



HULDRA SILVER INC.

**November 21,
2013**

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Three and Nine Months Ended September 30, 2013

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GENERAL

The following discussion of financial performance, financial condition, cash flows and future prospects ("MD&A") should be read in conjunction with the audited consolidated financial statements of Huldra Silver Inc. ("Huldra" or the "Company") and notes thereto for the year ended December 31, 2012 and the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2013.

This MD&A for the three and nine months ended September 30, 2013 was prepared as of November 21, 2013. All dollar amounts set out herein are expressed in Canadian dollars. Additional information and filings are available for review on the Company's SEDAR profile at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A are forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Company, including (i) that Huldra will be able to restructure its financial affairs, (ii) that Huldra or another party may be able to recommence operations at its mine and mill, (iii) that Waterton Global Value, L.P. ("Waterton") will provide any additional advances under the secured debtor-in-possession loan (the "DIP Loan"), (iv) that the Company and the Monitor in the proceedings under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") will formulate a restructuring plan (the "Restructuring Plan") under the CCAA acceptable to Waterton and the other creditors, (v) that the Supreme Court of British Columbia (the "Court") will approve of any proposed Restructuring Plan, (vi) that the Company and the Monitor will be able to implement any Restructuring Plan that has been approved, (vii) that a transaction that restructures the affairs of the Company in such a way that maximizes value to all stakeholders will be completed and (viii) the timing and duration of CCAA protection. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits the Company will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this MD&A. These assumptions, which include management's current expectations, estimates and assumptions about the CCAA proceedings, the amount of advances under the DIP Loan, the Company's ability to recommence operations, current mineral property interests, the global economic environment, the market price and demand for silver and other minerals, the Company's ability to manage its property interests and operating costs, and the Company's estimates with respect to concentrate shipments, may prove to be incorrect. A number of risks and uncertainties could cause the Company's actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) that Huldra is unable to secure additional financing or make arrangements with its creditors, (2) that Huldra or another party will be unable to recommence operations at its mine and mill for any reason whatsoever, (3) that Waterton does not provide any additional advances under the DIP Loan, (4) that one or more of the conditions precedent to any advance under the DIP Loan is not satisfied, (5) that there may be competing uses for the proceeds of the DIP Loan, (6) that Huldra and the Monitor will not be able to agree upon a Restructuring Plan or that such a Restructuring Plan, if agreed to by Huldra and the Monitor, is not acceptable to Waterton and/or other creditors for any reason whatsoever, (7) that Huldra may not have the funds required to reimburse Waterton for certain expenditures, (8) that any such Restructuring Plan may not be approved by the Court, (9) that any Restructuring Plan that is approved by the creditors and the Court may not be

successfully implemented for whatever reason, (10) that any Restructuring Plan that is approved by the creditors and the Court may not maximize value for all stakeholders, (11) that the timing and duration of CCAA protection may be shorter than expected, (12) that other parties may challenge any Court order in the CCAA proceeding, (13) that other parties may challenge the charge given to Waterton, (14) a downturn in general economic conditions in North America and internationally, (15) volatility and fluctuation in the prices of silver, lead and zinc, (16) volatility and fluctuation in the price of the Company's stock and stock of resource issuers generally, and (17) other factors beyond the Company's control. Readers are cautioned that the foregoing list of factors is not exhaustive.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors and shareholders are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these and other assumptions, risks and uncertainties are set out in the section entitled "Risk Factors" below.

CREDITOR PROTECTION AND RESTRUCTURING

As a result of a combination of events including the decline in the price of silver between January and June, 2013, a further precipitous decline of over 10% in the price of silver between June 20 and 26, 2013, together with a substantial drop in the price of the Company's shares, the general uncertainty in the equity markets, the inability of the Company to raise equity or debt financing, and an unanticipated breakdown and shutdown of the mill on June 23, 2013, resulting in an interruption of the Company's cash flow, the Company was left without the working capital to continue operations. On June 26, 2013, the Company was forced to put its Treasure Mountain mine and Merritt mill on care and maintenance.

On July 26, 2013 (the "Filing Date"), Huldra, after careful consideration of all available alternatives, sought creditor protection under the CCAA and obtained a stay order (the "Initial Order") from the Court. Huldra sought the protection because it was hampered by the equity markets, commodity prices and operational challenges. The Initial Order may be amended throughout the CCAA proceedings on motions by the Company, its creditors or other interested stakeholders. The CCAA proceedings cover the Company and its wholly-owned subsidiaries, Huldra Properties Inc., Huldra Holdings Inc., and 0913103 B.C. Ltd. (collectively, the "Applicants"). During the stay period of the Initial Order (and any extensions thereof), the Applicants will remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof, and will continue to attempt to restructure their financial affairs. Grant Thornton LLP (the "Monitor") has been appointed by the Court as monitor in the proceedings and will be responsible for reviewing Huldra's ongoing operations, liaising with creditors and other stakeholders and reporting to the Court.

The Initial Order provided for a stay of proceedings against the Applicants and their property for an initial period ending August 26, 2013 which the Court has extended to November 25, 2013. While under CCAA protection, Huldra will continue attempting to restructure its financial affairs under the supervision of the Monitor.

The Initial Order granted the Applicants the authority to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively, the "Assistants") currently retained or employed by them, with liberty to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business or for carrying out the terms of the Initial Order. The Applicants are entitled, but not required, to pay certain expenses which may have been incurred prior to the Filing Date, including: all outstanding wages, salaries, employee and pension benefits (including long and short term disability payments), vacation pay and expenses (but excluding severance pay) payable before or after the Filing Date (collectively, the "Wages"), in each case incurred in the ordinary course of business and consistent with the relevant compensation policies and arrangements existing at the time incurred; the fees and disbursements of any Assistants retained or employed by the Applicants which are related to the Applicants' restructuring, at their standard rates and charges, including payment of the fees and disbursements of legal counsel retained by the Applicants,

whenever and wherever incurred, in respect of: (i) the CCAA proceedings, (ii) any litigation in which the Applicants are named as a party or are otherwise involved, whether commenced before or after the Filing Date, and any related corporate or securities matters; and in full or in part, the Applicants' outstanding obligations to any creditor who, in the opinion of management, the Monitor, and Waterton, is essential to the Applicants' ability to restart, carry on, or preserve their business and property (the "Critical Creditors"), including, for the reasons that, in the absence of full or partial satisfaction of the outstanding obligation, said Creditor is likely to either refuse to provide to the Applicants new materials or services which are essential to their operations, or is able to and likely to significantly disrupt the Applicants' operations.

Further, the Initial Order provided that the Applicants are entitled to pay all expenses reasonably incurred by the Applicants in carrying on their business in the ordinary course following the Filing Date, and in carrying out the provisions of the Initial Order. The Applicants are also authorized to remit or pay: (i) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from Wages; (ii) all goods and services or other applicable sales taxes (collectively, the "Sales Taxes") required to be remitted by the Applicants in connection with the sale of goods and services by the Applicants but only where such Sales Taxes accrue or are collected after the Filing Date, or where such Sales Taxes accrued or were collected prior to the Filing Date but not required to be remitted until on or after the Filing Date; and (iii) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal property taxes, municipal business taxes or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors. Until such time as a real property lease is disclaimed in accordance with the CCAA, the Applicants shall pay all amounts constituting rent or payable as rent under real property leases for the period commencing on the Filing Date, twice-monthly in equal payments on the first and fifteenth day of the month in advance (but not in arrears).

The Applicants are in discussions with creditors, stakeholders and other third parties with a view to developing a comprehensive Restructuring Plan to return the Applicants to viability or implement a reorganization which would maximize value for all stakeholders. The Restructuring Plan will likely include strategic, operational, financial and corporate elements. The Restructuring Plan may include a sale of the Company or all or a portion of its assets or business and will be submitted to affected creditors, who will vote on the Restructuring Plan, and to the Court for approval. Under the Restructuring Plan, claims against the Applicants will be divided into classes, and each class will vote on the Restructuring Plan as it pertains to that class. No determinations or rulings have been made to date as to the classification of affected creditors.

The CCAA proceedings have triggered defaults under substantially all debt and lease obligations of the Applicants, including debt owing under various financial arrangements with Waterton. The Initial Order generally stays actions against the Applicants, including steps to collect indebtedness incurred by the Applicants prior to the Filing Date, actions to exercise control over the Applicants' property and actions for breach of contractual or other obligations, subject to certain exceptions described below.

Should the stay period and any subsequent extensions, if granted, not be sufficient to develop and present the Restructuring Plan, or should the Restructuring Plan not be accepted by the affected creditors and, in any such case, the Applicants lose the protection of the stay of the proceedings, substantially all debt obligations will then be due and payable immediately, or subject to acceleration, creating an immediate liquidity crisis which would in all likelihood lead to bankruptcy and the liquidation of all of the Applicants' assets.

CCAA Developments

In order to provide Huldra with access to the funds needed to conduct its business during the period of the CCAA proceedings Huldra has obtained the DIP Loan, a secured debtor-in-possession loan, from Waterton, the primary creditor of the Company, pursuant to a credit agreement dated August 15, 2013 (the "DIP Credit Agreement"). The DIP Loan was authorized by the Initial Order of the Court pursuant to the proceedings under the CCAA.

