



HULDRA SILVER INC.

Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2013 and 2012

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 June 30, 2013 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	June 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents	4	\$ 174,501	\$ 883,169
Amounts receivable	5	1,289,996	2,742,016
Prepaid expenses and other assets		109,847	109,453
		1,574,344	3,734,638
Non-current assets			
Property, plant, and equipment	6, 8	17,238,163	29,556,353
Mineral Interests	7	766,537	766,537
Restricted cash	10	1,135,100	735,100
Total assets		\$ 20,714,144	\$ 34,792,628
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 3,822,922	\$ 2,268,372
Current portion of Waterton derivative liability	11,18	326,048	406,260
Current portion of Waterton debt obligation	11	5,441,863	10,448,380
Warrant liability	11,18	19,024	1,422,005
Current portion of Craigmont obligation	6	-	2,962,918
Convertible debentures	14	8,767,977	-
Flow-through share premium		812,500	793,494
		19,190,334	18,301,429
Non-current liabilities			
Asset retirement obligation	9	1,405,100	1,405,100
Total liabilities		20,595,434	19,706,529
Equity			
Shareholders' equity			
Share capital	15a)	39,741,530	38,693,271
Equity component of convertible debenture		2,135,082	-
Contributed surplus		5,956,475	5,580,984
Accumulated deficit		(47,714,377)	(29,188,156)
Total equity		118,710	15,086,099
Total liabilities and equity		\$ 20,714,144	\$ 34,792,628

Peter Espig (signed) Director

Garth Braun (signed) Director

Nature of operations and going concern (Note 1)
Subsequent events (Note 21)

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 June 30		Six Months Ended June 30	
	Note	2013	2012	2013	2012
Operating Expenses					
Exploration Costs	7	\$ 851,505	\$ 1,699,738	\$ 3,063,963	\$ 3,955,587
Write-down of property, plant and equipment	8	11,381,250	-	11,381,250	-
Salaries and benefits		79,828	49,097	168,893	89,676
Share-based compensation expense		23,565	-	300,418	-
Professional fees		111,260	65,297	164,899	87,430
Management fees	17	24,000	24,000	48,000	48,000
Consulting fees	17	91,390	21,000	156,070	42,000
Office and general	17	67,175	49,966	113,892	97,936
Travel		13,134	1,698	35,309	13,596
Regulatory fees		3,655	-	18,230	7,900
Transfer agent fees		1,503	961	2,998	6,095
Rent	17	7,500	7,500	15,000	15,000
Vehicle expenses		7,146	1,224	7,992	1,573
Depreciation		352	756	722	1,156
Operating Loss Before Other Items		(12,663,263)	(1,921,237)	(15,477,636)	(4,365,949)
Other Items					
Foreign exchange gain (loss)		(26,042)	-	8,454	-
Mark-to-market adjustment on provisionally priced concentrate sales		(842,217)	-	(1,168,327)	-
Gravel sales		-	6,795	2,845	10,188
Finance costs		(2,124,784)	(1,293,366)	(3,688,831)	(2,164,049)
Gain on extinguishment of debt		-	-	336,135	-
Flow-through share premium		(388,669)	-	-	-
Unrealized gain on derivative		179,074	270,199	58,158	52,092
Unrealized gain on warrant liability	11	1,241,123	568,090	1,402,981	210,371
Net Loss and Comprehensive Loss for the Period		\$ (14,624,778)	\$ (2,369,519)	\$ (18,526,221)	\$ (6,257,347)
Loss Per Share – Basic and Diluted		\$ (0.28)	\$ (0.07)	\$ (0.36)	\$ (0.19)
Weighted Average Number of Common Shares Outstanding		51,629,081	34,330,701	51,224,606	33,227,070

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)

		Six Months Ended June 30	
	Note	2013	2012
Operating Activities			
Net loss for the period		\$ (18,526,221)	\$ (6,257,347)
Adjustments for:			
Share-based compensation expense		300,418	—
Write-down of property, plant, and equipment		11,381,250	—
Depreciation		254,337	243,878
Gravel sales		—	(10,188)
Gain on extinguishment of debt		(336,135)	—
Non-cash interest expense	11	3,439,670	2,162,808
Unrealized (gain) loss on derivative	11,18	(58,158)	(52,092)
Unrealized (gain) loss on warrant liability	11,18	(1,402,981)	(210,371)
Foreign exchange gain		(8,454)	—
Mark to market loss on concentrate sales		1,168,327	—
Changes in non-cash working capital items			
Amounts receivable		397,646	1,202,241
Prepaid expenses and other receivables		(394)	217,920
Accounts payable and other accrued liabilities		1,554,549	(623,279)
Cash Used in Operating Activities		(1,836,146)	(3,326,430)
Investing Activities			
Reclamation deposits		(400,000)	—
Purchase of property, plant, and equipment	6	(3,036,206)	(7,980,525)
Proceeds received from sales related to mill commissioning		3,715,322	—
Cash Provided by Investing Activities		279,116	(7,980,525)
Financing Activities			
Repayment of Craigmont mortgage		(3,009,724)	—
Repayment of Waterton debt obligation		(6,381,639)	—
Payments relating to derivative liabilities		(398,772)	—
Convertible debentures, net of cash paid issuance costs		9,556,341	—
Proceeds from employee loan		130,000	—
Repayment of employee loan		(130,000)	—
Due to directors		—	(64)
Issuance of common shares, net of cash paid share issuance costs		1,082,156	4,990,786
Proceeds from Waterton Credit Facility, net of cash borrowing costs		—	4,898,520
Proceeds from exercise of stock options		—	44,000
Proceeds from exercise of warrants		—	2,170,892
Cash Provided by Financing Activities		848,362	12,104,134
Net change in Cash and Cash equivalents for the period		(708,668)	797,179
Cash and Cash equivalents, beginning of period		883,169	1,392,916
Cash and Cash equivalents, end of period		\$ 174,501	\$ 2,190,095

