*This document provides management's discussion and analysis (MD&A) for our financial condition as at July 31, 2012, and results of operations for the quarter ended July 31, 2012. This MD&A should be read in conjunction with the Company's consolidated financial statements and notes for the year ended October 31, 2011 and the unaudited interim consolidated financial statements and notes for the quarter ended July 31, 2012.* ***This MD&A has been prepared as of September 25, 2012 and is current to that date unless otherwise stated.***

*Effective November 1, 2011, the Company adopted accounting principles used under the International Financial Reporting Standards ("IFRS" or "GAAP"), using a transition date of November 1, 2010 to accommodate comparative periods. As a result, the condensed consolidated interim financial statements for the three months ended January 31, 2012, April 30, 2012 and July 31, 2012 have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, and International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. For reporting periods ended prior to November 1, 2011, the Company had prepared and filed its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Detailed reconciliations of figures previously reported under Canadian GAAP to IFRS are provided in note 17 to the January 31, 2012, April 30, 2012 and July 31, 2012 condensed consolidated interim financial statements.*

*This document contains forward–looking statements which by their nature involve risks and uncertainties, many of which are beyond the Company's control and which could cause actual results to differ materially from those expressed in such forward-looking statements. Readers are cautioned not to place undue reliance on these statements. The Company disclaims any intention and assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*Additional information regarding the Company, including copies of the Company's continuous disclosure materials is available on the Company's website at www.silversprucesources.com or through the SEDAR website at www.sedar.com.*

**Company Overview**

Silver Spruce Resources Inc. is a junior exploration company headquartered in Bridgewater, Nova Scotia. Originally focused on uranium, mainly in the Central Mineral Belt (CMB) of Labrador, the Company has since diversified into our main project, a precious metal project on the island of Newfoundland and rare earth elements (REE) projects in Labrador. The Company focused on evaluating its significant REE projects in Labrador (Popes Hill, Popes Hill JV with Great Western Minerals Group, MRT, RWM and Straits) in 2011 however lack of interest and availability of financing for REE projects worldwide has resulted in the projects being de-emphasized. Emphasis in 2012 has been placed on the Company's gold/silver project in eastern Newfoundland, the Big Easy. The gold/silver and REE properties are either road accessible or are relatively close to infrastructure greatly reducing future development costs.

While the Company's uranium exploration was curtailed due to the Nunatsiavut moratorium and prices, the company continues to hold significant uranium assets mainly in the CMB, making the Company a large landholder in one of the world's premier uranium districts. Projects include: the CMB joint venture (JV) with Crosshair Exploration and Mining, in which SSE holds a 2% production NSR, and its 100% owned properties – Fishhawk Lake, Snegamook, Mount Benedict, and Double Mer. The Fishhawk Lake property, which is contiguous with the Snegamook property, was optioned from Virginia Energy in August. The CMBJV includes a mineral resource on the Two Time zone of 2.3 M lbs indicated and 3.7 M lbs $U_3O_8$ inferred the first discovery in the CMB of Labrador since the 1970's. Other drill-ready opportunities are noted on the Fishhawk Lake, Snegamook, Double Mer and Mount Benedict properties.

The uranium development moratorium in Nunatsiavut territory was lifted on March 9, 2012 by a unanimous decision of the Nunatsiavut council. This has allowed increased exploration and development in the CMB by companies such as Aurora Energy and Crosshair. This should increase interest in and financing possibilities for the uranium properties owned by Silver Spruce.

The Company has established environmental and safety protocols which include written procedures and policies which are overseen by Board committees for environment/health and safety.

The Company has limited funds to allow maintenance of operations and the only exploration carried out in 2012 has been a 2nd Phase follow up, drill program, limited ground work and a planned airborne survey on the Big Easy gold/silver property. As of July 31, 2012, cash reserves, totaled approximately $267,589. A flow through financing which closed on May 18, 2012 raised $191,400 which was utilized for the Big Easy drilling program. Further financing will be pursued in the fall of 2012 to allow the Company to move its projects forward toward economic realization.

A commitment to prudent budgeting, a strong, experienced team and an excellent property portfolio including a uranium deposit with defined resources makes Silver Spruce a leading junior explorer.

**Selected Quarterly Information**

The table below outlines selected financial information related to the Company's most recent financial year and the previous two quarters, accompanied by the applicable comparative period information.

| | **July 31, 2012** | **April 30, 2012** | **January 31, 2012** | **October 31, 2011** |
|---|---|---|---|---|
| | **$** | $ | $ | $ |
| Revenue | **35,476** | 18,723 | - | 3,767 |
| Net (loss) | **(2,476,802)** | (129,968) | (188,542) | (871,181) |
| Net (loss) per share -basic and diluted | **(0.02)** | (0.00) | (0.00) | (0.01) |
| | **July 31, 2011** | **April 30, 2011** | **January 31, 2011** | **October 31, 2010** |
| | $ | $ | $ | $ |
| Revenue | 107,411 | - | 237 | 2,800 |
| Net (loss) | (188,840) | (331,335) | (649,346) | (6,206,569) |
| Net (loss) per share -basic and diluted | (0.00) | (0.00) | (0.01) | (0.08) |

For the three months ended July 31, 2012, the Company earned revenue, of $35,476 compared to $107,411 for the same quarter in the prior year.

