HuldraSilver INC.

HULDRA SILVER INC.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2012 and 2011

Notice of disclosure of non-auditor review of interim financial statements pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators.

The accompanying financial statements of the Company for the period ended September 30, 2012 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or review of these condensed consolidated interim financial statements.

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

	Note	September 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	4	$ 319,024	$ 1,392,916
Amounts Receivable	5	1,508,039	2,220,993
Prepaid expenses and other assets		87,437	335,832
		1,914,500	**3,949,741**
Non-current assets			
Property, Plant, & Equipment	6	26,940,728	16,094,608
Mineral Interests	7	766,537	766,537
Restricted Cash	9	735,100	80,000
Total assets		**$ 30,356,865**	**$ 20,890,886**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 3,103,398	$ 1,348,842
Current portion of Waterton derivative liability	10,16	817,122	141,180
Current portion of Waterton debt obligation	10	10,282,868	2,283,228
Warrant liability	10,16	1,701,014	710,726
Current portion of Craigmont obligation	6	2,916,379	3,000,000
Due to related parties		-	64
Flow through share premium		580,548	-
		19,401,329	**7,484,040**
Non-current liabilities			
Asset retirement obligation	8	1,405,100	1,405,100
Long term portion of Waterton derivative liability	10,16	-	67,119
Long term portion of Waterton debt obligation	10	-	1,960,475
Long term portion of Craigmont obligation	6	-	2,622,195
Total Liabilities		**20,806,429**	**13,538,929**
Equity			
Shareholders' equity			
Share capital	12, 13a)	31,735,464	18,974,426
Share-based payments reserve	14	5,002,083	3,127,967
Accumulated Deficit		(27,187,111)	(14,750,436)
Total Equity		**9,550,436**	**7,351,957**
Total liabilities and equity		**$ 30,356,865**	**$ 20,890,886**

Ryan Sharp (signed) Director ***Garth Braun (signed)*** Director

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

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

		Three Months Ended September 30		Nine Months Ended September 30	
	Note	**2012**	**2011**	**2012**	**2011**
Operating Expenses					
Exploration Costs	7	$ 2,433,299	$ 3,273,533	$ 6,388,886	$ 3,646,271
Salaries and benefits		54,125	42,609	143,801	86,419
Share-based compensation expense		1,199,453	1,139,739	1,199,453	1,674,539
Professional fees		95,253	157,434	182,683	244,285
Management fees	15	24,000	24,000	72,000	71,000
Consulting fees	15	12,000	21,000	54,000	71,000
Office and general	15	40,954	35,559	138,890	77,455
Travel		4,405	8,120	18,001	22,549
Regulatory fees		4,067	22,869	11,967	34,395
Transfer agent fees		456	10,441	6,551	14,727
Rent	15	7,500	7,500	22,500	22,500
Vehicle expenses		4,001	115	5,574	3,217
Depreciation		395	410	1,551	1,001
Operating Loss Before Other Items		(3,879,908)	(4,743,329)	(8,245,857)	(5,969,358)
Other Items					
Gravel sales		35,552	-	45,740	-
Finance costs		(1,306,611)	(386,493)	(3,350,530)	(422,008)
Unrealized gain (loss) on derivative		(525,398)	-	(473,306)	-
Unrealized gain (loss) on warrant liability	10	(375,419)	149,870	(412,722)	74,775
Net Loss and Comprehensive Loss for the Period		$ (6,051,784)	$ (4,979,952)	$ (12,436,675)	$ (6,316,591)
Loss Per Share – Basic and Diluted		$ (0.14)	$ (0.02)	$ (0.34)	$ (0.03)
Weighted Average Number of Common Shares Outstanding		41,749,787	20,571,106	36,088,712	18,705,249

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

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

	Note	Nine Months Ended September 30 2012	2011
Operating Activities			
Net loss for the period		$ (12,436,675)	$ (6,316,591)
Adjustments for:			
Share-based compensation expense		1,581,885	1,894,809
Depreciation		371,136	91,896
Gravel sales		(45,740)	—
Non-cash interest expense	10	3,347,830	426,157
Unrealized (gain) loss on derivative	10,16	412,722	—
Unrealized (gain) loss on warrant liability	10,16	473,306	(74,775)
Changes in non-cash working capital items			
Amounts receivable		1,274,042	(1,120,194)
Prepaid expenses and other receivables		288,395	(74,008)
Accounts payable and other accrued liabilities		327,461	988,471
Cash Used in Operating Activities		(4,405,638)	(4,184,235)
Investing Activities			
Acquisition of land, permits, and mineral rights		—	(718,711)
Reclamation deposits		(655,100)	—
Repayment of Waterton debt obligation		(1,196,100)	—
Purchase of property, plant, and equipment	6	(12,903,289)	(7,021,166)
Purchase of short term investment		—	(20,000)
Redemption of short term investment		—	300,000
Cash Used in Investing Activities		(14,754,489)	(7,459,877)
Financing Activities			
Due to directors		(64)	—
Issuance of Special Warrants, net of cash paid share issuance costs		—	8,365,520
Issuance of common shares, net of cash paid share issuance costs		10,873,921	—
Proceeds from Waterton Credit Facility, net of cash borrowing costs		4,898,520	4,578,732
Proceeds from exercise of stock options		120,300	110,750
Proceeds from exercise of warrants		2,193,558	500,705
Cash Provided by financing activities		18,086,235	13,555,707
Net change in Cash and Cash equivalents for the Period		(1,073,892)	1,911,595
Cash and cash equivalents, Beginning of period		1,392,916	1,998,259
Cash and Cash equivalents, End of period		$ 319,024	$ 3,909,854

