*Condensed Consolidated Interim Financial Statements of*

# SILVER SPRUCE RESOURCES INC.

*At and for the nine months ended July 31, 2012 and 2011*

*(Unaudited)*

# Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the interim consolidated financial statements have not been reviewed by the Company's auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Halifax, Nova Scotia
September 25, 2012

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# SILVER SPRUCE RESOURCES INC.
## Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars - Unaudited)

| | As at July 31, 2012 | As at October 31, 2011 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| Current | | |
| Cash | 267,589 | 874,290 |
| HST and other receivables | 39,439 | 48,691 |
| Refundable staking deposits | 13,906 | 95,600 |
| Prepaid expenses | 29,076 | 83,252 |
| Investments | 15,232 | 3,463 |
| | 365,242 | 1,105,296 |
| Mineral properties (Notes 7 and 15) | 2,165,786 | 4,024,812 |
| Property and equipment (Note 8) | 104,518 | 128,016 |
| Non-current refundable staking deposits | 4,394 | 8,970 |
| | 2,639,940 | 5,267,094 |
| **LIABILITIES** | | |
| Current | | |
| Trade payable and accrued liabilities (Note 12) | 145,914 | 171,113 |
| Other liabilities | 8,810 | - |
| | 154,724 | 171,113 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 9) | 26,497,812 | 26,341,861 |
| Warrants reserve(Note 10) | 839,781 | 878,542 |
| Contributed surplus | 7,050,847 | 6,983,490 |
| Accumulated deficit | (31,903,224) | (29,107,912) |
| | 2,485,216 | 5,095,981 |
| | 2,639,940 | 5,267,094 |

See accompanying notes to the condensed consolidated interim financial statements

**BASIS OF PREPARATION AND GOING CONCERN** (Note 2)

Description of business (Note 1)

Commitments and contingencies (Notes 7 and 14)

APPROVED BY THE BOARD OF DIRECTORS

________________, Director

________________, Director

## SILVER SPRUCE RESOURCES INC.
## Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
**(Expressed in Canadian Dollars - Unaudited)**

| | **For the three months ended July 31, 2012** | For the three months ended July 31, 2011 | For the nine months ended July 31, 2012 | For the nine months ended July 31, 2011 |
|---|---|---|---|---|
| | **$** | $ | $ | $ |
| Revenue | | | | |
| Foreign exchange gain | **129** | 351 | - | - |
| Other income | **35,347** | 107,060 | 53,838 | 107,060 |
| | **35,476** | 107,411 | 53,838 | 107,060 |
| Expenses | | | | |
| Impairment of mineral properties (Note 7) | **2,335,411** | 465 | 2,335,411 | 7,805 |
| Abandonment of mineral properties (Note 7) | **-** | - | - | 7,020 |
| Write-off of receivable | **-** | - | - | 10,459 |
| Stock-based compensation | **-** | 111,073 | - | 519,212 |
| Office and general | **20,330** | 33,543 | 72,744 | 131,115 |
| Accounting, audit and legal | **66,138** | 21,194 | 177,509 | 127,499 |
| Wages and benefits | **28,620** | 64,370 | 35,220 | 134,212 |
| Unrealized loss on market value of investments | **5,185** | 1,500 | 6,710 | 5,226 |
| Consulting fees | **22,127** | 32,692 | 80,981 | 137,983 |
| Corporate relations | **24,608** | 17,245 | 82,998 | 117,248 |
| Travel | **-** | 4,213 | 6,867 | 24,018 |
| Amortization | **6,963** | 6,303 | 22,617 | 20,641 |
| Listing and filing fees | **2,896** | 2,316 | 19,395 | 26,509 |
| Loss on sale of property and equipment (net) | **-** | - | 341 | - |
| Foreign exchange loss | **-** | - | 1,672 | 640 |
| | **2,512,278** | 294,914 | 2,842,465 | 1,269,587 |
| Loss before income taxes | **(2,476,802)** | (187,503) | (2,788,627) | (1,162,527) |
| Income taxes | **-** | 1,337 | 6,685 | 7,005 |
| NET AND COMPREHENSIVE LOSS FOR THE PERIOD | **(2,476,802)** | (188,840) | (2,795,312) | (1,169,532) |
| LOSS PER SHARE - BASIC AND DILUTED | **0.02** | 0.00 | 0.03 | 0.01 |
| WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED | **109,182,472** | 106,525,088 | 107,496,856 | 91,663,430 |

See accompanying notes to the condensed consolidated interim financial statements

