*Consolidated Financial Statements*

# SILVER SPRUCE RESOURCES INC.

*For the years ended October 31, 2013 and 2012*

*(Expressed in Canadian dollars)*

# SILVER SPRUCE RESOURCES INC.
# Table of Contents

2005 Sheppard Avenue East, Suite 300
Toronto, Ontario
M2J 5B4, Canada
Phone 416-496-1234
Fax 416-496-0125
Web www.mhc-ca.com

# 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, 2013 and 2012, and the consolidated statements of operations and comprehensive loss, consolidated statements of change in shareholders' equity and consolidated statements of cash flows for the years then ended, 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, 2013 and 2012, and their financial performance and cash flows for the years then ended 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 indicates that the Company had continuing losses during the year ended October 31, 2013, a working capital deficiency and a cumulative deficit as at October 31, 2013. These conditions along with other matters set forth in Note 2 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

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
February 28, 2014

# SILVER SPRUCE RESOURCES INC.
# Consolidated Statements of Financial Position
**As at October 31, 2013 and 2012**

**(Expressed in Canadian Dollars)**

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current | | |
| Cash | **32,723** | 129,774 |
| HST and other receivables | **3,470** | 16,825 |
| Refundable staking deposits | **-** | 13,906 |
| Prepaid expenses | **35,850** | 47,275 |
| Total current assets | **72,043** | 207,780 |
| Mineral exploration properties (Notes 7, 13 and 16) | **815,690** | 1,787,304 |
| Equipment (Note 8) | **67,128** | 98,061 |
| Non-current refundable staking deposits | **1,195** | 4,394 |
| Investments | **338** | 16,835 |
| Total assets | **956,394** | 2,114,374 |
| **Liabilities** | | |
| Current | | |
| Trade payable and accrued liabilities (Note 13) | **342,706** | 293,498 |
| Loan payable (Note 13) | **30,000** | - |
| Total current liabilities | **372,706** | 293,498 |
| **Shareholders' Equity** | | |
| Share capital (Note 10) | **27,398,740** | 27,391,740 |
| Warrant reserve (Note 11) | **28,596** | 596,377 |
| Equity reserve | **7,617,601** | 7,192,311 |
| Accumulated deficit | **(34,461,249)** | (33,359,552) |
| Total shareholders' equity | **583,688** | 1,820,876 |
| Total liabilities and shareholders' equity | **956,394** | 2,114,374 |

Basis of preparation and going concern (Note 2)
Commitments and contingencies (Notes 7 and 15)

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
**Years ended October 31, 2013 and 2012**
**(Expressed in Canadian Dollars)**

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| **Expenses** | | |
| Impairment of mineral exploration properties (Note 7) | **937,170** | 2,817,040 |
| Other impaired property costs | **5,850** | 9,899 |
| Abandonment of mineral exploration properties (Note 7) | **-** | 148,679 |
| Office and general | **70,019** | 103,825 |
| Accounting, audit and legal | **93,066** | 203,449 |
| Wages and benefits | **17,227** | 46,387 |
| Realized loss on sale of investments | **2,145** | - |
| Consulting fees | **88,963** | 106,508 |
| Corporate relations | **10,880** | 117,262 |
| Travel | **4,039** | 11,621 |
| Capital tax expense | **-** | 6,685 |
| Amortization | **20,477** | 29,074 |
| Listing and filing fees | **20,728** | 22,981 |
| Total expenses | **1,270,564** | 3,623,410 |
| Other income | **-** | 61,741 |
| Recovery of Mexican VAT receivable | **20,957** | 18,158 |
| Foreign exchange gain (loss) | **805** | (1,218) |
| Unrealized gain (loss) on market value of investments | **1,570** | (5,106) |
| Gain (loss) on sale of equipment | **3,044** | (341) |
| Total other income | **26,376** | 73,234 |
| Loss before income taxes | **1,244,188** | 3,550,176 |
| Deferred tax recovery (Note 9) | **142,491** | - |
| **Net loss and comprehensive loss for the year** | **1,101,697** | 3,550,176 |
| Net loss per share - basic and diluted | **(0.01)** | (0.03) |
| Weighted average number of shares outstanding - basic and diluted | **111,798,106** | 108,343,812 |