Under the terms of the DIP Credit Agreement, the DIP Loan will be advanced by Waterton by way of a first advance, which will be advanced in several tranches, of up to \$2,300,000 in aggregate (collectively, the "First Advance") and a second advance (at Waterton's sole absolute discretion) of up to \$2,500,000 in aggregate (the "Second Advance" and together with the First Advance, the "Advances") upon receipt by Waterton of a comprehensive plan of operations from the Company for the Treasure Mountain Property that is satisfactory to Waterton and its advisors (the "Plan"), all on the terms and conditions set out in the DIP Credit Agreement. The Company has agreed to repay the DIP Loan in full as follows: if the First Advance (but not the Second Advance) is advanced, then on the date which is four months after the date the First Advance is advanced by Waterton to the Company under the DIP Credit Agreement; and if both Advances are advanced, then in accordance with an amortized repayment schedule to be determined by Waterton which reasonably corresponds to the Plan. Each tranche of each Advance is subject to a number of conditions as set out in the DIP Credit Agreement. Waterton has advised the Company that it will not fund any amounts under the Second Advance. Accordingly, all amounts advanced under the First Advance will be due on December 13, 2013 subject to extensions as may be agreed to by Waterton and the Company.

Under the first tranche of the First Advance on August 16, 2013, the Company drew down \$1,189,024, of which \$502,671 was used to re-pay the principal and interest owed to Waterton pursuant to a \$500,000 promissory note dated July 8, 2013, \$115,000 of which was used to pay the costs and expenses of Waterton pursuant to the DIP Credit Agreement, and the balance of \$571,353 was advanced to the Company.

On September 17, 2013, under the second tranche of the First Advance, the Company drew down \$347,698 and a third tranche of the First Advance in the amount of \$250,000 was drawn down by the Company on October 29, 2013. The proceeds of all three tranches have allowed the Company to continue its care and maintenance program at its mine and mill while attempting to restructure its financial affairs.

Under the terms of the DIP Credit Agreement, the obligations of the Company in connection with the DIP Loan have been secured by a super-priority court ordered charge (the "Charge") over all present and after-acquired property, assets and undertakings of the Company, and by guarantees of each of the Company's subsidiaries in favour of Waterton. The Charge shall rank in priority to all other creditors, interest holders, lien holders and claimants of any kind whatsoever, subject only to an administrative charge in favour of the Monitor and its counsel in an amount up to \$300,000, a charge in favour of the directors and officers of the Company with respect to an indemnity which charges shall not exceed an aggregate amount of \$300,000, a lien with respect to certain of the Company's leased premises in an amount up to \$25,000 and a charge in favour of the Province of British Columbia on certain of the Applicants' properties. The Company and its subsidiaries have entered into certain ancillary agreements to secure the obligations of the Company under the DIP Loan, including general security agreements, share pledge agreements with respect to the shares of the subsidiaries, and debentures with respect to the properties and mineral interests owned by the Company and its subsidiaries. The Company also agreed to certain covenants and negative covenants as set out in the DIP Credit Agreement. The DIP Credit Agreement contains a number of events of default, including without limitation, the failure to make any payment to Waterton when due, the breach of, or failure to perform or observe any covenant, the failure to pay any other debt exceeding \$50,000 when due, the failure to perform any material agreement, any judgment or order for the payment of money in excess of \$50,000.00 being rendered against the Company, certain events happening in the CCAA proceeding and a number of other enumerated events.

Any advances under the DIP Loan are repayable in an amount in cash equal to the aggregate of the following payments: (a) the amount arrived at when (i) dividing the amount being repaid by 76.5% of the spot price of silver on the business day immediately preceding such repayment date and (ii) multiplying the result thereof by such spot price; and (b) the Profit Participation Amount (as calculated pursuant to the DIP Credit Agreement) relating to such repayment date.

The DIP Loan received final conditional approval of the TSX Venture Exchange (the "TSX-V") on August 28, 2013.

In connection with and as partial consideration for the DIP Loan, the Company also entered into a Royalty Agreement with Waterton, whereby the Company granted to Waterton a 2% net smelter return royalty on the production of all minerals from the Treasure Mountain property.

The Company also entered into an agreement with Haywood Securities Inc. (“Haywood”) whereby Haywood would provide strategic advisory services to the Company, including the identification of alternatives to resolve the Company’s current debt obligations and to unlock value from the Company’s assets. The Company agreed to pay Haywood a work fee and success fee depending on the outcome of the services provided.

Management of the Applicants continues to explore all possible alternatives and continues to meet with various third parties who may be interested in any of the Company’s business, assets or the Company itself. Management continues to work on the development of a comprehensive Restructuring Plan. The Applicants continue their operations under the provisions of the Interim Order and are attempting to restructure their financial affairs under the supervision of the Monitor.

The successful emergence of the Applicants from the CCAA proceedings and full implementation of any Restructuring Plan are expected to be subject to numerous conditions and approvals, including approval by Waterton, other key creditors and stakeholders and the Court. There can be no assurance that all required conditions will be met and all required approvals obtained nor that the Applicants will ultimately emerge from the CCAA proceedings. If the Applicants fail to implement the Restructuring Plan within the time granted by the Court and required by Waterton under the terms of the DIP Loan, substantially all of debt obligations will become immediately due and payable, or subject to immediate acceleration, which would create an immediate liquidity crisis and would, in all likelihood, lead to the liquidation of the Applicants’ assets.

This section is qualified in its entirety by the material documents in connection with the CCAA proceeding, including the Court orders, copies of which have been filed and are available under the Company’s profile on SEDAR (www.sedar.com).

Outlook

The Company’s Board of Directors had initiated a review process to consider a range of strategic alternatives with a view of preserving and maximizing shareholder value in light of the continuing financial challenges resulting from the operational cash flow deficiencies experienced. Strategic alternatives are likely to include, but are not limited to, the sale of all or a portion of the Company’s assets, a merger or other business combination transaction involving a third party acquiring all of the Company, recapitalization, reorganization, or restructuring of the Company, as well as continued execution of the Company’s existing business plan, or some combination of these alternatives. Management of the Applicants continues to explore all possible alternatives and continues to meet with various third parties who may be interested in any of the Company’s business, assets or the Company itself.

Impairment of Assets

As at September 30, 2013, the Company had entered care and maintenance mode which is a potential indicator of impairment of the carrying amount of its non-current non-financial assets. As a result, the Company has carried out a review of the carrying amounts of the non-current non-financial assets. The Company has taken the view that mine and mill are determined to be a single cash generating unit for this purpose. In carrying out this review process, the Company has been required to make significant judgments, including the application of appropriate valuation methods, estimates and assumptions regarding mine plan tonnages and grades, commodity prices and operating costs. The Company has assumed that operations at the mine and mill will recommence by either the Company or a potential new ownership group, and the assumption that any potential new ownership group would not be willing to pay for any significant portion of the costs associated incurred with the construction and commissioning of the mill (which costs were approximately \$23,000,000). By their nature, such estimates and assumptions are subject to significant uncertainty. If the Company or a new ownership group was unable to recommence

operations at the mine and mill for whatever reason, then the recoverable amount may be significantly less and result in an additional significant impairment loss. The recoverable amount has been determined based on estimated fair value less cost to sell basis. Based on its review, the Company has recognized an impairment loss at September 30, 2013 in the amount of \$18,853,148. Any significant negative change in the key assumptions made in determining the recoverable amount, including that the Company will recommence operations at the mine and mill, could result in an additional significant impairment loss.

DESCRIPTION OF BUSINESS

Huldra is a publicly traded junior exploration company that was, until June 26, 2013, engaged in the business of acquiring, exploring and developing mineral and natural resource properties. The Company's common shares are traded on the TSX-V under the symbol "HDA".

Huldra's Treasure Mountain mine is located northeast of Hope, British Columbia, approximately 3 hours from Vancouver, British Columbia (the "Treasure Mountain Project"). In November, 2011, the Company completed the development of the required infrastructure at the Treasure Mountain Project to begin underground mining on a 10,000 tonne bulk sample permit. The Company also commenced an exploration program that included geochemical testing, surface trenching, underground sampling and surface diamond drilling. The program continued in 2012 with additional underground sampling, an airborne survey, and further geochemical sampling.

In May 2012, the Company received a mining lease covering 335 hectares of active workings out of 7,000 acres of mineral tenures at the Treasure Mountain Project and a Mines Act permit for the Treasure Mountain Project for the removal of 60,000 tonnes per year of silver/lead/zinc mill feed from the underground mine and the transfer of the mill feed offsite for processing. The Company also received an amended permit for its mill site (the "Mill Property"), located in Merritt, British Columbia approximately 70 minutes from the Treasure Mountain Project, allowing for the construction and operation of a 200 tonne per day silver/lead/zinc mineral processing plant.

During 2012, the Company continued construction and installation of a 200 tonne per day mill at the mineral processing facility located at the Mill Property, at which the Company processes mill feed from the Treasure Mountain Project. The commissioning of the mill began in August, 2012 and was substantially completed in November, 2012.

As a result of a combination of events including the decline in the price of silver between January and June, 2013, a further precipitous decline of over 10% in the price of silver between June 20 and 26, 2013, together with a substantial drop in the price of the Company's shares, the general uncertainty in the equity markets, the inability of the Company to raise equity or debt financing, and an unanticipated breakdown and shutdown of the mill on June 23, 2013, resulting in an interruption of the Company's cash flow, the Company was left without the working capital to continue operations. On June 26, 2013, the Company was forced to put the mine and mill on care and maintenance.