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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 six months ended June 30, 2013 and 2012
(Unaudited)
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Contributed surplus	Equity Component of Convertible Debentures	Accumulated Deficit	Total Equity
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	4,805,832	4,990,786	-	-	-	4,990,786
Fair value of broker warrants on equity offering	-	(169,283)	169,283	-	-	-
Flow through share premium	-	(424,900)	-	-	-	(424,900)
Common shares issued for cash:						
Stock options exercised	66,666	44,000	-	-	-	44,000
Warrants exercised	2,854,523	2,170,892	-	-	-	2,170,892
Transfer to share capital on exercise of warrants	-	70,904	(70,904)	-	-	-
Transfer to share capital on exercise of stock options	-	52,443	(52,443)	-	-	-
Common shares issued upon execution of Credit Agreement	86,079	100,000	-	-	-	100,000
Net loss for the period	-	-	-	-	(6,257,347)	(6,257,347)
Balance, June 30, 2012	39,220,116	\$ 25,809,268	\$ 3,173,903	\$ -	(\$ 21,007,783)	\$7,975,388
Balance, January 1, 2013	50,855,859	\$ 38,693,271	\$ 5,580,984	\$ -	(\$29,188,156)	\$15,086,099
Equity offering, net of cash issuance costs	4,602,535	1,082,156	-	-	-	1,082,156
Flow through share premium	-	(19,007)	-	-	-	(19,007)
Fair value of broker warrants on equity offering	-	(14,890)	14,890	-	-	-
Issuance of Convertible Debentures	-	-	-	2,135,082	-	2,135,082
Share-based compensation	-	-	360,601	-	-	360,601
Net loss for the period	-	-	-	-	(18,526,221)	(18,526,221)
Balance, June 30, 2013	55,458,394	\$ 39,741,530	\$ 5,956,475	\$ 2,135,082	(\$ 47,714,377)	(\$ 118,710)

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

HULDRA SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS 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 and its common shares trade 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 its 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.

As at June 30, 2013, the Company had an accumulated deficit of \$47,714,377 (December 31, 2012 - \$29,188,156) and a working capital deficiency of \$17,615,990 (December 31, 2012 - \$14,566,791) including current debt obligations of \$14,209,840 (December 31, 2012 - \$13,411,298). These factors represent a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. The Company will be required to raise funds through the issuance of equity or debt, or be successful in the development of the Treasure Mountain Mine and Merritt Mill. Realization values may be substantially different from carrying values as shown and the Company's consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

The condensed consolidated interim financial statements for the three and six month periods ended June 30, 2013 were prepared using IFRS, as applied by the Company prior to the filing for CCAA. While the Company and its subsidiaries have filed for and been granted creditor protection, such condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The CCAA proceedings provide the Company with a period of time to stabilize its operations and financial condition and develop a Restructuring Plan.

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

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

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BASIS OF PRESENTATION

a) Statement of compliance with International Financial Reporting Standards

These unaudited condensed consolidated interim financial statements of Huldra 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. Effective January 1, 2013, the Company adopted IFRS 10, IFRS 11, IFRS 12, and IFRS 13. There was no significant impact upon adoption of these standards.

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, 2012 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 August 29, 2013

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) ("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.

b) 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.

c) Use of Estimates and Judgments

The preparation of the condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements are as follows:

i) Determination that the Company is in the exploration stage

As at and during the period ended June 30, 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 project is considered exploration and evaluation activity, and as such, all costs associated with the removal of this mill feed are expensed as exploration costs.

HULDRA SILVER INC.

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2. BASIS OF PRESENTATION (cont'd)

ii) 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 will declare that the mill is in commercial production once 216 tons of lead/silver concentrate is produced in a 30 day period. The Company announced that as of March 26, 2013, it had achieved commercial production of the mill based on current production levels.

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, and the assumptions used in determining the fair value of share based compensation.

iii) Impairment

As of June 26, 2013, the Company put its mine and mill on care and maintenance. In the preparation of these interim 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 8 for details on the significant judgments, estimates and assumptions applied in carrying out this review.

3. SIGNIFICANT ACCOUNTING POLICIES

a) 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.

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.

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.

HULDRA SILVER INC.

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(Unaudited)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 operating expenses in the statement of operations and comprehensive loss. During the year, no depreciation was recognized on the mill or milling permits as the mill was still in the commissioning phase and not available for its intended use.

Property, plant and equipment 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.

HULDRA SILVER INC.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

(Expressed in Canadian dollars)

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) 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.

h) 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 provide 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

i) 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.

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, amounts 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 June 30, 2013, 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 June 30, 2013, the Company has not classified any financial assets as available-for-sale.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 June 30, 2013, 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 June 30, 2013, the Company has classified the current portion 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 are included in the initial measurement of the financial instrument.

j) 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.

k) Share-based Payments

The Company has a 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 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 tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

l) 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 liability 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 balance sheet 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.

m) 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

n) 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.

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 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.

o) 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 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 liability.

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

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

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

4. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents at June 30, 2013 consisted of cash of \$174,501 and cash equivalents of \$nil (December 31, 2012 - cash of \$883,169 and cash equivalents of \$nil).

