HULDRA SILVER INC.

Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Huldra Silver Inc.

We have audited the accompanying consolidated financial statements of Huldra Silver Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of operations and comprehensive loss, cash flows, and changes in shareholders' deficiency for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Huldra Silver Inc. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

April 13, 2015

HULDRA SILVER INC.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		$ 2,471,960	$ 16,543
Amounts receivable	4	58,769	1,119,800
Prepaid expenses and other assets		166,877	103,750
		2,697,606	**1,240,093**
Non-current assets			
Property, plant and equipment	5, 7	6,485,525	10,593,727
Mineral interests	6	3	566,537
Restricted cash	9	1,135,100	1,135,100
Total assets		**$ 10,318,234**	**$ 13,535,457**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 678,877	$ 3,785,980
Secured creditors payable	10, 23	1,879,049	-
Waterton debt obligation	10	-	7,294,815
Warrant liability	10, 18	7,995	5,763
Debtor-in-possession debt obligation	10	2,222,748	2,864,335
Convertible debenture	12	-	11,335,223
Flow-through obligation	19	3,508,827	3,733,009
Flow-through share premium		-	19,007
		8,297,496	**29,038,132**
Non-current liabilities			
Asset retirement obligation	8	1,405,100	1,405,100
Secured convertible debenture	13	5,096,756	-
Total liabilities		**14,799,352**	**30,443,232**
Equity			
Shareholders' deficiency			
Share capital	15	59,403,161	39,741,231
Warrants	12	1,213,184	-
Equity component of convertible debentures	13, 15	325,038	325,038
Contributed surplus		5,977,053	5,956,475
Accumulated deficit		(71,399,554)	(62,930,519)
Total deficiency		**(4,481,118)**	**(16,907,775)**
Total liabilities and shareholders' deficiency		**$ 10,318,234**	**$ 13,535,457**

Peter Espig (signed) Director ***Frank Hogel (signed)*** Director

Nature of operations, creditor protection and going concern (Note 1)
Subsequent event (Note 25)

The accompanying notes are an integral part of these consolidated financial statements.

HULDRA SILVER INC.
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Note	Year Ended December 31 2014	2013
Operating Expenses			
Exploration costs	6	$ 1,890,093	$ 4,453,366
Salaries and benefits		241,459	286,440
Share-based compensation expense	16	-	300,418
Professional fees		589,998	767,784
Management fees	17	-	72,000
Consulting fees	17	493,920	483,058
Office and general		28,151	156,895
Travel		12,331	24,650
Regulatory and transfer agent fees		29,000	31,006
Rent	17	41,805	33,935
Vehicle expenses		1,165	9,038
Depreciation		534	1,371
Operating Loss Before Other Items		(3,328,456)	(6,619,961)
Other Items			
Write-down of property, plant and equipment	5, 7	(3,836,988)	(17,787,362)
Write-down of mineral interests	6	(566,534)	-
Foreign exchange gain		-	10,284
CCAA restructuring adjustment	23	3,763,357	-
Mark-to-market adjustment on provisionally priced concentrate sales		-	(1,080,740)
Gravel sales		58,533	30,514
Allowance for receivables		(2,954)	(109,921)
Finance costs	14	(2,992,856)	(6,302,111)
Part X11.6 tax, tax penalties, and indemnification expense		(165,859)	(2,939,515)
CRMC claim	22	(461,099)	-
CMJV claim	23	(1,355,947)	-
Unrealized loss on derivative	18	-	(359,793)
Unrealized gain (loss) on warrant liability	18	(2,232)	1,416,242
Loss before income taxes		(8,891,035)	(33,742,363)
Deferred income tax recovery	24	422,000	-
Net Loss and Comprehensive Loss for the year		(8,469,035)	(33,742,363)
Loss Per Share – Basic and Diluted		$ (0.10)	$ (1.26)
Weighted Average Number of Common Shares Outstanding		85,714,043	26,684,408

Loss per common share has been calculated as if the consolidation of share capital of July 17, 2014 (Note 15a) had been in place for all years reported.

The accompanying notes are an integral part of these consolidated financial statements.

HULDRA SILVER INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31	
	2014	2013
Operating Activities		
Net loss for the year	$ (8,469,035)	$ (33,742,363)
Adjustments for:		
Share-based compensation expense	—	300,418
Write-down of property, plant and equipment	3,836,988	17,787,362
Write-down of mineral interest	566,534	—
Depreciation	303,696	485,820
Allowance for receivables	—	109,921
Non-cash interest expense	2,948,769	5,987,411
Unrealized loss on derivative	—	359,793
Unrealized (gain) loss on warrant liability	2,232	(1,416,242)
Foreign exchange gain	—	(10,284)
Mark to market loss on concentrate sales	—	1,080,740
Part X11.6 tax, tax penalties, and indemnification expense	165,859	2,939,515
CCAA restructuring adjustment	(3,763,357)	—
Deferred income tax recovery	(422,000)	—
CRMC claim	461,099	—
CMJV claim	1,355,947	—
Changes in non-cash working capital items		
Amounts receivable	1,061,031	609,977
Prepaid expenses and other assets	(63,127)	5,703
Accounts payable and other accrued liabilities	(112,928)	1,924,249
Flow-through share obligation	(554,389)	—
Cash and Cash Equivalents Used in Operating Activities	(2,682,681)	(3,577,980)
Investing Activities		
Restricted cash	—	(400,000)
Purchase of property, plant, and equipment	(32,482)	(3,238,309)
Proceeds received from sales related to mill commissioning	—	3,657,888
Cash and Cash Equivalents Provided by (used in) Investing Activities	(32,482)	19,579
Financing Activities		
Repayment of Craigmont mortgage	—	(3,007,649)
Repayment of Waterton debt obligation	—	(6,381,638)
Payments relating to derivative liabilities	—	(397,972)
Convertible debentures, net of cash paid issuance costs	6,622,467	9,561,135
Issuance of common shares, net of cash paid share issuance costs	—	1,081,857
Proceeds from director and employee loans	11,000	130,000
Repayment of director and employee loans	(11,000)	(130,000)
Proceeds from Waterton promissory note	—	500,000
Repayment of Waterton promissory note	—	(500,000)
Proceeds from debtor-in-possession loan, net of cash borrowing costs	1,570,454	1,836,042
Repayment of debtor-in-possession loan	(3,022,341)	—
Cash and Cash Equivalents Provided by Financing Activities	5,170,580	2,691,775
Net change in cash and cash equivalents for the year	2,455,417	(866,626)
Cash and cash equivalents, beginning of year	16,543	883,169
Cash and cash equivalents, end of year	$ 2,471,960	$ 16,543

The significant non-cash transaction for the year ended December 31, 2014 was the issuance of 393,238,592 common shares at a value of $19,661,930 pursuant to the CCAA Restructuring Plan to settle secured and unsecured creditor amounts.

The accompanying notes are an integral part of these consolidated financial statements.