# SILVER SPRUCE RESOURCES INC.
## Condensed Consolidated Interim Statements of Change in Shareholders' Equity
**(Expressed in Canadian Dollars - Unaudited)**

| | | Share capital | Warrants reserve | Contributed surplus | Accumulated deficit | Total equity |
|---|---|---|---|---|---|---|
| | Number of shares | $ | $ | $ | $ | $ |
| **Balance, November 1, 2010** | 79,073,442 | 23,144,409 | 739,925 | 6,372,250 | (27,067,210) | 3,189,374 |
| Total comprehensive loss to July 31, 2011 | - | - | - | - | (1,169,532) | (1,169,532) |
| Shares issued for private placements | 11,226,481 | 1,345,744 | - | - | - | 1,345,744 |
| Shares issue for property acquisition | 500,000 | 56,000 | - | - | - | 56,000 |
| Share issuance costs | - | (204,091) | - | - | - | (204,091) |
| Share-based payment issued | - | - | - | 587,212 | - | 587,212 |
| Share-based payment exercised | 1,269,230 | 182,447 | - | (72,398) | - | 110,049 |
| Warrants issued for private placement | - | - | 567,779 | - | - | 567,779 |
| Warrants expired | - | - | (96,426) | 96,426 | - | - |
| Warrants exercised | 14,496,152 | 1,817,352 | (332,736) | - | - | 1,484,616 |
| **Balance July 31, 2011** | **106,565,305** | **26,341,861** | **878,542** | **6,983,490** | **(28,236,742)** | **5,967,151** |
| Total comprehensive loss to October 31, 2011 | - | - | - | - | (871,170) | (871,170) |
| **Balance October 31, 2011** | **106,565,305** | **26,341,861** | **878,542** | **6,983,490** | **(29,107,912)** | **5,095,981** |
| Total comprehensive loss to July 31, 2012 | - | - | - | - | (2,795,312) | (2,795,312) |
| Warrants expired | - | - | (67,357) | 67,357 | - | - |
| Shares issued for property acquisition | 650,000 | 48,500 | - | - | - | 48,500 |
| Shares issued for private placements | 2,392,500 | 162,804 | - | - | - | 162,804 |
| Share issuance costs | - | (12,091) | - | - | - | (12,091) |
| Deferred revenue for flow through share premium | - | (43,262) | - | - | - | (43,262) |
| Warrants issued for private placement | - | - | 28,596 | - | - | 28,596 |
| **Balance July 31, 2012** | **109,607,805** | **26,497,812** | **839,781** | **7,050,847** | **(31,903,224)** | **2,485,216** |

See accompanying notes to the condensed consolidated interim financial statements

## SILVER SPRUCE RESOURCES INC.
## Condensed Consolidated Interim Statements of Cash Flows
**(Expressed in Canadian Dollars - Unaudited)**

| | **For the three months ended July 31, 2012** | For the three months ended July 31, 2011 | **For the nine months ended July 31, 2012** | For the nine months ended July 31, 2011 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| Operating activities | | | | |
| Net loss | **(2,476,802)** | (188,840) | **(2,795,312)** | (1,169,532) |
| Items not affecting cash: | | | | |
| Gain (loss) on foreign exchange | **129** | 351 | **(1,672)** | (640) |
| Stock-based compensation | **-** | 111,073 | **-** | 519,212 |
| Amortization | **6,963** | 6,303 | **22,617** | 20,641 |
| Loss on disposal of property and equipment | **-** | - | **341** | - |
| Unrealized loss in market value of investments | **5,185** | 1,500 | **6,710** | 5,226 |
| Unrealized gain on acquisition of investments | **-** | - | **(18,479)** | - |
| Flow through share premium | **(43,262)** | - | **(43,262)** | - |
| Impairment of mineral properties | **2,335,411** | 465 | **2,335,411** | 7,805 |
| Abandonment of mineral properties | **-** | - | **-** | 7,020 |
| | **(172,376)** | (69,148) | **(493,646)** | (610,268) |
| Changes in non-cash working capital | | | | |
| Decrease (increase) in prepaid expenses | **27,536** | (20,731) | **54,176** | (31,558) |
| (Increase) decrease in HST and other receivables | **(20,970)** | 30,346 | **10,922** | (20,292) |
| Increase (decrease) in accounts payable and accrued liabilities | **93,169** | (136,907) | **(25,197)** | (285,853) |
| Change in non-cash operating working capital | **99,735** | (127,292) | **39,901** | (337,703) |
| | **(72,641)** | (196,440) | **(453,745)** | (947,971) |
| Financing activities | | | | |
| Proceeds from exercise of warrants and options | **-** | 22,000 | **-** | 1,616,664 |
| Proceeds from issuance of share capital and warrants | **191,400** | - | **191,400** | 1,981,523 |
| Share issue costs | **(12,091)** | (4,056) | **(12,091)** | (169,825) |
| Increase (decrease) in other liabilities | **8,810** | - | **8,810** | - |
| Repayments of long-term debt | **-** | (1,494) | **-** | (5,976) |
| | **188,119** | 16,450 | **188,119** | 3,422,386 |
| Investing activities | | | | |
| Mineral properties expenditures | **(296,340)** | (589,772) | **(427,885)** | (1,333,846) |
| Proceeds from sale of equipment | **-** | - | **540** | - |
| Refund of refundable staking deposits | **82,850** | - | **88,270** | 53,100 |
| Purchase of refundable staking deposits | **-** | (1,730) | **(2,000)** | (40,773) |
| | **(213,490)** | (591,502) | **(341,075)** | (1,321,519) |
| (DECREASE) INCREASE IN CASH | **(98,012)** | (771,492) | **(606,701)** | 1,152,896 |
| CASH, BEGINNING OF PERIOD | **365,601** | 2,140,675 | **874,290** | 216,287 |
| CASH, END OF PERIOD | **267,589** | 1,369,183 | **267,589** | 1,369,183 |