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5. AMOUNTS RECEIVABLE

	June 30, 2013	December 31, 2012
Accounts receivable from concentrate sales	\$ 226,606	\$ 593,215
Other receivable	\$ 8,299	\$ 1,298
HST receivable, (net)	\$ -	\$ 326,917
METC receivable	\$ 1,055,091	\$ 1,820,586
	<hr/> \$ 1,289,996	<hr/> \$ 2,742,016

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6. PROPERTY, PLANT AND EQUIPMENT

	Land and Permits \$	Camp and Other Site Infrastructure \$	Ore Processing Mill Deposit & Construction \$	Heavy Machinery and Equipment \$	Computers \$	Furniture and Office Equipment \$	TOTAL \$
Cost							
Balance at January 1, 2012	7,928,461	723,225	6,110,863	1,530,290	6,329	4,731	16,303,899
Additions	415,062	5,941	14,296,054	281,536	40,587	—	15,039,180
Recoveries from sales of concentrate	—	—	(1,070,242)	—	—	—	(1,070,242)
Disposals	—	(10,760)	—	—	—	—	(10,760)
Balance at December 31, 2012	8,343,523	718,406	19,336,675	1,811,826	46,916	4,731	30,262,077
Additions	39,526	—	3,025,685	73,007	—	—	3,138,218
Recoveries from sales of concentrate	—	—	(3,820,821)	—	—	—	(3,820,821)
Write-downs	(2,682,079)	—	(8,699,171)	—	—	—	(11,381,250)
Balance at June 30, 2013	5,700,970	718,406	9,842,368	1,884,833	46,916	4,731	18,198,224
Accumulated Depreciation							
Balance at January 1, 2012	—	57,408	—	148,819	2,219	845	209,291
Depreciation for the period	—	136,359	—	358,380	3,588	796	499,123
Reclassification	—	(2,690)	—	—	—	—	(2,690)
Balance at December 31, 2012	—	191,077	—	507,199	5,807	1,641	705,724
Depreciation for the period	—	67,834	—	182,193	4,009	301	254,337
Disposals	—	—	—	—	—	—	—
Balance at June 30, 2013	—	258,911	—	689,392	9,816	1,942	960,061
Carrying Amounts							
At January 1, 2012	7,928,461	665,817	6,110,863	1,381,471	4,110	3,886	16,094,608
At December 31, 2012	8,343,523	527,329	19,336,675	1,304,627	41,109	3,090	29,556,353
At June 30, 2013	5,700,970	459,495	9,842,368	1,195,441	37,100	2,789	17,238,163

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.

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

On May 5, 2011, the Company completed the definitive strategic acquisition agreement dated March 30, 2011 (the "Original Agreement") with Craigmont Holdings Ltd. ("Craigmont") and a wholly owned subsidiary of the Company whereby the Company acquired 100% of the shares (the "Craigmont 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. With regards to the allocation of consideration, the Company allocated \$7,064,724 to land and permits, \$900,000 to asset retirement obligation (See note 9), \$200,000 to mineral interests and \$200,000 to accrued liabilities relating to the continuing interest retained by the vendors in the mineral interests.

In connection with the closing of the acquisition of Craigmont, the Company caused Craigmont to guarantee 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 \$3,000,000 due to the vendors on January 31, 2012, the vendors would discharge the mortgage with respect to all of the parcels of land except for two parcels. Until such payment was made, the Company was not entitled to cause any secondary charges to be placed on the titles to any of the mortgaged parcels of land. The vendors continued to hold a mortgage over those two parcels until the balance of the cash consideration owing under the purchase agreement was paid to the vendors.

On January 31, 2012, the repayment terms of the vendor mortgage were amended. Pursuant to the terms of the amended agreement, the parties agreed to revise the time in which the vendors may recover magnetite from the Company's milling property and to extend and amend payments due to the vendors by the Company.

Under the amended agreement, the \$3,000,000 payment originally due January 31, 2012, was split into two installments where the first installment of \$800,000 was payable on January 31, 2012 and the second installment of \$2,200,000 was payable upon the earlier of (i) the commissioning of the Company's mill and (ii) June 30, 2012. The first installment was paid by the Company on January 31, 2012 and the second installment was paid in two payments, where \$500,000 was paid May 24, 2012 and the remaining \$1,700,000 was paid on June 29, 2012.

In addition, the payment originally due January 31, 2013 was also amended such that \$3,100,000 (net of estimated environmental remediation costs of \$900,000) was payable January 31, 2013 and the Company is required to pay the vendors on or prior to June 30, 2014, a final adjustment amount to reimburse the vendors for any site remediation undertaken by the vendors prior to June 30, 2014. The Company has recognized the estimated environmental remediation costs associated with the site as part of its asset retirement obligation. (See note 9).

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

On February 12, 2013, the Company entered into a second amending agreement to the Original Agreement, pursuant to which the final payment was extended and made in three equal payments, as follows:

- (i) \$1,000,000 on or prior to February 12, 2013;
- (ii) \$1,000,000 on or prior to February 28, 2013; and
- (iii) \$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.

For consideration, the Company paid interest at a rate of 5% per annum on the amounts outstanding after February 12, 2013 until payment was received by the vendors.

On April 8, 2013, the Company made the final payment owing on the Craigmont obligation. All payments have been made and the mortgage on the Craigmont Property has been discharged.

7. MINERAL INTERESTS

Upon incorporation in 1980, the Company acquired from two directors in consideration of 750,000 common shares, a 100% interest in 38 mineral claims at Treasure Mountain, located 27 km east of Hope, British Columbia. 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.