HULDRA SILVER INC.
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Deficit	Total Equity (Deficiency)
Balance, January 1, 2013	**50,855,859**	**$38,693,271**	**$ -**	**$ -**	**$5,580,984**	**($29,188,156)**	**$15,086,099**
Equity offering, net of issuance costs	4,602,535	1,081,857	-	-	-	-	1,081,857
Flow through share premium	-	(19,007)	-	-	-	-	(19,007)
Fair value of broker warrants on equity offering	-	(14,890)	-	-	14,890	-	-
Issuance of convertible debentures	-	-	-	325,038	-	-	325,038
Share-based compensation	-	-	-	-	360,601	-	360,601
Net loss for the year	-	-	-	-	-	(33,742,363)	(33,742,363)
Balance, December 31, 2013	**55,458,394**	**$39,741,231**	**$ -**	**$325,038**	**$5,956,475**	**($62,930,519)**	**($16,907,775)**
Balance, January 1, 2014	**55,458,394**	**$39,741,231**	**$ -**	**$325,038**	**$5,956,475**	**($62,930,519)**	**($16,907,775)**
Reduction on share consolidation	(27,663,800)	-	-	-	-	-	-
Share issuance, restructuring plan	393,238,592	19,661,930	-	-	-	-	19,661,930
Fair value of broker warrants	-	-	-	-	20,578	-	20,578
Issuance of warrants	-	-	1,213,184	-	-	-	1,213,184
Net loss for the year	-	-	-	-	-	(8,469,035)	(8,469,035)
Balance, December 31, 2014	**421,033,186**	**$59,403,161**	**$1,213,184**	**$325,038**	**$5,977,053**	**($71,399,554)**	**($4,481,118)**

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS, CREDITOR PROTECTION AND GOING CONCERN

Huldra Silver Inc. (the “Company” or “Huldra”) is a junior exploration company that until June 26, 2013 was engaged in the business of identification, acquisition and exploration of mineral property interests. The Company’s head office is located at # 610 - 837 West Hastings Street, Vancouver, B.C. Huldra is a publicly listed company incorporated under the Business Corporations Act of British Columbia. The Company is listed on the TSX Venture Exchange (the “TSX-V”) and its common shares trade under the symbol “HDA.V”.

On July 26, 2013, Huldra sought creditor protection under the Companies’ Creditors Arrangement Act (the “CCAA”) and obtained a stay order (the “Initial Order”) from the British Columbia Supreme Court (the “Court”). 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”). Grant Thornton LLP (the “Monitor”) was appointed by the Court as monitor in the proceedings and is 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 extended to November 24, 2014. The Company developed a Plan of Compromise and Restructuring dated August 8, 2014 (the “Plan” or the “Restructuring Plan”) which set out the terms and conditions for the settlement of the proven claims of affected creditors under the CCAA proceedings. The Plan was approved by the affected creditors of the Applicants on September 23, 2014 and by the Court on October 10, 2014. On November 21, 2014, the Company implemented the Plan and the stay of proceedings against the Applicants and their property was lifted (Note 23). Upon implementation, the Plan is binding and effective on all persons affected by the Plan.

As at December 31, 2014, the Company had an accumulated deficit of $71,399,554 (2013 - $62,930,519) and a working capital deficiency of $5,599,890 (2013 - $27,798,039). These factors represent a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. In order to continue operations, the Company will be required to raise funds through the issuance of equity or debt, or be successful recommencing operations at the Treasure Mountain Project 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 consolidated financial statements for the year ended December 31, 2014 were prepared using International Financial Reporting Standards (“IFRS”), as applied by the Company prior to the filing for CCAA. While the Applicants filed for and were granted creditor protection, these consolidated 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 provided the Company with a period of time to stabilize its operations and financial condition and develop a Restructuring Plan, which was implemented on November 21, 2014. The Company continues to have significant payment obligations under the Plan.

Management believes that these actions continue to make the going concern basis appropriate. However, it is not possible to predict whether the Company will be able to raise the working capital required to satisfy the remaining payment obligations under the Plan or recommence operations at the Treasure Mountain Project and the Merritt Mill 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 the 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 to satisfy the remaining payment obligations under the Plan or recommence operations, the Company could be forced into bankruptcy and result in the liquidation of all of the Company’s assets.

1. NATURE OF OPERATIONS, CREDITOR PROTECTION AND GOING CONCERN (cont'd)

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.

2. BASIS OF PRESENTATION

a) Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of Huldra have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been authorized for release by the Company's Board of Directors on April 13, 2015.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Huldra Holdings Inc. (formerly 0906262 B.C. Ltd.), ("Huldra Holdings"), 0913103 B.C. Ltd., Huldra Properties Inc. (formerly Craigmont Holdings Ltd.), and Thule Copper Corporation. All inter-company balances and transactions are eliminated on consolidation.

c) Basis of Measurement

These consolidated financial statements are presented in Canadian dollars, which is also the Company's and all its subsidiaries functional currency and have been prepared on a historical cost basis, except for the Waterton related derivative liabilities and the warrant liability, all of which are carried at fair value.

d) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments and estimates which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The judgments that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

i) Determination that the Company is in the exploration stage

As at and during the years ended December 31, 2014 and 2013, a majority of the Company's mineral resources are inferred whereby the economic viability of such resources cannot be determined. Accordingly, the removal of mill feed from the Company's Treasure Mountain mine was considered exploration and evaluation activity, and as such, all costs associated with the removal of this mill feed are expensed as exploration costs.

ii) Impairment

As of June 26, 2013, the Company put its mine and mill on care and maintenance. In the preparation of these consolidated financial statements, certain indicators of potential impairment were identified, and a review of the carrying amounts of non-current non-financial assets has been carried out as a result. See Note 7 for details on the significant judgments, estimates and assumptions applied in carrying out this review.

2. BASIS OF PRESENTATION (cont'd)

iii) Commencement of commercial production

During the commissioning of the Company's mill, costs incurred are capitalized as property, plant and equipment, and any consideration from commissioning sales are offset against costs capitalized. The Company announced that as of March 26, 2013, it had achieved commercial production of the mill based on the then current production levels. On June 26, 2013, the Company's mill operations were placed on care and maintenance.

The significant areas requiring the use of management estimates relate to the estimated metal contained in the Company's concentrate shipments, the estimated provisional pricing, the assumptions used in assigning value to the land, permits, and mineral rights acquired upon the acquisition of Craigmont Holdings Ltd., the valuation of the Waterton debt obligation, the valuation of the warrants issued to Waterton, the estimated useful lives of the mineral interest and milling and other permits, the estimate of the asset retirement obligation, the estimate of flow-through obligations, and the assumptions used in determining the fair value of share based compensation.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit with banks, and highly liquid short term interest bearing investments which are subject to an insignificant risk of change in value. Cash and cash equivalents consists of cash of $971,960 (2013 - $16,543) and a cashable guaranteed investment certificate of $1,500,000 (2013 - $nil).

b) Restricted Cash

Cash is considered to be restricted as it is subject to rights of a government agency.

c) Property, Plant and Equipment

On initial recognition, property, plant and equipment ("PPE") are valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

PPE is subsequently stated at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of operations and comprehensive loss during the financial period in which they are incurred.

The Company allocates the amount initially recognized in respect of an item of PPE to its significant parts and depreciates separately each part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized within operating expenses in the statement of operations and comprehensive loss. During the period, no depreciation was recognized on the mill or milling permits.

PPE are depreciated using the following methods:

Automotive equipment	30% declining balance
Camp and other site infrastructure	5 years straight line
Furniture and office equipment	20% declining balance
Computers	20% declining balance
Heavy machinery and equipment	5 years straight-line

d) Impairment of Non-financial Assets

At the date of each statement of financial position, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of operations and comprehensive loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of operations and comprehensive loss.

e) Mineral Interests

The Company follows the method of accounting for its mineral interests whereby all costs related to acquisition and site restoration are capitalized by project, net of recoveries received. The amounts shown as mineral interests represent costs incurred to date less amounts written off, and do not necessarily represent present or future values. These costs will be amortized against revenue from future production or written off if the interest is abandoned or sold. The ultimate recoverability of amounts capitalized for mineral interests is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete development and realize profitable production or proceeds from the disposition thereof.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Management's estimates of recoverability of the Company's investment in various mineral interests have been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

f) Exploration and Evaluation Expenditures

Exploration and evaluation expenditures ("E&E") excluding mineral interest acquisition and site restoration costs are charged to the statement of operations and comprehensive loss as incurred. When it has been established that a mineral deposit is commercially mineable and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), the costs subsequently incurred to develop the mine on the property prior to the start of the mining operations are capitalized. Any recoveries received that relate to exploration costs are recorded as a recovery of such costs.

g) Sales of Concentrate

Amounts associated with the sale of concentrate are recognized when all significant risks and rewards of ownership of the concentrate are transferred to the customer. This occurs when the concentrate has been delivered to the customer and collectability is reasonably assured. The sales relating to the mill feed used during the mill commissioning process are credited against the cost of the mill. All other sales are recognized as a recovery of exploration costs given that the Company has not yet completed a positive economic analysis of its mineral interests.