On July 26, 2013, Huldra, after careful consideration of all available alternatives, sought creditor protection under the CCAA and obtained the Initial Order from the Court. The Company's mine and mill remain on care and maintenance, while Huldra continues attempting to restructure its financial affairs and recommence operations at its mine and mill under the supervision of the Monitor.

Risk Factors

Risks Associated with the CCAA Proceedings

The prolonged continuation of Huldra's restructuring process under the CCAA could adversely affect the Company's business and operations. So long as the CCAA proceedings continue, senior management of the Company will be required to spend a significant amount of time and effort dealing with Huldra's restructuring instead of focusing exclusively on business operations. Prolonged continuation of the CCAA

process will also make it more difficult to attract and retain management and other key personnel necessary for the viability of the Company's business. In addition, the longer the CCAA process continues, the more likely it is that the Company's customers, suppliers, contractors and employees will lose confidence in the Company's ability to successfully restructure the Company's business and seek to establish alternative commercial relationships. Furthermore, so long as the CCAA process continues, the Company will be required to incur substantial costs for professional fees and other expenses associated with the CCAA proceedings. The prolonged continuation of the CCAA process may also require the Company to seek additional financing, obtain relief from certain covenants under the DIP Loan, and/or negotiate an extension of the term of the DIP Loan in order to service the Company's debt and other obligations. It may not be possible for Huldra to obtain additional financing during the pendency of the CCAA process on commercially favourable terms or at all. If Huldra was to require additional financing during the CCAA process and was unable to obtain the financing on favourable terms or at all, the Company's chances of successfully restructuring its business would be seriously jeopardized creating an immediate liquidity crises which would in all likelihood lead to bankruptcy and the liquidation of all of the Applicants' assets.

The CCAA proceedings provide Huldra with a period of time to stabilize its operations and financial condition and develop the Restructuring Plan. During the period, the DIP Loan has been approved by the Court and is available if required, subject to borrowing conditions. However, it is not possible to predict the outcome of these proceedings, and accordingly substantial doubt exists as to whether Huldra will continue to have access to funding sources. The Company has debt facilities with Waterton which are currently in default. Under the terms of the DIP Loan, if Huldra is unable to make payments required under that facility and under the pre-existing Credit Facility (as hereinafter defined), Waterton could withdraw the DIP Loan or accelerate payments due under the DIP Loan and/or the Credit Facility and force the Company into bankruptcy and liquidation.

In order to successfully emerge from CCAA creditor protection as a viable entity, Huldra must develop, and obtain requisite Court and creditor approval of, a viable Restructuring Plan. This process requires Huldra to meet certain statutory requirements with respect to soliciting and obtaining creditor acceptances of the Restructuring Plan and fulfilling other statutory conditions for approval of the Restructuring Plan. Huldra may not receive the requisite approvals of the Restructuring Plan. Even if the requisite creditor approvals of the Restructuring Plan are received, the Court may not approve the Restructuring Plan. Under the CCAA, the Court must determine whether, among other things, the Restructuring Plan is fair and reasonable. If the Restructuring Plan is not approved by the Court, it is unclear whether Huldra would be able to reorganize its business and what, if any, distributions holders of claims against Huldra ultimately would receive with respect to their claims. If an alternative restructuring could not be agreed upon, it is possible that the Company would have to file for bankruptcy and liquidate its assets, in which case it is likely that holders of claims would receive substantially less favourable treatment than they would receive if the Applicants were to emerge as viable entities.

While Huldra continues its restructuring under the CCAA, investments in the common shares of the Company will be highly speculative. Although the Company's common shares continue to trade on the TSX-V, the trading prices of the common shares may have little or no relationship to the actual recovery, if any, by the holders of the Company's common shares under any eventual Court-approved Restructuring Plan. The opportunity for any recovery by holders of the Company's common shares under a Restructuring Plan is uncertain and the Company's common shares may be cancelled without any compensation pursuant to such Restructuring Plan.

The Company's proceedings under the CCAA raise significant doubt regarding its ability to continue as a going concern

Due to the risks and uncertainties associated with proceedings under the CCAA, the Company cannot predict the final outcome of the restructuring process or the potential impact on its business, financial condition or results of operations. Although the CCAA proceedings and DIP Loan allow the Company to temporarily to stabilize operations, it is not possible to predict the outcome of these proceedings or to have any assurance that the Company will be successful in the restructuring process. Accordingly, there

is significant doubt as to whether the Company will be able to continue as a going concern. The Company's ability to continue as a going concern is dependent on market conditions and its ability to successfully develop and implement a Restructuring Plan, obtain further advances under the DIP Loan, obtain alternate financing to replace the DIP Loan and restructure its obligations in a manner that allows it to obtain creditor and Court approval under the CCAA. Even if the Company is able to emerge from the CCAA proceedings, there can be no assurance as to the long term viability of all or any part of the enterprise or the Company's ability to continue as a going concern. If the Company is unable to obtain financing to recommence operations, or fails to successfully implement a Restructuring Plan then the Company will not be able to continue as a going concern and would be forced into bankruptcy, and liquidation of all of its assets. Operating under the CCAA for an extended period may restrict the Company's ability to pursue its business strategies and increase the required payment of restructuring costs associated with operating under the CCAA beyond the Company's available liquidity.

The Company may not be able to successfully develop, obtain the necessary approvals or Implement a Restructuring Plan. Failure to do so within the time periods granted under the CCAA proceeding could result in the liquidation of all of the Applicants' assets

In order to successfully emerge from the CCAA, it will be necessary to develop, obtain the necessary approvals for and implement a Restructuring Plan. Implementation of a Restructuring Plan or other restructuring process under the CCAA may result in the sale or divestiture of assets or businesses. There can be no assurance that it will be possible to complete any sale or divestiture of assets or businesses on acceptable terms or at all.

The Company must obtain court and creditor approvals to complete the restructuring process. If the Company does not obtain such approvals and even if such approvals are obtained, a dissenting holder of a claim against the Company may challenge and delay the final approval and implementation of a Restructuring Plan.

If the Company is not successful in developing a Restructuring Plan, or if the requisite approvals are not obtained, it may not be able to reorganize its business. Should the stay of proceedings under the CCAA not be sufficient to develop a Restructuring Plan or should such plan not be approved by creditors and the Court, or should the stay of proceedings against the Company lapse for any reason, the Company's debt obligations will become due and payable immediately which would likely lead to bankruptcy and the liquidation of all of the Applicants' assets.

The Company may be unable to meet its liquidity requirements for operations

There can be no assurance that the amounts of cash from operations, if any, together with amounts available under the DIP Loan will be sufficient to fund the Company's operations and care and maintenance program during the proceedings under the CCAA and the restructuring costs associated with operating under the CCAA. If these amounts are insufficient to meet the Company's liquidity requirements, it may have to seek additional financing. There can be no assurance that such additional financing would be available or, if available, offered on acceptable terms. Failure to secure any necessary additional financing would have a material adverse impact on the Company's continued operations and viability.

The Company's ability to maintain acceptable credit terms with its suppliers may become further impaired during the restructuring process under the CCAA. The Company may be required to pay cash in advance to certain suppliers and may experience restrictions on the availability of trade credit which could reduce its liquidity. Liquidity problems could materially and adversely affect its ability to source key services. In addition, suppliers may be reluctant to enter into long term agreements with the Company due to its financial condition.

Mineral Exploration and Development Activities are Inherently Risky

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into mineral deposits with significant value. Unusual or unexpected ground conditions, geological formation pressures, fires, power outages, labour disruptions, flooding, earthquakes, explorations, cave-ins, landslides and the inability to obtain suitable adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. There are also physical risks to the exploration personnel working on the site of a mineral project. The Company's exploration properties and any future mining operations will be subject to all the hazards and risks normally incidental to exploration, development and production of silver and other metals, any of which could result in damage to or destruction of exploration facilities or mines, damage to life and property, environmental damage and possible legal liability for any or all damage. Although the Company maintains insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

Uncertainty of Mineral Resources

The figures for mineral resources for the Treasure Mountain Project disclosed in the Company's Annual Information Form for the year ended December 31, 2012 and in its technical report filed on SEDAR on June 12, 2012, are only estimates. Mineral reserves at the Treasure Mountain Project have not been defined therefore the mineral resources currently cannot be considered ore. There is no certainty that any expenditures made in the exploration of the Company's mineral properties will result in identification of commercially recoverable quantities of ore or that ore reserves will be mined or processed profitably. In addition, substantial expenditures will be required to develop the mining and processing facilities and infrastructure at any site chosen for mining.

Uncertainty of Economic Viability of Production from the Treasure Mountain Project

The Company has not undertaken any preliminary feasibility study or preliminary economic assessment with respect to the Treasure Mountain Project and does not intend to undertake such a study or assessment. There are significant risks associated with making a production decision without a valid, current, economic analysis and the Company may subsequently determine that continued production from the Project is not economically feasible.

Insurance

The mining industry is subject to significant risks that could result in damage to or destruction of property and facilities, personal injury or death, environmental damage and pollution, delays in production, expropriation of assets and loss of title to mining claims. No assurance can be given that insurance to cover the risks to which the Company's activities are subject will be available at all or at commercially reasonable premiums. The Company currently maintains insurance within ranges of coverage that it believes to be consistent with industry practice for companies of a similar stage of development, however the insurance the Company has may not be sufficient to cover the full extent of any liabilities that may arise.