See accompanying notes to the consolidated financial statements

# SILVER SPRUCE RESOURCES INC.
## Consolidated Statements of Change in Shareholders' Equity
**Years ended October 31, 2013 and 2012**
**(Expressed in Canadian Dollars)**

| | | **Share capital** | **Warrant reserve** | **Equity reserve** | **Accumulated deficit** | **Total equity** |
|---|---|---|---|---|---|---|
| | Number of shares | $ | $ | $ | $ | $ |
| **Balance October 31, 2011** | 106,565,305 | 27,158,015 | 878,542 | 6,881,550 | (29,809,376) | 5,108,731 |
| Net 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 |
| Net loss for the year | - | - | - | - | (1,101,697) | (1,101,697) |
| Shares issued for property acquisition | 350,000 | 7,000 | - | - | - | 7,000 |
| Warrants expired | - | - | (567,781) | 567,781 | - | - |
| Tax on expired warrants | - | - | - | (142,491) | - | (142,491) |
| **Balance October 31, 2013** | **111,957,805** | **27,398,740** | **28,596** | **7,617,601** | **(34,461,249)** | **583,688** |

See accompanying notes to the consolidated financial statements

# SILVER SPRUCE RESOURCES INC.
## Consolidated Statements of Cash Flows
**Years ended October 31, 2013 and 2012**
**(Expressed in Canadian Dollars)**

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Net loss for the year | **(1,101,697)** | (3,550,176) |
| Items not involving cash: | | |
| (Gain) loss on foreign exchange | **(805)** | 1,218 |
| Amortization | **20,477** | 29,074 |
| Deferred tax recovery | **(142,491)** | - |
| (Gain) loss on sale of equipment | **(3,044)** | 341 |
| Other income | **-** | (61,741) |
| Unrealized (gain) loss in market value of investments | **(1,570)** | 5,106 |
| Realized loss on sale of investments | **2,145** | - |
| Abandonment of mineral properties | **-** | 148,679 |
| Impairment of mineral properties | **937,170** | 2,817,040 |
| | **(289,815)** | (610,460) |
| Changes in non-cash working capital | | |
| Decrease in prepaid expenses | **11,425** | 35,978 |
| Decrease in HST and other receivables | **14,161** | 30,646 |
| Increase in accounts payable and accrued liabilities | **67,139** | 95,795 |
| Change in non-cash operating working capital | **92,725** | 162,419 |
| Net cash flows from operating activities | **(197,090)** | (448,040) |
| **Financing activities** | | |
| Proceeds from issuance of shares and warrants | **-** | 191,400 |
| Share issue costs | **-** | (14,315) |
| Proceeds from loan payable | **30,000** | - |
| Net cash flows from financing activities | **30,000** | 177,085 |
| **Investing activities** | | |
| Mineral properties expenditures | **(63,403)** | (660,371) |
| Refund of mineral property expenditures | **86,915** | 100,000 |
| Proceeds from sale of investments | **15,922** | - |
| Proceeds from sale of equipment | **13,500** | 540 |
| Refund of refundable staking deposits | **17,105** | 88,270 |
| Purchase of refundable staking deposits | **-** | (2,000) |
| Net cash flows from investing activities | **70,039** | (473,561) |
| (Decrease) in cash | **(97,051)** | (744,516) |
| Cash, beginning of year | **129,774** | 874,290 |
| **Cash, end of year** | **32,723** | 129,774 |

Supplemental cash flow information (See Note 14)

## 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. The Company's board of directors approved these financial statements on February 27, 2014.

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

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions such as ongoing operational losses and a need for working capital cast significant doubt on the validity of this assumption.

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

*Basis of presentation (continued)*

These financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. The Company had continuing losses during the year ended October 31, 2013, a working capital deficiency and a cumulative deficit as at October 31, 2013. 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. Certain comparative information has been reclassified to conform with the presentation adopted in the current year.

## 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 Jet Metal Corporation (formerly Crosshair Energy Corporation). 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 exploration properties.

*Mineral exploration 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 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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Mineral exploration 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 exploration 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.