See accompanying notes to the condensed consolidated interim financial statements

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 13)

## 1. DESCRIPTION OF BUSINESS

Silver Spruce Resources Inc. (the "Company") was incorporated in Alberta on May 8, 1996 under the name First Labrador Acquisitions Inc. The Company changed its name to Silver Spruce Resources Inc. on October 22, 2004. The Company's operations consist of the exploration for precious and base minerals. The registered office of the Company is Suite 312, 197 Dufferin Street, Bridgewater, Nova Scotia, B4V 2G9.

## 2. BASIS OF PREPARATION AND GOING CONCERN

*Statement of compliance*

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). The same accounting policies and methods of computation were followed in the preparation of these condensed consolidated interim financial statements as were followed in the preparation of the condensed consolidated interim financial statements for the three month period ended January 31, 2012. In addition, the condensed consolidated interim financial statements for the three month period ended January 31, 2012 contain certain incremental annual International Financial Reporting Standards ("IFRS") disclosures not included in the annual financial statements for the year ended October 31, 2011 prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Accordingly, these condensed consolidated interim financial statements for the three and nine month periods ended July 31, 2012 should be read together with the annual consolidated financial statements for the year ended October 31, 2011 prepared in accordance with Canadian GAAP, as well as the condensed consolidated interim financial statements for the three month period ended January 31, 2012.

These statements have been prepared using the historical cost basis, except for certain financial instruments.

*Basis of presentation*

The financial statements of the Company have been prepared in accordance with IFRS on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Several adverse conditions, however, cast substantial doubt on the validity of this assumption. The Company does not have any proven economically recoverable reserves on the Company's interest in mineral properties held for exploration and to date; the Company has earned no direct mining related revenues. The Company's assets are subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production. It is not possible to predict whether financing efforts will be successful. The amounts shown as mineral properties represent net costs to date and do not necessarily represent present or future values.

## 2. BASIS OF PREPARATION AND GOING CONCERN (continued)

*Basis of presentation (continued)*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers, First Nations claims, non-compliance with regulatory and environmental requirements and may be affected by undetected defects.

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions such as ongoing operational losses cast doubt on the validity of this assumption. These financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

*Government grants*

The Company received government assistance under the Junior Exploration Assistance Program designed by the Department of Natural Resources to assist companies in conducting advanced mineral exploration in Newfoundland and Labrador. The Company deducts grants received in calculating the carrying amount of the related mineral property. These grants will be recognized in profit or loss over the life of the mineral property as a reduction to depreciation expense when commercial operation is achieved.

Government assistance in the amount of $100,000 has been deducted from the carrying value of Big Easy property. There are no unfulfilled conditions or contingencies attached to the government assistance that has been recognized.

## 4. FUTURE ACCOUNTING CHANGES

The International Accounting Standards Board ("IASB") has issued several new standards, pronouncement and interpretations that are not effective for the current year, and although early adoption is permitted, they have not been applied in preparing these condensed consolidated interim financial statements.

The Company is currently evaluating the impact, if any, the following new standards and amendments will have or its financial statements.

## 4. FUTURE ACCOUNTING CHANGES (continued)

IFRS 9 *Financial Instruments* ("IFRS 9") introduces new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments*: *Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Also, the IASB has issued an amendment to IFRS 9, which changes the effective date of IFRS 9 (2009) and IFRS 9 (2010), so that IFRS 9 is required to be applied for annual periods beginning on or after January 1, 2015 with early application permitted. This amendment was released in connection with IFRS 7 *Financial Instruments: Disclosures – Transition Disclosures* which outlines that with the amendments to IFRS 9 entities applying IFRS 9 do not need to restate prior periods but are required to apply modified disclosures.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27") and SIC-12 *Consolidation — Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements ("IFRS 11") introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. IFRS 11 removes the option to apply the proportional consolidation method when accounting for jointly controlled entities and eliminates the concept of jointly controlled assets. IFRS 11 now only differentiates between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to provide financial statement users with information to evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvement with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

The requirements relating to separate financial statements in IAS 27 are unchanged in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. IAS 28 Investments in Associates and Joint Ventures ("IAS 28") is amended to conform with changes in IFRS 10, IFRS 11 and IFRS 12. Each of these five standards have an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards noted above are also early applied. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without technically early applying the provisions of IFRS 12 (and thereby each of the other four standards).

### 4. FUTURE ACCOUNTING CHANGES (continued)

IFRS 13 Fair Value Measurement ("IFRS 13") replaces existing IFRS guidance on fair value with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is currently assessing the impact of this new standard on the Company's financial assets and financial liabilities.