Prices, Markets and Marketing of Silver and Metal Prices

World prices for commodities fluctuate and are affected by numerous factors including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of commodities, and the resulting impact on the viability of any of the Company's exploration projects, cannot accurately be predicted.

Liquidity and Capital Requirements

Management anticipates that, subject to financing, it will make substantial expenditures towards developing the Treasure Mountain Project; however, there is no assurance that the Company will operate profitably or will generate positive cash flow in the future. The Company has a significant working capital deficit, no history of profitable operation and no assurance that additional funding will be available to it for further exploration and development of the Treasure Mountain Project if required. The Company may also need further financing if it decides to obtain additional mineral properties. As such, the Company is subject to many risks common to exploration enterprises, including undercapitalization, cash shortages and limitations with respect to personnel, financial and other resources, and lack of revenues. Although the Company has been successful in the past in obtaining financing through credit facilities or the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Such means of financing typically result in dilution of the positions of existing shareholders, either directly or indirectly. Failure to obtain additional financing could result in the delay or indefinite postponement of further exploration and development of the Treasure Mountain Project or the loss of substantial dilution of any of its property interests.

Going Concern Risk

As at September 30, 2013, the Company had an accumulated deficit of \$61,742,491 (December 31, 2012 - \$29,188,156) and a working capital deficiency of \$24,037,294 (December 31, 2012 - \$14,566,791) including current debt obligations of \$17,853,927 (December 31, 2012 - \$13,411,298). These factors, including the outcome of the CCAA proceedings, represent a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. The Company will be required to raise funds through the issuance of equity or debt, successfully develop and implement a Restructuring Plan in the CCAA process or be successful in the development of the Treasure Mountain Mine and Merritt Mill. Realization values may be substantially different from carrying values as shown and the Company's consolidated 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.

The financial statements for the three and nine month periods ended September 30, 2013 were prepared using IFRS, as applied by the Company prior to the filing for CCAA. While the Applicants have filed for and been granted creditor protection, such financial statements have been prepared using the going concern concept, 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. The CCAA proceedings provide the Company with a period of time to stabilize its operations and financial condition and develop a Restructuring Plan.

Management believes that these actions continue to make the going concern basis appropriate. However, it is not possible to predict the outcome of these proceedings and accordingly, substantial doubt exists as to whether the Company will be able to continue as a going concern. Further, it is not possible to predict whether the actions taken in any restructuring will result in improvements to the financial condition of the Company sufficient to allow it to continue as a going concern. If the Company is unable to obtain the necessary financing or if a Restructuring Plan is not developed, approved and implemented and the Company fails to emerge from CCAA, the Company could be forced into bankruptcy and result in the liquidation of all of the Applicants' assets.

If the "going concern" assumption were not appropriate for such financial statements, then significant adjustments would be necessary in the carrying amounts and/or classification of assets and liabilities.

Dependence on Management

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the

operations of the Company could result, and other persons could be required to manage and operate the Company.

Environmental Risks

All phases of the mineral exploration and development business present environmental risks and hazards and are subject to environmental regulations. Compliance with such legislation and regulations can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner which may lead to stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that the application of environmental laws to the business and operations of the Company will not result in a curtailment of exploration or production, a material increase in the costs of production, development or exploration activities, or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Government Regulation

The natural resource exploration industry is subject to controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other natural resource exploration companies of similar size. The current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

Competition

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future. The Company also competes with other mining companies in the recruitment and retention of qualified employees.

Conflicts of Interest

The Company's directors and officers may serve as directors or officers of, or may be associated with, other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the *Business Corporations Act* (British Columbia) dealing with conflicts of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his interest and refrain from voting on the matter unless otherwise permitted by the *Business Corporations Act* (British Columbia). In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company.

No Current Plans to Pay Cash Dividends

The Company has no plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Company's Board of Directors and will depend on, among other things, the Company's financial results, cash requirements, contractual restrictions and other factors that the Board of Directors may deem relevant. In addition, the Company's ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness that the Company or its subsidiaries incur. As a result, investors may not receive any return on an investment in the Company's securities unless they sell the securities for a price greater than that which they paid for them.

Economic Conditions

Unfavorable economic conditions may negatively impact the Company's financial viability. Unfavorable economic conditions could also increase the Company's financing costs, decrease estimated income from prospective mining operations, limit access to capital markets and negatively impact the availability of credit facilities or other financing to the Company.

Price Volatility of Public Stock

The market price of the Company's securities has experienced wide fluctuations which may not necessarily be related to the operating performance, underlying asset values or prospects of the Company. Any market for the Company's securities may be subject to market trends generally and the value of the Company's securities on the TSX-V may be affected by such volatility in response to numerous factors, many of which are beyond the Company's control, including:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- the addition or departure of the Company's executive officers or other key personnel;
- release or other transfer restrictions on outstanding Company securities;
- sales or perceived sales of additional Company securities;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- news reports relating to trends, concerns, competitive developments or regulatory changes; and
- other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Company's securities may decline even if the Company's operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in the Company's securities by those institutions, which could adversely affect the trading price of the Company's securities. There can be no assurance that fluctuations in price and volume will not occur in the future. If increased levels of volatility and market turmoil occur, the Company's operations may be adversely impacted and the trading price of the Company's securities may be adversely affected.

Regulatory and Permitting

Regulatory and permitting requirements have a significant impact on the Company's operations and can have a material and adverse effect on future cash flow, results of operations and financial condition. In order to conduct mineral exploration and mining activities the Company must obtain or renew exploration or mining permits and licenses in accordance with the relevant mining laws and regulations required by

governmental authorities having jurisdiction over the mineral projects. There is no guarantee that the Company will be granted the necessary permits and licenses, that they will be renewed, or that the Company will be in a position to comply with all the conditions that are imposed. Mining is subject to potential risks and liabilities associated with pollution and the disposal of waste from mineral exploration and mine operations. Costs related to discovery, evaluation, planning, designing, developing, constructing, operating, closing and remediating mines and other facilities in compliance with these laws and regulations are significant. In addition to environmental protection, applicable laws and regulations govern employee health and safety. Not complying with these laws and regulations can result in enforcement actions that may include corrective measures requiring capital expenditures, installation of additional equipment, remedial action and changes to operating procedures resulting in additional costs and temporary or permanent shutdown of operations. The Company may also be required to compensate those parties suffering loss or damage and may face civil or criminal fines or penalties for violating certain laws or regulations. Changes to these laws and regulations in the future could have an adverse effect on the Company's cash flow, results of operations and financial condition. Further, the issuance of permits may be subject to review by third parties who may challenge future permitting and the validity of existing permits based on, among other things, the government's obligation to consult and accommodate.

Forward-Looking Statements may Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking statements contained in this MD&A. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements, or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this MD&A under the heading "Cautionary Note Regarding Forward-Looking Statements".

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This review of the Company's results of operations should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the three and nine months ended September 30, 2013 and the audited consolidated financial statements of the Company for the year ended December 31, 2012.

Three Months Ended September 30, 2013

During the three months ended September 30, 2013, the Company incurred a net loss and comprehensive loss of \$14,028,114, compared to a net loss and comprehensive loss of \$6,051,784 for the comparable period of 2012. The significant fluctuation between the comparative periods resulted largely from the write down of property, plant and equipment in the amount of \$7,471,898 during the three months ended September 30, 2013; no comparative write down was recognized during the three months ended September 30, 2012. The write down was a result of the Company's decision to put its mine and mill on care and maintenance. The impairment loss recorded is based upon the Company's assumption that the mine and mill will recommence operations. If operations at the mine and mill cannot be recommenced for any reason whatsoever, the impairment or write down of property, plant and equipment would be significantly increased. See "Creditor Protection and Restructuring". Other reasons for significant fluctuation between the comparative periods include the increase in finance costs to \$2,298,866 from \$1,306,611 for the comparable period in 2012, the net charge of \$2,939,515 taken in the period to recognize the Company's requirement to indemnify flow-through investors for the amount of increased tax and other costs payable by investors as a consequence of the Company failing to incur qualifying expenses previously renounced to the flow-through investors, and the increase in expenses for the marked to market adjustment on provisionally priced concentrate sales to \$1,168,327.

Operating expenses for the three months ended September 30, 2013 increased to \$8,741,888 from \$3,879,908 for the three months ended September 30, 2012. The increase in expenses was related to the write down of property, plant and equipment expense of \$7,471,898 in the third quarter of 2013. There

was no write down of property, plant and equipment expense for the comparable period in 2012. Exploration costs decreased for the third quarter of 2013 as compared to the third quarter of 2012, being \$518,429 for the three months ended September 30, 2013 compared to \$2,433,299 for the three months ended September 30, 2012. This large decrease in exploration costs was a result of the Company's decision to put its Treasure Mountain mine on care and maintenance.

For the three months ended September 30, 2013, general and administrative costs were significantly lower at \$751,561 as compared to \$1,446,609 for the three months ended September 30, 2012. The grant of the stock options issued during the three months ended September 30, 2012 carried a fair value of \$1,199,453 while there were no options granted in the three months ended September 30, 2013. This decrease was offset by increased costs for the three months ended September 30, 2013 associated with professional fees and consulting fees as the Company moved into creditor protection under the CCAA.