The Company's concentrate sales contracts provided for a provisional payment based upon provisional assays and quoted metal prices. Final settlement is based on applicable commodity prices set on specified quoted periods, which occur two months after the shipment arrives at the smelter and is based on average metal prices. For this purpose, the selling price can be measured reliably for the Company's silver, lead, and zinc sales as there exists an active and freely traded commodity exchange such as the London Metals Exchange and the value of product sold by the Company is directly linked to the form in which it is traded on that market.

Sales amounts are commonly subject to adjustments based on an inspection of the product by the customer. In such cases, the sales amount is initially recognized on a provisional basis using the Company's best estimate of contained metal, and adjusted subsequently. The amounts recognized on provisionally priced sales are recognized as estimates of the fair value of the consideration receivable based on forward market prices. At each reporting date, provisionally priced metal is marked to market based on the forward selling price for the quoted period stipulated in the contract. Variations between the price recorded at the shipment date and the actual final price set under the smelting contracts are caused by changes in metal prices and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with the fair value adjustments recognized in the statement of operations and comprehensive loss as mark to market adjustments on provisionally priced contracts.

Treatment charges under the Company's concentrate sales agreement are netted against the sales amount recognized based on the estimated value of the contained metal.

h) Financial Instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial assets

Financial assets are classified into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss. The Company classifies cash and cash equivalents and restricted cash as fair value though profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. They are carried at amortized cost using the effective interest rate method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company's amounts receivable are included in this category of financial assets.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss. At December 31, 2014, the Company has not classified any financial assets as held-to-maturity investments.

Available-for-sale investments - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized as other comprehensive income and classified as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss. When financial assets classified as available-for-sale are sold, the accumulated fair-value adjustments recognized in other comprehensive income are included in the statement of operations and comprehensive loss. At December 31, 2014, the Company has not classified any financial assets as available-for-sale.

All financial assets except for those classified as fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fair value through profit or loss - This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss. At December 31, 2014, the Company has classified the warrant liability associated with the Waterton debt in this category.

Other financial liabilities - This category includes accounts payable and accrued liabilities, secured creditors payable, Waterton debt, DIP Loan obligation, convertible debentures, secured convertible debentures and flow-through obligation, all of which are recognized at amortized cost using the effective interest method.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized in the statement of operations and comprehensive losses immediately, while transaction costs associated with all other financial instruments are included in the initial measurement of the financial instrument.

i) Share Capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of tax, from the proceeds.

j) Share-based Payments

The Company has a stock option plan (the "Stock Option Plan") that is described in Note 16a). The Stock Option Plan allows directors, officers, employees and consultants of the Company to acquire shares of the Company. The fair value of stock options granted is recognized as an employee or consultant expense with a corresponding increase in shareholders' equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Options issued to Employees and others providing similar services

The fair value of employee stock options are measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the stock options vest. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the stock option, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the stock option.

Options issued to Non-Employees

Options issued to non-employees are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services cannot be estimated reliably, the stock options are measured by determining the fair value of the stock options granted, using a Black-Scholes option pricing model.

k) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also directly recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred tax is provided for using temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent it becomes probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset, and they relate to the income taxes levied by the same tax authority and the Company intends to settle current tax liabilities and assets on a net basis or their tax assets and tax liabilities will be realized simultaneously.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

l) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as finance costs in the statement of operations and comprehensive loss.

m) Asset Retirement Obligation

The Company records the present value of estimated costs of legal and constructive obligations required to restore the site in the period in which the obligation is incurred. The nature of these restoration activities include dismantling and removing structures, rehabilitating mines and the tailings dam, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The obligation for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Since the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

As the estimate of the obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The present value of decommissioning and site restoration costs are recorded as a non-current liability. The provision is discounted using a real, risk free pre-tax discount rate. Charges for accretion and restoration expenditures are recorded as operating activities. In subsequent periods, the carrying amount of the liability is accreted by a charge to the statement of operations and comprehensive loss to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the decommissioning provision, and a corresponding change in the carrying amount of the related long-lived asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, or provision is made for the estimated outstanding continuous rehabilitation work at each statement of financial position date the cost is charged to the statement of operations and comprehensive loss.

Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against the statement of operations and comprehensive loss as extraction progresses.

n) Flow-Through Shares

Current Canadian tax legislation permits mining entities to issue flow-through shares to investors. Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to exploration and evaluation expenditures may be claimed by investors instead of the entity. The issue of flow-through shares is in substance an issue of ordinary shares and the sale of tax deductions. At the time the Company issues flow-through shares, the sale of tax deductions is deferred and presented as other liabilities in the statement of financial position to recognize the obligation to incur and renounce eligible resource exploration and evaluation expenditures. The tax deduction is measured as the difference between the current market price of the Company's common shares and the issue price of the flow-through shares. Upon incurring and renouncing eligible resource exploration and evaluation expenditures, the Company recognizes the sale of tax deductions as a flow-through share premium on the statement of operations and comprehensive loss and reduces the liability.

o) Flow-Through obligation

Flow-through obligations are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring on a timely basis the appropriate amount of qualifying exploration expenditures required related to past flow-through share issuances. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made required exploration expenditures.

Flow-through obligations have been created based on the Company's internal estimates of the maximum tax penalties and indemnification liabilities the Company could be subject to. Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future liability.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

p) Loss per Share

Basic and diluted loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share does not adjust the loss attributable to common shareholders when the effect is anti-dilutive.

As the Company incurred net losses for all periods presented, the stock options and share purchase warrants, as disclosed in Notes 16 and 15 respectively, were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

q) Related Party Transactions

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

r) Operating Segments

The Company operates in one segment being the exploration and development of its mineral exploration properties. All of the Company's assets are located in Canada.

s) New Standards, Amendments and Interpretations not yet effective

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 of 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 amendments are tentatively effective for annual periods beginning on or after January 1, 2018. The Company will continue to evaluate the impact of this standard on its consolidated financial statements.

4. AMOUNTS RECEIVABLE

	December 31, 2014	December 31, 2013
Other receivables	$ 29,330	$ 40,303
HST receivable (net)	29,439	61,096
METC receivable	-	1,018,401
	$ 58,769	**$ 1,119,800**

On July 22, 2014, the Company received $687,074 from the Canada Revenue Agency ("CRA"). The amount represented payment of the British Columbia Mineral Exploration Tax Credit (METC) receivable in the amount of $1,018,401 along with interest of $14,838. The remaining $346,165 was offset by CRA against the Company's flow-through share obligation as described in Note 19.