Amendments were issued by the IASB to IAS 32 Financial Instruments: Recognitions and Measurement ("IAS 32"), which address inconsistencies in current practice when applying the offsetting criteria. These amendments are part of the IASB's offsetting project. These amendments must be applied starting January 1, 2014 with early adoption permitted. The IASB also issued amendments to IFRS 7 Financial Instruments Disclosures as part of the offsetting project. This includes specific disclosures related to offsetting financial assets and liabilities that will enable users of an entities financial statements to evaluate the effect of potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and liabilities, on the entity's financial position. These amendments must be applied starting January 1, 2013 with early adoption permitted. The Company is currently assessing the impact of adopting the IAS 23 and IFRS 7 amendments on the consolidated financial statements.

### 5. CAPITAL MANAGEMENT

The capital structure of the Company currently consists of share capital, warrants and contributed surplus. The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition, exploration and development of mineral properties. The Company manages its capital structure in a manner that provides sufficient funding for operational activities.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurances that the Company will be able to continue raising equity capital in this manner. The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major Canadian financial institutions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period.

## 6. FINANCIAL RISK FACTORS

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

### a) Credit risk

The Company's credit risk is primarily attributable to cash, HST and other receivables. The Company's cash is held with highly rated financial institutions.

### b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2012, the Company had a cash balance of $267,589 (October 31, 2011 - $874,290) to settle current liabilities of $145,914 (October 31, 2011 - $171,117). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

### c) Market risk

*Interest rate risk*

The Company does not have any interest-bearing debt. The Company invests any cash surplus to its operational needs in investment-grade short-term deposit certificates issued by highly rated Canadian banks. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the bank and the investment grade of its short-term deposit certificates.

*Foreign currency risk*

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

*Price risk*

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

There were no significant changes to credit risk, liquidity risk and market risk during the period.

## 6. FINANCIAL RISK FACTORS (continued)

### d) Fair value

The carrying amounts for cash, other receivables, refundable staking deposits, trade payable and accrued liabilities, and current portion of long-term debt on the statements of financial position approximate fair value due to their short-term maturity. The fair value of investments in entities listed on the TSX Venture Exchange (Bayswater Uranium Corporation, Forest Gate Resources Inc. and Capstone Mining Corporation) is based on quoted market prices in active markets and are classified as a Level 1 in the fair value hierarchy.

### e) Sensitivity analysis

The Company is exposed to foreign exchange fluctuations as a result of transactions with its subsidiary, Silver Spruce Resources Mexico S.A. de C.V. The Company does not use derivatives to mitigate its foreign currency risk.

The balance sheet includes the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in the following currencies.

| | **July 31, 2012** | October 31, 2011 |
|---|---|---|
| | **$** | $ |
| Mexican pesos: | | |
| Cash | **3,414** | 2,846 |
| VAT receivable | **-** | - |
| Accounts payable | **3,464** | 1,973 |

A plus or minus 10% change in the value of the Canadian dollar with respect to Mexican Pesos would affect the Company's net loss by approximately $Nil (October 31, 2011 - $100) based on balances denominated in Mexican Pesos on July 31, 2012.

A plus or minus 10% change in the market price of the Bayswater, Forest Gate and Capstone Mining shares would affect the Company's net loss by $1,523 ($15,232 x 10%).

## 7. MINERAL PROPERTIES

| | October 31, 2011 | Additions | Refund of expenditures | Impairments | **July 31, 2012** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| Uranium | | | | | |
| Central Mineral Belt | 2,084,358 | 1,188 | - | 2,085,546 | - |
| Double Mer | 22,034 | - | - | 22,034 | - |
| Mount Benedict | 110,508 | 754 | - | 111,262 | - |
| Snegamook | 19,604 | 514 | - | 20,118 | - |
| | 2,236,504 | 2,456 | - | 2,238,960 | - |
| Gold and Base Metals | | | | | |
| Big Easy | 572,036 | 294,968 | (100,000) | - | **767,004** |
| Rare Earth Elements | | | | | |
| MRT Property | 66,093 | 78,207 | - | - | **144,300** |
| Pope's Hill Joint Venture | 119,490 | 69,713 | - | - | **189,203** |
| Straits | 49,542 | 46,909 | - | 96,451 | - |
| Pope's Hill | 970,054 | 80,445 | - | - | **1,050,499** |
| Red Wine Mountains | 11,093 | 3,687 | - | - | **14,780** |
| | 1,216,272 | 278,961 | - | 96,451 | **1,398,782** |
| | 4,024,812 | 576,385 | (100,000) | 2,335,411 | **2,165,786** |

During the quarter the Company wrote off the balance for; Central Mineral Belt Joint Venture $2,085,546, Double Mer $22,034, Mount Benedict $111,262, Snegamook Lake $20,118, and Straits $96,451, for total impairments of $2,335,411. As of July 31, 2012, these properties were not abandoned since staking claims are still held for these properties. These write-offs reflect the results of the Company's impairment analysis as of July 31, 2012. The Company reviewed the capitalized costs on its properties and recognized impairment in value based on current exploration results, adverse changes in business climate, and a decrease in the Company's market capitalization compared to the carrying value of its resource properties that indicated that impairment may exist. Management's assessment of the properties' estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the properties under review.