With regards to the amounts owing to Waterton under the Credit Facility and DIP Loan, the unrealized loss on the derivative liability was \$41,233 (September 30, 2012 – loss of \$525,398), and the unrealized loss on the warrant liability was \$8,308 (September 30, 2012 – loss of \$375,419), all of which are attributable to the Credit Facility, as further described below under the heading “Financing, Liquidity and Capital Resources”.

As at June 26, 2013, the Company had entered care and maintenance mode which is a potential indicator of impairment of the carrying amount of its non-current non-financial assets. As a result, the Company has carried out a review of the carrying amounts of the non-current non-financial assets. The Company has taken the view that mine and mill are determined to be a single cash generating unit for this purpose. In carrying out this review process, the Company has been required to make significant judgments, including the application of appropriate valuation methods, estimates and assumptions regarding mine plan tonnages and grades, commodity prices and operating costs. The Company has assumed that operations at the mine and mill will recommence by either the Company or a potential new ownership group, and the assumption that any potential new ownership group would not be willing to pay for a portion of the soft and hard costs associated with the mill construction and commissioning. By their nature, such estimates and assumptions are subject to significant uncertainty. If the Company or a new ownership group was unable to recommence operations at the mine and mill for whatever reason, then the recoverable amount may be significantly less and result in an additional significant impairment loss. The recoverable amount has been determined based on estimated fair value less cost to sell basis. Based on its review, the Company has recognized an impairment loss for the three months ended September 30, 2013 in the amount of \$7,471,898. Any significant negative change in the key assumptions, including that the Company will recommence operations at the mine and mill, made in determining the recoverable amount could result in an additional significant impairment loss.

Nine Months Ended September 30, 2013

During the nine months ended September 30, 2013, the Company incurred a net loss and comprehensive loss of \$32,554,335 compared to a net loss and comprehensive loss of \$12,436,675 for the comparable period of 2012. The significant fluctuation between the comparative periods resulted largely from the write down of property, plant and equipment in the amount of \$18,853,148 during the nine months ended September 30, 2013 as a result of the Company's decision to put its mine and mill on care and maintenance as further described under “Creditor Protection and Restructuring”, the increase in finance costs to \$5,987,697 from \$3,350,530 for the comparable period in 2012, the net charge of \$2,939,515 taken in the period to recognize the Company's requirement to indemnify flow-through investors for the amount of increased tax and other costs payable by investors as a consequence of the Company failing to incur qualifying expenses previously renounced to the flow-through investors, and the increase in expenses for the marked to market adjustment on provisionally priced concentrate sales to \$1,168,327. The impairment loss recorded is based upon the Company's assumption that the mine and mill will recommence operations. If operations at the mine and mill cannot be recommenced for any reason whatsoever, the impairment or write down of property, plant and equipment would be significantly increased. There were no expenses for marked to market adjustment on provisionally priced concentrate

sales during the comparable period in 2012 since the Company did not begin shipping concentrates until November 2012.

Operating expenses for the nine months ended September 30, 2013 increased to \$24,219,524 from \$8,245,857 for the nine months ended September 30, 2012. The increase in expenses was related to the write down of property, plant and equipment expense of \$18,853,148 in the third quarter of 2013. There was no write down of property, plant and equipment expense for the comparable period in 2012. Exploration costs decreased for the three quarters of 2013 as compared to the first nine months of 2012, being \$3,582,392 for the nine months ended September 30, 2013 compared to \$6,388,886 for the nine months ended September 30, 2012. The decrease was largely due to the inactivity at the Treasure Mountain mine as a result of the Company decision to put the mine on care and maintenance. Secondly, all sales generated from the sale of concentrates from March 26, 2013 onwards are treated as a recovery of exploration costs. For the nine months ended September 30, 2013 these sales amounted to \$4,309,827.

For the nine months ended September 30, 2013, general and administrative costs were slightly lower at \$1,783,984 as compared to \$1,856,971 for the nine months ended September 30, 2012. The grant of the stock options issued during the nine months ended September 30, 2012 carried a fair value of \$1,199,453 while the grant of the stock options issued in the nine months ended September 30, 2013 carried a fair value of \$360,601 of which \$300,418 was expensed as general and administrative costs while \$60,183 was added to the capitalized cost of the mill. This decrease was offset by increased costs for the three months ended September 30, 2013 associated with professional fees and consulting fees as the Company moved into creditor protection under the CCAA.

During the nine months ended September 30, 2013, the Company granted an aggregate of 500,000 stock options which were granted with an exercise price of \$0.95 per share. All stock options are exercisable for five years from the date of grant.

As a result of fluctuating commodity prices, the Company incurred a loss for the marked to market adjustment on provisionally priced concentrate sales in the amount of \$1,168,327 for the nine months ended September 30, 2013. There was no comparable amount for the nine months ended September 30, 2012 as the Company did not begin shipping concentrates to the smelter until November 2012. With regards to the debt owed to Waterton, the unrealized gain on the derivative liability was \$16,925 (September 30, 2012 – loss of \$473,306), and the unrealized gain on the warrant liability was \$1,394,673 (September 30, 2012 – loss of \$412,722), all of which are attributable to the Credit Facility, as further described below under the heading “Financing, Liquidity and Capital Resources”.

SELECTED QUARTERLY RESULTS

The following table provides selected financial information for the most recent eight quarters. All amounts shown are stated in Canadian dollars in accordance with IFRS.

	Sep 30, 2013 (\$)	Jun 30, 2013 (\$)	Mar 31, 2013 (\$) AMENDED	Dec 31, 2012 (\$)	Sep 30, 2012 (\$)	Jun 30, 2012 (\$) AMENDED	Mar 31, 2012 (\$)	Dec 31, 2011 (\$)
Net loss	(14,028,114)	(14,624,778)	(3,901,443)	(2,001,045)	(6,051,784)	(2,497,063)	(3,887,828)	(1,442,319)
Loss per share from continuing operations (basic)	(0.25)	(0.28)	(0.08)	(0.37)	(0.14)	(0.07)	(0.12)	(0.05)

	Sep 30, 2013 (\$)	Jun 30, 2013 (\$)	Mar 31, 2013 (\$) AMENDED	Dec 31, 2012 (\$)	Sep 30, 2012 (\$)	Jun 30, 2012 (\$) AMENDED	Mar 31, 2012 (\$)	Dec 31, 2011 (\$)
Loss per share from continuing operations (diluted)	(0.20)	(0.16)	(0.05)	(0.21)	(0.10)	(0.05)	(0.09)	(0.03)

As described above under the heading “Results of Operations and Financial Condition”, significant fluctuations between the comparative periods resulted from the increased activity pertaining to the Company’s exploration and development program at the Treasure Mountain Project until June 26, 2013 when the Company’s mine and mill were put on care and maintenance. Additional explanations for certain significant changes in the table above are as follows:

- The substantial net loss for the quarter ended September 30, 2013 was largely due to the Company’s mine and mill being put on care and maintenance and the additional write down of property, plant and equipment in the amount of \$7,471,898, as further described under the heading “Creditor Protection and Restructuring”. Additionally, the Company took a net charge of \$2,939,515 in the period to recognize the Company’s requirement to indemnify flow-through investors for the amount of increased tax and other costs payable by investors as a consequence of the Company failing to incur qualifying expenses previously renounced to the flow-through investors.
- The substantial increase in the net loss for the quarter ended June 30, 2013 was largely due to the Company’s mine and mill being put on care and maintenance and the related write down of property, plant and equipment in the amount of \$11,381,250, as further described under the heading “Creditor Protection and Restructuring”.
- During the three months ended March 31, 2013, the Company incurred a gain on extinguishment of debt in the amount of \$336,135 as a result of the January 29, 2013 amendment associated with the Credit Facility established with Waterton, as further described below under the heading “Financing, Liquidity and Capital Resources”.
- The substantial increase in the net loss for the quarter ended September 30, 2012 was largely due to share-based compensation expense of \$1,199,453 and costs related to the debt owed to Waterton that totaled \$2,206,928; these costs included finance costs of \$1,306,111, loss on the derivative liability of \$525,398 and a loss on the warrant liability of \$375,549.

EXPLORATION AND DEVELOPMENT

Treasure Mountain Project

Since its incorporation in March, 1980, the Company has been engaged in the exploration and development of its wholly owned group of mineral tenures and leases located at Treasure Mountain in the Similkameen Mining Division, British Columbia. In 1985, a silver rich vein was discovered on the claims and was subsequently exposed over 250 meters. It was then drill tested by shallow drilling in the summer of 1986.

Between 1987 and 1989, the Company explored the vein zone on four underground levels with 2,740m of crosscuts, drifts and raises, complemented by 1,680m of underground and 3,050m of surface drilling. Preceding the underground work, a bulk sample of 407 tonnes of select high-grade material from the surface vein showing was shipped to the Cominco and Asarco smelters for testing. The smelters found the shipments compatible with their regimes and paid a total of \$344,265 for the shipments.

From 1989 to 2010, work at the Treasure Mountain Project included four small drill programs, several geochemical soil surveys, a legal mineral tenure survey by McElhanney and various technical studies by AMEC Earth & Environmental.

In 2011, exploration at the Treasure Mountain Project included approximately 7000m of diamond drilling spread across 69 diamond drill holes, as well as 671 surface soil geochemistry samples, surface sampling, underground sampling on the upper two levels of the mine workings, a 10,000 tonne bulk sample and a small exploration cut on the East Zone 0.8 kilometres from the mine workings.