Mineral property assets are reclassified to "property, plant and equipment, construction in progress" when the technical feasibility and commercial viability of extracting a miner reserve are demonstrable. Mineral property assets are assessed for impairment, and impairment loss, if any, is recognized before reclassification to "property, plant and equipment, construction in progress."

*Joint Ventures*

The Company proportionately consolidates its interests in joint ventures.

*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.

## 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% |
| Computers | 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 operations and 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.

## 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, 2013 and 2012.

## 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 |
| Loan Payable | 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.

## 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, mineral exploration properties 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Significant accounting judgments, estimates and assumptions (continued)*

*Mineral exploration 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 mineral exploration properties. 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 mineral exploration properties, 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 mineral exploration properties. Internal sources of information include the manner in which mineral exploration properties 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.

## 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 $86,915 has been deducted from the carrying value of the Big Easy property during the year ended October 31, 2013 ($100,000 – 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 *Classification and Measurement* ("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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. This amendment was released in connection with IFRS 7 *Financial Instruments: Disclosures - Transition Disclosures* ("IFRS 7") 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.

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 intends to adopt this standard in its financial statements for the annual period beginning November 1, 2013. 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 intends to adopt this standard in its financial statements for the annual period beginning November 1, 2013. 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 intends to adopt this standard in its financial statements for the annual period beginning November 1, 2013. The Company is currently assessing the impact of this new standard on the Company's financial assets and financial liabilities.

## 4. FUTURE ACCOUNTING CHANGES (continued)

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.

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 intends to adopt this standard in its financial statements for the annual period beginning November 1, 2013. The Company is currently assessing the impact of this new standard on the Company's financial assets and financial liabilities.

IAS 32 *Offsetting Financial Assets and Financial Liabilities* ("IAS 32")
Amendments have been made to IAS 32 which clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. IAS 32 is effective for years beginning on or after January 1, 2014. The Company does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's consolidated financial statements as the Company does not have any financial assets and financial liabilities that qualify for offset.

IFRIC Interpretation 21 - *Levies* ("IFRIC 21")
In May 2013, the IASB issued IFRIC 21, which is an interpretation of IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for years beginning on or after January 1, 2014 and must be applied retrospectively. The Company is currently assessing the potential impact of this standard.

## 5. CAPITAL MANAGEMENT

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

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

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, 2013 and 2012.

## 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 receivable 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, 2013, the Company had a cash balance of $32,723 (2012 - $129,774) to settle current liabilities of $372,706 (2012 - $293,498). Of the Company's current financial liabilities, $146,391 have contractual maturities of less than 30 days and are subject to normal trade terms.

### c) Market risk

*Interest rate risk*

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

*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, 2013 and 2012.

## 6. FINANCIAL RISK FACTORS (continued)

### d) Fair value

The carrying amounts for cash, other receivables, refundable staking deposits, trade payable and accrued liabilities, and loan payable 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 are based on quoted market prices in active markets and are classified as a Level 1 in the fair value hierarchy.

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

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

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

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

### e) Sensitivity analysis

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

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

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Mexican Pesos: | | |
| Cash | **7,754** | 25,007 |
| Accounts payable | **7,260** | 3,505 |

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 $50 (2012 - $2,150) based on balances denominated in Mexican Pesos on October 31, 2013.

A plus or minus 10% change in the Company's investment in marketable securities as at October 31, 2013, would affect the Company's net loss by $34 ($338 x 10%) (2012 – $1,684) .

**(Expressed in Canadian dollars)**

## 7. MINERAL EXPLORATION PROPERTIES

| | October 31, 2012 | Additions | Refund of expenditures | Impairment and abandonments | **October 31, 2013** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| Uranium | | | | | |
| Fish Hawk Lake | 84,583 | 262 | - | 84,845 | **-** |
| | 84,583 | 262 | - | 84,845 | **-** |
| Gold and Base Metals | | | | | |
| Big Easy | 852,704 | 49,901 | 86,915 | - | **815,690** |
| Rare Earth Elements | | | | | |
| Pope's Hill Joint Venture | 245,203 | - | - | 245,203 | **-** |
| Pope's Hill | 604,814 | 2,308 | - | 607,122 | **-** |
| | 850,017 | 2,308 | - | 852,325 | **-** |
| | 1,787,304 | 52,471 | 86,915 | 937,170 | **815,690** |