## 8. PROPERTY AND EQUIPMENT

| | July 31, 2012 | | | |
|---|---|---|---|---|
| | **Equipment** | **Computers** | **Vehicles** | **Total** |
| | **$** | **$** | **$** | **$** |
| **Cost:** | | | | |
| At October 31, 2011 | **179,036** | **63,483** | **104,508** | **347,027** |
| Additions | **-** | **-** | **-** | **-** |
| Disposals | **1,224** | **-** | **-** | **1,224** |
| At July 31, 2012 | **177,812** | **63,483** | **104,508** | **345,803** |
| **Depreciation:** | | | | |
| At October 31, 2011 | **102,409** | **50,557** | **66,045** | **219,011** |
| Additions | **10,328** | **4,452** | **7,837** | **22,616** |
| Disposals | **343** | **-** | **-** | **343** |
| At July 31, 2012 | **112,394** | **55,009** | **73,882** | **241,284** |
| **Carrying Value:** | | | | |
| At October 31, 2011 | **76,627** | **12,926** | **38,463** | **128,016** |
| **At July 31, 2012** | **65,418** | **8,474** | **30,626** | **104,518** |

## 9. SHARE CAPITAL

The share capital is as follows:

| | **July 31, 2012** | October 31, 2011 |
|---|---|---|
| Authorized: | **$** | $ |
| An unlimited number of non-voting preference shares | | |
| An unlimited number of common shares | | |
| Issued and outstanding: | | |
| 109,607,805 (October 31, 2011 - 106,065,305) | **26,497,812** | 26,341,861 |

In February 2012, the Company issued 150,000 shares for acquisition of the MRT Property at $0.09, and in April 2012, the Company issued 500,000 shares for acquisition of the Big Easy Property at $0.07, all based on the quoted market value of the share on the date of issue.

## 9. SHARE CAPITAL (continued)

In May 2012 the Company closed a non-brokered private placement to raise gross proceeds of $191,400. The offering consisted of issuance of flow-through ("Super FT Units") of Silver Spruce. The Super FT units were offered at a price of $0.08 per Super FT Unit, and consisted of one flow-through common share and one half of a common share purchase warrant. The warrants will expire three years after the closing of the Offering if unexercised, with each whole warrant exercisable for one common share at a price of $0.15 per common share during the first year after the closing of the Offering, $0.20 per common share during the second year after the closing of the Offering, and $0.25 per common share during the third year after the closing of the Offering. The gross proceeds raised with the issuance of 2,392,500 Super FT Units were $191,400. Cash finder's fees of $560 were paid on the Offering.

## 10. WARRANTS

The following is a summary of warrants activity for the periods ended July 31, 2012:

| | **July 31, 2012** | |
|---|---|---|
| | **Number** | **Weighted average exercise price** |
| | | **$** |
| Balance, October 31, 2011 | **19,900,526** | **0.13** |
| Granted in connection with private placements | **1,196,250** | **0.20** |
| Exercised | **-** | **-** |
| Expired during the period | **(3,053,847)** | **0.10** |
| **Balance, July 31, 2012** | **18,042,929** | **0.15** |

Summary of warrants outstanding and additions as at July 31, 2012:

| Warrants | Exercise price | Fair value of warrants | Expiry date |
|---|---|---|---|
| | $ | $ | |
| 1,196,250 | 0.20 | 28,596 | May 18, 2015 |
| 260,721 | 0.20 | 24,271 | December 31, 2012 |
| 18,250 | 0.17 | 2,966 | December 31, 2012 |
| 2,955,882 | 0.20 | 267,849 | December 24, 2012 |
| 185,294 | 0.17 | 23,557 | December 24, 2012 |
| 1,462,333 | 0.20 | 91,717 | December 23, 2012 |
| 65,394 | 0.17 | 7,744 | December 23, 2012 |
| 1,665,471 | 0.20 | 149,677 | December 23, 2012 |
| 2,500,000 | 0.10 | 60,558 | September 7, 2012 |
| 7,733,334 | 0.12 | 182,846 | September 7, 2012 |
| 18,042,929 | | 839,781 | |

## 11. SHARE BASED PAYMENTS

The Board of Directors of the Company has adopted a stock option plan for the Company. Pursuant to the plan, the Board of Directors of the Company may allocate common shares to its directors, officers and certain consultants. The aggregate number of stock options to be granted under the plan should not exceed 20% of the issued and outstanding capital of the Company and the aggregate number of shares reserved for issuance to anyone person shall not exceed 5% of the issued and outstanding common shares. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the Board of Directors of the Company at the time of grant, subject to all applicable regulatory requirements. The vesting period for options is set by the Company at the time the options are granted.

