

Consolidated Financial Statements

SILVER SPRUCE RESOURCES INC.

For the years ended October 31, 2012 and 2011

(Expressed in Canadian dollars)

SILVER SPRUCE RESOURCES INC.

Table of Contents

	<u>Page</u>
Management's Report	1
Independent Auditor's Report	2
Consolidated Statements of Financial Position	3
Consolidated Statements of Operations and Comprehensive Loss	4
Consolidated Statements of Change in Shareholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7 - 43

Management's Report

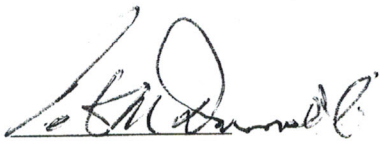
To the shareholders
Silver Spruce Resources Inc.

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to IFRS accepted accounting principals and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of directors on the recommendation from the audit committee. The audit committee is also responsible for making recommendations with respect to the appointment of independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include discussing periodically with the independent auditors and management to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The shareholders external auditors have free access to the audit committee both with and without management present.

Our independent auditors, McGovern, Hurley, and Cunningham have audited our financial statements. The accompanying auditors report outlines the scope of their examination and their opinion.



Peter M Dimmell
President and Chief Executive Officer



Gordon Barnhill
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Silver Spruce Resources Inc.

We have audited the accompanying consolidated financial statements of Silver Spruce Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at October 31, 2012, October 31, 2011 and November 1, 2010, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended October 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Silver Spruce Resources Inc. and its subsidiaries as at October 31, 2012, October 31, 2011 and November 1, 2010, and their financial performance and cash flows for the years ended October 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes that the Company has a history of losses and a need for working capital. 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.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
January 16, 2013

A member of UHY International, a network of independent accounting and consulting firms



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

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
	\$	\$	\$
		(Note 18)	(Note 18)
ASSETS			
Current			
Cash	129,774	874,290	216,287
HST and other receivables	16,825	48,691	47,188
Refundable staking deposits	13,906	95,600	59,800
Prepaid expenses	47,275	83,252	16,490
Total current assets	207,780	1,101,833	339,765
Mineral properties (Notes 7, 14 and 17)	1,787,304	4,037,562	2,859,068
Equipment (Note 8)	98,061	128,016	109,201
Mexican VAT receivable	-	-	182,655
Non-current refundable staking deposits	4,394	8,970	70,783
Investments	16,835	3,463	10,013
Total assets	2,114,374	5,279,844	3,571,485
LIABILITIES			
Current			
Trade payable and accrued liabilities (Note 14)	293,498	171,113	374,385
Current portion of long-term debt (Note 9)	-	-	5,976
Total liabilities	293,498	171,113	380,361
SHAREHOLDERS' EQUITY			
Share capital (Note 11)	27,391,740	27,158,015	24,295,582
Warrant reserve (Note 12)	596,377	878,542	739,925
Equity reserve	7,192,311	6,881,550	6,281,836
Accumulated deficit	(33,359,552)	(29,809,376)	(28,126,219)
Total shareholders' equity	1,820,876	5,108,731	3,191,124
Total liabilities and shareholders' equity	2,114,374	5,279,844	3,571,485

Basis of preparation and going concern (Note 2)
Commitments and contingencies (Notes 7 and 16)

APPROVED BY THE BOARD OF DIRECTORS

Original signed by Rob Gillis, Director

Original signed by Gordon Barnhill, CFO, Director

See accompanying notes to the consolidated financial statements

SILVER SPRUCE RESOURCES INC.

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

Years ended October 31, 2012 and 2011

	2012	2011
	\$	\$
Expenses		(Note 18)
Impairment of mineral properties (Note 7)	2,817,040	14,820
(Recovery) impairment of Mexican VAT receivable	(18,158)	168,304
Other impaired property costs	9,899	8,014
Abandonment of mineral properties (Note 7)	148,679	579,603
Share-based compensation (Note 13)	-	519,212
Office and general	103,825	147,710
Accounting, audit and legal	203,449	136,572
Wages and benefits	46,387	161,832
Unrealized loss in market value of investments	5,106	6,550
Consulting fees	106,508	175,917
Corporate relations	117,262	115,750
Travel	11,621	26,307
Amortization	29,074	28,226
Listing and filing fees	22,981	30,162
Capital tax expense	6,685	-
Loss on sale of equipment	341	759
Foreign exchange loss	1,218	14,991
Total expenses	3,611,917	2,134,729
Other income	61,741	451,572
Net loss and comprehensive loss for the year	3,550,176	1,683,157
Net loss per share - basic and diluted	(0.03)	(0.02)
Weighted average number of shares outstanding - basic and diluted	108,343,812	102,333,632

See accompanying notes to the consolidated financial statements

SILVER SPRUCE RESOURCES INC.

Consolidated Statements of Change in Shareholders' Equity

(Expressed in Canadian Dollars)

	Number of shares	Share capital \$ (Note 18)	Warrant reserve \$	Equity reserve \$ (Note 18)	Accumulated deficit \$ (Note 18)	Total equity \$ (Note 18)
Balance, November 1, 2010	79,073,442	24,295,582	739,925	6,281,836	(28,126,219)	3,191,124
Net comprehensive loss for the year	-	-	-	-	(1,683,157)	(1,683,157)
Shares issued for private placements	11,226,481	1,345,744	-	-	-	1,345,744
Flow through share premium	-	(341,745)	-	-	-	(341,745)
Shares issue for property acquisition	500,000	67,000	-	-	-	67,000
Share issuance costs	-	(204,091)	-	-	-	(204,091)
Share-based payment issued	-	-	-	571,412	-	571,412
Options exercised	1,269,230	178,173	-	(68,124)	-	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 October 31, 2011	106,565,305	27,158,015	878,542	6,881,550	(29,809,376)	5,108,731
Net comprehensive loss for the year	-	-	-	-	(3,550,176)	(3,550,176)
Warrants expired	-	-	(310,761)	310,761	-	-
Shares issued for property acquisition	2,650,000	127,500	-	-	-	127,500
Shares issued for private placements	2,392,500	162,804	-	-	-	162,804
Share issuance costs	-	(13,317)	-	-	-	(13,317)
Flow through share premium	-	(43,262)	-	-	-	(43,262)
Warrants issued for private placement	-	-	28,596	-	-	28,596
Balance October 31, 2012	111,607,805	27,391,740	596,377	7,192,311	(33,359,552)	1,820,876

See accompanying notes to the consolidated financial statements

SILVER SPRUCE RESOURCES INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Years ended October 31, 2012 and 2011