On April 26, 2012, the Company received a mining lease covering 335 hectares of the Treasure Mountain Project. The existing camp, roads, underground workings and the East Zone exploration area are all covered under this lease area.

On May 18, 2012, the Company received a British Columbia Mines Act permit approving a mine plan and reclamation program for the Treasure Mountain Project. The mine plan for the Treasure Mountain Project calls for the removal of 60,000 tonnes per year of silver/lead/zinc mill feed from the underground mine and the transfer of such material offsite for processing.

As discussed earlier in this MD&A, in connection with and as partial consideration for the DIP Loan, the Company also entered into a Royalty Agreement with Waterton, whereby the Company granted to Waterton a 2% net smelter return royalty on the production of all minerals from the Treasure Mountain property.

Merritt Mill Property

The Company purchased all of the shares of Craigmont Holdings Ltd. (now Huldra Properties Inc.) ("Huldra Properties") on May 5, 2011. Huldra Properties holds real property, mineral claims and mineral leases, covering approximately 8,400 hectares, located in south central British Columbia, approximately 10 kilometers west of Merritt, British Columbia. The Company has constructed a mill facility on the permitted site of the former copper producing mine to process the material from the Treasure Mountain Project, which is located approximately 100 kilometers away.

The Company underwent the necessary engineering and environmental work to file a permit amendment application to the existing Mines Act permit on October 31, 2011. The British Columbia Mines Act mill construction and operation permit was received on May 18, 2012.

The Company began the civil work on the Mill Property in early November 2011 and completed commissioning in November 2012. The first concentrate shipments were made on November 22, 2012 under the previously announced concentrate purchase agreements.

From November 12, 2012 to June 26, 2013, the mill was fully staffed and had been operating 24 hours a day, 7 days a week. On June 26, 2013, the mill was put on care and maintenance. See "Creditor Protection and Restructuring".

From November 16, 2012 to June 26, 2013, the Company processed and sold the following concentrates (net of HST):

Lead/Silver -	1,103.02 dry metric tonnes for approximately US\$8,552,973
Zinc/Silver -	856.12 dry metric tonnes for approximately US\$419,190

CURRENT STATUS OF THE TREASURE MOUNTAIN PROJECT & MERRITT MILL PROPERTY

Treasure Mountain Project and Merritt Mill Property

As a result of a combination of events including the decline in the price of silver between January and June, 2013, a further precipitous decline of over 10% in the price of silver between June 20 and 26, 2013, together with a substantial drop in the price of the Company's shares, the general uncertainty in the equity markets, the inability of the Company to raise equity or debt financing, and an unanticipated breakdown and shutdown of the mill on June 23, 2013, resulting in an interruption of the Company's cash flow, the Company was left without the working capital to continue operations. On June 26, 2013, the Company was forced to put the mine and mill on care and maintenance.

On July 26, 2013, Huldra, after careful consideration of all available alternatives, sought creditor protection under the CCAA and obtained the Initial Order from the Court. The Company's mine and mill remain on care and maintenance, while Huldra continues attempting to restructure its financial affairs and recommence operations at its mine and mill under the supervision of the Monitor.

To date, the majority of the Company's mineral resources have been classified as inferred, whereby the economic viability of such resources cannot be determined. The removal of mill feed from the Company's Treasure Mountain Project is considered an exploration and evaluation activity, and as such, all costs associated with the removal of this mill feed are expensed as exploration costs. Currently, no value has been assigned to stockpiled mill feed as the removal is considered an exploration and evaluation activity.

Current Mineral Tenure (Claim) Holdings at the Treasure Mountain Project

The Company's claim holdings at the Treasure Mountain Project now consist of 51 mineral tenures, comprising 21 legacy claims, 100 cell units, one Crown grant and 5 district lots, for a total of approximately 2,850 hectares (7,000 acres), of which 335 hectares are now under a mining lease.

Current Mineral Tenure (Claim) Holdings at Mill Property

The Company's claim holdings at the Mill Property now consist of 20 mineral tenures covering approximately 8,457 hectares (20,898 acres), 10 mineral leases covering approximately 347 hectares (858 acres), and 7 district lots covering approximately 391 hectares (966 acres).

FINANCING, LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2013, the Company had a working capital deficiency of \$24,037,294 that included cash and cash equivalents of \$312,911, as compared to a working capital deficiency of \$14,566,791 and cash and cash equivalents of \$883,169 as at December 31, 2012. The increase in the working capital deficiency can be largely attributable to the issuance of the convertible debentures in February 2013 and the provision booked in the period to recognize the Company's requirement to indemnify flow-through investors for the amount of increased tax and other costs payable by investors as a consequence of the Company failing to incur qualifying expenses previously renounced to the flow-through investors offset by the reductions in both the debt owed to Waterton and Craigmont.

Cash used in operating activities for the nine months ended September 30, 2013 was \$3,066,187 compared to \$4,405,638 for the nine months ended September 30, 2012. The decrease in cash used in operating activities was largely due to the changes in the working capital balances period over period. There has been a large increase in the write down of property, plant and equipment, and non-cash interest expense accounts receivable balance driven by the sales of concentrate to the smelter during the nine months ended September 30, 2013 compared to the corresponding period in 2012.

Cash provided by investing activities was \$283,653 for the nine months ended September 30, 2013 compared to \$13,558,389 cash used in investing activities for the nine months ended September 30,

2012. Major expenditures for the nine months ended September 30, 2013 related to the final costs associated with the processing facility construction at the Mill Property which were offset by proceeds received from sales related to mill commissioning. Major expenditures for the nine months ended September 30, 2012 related to the ongoing processing facility construction at the Mill Property. Additionally, for the nine months ended September 30, 2013, the Company received proceeds in the amount of \$3,715,322 for sales of concentrate to the smelter during the mill commissioning phase.

Cash provided by financing activities was \$2,212,276 for the nine months ended September 30, 2013 compared to \$16,890,135 for the nine months ended September 30, 2012. \$9,556,341 was the net proceeds from the Convertible Debenture issuance. Additionally, the Company repaid \$3,007,649 towards the acquisition costs of Craigmont Holdings Ltd., and also made principal repayments on the Credit Facility totaling \$6,382,424 plus payments related to the profit participation of \$397,972.

The Company had the following major cash obligations as of September 30, 2013:

- repayment of the Credit Facility (as described below) in the amount of \$7,234,363.
- repayment of the DIP Loan (as described below) in the amount of \$2,173,141

As at September 30, 2013, the Company had an accumulated deficit of \$61,742,491 (December 31, 2012 - \$29,188,156) and a working capital deficiency of \$24,037,294 (December 31, 2012 - \$14,566,791) including current debt obligations of \$17,853,927 (December 31, 2012 - \$13,411,298). These factors represent a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern. The Company will be required to raise funds through the issuance of equity or debt, successfully develop and implement a Restructuring Plan in the CCAA proceedings and/or be successful in the development of the Treasure Mountain Mine and Merritt Mill. Realization values may be substantially different from carrying values as shown and the Company's consolidated 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. Further, a Court approved Restructuring Plan in the CCAA proceedings could materially change the carrying amounts and classifications reported in the unaudited condensed consolidated interim financial statements.

The financial statements for the three and nine month periods ended September 30, 2013 were prepared using IFRS, as applied by the Company prior to the filing for CCAA. While the Company and its subsidiaries have filed for and been granted creditor protection under the CCAA, these unaudited condensed consolidated interim financial statements do not purport to reflect or provide for any of the consequences of the CCAA proceedings and have been prepared on a going concern basis, 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. However, it is not possible to predict the outcome of the CCAA proceedings and, as such, there is substantial doubt regarding the realization of assets and discharge of liabilities. The CCAA proceedings and the DIP Loan provide the Company with a period of time to stabilize its operations and financial condition and develop a comprehensive restructuring plan. Management believes that these actions make the going concern basis appropriate. However, it is not possible to predict the outcome of these proceedings and accordingly substantial doubt exists as to whether the Company will be able to continue as a going concern. Further, it is not possible to predict whether the actions taken in any restructuring will result in improvements to the financial condition of the Company sufficient to allow it to continue as a going concern. If a Restructuring Plan is not approved and the Company fails to emerge from CCAA, the Company could be forced into liquidation of its assets. Under a liquidation scenario, adjustments would be necessary to the carrying amounts and/or classification of assets and liabilities, in these unaudited condensed consolidated interim financial statements.

Management believes that these actions continue to make the going concern basis appropriate. However, it is not possible to predict the outcome of these proceedings and accordingly, substantial doubt

exists as to whether the Company will be able to continue as a going concern. Further, it is not possible to predict whether the actions taken in any restructuring will result in improvements to the financial condition of the Company sufficient to allow it to continue as a going concern. If the Company is unable to obtain the necessary financing or if a Restructuring Plan is not approved and the Company fails to emerge from CCAA, the Company could be forced into bankruptcy and result in the liquidation of the Company's and its subsidiaries assets.

If the "going concern" assumption were not appropriate for such financial statements, then significant adjustments would be necessary in the carrying amounts and/or classification of assets and liabilities.