Supplemental cash flow information on non-cash transactions 17

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

HULDRA SILVER INC.
Condensed Consolidated Interim Statements of Changes in Equity
For the three and nine months ended September 30, 2012 and 2011
(Unaudited)
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Share-based Payments Reserve	Accumulated Deficit	Total Equity
Balance, January 1, 2011	**17,228,499**	**$ 9,165,723**	**$ 342,110**	**($ 6,991,526)**	**$ 2,516,307**
Special Warrant offering, net of cash issuance costs	8,590,246	8,365,520			8,365,520
Fair value of broker warrants on Special Warrant offering		(904,202)	904,202		
Flow through share premium		(317,005)			(317,005)
Common shares issued for cash:					
Stock options exercised	360,000	110,750	-	-	110,750
Warrants exercised	960,311	500,705	-	-	500,705
Transfer to share capital on exercise of warrants	-	18,083	(18,083)	-	-
Transfer to share capital on exercise of stock options	-	67,702	(67,702)	-	-
Common shares issued for land purchase	130,765	150,000	-	-	150,000
Common shares issued for land, permits, mineral claims	372,000	500,000	-	-	500,000
Common shares issued upon execution of Credit Agreement	90,909	100,000	-	-	100,000
Share-based compensation	-	-	1,894,809	-	1,894,809
Net loss for the period	-	-	-	(6,316,591)	(6,316,591)
Balance, September 30, 2011	**27,732,730**	**$17,757,276**	**$3,055,336**	**($13,308,117)**	**$7,504,495**
Balance, January 1, 2012	**31,407,016**	**$ 18,974,426**	**$ 3,127,967**	**($ 14,750,436)**	**$ 7,351,957**
Equity offering, net of cash issuance costs	10,113,832	10,873,921		-	10,873,921
Fair value of broker warrants on equity offering	-	(342,035)	342,035	-	-
Flow through share premium	-	(580,548)	-	-	(580,548)
Common shares issued for cash:					
Stock options exercised	281,666	120,300	-	-	120,300
Warrants exercised	2,915,950	2,193,558	-	-	2,193,558
Transfer to share capital on exercise of warrants	-	86,306	(86,306)	-	-
Transfer to share capital on exercise of stock options	-	111,536	(111,536)	-	-
Common shares issued upon execution of Credit Agreement	266,079	298,000	-	-	298,000
Share-based compensation			1,729,923		1,729,923
Net loss for the period	-	-	-	(12,436,675)	(12,436,675)
Balance, September 30, 2012	**44,984,543**	**$ 31,735,464**	**$ 5,002,083**	**($ 27,187,111)**	**$ 9,550,436**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Huldra Silver Inc. (the "Company" or "Huldra") is a junior mining company 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 registered under the Business Corporation Act of British Columbia. The Company is listed on the TSX Venture Exchange and trades under the symbol "HDA.V".

The recoverability of the amounts shown for resource properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof. The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. Consequently, the Company considers itself to be an exploration stage company. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

The consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year.

As at September 30, 2012, the Company had an accumulated deficit of $27,187,111 (December 31, 2011 - $14,750,436) and a working capital deficiency of $17,486,829 (December 31, 2011 - $3,534,299 deficit). These factors raise a significant uncertainty about the Company's ability to continue as a going concern. Continued support of shareholders and the ability to raise funds through the issuance of equity or debt will be required. Realization values may be substantially different from carrying values as shown and these condensed consolidated interim 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.

2. BASIS OF PRESENTATION

i) Statement of compliance with International Financial Reporting Standards

These unaudited condensed consolidated interim financial statements of Huldra Silver Inc. have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting on a basis consistent with the accounting policies disclosed in Note 3.

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2011 prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements have been authorized for release by the Company's Board of Directors on November 27, 2012.

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, Huldra Holdings Inc., (formerly 0906262 B.C. Ltd), 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.

ii) Basis of measurement

These condensed consolidated interim 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 derivative liability and the warrant liability, both of which are carried at fair value.

2. BASIS OF PRESENTATION (cont'd)

iii) Use of Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to 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 Waterton derivative liability, the valuation of the warrants issued to Waterton, the estimated useful lives of the mineral interest and milling and other permits, the estimate of asset retirement obligations, and the assumptions used in determining the fair value of share-based compensation. The significant judgments made in preparing the condensed consolidated interim financial statements included the determination that there is significant uncertainty with respect to the Company's ability to continue as a going concern, and that there is no impairment of the Company's property, plant and equipment and mineral interests at September 30, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

i) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand and all highly liquid investments that are readily convertible into cash with maturity dates not exceeding 90 days from the date of issuance.

ii) 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.

Property, plant and equipment 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 property, plant, and equipment 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.

Gains and losses on disposal of an item of property, plant, and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized within other gains and losses in the statement of operations and comprehensive loss. During the year, no depreciation was recognized on the mill or milling permits as the mill is still under construction.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment are depreciated using the following methods:

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

iii) 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.

iv) 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. 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.

v) Restricted Cash

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

vi) 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.

vii) Borrowing costs

Interest and financing costs on debt or other liabilities that are directly attributable to the acquisition, construction and development of a qualifying asset are capitalized to the asset.

On commencement of commercial production, the interest and financing costs are amortized over the life of the qualifying asset. All other borrowing costs are expensed as incurred.

viii) Financial Instruments

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

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.

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 cash and cash equivalents, short-term investments, accounts receivable and restricted cash 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 income or loss. At September 30, 2012, the Company has not classified any financial assets as held-to-maturity investments.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 September 30, 2012, 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:

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 September 30, 2012, the Company has classified the derivative liabilities and the warrant liability associated with the Waterton debt in this category.

Other financial liabilities: This category includes due to directors, accounts payable and accrued liabilities and the Craigmont obligation, all of which are recognized at amortized cost using the effective interest method. At September 30, 2012, the Company has classified the current and long-term portions of the Waterton debt in this category.

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

ix) Share capital

Common shares are classified as 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.

x) Share-based payments

The Company has a share option plan that is described in Note 14 i). The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 options are measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise, the term of the 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 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 options are measured by determining the fair value of the options granted, using a Black-Scholes option pricing model.

xi) 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.

Deferred tax is provided using the statement of financial position method, providing for 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.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

xii) 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.

xiii) 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 tailings dam, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The future 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.

The present value of decommissioning and site restoration costs are recorded as a long-term 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 balance sheet 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

xiv) 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 issue 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 share. 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 other liability.

xv) 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 in all periods presented, the stock options and stock warrants as disclosed in Notes 13 and 14 respectively, were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

xvi) 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.

xvii) 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.

xviii) New Standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board or International Financial Reporting Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2010 or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IAS 1 – Presentation of Financial Statements

IAS 1 prescribes the basis for presentation of general purpose financial statements and is effective for annual periods beginning on or after January 1, 2011 to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. There are no additional significant impacts on the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

IAS 24 – Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government related entities of for the entire standard. There are no additional significant impacts on the Company.

Accounting standards effective January 1, 2012

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for the annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate the amendment to have a significant impact on its consolidated financial statements.