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7. MINERAL INTERESTS (cont'd)

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

	June 30, 2013 \$	December 31, 2012 \$
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 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 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 cash 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. 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
	<u>766,537</u>	<u>766,537</u>

HULDRA SILVER INC.**Notes to the Condensed Consolidated Interim Financial Statements****For the three and six months ended June 30, 2013 and 2012****(Unaudited)****(Expressed in Canadian dollars)****7. MINERAL INTERESTS (cont'd)**

Cumulative exploration costs incurred are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013 \$	2012 \$	2013 \$	2012 \$
EXPLORATION COSTS, beginning of period	20,568,464	13,137,566	18,356,006	10,881,717
Costs incurred during the period				
Engineering	52,060	46,200	96,910	118,731
Insurance	10,672	11,622	24,883	22,738
Meals and travel living allowance	314	-	1,700	4,558
Property tax	103,048	8,317	109,842	13,757
Assessment work and assay costs	57,362	26,596	80,896	57,277
Exploration supplies and camp expenses	172,888	234,216	477,123	520,005
Water sampling	-	914	-	5,380
Salaries and benefits	862,872	980,464	1,665,316	1,924,748
Termination benefits	116,886	-	116,886	-
Construction planning	6,000	-	6,000	5,250
Fuel and propane	213,519	119,992	422,140	396,354
Vehicle & equipment expense	31,908	62,136	66,173	96,407
Depreciation	160,406	126,643	253,616	242,722
Permitting	3,282	28,505	23,000	70,255
Metallurgical	-	3,000	-	3,000
Road rehabilitation	24,236	35,966	113,075	135,151
Drilling	407,051	-	407,051	-
Surveying	-	117	-	230
Outsourced labor	84,568	75,718	139,468	153,836
Tenure lease	6,700	393	8,150	1,118
Freight	1,902	5,577	4,578	9,087
Equipment rentals	119,772	45,580	198,987	156,462
Geological	56,049	15,341	123,733	17,985
Geotechnical	7,825	-	16,933	-
Explosives	101,624	58,560	167,271	162,572
Trucking expense	310,124	1,700	616,602	25,783
Mill feed processing expense	2,145,870	-	2,145,870	-
Recovery of costs	(4,205,433)	(187,819)	(4,222,240)	(187,819)
Total costs incurred during the period	851,505	1,699,738	3,063,963	3,955,587
CUMULATIVE EXPLORATION COSTS, end of period	21,419,969	14,837,304	21,419,969	14,837,304

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8. IMPAIRMENT

As at June 30, 2013, the Company had entered care and maintenance mode which is a potential indicator of impairment of the carrying amount of its non-current non-financial assets. As a result, the Company has carried out a review of the carrying amounts of the non-current non-financial assets. The Company has taken the view that mine and mill are determined to be a single cash generating unit ("CGU") for this purpose.

In carrying out this review process, the Company has been required to make significant judgments, including the application of appropriate valuation methods, estimates and assumptions regarding mine plan tonnages and grades, commodity prices and operating costs. The Company has assumed that operations at the mine and mill will recommence by either the Company or a potential new ownership group, and the assumption that any potential new ownership group would not be willing to pay for any significant portion of the costs incurred in the construction and commissioning of the mill which costs are approximately \$23,000,000. By their nature, such estimates and assumptions are subject to significant uncertainty. If the Company or a new ownership group was unable to recommence operations at the mine and mill for whatever reason, then the recoverable amount may be significantly less and result in an additional significant impairment loss.

Recoverable amount has been determined based on estimated fair value less cost to sell basis. Based on its review, the Company has recognized an impairment loss at June 30, 2013 in the amount of \$11,381,250.

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

9. ASSET RETIREMENT OBLIGATION

As part of the acquisition of Craigmont, the Company assumed the asset retirement obligation relating to the Craigmont property. Based on costs negotiated with the vendors, and a prior study of the costs to be incurred that was performed in 2002, 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%.

As part of the Original Agreement, the Company had agreed to commission a detailed study of the costs required to remediate the Craigmont property. As a result of an amendment to the Original Agreement subsequent to year end, the detailed study is no longer required and the Company has agreed with the vendors that the environmental remediation costs will be settled for \$900,000 and are no longer subject to further adjustment. As at June 30, 2013, 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 June 30, 2013 total \$505,100 (December 31, 2012 - \$505,100) and are required to satisfy the obligations, discounted using a real discount rate of 0% per annum (December 31, 2012 - 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.

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10. RESTRICTED CASH

The Company has in place deposits amounting to \$1,135,100 as at June 30, 2013 (December 31, 2012 - \$735,100) 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.

11. WATERTON DEBT

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, 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 was subject to the satisfaction or waiver of certain conditions as set out in the Credit Agreement.

The Company was permitted to draw down the advances at any time until May 31, 2012 and all amounts outstanding were originally to 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 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.

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. In addition, the Company incurred transaction costs of \$1,300,601 associated with the arrangement of the Credit Facility and drawdown of the first advance, which included \$850,333 assigned to the warrants (See notes 15 and 18). These transaction costs have also been deducted from the proceeds received to determine the initial face value of the host debt instrument of \$1,519,399. The host debt instrument is accounted for on an amortized cost basis using the effective interest rate method. The effective interest rate of the host debt for the first advance at the time the advance was drawn was 70.41%.

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11. WATERTON DEBT (cont'd)

On July 28, 2011, the Company drew down the second advance of \$2,000,000. 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 \$120,000 has been deducted from the proceeds received. In addition, the Company incurred transaction costs of \$71,000 associated with the drawdown of the second advance. These transaction costs have also been deducted from the proceeds received to determine the initial face value of the host debt instrument of \$1,809,000. The host debt instrument is accounted for on an amortized cost basis using the effective interest rate method. The effective interest rate of the host debt for the second advance at the time the advance was drawn was 28.87%. There were no warrants issued in connection with the second advance.

On January 17, 2012, the Company drew down the third advance of \$2,500,000. 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 \$139,609 has been deducted from the proceeds received. In addition, the Company incurred transaction costs of \$677,566 associated with the drawdown of the third advance, which included \$577,566 assigned to the warrants (See notes 15 and 18). These transaction costs have also been deducted from the proceeds received to determine the initial face value of the host debt instrument of \$1,682,825. The host debt instrument is accounted for on an amortized cost basis using the effective interest rate method. The effective interest rate of the host debt for the third advance at the time the advance was drawn was 86.41%.