CONTRACTUAL COMMITMENTS

The following table summarizes the contractual maturities of the Company's significant financial liabilities and capital commitments, including contractual obligations as of September 30, 2013:

	Total (\$)	Less than 1 year (\$)	1 – 3 years (\$)	4 - 5 years (\$)	After 5 years (\$)
Debt	21,011,913	21,011,913	nil	nil	nil
Finance Lease Obligations	nil	nil	nil	nil	nil
Operating Leases	nil	nil	nil	nil	nil
Accounts payable and liabilities	3,710,732	3,710,732	nil	nil	nil
Other Obligations	nil	nil	nil	nil	nil
Total Contractual Obligations	24,722,645	24,722,645	nil	nil	nil

Pre-Existing Credit Facility

On June 16, 2011, the Company entered into a credit agreement (the "Credit Agreement") with Waterton pursuant to which Waterton agreed to make a \$10,000,000 Credit Facility available to the Company, which could be drawn down, at the Company's option, in up to four advances. The Company drew down the first advance of \$3,000,000 on June 17, 2011, the second advance of \$2,000,000 on July 28, 2011, the third advance of \$2,500,000 on January 17, 2012, and the fourth advance of \$2,500,000 on May 23, 2012. In connection with the fourth drawdown, the Company paid Waterton a structuring fee of \$25,000 and issued 1,000,000 share purchase warrants, each entitling Waterton to purchase one common share of the Company at a price of \$1.30 per share until May 22, 2017. The Company also paid Bayfront Capital a placement fee consisting of a cash payment of \$25,000 (being 1% of the principal amount of the fourth advance) and the issuance of 38,462 common shares of the Company at a deemed issue price of \$1.30 per share.

A full description of the original terms of the Credit Agreement and the Credit Facility are contained in the Company's Management's Discussion and Analysis for the year ended December 31, 2011.

On May 16, 2012, the Company entered into an amending agreement with Waterton pursuant to which it amended the terms of the Credit Agreement. Under the terms of this amending agreement, Waterton agreed to extend the first repayment date under the Credit Facility from May 31, 2012 to July 31, 2012, with the maturity date for the Credit Facility remaining as April 30, 2013. The amending agreement also amended the conditions necessary for drawdown of the fourth advance of the Credit Facility such that the Company was entitled to drawdown the fourth advance immediately, as the Company had received a Mining Lease and a British Columbia Mines Act permit approving a mine plan and reclamation program for the Treasure Mountain Project, along with an amended permit approving construction and operation of a process plant at the Mill Property. In consideration of the foregoing, the Company agreed to increase the number of warrants to be issued to Waterton in connection with the drawdown of the fourth advance

from 650,000 warrants to 1,000,000 warrants. The terms of the warrants were also amended so that they would have an exercise price of \$1.30 throughout the term of the warrant.

On July 30, 2012, the Company entered into a second amending agreement with Waterton pursuant to which it further amended the terms of the Credit Agreement. Under the terms of this amending agreement, Waterton agreed to amend the repayment terms of the Credit Agreement such that the repayment amount owing on July 31, 2012 was \$nil, effectively resulting in the first repayment date under the Credit Agreement being the last business day of August 2012, with the maturity date remaining as April 30, 2013. The amending agreement also reduced the amounts of the payments due in August and September 2012 by over fifty percent, however this resulted in an increase in the repayment terms starting October 31, 2012. In consideration for the amendments, the Company (i) issued 180,000 common shares of the Company to Waterton; and (ii) agreed to pay to Waterton a \$200,000 cash payment on the last day of the Repayment Period (as defined in the Credit Agreement).

On October 24, 2012, the Company entered into a third amending agreement with Waterton pursuant to which it further amended the terms of the Credit Agreement. Under the terms of this amending agreement, the repayment term for the payments to be made between October 31, 2012 and April 30, 2013 were amended so that the October 31, 2012 and November 30, 2012 repayment amounts have each been reduced by \$887,607 with such reduction resulting in a corresponding increase in the March 29, 2013 and April 30, 2013 repayment amounts. The silver adjustment provision was also amended so that the amount payable on each repayment date continued to be based on the debt repayment amount for that date. In consideration for these amendments, the Company agreed to pay Waterton an additional \$300,000 cash payment on April 30, 2013 which has been added to the final principal payment amount of the Credit Facility. In addition, the Company entered into a concentrate off-take financing agreement with Waterton whereby Waterton would finance the sales of the concentrate under terms and conditions acceptable to Waterton, acting reasonably.

On January 29, 2013, the Company entered into a fourth amending agreement with Waterton pursuant to which it has further amended the terms of the Credit Agreement. Under the terms of this amending agreement, Waterton agreed to amend the repayment terms of the Credit Agreement such that the maturity date was extended from April 2013 to November 2013 and the repayment amounts, other than for January 2013, have been reduced accordingly. As consideration for the amendment, the Company agreed to pay a restructuring fee of \$125,000 per month for the remainder of the term subject to a minimum restructuring fee of \$750,000. Additionally, the calculation for the silver adjustment provision payable formula was changed so that the amount payable is based on the higher of the settlement price per ounce of silver on the business day preceding the repayment date of \$32.00 per ounce. Prior to this amendment, the calculation for the silver adjustment provision payable formula required the settlement price per ounce of silver on the business day immediately preceding the repayment date to be at a minimum of \$27.50 per ounce in order to trigger a silver adjustment provision amount payable and the maximum amount payable in the formula was based on \$34.00 per ounce.

On June 28, 2013, the Company entered into a fifth amending agreement with Waterton pursuant to which the Company and Waterton have agreed to eliminate all monthly payment obligations and delay the payment of all obligations under the Credit Facility until October 31, 2013.

On July 8, 2013, the Company received an additional advance of \$500,000 under its debt facility with Waterton. The advance forms a further advance under and is subject to the terms of the Credit Agreement, bears interest at 5% per annum, calculated and payable on maturity, and was due on the earlier of the date of demand by Waterton, the date that Waterton provides a new loan to the Company or October 31, 2013. The amount to be repaid will also be subject to a silver adjustment provision similar to the provision contained in the Credit Agreement, unless Waterton provides a new loan to the Company, in which case the amount to be repaid will only be principal plus interest. In consideration for the advance, the Company agreed to pay a structuring fee of \$10,000. This advance was repaid on August 16, 2013 from the proceeds of the first tranche of the DIP Loan.

Impact of CCAA Proceedings

The CCAA proceedings have triggered defaults under substantially all debt and lease obligations of the Applicants, including debt owing under various financial arrangements with Waterton. The Initial Order generally stays actions against the Applicants, including steps to collect indebtedness incurred by the Applicants prior to the Filing Date, actions to exercise control over the Applicants' property and actions for breach of contractual or other obligations, subject to certain exceptions described below. Under the terms of the Initial Order, Waterton is unaffected by the stay of proceedings imposed by the Initial Order and will be entitled to demand payment of advances under the DIP Facility provided by Waterton in accordance with the Initial Order and all other secured indebtedness of Huldra owing to Waterton upon notice to Huldra following the occurrence of an event of default under the DIP Loan.

Waterton Debtor-in-Possession Credit Facility

In order to provide Huldra with access to the funds needed to conduct its business during the period of the Court proceedings, Huldra has obtained the DIP Loan from Waterton pursuant to the DIP Credit Agreement. The DIP Loan was authorized by the Initial Order of the Court pursuant to the proceedings under the CCAA.

Under the terms of the DIP Credit Agreement, the DIP Loan will be advanced by Waterton by way of a First Advance, which will be advanced in several tranches, of up to \$2,300,000 in aggregate and a Second Advance (at Waterton's sole absolute discretion) of up to \$2,500,000 in aggregate upon receipt by Waterton of the Plan that is satisfactory to Waterton and its advisors, all on the terms and conditions set out in the DIP Credit Agreement. The Company has agreed to repay the DIP Loan in full as follows: if the First Advance (but not the Second Advance) is advanced, then on the date which is four months after the date the First Advance is advanced by Waterton to the Company under the DIP Credit Agreement; and if both Advances are advanced, then in accordance with an amortized repayment schedule to be determined by Waterton which reasonably corresponds to the Plan. Each tranche of each Advance is subject to a number of conditions as set out in the DIP Credit Agreement. Waterton has advised the Company that it will not fund any amounts under the Second Advance. Accordingly, all amounts advanced under the First Advance will be due on December 13, 2013 subject to extensions as may be agreed to by Waterton and the Company.

On August 16, 2013, under the first tranche of the First Advance, the Company drew down \$1,189,024, of which \$502,671 was used to re-pay the principal and interest owed to Waterton pursuant to a \$500,000 promissory note dated July 8, 2013, \$115,000 of which was used to pay the costs and expenses of Waterton pursuant to the DIP Credit Agreement, and the balance of \$571,353 was advanced to the Company. The DIP Loan proceeds of the first tranche was used, subject to the concurrence of Grant Thornton LLP, the court appointed monitor, to continue its care and maintenance program at its mine and mill while attempting to restructure its financial affairs.

On September 17, 2013, under the second tranche of the First Advance, the Company drew down \$347,698. The proceeds of the second tranche allowed the Company to continue its care and maintenance program at its mine and mill while attempting to restructure its financial affairs.

On October 29, 2013, the Company received an amount of \$250,000 from Waterton under the third tranche of the First Advance. The proceeds of the third tranche will allow the Company to continue its care and maintenance program at its mine and mill while attempting to restructure its financial affairs.