Share based payment activity for the period ended July 31, 2012 is summarized as follows:

| | **July 31, 2012** | |
|---|---|---|
| | **Number** | **Weighted average exercise price** |
| | | **$** |
| Balance, October 31, 2011 | **13,291,667** | **0.27** |
| Granted | **-** | - |
| Exercised | **-** | - |
| Expired | **(1,240,000)** | **0.62** |
| **Balance, July 31, 2012** | **12,051,667** | **0.23** |

At July 31, 2012 outstanding options to acquire common shares of the Company were as follows:

| Exercise price | Number of outstanding options | Weighted average remaining contractual life of outstanding options (years) | Grant date weighted average fair value per option | Number of exercisable options |
|---|---|---|---|---|
| $ | | | $ | |
| 0.30 | 1,450,000 | 3.88 | 0.08 | 1,450,000 |
| 0.34 | 200,000 | 1.53 | 0.21 | 200,000 |
| 0.30 | 1,900,000 | 3.47 | 0.20 | 1,900,000 |
| 0.06 | 666,667 | 0.10 | 0.04 | 666,667 |
| 0.12 | 2,225,000 | 2.74 | 0.08 | 2,225,000 |
| 0.15 | 2,670,000 | 1.53 | 0.13 | 2,670,000 |
| 0.35 | 2,920,000 | 0.76 | 0.32 | 2,920,000 |
| 0.83 | 20,000 | 0.59 | 0.67 | 20,000 |
| | 12,051,667 | 2.08 | 0.17 | 12,051,667 |

The weighted average fair value per option of options outstanding as at July 31, 2012 is $0.17 (October 31, 2011 - $0.20).

### 11. SHARE BASED PAYMENTS (continued)

The fair value of options that were granted was estimated on the dates of the grants using the Black Scholes option-pricing model and the follow assumptions:

| | **July 31, 2012** | October 31, 2011 |
|---|---|---|
| Risk-free interest rate | **N/A** | 2.319% - 3.06% |
| Expected life | **N/A** | 3-5 years |
| Expected volatility | **N/A** | 127% - 134% |
| Expected dividend yield | **N/A** | Nil |

### 12. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at July 31, 2012 is $45,314 (July 31, 2011 - $12,731) owing to directors of the Company for consulting related services rendered. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

During the nine month period ended July 31, 2012, no stock options were granted to directors, officers and employees of the Company (July 31, 2011 – 3,675,000).

Rent and certain building materials required by the Company for its operations are purchased from a hardware store controlled by a former officer and director of the Company. During periods of exploration management and employees of the Company stay at a hotel controlled by a former officer and director of the Company. During the nine month period ended July 31, 2012, $97 (July 31, 2011 - $19,482) was paid to the hardware store and $Nil (July 31, 2011 - $49,446) was paid to the hotel and included in mineral properties on the statement of financial position.

These transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

| | **July 31, 2012** | July 31, 2011 |
|---|---|---|
| | **$** | $ |
| Cash | | |
| Cash | **267,589** | 1,369,183 |
| Cash equivalents | **-** | - |
| | **267,589** | 1,369,183 |
| Non-cash investing and financing activities: | | |
| Acquisition of mineral properties for share consideration | **48,500** | 56,000 |
| Expiry of warrants | **67,357** | 96,426 |
| Flow through share premium | **(43,262)** | - |
| Increase in other liabilities | **8,810** | - |
| Options issued as finders fee | **-** | 34,266 |
| Options issued for PR Agreement | **-** | 165,769 |
| Value of share, warrants and options included in share issue costs | **-** | - |
| | **81,405** | 352,461 |

## 14. COMMITMENTS AND CONTINGENCIES

The Company has acquired various properties from third party license holders. The terms of these agreements provide for initial cash payments by the Company and the initial issuance of shares in the Company. To retain the interest in these properties the Company is obligated to make additional cash payments and to issue additional shares. The agreements also provide for the payment of a NSR to the third parties in the event that a property reaches the commercial production stage.

A summary of the additional cash and additional shares to be issued by the Company, assuming that an interest in all of the properties is to be maintained, is as follows:

| | Cash | Shares |
|---|---|---|
| 2013 | $70,000 | 600,000 |

The Company leases its head office in Bridgewater under an operating lease. Future lease payments aggregate $3,300 and include the following amounts payable over the next two years:

| | $ |
|---|---|
| 2012 | 2,475 |
| 2013 | 825 |
| | 3,300 |

## 14. COMMITMENTS AND CONTINGENCIES (continued)

The Company's mining and exploration activities are subject to various law and regulations governing the protection of the environment. These law and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Pursuant to the issuance of 9,764,148 flow-through units on December 24, 2010, the Company renounced $1,650,141 on qualified exploration expenditures with an effective date of December 31, 2010. The effect of this renunciation was recorded as the expenditures were incurred. The Company expended the required renounced expenditures by December 31, 2011 as required by the Canada Revenue Agency.