	2012	2011
	\$	\$
Operating activities		(Note 18)
Net loss for the year	(3,550,176)	(1,683,157)
Items not involving cash:		
Share-based compensation	-	571,413
Loss on foreign exchange	1,218	14,991
Amortization	29,074	28,226
Loss on sale of equipment	341	759
Other income	(61,741)	(341,745)
Unrealized loss in market value of investments	5,106	6,550
Abandonment of mineral properties	148,679	579,603
Impairment of mineral properties	2,817,040	14,820
	(610,460)	(808,540)
Changes in non-cash working capital		
Decrease (increase) in prepaid expenses	35,978	(56,762)
Decrease in HST and other receivables	30,646	156,161
Increase (decrease) in accounts payable and accrued liabilities	95,795	(203,273)
Change in non-cash operating working capital	162,419	(103,874)
Net cash flows from operating activities	(448,040)	(912,414)
Financing activities		
Proceeds from exercise of warrants and options	-	1,594,664
Proceeds from issuance of shares and warrants	191,400	1,879,257
Share issue costs	(14,315)	(169,825)
Repayments of long-term debt	-	(5,976)
Net cash flows from financing activities	177,085	3,298,120
Investing activities		
Mineral properties expenditures	(560,371)	(1,705,916)
Purchase of equipment	-	(50,000)
Proceeds from sale of equipment	540	2,200
Refund of refundable staking deposits	88,270	73,706
Purchase of refundable staking deposits	(2,000)	(47,693)
Net cash flows from investing activities	(473,561)	(1,727,703)
(Decrease) increase in cash	(744,516)	658,003
Cash, beginning of year	874,290	216,287
Cash, end of year	129,774	874,290

Supplemental cash flow information (See Note 15)

See accompanying notes to the consolidated financial statements

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

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 consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the IFRS Interpretations Committee. They are the Company's first annual financial statements prepared in accordance with IFRS and, therefore, IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied. Previously, the Company's annual consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). Please refer to Note 19 for further details on the transition to IFRS. The Company's board of directors approved these financial statements on January 16, 2013.

Basis of presentation

The financial statements of the Company have been prepared in accordance with IFRS 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 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.

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.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, First Labrador Resources Ltd, Silver Spruce Resources (Nova Scotia) Inc. and Silver Spruce Resources Mexico S.A. de C.V. and a joint venture with Crosshair Energy Corporation (formerly Crosshair Exploration Mining), and Universal Uranium Ltd., which is accounted for using the proportionate consolidation method. Both First Labrador Resources Ltd. and Silver Spruce Resources (Nova Scotia) Inc. are inactive and have no assets or liabilities, and Silver Spruce Resources Mexico S.A. de C.V. is inactive. All inter-company transactions have been eliminated upon consolidation.

Refundable staking deposits

The Company makes staking deposits on its various exploration claims which are refundable when and if the Company incurs sufficient exploration expenditures within a specified time frame and files a related exploration report with the appropriate government authorities. Should the Company not incur the applicable exploration expenditures or post a bond in lieu thereof or fail to submit the related exploration report within the applicable timeframe, the staking fee becomes non-refundable and is added to mineral properties.

Mineral properties

Exploration and evaluation expenses relating to properties in which the Company has an interest are deferred until the properties are brought into commercial production, sold or abandoned, at which time they are amortized on a unit of production basis. Other general exploration expenses are charged to operations as incurred. The cost of properties abandoned or sold and their related deferred exploration costs are expensed to operations in the year of abandonment or sale.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of properties net of expense recoveries, government assistance and option payments received. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties (continued)

The Company reviews capitalized costs on its properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the properties or from sale of the properties. 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.

The Company tests capitalized exploration costs for impairment whenever facts and circumstances indicate that the carrying amount may not be recoverable. These events may include the following:

- the period for which the Company has exploration rights has expired or will shortly
- there is no further exploration planned for a property
- continued unfavorable exploration results

If a property's recoverable amount is less than its carrying amount, an impairment loss is recognized. The ultimate recoverability of the amounts capitalized for the mineral properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimates of recoverability of the Company's investment in its various projects 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. Costs incurred before the Company has obtained the legal rights to explore are recognized in profit or loss in the consolidated statements of operations and comprehensive loss.

Mineral property assets are reclassified to "property, plant and equipment, construction in progress" when the technical feasibility and commercial viability of extracting a mineral reserve are demonstrable. Mineral property assets are assessed for impairment, and the impairment loss, if any, is recognized before reclassification to "property, plant and equipment, construction in progress." Exploration and evaluation assets associated with projects which prove to be economically unviable are written off.

Equipment

Equipment is recorded at cost. Amortization is calculated on a declining balance basis at rates which will reduce original cost to estimated residual value over the estimated useful lives of the assets. Equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If an asset's recoverable amount is less than the asset's carrying amount, an impairment loss is recognized.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment (continued)

The rates applicable to each category of equipment is as follows:

Class of equipment	Depreciation rate
Equipment	20%
Computer	55%
Vehicles	30%

Flow-through shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to holders of the flow-through shares. To recognize the forgone tax benefits to the Company, any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("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 through the statement of comprehensive loss. 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 spending also gives rise to a deferred tax timing difference between the carrying value of the qualifying expenditure.

Share-based payments

The Company uses the fair value method to measure compensation expense at the date of grant of stock options to employees and each tranche is recognized on a graded vesting basis over the period in which the options vest. The fair value of options is determined using pricing models and is charged to earnings over the vesting period with an offset to equity reserve, on a straight-line basis over the vesting period. When options are exercised, the corresponding share based payment reserves and the proceeds received by the Company are credited to share capital. Forfeitures are estimated at the time of the grant. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity reserve.

Income taxes

Income tax expense comprises current and deferred income tax. Current tax and deferred tax are recognized in earnings or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax expenses comprise the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on either the same taxable entity, or on different taxable entities, which intend to settle current tax liabilities and assets on a net basis or realize their tax assets and liabilities simultaneously. A deferred tax asset is recognized for unused tax losses, unused tax credits and temporary differences that can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that all or part of the related tax benefit will be realized.

Loss per share

The Company presents basic and diluted loss per share (LPS) data for its common shares. Basic LPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted LPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares.