5. PROPERTY, PLANT AND EQUIPMENT

	Land and Permits $	Camp and Other Site Infrastructure $	Mill Feed Processing Mill & Construction $	Heavy Machinery and Equipment $	Computers $	Furniture and Office Equipment $	TOTAL $
Cost							
Balance at January 1, 2013	8,343,523	718,406	19,336,675	1,811,826	46,916	4,731	30,262,077
Additions	39,526	—	3,025,684	73,007	—	—	3,138,217
Disposals	—	—	(6,840)	—	—	—	(6,840)
Recoveries from sales of concentrate	—	—	(3,820,821)	—	—	—	(3,820,821)
Write-downs	(1,300,939)	(476,138)	(15,889,009)	(578,797)	—	—	(18,244,883)
Balance at December 31, 2013	7,082,110	242,268	2,645,689	1,306,036	46,916	4,731	11,327,750
Additions	—	—	—	32,482	—	—	32,482
Write-downs	(1,772,110)	(242,268)	(1,904,714)	(214,808)	(33,478)	—	(4,167,378)
Balance at December 31, 2014	5,310,000	—	740,975	1,123,710	13,438	4,731	7,192,854
Accumulated Depreciation							
Balance at January 1, 2013	—	191,077	—	507,199	5,807	1,641	705,724
Depreciation for the year	—	110,852	—	366,770	7,626	572	485,820
Write-downs	—	(194,078)	—	(263,443)	—	—	(457,521)
Balance at December 31, 2013	—	107,851	—	610,526	13,433	2,213	734,023
Depreciation for the year	—	36,404	—	260,612	6,212	468	303,696
Write-downs	—	(144,255)	—	(172,628)	(13,507)	—	(330,390)
Balance at December 31, 2014	—	—	—	698,510	6,138	2,681	707,329
Carrying Amounts							
At January 1, 2013	8,343,523	527,329	19,336,675	1,304,627	41,109	3,090	29,556,353
At December 31, 2013	7,082,110	134,417	2,645,689	695,510	33,483	2,518	10,593,727
At December 31, 2014	5,310,000	—	740,975	425,200	7,300	2,050	6,485,525

5. PROPERTY, PLANT AND EQUIPMENT (cont'd)

On May 5, 2011, the Company completed the definitive strategic acquisition agreement dated March 30, 2011 with Craigmont Holdings Ltd. ("Craigmont") and a wholly owned subsidiary of the Company whereby the Company acquired 100% of the shares of Craigmont. The Company paid the vendors consideration consisting of cash of $500,000, the issuance of 372,000 shares of the Company with a value of $500,000 and the granting of a non-interest bearing vendor mortgage where $3,000,000 was payable on January 31, 2012 and $3,100,000 (net of estimated environmental remediation costs of $900,000) was payable on January 31, 2013. Because the vendor mortgage was non-interest bearing, the Company discounted the repayment amounts at a discount rate of 14%, such that the amount recorded for the mortgage on the date of the transaction was $5,164,724. This value has been accreted to face value and capitalized as a borrowing cost relating to the acquisition of the assets acquired at a rate of 14% over the term of the mortgage. During the year ended December 31, 2014, $nil (2013 - $39,526) of interest on this mortgage has been capitalized.

On January 31, 2012, the repayment terms of the vendor mortgage were amended whereby the first installment of $800,000 was paid on January 31, 2012 and the second installment of $2,200,000 was paid in two payments of $500,000 on May 24, 2012 and $1,700,000 on June 29, 2012.

On February 12, 2013, the Company entered into a second amending agreement whereby the final payment was extended and made in three equal payments as follows: $1,000,000 on or prior to February 12, 2013; $1,000,000 on or prior to February 28, 2013; and $1,100,000 on or prior to April 1, 2013 (net of agreed upon estimated remediation costs of $900,000) less any payment made to the vendor from gravel sales during the period from May 5, 2011 to January 31, 2013. All payments were made; the final payment was made in April 2013 (included 5% interest from February 12, 2013) and the mortgage and related security interest on the Craigmont Property were discharged.

The Company has recognized the estimated environmental remediation costs associated with the site as part of its retirement obligation (see Note 8).

During fiscal 2014, the Company took an impairment write-down of its PPE of $3,836,988 (2013 - $17,787,362) (see Note 7).

6. MINERAL INTERESTS

The Company holds a 100% interest in 38 mineral claims at the Treasure Mountain property, located near Hope, British Columbia. In May 2011, the Company acquired a 100% interest in 20 mineral claims and 10 mineral leases through its 100% share acquisition of Craigmont.

In connection with and as partial consideration for the DIP Loan (see Note 10), 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.

During the year ended December 31, 2014, due to limited activity, the Company took an impairment write-down of $566,534 in relation to its Treasure Mountain property. The project remains in good standing, and further carrying charges and evaluation costs are being charged to the consolidated statement of operations and comprehensive loss as an operating expense.

The Company's group of claims consists of the following:

		December, 2014 $	December 31, 2013 $
a)	The Treasure Mountain group of claims located in the Similkameen Mining Division of British Columbia	1	7,500
b)	A Crown Grant mineral claim (Lot 1210) in the Yale Mining Division contiguous to the Treasure Mountain Claims known as the "Eureka"	1	14,437
c)	The surface rights to Lot 1209 located in the Yale Mining Division of British Columbia known as the "Whynot Fraction"	1	39,500
d)	Provision for Treasure Mountain reclamation	-	505,100
		3	566,537

6. MINERAL INTERESTS (cont'd)

Cumulative exploration costs (including care and maintenance costs) incurred are as follows:

	Year Ended December 31,	
	2014 $	2013 $
EXPLORATION COSTS, beginning of year	22,809,372	18,356,006
Costs incurred during the year		
Engineering	12,420	107,710
Insurance	75,612	62,155
Meals and travel living allowance	9,668	2,801
Property tax	207,593	219,683
Assessment work and assay costs	-	106,741
Exploration supplies and camp expenses	148,621	604,667
Water sampling	36,785	51,194
Salaries and benefits	753,038	2,157,604
Termination benefits	-	121,561
Construction planning	-	14,750
Fuel and propane	146,760	506,740
Vehicle and equipment expense	19,277	89,440
Depreciation	303,162	484,450
Permitting	6,455	23,441
Road rehabilitation	-	113,075
Drilling	-	407,051
Outsourced labor	71,921	186,375
Tenure lease	13,667	13,647
Freight	14,658	4,908
Equipment rentals	70,325	221,012
Geological	131	144,451
Geotechnical	-	16,933
Explosives	-	168,021
Trucking expense	-	626,010
Mill feed processing expense	-	2,184,497
Recovery of costs	-	(4,185,551)
Total costs incurred during the year	1,890,093	4,453,366
CUMULATIVE EXPLORATION COSTS, end of year	24,699,465	22,809,372

7. IMPAIRMENT

The Company's mill and mine have been under care and maintenance since June 26, 2013, which is a potential indicator of impairment of the carrying amount of its non-current non-financial assets. As a result, the Company carried out a review of the carrying amounts of the non-current non-financial assets. The Company had taken the view that mine and mill are determined to be a single cash generating unit ("CGU") for this purpose.

The remaining carrying value of PPE (see Note 5) represented the Company's best estimate of aggregate recoverable value which has been determined based on fair value less costs to sell. The fair value of each significant asset was determined separately by the Company. The fair value of the mill and related lands was determined with references to related independent valuations and values of recent sales of similar used equipment. For fiscal 2013, the fair value of the mill and related lands was based on an April 2014 purchase offer of $8,000,000 that did not complete. The fair value of the heavy machinery and equipment and remaining land was based on both independent valuations and values of recent sales of similar assets.

Based on its review, the Company recognized a year to date impairment loss at December 31, 2014 in the amount of $3,836,988 (2013 - $17,787,362).

Any significant negative change in the key assumptions made in determining the recoverable amount could result in an additional impairment loss.

8. ASSET RETIREMENT OBLIGATION

As part of the acquisition of Craigmont, the Company assumed the asset retirement obligation relating to the Craigmont property. Management estimated the cost to remediate the Craigmont property on the date of acquisition (as expressed in current dollars at the time of the acquisition) at $900,000. As the Company intends to settle the obligation at the end of the estimated useful life of the mill of 30 years, the Company has discounted the estimated costs using a real discount rate of 0% since the inflation rate and risk free rate are very similar.

As at December 31, 2014, there has been no change in either the estimated costs to settle the obligation or the real discount rate. In order to obtain its milling permits, the Company posted collateral of $230,000 with the government in May 2012 and posted further collateral of $400,000 in March 2013.

The Company's asset retirement obligation associated with the Treasure Mountain property is calculated as the net present value of estimated future net cash outflows of the reclamation costs, which at December 31, 2014 totaled $505,100 (2013 - $505,100) and are required to satisfy the obligations, discounted using a real discount rate of 0% per annum (2013 – 0% per annum). The settlement of the obligation is currently expected to occur in 2017.