On May 16, 2012, the Company entered into an amending agreement (the "First Amendment") with Waterton pursuant to which it amended the terms of the Credit Agreement. Under the terms of the First Amendment, the repayment dates were changed from 12 monthly repayments of equal amounts starting May 31, 2012 to 10 monthly repayments of equal amounts starting July 31, 2012. The Silver Adjustment Provision was also amended so that it was also payable only on the new repayment dates starting in July 2012. Furthermore, the First Amendment also amended the conditions necessary for the drawdown of the fourth advance such that the Company was entitled to drawdown the fourth advance immediately as the Company had received a Mining Lease and a British Columbia Mines Act Permit approving a mine plan and reclamation program for the Treasure Mountain project, along with an Amended Permit approving construction and operation of a processing plant at the mill site.

In consideration of the foregoing, the Company agreed to increase the number of warrants to be given to Waterton in connection with the drawdown of the fourth advance from 650,000 to 1,000,000. The terms of the warrants were also amended such that, if issued, they would have an exercise price of \$1.30 throughout the term of the warrant.

The Company has determined that the terms of the First Amendment were not substantially different from the terms of the original Credit Agreement. Therefore, no gain or loss was recognized as a result of the First Amendment and the effective interest rate of the debt associated with the first advance was amended from 70.41% to 57.94%, the effective interest rate of the debt associated with the second advance was amended from 28.87% to 24.37%, and the effective interest rate of the debt associated with the third advance was amended from 86.41% to 70.71%.

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11. WATERTON DEBT (cont'd)

On May 23, 2012, the Company drew down the fourth advance of \$2,500,000. 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 \$92,008 has been deducted from the proceeds received. In addition, the Company incurred transaction costs of \$101,481 associated with the drawdown of the fourth advance. These transaction costs have also been deducted from the proceeds received to determine the value of the host debt instrument of \$2,306,511. The host debt instrument is accounted for on an amortized cost basis using the effective interest rate method. The effective interest rate of the host debt for the fourth advance at the time the advance was drawn was 65.08%. Furthermore, because the warrants issued in connection with the fourth advance are considered equity instruments (see note 15) and the Company estimates that the fair value of the host debt equals or exceeds \$2,306,511, no amount has been allocated to the warrants issued.

On July 30, 2012, the Company entered into a second amending agreement (the "Second Amendment") with Waterton pursuant to which it further amended the terms of the Credit Agreement. Under the Second Amendment, the repayment terms were amended from 10 equal payments starting on July 31, 2012 to 9 monthly payments of varying amounts starting August 31, 2012 and ending April 30, 2013. In this regard, the Second Amendment reduced the amount of the August and September payments by over fifty percent; however this resulted in an increase in the repayment amounts starting October 31, 2012. The Silver Adjustment Provision was also amended so that it was also payable only on the new repayment dates starting in August 2012.

In consideration for these amendments, the Company (i) issued 180,000 common shares of the Company to Waterton and (ii) agreed to pay to Waterton a \$200,000 cash payment on April 30, 2013 which has been added to the final principal payment amount of the debt. The fair value of the common shares issued was \$198,000 and was considered a transaction cost associated with the Second Amendment. The Company has determined that the terms of the Second Amendment were not substantially different from the terms of the First Amendment. Therefore, no gain or loss was recognized as a result of the Second Amendment and the effective interest rate of the debt associated with the first advance was amended from 57.94% to 52.30%, the effective interest rate of the debt associated with the second advance was amended from 24.37% to 26.06%, the effective interest rate of the debt associated with the third advance was amended from 70.71% to 61.97%, and the effective interest rate of the debt associated with the fourth advance was amended from 65.08% to 57.75%.

On October 24, 2012, the Company entered into a third amending agreement (the "Third Amendment") with Waterton pursuant to which it further amended the terms of the Credit Agreement. Under the Third Amendment, the repayment term for the payments to be made between October 31, 2012 and April 30, 2013 were amended such that the October 31, 2012 and November 30, 2012 repayment amounts were each reduced by \$887,607, with such reduction resulting in a corresponding increase in the March 29, 2013 and April 30, 2013 repayment amounts. The Silver Adjustment Provision was also amended so that the amount payable on each repayment date continued to be based on the debt repayment amount for that date.

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11. WATERTON DEBT (cont'd)

In consideration for these amendments, the Company agreed to pay to Waterton an additional \$300,000 cash payment on April 30, 2013 which has been added to the final principal payment amount of the debt. In addition, the Company has agreed to enter into a legally binding and effective concentrate off-take agreement with Waterton whereby Waterton will purchase concentrate from the Company under terms and conditions acceptable to Waterton, acting reasonably. The Company has determined that the terms of the Third Amendment were not substantially different from the terms of the Second Amendment. Accordingly, no gain or loss was recognized as a result of the Third Amendment and the effective interest rate of the debt associated with the first advance was amended from 52.30% to 46.52%, the effective interest rate of the debt associated with the second advance was amended from 26.06% to 30.15%, the effective interest rate of the debt associated with the third advance was amended from 61.97% to 53.68%, and the effective interest rate of the debt associated with the fourth advance was amended from 57.75% to 50.57%.

On December 31, 2012, the Company agreed with Waterton to extend the December 31, 2012 payment so that \$600,000 of the required debt and Silver Participation Amounts of \$1,792,675 were payable immediately with the remaining amount being payable on or before January 30, 2013. The amount due immediately was repaid on January 2, 2013 and the remaining amount was further amended subsequent to December 31, 2012. As consideration for this extension, the Company paid on January 30, 2013, a fee equal to the aggregate of \$23,854 and the sum of 2% of the remaining December 31, 2012 repayment amount outstanding if any, on January 15, 2013 and 2% of the remaining December 31, 2012 repayment amount outstanding, if any, on January 29, 2013.

The Credit Facility, as amended, 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 the following:

- 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.