Decommissioning and restoration provision

The Company recognizes the fair value of the liability for asset decommissioning and restoration in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows associated with legal obligations or constructive obligations relating to the reclamation and closure of its mineral exploration properties at a pre-tax rate that reflects the time value of money. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows to settle the obligation. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of loss and comprehensive loss. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized on the same basis as mineral properties. In management's estimation, there is no material restoration, rehabilitation, and environmental obligation as at October 31, 2012, 2011 and November 1, 2010.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

All financial instruments are classified into one of the following five categories: fair value through profit or loss (“FVTPL”), held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. FVTPL financial instruments are measured at fair value and all changes in those fair values recognized in net loss. Available-for-sale financial instruments are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income (“OCI”). Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

Cash	Loans and receivables
Other receivables	Loans and receivables
Refundable staking deposits	Loans and receivables
Investments	FVTPL
Trade payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Transaction costs are expensed as incurred for financial instruments classified as FVTPL. For other financial instruments, transaction costs are netted against the carrying value and are then recognized over the expected life using the effective interest method.

The Company has determined that it does not have derivatives or embedded derivatives.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For unlisted shares classified as FVTPL, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as other receivables and other financial assets, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of estimated, discounted future cash flows. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognized in profit or loss.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At each statement of financial position reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The 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 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 profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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 profit or loss.

Foreign currency translation

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the statement of financial position date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenue and expenses are translated at the transaction date except for amortization, which is translated at historical exchange rates. Gains and losses on translation are included in the determination of net loss for the period.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of the assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Mineral properties

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information and operating management expertise and existing permits. See Note 7 for details of capitalized exploration and evaluation costs.

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration and evaluation assets. These assumptions are changed when conditions exist that indicates that the carrying value may be impaired, at which time an impairment loss is recorded. By their nature these estimates are subject to measurement uncertainty and the effects of changes in such estimates on the consolidated financial statements could be significant.

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets.

Equipment

The Company reviews the estimated useful lives of equipment at the end of each reporting period to ensure assumptions are still valid.

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Share-based payments

The Company makes certain estimates and assumptions when calculating fair values of stock options and warrants granted. The significant assumptions used include estimate of expected volatility, expected life and expected risk-free rate of return. Changes in these assumptions may result in a material change to the expense recorded for the issuance of stock options and warrants.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Deferred income taxes

The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and bases of assets and liabilities.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

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 the Big Easy property during the year ended October 31, 2012. There are no unfulfilled conditions or contingencies attached to the government assistance that has been recognized.

4. FUTURE ACCOUNTING CHANGES

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 *Financial Instruments* ("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. The Company is currently assessing the impact of this new standard on the Company's financial assets and financial liabilities.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

4. FUTURE ACCOUNTING CHANGES (continued)

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. The Company is currently assessing the impact of this new standard on the Company’s financial assets and financial liabilities.

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. The Company is currently assessing the impact of this new standard on the Company’s financial assets and financial liabilities.

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 Company is currently assessing the impact of this new standard on the Company’s financial assets and financial liabilities.

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).

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.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

4. FUTURE ACCOUNTING CHANGES (continued)

The IASB issued amendments to IAS 1 Presentation of Financial Statements (“IAS 1”) that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

The IASB issued amendments to IAS 19 Employee Benefits (“IAS 19”) that introduced changes to the accounting for defined benefit plans and other employee benefits. The amendments to other employee benefits include modification of the accounting for termination benefits and classification of other employee benefits. The Company does not anticipate the application of the amended IAS 19 to have a material impact on its consolidated financial statements.

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 32 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 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.

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 years ended October 31, 2012 and 2011.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

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

Financial instruments included in HST and other receivables consist of harmonized sales tax due from the Federal Government of Canada. The company has concluded that credit risk is minimal.

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 October 31, 2012, the Company had a cash balance of \$129,774 (October 31, 2011 - \$874,290; November 1, 2010 - \$216,287) to settle current liabilities of \$293,498 (October 31, 2011 - \$117,113; November 1, 2010 - \$380,361). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

In the short-term the Company expects receipts of an approved Junior Exploration Assistance Program ("JEAP") grant from the Newfoundland government in the amount of \$100,000, and claim refunds of \$22,000.

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.

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 years ended October 31, 2012 and 2011.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

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 (“Bayswater”), Forest Gate Resources Inc. (“Forest Gate”), and Capstone Mining Corporation (“Capstone Mining”) is 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 the Mexican pesos.

	October 31, 2012	October 31, 2011	November 1, 2010
	\$	\$	\$
Mexican pesos:			
Cash	25,007	2,846	5,006
VAT receivable	-	-	182,655
Accounts payable	3,505	1,973	3,785

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 \$2,150 (October 31, 2011 - \$100; November 1, 2010 - \$18,500) based on balances denominated in Mexican Pesos on October 31, 2012.

A plus or minus 10% change in the market price of the Bayswater, Forest Gate and Capstone Mining shares as at October 31, 2012, would affect the Company’s net loss by \$1,684 (\$16,835 x 10%).

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

7. MINERAL PROPERTIES

	October 31, 2011	Additions	Refund of expenditures	Impairment and abandonments	October 31, 2012
	\$	\$	\$	\$	\$
Uranium					
Central Mineral Belt	2,084,358	9,633	-	2,093,991	-
Double Mer	22,034	2,089	-	24,123	-
Mount Benedict	110,508	8,365	-	118,873	-
Snegamook	19,604	987	-	20,591	-
Fish Hawk Lake	-	84,583	-	-	84,583
	<u>2,236,504</u>	<u>105,657</u>	<u>-</u>	<u>2,257,578</u>	<u>84,583</u>
Gold and Base Metals					
Big Easy	595,786	356,918	100,000	-	852,704
Rare Earth Elements					
MRT Property	55,093	78,807	-	133,900	-
Pope's Hill Joint Venture	119,490	125,713	-	-	245,203
Straits	49,542	49,440	-	98,982	-
Pope's Hill	970,054	95,240	-	460,480	604,814
Red Wine Mountains	11,093	3,686	-	14,779	-
	<u>1,205,272</u>	<u>352,886</u>	<u>-</u>	<u>708,141</u>	850,017
	<u>4,037,562</u>	<u>815,461</u>	<u>100,000</u>	<u>2,965,719</u>	1,787,304

The Company is entitled to refundable mining rights credits on exploration expenses incurred in Canada. These credits are applied to the capitalized expenses to which they relate, unless these expenses have been written off, upon which they will be recorded as income when received.

During the year ended October 31, 2012, the Company acquired one new property; Fish Hawk Lake.