In order to obtain its final permits, the Company posted collateral of $505,100 with the government of British Columbia.

9. RESTRICTED CASH

The Company has in place deposits amounting to $1,135,100 as at December 31, 2014 (2013 - $1,135,100) registered in the name of the British Columbia Ministry of Finance as security for its mining permit and for reclamation clean up at both the Treasure Mountain property and the Merritt Mill property.

10. WATERTON DEBT

Credit Agreement

On June 16, 2011, the Company entered into a credit agreement (the "Credit Agreement") with Waterton Global Value, L.P. ("Waterton") pursuant to which Waterton agreed to make a $10,000,000 credit facility (the "Credit Facility") available to the Company, which could be drawn down, at the Company's option, in up to four advances at any time up until May 31, 2012. All amounts were originally to be repaid on a monthly basis during the period from May 2012 to April 2013.

In connection with the entry into the Credit Facility, the Company and its wholly owned subsidiary, Huldra Holdings, agreed to grant Waterton security over substantially all of their respective assets to secure the repayment obligations under the Credit Facility. The Credit Facility is secured by guarantees provided by each of the Company and Huldra Holdings and general security agreements with the Company and Huldra Holdings pursuant to which Waterton holds a security interest in all present and after-acquired personal property of the Company and Huldra Holdings; and a debenture pursuant to which Waterton holds a charge over the real property and mineral claims comprising the Treasure Mountain property.

The credit facility was drawn down by the Company in four instalments - June 17, 2011 - $3,000,000, July 28, 2011 - $2,000,000, January 17, 2012 - $2,500,000, and May 23, 2012 - $2,500,000.

Each drawdown had transaction costs associated with it which have been deducted from the proceeds received to determine an initial face value of the debt. The debt is then accounted for on an amortized cost basis using the effective interest rate method.

The Credit Agreement was amended, modified, supplemented, extended and restated from time to time up until June 28, 2013 at which time the Company and Waterton entered into a Waiver of Default Letter. The letter outlined the amount owing to Waterton as at June 28, 2013 as $7,234,363 and consists of: base payments, finance costs, silver adjustment provision, restructuring and amendment fees, and partial May 2013 outstanding payment.

Under the CCAA proceedings (see Notes 1 and 23) Waterton submitted a claim as a secured creditor of the Company for $7,234,363.

The Credit Facility, as amended, and together with the Settlement Agreement requires the Company to satisfy certain covenants so long as any amounts owing under the Credit Agreement remains unpaid or the Company has any obligation under the Credit Agreement.

Debtor in Possession ("DIP") Loan

The Company entered into a DIP Credit Agreement dated August 15, 2013 (the "DIP Credit Agreement") with Waterton, the primary secured creditor of the Company. The DIP Loan was authorized by an initial order of the Court pursuant to the CCAA proceedings (Note 1).

10. WATERTON DEBT (cont'd)

Under the terms of the DIP Credit Agreement, the DIP Loan was advanced by Waterton by way of a first advance, which was advanced in several tranches, of up to $2,300,000 in aggregate (collectively, the "First Advance") and a second advance (at Waterton's sole 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").

From August 16, 2013 until November 20, 2014, the Company borrowed principal amounts utilizing sixteen tranches under the First Advance of the DIP Loan totaling $3,591,589. The Company incurred finance costs in the amount of $1,880,079 related to the DIP Loan. The Company has determined the value of the Silver Adjustment Provision to be immaterial. On July 25, 2014, the Company repaid $146,013 towards the repayment of the DIP Loan, which included $260 in interest.

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 to secure an indemnity and a lien with respect to certain of the Company's leased premises in an amount up to $25,000. 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 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 being rendered against the Company, certain events happening in the CCAA proceeding and a number of other enumerated events.

On November 20, 2014, in connection with the Restructuring Plan (Note 23), the Company entered into a settlement agreement with Waterton to settle an aggregate of $12,367,460 owing to Waterton consisting of $7,234,363 relating to the Credit Agreement and $5,133,097 to the DIP Loan. Under the settlement, a cash payment of $2,876,328 was made to Waterton as well as the issuance of 108,992,918 common shares at a value of $5,449,646. In addition, $1,500,000 will be paid within six months (paid January 2015) and $2,500,000 within twelve months of the Restructuring Plan implementation date. The Company will pay Waterton interest at 3% per annum. Upon repayment of these amounts, the Royalty Agreement (Note 6) will be terminated and all security interests in the assets and property of Huldra and its subsidiaries will be discharged.

The change in the Waterton debt obligation is summarized as follows:

	2014	2013
Opening balance	$ 7,294,815	$ 10,448,380
Finance costs (Note 14)	328,092	2,858,759
Reclassification of derivative liability	-	369,314
Restructuring adjustment	(382,529)	-
Repayments	-	(6,381,638)
Repayments – Plan (Note 23)	(5,449,646)	-
	$ 1,790,732	$ 7,294,815

10. WATERTON DEBT (cont'd)

The $1,790,732 is included in the balance of secured creditors payable at December 31, 2014.

The change in the Waterton DIP Loan obligation is summarized as follows:

	2014	2013
Opening balance	$ 2,864,335	$ -
Drawdowns, net of transaction costs	1,570,454	1,836,042
Finance costs (Note 14)	851,786	1,028,293
Restructuring adjustment	(41,486)	-
Repayments	(146,013)	-
Repayment – Plan (Note 23)	(2,876,328)	-
	$ 2,222,748	$ 2,864,335

11. 2013 FINANCINGS

On May 31, 2013, the Company announced that it intended to issue up to 3,300,000 units (each, a "NFT Unit") at a price of $0.30 per NFT Unit for gross proceeds of up to $990,000 and up to 7,500,000 units (each, a "FT Unit") at a price of $0.40 per FT Unit for gross proceeds of up to $3,000,000. Each NFT Unit consisted of one common share and one non-transferable common share purchase warrant, with each warrant entitling the holder to acquire one share at a price of $0.40 per share for a period of two years from the closing of the offering. Each FT Unit consisted of one flow-through share and one-half of one non-transferable common share purchase warrant, with each warrant entitling the holder to acquire one share at a price of $0.50 per share for a period of two years from the closing of the offering.

On June 7, 2013, the Company announced that it amended the terms of the private placement announced May 31, 2013. The revised terms provide for the issuance of up to 8,000,000 NFT Units at a price of $0.25 per NFT Unit for gross proceeds of up to $2,000,000 and up to 10,000,000 FT Units at a price of $0.30 per FT Unit for gross proceeds of up to $3,000,000. Each NFT Unit consisted of one common share of the Company and one non-transferable common share purchase warrant, with each warrant entitling the holder to acquire one share at a price of $0.35 per share for a period of three years from the closing of the offering. Each FT Unit consisted of one common share of the Company, issued on a "super flow-through" basis and seven-tenths of one non-transferable common share purchase warrant (each whole warrant, a "FT Warrant"), with each FT Warrant entitling the holder to acquire one share at a price of $0.40 per FT Warrant share for a period of three years from the closing of the offering.

The Company closed aggregate subscriptions of $1,198,150, consisting of 3,652,200 NFT Units at a price of $0.25 per NFT Unit and 950,335 FT Units at a price of $0.30 per FT Unit in several tranches. Finder's fees in the aggregate amount of $79,092 were paid in connection with the offering as well as other costs of $37,201. A total of 312,763 finder's warrants were issued to finders in connection with the offering. Each finder's warrant is exercisable into one common share of the Company at $0.40 per share for a period of two years from the closing of each tranche of the offering, as applicable. The fair value assigned to the finder warrants was $14,890.

12. CONVERTIBLE DEBT

The Company completed a private placement of unsecured convertible debentures (the "Unsecured Debentures") in various tranches between February 8, 2013 and February 21, 2013, for aggregate gross proceeds of $10,003,800. The principal amounts of the Unsecured Debentures matured twelve (12) months after issuance and accrued interest at 16% per annum.