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11. WATERTON DEBT (cont'd)

On January 29, 2013, the Company entered into a fourth amending agreement (the "Fourth Amendment") with Waterton pursuant to which it has further amended the terms of the Credit Agreement. Under the terms of the Fourth Amendment, Waterton agreed to amend the repayment terms of the Credit Agreement such that the maturity date has been extended from April 2013 to November 2013 and the repayment amounts, other than for January 2013 have been reduced accordingly. The payment for January 2013 was \$1,921,039 was paid on February 8, 2013. As consideration for the amendment, the Company agreed to pay a restructuring fee of \$125,000 per month for the remainder of the term subject to a minimum restructuring fee of \$750,000. Additionally, the calculation for the Silver Adjustment Provision payable formula was changed so that the amount payable is based on the higher of the settlement price per ounce of silver on the business day preceding the repayment date of \$32.00 per ounce. Prior to the Fourth Amendment, the calculation for the Silver Adjustment Provision payable required the settlement price per ounce of silver on the business day immediately preceding the repayment date to be at a minimum of \$27.50 per ounce in order to trigger a Silver Adjustment Provision amount payable and the maximum amount payable in the formula was based on \$34.00 per ounce.

As a result of the adjustment made to the Silver Adjustment Provision payable calculation per the Fourth Amendment, the Company has determined that the terms of the loan have changed sufficiently such that the Fourth Amendment should be accounted for as a debt extinguishment. The impact on the Company was a \$1,399,865 charge to the statement of operations and comprehensive loss for the three months ended March 31, 2013. Additionally, the Company has used a fair value discount rate of 20% to value the loan on a going forward basis.

However, in preparing the consolidated financial statements as at and for the three and six month periods ended June 30, 2013, the Company determined that it was more appropriate to fair value the debt using a discounted cash flow model using an estimated market interest rate for equivalent debt of 70.24% given the Company's industry and risk profile. The initial fair value of the debt as a result of extinguishment accounting resulted in a loss on extinguishment of \$1,399,865. When re-calculated using the revised market interest rate of 70.24% there was a gain on extinguishment of \$336,635.

Accordingly, the impact of this change in the market interest rate from 20% to 70.24% for the three months ended March 31, 2013 is as follows:

As at March 31, 2013		
	As Originally Filed	As Restated
Gain (loss) on extinguishment	\$ (1,399,865)	\$ 336,135
Interest expense on Waterton debt	\$ 595,317	\$ 1,130,230

On June 28, 2013 the Company executed a Waiver of Default letter with Waterton. As a result, the Company and Waterton agreed to eliminate all monthly payment obligations and delay the payment of all obligations under the Credit Facility until October 31, 2013. In the event that silver prices exceed \$32.00 per ounce upon repayment, there will be additional amounts owing under the Silver Adjustment Provision. In consideration of this agreement, the Company agreed to a Waiver and Restructuring Fee in the amount of \$500,000.

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12. 2012 FINANCINGS

In June 2012, the Company entered into an agreement with NBF on behalf of a syndicate of agents including BayFront and Pope, 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 Venture Exchange. 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.

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 non-transferable broker warrants 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 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, 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 six months from the date of issuance.

The Company completed various tranches of the Fall Offering between September 26, 2012 and November 14, 2012 in which it issued an aggregate of 5,099,600 units at a price of \$1.35 per unit for gross proceeds of \$6,884,460. 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. Because the subscription price of the units did not exceed the Company's share price, no value was assigned to the warrants. The fair value assigned to the broker warrants was \$446,163.

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12. 2012 FINANCINGS (cont'd)

On December 12, 2012, the Company announced that it had completed a private placement of 2,000,000 flow-through common shares at a price of \$1.55 per share for gross proceeds of \$3,100,000 (the "Winter Offering"). The premium per share was \$0.25 per share with a resulting liability of \$500,000. The Company paid finder's fees consisting of cash commissions equal to 6.0% of the gross proceeds raised under the Winter Offering and the issuance of non-transferable broker warrants equal to 6.0% of the number of flow-through shares sold under the Winter Offering. Each broker warrant will be exercisable into one common share of the Company, issued on a non-flow-through basis, at a price of \$1.55 per share for a period of 12 months from the closing of the Winter Offering. The fair value assigned to the broker warrants was \$36,384.

13. 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 will consist 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 will consist 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 \$1,433,650.40, consisting of 3,822,200 NFT Units at a price of \$0.25 per NFT Unit and 1,593,668 FT Units at a price of \$0.30 per FT Unit in several tranches. Finder's fees in the aggregate amount of \$100,272.07 were paid in connection with the offering. A total of 377,830 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. All securities issued in the offering are subject to a statutory four month and one day hold period after the closing of each tranche of the offering, as applicable.

14. CONVERTIBLE DEBT

The Company completed a private placement of unsecured convertible debentures (the "Debentures") in various tranches between February 8, 2013 and February 13, 2013, for aggregate gross proceeds of \$10,003,800. The principal amount of the Debentures will mature twelve (12) months after issuance (the "Maturity Date") and accrue interest at 16% per annum payable on the Maturity Date.

HULDRA SILVER INC.

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14. CONVERTIBLE DEBT (cont'd)

The principal amount of the Debentures will be convertible into common shares of the Company (each, a "Share) at a price of \$1.05 per Share, and any accrued but unpaid interest thereon will be 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 Venture Exchange) per Share at the time of any notice of conversion, each subject to adjustment as provided by the terms of the Debentures. The principal amount of the Debentures and any accrued but unpaid interest thereon will not be pre-payable by the Company.

The convertible debentures are compound instruments and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. 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% given the Company's industry and risk profile. The initial fair value of the debt was calculated to be \$9,835,896 with the residual portion of \$167,904, 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 debentures.

However, in preparing the consolidated financial statements as at and for the three and six month periods ended June 30, 2013, the Company determined that it was more appropriate to fair value the debt using a discounted cash flow model using an estimated market interest rate for equivalent debt of 50% given the Company's industry and risk profile. The initial fair value of the debt was re-calculated to be \$7,868,718 with the residual portion of \$2,135,082 allocated to equity.