The Company is entitled to refundable mining rights credits on exploration expenses incurred in Newfoundland, 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, 2013 the Company wrote off the balance for Fish Hawk Lake of $84,845, Pope's Hill Joint Venture of $245,203, and Pope's Hill of $607,122, for total impairments of $937,170. As of October 31, 2013, these properties were not abandoned since staking claims are still held for these properties. These write-offs reflect the results of the Company's impairment analysis as of October 31, 2013. 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.

**(Expressed in Canadian dollars)**

### 7. MINERAL EXPLORATION PROPERTIES (continued)

| | 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 |
| | 2,236,504 | 105,657 | - | 2,257,578 | 84,583 |
| 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 | - |
| | 1,205,272 | 352,886 | - | 708,141 | 850,017 |
| | 4,037,562 | 815,461 | 100,000 | 2,965,719 | 1,787,304 |

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.

## 7. MINERAL EXPLORATION 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.

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) 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.

d) 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.

**(Expressed in Canadian dollars)**

## 7. MINERAL EXPLORATION PROPERTIES (continued)

**Uranium (continued)**

e) 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.

During the year ended October 31, 2013, the Company wrote off $84,845 of this property to reflect results of its impairment analysis as of October 31, 2013.

**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 provided 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 Company exercised this option on April 26, 2013. The consideration for the 100% interest in the property by the Company was $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 (paid April 26, 2013 - issued on April 15, 2013) | $30,000 and 350,000 common shares |

During the year ended October 31, 2013 the Company received a refund of expenditures of $86,915 (2012 - $100,000) under the Junior Exploration Assistance Program which is administered by the Department of Natural Resources for Newfoundland and Labrador.

See also Note 13.

**(Expressed in Canadian dollars)**

## 7. MINERAL EXPLORATION 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 the 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. 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 reach 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.

During the year ended October 31, 2013, the Company wrote off $607,122 of the 100% owned project and $245,203 of the 50/50 joint venture project to reflect results of its impairment analysis of October 31, 2013.

**(Expressed in Canadian dollars)**

## 7. MINERAL EXPLORATION PROPERTIES (continued)

**Rare Earth Elements (continued)**

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.

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

| | 2013 | | | |
|---|---|---|---|---|
| | **Equipment** | **Computers** | **Vehicles** | **Total** |
| | **$** | **$** | **$** | **$** |
| **Cost:** | | | | |
| At October 31, 2012 | **177,812** | **63,483** | **104,508** | **345,803** |
| Disposals | **2,620** | **-** | **14,066** | **16,686** |
| At October 31, 2013 | **175,192** | **63,483** | **90,442** | **329,117** |
| **Amortization:** | | | | |
| At October 31, 2012 | **115,498** | **56,122** | **76,122** | **247,742** |
| Additions | **10,967** | **3,169** | **6,341** | **20,477** |
| Disposals | **349** | **-** | **5,881** | **6,230** |
| At October 31, 2013 | **126,116** | **59,291** | **76,582** | **261,989** |
| **Carrying Value:** | | | | |
| At October 31, 2012 | **62,314** | **7,361** | **28,386** | **98,061** |
| At October 31, 2013 | **49,076** | **4,192** | **13,860** | **67,128** |

**(Expressed in Canadian dollars)**

**8. EQUIPMENT (continued)**

| | 2012 | | | |
|---|---|---|---|---|
| | Equipment | Computers | Vehicles | Total |
| | $ | $ | $ | $ |
| **Cost:** | | | | |
| At October 31, 2011 | 179,036 | 63,483 | 104,508 | 347,027 |
| Disposals | 1,224 | - | - | 1,224 |
| At October 31, 2012 | 177,812 | 63,483 | 104,508 | 345,803 |
| **Amortization:** | | | | |
| 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 | 115,498 | 56,122 | 76,122 | 247,742 |
| **Carrying Value:** | | | | |
| At October 31, 2012 | 62,314 | 7,361 | 28,386 | 98,061 |

