly through a corporation for technical geological work which was included in exploration and evaluation expense.
- (4) Fees were paid to corporations controlled by the former Chief Executive Officer and former director of the Company that provided office space, a corporate secretary, investor relations, and accounting and administration staff to the Company on a shared-cost basis.
- (5) The Company entered into a consulting service agreement with Fehr & Associates and Mrs. Ann Fehr, the Chief Financial Officer of the Company. Pursuant to this consulting agreement, Fehr & Associates is compensated at a rate of \$12,000 (2020 - \$10,000) per month where \$5,400 (2020 - \$4,500) relates to the Chief Financial Officer services starting in April and it was \$4,500 for the first 3 months.
- (6) \$6,600 of the Fehr & Associates fee relates to bookkeeping or administrative services performed by individuals other than the Chief Financial Officer.

9 RELATED PARTY TRANSACTIONS - (cont'd)

During the year ended December 31, 2021 \$53,400 (2020 - \$45,000) in office rent reimbursement was paid to corporations controlled by a director of the Company.

At December 31, 2021, included in accounts payable is \$1,813 (2020 - \$20,230) owed to directors, officers, and former directors and/or officers of the Company. These amounts are unsecured, non-interest-bearing and due on demand.

At December 31, 2021, included in accrued liabilities is \$36,679 (2020 - \$51,532) accrued to independent directors for directors' fees outstanding related to outstanding DSUs.

10 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Financial Instruments

The carrying values of cash, amounts receivable, deposits, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments or market rates of interest.

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 amounts receivable. 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.

The Company limits its exposure to credit risk for cash by placing it 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, entering into credit facilities, or entering into joint ventures, partnerships or other similar arrangements. The Company's ability to continue as a going concern is dependent upon its ability to continue to raise adequate financing in the future to meet its obligations and repay its liabilities arising from normal business operations when they come due. As at December 31, 2021, the Company had a cash balance of \$15,480,067 (2020 - \$23,645,088) to settle current liabilities of \$209,000 (2020 - \$258,221), excluding the liability on flow-through share issuance.

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10 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – (cont'd)

Interest Rate Risk

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

Price Risk

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

11 INCOME TAX

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

	Year ended December 31, 2021	Year ended December 31, 2020
Loss for the year	\$ (8,203,660)	\$ (7,278,320)
Expected income tax recovery	(2,215,000)	(1,965,000)
Change in statutory rates and other	27,000	14,000
Permanent difference	70,000	97,000
Impact of flow through share issuance	1,633,000	1,318,000
Share issuance costs	-	(435,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	77,000	(638,000)
Change in unrecognized deductible temporary differences	408,000	1,609,000
Total income tax expense (recovery)	\$ -	\$ -

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

	Year ended December 31, 2021	Year ended December 31, 2020
Deferred tax assets:		
Exploration and evaluation assets	\$ 3,828,000	\$ 3,862,000
Property and equipment	113,000	103,000
Share issuance costs	333,000	489,000
Non-capital losses available for future periods	4,965,000	4,377,000
	\$ 9,239,000	\$ 8,831,000
Unrecognized deferred tax assets	(9,239,000)	(8,831,000)
Net deferred tax assets	\$ -	\$ -

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11 INCOME TAX (cont'd)

The Company's unrecognized deductible temporary differences, tax credits and tax losses are as follows:

		As at December 31, 2021	As at December 31, 2020
Temporary Differences:			
Investment tax credit	\$	711,000	2031 - 2040 \$ 750,000
Property and equipment	\$	417,000	No expiry date \$ 380,000
Exploration and evaluation assets	\$	12,255,000	No expiry date \$ 12,276,000
Share issuance costs	\$	1,231,000	2041 to 2044 \$ 1,810,000
Non-capital losses available for future periods	\$	18,387,000	2030 to 2041 \$ 16,211,000

12 SUBSEQUENT EVENTS

(a) Subsequent to December 31, 2021, 575,000 stock options were exercised for proceeds of \$221,250.

(b) On December 6, 2021, the Company and Fury Gold Mines Ltd. ("Fury") entered into a purchase agreement pursuant to which the Company has agreed to acquire from Fury, indirectly through the acquisition of Fury's wholly owned subsidiary Homestake Resource Corporation ("Homestake"), a 100% interest in the Homestake Ridge gold-silver project, located adjacent to the Company's Dolly Varden project in British Columbia.

As consideration for all of the issued and outstanding shares of Homestake, the Company has agreed to pay to Fury a \$5,000,000 cash payment and to issue to Fury 76,504,590 common shares. Upon closing of the transaction, Fury will own approximately 32% of all shares issued and outstanding of the Company. The transaction completed on February 25, 2022.

In connection with the acquisition of Homestake, the Company issued 402,815 common shares in the capital of the Company to Haywood Securities Inc. pursuant to a financial advisory agreement between Haywood and the Company. The Common Shares have a deemed price of \$0.5896 per share for an aggregate value of \$237,499.

(c) Pursuant to the ancillary rights agreement between Hecla and the Company, dated September 4, 2012, Hecla exercised its anti-dilution right in respect of the offerings and acquired 9,048,539 common shares of the Company.

(d) The Company granted 3,975,000 stock options with an exercise price of \$0.79 per share and an expiry of 5 years.