Income Taxes

In December 2010, the IASB issued an amendment to IAS 12 – *Income Taxes* that provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Accounting standards anticipated to be effective January 1, 2013

IFRS 9 – Financial Instruments Disclosure

IFRS 9 Financial Instruments was published and contained requirements for financial assets updating IFRS 7. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

IFRS 10 – Consolidation

IFRS 10 requires that a reporting entity should consolidate any investee that it controls. Control is the basis for consolidation for all types of investees. IFRS 10 also provides guidance on assessing control in circumstances where the assessment has proven to be difficult. IFRS 10 provides more guidance about the factors to consider in such structures that involve potential voting rights, agency relationships, relationship with structured entities and control without a majority of voting rights. The Company consolidation with its current subsidiaries and related consolidation decisions should be unaffected by the new consolidation model in IFRS 10.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

IFRS 11- Joint Arrangements

The IASB issued IFRS 11 – *Joint Arrangements* on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and requires such entities to be accounted for using the equity methods and proposes to establish a principles-based approach to the accounting for joint arrangement which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company does not anticipate this amendment will have a significant impact on its consolidated financial statements.

IFRS 12 – Disclosure of Interest in other entities

IFRS 12 sets out disclosure requirements for reporting entities that have an interest in a subsidiary, joint arrangement, associate or unconsolidated structure entity. There are no additional interests or disclosures required.

Consolidation

On September 20, 2010, the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace the current standard on consolidations, IAS 27 – *Consolidation and Separate Financial Statements* and SIC-12, with a single standard on consolidation. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

Fair Value Measurement

IFRS 13 - *Fair Value Measurement;* effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet been considered the potential impact of the adoption of IFRS 13.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and liquid investments which are readily convertible into cash with maturities of ninety days or less when purchased. The Company's cash and cash equivalents at September 30, 2012 consisted of cash of $319,024 and cash equivalents of $ Nil (December 31, 2011 - cash of $1,370,416 and cash equivalents of $22,500).

5. AMOUNTS RECEIVABLE

	September 30, 2012	December 31, 2011
Other receivable	$ 356	$ 1,226
HST receivable	$ 676,021	$ 1,388,105
METC receivable	$ 831,662	$ 831,662
	$1,508,039	$ 2,220,993

(Expressed in Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Land and Permits $	Camp and Other Site Infrastructure $	Ore Processing Mill Deposit & Construction $	Heavy Machinery and Equipment $	Computer $	Furniture and Office Equipment $	TOTAL $
Cost							
Balance at January 1, 2011	—	—	—	20,020	3,351	1,605	24,976
Additions	7,928,461	728,393	6,110,863	1,510,270	2,978	3,126	16,284,091
Disposals	—	(5,168)	—	—	—	—	(5,168)
Balance at December 31, 2011	7,928,461	723,225	6,110,863	1,530,290	6,329	4,731	16,303,899
Additions	339,924	—	10,600,700	276,589	8,111	—	11,225,324
Disposals	—	(10,760)	—	—	—	—	(10,760)
Balance at September 30, 2012	8,268,385	712,465	16,711,563	1,806,879	14,440	4,731	27,518,463
Accumulated Depreciation							
Balance at January 1, 2011	—	—	—	2,958	1,404	160	4,522
Depreciation for the period	—	58,053	—	145,730	815	816	205,414
Adjustments	—	(645)	—	131	—	(131)	(645)
Balance at December 31, 2011	—	57,408	—	148,819	2,219	845	209,291
Depreciation for the period	—	102,577	—	266,575	1,382	602	371,136
Adjustments		(2,692)					(2,692)
Balance at September 30, 2012	—	157,293	—	415,394	3,601	1,447	577,735
Carrying Amounts							
At January 1, 2011	—	—	—	17,062	1,947	1,445	20,454
At December 31, 2011	7,928,461	665,817	6,110,863	1,381,471	4,110	3,886	16,094,608
At September, 2012	8,268,385	555,172	16,711,563	1,391,485	10,839	3,284	26,940,728

On February 24, 2011, the Company, under a purchase and sale agreement, completed the acquisition of four district lots located at Treasure Mountain, British Columbia for a total consideration of $350,000 consisting of $200,000 cash and 130,765 common shares of the Company having a total value of $150,000. Additionally, property transfer tax paid of $3,500 was added to the cost base.

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

The Company announced on May 5, 2011 that it has closed 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 vendor 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 is payable on January 31, 2012 and $3,100,000 (net of estimated environmental remediation costs of $900,000) is payable on January 31, 2013. Because the vendor mortgage is 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 will be 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. With regards to the allocation of consideration, the Company has allocated $7,064,724 to land and permits, $900,000 to asset retirement obligation (Note 8), $200,000 to mineral claims and $200,000 to accrued liabilities relating to the continuing interest retained by the vendors in the mineral claims.

In connection with the closing of the acquisition of Craigmont, the Company caused Craigmont to grant to the vendors a guarantee of the obligation of the Company to pay the amounts outstanding to the vendors; and a mortgage in favour of the vendors over the seven parcels of land owned by Craigmont as security for such guarantee. The vendors agreed that, upon payment of the second $3,000,000 payment due to the vendors under the purchase agreement, the vendors will discharge the mortgage with respect to all of the parcels of land except for two parcels. Until such second payment is made, the Company is not entitled to cause any secondary charges to be placed on the titles to any of the mortgaged parcels of land. The vendors will continue to hold a mortgage over those two parcels until the balance of the cash consideration owing under the purchase agreement is paid to the vendors

On January 31, 2012, the repayment terms of the vendor mortgage were amended. On February 3, 2012, the Company announced that it had entered into an agreement dated January 31, 2012 (the "Amending Agreement") that amends the terms of the Strategic Acquisition Agreement dated March 30, 2011 (the "Original Agreement") pursuant to which the Company agreed to acquire all of the issued and outstanding shares of Craigmont Holdings Ltd. (now Huldra Properties Inc. ("HP")) (the "Shares"). Pursuant to the terms of the Amending Agreement, the parties agreed to revise the time in which the Shareholders may recover magnetite from the Company's milling property and to extend and amend certain payment terms related to payment for the Shares. As a result of the Amending Agreement and subsequent repayment schedule, the current discount rate effective on which the mortgage amount will be accreted to face value is now 9.92%.

Under the Original Agreement, Huldra was to pay $3,000,000 on or prior to January 31, 2012 (the "Second Payment") and the remaining $4,000,000 balance, less certain adjustments (the "Third Payment"), on or before January 31, 2013. Under the Amending Agreement, the Second Payment was split into two payments, of which $800,000 was paid by Huldra on January 31, 2012, and the remaining $2,200,000 will be payable on the earlier of (i) the commissioning of Huldra's mill and (ii) June 30, 2012. The third payment will also be split onto two payments whereby:

(i) on or prior to January 31, 2013, Huldra will pay the amount determined by subtracting from $4,000,000: (a) the lesser of $900,000 or the amount of the Liability Cost Estimate (as defined in the Original Agreement, and (b) any payments made by Huldra to the Shareholders derived from the gravel rights related to Huldra's milling property; and

(ii) on or prior to June 30, 2014, Huldra will pay to the former shareholders of HP a final adjustment payment to reflect site remediation undertaken by the shareholders prior to that date, less certain other adjustment items.