**(Expressed in Canadian dollars)**

## 9. 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:
2013

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Loss before income tax | **(1,244,188)** | (3,550,176) |
| Income tax rate | **29.23%** | 29.48% |
| Income tax (recovery) at the combined statutory income tax rate | **(363,676)** | (1,046,578) |
| Impairment of mineral properties | **275,645** | 874,282 |
| Recognition of deferred tax assets in relation to current and prior year taxable income | **(108,879)** | - |
| CEDOE expenditures | **85,900** | 172,919 |
| Non-taxable revenue and non-deductible expenses | **-** | (6,011) |
| Unrealized loss on investments | **(229)** | 1,505 |
| Non-recognition of deferred tax assets due to unused tax losses and deductible temporary differences | **-** | 54,269 |
| Excess amortization over capital cost allowance | **4,432** | 8,571 |
| Share issue costs | **(27,194)** | (58,957) |
| Difference in tax rates and other | **(8,490)** | |
| Income tax recovery | **(142,491)** | - |

The 2013 statutory tax rate of 29.23% differs from the 2012 statutory tax rate because of the decrease in the Canadian Federal substantively enacted tax rates and provincial allocation of income.

**(Expressed in Canadian dollars)**

**9. 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:

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Deferred tax assets | | |
| Equipment | **264,950** | 246,977 |
| Non-capital losses | **1,545,839** | 1,918,334 |
| Loans with tax cost base in excess of accounting basis | **1,557,700** | 1,557,700 |
| Mineral exploration properties | **9,636,039** | 11,914,438 |
| Investments with cost base in excess of carrying value | **155,325** | 156,895 |
| Share issue costs | **157,727** | 250,762 |
| | **13,317,580** | 16,045,106 |

The Company has non-capital loss amounting to $1,545,839 which are available to reduce future taxable Income. These non-capital losses expire as follows:

| | $ |
|---|---|
| 2015 | 20,350 |
| 2027 | 255,040 |
| 2028 | 278,094 |
| 2029 | 525,004 |
| 2030 | 339,898 |
| 2031 | 127,453 |
| | 1,545,839 |

**(Expressed in Canadian dollars)**

### 10. SHARE CAPITAL

The share capital is as follows:

| | **2013** | 2012 |
|---|---|---|
| Authorized: | **$** | $ |
| An unlimited number of non-voting preference shares | | |
| An unlimited number of common shares, no par value | | |
| Issued and outstanding: | | |
| 111,957,805 (October 31, 2012 - 111,607,805) | **27,398,740** | 27,391,740 |

a) In April 2013, the Company issued 350,000 common shares for the acquisition of Big Easy Property valued at $0.02, based on the quoted market value of the common shares on the date of issue.

b) In February 2012, the Company issued 150,000 common shares for the acquisition of the MRT Property valued at $0.09, and in April 2012, the Company issued 500,000 shares for acquisition of the Big Easy Property valued at $0.07, all based on the quoted market values of the common shares on the dates of issue.

c) 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.

d) In September 2012, the Company issued 2,000,000 common shares for acquisition of the Fish Hawk Lake Mineral Property from Virginia Energy Resources Inc. valued at $0.04, based on the quoted market value of the shares on the date of issue.

**(Expressed in Canadian dollars)**

## 11. WARRANTS

The following is a summary of warrants activity for the years ended October 31, 2013 and October 31, 2012:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price** | Number | Weighted average exercise price |
| | | **$** | | $ |
| Balance, beginning of year | **7,809,595** | **0.20** | 19,900,526 | 0.14 |
| Granted in connection with private placements | - | - | 1,196,250 | 0.20 |
| Expired during the year | **(6,613,345)** | **0.20** | (13,287,181) | 0.11 |
| Balance, end of year | **1,196,250** | **0.20** | 7,809,595 | 0.20 |

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.