Pursuant to the issuance of 2,392,500 flow-through units on May 18, 2012, the Company renounced $191,400 on qualified exploration expenditures. The effect of this renunciation was recorded as the expenditures were incurred. The Company has not expended all the required renounced expenditures as of July 31, 2012.

## 15. INTEREST IN JOINT VENTURES

The Company proportionately consolidates its 40% interest in the joint venture with Crosshair Energy (CXX) (formerly Crosshair Exploration Mining). The consolidation was diluted from the original 60% to 40% since the Company did not fully contribute to the exploration costs incurred by CXX over the past 2 years. As a result of further exploration work expensed by CXX during 2011 the Company's interest is now diluted down to a 2% Net Smelter Royalty. This joint venture is connected with the Company's claims in the Central Mineral Belt ("CMB") and Seal Lake areas of Labrador.

The Pope's Hill Joint Venture is between the company and Great Western Minerals Group. (GWMG) and is a 50/50 venture with GWMG being the operator. Exploration work has been completed and results are now being evaluated.

The Companies interest in joint venture is summarized below:

| | **July 31, 2012** | October 31, 2011 |
|---|---|---|
| | **$** | $ |
| **Balance Sheet** | | |
| Mineral properties | **2,274,749** | 2,203,848 |
| **Statement of Operations** | **-** | - |
| **Statement of Cash Flow** | | |
| Cash provided by operating activities | | |
| Receipt of amounts due from JV partner | **-** | - |
| Cash used for investing activities | **(70,901)** | (119,420) |
| Cash provided by financing activities | **-** | - |

## 16. SUBSEQUENT EVENT

On August 8, 2012 the Company announced that It has purchased the Anomaly 7 (A7) uranium property in the Central Mineral Belt (CMB) of Labrador from Virginia Energy Resources Inc. (TSXV: VAE). The 446 claim (111.5 $km^2$) property consists of two mineral claim licences in the western part of the Central Mineral Belt in Labrador. The company is acquiring a 100% interest, subject to a 2% Net Smelter Return (NSR) with a 1% buyback for $500,000 to a third party, for a one-time share payment of two million shares. Completion of the transaction is subject to a number of conditions, including TSX Venture Exchange approval.

## 17. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ending October 31, 2012 will be the Company's first set of annual financial statements that comply with IFRS, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its October 31, 2012 annual financial statements. For the current interim period, the Company has only complied with the requirements of IAS 34.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was November 1, 2010. IFRS requires first-time adopters to retrospectively apply all IFRS's that will be in effect at its October 31, 2012 reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time adopters. The Company has applied certain of these exemptions to its opening Statements of Financial Position dated November 1, 2010, as described below.

A reconciliation of the impact of the transition from Canadian GAAP to IFRS on the Company's financial position and financial performance is set out in the following tables. The transition to IFRS did not have a significant impact on the Company's condensed consolidated statement of cash flows for the period ended July 31, 2012 therefore a reconciliation has not been prepared.

**17 TRANSITION TO IFRS (continued)**

Reconciliation of assets, liabilities and shareholder's equity as at July 31, 2011:

| | *Notes* | Canadian GAAP | Effect of IFRS transition | IFRS |
|---|---|---|---|---|
| | | $ | $ | $ |
| **ASSETS** | | | | |
| Current | | | | |
| Cash | | 1,369,183 | - | 1,369,183 |
| HST and other receivables | | 69,900 | - | 69,900 |
| Refundable staking deposits | | 96,000 | - | 96,000 |
| Prepaid expenses | | 48,048 | - | 48,048 |
| | | 1,583,131 | - | 1,583,131 |
| Mineral properties | | 4,176,785 | - | 4,176,785 |
| Property and equipment | | 88,299 | - | 88,299 |
| Mexican VAT receivable | | 181,568 | - | 181,568 |
| Non-current refundable staking deposits | | 22,256 | - | 22,256 |
| Investments | | 4,788 | - | 4,788 |
| | | 6,056,827 | - | 6,056,827 |
| **LIABILITIES** | | | | |
| Current | | | | |
| Trade payables and accrued liabilities | | 89,676 | - | 89,676 |
| | | 89,676 | - | 89,676 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | *b* | 24,087,686 | 2,254,175 | 26,341,861 |
| Warrants | | 878,542 | - | 878,542 |
| Contributed surplus | *a* | 6,958,213 | 25,277 | 6,983,490 |
| Deficit | | (25,957,290) | (2,279,452) | (28,236,742) |
| | | 5,967,151 | - | 5,967,151 |
| | | 6,056,827 | - | 6,056,827 |