12. CONVERTIBLE DEBT (cont'd)

The principal amount of the Unsecured Debentures were convertible into common shares of the Company at a price of $1.05 per share, and any accrued but unpaid interest thereon were convertible into shares at the greater of (i) $1.05 per share and (ii) the Market Price (as defined in the policies of the TSX-V) per share at the time of any notice of conversion.

The Unsecured Debentures were compound instruments and the proceeds were required to be bifurcated. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 20%. The initial fair value of the debt was calculated to be $9,678,762 with the residual portion of $325,038 allocated to equity. Transaction costs of $447,459 offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the Unsecured Debentures.

	2014	2013
Opening balance	$ 11,335,223	-
Principal amount	-	$ 10,003,800
Less equity component of convertible note	-	(325,038)
Less transaction costs	-	(447,459)
Accrued interest	1,439,599	1,404,108
Accretion	53,899	699,812
Restructuring adjustment	(2,192,008)	-
Repayments – Plan (Note 23)	(10,636,713)	-
	$ -	$ 11,335,223

On November 21, 2014, pursuant to the Restructuring Plan (Note 23) the Company issued 212,734,249 shares at a value of $10,636,713 to settle the Unsecured Debentures.

13. SECURED CONVERTIBLE DEBENTURE

On October 6, 2014, Huldra launched a private placement of secured convertible debentures (the "Debentures") to raise gross proceeds of up to $8,000,000 (the "Offering"). The Offering is expected to be completed in multiple tranches, with the first tranche of the Offering (the "First Tranche") raising minimum gross proceeds of $5,000,000.

On November 21, 2014, the Company closed the First Tranche by the issuance of Debentures having an aggregate principal amount of $7,000,882 and the issuance of 35,004,410 share purchase warrants (the "Warrants").

The First Tranche Debentures bear interest at a rate of 10% per annum, which is payable annually as 50% in cash and 50% by the issuance of common shares of the Company, at a price equal to the market price at time of issuance. The First Tranche Debentures will mature three years after the date of issuance (the "Maturity Date"), and the principal amount of the First Tranche Debentures, together with any accrued and unpaid interest is payable on the Maturity Date. The principal amount of the First Tranche Debentures is convertible into shares prior to the Maturity Date, at the option of the holder, at a price of $0.055 per share. Each Warrant is exercisable into one additional share (each, a "Warrant Share") for four years from the date of issuance of the Warrant at an exercise price of $0.075 per Warrant Share in the first year and $0.10 per Warrant Share thereafter. The repayment of the outstanding principal and interest of the First Tranche Debentures will be secured against the assets of Huldra but will rank subordinate to the debt owed to Waterton (Note 10) until such time as the debt owing to Waterton is repaid in full. Upon repayment by the Company of all amounts owed to Waterton, the holders of the First Tranche Debentures will be granted an aggregate 2% net smelter returns royalty with respect to the Company's Treasure Mountain mine.

13. SECURED CONVERTIBLE DEBENTURE (cont'd)

For accounting purposes the proceeds received of $7,000,882 have been allocated based on the relative fair values of the debt and Warrants. The fair value of the debentures was determined to be $5,266,867 using a discount rate of 20%. The fair value of the Warrants was determined to be $1,734,015. There is no residual value to be allocated to the equity component of the convertible debenture. Transaction costs of $300,163 and $98,831 have been allocated pro-rata to the debentures and Warrants. In addition, the resulting deferred tax liability of $422,000 has been charged to the Warrants.

In connection with closing of the First Tranche, the Company paid cash finder's fees of $22,960 and issued finder's warrants (each, a "Finder's Warrant") with a total fair value of $20,578 to purchase an aggregate of 417,455 shares. The terms of the Finder's Warrants are the same as the terms of the Warrants. For purposes of the calculation of the fair value associated with the Warrants and Finder's Warrants, the following assumptions were used for the Black-Scholes model: (Risk-free interest rate – 1.32%, Expected life – 4 years, Expected annual volatility - 144.87%, Expected dividends – Nil, Expected forfeiture rate – Nil).

The proceeds of the First Tranche have been used to settle amounts owed to certain creditors of the Company in accordance with the Plan, to further the Company's post-restructuring business plan and for general working capital purposes.

	2014
Principal amount	$ 5,266,867
Less transaction costs	(300,163)
Accrued interest	118,814
Accretion	11,238
	$ 5,096,756

14. FINANCE COSTS

	2014	2013
Waterton pre-filing debt obligation (Note 10)	$ 328,092	$ 2,858,759
Waterton DIP Loan obligation (Note 10)	851,786	1,028,293
Convertible notes (Note 12)	1,493,498	2,103,920
Secured convertible notes (Note 13)	130,052	-
Other	189,428	311,139
	$ 2,992,856	$ 6,302,111

15. SHARE CAPITAL AND RESERVES

a) Common Shares

Authorized

The authorized capital stock of the Company is an unlimited number of common shares without par value.

Issued

Common shares issued and outstanding at December 31, 2014 are 421,033,186 (2013 – 55,458,394).

15. SHARE CAPITAL AND RESERVES (cont'd)

On July 17, 2014, the Company effected a consolidation of its outstanding common shares on the basis of two (2) pre-consolidation shares for one (1) post-consolidation share leaving 27,794,594 shares giving effect to rounding and other adjustment.

On November 21, 2014, the Company satisfied all of the conditions to implementation of the Plan, and the Monitor filed a Certificate of Plan Implementation with the Court under the CCAA proceedings. The Company implemented the Plan by issuing 114,368,382 shares to the secured creditors and 278,870,210 shares to the unsecured creditors at $0.05 per share for $5,718,419 and $13,943,511 respectively.

b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2013 to December 31, 2014:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2013	13,231,490	$ 1.39
Issued warrants	5,315,598	$ 0.36
Expired warrants	(7,503,400)	$ 1.33
Cancelled warrants	(685,400)	$ 0.39
Balance at December 31, 2013	10,358,288	$ 0.97
Expired warrants (pre-consolidation)	(343,848)	$ 1.08
Reduction on share consolidation	(5,007,220)	$ 2.08
Issued warrants (post-consolidation)	35,421,865	$ 0.09
Expired warrants (post-consolidation)	(1,417,121)	$ 3.37
Balance at December 31, 2014	39,011,964	$ 0.15

As at December 31, 2014, the Company had outstanding warrants as follows:

Security	Number	Exercise Price	Expiry Date
Warrants	60,220	$0.80	June 13, 2015
Warrants	39,510	$0.80	June 17, 2015
Warrants	27,652	$0.80	June 18, 2015
Warrants	29,000	$0.80	June 20, 2015
Warrants	936,250	$0.70	June 13, 2016
Warrants	114,100	$0.80	June 13, 2016
Warrants	450,000*	$2.56	June 16, 2016
Warrants	269,200	$0.70	June 17, 2016
Warrants	157,267	$0.80	June 17, 2016
Warrants	345,650	$0.70	June 18, 2016
Warrants	275,000	$0.70	June 20, 2016
Warrants	61,250	$0.80	June 20, 2016
Warrants	325,000*	$2.42	January 17, 2017
Warrants	500,000	$2.60	May 23, 2017
Warrants	35,421,865**	$0.075/$0.10	November 21, 2018
	39,011,964		

15. SHARE CAPITAL AND RESERVES (cont'd)

*On the third anniversary of the issuance date of the warrants, the exercise price will increase by 20% provided that, and only if (i) during the prior full fiscal year the Company has produced a minimum of 1.25 million silver equivalent ounces, and (ii) the settlement price of silver (Bloomberg: SLVRLN) during the prior 90 days is at least $35. The adjustment shall take effect as of the first day of the Company's next fiscal quarter following the second anniversary of the issuance date of the relevant warrants. Because the exercise price of the warrants is dependent in part, on the price of silver, the warrants are classified as derivative liabilities.