(Expressed in Canadian dollars)

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

The Company paid $500,000 on May 24, 2012 and the remaining $1,700,000 payable on the Second Payment was paid on June 29, 2012.

On June 21, 2011, the Company announced that it had entered into a Purchase and Service Agreement with Canadian Royal Mining Corporation of Chilliwack, B.C., to acquire a two hundred (200) ton per day modular silver, lead, zinc process plant. The mill has been delivered to the Company's milling property in Merritt, B.C. in the fourth quarter of 2011 and will take approximately eight months to commission and assemble. As at September 30, 2012, the Company has made payments in the amount of $6,209,975 to Canadian Royal Mining Corporation.

7. MINERAL INTERESTS

Upon incorporation in 1980, the Company acquired from two directors in consideration of 750,000 vendor's shares, a 100% interest in 38 mineral claims at Treasure Mountain, located 27 km east of Hope, B.C. These 38 mineral claims, or their subsequent conversions, covering the area of the developed vein deposit, the projected vein extensions and several other exploration targets, have been maintained in continuous good standing since 1980. In May 2011, the Company acquired a 100% interest in 20 mineral claims and 10 mineral leases through its 100% share acquisition of Craigmont Holdings Ltd.

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

	Sept 30, 2012 $	**Dec 31, 2011** $
a) The Company acquired from its directors the Treasure Mountain group of claims located in the Similkameen Mining Division of British Columbia for a consideration of 750,000 vendors' shares at $0.01 per share.	7,500	7,500
b) The Company acquired a Crown Grant mineral claim to Lot 1210 in the Yale Mining Division contiguous to the Treasure Mountain Claims known as the "Eureka" for a cash consideration of $14,437.	14,437	14,437
c) The Company acquired the surface rights to Lot 1209 located in the Yale Mining Division of British Columbia known as the "Whynot Fraction" for a consideration of $39,500.	39,500	39,500
d) The Company acquired 20 mineral claims and 10 mineral leases as part of its 100% share acquisition of Craigmont Holdings Ltd. Of the total consideration, $200,000 was allocated to the mineral claims and mineral leases.	200,000	200,000
e) Provision for Treasure Mountain reclamation.	505,100	505,100
	766,537	766,537

(Expressed in Canadian dollars)

7. MINERAL INTERESTS (cont'd)

Cumulative exploration costs incurred are as follows:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2012 $	**2011** $	**2012** $	**2011** $
EXPLORATION COSTS, beginning of period	14,837,304	6,256,978	10,881,717	5,884,240
Costs incurred during the period				
Engineering	66,337	215,688	185,068	234,158
Insurance	13,846	11,789	36,584	14,723
Meals and travel living allowance	118	1,768	4,676	4,590
Property tax	6,870	12,895	20,627	13,053
Assessment work	22,935	2,054	80,212	2,763
Recording Fees	-	-	-	-
Exploration supplies and camp expenses	288,430	424,172	808,435	456,918
Water sampling	5,832	11,680	11,212	18,210
Salaries and benefits	848,665	510,182	2,773,413	540,496
Share-based compensation	382,432	220,270	382,432	220,270
Construction planning	500	41,797	5,750	90,123
Fuel and propane	102,610	143,868	498,964	154.524
Vehicle and Equipment Expense	66,947	68,004	163,354	91,614
Depreciation	126,862	85,861	369,584	90,896
Permitting	28,364	66,036	98,619	120,292
Metallurgical	-	-	3,000	13,200
Road rehabilitation	-	166,214	135,151	253,582
Drilling	-	770,933	-	787,208
Surveying	148,718	2,032	148,948	7,492
Outsourced Labor	101,667	47,146	255,503	47146
Tenure lease	86	44	1,204	437
Excavation	-	-	-	-
Freight	7,521	15,567	16,608	21,824
Equipment Rentals	92,621	286,191	249,083	286,191
Geological	37,383	11,703	55,368	11,703
Explosives	82,054	92,231	244,626	92,231
Trucking Expense	-	67,408	25,783	67,408
Data compilation and field program	2,500	2,500	2,500	9,719
Recovery of exploration costs	-	(4,500)	(187,819)	(4,500)
Total costs incurred during the period	2,433,299	3,273,533	6,388,886	3,646,271
CUMULATIVE EXPLORATION COSTS, end of period	17,270,603	9,530,511	17,270,603	9,530,511

(Expressed in Canadian dollars)

8. ASSET RETIREMENT OBLIGATION

As part of the acquisition of Craigmont Holdings Ltd., the Company assumed the asset retirement obligation relating to the Craigmont property. Based on costs negotiated with the vendor, and a prior study of the costs to be incurred that was performed in 2002, management estimates the cost to remediate the Craigmont property on the date of 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 0.00%.

As part of the acquisition agreement, the Company has agreed to commission a detailed study of the costs required to remediate the Craigmont property by January 2012. If the cost estimated as a result of this study is less than $900,000, then the difference is payable to the vendors. If the cost estimated is higher than $900,000, the Company is responsible for the excess. Due to the length of time since the preparation of the prior study, the adjustment to the cost estimate once the study required pursuant to the acquisition agreement is completed could be significant. As at September 30, 2012, there has been no change in either the estimated costs to settle the obligation or the real discount rate.

The Company's asset retirement obligation associated with the Treasure Mountain site is calculated as the net present value of estimated future net cash outflows of the reclamation costs, which at March 31, 2012 total $505,100 (December 31, 2011 - $505,100) and are required to satisfy the obligations, discounted using a real discount rate of 0.00% per annum (December 31, 2011 – 0.00% per annum). The settlement of the obligation is currently expected to occur in 2017. The change in the obligation associated with Treasure Mountain is summarized as follows:

Opening Balance January 1, 2012	$505,100
Increase in estimated costs to settle obligation	-
Accretion	-
Closing Balance Sept 30, 2012	$505,100

In order to obtain its final permits, the Company posted collateral with the government in an amount equal to this obligation.

9. RESTRICTED CASH

The Company has in place deposits amounting to $755,100 as at September 30, 2012 (December 31, 2011 - $80,000) 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

On June 17, 2011, the Company announced that it had entered into a credit agreement dated June 16, 2011 (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, with the first advance consisting of $3,000,000, the second advance consisting of $2,000,000 and each of the third and fourth advances consisting of $2,500,000. Provision of any advances under the Credit Facility by Waterton will be subject to the satisfaction or waiver of certain conditions as set out in the Credit Agreement.

