Condensed Consolidated Interim Financial Statements of

SILVER SPRUCE RESOURCES INC.

For the three months ended January 31, 2017 and 2016

(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 consolidated financial statements have not been reviewed by the Company's auditor.

The accompanying unaudited interim consolidated 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 financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

Halifax, Nova Scotia
March 29, 2017

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

	As at January 31, 2017	As at October 31, 2016
	$	$
Assets		
Current		
Cash	**11,317**	141,439
HST and other receivables	**17,597**	5,733
Prepaid expenses	**77,180**	15,970
Total current assets	**106,094**	163,142
Equipment (Note 7)	**2,970**	3,712
Total assets	**109,064**	166,854
Liabilities		
Current		
Trade payable and accrued liabilities (Note 11)	**213,562**	223,964
Property acquisition obligation (Note 6 (a))	**32,575**	67,015
Subscription receipt deposit (Note 8 (d))	**181,400**	-
Loan payable (Note 11)	**81,161**	85,723
Total current liabilities	**508,698**	376,702
Shareholders' Deficiency		
Share capital (Note 8)	**28,589,750**	28,572,250
Warrant reserve (Note 9)	**353,809**	359,214
Equity reserve	**8,036,642**	8,009,637
Accumulated deficit	**(37,379,835)**	(37,150,949)
Total shareholders' deficiency	**(399,634)**	(209,848)
Total liabilities and shareholders' deficiency	**109,064**	166,854

Basis of preparation and going concern (Note 2)
Commitments and contingencies (Note 12)
Subsequent events (Note 13)

APPROVED BY THE BOARD OF DIRECTORS

Original signed by Karl Boltz, CEO, Director

Original signed by Gordon Barnhill, CFO, Director

See accompanying notes to the consolidated financial statements

SILVER SPRUCE RESOURCES INC.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars except loss per share - Unaudited)

	For the three months ended January 31, 2017	For the three months ended January 31, 2016
	$	$
Expenses		
Exploration and evaluation expenditures (Note 6)	**86,040**	10,914
Stock based compensation (Note 11)	**21,600**	-
Office and general	**16,078**	16,500
Accounting and audit	**8,200**	7,500
Legal	**10,460**	-
Consulting fees	**76,374**	16,000
Corporate relations	**7,950**	13,285
Loan interest (Note 11)	**438**	1,635
Accretion	**-**	50,770
Amortization	**742**	792
Listing and filing fees	**2,374**	2,862
Total expenses	**230,256**	120,258
Foreign exchange (gain) loss	**(1,370)**	132,335
Loss on settlement of debt	**-**	45,000
Total other income	**(1,370)**	177,335
Net loss and comprehensive loss for the year	**228,886**	297,593
Net loss per share - basic and diluted	**0.01**	0.01
Weighted average number of shares outstanding - basic and diluted	**39,772,990**	21,174,911

See accompanying notes to the consolidated financial statements

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

	Number of shares	Share capital $	Warrant reserve $	Equity reserve $	Accumulated deficit $	Total equity (deficiency) $
Balance October 31, 2015	**21,135,781**	**27,639,830**	**73,905**	**7,649,810**	**(37,738,507)**	**(2,374,962)**
Net loss for the period	-	-	-	-	(297,593)	(297,593)
Shares issued on settlement of debt	1,800,000	135,000	-	-	-	135,000
Balance January 31, 2016	**22,935,781**	**27,774,830**	**73,905**	**7,649,810**	**(38,036,100)**	**(2,537,555)**
Net earnings for the period	-	-	-	-	885,151	885,151
Private placement common shares issued	13,935,035	960,550	-	-	-	960,550
Share issuance costs	-	(39,734)	-	-	-	(39,734)
Value of warrants issued under private placement	-	(315,896)	315,896	-	-	-
Shares issued on settlement of property purchase obligation	2,500,000	175,000	-	-	-	175,000
Shares issued on settlement of finder fees	250,000	17,500	-	-	-	17,500
Stock based compensation	-	-	-	329,240	-	329,240
Warrants expired	-	-	(30,587)	30,587	-	-
Balance October 31, 2016	**39,620,816**	**28,572,250**	**359,214**	**8,009,637**	**(37,150,949)**	**(209,848)**
Net loss for the period	-	-	-	-	(228,886)	(228,886)
Stock based compensation	-	-	-	21,600	-	21,600
Warrants exercised	350,000	17,500	(5,405)	5,405	-	17,500
Balance January 31, 2017	**39,970,816**	**28,589,750**	**353,809**	**8,036,642**	**(37,379,835)**	**(399,634)**