During the year ended October 31, 2012 the Company wrote off the balance for Central Mineral Belt Joint Venture of \$2,093,991, Double Mer of \$24,123, Mount Benedict of \$118,873, Snegamook Lake of \$20,591, Straits of \$98,982 and Pope's Hill of \$460,480, for total impairments of \$2,817,040. As of October 31, 2012, these properties were not abandoned since staking claims are still held for these properties. The Company also determined that further exploration was not warranted for MRT Property and Red Wine Mountains and these properties have been abandoned with related expenditures of \$133,900 and \$14,779 respectively written off at October 31, 2012. These write-offs reflect the results of the Company's impairment analysis as of October 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.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

7. MINERAL PROPERTIES (continued)

	November 1, 2010	Additions	Impairment and abandonments	October 31, 2011
	\$	\$	\$	\$
Uranium				
Central Mineral Belt	2,084,358	-	-	2,084,358
Double Mer	13,558	8,476	-	22,034
Jeanette Bay	3,600	-	3,600	-
Lake Michael	3,420	-	3,420	-
Mount Benedict	95,252	15,256	-	110,508
Snegamook	13,441	6,163	-	19,604
Tukialuk	14,820	-	14,820	-
	<u>2,228,449</u>	<u>29,895</u>	<u>21,840</u>	<u>2,236,504</u>
Gold and Base Metals				
Big Easy	166,715	429,071	-	595,786
Rambler South	404,944	167,639	572,583	-
	<u>571,659</u>	<u>596,710</u>	<u>572,583</u>	<u>595,786</u>
Rare Earth Elements				
MRT Property	-	55,093	-	55,093
Pope's Hill Joint Venture	-	119,490	-	119,490
Pope's Hill	24,892	945,162	-	970,054
Red Wine Mountains	1,313	9,780	-	11,093
Straits	32,755	16,787	-	49,542
	<u>58,960</u>	<u>1,146,312</u>	<u>-</u>	<u>1,205,272</u>
	<u>2,859,068</u>	<u>1,772,917</u>	<u>594,423</u>	<u>4,037,562</u>

During the year ended October 31, 2011, the Company acquired two new properties; Pope's Hill Joint Venture and MRT Property. The Company determined that further exploration was not warranted for Jeanette Bay and Lake Michael and these projects have been abandoned with related expenditures of \$7,020 written off during the year ended October 31, 2011. Refer to (c) and (d) under Uranium for further agreement disclosure. The Company also determined that further exploration was not warranted for Rambler South and this project has been abandoned with related expenditures of \$572,583 written off during the year ended October 31, 2011. Refer to (b) under Gold and Base Metals for further agreement disclosure. In addition, the Company wrote off the balance for the Tukialuk Bay Property. These write-offs reflect the results of the Company's impairment analysis as of October 31, 2011. The Company reviewed the capitalized costs on its properties and recognized impairment in value based upon 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.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

7. MINERAL PROPERTIES (continued)

Uranium

a) Central Mineral Belt (“CMB”)

The Company has certain claims that are located in the CMB and Seal Lake areas of Labrador. The Company’s joint venture partner, Universal Uranium Ltd. (“UUL”), earned a 60 percent interest in the CMB/Seal Lake Joint Venture (“CMB/SLJV”) in March 2007 by spending \$2 million under an option agreement signed in the spring of 2006. UUL signed an agreement with Crosshair Energy Corporation (formally “Crosshair Exploration and Mining Corp”). (“Crosshair”) in May 2008, whereby Crosshair purchased UUL’s interest in the CMB/SL JV for 10 million shares of Crosshair plus \$500,000 with UUL retaining a 2% Net Smelter Royalty (“NSR”) on the 60% that they owned. This agreement was consummated on July 29, 2008 and Crosshair has taken over the operatorship of the joint venture. The Company agreed to pay UUL \$250,000 to settle any existing or future claims and forgive the net balance of \$30,827 due from UUL. Management assessed the estimated current value of properties based upon current exploration and other transactions in the same general area.

In October 2010, the Company wrote off \$304,182 of this property to reflect the results of its impairment analysis as of October 31, 2010.

During the year ended October 31, 2012 the Company wrote off \$2,093,991 of this property to reflect results of its impairment analysis as of October 31, 2012.

b) Double Mer Property

On February 28, 2006, the Company entered into an option and royalty agreement on the Double Mer Property in the province of Newfoundland and Labrador. Terms of the agreement are as follows: \$12,000 upon execution of the agreement (paid) and \$12,000 on each of February 28, 2007 (paid) and February 28, 2008 (paid). In addition, a 1% NSR is payable derived from commercial production from the property.

During the year ended October 31, 2012 the Company wrote off \$24,123 of this property to reflect results of its impairment analysis as of October 31, 2012.

c) Jeanette Bay

The Company owns certain claims in this area of Newfoundland and Labrador. During the year ended October 31, 2011, the Company abandoned Jeanette Bay and wrote off its remaining balance.

d) Lake Michael

The Company owns certain claims in this area of Newfoundland and Labrador. During the year ended October 31, 2011, the Company abandoned the Lake Michael project and wrote off its remaining balance.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

7. MINERAL PROPERTIES (continued)

Uranium (continued)

e) Mount Benedict Property

The Company owns certain claims in this area of the province of Newfoundland and Labrador. The claims are subject to a 1% NSR payable on any production on certain of the claims.

During the year ended October 31, 2012 the Company wrote off \$118,873 of this property to reflect results of its impairment analysis as of October 31, 2012.

f) Snegamook Property

On June 27, 2006, the Company optioned the property from a Newfoundland prospecting group for payments totaling \$24,000 and 30,000 shares over a three-year period (all payments have been made and 30,000 shares have been issued) and a retention of 2% NSR.