**Exercise price in the first year is $0.075 and in the second, third and fourth year the exercise price is $0.10.

16. SHARE-BASED PAYMENTS

a) Stock Option Plan

The Company's Board of Directors approved the adoption of the Stock Option Plan in accordance with the policies of the TSX-V. The Board of Directors is authorized to grant stock options to directors, officers, consultants or employees. The exercise price of stock options granted under the Stock Option Plan shall be as determined by the Board of Directors when such stock options are granted, subject to any limitations imposed by any relevant stock exchange or regulatory authority.

The Company shall not grant stock options under the Stock Option Plan which will, when exercised, exceed 10% of the issued and outstanding shares, and further subject to the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the TSX-V, provided that the number of shares reserved for issuance, within any twelve-month period:

i) to any one option holder shall not exceed 5% of the total number of issued shares;

ii) to any one consultant shall not exceed 2% in the aggregate of the total number of issued shares, and

iii) to all persons employed or engaged to provide investor relations activities shall not exceed 2% in the aggregate of the total number of issued shares. In addition, stock options issued to consultants performing investor relations activities must vest in stages over 12 months with no more than ¼ of the options vesting in any three-month period.

If any stock option expires or otherwise terminates for any reason without having been exercised in full, the number of shares which would have been acquired on the exercise of such stock option shall again be available for the purposes of the Stock Option Plan.

16. SHARE-BASED PAYMENTS (cont'd)

The following is a summary of changes in stock options from January 1, 2013 to December 31, 2014:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2013	4,066,500	$ 1.22
Issued options	500,000	0.95
Expired options	(2,100,000)	1.13
Balance at December 31, 2013	2,466,500	1.25
Expired options	(151,500)	1.40
Reduction on share consolidation	(1,157,500)	2.47
Balance at December 31, 2014	1,157,500	$ 2.47

The Company's 2014 annual general and special meeting of its shareholders was held on February 26, 2015. At such meeting, the motion to permit the Stock Option Plan to continue as a rolling plan was approved.

As at December 31, 2014, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Contractual Life (Years)	Expiry Date
45,000	45,000	$ 0.50	0.25	March 29, 2015
75,000	75,000	$ 0.77	0.50	June 28, 2015
10,000	10,000	$ 1.90	1.08	January 28, 2016
80,000	80,000	$ 2.80	1.33	May 2, 2016
270,000	270,000	$ 2.88	1.58	July 28, 2016
15,000	15,000	$ 2.70	1.88	November 16, 2016
402,500	402,500	$ 2.90	2.69	September 10, 2017
65,000	65,000	$ 2.80	2.83	November 1, 2017
20,000	20,000	$ 1.90	3.15	February 25, 2018
175,000	175,000	$ 1.90	3.16	February 27, 2018
1,157,500	1,157,500		2.16	

b) Fair Value of Stock Options Issued During the Period

The weighted average fair value at grant date of stock options granted during the year ended December 31, 2014 was $nil (2013 - $0.95) per option. Other than stock options granted for investor relations, these stock options vested immediately on the date of grant. None of the stock options granted allow for cash settlement.

16. SHARE-BASED PAYMENTS (cont'd)

The model inputs for options granted during the year ended December 31, 2013 included:

Grant Date	Expiry Date	Share Price at Grant Date $	Exercise Price $	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
25/02/2013	25/02/2018	0.73	0.95	1.46%	60 months	125.76%	0%
27/02/2013	27/02/2018	0.67	0.95	1.46%	60 months	125.61%	0%

The Company expensed $nil (2013 - $300,418) as well as incurred $nil in share-based compensation costs that were added to the capitalized cost of the mill (2013 - $60,183).

These amounts also include an expense of $nil (2013 - $232,559) related to nil (2013 – 390,000) stock options granted to non-employees, determined by using the Black-Scholes option pricing model as the Company could not estimate reliably the fair value of the services received.

17. RELATED PARTY TRANSACTIONS

The following is a summary of the Company's related party transactions during the year:

	Year Ended December 31, 2014 $	2013 $
Management fees paid to a director and a company controlled by a director (i)	–	72,000
Consulting fees paid or accrued to directors (ii)	410,000	232,000
Office rental payments made to a company controlled by a director (iii)	–	20,000
Office and general expenses paid or accrued to a director of the Company (iv)	–	240

i) Management fee was $8,000 per month. This arrangement terminated with effect September 30, 2013.

ii) Consulting fees are currently $15,000 per officer per month. Additionally, a fee of $25,000 was paid to each officer upon closing of the Convertible Debenture Offering in November 2014. There are no formal agreements for either director.

iii) Office rental payment was $2,500 per month through to August 2013. Effective September 2013 office rental payments are paid directly to the landlord.

iv) Office and general expenses were reimbursed at $120 per month until February 28, 2013.

v) On November 7, 2014, the Chief Executive Officer provided a short term loan to the Company in the amount of $11,000. The loan was unsecured, non-interest bearing, and with no fixed terms of repayment. The loan was repaid in full on November 25, 2014.

vi) Subscription to the Convertible Debenture Offering included $55,000 from the Chief Executive Officer.

17. RELATED PARTY TRANSACTIONS (cont'd)

vii) Included in accounts payables as at December 31, 2014 was $42,250 (2013 - $nil) due to officers.

18. FINANCIAL INSTRUMENTS

Fair Value

The Company records certain of 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 derivative liabilities and the warrant liability as Level 3 on the fair value hierarchy. The Company has also categorized the debtor-in-possession derivative liabilities as Level 3 on the fair value hierarchy.

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 December 31, 2013 using the Black-Scholes model with the following assumptions:

Share Price	$0.03
Exercise Price	$1.21 or $1.28 as applicable
Risk Free Rate	0.00%
Discount Rate	1.90%
Expected Life	2.46 years or 3.04 years as applicable

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 December 31, 2014 using the Black-Scholes model with the following assumptions:

Share Price	$0.05
Exercise Price	$2.42 or $2.56 as applicable
Risk Free Rate	0.00%
Discount Rate	1.34%
Expected Life	1.46 years or 2.04 years as applicable

18. FINANCIAL INSTRUMENTS (cont'd)

The following tables present the changes in the fair value of the Company's Level 3 financial instruments that are carried at fair value during the periods ended December 31, 2014 and 2013:

	Liability at December 31, 2013	Profit Participation Amounts	Mark to Market (gain) loss	Liability at December 31, 2014
Warrant liability	$ 5,763	$ -	$ 2,232	$7,995
	$ 5,763	$ -	$ 2,232	$7,995

	Liability at December 31, 2012	Profit Participation Amounts	Mark to Market (gain) loss	Liability at December 31, 2013
Waterton derivative liability	$ 406,260	$ (766,053)	$ 359,793	-
Warrant liability	$ 1,422,005	$ -	$ (1,416,242)	$5,763
	$ 1,828,265	$ (766,053)	$ (1,056,449)	$5,763

Risk Exposure and Management

Overview

The Company has exposure 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 the year end under its financial instruments is approximately $2.5 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 risk 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.

18. FINANCIAL INSTRUMENTS (cont'd)

Management anticipates that, subject to financing and completion of the implementation of the Plan, it may incur expenditures towards developing the Treasure Mountain property and other Company assets. 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 deficiency, no history of profitable operations and no assurance that additional funding will be available to it for further exploration and development of the Treasure Mountain property. 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 or completion of the implementation of the Plan could result in the delay or indefinite postponement of further exploration and development of the Treasure Mountain property or the loss or substantial dilution of any of its property interests.

Foreign Exchange Rate Risk

The company currently is not subject to significant foreign exchange risk.