10. WATERTON DEBT (cont'd)

The advances may be drawn down by the Company at any time until May 31, 2012 and all amounts outstanding must be repaid on a monthly basis during the period from May 2012 to April 2013. If the price of silver exceeds $27.50 per ounce on a given repayment date, an additional amount is required to be paid (the "silver adjustment provision"). In addition, the Company may prepay any portion of the amounts borrowed at any time, and, is required to repay the amounts borrowed immediately in the event of the change in control. Because the silver adjustment provision, the prepayment option, and the change in control requirement are not closely related to the underlying debt instrument, the Company has separately accounted for these features as derivative liabilities on a fair value basis.

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

On June 17, 2011, the Company borrowed the first advance of $3,000,000 under the Credit Agreement. As the silver adjustment provision, the prepayment option, and the change in control requirement are accounted for separately, the estimated value of these features of $180,000 has been deducted from the proceeds received and is characterized as the debt discount. Using the effective interest rate method and the 49.28% current rate implicit in the calculation, the debt discount, together with the stated interest and transaction costs of $1,300,601 associated with the arrangement of the facility and the drawdown of the first advance, are accreted to face value as finance costs over the life of the agreement.

On July 28, 2011, the Company drew down the second advance of $2,000,000. Similar to the first advance, the silver adjustment provision, the prepayment option, and the change in control requirement are accounted for separately, the estimated value of these features of $120,000 has been deducted from the proceeds received and is characterized as the debt discount. Using the effective interest rate method and the 22.94% current rate implicit in the calculation, the debt discount, together with the stated interest and transaction costs of $71,000 associated with the arrangement of the facility and the drawdown of the second advance, are accreted to face value as finance costs over the life of the agreement.

On January 17, 2012, the Company drew down the third advance of $2,500,000. Similar to the first and second advances, the silver adjustment provision, the prepayment option, and the change in control requirement are accounted for separately, the estimated value of these features of $139,609 has been deducted from the proceeds received and is characterized as the debt discount. Using the effective interest rate method and the 58.97% current rate implicit in the calculation, the debt discount, together with the stated interest and transaction costs of $677,566 associated with the arrangement of the facility and the drawdown of the third advance, are accreted to face value as finance costs over the life of the agreement.

(Expressed in Canadian dollars)

10. WATERTON DEBT (cont'd)

On May 16, 2012, the Company entered into an amending agreement with Waterton pursuant to which it has amended the terms of the Credit Agreement dated June 16, 2011 between the Company and Waterton. Under the terms of the amending agreement, Waterton has agreed to extend the first repayment date under the Credit Facility from May 31, 2012 to July 31, 2012, with the maturity date for the Credit Facility remaining as April 30, 2013. The amending agreement also amended the conditions necessary for drawdown of the fourth tranche of the Credit Facility, such that the Company was entitled to drawdown the fourth tranche immediately, as the Company had received a Mining Lease and a British Columbia Mines Act Permit approving a mine plan and reclamation program for the Treasure Mountain Project, along with an Amended Permit approving construction and operation of a process plant at the Mill Property. In consideration of the foregoing, the Company agreed to increase the number of warrants to be issued to Waterton in connection with the drawdown of the fourth tranche from 650,000 warrants to 1,000,000 warrants, each exercisable into one common share of the Company for a period of five years.

On May 24, 2012, the Company drew down the fourth advance of $2,500,000. Similar to the first three advances, the silver adjustment provision, the prepayment option, and the change in control requirement are accounted for separately, the estimated value of these features of $92,008 has been deducted from the proceeds received and together with transition costs of $101,481 are characterized as the debt discount.

Initially, the Company determined that the warrants were required to be accounted for as derivative liabilities. Accordingly, in preparing the consolidated financial statements as at and for the three and six month periods ended June 30, 2012, the Company estimated the value of the warrants at May 24, 2012 as $1,114,607 using the Black Scholes model such that the initial carrying value of the Tranche 4 debt obligation was established as $1,191,904. The tranche 4 debt obligation was then accounted for using the effective interest rate method with an effective interest rate of 213.20%

However, in preparing the consolidated financial statements as at and for the three and nine month periods ended September 30, 2012, the Company determined that, as the terms of the Tranche 4 warrants were different from the terms of the Tranche 1 and 3 warrants, it was more appropriate to classify the Tranche 4 warrants as equity. As a result, the Company adjusted the amounts initially allocated to the warrants represents the residual between the net proceeds received and the fair value amount allocated to the Tranche 4 debt obligation. This resulted in the initial carrying value of the Tranche 4 debt obligation being increased to $2,306,511 and the initial carrying value of the warrants being decreased to $nil such that the effective interest rate on the Tranche 4 debt obligation decreased to 54.76%

Accordingly, the impact of this change in the classification of the Tranche 4 warrants as at and for the three and six months ended June 30, 2012 is as follows:

	As at June 30, 2012	
	As Originally Filed	As Restated
Current portion of Waterton debt obligation	$ 9,281,241	$ 10,275,719
Warrant liability	$ 2,192,528	$ 1,325,594
Accumulated Deficit	($ 21,007,783)	($ 21,135,327)

(Expressed in Canadian dollars)

10. WATERTON DEBT (cont'd)

	For the Three and Six Months Ended June 30, 2012			
	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	As Originally Filed	As Restated	As Originally Filed	As Restated
Finance Costs	($ 1,293,366)	($ 1,173,236)	($ 2,164,049)	($ 2,043,919)
Unrealized gain (loss) on warrant liability	$ 568,090	$ 320,416	$ 210,371	($ 37,303)
Comprehensive loss	($ 2,369,519)	($ 2,497,063)	($ 6,257,347)	($ 6,384,891)

On July 30, 2012, the Company entered into a second amending agreement with Waterton pursuant to which it further amended the terms of the Credit Agreement Under the terms of this amending agreement, Waterton agreed to amend the repayment terms of the Credit Agreement such that the repayment amount owing on July 31, 2012 was $nil, effectively resulting in the first repayment date under the Credit Agreement being the last business day of August, 2012, with the maturity date remaining as April 30, 2013. The amending agreement also reduced the amounts of the August and September 2012 payments by over fifty percent. In consideration for the amendments provided for the Company's benefit under the amending agreement, the Company agreed to: (i) issue 180,000 common shares of the Company to Waterton (which were issued); and (ii) pay to Waterton a $200,000 cash payment on the last day of the Repayment Period (as defined in the Credit Agreement). The fair value of the 180,000 common shares issued was $198,000 and was treated as a transaction cost associated with the arrangement of the facility and therefore the cost is to be accreted to face value as finance costs over the life of the agreement.