See accompanying notes to the consolidated financial statements

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

	For the three months ended January 31, 2017	For the three months ended January 31, 2016
	$	$
Operating activities		
Net loss for the year	**(228,886)**	(297,593)
Items not involving cash:		
(Gain)/loss on foreign exchange	**(1,370)**	132,335
Amortization	**742**	792
Loss on settlement of debt	**-**	45,000
Accrued interest	**438**	438
Stock based compensation	**21,600**	-
Accretion	**-**	50,770
	(207,476)	(68,258)
Changes in non-cash working capital		
Increase in prepaid expenses	**(61,210)**	(9,699)
Increase in HST and other receivables	**(11,864)**	(3,694)
(Decrease)/increase in trade payables and accrued liabilities	**(10,402)**	1,825
Decrease in property acquisition obligation	**(33,070)**	-
Change in non-cash operating working capital	**(116,546)**	(11,568)
Net cash flows from operating activities	**(324,022)**	(79,826)
Financing activities		
Receipts of share subscription deposit	**181,400**	56,750
Proceeds from warrants exercised	**17,500**	-
Repayment of loan payable	**(5,000)**	-
Proceeds from loan payable	**-**	20,000
Net cash flows from financing activities	**193,900**	76,750
Increase (decrease) in cash	**(130,122)**	(3,076)
Cash, beginning of period	**141,439**	11,287
Cash, end of period	**11,317**	8,211

See accompanying notes to the consolidated financial statements

1. DESCRIPTION OF BUSINESS

Silver Spruce Resources Inc. (the "Company") is a public company domiciled in Canada and 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

The condensed consolidated interim financial statements (the "financial statements") of the Company are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). In preparing the interim financial statements, the same accounting principles and methods of computation have been applied as in the annual financial statements for the year ended October 31, 2016. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods have been made. The condensed interim consolidated financial statements of the Corporation were approved by the Board of Directors on March 29, 2017.

These condensed consolidated interim statements should be read in conjunction with the Company's consolidated annual financial statements for the year ended October 31, 2016.

Basis of presentation

The condense consolidated interim financial statements of the Company have been prepared in accordance with IAS 34 on a going concern basis, under the historical cost convention except for investments which are reflected at fair value 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 Company's continued existence is dependent upon the discovery of economically recoverable reserves, the ability of the Company to raise additional financing, or future profitable production. It is not possible to predict whether financing efforts will be successful.

Although the Company has taken steps to verify title to mineral exploration 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.

2. BASIS OF PREPARATION AND GOING CONCERN (continued)

Basis of presentation (continued)

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 and a need for working capital cast significant 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 consolidated financial statements. Such adjustments could be material. The Company had continuing losses during the period ended January 31, 2017, a working capital deficiency and a cumulative deficit as at January 31, 2017. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended October 31, 2016. These financial statements should be read in conjunction with those consolidated financial statements.

4. CAPITAL MANAGEMENT

The capital structure of the Company currently consists of share capital, warrant reserve and equity reserve. 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 and evaluation 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.

The Company 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.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

4. CAPITAL MANAGEMENT (continued)

As of January 31, 2017, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

5. 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 and other receivables. The Company's cash is held with highly rated financial institutions.

The Company has concluded that credit risk with regards to other receivables is minimal.

b) Liquidity risk

The Company's approach to managing liquidity risk is to endeavour to ensure that it will have sufficient liquidity to meet liabilities when due. As at January 31, 2017, the Company had a cash balance of $11,317 (October 31, 2016 - $141,439) to settle current liabilities of $508,697 (October 31, 2016 - $376,702). Of the Company's current financial liabilities, $294,722 (October 31, 2016 - $376,702) have contractual maturities of less than 30 days and are subject to normal trade terms. The loans payable are past due as at January 31, 2017.

c) Market risk

Interest rate risk

The Company's loans payable bear a fixed interest rate and therefore are not subject to interest rate risk. 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.

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The company's property acquisition obligation (Note 6) is denominated in United States Dollars ("US$") and is subject to fluctuations in that currency's value relative to the Canadian dollar.

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.

5. FINANCIAL RISK FACTORS (continued)

d) Fair value

The carrying amounts for cash, other receivables, trade payable and accrued liabilities, and loans payable on the statements of financial position approximate fair value due to their short-term maturity. The fair values of investments in entities listed on the TSX Venture Exchange are based on quoted market prices in active markets and are classified as a Level 1 in the fair value hierarchy.

A three tier hierarchy is used as a framework for disclosing the fair value of financial instruments based on inputs used to value the Company's financial instruments. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data

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 statement of financial position includes the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in United States dollars.

	January 31, 2017	October 31, 2016
	$	$
United States dollars		
Property acquisition obligation	**32,575**	67,015

A plus or minus 10% change in the value of the Canadian dollar with respect to United States dollar would impact the Company's net loss by approximately $3,258 based on balances denominated in United States dollars on January 31, 2017 (October 31, 2016 - $6,702).