Accordingly, the impact of this change in the market interest rate from 20% to 50% for the three months ended March 31, 2013 is as follows:

	As at March 31, 2013	
	As Originally Filed	As Restated
Initial liability component of Convertible Debt	\$ 9,835,896	\$ 7,868,718
Initial equity component of Convertible Debt	\$ 167,904	2,135,082
Interest expense on Convertible Debt	\$ 269,563	\$ 432,457

15. 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.

HULDRA SILVER INC.**Notes to the Condensed Consolidated Interim Financial Statements****For the three and six months ended June 30, 2013 and 2012****(Unaudited)****(Expressed in Canadian dollars)**

15. SHARE CAPITAL AND RESERVES (cont'd)**b) Share Purchase Warrants**

The following is a summary of changes in warrants from January 1, 2012 to June 30, 2013:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2012	11,090,662	\$ 1.16
Issue of warrants	5,372,778	\$ 1.48
Exercise of warrants	(3,206,950)	\$ 0.78
Expiring of warrants	(25,000)	\$ 0.75
Balance at December 31, 2012	13,231,490	
Issue of warrants	5,315,598	\$ 0.36
Exercise of warrants	-	
Expiring of warrants	-	
Balance at June 30, 2013	18,547,088	

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15. SHARE CAPITAL AND RESERVES (cont'd)

As at June 30, 2013, the Company had outstanding warrants as follows:

<u>Security</u>	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Warrants	6,342,880	\$1.35	July 14, 2013
Warrants	488,265*	\$1.05/\$1.35	July 14, 2013
Warrants	165,147	\$1.05	July 14, 2013
Warrants	11,924	\$1.35	July 14, 2013
Warrants	115,512	\$1.35	September 26, 2013
Warrants	32,000	\$1.35	October 1, 2013
Warrants	72,520	\$1.35	October 9, 2013
Warrants	6,000	\$1.35	October 12, 2013
Warrants	56,032	\$1.35	October 19, 2013
Warrants	8,000	\$1.35	October 29, 2013
Warrants	40,000	\$1.35	November 13, 2013
Warrants	45,120	\$1.35	November 14, 2013
Warrants	120,000	\$1.55	December 11, 2013
Warrants	54,324	\$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	858,059	\$1.75	September 26, 2014
Warrants	200,000	\$1.75	October 1, 2014
Warrants	514,541	\$1.75	October 9, 2014
Warrants	37,500	\$1.75	October 12, 2014
Warrants	357,700	\$1.75	October 19, 2014
Warrants	50,000	\$1.75	October 29, 2014
Warrants	250,000	\$1.75	November 13, 2014
Warrants	282,000	\$1.75	November 14, 2014
Warrants	176,707	\$0.40	June 13, 2015
Warrants	8,800	\$0.40	June 14, 2015
Warrants	79,019	\$0.40	June 17, 2015
Warrants	55,304	\$0.40	June 18, 2015
Warrants	58,000	\$0.40	June 20, 2015
Warrants	1,932,500	\$0.35	June 13, 2016
Warrants	678,533	\$0.40	June 13, 2016
Warrants	110,000	\$0.35	June 14, 2016
Warrants	900,000**	\$1.28	June 16, 2016
Warrants	538,400	\$0.35	June 17, 2016
Warrants	314,535	\$0.40	June 17, 2016
Warrants	691,300	\$0.35	June 18, 2016
Warrants	550,000	\$0.35	June 20, 2016
Warrants	122,500	\$0.40	June 20, 2016
Warrants	650,000**	\$1.21	January 17, 2017
Warrants	1,000,000	\$1.30	May 23, 2017
	<hr/> 18,547,088		

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15. SHARE CAPITAL AND RESERVES (cont'd)

*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.

**On the third anniversary of 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.

16. SHARE-BASED PAYMENTS

a) 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 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.

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:

- 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, options issued to consultants performing investor relations activities must vest in stages over 12 months with no more than $\frac{1}{4}$ 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.

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16. SHARE-BASED PAYMENTS (cont'd)

The following is a summary of changes in stock options from January 1, 2012 to June 30, 2013:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance at January 1, 2012	2,630,000	\$ 0.93
Issue of options	1,915,000	\$ 1.44
Exercise of options	(478,500)	\$ 0.52
Balance at December 31, 2012	4,066,500	
Issue of options	500,000	\$ 0.95
Exercise of options	-	-
Expired options	(220,000)	\$ 1.43
Balance at June 30, 2013	4,346,500	\$ 1.18

As at June 30, 2013, the following stock options were outstanding and exercisable:

<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Exercise Price</u>	<u>Weighted Average Contractual Life (Years)</u>	<u>Expiry Date</u>
440,000	440,000	\$ 0.25	1.75	March 29, 2015
150,000	150,000	\$ 0.25	1.83	May 4, 2015
150,000	150,000	\$ 0.385	2.00	June 28, 2015
31,500	31,500	\$ 0.95	2.58	January 28, 2016
270,000	270,000	\$ 1.40	2.83	May 2, 2016
1,050,000	1,050,000	\$ 1.44	3.08	July 28, 2016
60,000	60,000	\$ 1.35	3.38	November 16, 2016
1,385,000	1,385,000	\$ 1.45	4.19	September 10, 2017
310,000	310,000	\$ 1.40	4.33	November 1, 2017
150,000	150,000	\$ 0.95	4.65	February 25, 2018
350,000	350,000	\$ 0.95	4.66	February 27, 2018
4,346,500	4,346,500		3.48	

b) Fair Value of Options Issued During the Period

The weighted average fair value at grant date of options granted during the six months ended June 30, 2013 was \$0.95 per option (June 30, 2012 - \$Nil). 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.