19. FLOW-THROUGH SHARE OBLIGATION

	Flow-through Obligation
Balance at January 1, 2013	-
Amounts charged to profit or loss for the year	$ 2,939,515
Reclassification from other liabilities	793,494
Balance at December 31, 2013	3,733,009
Amounts charged to profit or loss for the year	165,859
Reclassification from other liabilities	19,007
Interest costs	145,341
Remittances to Canada Revenue Agency	(554,389)
Balance at December 31, 2014	$ 3,508,827

The above provision includes an estimated cumulative amount of $3,477,466 (2013 – $3,029,218) relating to 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 exploration expenditures previously renounced to the flow-through investors. It also includes a further $31,361 (2013 – $703,791) representing an estimate of tax penalties and interest that may be assessed against the Company. The final assessment of liability by the CRA may differ from management's assessment. As discussed in Note 4, METC refunds of $346,165 were applied by CRA to the balance owing to them. Additionally, on December 1, 2014, the Company issued payment in the amount of $208,224 to the CRA related to the Company's flow-through share obligation.

20. OFF-TAKE FINANCING ARRANGEMENT

On November 23, 2012, the Company entered into a Concentrate Off-Take Financing Arrangement with Waterton. Under the terms of the Concentrate Off-Take Financing Arrangement, Waterton agreed to provide funding for 80% of the value of concentrates delivered to the smelter on a spot basis for a 2% fee during the period from November 23, 2012 to March 31, 2013. Any amounts borrowed under this arrangement were to be repaid within 30 days of the sale of the concentrate. There are no amounts owing under this expired arrangement.

21. LEAD AND ZINC CONCENTRATE PURCHASE AGREEMENTS

On October 24, 2012, the Company entered into a Lead Concentrate Purchase Agreement with a smelter whereby the Company has agreed to sell approximately 1,000 – 2,000 dry metric tonnes until March 31, 2013. The Company also entered into a Zinc Purchase Agreement to sell approximately 1,000- 2,000 dry metric tonnes until March 31, 2013. The payments to be made are based on the price of silver, lead, and zinc during the period that is two months after shipment. Subsequent to March 31, 2013, the agreement will continue on a year to year basis and may in the absence of default, be terminated upon 12 months notice by either party. As of June 26, 2013, the Company put its mine and mill on care and maintenance. As a result, the Company is currently not shipping concentrate to the smelter.

Sales recognized under the agreement during the period ended December 31, 2014 were $nil (December 31, 2013 - $8,026,254). Sales of $3,820,821 were earned during the commissioning phase of the mill and are offset against the capital cost of the mill construction. Sales of $4,185,551 were earned post commissioning and are recognized as a recovery of exploration costs.

22. CONTINGENCIES

On February 4, 2013, Huldra and 0913103 BC Ltd. were named in a lawsuit (the “CRMC Lawsuit”) by CRMC Canadian Royal Mining Corp. (“CRMC”), whereby CRMC was claiming that it was owed $461,099 pursuant to a Mining Equipment Purchase and Services Agreement, dated June 21, 2011 (the “CRMC Agreement”) and an undetermined amount in connection with the alleged breach by Huldra of the CRMC Agreement. CRMC was also seeking interest and costs in connection with the CRMC Lawsuit. Huldra filed a defence to the CRMC Lawsuit claiming that CRMC breached the CRMC Agreement by failing to provide the required equipment and components, failing to provide the staff to supervise the assembly of the mill and by failing to design the mill to the specified requirements. Huldra also counterclaimed against CRMC, David Brian Archibald and Dennis Peter Dornan seeking an unspecified amount of damages because of CRMC’s breach of the CRMC Agreement.

In connection with the CCAA proceedings, the Company and the Monitor agreed to admit CRMC’s claims under the CRMC Lawsuit in consideration for, among other things, CRMC and Huldra executing a consent dismissal order with respect to the CRMC Lawsuit. The amounts owed to CRMC will be settled in accordance with the Plan. Accordingly, the Company recognized the claim of $461,099 during fiscal 2014 which was then settled pursuant to the Plan (Note 23).

23. RESTRUCTURING AGREEMENT

As discussed in Note 1, on November 21, 2014, the Company satisfied all of the conditions to implementation of the Plan, and the Monitor filed a Certificate of Plan Implementation with the Court under the CCAA Proceedings. The Company implemented the Plan on this date by settling an aggregate of $5,718,419 secured claims by issuing an aggregate of 114,368,382 shares to the secured creditors and will be making payments to the secured creditors (excluding Waterton which is discussed in Note 10) in the aggregate amount of $88,021 plus interest. Additionally, the Company settled unsecured claims by issuing an aggregate of 278,870,210 shares to the unsecured creditors and making payments to the unsecured creditors in the aggregate amount of $25,408. Under the Plan, a total of $4,101,797 is still owed to the secured creditors and is payable within 12 months of the Plan Implementation Date, together with interest thereon at a rate of 3% per annum. Upon repayment of this amount to secured creditors, the Monitor's final certificate will be filed with the Court confirming that all distributions to the Company's creditors have been made in accordance with the Plan which will be the final step to the Company exiting CCAA creditor protection. The payment of the settlement amounts constitutes full, final and absolute settlement of all rights of the creditors affected by the Plan. The stay of proceedings granted to the Company pursuant to the CCAA proceedings has been terminated.

The accounting gain on debt restructuring resulting from implementing the CCAA Plan is summarized as follows:

		2014
Settlement of unsecured trade payables	$	1,228,724
Settlement of unsecured convertible debenture holders (Note 12)		2,192,009
Settlement of secured creditors		342,624
	$	3,763,357

Craigmont Claim

In May 2011, the Company acquired Craigmont (Note 5). As part of that acquisition, the Company assumed a $900,000 reclamation obligation. In April 2014, Craigmont Mines, A Joint Venture ("CMJV") filed a proof of claim under the CCAA proceedings claiming a $900,000 reclamation credit on the grounds that CMJV could potentially remain liable for the reclamation obligations assumed by the Company in the event of failure to emerge from CCAA proceedings. CMJV also claimed $70,000 relating to a reclamation bond improperly assumed by the Company as well as certain operating and site expenditures totaling $385,947 incurred on behalf of the Company. On November 21, 2014, the Company issued shares to CMJV as an unsecured creditor pursuant to the Restructuring Plan (Note 23). On February 25, 2015, the 18,000,000 shares issued relating to the $900,000 claim were returned by CMJV to treasury and cancelled. In addition, the $70,000 reclamation deposit was assigned by CMJV to the Company.

24. INCOME TAXES

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

	2014	2013
Loss before income taxes	$ (8,891,035)	$ (33,742,363)
Expected income tax (recovery)	(2,312,000)	(8,689,000)
Change in statutory, foreign exchange rates and other	98,000	(166,000)
Permanent difference	406,000	416,000
Impact of flow-through shares	90,000	-
Share issue costs	-	(486,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	1,233,000	-
Change in unrecognized deductible temporary differences	63,000	8,925,000
Income tax (recovery) - deferred	$ (422,000)	$ -

The Canadian income tax rate increased during the year due to changes in the law that increased corporate income tax rates in Canada/British Columbia to 26% from 25.75%**.**

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

	2014	2013
Deferred tax assets (liabilities)		
Convertible debt	$ (422,000)	$ -
Non-capital losses	422,000	-
	$ -	$ -

The significant components of the Company's deductible temporary differences, unused tax credits and unused tax losses that have not been recognized on the consolidated statement of financial position are as follows:

	2014	Expiry Date Range	2013
Temporary Differences			
Exploration and evaluation assets	$ 1,056,000	No expiry date	$ 6,411,000
Investment tax credit	441,000	2030 to 2032	441,000
Property, plant and equipment	20,065,000	No expiry date	13,887,000
Share issue costs	2,554,000	2035 to 2037	3,601,000
Debt with accretion	-	No expiry date	1,331,000
Non-capital losses available for future period	27,268,000	2015 to 2034	25,231,000

Tax attributes are subject to review, and potential adjustment, by tax authorities.

25. SUBSEQUENT EVENT

Subsequent to December 31, 2014, 372,500 options expired un-exercised.