6. MINERAL EXPLORATION PROPERTIES

a) Pino de Plata

On February 29, 2016, the Company signed an amended agreement that supersedes the original purchase agreement and enables the Company to purchase a 100% interest in the Pino de Plata property. The new revised financial terms are as follows:

6. MINERAL EXPLORATION PROPERTIES (continued)

a) Pino de Plata (continued)

- Total cash payments reduced from US$1,000,000 to US$500,000 over two years (US$125,000 ($168,459) paid);

- One share issuance of 2,500,000 common shares, issued on June 15, 2016 and valued at $0.07 per common share based on the quoted market value of the common shares on that date. One payment of $250,000 to be paid in common shares in lieu of cash, at a share price equal to the 20-day average closing price of the Company's shares on the TSXVSE, subject to exchange approvals;

- A three percent (3%) gross production royalty capped at US$4 million, which can be purchased for US$1,333,333 per percentage point at any time and are reduced by the total amount of advanced royalty payments; and

- The Company is subject to advanced Royalty payments of US$10,000 per month to commence 30 days after the acquisition is finalized, registered and documented with the proper authorities.

The present value of the Company's minimum commitment as at January 31, 2017 has been estimated using an effective interest rate of 20% and recorded as property acquisition obligation on the statement of financial position in the amount of $32,575 (October 31, 2016 - $67,015). An accretion expense of $nil (2016 - $50,770) has been recorded for the period ended January 31, 2017.

b) Encino

On December 1, 2016, the Company announced it has signed a binding and exclusive letter of intent to purchase and explore a submittal prospect of over 300 hectares near Chinipas, in far western Chihuahua state, Mexico. The terms of the purchase agreement are as follows:

- A deposit of 10,000 pesos (US$500) was made upon signing of the letter of intent;
- Year one -- US$5,000 payment, less the initial deposit, once the formal Mexico contract is finalized;
- Year two -- US$10,000;
- Year three -- US$15,000;
- Year four -- US$20,000;
- Total -- US$50,000 over four years.

The owner will keep a three percent (3%) gross production royalty ("GPR") on the claim and any additional claim(s) staked by the Company within the two-kilometre area of interest. The Company retains the right to purchase the GPR for US$1-million for each one percent (1%).

7. EQUIPMENT

	Equipment	Computers	Total
Cost:	$	$	$
At October 31, 2016	147,204	63,483	210,687
Disposals/Write-offs	140,000	62,000	202,000
At January 31, 2017	7,204	1,483	8,687
Amortization:			
At October 31, 2016	143,492	63,483	206,975
Additions	742	-	742
Disposals/Write-offs	140,000	62,000	202,000
At January 31, 2017	4,234	1,483	5,717
Carrying Value:			
At October 31, 2016	3,712	-	3,712
At January 31, 2017	**2,970**	**-**	**2,970**

8. SHARE CAPITAL

The share capital is as follows:

Authorized:		
An unlimited number of non-voting preference shares		
An unlimited number of common shares, no par value		
Issued and outstanding:		
39,970,816 (October 31, 2016 - 39,620,816)	**28,589,750**	28,572,250

a) In April 2016, the Company closed a non-brokered private placement to raise gross proceeds of $410,795. The offering consisted of the issuance of 5,477,266 units ("Unit") of the Company. Each Unit was offered at a price of $0.075 and consisted of one common share and one half common share purchase warrant, with each whole warrant exercisable at a price of $0.10 per common share if exercised within 24 months of the closing of the offering. Officers and directors of the Company subscribed for 2,336,466 Units for gross proceeds of $175,235.

b) In June 2016, the Company issued 2,500,000 common shares to the Pino de Plata property owner as per the terms of the property acquisition agreement, valued at $0.07 per common share based on the fair value of the common shares on that date. The Company issued 250,000 shares to settle the finder fee in accordance with the Pino de Plata agreement. See Note 6(a).

c) In August 2016, the Company closed a non-brokered private placement to raise gross proceeds of $549,755. The offering consisted of the issuance of 8,457,769 units ("Unit") of the Company. Each Unit was offered at a price of $0.065 and consisted of one common share and one share purchase warrant, with each whole warrant exercisable at a price of $0.10 per common share if exercised within 24 months of the closing of the offering. Officers and directors of the Company subscribed for 1,400,000 Units for gross proceeds of $91,000.

8. SHARE CAPITAL (continued)

d) During the period ended January 31, 2017, the Company received deposits towards a potential future private placement. These amounts are shown as subscription receipt deposit on the statement of financial position as at January 31, 2017. See Note 13.

e) In December 2016, the Company received proceeds of $17,500 and issued 350,000 shares when it received a notice of exercise for 350,000 warrants at an exercise price of $0.05.