During the year ended October 31, 2012 the Company wrote off \$20,591 of this property to reflect results of its impairment analysis as of October 31, 2012.

g) Tukialuk Bay Property

The Company owns certain claims in this area of Newfoundland and Labrador. In October 2011 the Company wrote off \$14,820 of this property to reflect the results of its impairment analysis as of October 31, 2011.

h) Fish Hawk Lake

On August 22, 2012 the Company purchased a uranium exploration property in the Central Mineral Belt (CMB) of Labrador from Virginia Energy Resources Inc. The property consists of two mineral claim licences in the western part of the Central Mineral Belt in Labrador. The Company acquired a 100% interest, subject to a 2% NSR with a 1% buyback for \$500,000 to a third party, for a one-time share payment of two million shares of the Company.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

7. MINERAL PROPERTIES (continued)

Gold and Base Metals

a) Big Easy

On April 28, 2010, the Company entered into an option on the Big Easy Property located in the Thorburn Lake area of Eastern Newfoundland, in the Province of Newfoundland and Labrador. The agreement provides the Company an option to earn a 100% interest in the property and all associated mineral license rights subject to a 3% NSR with a 1.5% buy back by the Company for \$1,500,000. The consideration for the 100% interest in the property by the Company is \$117,510 and 1,600,000 common shares of the Company payable over four years as follows and a further payment starting on the fourth anniversary date of the agreement of \$20,000 per year until production is obtained as an advance against the NSR payable:

Year 1 (paid on signing - April 28, 2010;	\$27,510
issued on regulatory approval - May 7, 2010)	350,000 common shares
Year 2 (paid April 12, 2011 - issued on April 12, 2011)	\$30,000 and 400,000 common shares
Year 3 (paid April 13, 2012 - issued on April 16, 2012)	\$30,000 and 500,000 common shares
Year 4 (3rd anniversary)	\$30,000 and 350,000 common shares

During the year ended October 31, 2012 the Company received a refund of expenditures of \$100,000 under the Junior Exploration Assistance Program which is administered by the Department of Natural Resources for Newfoundland and Labrador.

b) Rambler South

On July 15, 2009, the Company entered into an option on the Rambler South Property located in the Rambler South area in the Baie Verte Peninsula part of the Province of Newfoundland and Labrador. The agreement provided the Company an option to earn a 100% interest in the property and all associated mineral license rights subject to a 2.5% NSR with a 1.0% buy back by the Company for \$1,500,000. The consideration for the 100% interest in the property by the Company was \$95,000 and 1,050,000 common shares of the Company payable over four years as follows and a further payment starting on the fourth anniversary date of the agreement of \$10,000 per year until production is obtained as an advance against the NSR payable:

Year 1 (issued on regulatory approval - Sept 8, 2009)	\$15,000 and 300,000 common shares and a work commitment of \$100,000
Year 2 (1st anniversary - issued July 21, 2010)	\$30,000 and 350,000 common shares and a work commitment of \$150,000
Year 3 (2nd anniversary - not paid and no shares issued as option terminated)	\$50,000 and 400,000 common shares

In August 2011, the Company abandoned Rambler South and wrote off its remaining balance.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

7. MINERAL PROPERTIES (continued)

Rare Earth Elements

a) MRT Property

On February 24, 2011 the Company entered into an option on the MRT Property located along and to the north of the Trans Labrador Highway, approximately 35km from Goose Bay. The agreement provides the Company an option to earn a 100% interest in the property and all associated mineral license rights subject to a 2.5% NSR with a 1.5% buy back by the Company for \$1,500,000. The consideration for the 100% interest in the property by the Company is \$80,000 and 500,000 common shares of the Company payable over two years and a further payment starting on the fourth anniversary date of the agreement of \$10,000 per year until production is obtained as an advance against the NSR payable as follows:

On signing (cash paid / shares issued - June 6, 2011)	\$15,000 and 100,000 common shares
Year 2 (cash paid/ shares issued - February 24, 2012)	\$25,000 and 150,000 common shares
Year 3 (2nd anniversary)	\$40,000 and 250,000 common shares and a work commitment of \$250,000

In October 2012, the Company abandoned MRT Property and wrote off its remaining balance.

b) Pope's Hill

The Company has certain claims that are located in the Pope's Hill area in the Happy Valley/ Goose Bay areas of Labrador. These claims relate to two separate projects the Company is involved in. The first is a 100% owned project for which all the activity recorded during the period pertains. The second is a newly formed 50/50 joint venture with the Company's joint venture partner, Great Western Minerals Group Ltd. ("GWMG"). The joint venture agreement was reached on April 11, 2011 and consummated on May 5, 2011, with GWMG being the operator of the joint venture.

During the year ended October 31, 2012 the Company wrote off \$460,480 of the 100% owned project to reflect results of its impairment analysis as of October 31, 2012.

c) Straits Property

On March 15, 2006, the Company entered into an option and royalty agreement on the Straits Property in the province of Newfoundland and Labrador. Terms of the agreement are as follows: \$12,000 upon execution of the agreement (paid) and \$12,000 on each of March 15, 2007 (paid) and March 15, 2008 (paid) to acquire a 100% interest. In addition, a 1% NSR is payable derived from commercial production from the property. At any time during the agreement if the Company terminates the agreement, the claims described will be transferred back to the optionee at no cost to the Company. Any unpaid monies will be forfeited.

During the year ended October 31, 2012 the Company wrote off \$98,982 of this property to reflect results of its impairment analysis as of October 31, 2012.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

7. MINERAL PROPERTIES (continued)

Rare Earth Elements (continued)

d) Red Wine Mountains

The Company owns certain claims in this area of Newfoundland and Labrador.

In October 2012, the Company abandoned Red Wine Mountains and wrote off its remaining balance.

8. EQUIPMENT

	October 31, 2012			
	<u>Equipment</u>	<u>Computers</u>	<u>Vehicles</u>	<u>Total</u>
	\$	\$	\$	\$
Cost:				
At October 31, 2011	179,036	63,483	104,508	347,027
Additions	-	-	-	-
Disposals	1,224	-	-	1,224
At October 31, 2012	<u>177,812</u>	<u>63,483</u>	<u>104,508</u>	<u>345,803</u>
Depreciation:				
At October 31, 2011	102,409	50,557	66,045	219,011
Additions	13,432	5,565	10,077	29,074
Disposals	343	-	-	343
At October 31, 2012	<u>115,498</u>	<u>56,122</u>	<u>76,122</u>	<u>247,742</u>
Carrying Value:				
At October 31, 2011	76,627	12,926	38,463	128,016
At October 31, 2012	<u>62,314</u>	<u>7,361</u>	<u>28,386</u>	<u>98,061</u>

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

8. EQUIPMENT (continued)

	October 31, 2011			Total
	Equipment	Computers	Vehicles	
	\$	\$	\$	\$
Cost:				
At November 1, 2010	151,006	60,702	107,819	319,527
Additions	28,030	2,781	19,189	50,000
Disposals	-	-	22,500	22,500
At October 31, 2011	179,036	63,483	104,508	347,027
Depreciation:				
At November 1, 2010	90,942	42,558	76,826	210,326
Additions	11,467	7,999	8,760	28,226
Disposals	-	-	19,541	19,541
At October 31, 2011	102,409	50,557	66,045	219,011
Carrying Value:				
At November 1, 2010	60,064	18,144	30,993	109,201
At October 31, 2011	76,627	12,926	38,463	128,016

9. LONG-TERM DEBT

	October 31, 2012	October 31, 2011	November 1, 2010
	\$	\$	\$
Chattel loan payments	-	-	5,976
Less: due in 12 months	-	-	5,976
Long-term portion	-	-	-

Repayable at \$747 monthly, principle plus 0% interest, in 60 equal installments secured by 2006 GMC vehicle.