The Company expensed \$300,418 during the six months ended June 30, 2013 (June 30, 2012 - \$Nil) as well as incurred \$60,183 in share-based compensation costs that will be added to the capitalized cost of the mill (June 30, 2012- \$Nil).

These amounts also include an expense of \$232,559 for the six months ended June 30, 2013, related to 390,000 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.

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17. RELATED PARTY TRANSACTIONS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Management fees paid to a director and a company controlled by a director (i)	24,000	24,000	48,000	48,000
Consulting fees paid to directors (ii)	54,000	6,000	60,000	12,000
Office Rental payments made to a company controlled by a director (iii)	7,500	7,500	15,000	15,000
Office and general expenses paid to a director of the Company (iv)	360	360	720	720

- i) Management fee is \$8,000 per month.
- ii) Consulting fees are \$10,000 per month. There are no formal agreements for either director.
- 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 six months ended June 30, 2013 included \$nil in share-based compensation expense (June 30, 2012 - \$nil).

18. 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.

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18. FINANCIAL INSTRUMENTS (cont'd)

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 accounts receivable from concentrate sales is categorized as Level 2 on the fair value hierarchy.

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

Spot Price of Silver	\$19.84 per ounce
Exercise Price	\$32.00
Risk Free Rate	1.00%
Discount Rate	1.00%
Expected Life	0.33
Number of Options Granted	85,562
Credit Adjustment Factor	50.00%

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

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

Share Price	\$0.08
Exercise Price	\$1.21 or \$1.28 as applicable
Risk Free Rate	0.00%
Discount Rate	1.84%
Expected Life	2.96 years or 3.54 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 six months ended June 30, 2013:

	Liability at December 31, 2012	Extinguishment of Debt	Profit Participation Payments	Mark to market (gain) loss	Liability at June 30, 2013
Waterton derivative liability	\$ 406,260	\$ 376,718	\$ (398,772)	\$ (58,158)	\$ 326,048
Warrant liability	\$ 1,422,005	\$ -	\$ -	\$ (1,402,981)	\$ 19,024
	<u>\$ 1,828,265</u>	<u>\$ 376,718</u>	<u>\$ (398,772)</u>	<u>\$ (1,461,139)</u>	<u>\$ 345,072</u>

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18. FINANCIAL INSTRUMENTS (cont'd)

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 balance sheet date under its financial instruments is approximately \$1.5 million.

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

Liquidity Risk

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

Management anticipates that, subject to financing and a positive outcome of the CCAA proceedings, it will make substantial 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 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 a positive outcome of the CCAA proceedings 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.

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18. FINANCIAL INSTRUMENTS (cont'd)

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	\$ 3,822,922	\$ -	\$ -	\$ -
Waterton Debt Obligation	\$ -	\$ 7,234,363	\$ -	\$ -
Convertible Debentures	\$ -	\$ 11,604,408	\$ -	\$ -
	<u>\$ 3,822,922</u>	<u>\$ 18,838,771</u>	<u>\$ -</u>	<u>\$ -</u>

Metal Price Risk

Metal price risk is the risk that changes in metal prices will affect the Company's income or the value of its related financial instruments. The Company has sales of silver, lead, and zinc where the value of such sales is dependent on metal prices that have shown significant volatility and are beyond the Company's control.

Foreign Exchange Rate Risk

Since the Company's sales of concentrate are denominated in U.S. dollars and the Company's operating costs are denominated primarily in Canadian dollars, the Company is negatively impacted by the strengthening of the Canadian dollar relative to the U.S. dollar and positively impacted by the inverse.

19. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended June	
	30	
	2013	2012
Issued common shares upon amendment of Credit Agreement	\$ -	\$ 100,000

20. COMMITMENTS

With respect to the Company's flow-through share issuances in 2012, the Company is required to incur eligible expenditures of approximately \$4,964,693 in 2013 in order to fulfill its commitment.

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21. SUBSEQUENT EVENTS

Subsequent events to June 30, 2013 are as follows:

- a) On July 8, 2013, the Company received an additional advance of \$500,000 under its debt facility with Waterton. The advance forms a further advance under and was subject to the terms of the Credit Agreement, as amended, entered into with Waterton on June 16, 2011, beared interest at 5% per annum, calculated and payable on maturity, and is due on the earlier of the date of demand by Waterton, the date that Waterton provides a new loan to the Company or October 31, 2013. The amount to be repaid was also subject to a Silver Adjustment Provision similar to the provision contained in the Credit Agreement, unless Waterton provides a new loan to the Company, in which case the amount to be repaid will only be principal plus interest. In consideration for the advance, the Company agreed to pay a structuring fee of \$10,000. The advance plus interest was repaid to Waterton on August 16, 2013
- b) On July 26, 2013, the Company determined that it was in the best interests of all of its stakeholders to seek creditor protection under the CCAA, and obtained such protection pursuant to an Order from the Supreme Court of British Columbia. While under CCAA protection, the Company is continuing to attempt to restructure its financial affairs and recommence operations at its mine and mill. On August 23, 2013, the Company was granted an extension of such Order until November 25, 2013.
- c) Pursuant to a DIP Credit Agreement dated August 15, 2013 (the "DIP Credit Agreement"), the Company announced that it had obtained a secured debtor-in-possession loan (the "DIP Loan") from Waterton, the primary secured creditor of the Company, The DIP Loan was authorized by an initial order of the Supreme Court of British Columbia pursuant to the CCAA proceedings.

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

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

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21. SUBSEQUENT EVENTS (cont'd)

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 leases 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 \$50,000.00 being rendered against the Company, certain events happening in the CCAA proceeding and a number of other enumerated events.

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

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

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

- d)** Subsequent to June 30, 2013, 7,008,216 warrants have expired and 620,333 warrants issued pursuant to the June 2013 private placement were cancelled and returned to treasury as the related subscriptions were cancelled.
- e)** Subsequent to June 30, 2013, 330,000 options have expired.