Any advances under the DIP Loan are repayable in an amount in cash equal to the aggregate of the following payments: (a) the amount arrived at when (i) dividing the amount being repaid by 76.5% of the spot price of silver on the business day immediately preceding such repayment date and (ii) multiplying the result thereof by such spot price; and (b) the Profit Participation Amount (as calculated pursuant to the DIP Credit Agreement) relating to such repayment date.

In connection with and as partial consideration for the DIP Loan, the Company also entered into a Royalty Agreement with Waterton, whereby the Company granted to Waterton a 2% net smelter return royalty on the production of all minerals from the Treasure Mountain Property (the "Royalty"). The Royalty will be terminated if: no amounts are drawn by the Company under the DIP Loan on or before August 22, 2013; and the Company repays Waterton in full all amounts owing under the Credit Agreement, the term sheet dated July 23, 2013 between the Company and Waterton and the DIP Credit Agreement on or before August 22, 2013.

RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2013 and 2012, the Company incurred the following expenditures to related parties:

	Three Months September 30		Nine Months September 30	
	2013 (\$)	2012 (\$)	2013 (\$)	2012 (\$)
Management fees paid to a former director and a company controlled by a former director ⁽¹⁾	24,000	24,000	72,000	72,000
Consulting fees paid to a director ⁽²⁾	90,000	6,000	150,000	18,000
Office rental payments made to a company controlled by a former director ⁽³⁾	5,000	7,500	20,000	22,500
Office and general expenses paid to a director of the Company ⁽⁴⁾	-	360	720	1,080

- (1) The Company paid a company controlled by Ryan Sharp, the Company's former President, former Chief Executive Officer and former director, \$8,000 per month pursuant to a consulting agreement for provision of services as President and Chief Executive Officer of the Company. Mr. Sharp resigned as a director and officer of the Company effective July 26, 2013.
- (2) The Company paid Magnus Bratlien, a director of the Company, a consulting fee of \$2,000 per month until June 30, 2013 pursuant to an unwritten agreement for provision of services as a director. Until June 2012, this consulting fee was \$1,000 per month. The Company paid Garth Braun, Chief Financial Officer and director of the Company, a consulting fee of \$8,000 per month effective April 1, 2013 plus an additional \$24,000 related to consulting with respect to legal matters. Effective July 1, 2013, Garth Braun, Chief Financial Officer and director of the Company and Peter Espig, Interim Chief Executive Officer and director of the Company are paid a consulting fee of \$15,000 per month. There are no formal agreements for either director.
- (3) The Company paid rent in the amount of \$2,500 per month for January 2013 through August 2013 for the leasing of the Company's corporate headquarters, which lease is in the name of a company controlled by Ryan Sharp. Mr. Sharp resigned as a director and officer of the Company effective July 26, 2013. Effective September 2013 office rental payments will be paid directly to the landlord.
- (4) The Company provided Mr. Bratlien with \$120 per month until June 30, 2013 for miscellaneous office and general expenses related to the operation of a home office.

All related party transactions are in the normal course of business and are measured at the exchange amount.

OUTSTANDING SHARE DATA

- Authorized and issued share capital as at November 20, 2013:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	55,458,394

- As at November 20, 2013, there were 2,521,500 stock options outstanding.

- As at November 20, 2013, there were 10,737,960 warrants outstanding.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements which may affect its current or future operations or conditions.

CHANGES IN ACCOUNTING POLICIES

The following is an overview of accounting standard changes the Company will be required to adopt in future years. The Company will not adopt any of these standards before their effective dates. The adoption of these standards is not expected to have a material impact on the Company's consolidated financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IFRS 9 – Financial Instruments Disclosure

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held with a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payment of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investment are measured at their fair values at the end of subsequent accounting periods.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive earnings (loss).

IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company will continue to evaluate the impact of this standard on its consolidated financial statements.

FINANCIAL INSTRUMENTS

Fair Value

The Company records its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market prices (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal and external valuation models, such as discounted cash flow analyses, using, to the extent possible, observable market-based inputs.

The financial instruments have been characterized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments.

Level 2 – quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company has categorized the Waterton related derivative liabilities associated with the Credit Facility and the DIP Loan, and the warrant liability as Level 3 on the fair value hierarchy. The accounts receivable from concentrate sales categorized as Level 2 on the fair value hierarchy.

The Company estimated the fair value of the derivative liabilities as at September 30, 2013 as the sum of the fair value of a series of call options on silver with an exercise price of \$32.00 per ounce and expiring on each repayment date plus the sum of the fair value of a series of put options on silver with an exercise price of \$32.00 per ounce and expiring on each repayment date. The fair value of each option was estimated using the Black-Scholes model with the following assumptions:

Spot Price of Silver	\$22.30 per ounce
Exercise Price	\$32.00
Risk Free Rate	1.00%
Discount Rate	1.00%
Expected Life	0.08 years
Number of Options Granted	85,562
Credit Adjustment Factor	50.00%

The Company estimated the change in control option and the prepayment option at \$nil on September 30, 2013 on the basis that neither of these events are expected to occur.

The Company estimated the fair value of the warrant liability relating to the warrants issued to Waterton for the first and third advances under the Credit Facility as at September 30, 2013 using the Black-Scholes model with the following assumptions:

Share Price	\$0.09
Exercise Price	\$1.21 or \$1.28 as applicable
Risk Free Rate	0.00%
Discount Rate	1.86%
Expected Life	2.71 years or 3.29 years as applicable

The Company estimated the fair value of the derivative liabilities related to borrowing under the DIP Loan at September 30, 2013 as the sum of the fair value of a call option on silver with an exercise price of \$32.00 per ounce and expiring on each repayment date plus the fair value of a put option on silver with an exercise price of \$32.00 per ounce and expiring on the repayment date. The fair value of each option was estimated using the Black-Scholes model with the following assumptions:

Spot Price of Silver	\$22.30 per ounce
Exercise Price	\$32.00
Risk Free Rate	1.00%
Discount Rate	1.00%
Expected Life	0.21 years
Number of Options Granted	31,387

The following table presents the changes in the fair value of the Company's Level 3 financial instruments that are carried at fair value during the nine months ended September 30, 2013:

	Liability at December 31, 2012 (\$)	Drawdown of Debtor-in-Possession Loan (\$)	Extinguishment of Debt (\$)	Profit Participation Payments (\$)	Mark to market (gain) loss (\$)	Liability at September 30, 2013 (\$)
Waterton derivative liability	406,260	-	376,718	(397,972)	(15,692)	369,314
Warrant liability	1,422,005	-	-	-	(1,394,673)	27,332
Debtor-in-possession derivative liability		1,307	-		(1,233)	74
	1,828,265	1,307	376,718	(397,972)	(1,411,598)	396,720

Risk Exposure and Management

Overview

The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The principal financial risks to which the Company is exposed are credit risk, liquidity risk, metal price risk, and currency risk.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at September 30, 2013 under its financial instruments was approximately \$1.5 million.

All of the Company's cash and cash equivalents are held with a major financial institution in Canada and management believes the exposure to credit risk with respect to such institutions is not significant. Those financial assets that potentially subject the Company to credit risk are primarily receivables. The Company considers the risk of material loss to be significantly mitigated due to the financial strength of the parties from whom the receivables are due, including government organizations.

Liquidity Risk

Liquidity is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it projects the funds required to support its operations as well as the development of its Treasure Mountain Project.

There is no assurance that the Company will recommence operations, operate profitably or will generate positive cash flow in the future. There is also a significant risk that the Company will not successfully emerge from the CCAA proceeding which would in all likelihood lead to bankruptcy and the liquidation of its assets. The Company has a significant working capital deficit, no history of profitable operation and no assurance that additional funding will be available to it. The Company may also need further financing if it decides to obtain additional mineral properties. As such, the Company is subject to many risks common to exploration enterprises, including undercapitalization, cash shortages and limitations with respect to personnel, financial and other resources and lack of revenues. Although the Company has been successful in the past in obtaining financing through credit facilities or the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Such means of financing typically result in dilution of the positions of existing shareholders, either directly or indirectly. Failure to obtain additional financing could result in the delay or indefinite postponement of further exploration and development of the Treasure Mountain Project or the loss or substantial dilution of any of its property interests.

The following is a summary of the maturities for the Company's non-derivative financial liabilities as at September 30, 2013:

	Less than 30 days (\$)	30 days to 1 year (\$)	1 year to 2 years (\$)	More than 2 years (\$)
Accounts Payable and Accrued Liabilities	3,710,732	nil	nil	nil
Waterton Debt Obligation	nil	7,234,363	nil	nil
Waterton DIP Loan	nil	2,173,142	nil	nil
Convertible Debentures	nil	11,604,408	nil	nil
TOTAL:	3,710,732	21,011,913	nil	nil

OTHER INFORMATION

This MD&A of the financial position and results of operations of the Company is dated as of November 21, 2013 and should be read in conjunction with the condensed consolidated interim financial statements for the three and nine months ended September 30, 2013. Additional information relating to the Company, including the Company's Annual Information Form, can be accessed through the Company's public filings on SEDAR at www.sedar.com.

This MD&A has been reviewed and approved by Al Beaton, P.Eng (Mining), under whose direction the Company's operations are being carried out. Al Beaton is a Qualified Person as defined in NI 43-101.

The Company's website address is www.huldrasilver.com.