## 17 TRANSITION TO IFRS (continued)

Reconciliation of income (loss) and comprehensive income (loss):

| | *Notes* | Three months ended July 31, 2011<br>Canadian GAAP | Effect of IFRS transition | IFRS |
|---|---|---|---|---|
| | | $ | $ | $ |
| Revenue | | | | |
| Foreign exchange gain | | 351 | - | 351 |
| Other income | | 107,060 | - | 107,060 |
| | | 107,411 | - | 107,411 |
| Expenses | | | | |
| Abandonment of mineral properties | | - | - | - |
| Impairment of mineral properties | | 465 | - | 465 |
| Stock-based compensation | | 111,073 | - | 111,073 |
| Office and general | | 33,543 | - | 33,543 |
| Accounting, audit and legal | | 21,194 | - | 21,194 |
| Wages and benefits | | 64,370 | - | 64,370 |
| Consulting fees | | 32,692 | - | 32,692 |
| Corporate relations | | 17,245 | - | 17,245 |
| Impariment of loan | | - | - | - |
| Foreign exchange loss | | - | - | - |
| Unrealized loss in market value of investments | | 1,500 | - | 1,500 |
| Travel | | 4,213 | - | 4,213 |
| Amortization | | 6,303 | - | 6,303 |
| Listing and filing fees | | 2,316 | - | 2,316 |
| | | 294,914 | - | 294,914 |
| Loss before income taxes | | (187,503) | - | (187,503) |
| Income taxes (recovery) | | 1,337 | - | 1,337 |
| Net and comprehensive loss for the period | | (188,840) | - | (188,840) |
| Deficit, beginning of period | | 25,768,450 | 2,279,452 | 28,047,902 |
| Deficit, end of period | | (25,957,290) | (2,279,452) | (28,236,742) |
| Net loss per share - basic and diluted | | 0.00 | 0.00 | 0.00 |
| Weighted average number of shares outstanding - basic and diluted | | 106,525,088 | - | 106,525,088 |

## 17. TRANSITION TO IFRS (continued)

Reconciliation of income (loss) and comprehensive income (loss):

| | | Nine months ended July 31, 2011 | | |
|---|---|---|---|---|
| | *Notes* | Canadian GAAP | Effect of IFRS transition | IFRS |
| | | $ | $ | $ |
| Revenue | | | | |
| Other income | | 107,060 | - | 107,060 |
| | | 107,060 | - | 107,060 |
| Expenses | | | | |
| Abandonment of mineral properties | | 7,020 | - | 7,020 |
| Impairment of mineral properties | | 7,805 | - | 7,805 |
| Write off of receivable | | 10,459 | - | 10,459 |
| Stock-based compensation | | 519,212 | - | 519,212 |
| Office and general | | 131,115 | - | 131,115 |
| Accounting, audit and legal | | 127,499 | - | 127,499 |
| Wages and benefits | | 134,212 | - | 134,212 |
| Consulting fees | | 137,983 | - | 137,983 |
| Corporate relations | *a* | 91,971 | 25,277 | 117,248 |
| Foreign exchange loss | | 640 | - | 640 |
| Unrealized loss in market value of investments | | 5,226 | - | 5,226 |
| Travel | | 24,018 | - | 24,018 |
| Amortization | | 20,641 | - | 20,641 |
| Listing and filing fees | | 26,509 | - | 26,509 |
| | | 1,244,310 | 25,277 | 1,269,587 |
| Loss before income taxes | *a* | (1,137,250) | (25,277) | (1,162,527) |
| Income taxes | *b* | (624,995) | 632,000 | 7,005 |
| Net and comprehensive loss for the period | | (512,255) | (657,277) | (1,169,532) |
| Deficit, beginning of period | *b* | 25,445,035 | 1,622,175 | 27,067,210 |
| Deficit, end of period | | (25,957,290) | (2,279,452) | (28,236,742) |
| Net loss per share - basic and diluted | | 0.01 | 0.00 | 0.01 |
| Weighted average number of shares outstanding - basic and diluted | | 9,166,340 | - | 91,663,430 |

### 17. TRANSITION TO IFRS (continued)

#### a) Share-based payments

IFRS 2 requires awards to non-employees to be measured based on the fair value of the goods and services received, except in the "rare cases" where this cannot be measured, when the fair value of the equity instruments granted is used. As a result, the Company was required to restate the value of certain share-based payments issued to third parties for services rendered.

#### b) Flow-through shares

Flow-through shares are a unique Canadian tax incentive, which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP the Company accounted for the issue of flow through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146 "Flow-through Shares". At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a future income tax liability with a charge directly to shareholders' equity. Also under Canadian GAAP the Company recorded any deferred tax recovery eligible to be recognized to offset the deferred tax charge to equity as a tax recovery in the statement of operations.

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is initially recorded as a flow-through tax liability and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery. The adjustment of $1,622,175 to the November 1, 2010 balance sheet represents a reduction of share capital of $1,621,990 from prior year's premiums and an increase in share capital of $3,244,651 to reverse the prior year's recording of the flow-through tax benefit under Canadian GAAP. The July 31, 2011 balance sheet includes the $1,622,175 adjustment plus an amount of $632,000 as a reversal of the 2010 recording of a flow-through tax benefit from a September and December 2010 flow through share issue, for a total adjustment of $2,254,175.