9. WARRANTS

The following is a summary of warrants activity for the periods ended January 31, 2017 and October 31, 2016:

	January 31, 2017		October 31, 2016	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Balance, beginning of year	**14,001,401**	**0.09**	4,270,000	0.07
Granted in connection with private placements	**-**	**-**	11,196,401	0.10
Exercised during the year	**(350,000)**	**0.05**	-	-
Expired during the year	**-**	**-**	(1,465,000)	0.10
Balance, end of year	**13,651,401**	**0.09**	14,001,401	0.09

a) In connection with the April 20, 2016 private placement disclosed in Note 10, the Company issued 2,738,633 warrants. The grant date fair value of $108,108 assigned to the warrants was estimated using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility based on historical volatility of 165%, a risk free interest rate of 0.62%, and an expected maturity of 2 years.

b) In connection with the August 12, 2016 private placement disclosed in Note 10, the Company issued 8,457,770 warrants. The grant date fair value of $207,788 assigned to the warrants was estimated using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility based on historical volatility of 159%, a risk free interest rate of 0.54%, and an expected maturity of 2 years.

9. WARRANTS (continued)

Summary of warrants outstanding as at January 31, 2017:

Warrants	Exercise price	Grant date fair value of warrants	Expiry date
#	$	$	
2,455,000	0.05	37,913	June 9, 2017
2,738,633	0.10	108,108	April 20, 2018
8,457,768	0.10	207,788	August 12, 2018
13,651,401		353,809	

10. 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 periods ended January 31, 2017 and October 31, 2016 are summarized as follows:

	January 31, 2017		October 31, 2016	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Balance, beginning of year	**2,900,000**	**0.15**	525,000	2.25
Granted	**300,000**	**0.15**	2,900,000	0.15
Cancelled	**-**	**-**	(250,000)	0.20
Expired	**-**	**-**	(275,000)	3.00
Balance, end of year	**3,200,000**	**0.15**	2,900,000	0.15

10. SHARE BASED PAYMENTS (continued)

At January 31, 2017, 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
$			$	
0.15	2,900,000	2.54	0.118	2,900,000
0.15	300,000	2.89	0.072	300,000
	3,200,000	2.57	0.114	3,200,000

11. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at January 31, 2017 is $103,693 (October 31, 2016 - $103,693) owing to directors and companies controlled by directors of the Company for consulting related services rendered. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

As at January 31, 2017 the total loans payable to a former director is $79,828 (October 31, 2016 - $79,390). The loans are unsecured and bear interest at rates from 0% - 5% per year. During the period ended January 31, 2017, the loans incurred interest expense of $438 which is outstanding at period end and is due on demand.

During the period ended January 31, 2017, 300,000 stock options were granted to directors, officers and employees of the Company (October 31, 2016 – 1,600,000). The stock based compensation related to the options issued is $21,600 (October 31, 2016 – $18,653).

During the period ended January 31, 2017 key management personnel compensation consisted of services provided by companies owned by directors of $39,526 (October 31, 2016 - $67,335) which are classified as consulting fees on the consolidated statement of operations.

See also Note 8 (a) and (c).

12. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws 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.

The Company has indemnified the subscribers of current and past flow-through share subscriptions from any tax consequences arising from the failure of the Company to meet its commitments under the flow- through subscription agreements.

13. SUBSEQUENT EVENTS

On March 13, 2017, the Company closed its previously announced non-brokered private placement financing with the issuance of 5,743,750 units at $0.08 per unit for gross proceeds of $459,500. Each unit consists of one common share and one common share purchase warrant. Each full warrant is exercisable at $0.12 per common share for a period of 24 months from closing. Prior to the period end, a sum of $181,400 (net of issuance costs) was advanced to the Corporation as part of the aforementioned private placement. Officers and directors of the Company subscribed for 1,400,000 Units for gross proceeds of $132,000.

On March 21, 2017, the Company entered a purchase agreement with Cedar Forest LLC to acquire 100-per-cent ownership of the past-producing Kay mine, located in Yavapai county, Arizona, roughly 50 miles north of Phoenix for total consideration of US$977,000.

Upon execution of the purchase agreement, the Company paid a non-refundable deposit of US$50,000 to the vendor. The Company will pay US$450,000 cash to the vendor within 75 days of signing and issue a two-year, 6 per cent convertible debenture for the principal amount of US$477,000. The interest on the debenture will be paid monthly, and the principal may be converted into common shares of the Company at an exercise price of $0.225 per common share at any time during the term of the debenture. A finder's fee of 7.5% of the purchase price will be paid in common shares of the Company. This acquisition is subject to exchange acceptance.