10. INCOME TAXES

a) Reconciliation of total tax expense

The effective rate on the Company's loss before Income tax differs from the expected amount that would arise using the combined statutory income tax rates. A reconciliation of the difference is as follows:

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

10. INCOME TAXES (continued)

a) Reconciliation of total tax expense (continued)

	<u>2012</u>	<u>2011</u>
	\$	\$
Loss before income tax	(3,550,177)	(1,683,157)
Income tax rate	29.48%	30.98%
<hr/>		
Income tax (recovery) at the combined statutory income tax rate	(1,046,578)	(521,442)
Impairment of mineral properties	874,282	184,150
CEDOE expenditures	172,919	246,965
Non-taxable revenue and non-deductible expenses	(6,011)	(105,872)
Unrealized loss on investments	1,505	2,029
Non-deductible share-based compensation	-	160,850
Non-recognition of deferred tax assets due to unused tax losses and deductible temporary differences	54,269	99,494
Excess amortization over capital cost allowance	8,571	8,744
Share issue costs	(58,996)	(78,019)
Other	39	3,101
Income tax recovery	-	-

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

10. INCOME TAXES (continued)

b) Unrecognized deductible temporary differences and unused tax losses

Deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized are attributable to the following:

	October 31, 2012	October 31, 2011	November 1, 2010
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Deferred tax assets			
Equipment	246,977	217,562	188,577
Non-capital losses	1,918,334	1,778,487	1,450,273
Loans with tax cost base in excess of accounting basis	1,557,700	1,557,914	1,558,163
Mineral properties	11,914,438	8,510,284	8,995,459
Investments with cost base in excess of carrying value	156,895	151,788	145,237
Share issue costs	250,762	437,571	457,100
Net deferred tax asset	16,045,106	12,653,606	12,794,809

The Company has non-capital loss amounting to \$1,918,334 which are available to reduce future taxable Income. These non-capital losses expire as follows:

	\$
2014	163,192
2015	45,562
2027	255,040
2028	278,094
2029	525,004
2030	339,898
2031	127,453
2032	184,091
	<u>1,918,334</u>

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

11. SHARE CAPITAL

The share capital is as follows:

	October 31, 2012	October 31, 2011	November 1, 2010
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Authorized:			
An unlimited number of non-voting preference shares			
An unlimited number of common shares, no par value			
Issued and outstanding:			
111,607,805 (October 31, 2011 - 106,065,305)			
(November 1, 2010 - 79,073,422) (Note 18)	27,391,740	27,158,015	24,295,582

- a) In February 2012, the Company issued 150,000 common shares for the 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 common shares on the date of issue.
- b) In May 2012, the Company closed a non-brokered private placement to raise gross proceeds of \$191,400. The offering consisted of the issuance of flow-through units ("Super FT Units") of the Company. 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. Officers and directors of the Company subscribed for 750,000 units for gross proceeds of \$60,000.
- c) In September 2012, the Company issued 2,000,000 shares for acquisition of the Fish Hawk Lake Mineral Property from Virginia Energy Resources Inc. at \$0.04, based on the quoted market value of the share on the date of issue.
- d) During the year ended October 31, 2011, the Company closed a non-brokered private placement, consisting of 9,764,148 flow-through units at a price of \$0.17 per unit consisting of one flow through common share and one half of a purchase warrant, with each whole warrant exercisable for one non-flow through common share at a price of \$0.20 for the 24 months following the closing and 1,462,333 non-flow through units at a price of \$0.15 per unit consisting of one common share and one whole purchase warrant, with each whole warrant exercisable for one common share at a price of \$0.20 for the 24 months following the closing. Of the \$1,879,255 proceeds, \$1,345,744 was allocated to share capital and \$533,511 was allocated to warrants. In addition, the Company issued 400,000 shares for acquisition of the Big Easy property at \$0.14, and 100,000 shares for the acquisition of the MRT property at \$0.11, all based on the quoted market value of the share on the date of issue. Officers and directors of the Company subscribed for 990,000 units for gross proceeds of \$168,300.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

12. WARRANTS

The following is a summary of warrants activity for the years ended October 31, 2012 and October 31, 2011:

	October 31, 2012		October 31, 2011	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance, beginning of year	19,900,526	0.14	30,233,333	0.12
Granted in connection with private placements	1,196,250	0.20	6,613,345	0.20
Exercised	-	-	(14,496,152)	0.10
Expired during the year	(13,287,181)	0.11	(2,450,000)	0.15
Balance, end of year	7,809,595	0.20	19,900,526	0.14

- a) The grant date fair value of the warrants granted during the year ended October 31, 2012 were estimated using the FINCAD model for pricing warrants with American style exercise and time varying strike price. The model is based on the Cox-Ross-Rubinstein binominal tree for the underlying stock price with the following key assumptions: The price of an underlying asset is log normally distributed. The volatility of the price of an underlying asset is constant over the life of the option. For the May 18, 2012 private placement the expected dividend yield rate was 0.0%, and the expected volatility was 106.7%. The warrants can be exercised at a price of \$0.15 on or after May 18, 2012, \$0.20 on or after May 18, 2013, and \$0.25 on or after May 18, 2014. The weighted average fair value of the warrants granted in 2012 was \$0.02.
- b) The grant date fair value of the warrants granted during the year ended October 31, 2011 were estimated using the Black-Scholes option pricing model based on the following assumptions: For the December 23, 2010 private placement, expected life of 2.0 years, expected dividend rate at 0%, expected volatility of 160% and risk-free interest rate of 1.894%. These warrants can be exercised at a price of \$0.20 and the finder's fees warrants can be exercised at a price of \$0.20 until December 23, 2012. For the December 24, 2010 private placement, expected life of 2.0 years, expected dividend rate at 0%, expected volatility of 160% and risk-free interest rate of 1.894%. These warrants can be exercised at a price of \$0.20 and the finder's fees warrants can be exercised at a price of \$0.20 until December 24, 2012. For the December 31, 2010 private placement, expected life of 2.0 years, expected dividend rate at 0%, expected volatility of 160% and risk-free interest rate of 1.894%. These warrants can be exercised at a price of \$0.20 and the finder's fees warrants can be exercised at a price of \$0.20 until December 31, 2012. The weighted average fair value of the warrants granted in 2011 was \$0.09.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