The Credit Facility requires the Company to satisfy certain covenants so long as any amount owing under the Credit Agreement remains unpaid or the Company has any obligation under the Credit Agreement, which among others include:

a) The Company shall not dispose of any asset (including, without limitation, any securities other than securities issued directly from the Company's treasury) other than (i) bona fide sales of inventory (including tailings produced at the Company's mining properties) in the ordinary course of business for the purposes of carrying on the business and at fair market value, (ii) the sale of any asset (other than securities) which has no material economic value in the business and is obsolete provided the fair value of such asset does not exceed, when aggregated with the fair market value of all other assets sold, $100,000, (iii) any disposal to the extent that the related disposal proceeds are applied in repayment and/or repayment of the advances made under the Credit Facility, with the exception of certain assets as set out in the agreement.

b) The Company shall not declare, make or pay any dividend or other distribution on issued shares of the Company or any of its subsidiaries.

(Expressed in Canadian dollars)

10. WATERTON DEBT (cont'd)

As at September 30, 2012, the amount recorded as Waterton debt obligation is consisted of:

Net debt component of Waterton debt on issue	$ 7,317,735
Plus: interest expense	$ 4,263,132
Less: subsequent transaction costs	$ (198,000)
Less: principal repayments	$ (1,100,000)
	$ 10,282,868
Less: current portion of Waterton debt obligation	$(10,282,868)
Long-term portion of Waterton debt obligation	$ Nil

11. 2011 SPECIAL WARRANT FINANCING

On July 14, 2011, the Company announced that it raised aggregate gross proceeds of $9,336,763 by way of a brokered private placement financing (the "Special Warrant Financing") of 6,476,880 special warrants (the "Special Warrants") at a price of $1.05 per Special Warrant and 2,113,366 flow-through special warrants (the "FT Special Warrants") at a price of $1.20 per FT Special Warrant (the Special Warrants and FT Special Warrants collectively, the "Offered Securities"). The Special Warrant Financing was completed pursuant to an agency agreement dated July 14, 2011 among the Company,National Bank Financial Inc. ("NBF") and Pope & Company Limited ("Pope") (NBF and Pope collectively, the "Agents"). Bayfront Capital Partners Ltd. received a finder's fee in connection with the Special Warrant Financing.

The Company used the proceeds of the Special Warrant Financing to advance its Treasure Mountain project towards production, for mill design and construction and for general working capital purposes. The Company used the gross proceeds of the sale of the FT Special Warrants to incur expenses that qualify as "Canadian exploration expenses" and "flow-through mining expenditures" for purposes of the Income Tax Act (Canada), and renounced an amount equal to such gross proceeds of the sale of the FT Special Warrants in favour of the holders of the FT Special Warrants, with an effective date of no later than December 31, 2011.

Each Special Warrant entitled the holder thereof, upon exercise of each Special Warrant, to receive, without payment of additional consideration, one common share of the Company and one common share purchase warrant. The Warrants are governed by a warrant indenture dated July 14, 2011 between the Company and Computershare Trust Company of Canada. Each Warrant entitles the holder thereof to acquire one additional common share at a price of $1.35 per share until July 14, 2013.

The FT Special Warrants were issued as "flow-through shares" as defined in subsection 66(15) of the Income Tax Act (Canada). Each FT Special Warrant entitled the holder thereof, upon exercise of each FT Special Warrant, to receive without payment of additional consideration, one common share of the Company.

11. 2011 SPECIAL WARRANT FINANCING (cont'd)

Pursuant to the Agency Agreement, the Company paid to the Agents a cash fee equal to 8.0% of the gross proceeds from Offered Securities sold by the Agents pursuant to the Special Warrant Financing, issued to the Agents that number of special warrants (the "Special Broker Warrants") equal to 8.0% of the number of Special Warrants sold by the Agents pursuant to the Special Warrant Financing and issued to the Agents that number of flow-through special warrants (the "FT Special Broker Warrants") equal to 8.0% of the number of FT Special Warrants sold by the Agents pursuant to the Special Warrant Financing (the "Special Broker Warrants and the FT Special Broker Warrants are collectively referred to herein as the "Broker Securities".

Each Special Broker Warrant, upon exercise thereof, entitled the holder thereof to receive, without payment of additional consideration, one broker warrant (a "Broker Warrant"). Each Broker Warrant entitles the holder to acquire one common share (a "Broker Share") and one common share purchase warrant (a "BW Warrant") at an exercise price of $1.05 until July 14, 2013. Each BW Warrant entitles the holder to acquire one common share (a "BW Share") at an exercise price of $1.35 per BW Share until July 14, 2013. The BW Warrants will be issued pursuant to the Warrant Indenture. Each FT Special Broker Warrant, upon the exercise or deemed exercise thereof, entitles the holder thereof to receive, without payment of additional consideration, one broker warrant (an "FT Broker Warrant"). Each FT Broker Warrant entitles the holder to acquire one common share (an "FT Broker Share") at an exercise price of $1.05 per FT Broker Share until July 14, 2013.
Pursuant to the Agency Agreement, the Company agreed to prepare and file a prospectus and all other necessary documents in order to qualify the securities issuable upon conversion of the Offered Securities (the "Underlying Securities") to subscribers resident in Canada, or otherwise subject to the Canadian securities laws, upon exercise of the Broker Securities.
On September 8, 2011, the Company received a receipt for its final short form prospectus dated September 7, 2011 from the securities commissions of British Columbia, Alberta, and Ontario that qualified the Underlying Securities.

12. 2012 FINANCINGS

In June 2012, the Company entered into an agreement with National Bank Financial Inc. on behalf of a syndicate of agents including BayFront Capital Partners and Pope & Company Limited, under which the agents agreed to undertake a brokered private placement on behalf of the Company on a best efforts basis pursuant to which the Company would issue up to 2,777,777 common shares at a price of $1.08 per share for gross proceeds of up to $3,000,000 and up to 3,333,333 flow-through common shares at a price of $1.20 per share for gross proceeds of up to $4,000,000, for aggregate gross proceeds of up to $7,000,000 (the "Brokered Portion"). The Company also announced that it would issue, on a non-brokered basis, up to 1,250,000 flow-through shares at a price of $1.20 per share for gross proceeds of $1,500,000 (the "Non-Brokered Portion"). The size of the Non-Brokered Portion was subsequently increased with the consent of the TSX-V. The Brokered Portion closed effective June 29, 2012 and the Non-Brokered Portion closed in various tranches between June 26, 2012 and August 7, 2012. In connection with both the Brokered Portion and the Non-Brokered Portion (together, the "Summer Offering"), the Company raised aggregate gross proceeds of $9,650,079.