Summary of warrants outstanding as at October 31, 2013:

| Warrants | Exercise price | Grant date fair value of warrants | Expiry date |
|---|---|---|---|
| | $ | $ | |
| 1,196,250 | 0.20 | 28,596 | May 18, 2015 |

**(Expressed in Canadian dollars)**

## 12. 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.

Share based payment activity for the years ended October 31, 2013 and October 31, 2012 are summarized as follows:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price** | Number | Weighted average exercise price |
| | | **$** | | $ |
| Balance, beginning of year | **11,185,000** | **0.24** | 13,291,667 | 0.27 |
| Expired | **(3,620,000)** | **0.33** | (2,106,667) | 0.37 |
| Balance, end of year | **7,565,000** | **0.20** | 11,185,000 | 0.24 |

At October 31, 2013, 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 | 2.62 | 0.08 | 1,450,000 |
| 0.30 | 1,600,000 | 2.22 | 0.20 | 1,600,000 |
| 0.12 | 2,225,000 | 1.49 | 0.08 | 2,225,000 |
| 0.15 | 2,290,000 | 0.28 | 0.13 | 2,290,000 |
| | 7,565,000 | 1.50 | 0.11 | 7,565,000 |

## 12. SHARE BASED PAYMENTS (continued)

The weighted average grant date fair value per option of options outstanding as at October 31, 2013 is $0.11 (2012 - $0.17).

The number of shares reserved for issue of options is 14,826,561 as at October 31, 2013 (2012 – 11,136,561).

## 13. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at October 31, 2013 is $140,212 (2012 - $69,575) owing to directors and companies controlled by directors of the Company for consulting related services rendered and $56,103 (2012 - $31,000) owing to directors for their annual stipend. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

In April 2013, the Company received a loan of $30,000 from a director of the Company. The loan is secured by the Big Easy Property. The loan is due April 28, 2014 and is non-interest bearing. If the Company fails to repay the loan by April 28, 2014, then the Big Easy property will become the property of this director with no interest retained by the Company in full satisfaction of the payment of the loan.

During the year ended October 31, 2013, no stock options were granted to directors, officers and employees of the Company (2012 – Nil).

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, 2013, NIL (2012 - $167) was paid to the hardware store and NIL (2012 - $460) was paid to the hotel and included in mineral properties on the statement of financial position.

During the years ended October 31, 2013 and 2012 key management personnel compensation consisted of services provided by companies owned by directors $91,468 ($235,722 – 2012), and directors' fees $34,603 ($63,734 – 2012) which are classified as short-term employee benefits.

See also Note 10 (c).

**(Expressed in Canadian dollars)**

### 14. SUPPLEMENTAL CASH FLOW INFORMATION

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Non-cash investing and financing activities: | | |
| Acquisition of mineral properties for share consideration | **7,000** | 127,500 |
| Expiry of warrants | **567,781** | 310,761 |

### 15. COMMITMENTS AND CONTINGENCIES

The Company has acquired various properties from third party license holders. The agreements provide for the payment of a NSR to the third parties in the event that a property reaches the commercial production stage.

During the year ended October 31, 2013, the Company acquired a 100% interest in the licenses, and property and mineral license rights of the Big Easy property. Consequently, on the fourth anniversary, April 2014, and yearly thereafter, the Company is committed to make annual advance royal payments of $20,000 payable each year until production is obtained. The advance royalty payments are deductible from future 3% Net Smelter Return royalty payments derived from commercial production from the property.

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

The Company 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.

(Expressed in Canadian dollars)

## 16. INTEREST IN JOINT VENTURES

The Company proportionately consolidates its interest in the joint venture with Jet Metal Corporation (JET) (formerly Crosshair Energy Corporation). The consolidation was diluted from the original 60% to 40% since the Company did not fully contribute to the exploration costs incurred by JET over the past 2 years. As a result of further exploration work expensed by JET 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 was between the Company and Great Western Minerals Group (GWMG) and was a 50/50 venture with GWMC being the operator. Exploration work has been completed and unfortunately results were not encouraging enough to warrant further work. Most of the claims have already been dropped and most likely the remaining claims will be also as assessment credits expire.

The Company's interest in the joint ventures are summarized below:

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| **Statement of Financial Position** | | |
| Mineral properties | - | 245,203 |
| **Statement of Operations** | | |
| Impairment of property | **(245,203)** | (2,093,991) |