12. WARRANTS (continued)

Summary of warrants outstanding as at October 31, 2012:

Warrants	Exercise price \$	Grant date 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	0.20	2,966	December 31, 2012
2,955,882	0.20	267,849	December 24, 2012
185,294	0.20	23,557	December 24, 2012
1,462,333	0.20	91,717	December 23, 2012
65,394	0.20	7,744	December 23, 2012
1,665,471	0.20	149,677	December 23, 2012
7,809,595		596,377	

13. 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. The shareholders of the Company are covered by a Shareholder Rights Plan Agreement between the Company and CIBC Mellon Trust Company.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

13. SHARE BASED PAYMENTS (continued)

Share based payment activity for the years ended October 31, 2012 and October 31, 2011 are summarized as follows:

	October 31, 2012		October 31, 2011	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance, beginning of year	13,291,667	0.27	10,885,897	0.24
Granted	-	-	3,675,000	0.30
Exercised	-	-	(1,269,230)	0.09
Expired	(2,106,667)	0.37	-	-
Balance, end of year	11,185,000	0.24	13,291,667	0.27

At October 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	3.62	0.08	1,450,000
0.30	1,900,000	3.22	0.20	1,900,000
0.12	2,225,000	2.49	0.08	2,225,000
0.15	2,670,000	1.28	0.13	2,670,000
0.35	2,920,000	0.51	0.32	2,920,000
0.83	20,000	0.34	0.67	20,000
	11,185,000	1.96	0.17	11,185,000

The weighted average grant date fair value per option of options outstanding as at October 31, 2012 is \$0.17 (October 31, 2011 - \$0.20; November 1, 2010 - \$0.24).

The number of shares reserved for issue of options is 11,136,561 as at October 31, 2012 (October 31, 2011 - 7,921,394).

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

13. 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:

	<u>October 31, 2012</u>	<u>October 31, 2011</u>
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

During the year ended October 31, 2011, 200,000 options were granted to Ascenta Capital for public relation goods and services rendered. The fair value of the goods and services was determined by reviewing the market rates for the consulting services provided.

14. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at October 31, 2012 is \$69,575 (October 31, 2011 - \$12,322; November 1, 2010 - \$127,705) owing to directors and companies controlled by directors of the Company for consulting related services rendered and \$31,000 (October 31, 2011 - \$21,500; November 1, 2010 - \$100,000 owing to directors for their annual stipend. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

During the year ended October 31, 2012, no stock options were granted to directors, officers and employees of the Company (October 31, 2011 – 3,250,000).

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 year ended October 31, 2012, \$167 (October 31, 2011 - \$24,235) was paid to the hardware store and \$460 (October 31, 2011 - \$58,768) was paid to the hotel and included in mineral properties on the statement of financial position.

During the year ended October 31, 2012 and 2011 key management personnel compensation included:

	<u>October 31, 2012</u>	<u>October 31, 2011</u>
Short-term employee benefits	299,456	428,289
Share-based payment	-	519,212
	299,456	947,501

See also Notes 11(b) and (d).

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

15. SUPPLEMENTAL CASH FLOW INFORMATION

	October 31, 2012	October 31, 2011
	<u>\$</u>	<u>\$</u>
Non-cash investing and financing activities:		
Acquisition of mineral properties for share consideration	128,500	67,000
Expiry of warrants	310,761	96,426
Finder's fee warrants issued for services (Note 12(b))	-	31,635

16. 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	\$30,000	350,000

The Company leases its head office in Bridgewater under an operating lease. Future lease payments aggregate \$825 and include the following amounts payable over the next year:

2013	\$	825
------	----	-----

The Company's exploration and evaluation 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 expended all the required renounced expenditures as of October 31, 2012.

The Company indemnifies the subscribers of flow-through shares from any tax consequences arising from the failure of the Company to meet its commitments under the flow-through subscription agreements.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

17. INTEREST IN JOINT VENTURES

The Company proportionately consolidates its interest in the joint venture with Crosshair Energy Corporation (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% NSR. 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 Company's interest in the joint venture is summarized below:

	October 31, 2012	October 31, 2011	November 1, 2010
	\$	\$	\$
Statement of Financial Position			
Mineral properties	-	2,203,848	2,084,308
Statement of Operations			
Impairment of property	(2,093,991)	-	(304,102)

18. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ended October 31, 2012 are the Company's first set of annual financial statements that comply with IFRS, as issued by the IASB, including the application of IFRS 1. IFRS 1 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 statement of financial position dated November 1, 2010, as described below.

First time adoption mandatory exceptions and optional exemptions to retrospective application of IFRS

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain mandatory exceptions and certain optional exemptions from full retrospective application of IFRS as described below.

Mandatory exceptions

Estimates

Hindsight was not used to create or revise estimates. The estimates made under IFRS at the date of transition are consistent with those previously made under Canadian GAAP.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

18. TRANSITION TO IFRS (continued)

Optional exemptions

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

- IFRS 3 “Business Combinations” has not been applied to acquisitions of subsidiaries that occurred before November 1, 2010.
- IFRS 2 “Share-based payments” has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before November 1, 2010. The Company has elected not to apply IFRS 2 to awards that vested prior to November 1, 2010, which has been accounted for in accordance with Canadian GAAP.

Changes in accounting policies

1. Share-based payments

Forfeitures

- Canadian GAAP - Forfeitures of awards are recognized as they occur.
- IFRS - An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. No adjustments were required on transition to IFRS.

2. Impairments

Recoverable amount

- Canadian GAAP - A recoverability test is performed by first comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset does not recover its carrying value, an impairment loss is calculated as the excess of the asset's carrying amount over its fair value.
- IFRS - The impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. No adjustments were required.
- Canadian GAAP - Reversal of impairment losses is not permitted.
- IFRS - Reversal of impairment losses is required for assets other than goodwill if certain criteria are met. No adjustments were required.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

18. TRANSITION TO IFRS (continued)

Changes in accounting policies

3. Flow-Through Premium

- Canadian GAAP - Flow through shares are a unique Canadian tax incentive, which is the subject of specific guidance under Canadian GAAP.
- IFRS -There is no equivalent IFRS guidance. SIC interpretation 25, Income Taxes - Changes In the Tax Status of an Entity or Its Shareholders, provides some additional guidance in that it requires that the current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit to the recognized amount in equity.

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 credited to other liabilities and included in income at the time the qualifying expenditures are made.