In connection with the Brokered Portion, the Company issued an aggregate of 2,367,500 flow-through common shares at a price of $1.20 per share and 1,225,000 common shares, issued on a non-flow through basis at a price of $1.08 per share for aggregate gross proceeds of $4,164,000.

With respect to the Non-Brokered Portion, the Company issued an aggregate of 2,470,399 flow-through common shares at a price of $1.20 per share and 2,334,815 common shares, issued on a non-flow-through basis, at a price of $1.08 per share, for aggregate gross proceeds of $5,486,079.

(Expressed in Canadian dollars)

12. 2012 FINANCINGS

The Company paid finder's fees in connection with the Summer Offering consisting of cash commissions equal to 8.0% of the gross proceeds raised under the Summer Offering from subscribers introduced to the Company by certain finders, and the issuance of that number of non-transferable broker warrants that was equal to 8.0% of the number of securities sold pursuant to the Summer Offering to subscribers that were introduced to the Company by such finders. Each broker warrant issued is exercisable into one common share of the Company at a price of $1.08 per share for two years from the date of issuance.

On September 17, 2012 the Company announced that it intended to issue up to 5,000,000 million units at a price of $1.35 per unit for gross proceeds of up to $6,750,000 (the "Fall Offering"), with each unit to consist of one common share of the Company and one half of one common share purchase warrant, and with each whole warrant to entitle the holder to acquire an additional common share of the Company at $1.75 per share for a period of 6 months from the date of issuance.

The Fall Offering closed in various tranches between September 26, 2012 and November 14, 2012. On September 26, 2012, the Company closed the initial tranche of the Fall Offering, pursuant to which it has issued an aggregate of 1,716,118 units for aggregate gross proceeds of $2,316,759.

In connection with the closing of the initial tranche of the Fall Offering, the Company paid aggregate cash commissions of approximately $155,941 and issued an aggregate of 115,512 finder's warrants, with each finder's warrant exercisable into one common share of the Company at a price of $1.35 per share for a period of 12 months.

13. SHARE CAPITAL AND RESERVES

a) Common Shares

Authorized, Issued and Outstanding

During 2010, the authorized capital stock of the Company was changed from 50,000,000 common shares without par value to unlimited number of common shares without par value.

b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2011 to September 30, 2012:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2011	7,679,120	$ 0.53
Issue of warrants	8,046,139	$ 1.32
Exercised warrants	(4,634,597)	`$ 0.39
Balance at December 31, 2011	11,090,662	
Issue of warrants	3,303,345	$ 1.36
Exercised warrants	(2,915,950)	$ 0.75
Expired Warrants	(25,000)	$ 0.75
Balance at September 30, 2012	11,453,057	

(Expressed in Canadian dollars)

13. SHARE CAPITAL AND RESERVES (cont'd)

As at September 30, 2012, the Company had outstanding warrants as follows:

Security	Number	Exercise Price	Expiry Date
Warrants	125,000	$0.75	December 22, 2012
Warrants	858,059	$1.75	March 26, 2013
Warrants	6,476,880	$1.35	July 14, 2013
Warrants	486,285**	$1.05/$1.35	July 14, 2013
Warrants	167,127	$1.05	July 14, 2013
Warrants	13,904	$1.05	July 14, 2013
Warrants	115,512	$1.35	September 26, 2013
Warrants	86,324	$1.08	June 26, 2014
Warrants	287,400	$1.08	June 29, 2014
Warrants	2,124	$1.08	July 4, 2014
Warrants	3,012	$1.08	July 20, 2014
Warrants	254,758	$1.08	August 3, 2014
Warrants	26,672	$1.08	August 7, 2014
Warrants	900,000	$1.28	June 16, 2016
Warrants	650,000	$1.21	January 16, 2017
Warrants	1,000,000	$1.30	May 22, 2017
	11,453,057		

**Upon exercise of each warrant at $1.05, the holder receives one common share and one common share purchase warrant exercisable into one common share at $1.35.

c) Special Warrants

The following is a summary of changes in Special Warrants from January 1, 2011 to September 30, 2012:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2011	—	$ Nil
Issue of Special Warrants	8,590,246	$ 1.09
Exercised Special Warrants	(8,590,246)	$ 1.09
Balance at December 31, 2011	—	
Issue of Special Warrants	—	$ Nil
Exercised Special Warrants	—	$ Nil
Balance at September 30, 2012	—	

14. SHARE-BASED PAYMENTS

i) Stock Option Plan

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

(Expressed in Canadian dollars)

14. SHARE-BASED PAYMENTS (cont'd)

The Company shall not grant options under the 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 Venture Exchange, provided that the number of Shares reserved for issuance, within any twelve month period;

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

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

c) 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, 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 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 option shall again be available for the purposes of the Plan.

The following is a summary of changes in stock options from January 1, 2011 to September 30, 2012:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2011	1,520,000	$ 0.95
Issue of options	1,510,000	$ 1.40
Expired options	(40,000)	$ 1.43
Exercised options	(360,000)	$ 0.31
Balance at December 31, 2011	2,630,000	
Issue of options	1,535,000	$ 1.45
Exercised options	(281,666)	$ 0.43
Balance at September 30, 2012	3,883,334	$ 1.17

(Expressed in Canadian dollars)

14. SHARE-BASED PAYMENTS (cont'd)

As at September 30, 2012, the following stock options were outstanding and exercisable;

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Contractual Life (Years)	Expiry Date
440,000	440,000	$ 0.25	2.5	March 29, 2015
150,000	150,000	$ 0.25	2.58	May 4, 2015
190,000	190,000	$ 0.385	2.75	June 28, 2015
128,334	128,334	$ 0.66	3.25	December 22, 2015
60,000	60,000	$ 0.95	3.33	January 28, 2016
270,000	270,000	$ 1.40	3.58	May 2, 2016
1,050,000	1,050,000	$ 1.44	3.83	July 28, 2016
60,000	60,000	$ 1.35	4.08	November 16, 2016
1,535,000	1,385,000	$ 1.45	4.94	September 10, 2017
3,883,334	3,733,334		3.98	

ii) Fair Value of Options Issued During the Period

The weighted average fair value at grant date of options granted during the three months ended September 30, 2012 was $1.23 per option (September 30, 2011: $1.24). The weighted average fair value at grant date of options granted during the nine months ended September 30, 2012 was $ 1.23 per option (September 30, 2011: $1.21). Other than options granted for investor relations these options vested immediately on the date of grant. None of the options granted allow for cash settlement.

15. RELATED PARTY TRANSACTIONS

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

	Three Months Ended Sept 30, 2012 $	2011 $	Nine Months Ended Sept 30, 2012 $	2011 $
Management fees paid to a director and a Company controlled by a director (i)	24,000	24,000	72,000	71,000
Consulting fees paid to a director (ii)	6,000	6,000	18,000	13,000
Office Rental payments made to a Company controlled by a director (iii)	7,500	7,500	22,500	22,500
Office and general expenses paid to a director of the Company (iv)	360	360	1080	1080

15. RELATED PARTY TRANSACTIONS (cont'd)

i) Management fee is $8,000 per month.

ii) Consulting fee was $1,000 per month until June 2011. Consulting fee is now $2,000 per month. There is no formal agreement.

iii) Office rental payment is $2,500 per month.

iv) Office and general expense is reimbursed at $120 per month.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and consist of its Directors, the Chief Executive Officer, and the Chief Financial Officer. Key management personnel remuneration during the nine months ended September 30, 2012 included $ 974,585 in share-based compensation expense (September 30, 2011: $616,415).

16. FINANCIAL INSTRUMENTS

Fair Value

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

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

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments

Level 2 – quoted prices for similar instruments in active markets; 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 debt, the Waterton derivative liabilities, and the warrant liability as Level 3 on the fair value hierarchy. The Company's other financial instruments have not been categorized on the hierarchy because their carrying amount is a reasonable approximation of fair value due to their short term nature.

The fair value of the Waterton debt approximates its carrying value due to its relatively short term nature and the fact there has not been a significant change in the Company's borrowing rate during the period between the drawdown of the debt and September 30, 2012.

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS (cont'd)

The Company estimated the fair value of the derivative liabilities as at September 30, 2012 as the sum of the fair value of a series of call options on silver with an exercise price of $27.50 per ounce and expiring on each repayment date minus the sum of the fair value of a series of call options on silver with an exercise price of $34.00 per ounce and expiring on each repayment date. The fair value of each option was estimated using the Black Scholes model with the following assumptions:

Spot Price of Silver	$34.23 per ounce
Exercise Price	$27.50 or $34.00 as applicable
Risk Free Rate	1.00%
Discount Rate	1.00%
Expected Life	0.08 years to 0.58 years, as applicable
Number of Options Granted	26,408

The Company estimated the change in control option and the prepayment option at nil on September 30, 2012 on the basis that neither of these events are expected to occur.

The Company estimated the fair value of the warrant liability relating to the warrants issued to Waterton as at September 30, 2012 using the Black-Scholes model with the following assumptions:

Share Price	$1.43
Exercise Price	$1.21 or $1.28 as applicable
Risk Free Rate	0.00%
Discount Rate	1.31%
Expected Life	3.71 years or 4.29 years as applicable

The following table presents the changes in the fair value of the Company's Level 3 financial instruments that are carried at fair value during the nine months ended September 30, 2012:

	Liability at December 31, 2011	Drawdown of Waterton Debt	Mark to market (gain) loss	Liability at September 30, 2012
Waterton derivative liability	$ 208,299	$ 231,617	$ 377,206	$ 817,122
Warrant liability	$ 710,726	$ 577,566	$ 412,722	$ 1,701,014
	$ 919,025	$ 809,183	$ 789,928	$ 2,518,136

Risk Exposure and Management

<u>Credit Risk</u>

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 balance sheet date under its financial instruments is approximately $1.8 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.

16. FINANCIAL INSTRUMENTS (cont'd)

Liquidity Risk

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

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

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to any significant currency risk.

b) Interest rate risk

Interest rate risk concerns the exposure of the Company to the future changes in the prevailing level of interest rate. The Company is not exposed to interest rate risk as there are no assets or liabilities subject to interest charges.

The following is a summary of the maturities for the Company's non-derivative financial liabilities:

	Less than 30 days	30 days to 1 year	1 year to 2 years	More than 2 years
Accounts Payable and Accrued Liabilities	$ 2,858,398	$ 245,000	$ -	$ -
Waterton Debt Obligation	$ -	$ 10,282,868	$ -	$ -
Craigmont Obligation	$ -	$ 3,100,000	$ -	$ -
	$ 2,858,398	$ 13,627,868	$ -	$ -

(Expressed in Canadian dollars)

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30	
	2012	**2011**
Issued common shares to acquire land	$ —	$ 650,000
Issued common shares upon execution of credit agreement	$ 298,000	$ 100,000

18. SUBSEQUENT EVENTS

Subsequent events to September 30, 2012:

a) On October 24, 2012, the Company entered into a third amending agreement with Waterton pursuant to which it further amended the terms of the Credit Agreement. Under the terms of this amending agreement, Waterton agreed to amend the repayment terms of the Credit Agreement such that the repayment amount owing on October 31, 2012 and November 30, 2012 have been reduced by more than 50% with the maturity date remaining as April 30, 2013. There was no cash payment or issuance of shares required under this amending agreement at the time of signing, however the interest has been re-calculated in the context of the Credit Agreement. Under the terms of this amending agreement, Waterton agreed to provide funding for 80% of the value of concentrates delivered to the smelter on a spot basis for a 2% fee.

b) On October 24, 2012, the Company announced that it had entered into a Lead Concentrate Purchase Agreement with a smelter whereby Huldra has agreed to sell approximately 1000-2000 dry metric tonnes until March 31, 2013 (initial term). The Company also announced that it had entered into a Zinc Purchase Agreement to sell approximately 1000-2000 dry metric tonnes until March 31, 2013 (initial term). Payments are tied to bi-monthly prices for lead, zinc and silver as published by the Metal Bulletin, less certain deductions.

   The contract is based on expected metallurgical samples from the 10,000 tonne bulk sample with the Lead concentrate expected to grade 66% Pb and 242 oz/ton Ag and the Zinc concentrate assaying 55% Zn. The actual shipments may vary from these levels and the payable amounts may increase or decrease

c) The Company completed various tranches of the Fall Offering between September 26, 2012 and November 14, 2012 for aggregate gross proceeds of approximately $6,884,460 pursuant to which it issued an aggregate of 5,099,600 units at a price of $1.35 per unit, as further described in Note 12 herein. Of the $6,884,460 that was raised, in aggregate, from the Fall Offering, a total of $4,567,700 was raised subsequent to September 30, 2012 from the issuance of an aggregate of3,383,482 units. The Company issued commissions to certain finders consisting of: (i) a cash payment of 8.0% of the gross proceeds derived from subscribers introduced to the Company by the finder; and (ii) the issuance of finder warrants equal to 8.0% of the number of units sold to subscribers introduced to the Company by the finder. Each finder warrant is exercisable into one common share of the Company at a price of $1.35 per share for a period of 12 months.

d) On November 23, 2012, the Company announced it has made the first concentrate shipments under the previously announced concentrate purchase agreements.