Explanation of differences impacting the Company's financial statements including IFRS 1 First-Time Adoption of International financial Reporting Standards

IFRS 1 requires the Company to reconcile equity, comprehensive income and cash flows for prior periods. In preparing its opening IFRS consolidated statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. 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 and the additional notes that, accompany the tables. The transition to IFRS did not have a significant impact on the Company's consolidated statement of cash flows for the year ended October 31, 2011, therefore reconciliation has not been prepared.

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.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

18. TRANSITION TO IFRS (continued)

Explanation of differences impacting the Company's financial statements including IFRS 1 First-Time Adoption of International financial Reporting Standards (continued)

b) Flow-through shares (continued)

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 \$2,757,098 to the November 1, 2010 balance sheet represents a reduction of share capital of \$487,067 from prior years' premiums and an increase in share capital of \$3,244,165 to reverse the prior years' recording of the flow-through tax benefit under Canadian GAAP. The October 31, 2011 statement of financial position includes the \$2,757,098 adjustment plus an amount of \$630,579 as a reversal of the 2010 recording of a flow-through tax benefit from a September and December 2010 flow through share issue and reduction of share capital for a flow through premium of \$341,745, for a total adjustment of \$3,045,932.

c) Restatement of shares issued for mineral properties

Adjustment to correct errors in the valuation of shares issued for mineral property rights using the fair value of the shares on the date of issuance rather than the deemed value at the date of the option agreements.

d) Restatement of stock based compensation

Adjustment to correct errors in historical volatility calculations used in the pricing model for the valuations of stock based compensation.

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

18. TRANSITION TO IFRS (continued)

Reconciliation from Canadian GAAP to IFRS

Reconciliation of consolidated assets, liabilities and shareholder's equity as at November 1, 2010:

	<i>Notes</i>	Canadian GAAP	Effect of IFRS transition	Restated	IFRS
		\$	\$	\$	\$
ASSETS					
Current					
Cash		216,287	-	-	216,287
HST and other receivables		47,188	-	-	47,188
Refundable staking deposits		59,800	-	-	59,800
Prepaid expenses		16,490	-	-	16,490
Total current assets		339,765	-	-	339,765
Mineral properties	c	2,857,318	-	1,750	2,859,068
Equipment		109,201	-	-	109,201
Mexican VAT receivable		182,655	-	-	182,655
Non-current refundable staking deposits		70,783	-	-	70,783
Investments		10,013	-	-	10,013
Total assets		3,569,735	-	1,750	3,571,485
LIABILITIES					
Current					
Trade payables and accrued liabilities		374,385	-	-	374,385
Current portion of long-term debt		5,976	-	-	5,976
Total liabilities		380,361	-	-	380,361
SHAREHOLDERS' EQUITY					
Share capital	b, c	21,522,234	2,757,098	16,250	24,295,582
Warrants reserve		739,925	-	-	739,925
Equity reserve	d	6,372,250	-	(90,414)	6,281,836
Deficit	b, c, d	(25,445,035)	(2,757,098)	75,914	(28,126,219)
Total shareholders' equity		3,189,374	-	1,750	3,191,124
Total liabilities and shareholders' equity		3,569,735	-	1,750	3,571,485

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

18. TRANSITION TO IFRS (continued)

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

	<i>Notes</i>	Canadian GAAP \$	Effect of IFRS transition \$	Restated \$	IFRS \$
ASSETS					
Current					
Cash		874,290	-	-	874,290
HST and other receivables		48,691	-	-	48,691
Refundable staking deposits		95,600	-	-	95,600
Prepaid expenses		83,252	-	-	83,252
Total current assets		1,101,833	-	-	1,101,833
Mineral properties	c	4,024,812	-	12,750	4,037,562
Equipment		128,016	-	-	128,016
Non-current refundable staking deposits		8,970	-	-	8,970
Investments		3,463	-	-	3,463
Total assets		5,267,094	-	12,750	5,279,844
LIABILITIES					
Current					
Trade payables and accrued liabilities		171,113	-	-	171,113
Total liabilities		171,113	-	-	171,113
SHAREHOLDERS' EQUITY					
Share capital	b, c, d	24,089,107	3,045,932	22,976	27,158,015
Warrants reserve		878,542	-	-	878,542
Equity reserve	a, d	6,958,213	9,477	(86,140)	6,881,550
Deficit	a, b, c, d	(26,829,881)	(3,055,409)	75,914	(29,809,376)
Total shareholders' equity		5,095,981	-	12,750	5,108,731
Total liabilities and shareholders' equity		5,267,094	-	12,750	5,279,844

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

18. TRANSITION TO IFRS (continued)

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

Year ended October 31, 2011

	<i>Notes</i>	Canadian GAAP \$	Effect of IFRS transition \$	Restated \$	IFRS \$
Expenses					
Impairment of mineral properties		14,820	-	-	14,820
Impairment of Mexican VAT receivable		168,304	-	-	168,304
Other impaired property costs		8,014	-	-	8,014
Abandonment of mineral properties		579,603	-	-	579,603
Stock-based compensation		519,212	-	-	519,212
Office and general		147,710	-	-	147,710
Accounting, audit and legal		136,572	-	-	136,572
Wages and benefits		161,832	-	-	161,832
Unrealized loss in market value of investments		6,550	-	-	6,550
Consulting fees		175,917	-	-	175,917
Corporate relations	a	106,273	9,477	-	115,750
Travel		26,307	-	-	26,307
Amortization		28,226	-	-	28,226
Listing and filing fees		30,162	-	-	30,162
Loss on sale of equipment		759	-	-	759
Foreign exchange loss		14,991	-	-	14,991
Total expenses		2,125,252	9,477	-	2,134,729
Other income	b	109,827	341,745	-	451,572
Loss before income taxes		2,015,425	(332,268)	-	1,683,157
Future income tax recovery	b	(630,579)	630,579	-	-
Net loss and comprehensive loss for the year		1,384,846	298,311	-	1,683,157
Deficit, beginning of year	b, c, d	25,445,035	2,757,098	(75,914)	28,126,219
Deficit, end of year		26,829,881	3,055,409	(75,914)	29,809,376
Net loss per share - basic and diluted		(0.01)	(0.01)	-	(0.02)
Weighted average number of shares					
outstanding - basic and diluted		102,333,632	-	-	102,333,632

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
October 31, 2012 and 2011

18. TRANSITION TO IFRS (continued)

Reconciliation of cash flows

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the consolidated statements of financial position and consolidated statement of operations have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no cash flow reconciliations have been presented.