For the three months ended July 31, 2012 the Company had a net loss of $2,476,802 (July 31, 2011 - $188,840) and a loss per share of 0.02 (July 31, 2011 - 0.00). This quarter the Company had total expenses of $2,512,278 (July 31, 2011 - $296,251). For the three months ended July 31, 2012 and July 31, 2011, there were abandonment of mineral properties and impairment of mineral properties of $2,335,411 (July 31, 2011 - $465).

This quarter no stock based compensation was granted to the directors, officers and employees of the Company (July 31, 2011 - $111,073).

Travel decreased to $Nil this quarter (July 31, 2011- $4,213) due to less exploration activity in Newfoundland and Labrador.

Wages decreased to $28,620 this quarter (July 31, 2011 - $64,370) due to a decrease in management salaries and consulting fees decreased to $22,127 this quarter (July 31, 2011 - $32,692) due to a decrease in management and consulting services.

Accounting and audit fees increased to $61,568 (July 31, 2011 - $9,479) due to the completion of the IFRS conversion services and a $2,000 increase of the quarterly accrual for the year end auditor's fees.

Office and general decreased to $20,330 this quarter (July 31, 2011 - $33,543) due to decreased advertising capital raising activities and public relation costs.

**Expenditures on Mineral Properties**
During the quarters ended July 31, 2012, April 30, 2012, January 31, 2012, and the year ended October 31, 2011 and the comparative periods, the Company incurred the following expenditures on exploration of properties:

| | July 31, 2012 | April 30, 2012 | January 31, 2012 | October 31, 2011 |
|---|---|---|---|---|
| | **$** | $ | $ | $ |
| **CMB** | - | 1,188 | - | - |
| **Double Mer** | - | - | - | 4,563 |
| **Straits** | **5,305** | - | 41,604 | 13,007 |
| **Mount Benedict** | - | 502 | 251 | 7,563 |
| **Snegamook** | **263** | - | 251 | 1,792 |
| **MRT Property** | **7,054** | 44,002 | 27,151 | 58,325 |
| **Rambler South** | - | - | - | (3,983) |
| **Big Easy** | **206,987** | (21,084) | 9,065 | (3,219) |
| **Pope's Hill** | **504** | 17,503 | 62,438 | 349,536 |
| **Red Wine Mountains** | **1,227** | - | 2,460 | 10,017 |
| **Pope's Hill JV** | **75,000** | 22 | (5,309) | 903 |

| | July 31, 2011 | April 30, 2011 | January 31, 2011 | October 31, 2010 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **CMB** | - | - | - | 17,357 |
| **Double Mer** | - | 913 | 3,000 | 418 |
| **Straits** | 800 | 2,200 | 780 | 7,375 |
| **Mount Benedict** | - | 4,303 | 3,390 | 32 |
| **Snegamook** | - | - | 4,371 | 8,281 |
| **MRT Property** | 46,493 | - | 14,673 | - |
| **Napes Ashini** | - | - | - | 464 |
| **Centauro (MX)** | - | - | - | 156,574 |
| **Michelin South** | - | - | - | 381 |
| **Lobstick** | - | - | - | 253,696 |
| **Rambler South** | 142,097 | 9,533 | 19,991 | 267,367 |
| **Lazyman** | - | - | - | 103,116 |
| **Big Easy** | 60,159 | 336,860 | 14,334 | 165,965 |
| **Pope's Hill** | 242,183 | 280,514 | 72,928 | 24,892 |
| **Red Wine Mountains** | (238) | - | - | 1,313 |
| **Pope's Hill JV** | 65,190 | - | - | - |

The credit balances represent reallocations of expenses between the properties within the quarters reporting period.

During the three months ended April 30, 2012, the Company had a net refund of expenditures for the Big Easy property of $(21,084), as a result of expenditures during the period of $78,916 and 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.

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

## PROJECTS – GOLD/BASE METAL

### General

The only precious metal project, Big Easy (BE) is located in eastern Newfoundland. The property is 100 % owned, subject to an option agreement as described in the summary following.

Drill core is sawed in half using a diamond saw with one half of the core retained and the other half sent for analyses. Standard QA/QC techniques including check sampling is carried out. Analyses were done at Eastern Analytical Laboratories in Springdale, NL, a recognized local laboratory, Accurassay Laboratories in Thunder Bay, ON, after sample prep at their Gambo, NL preparation facility with some check analysis carried out at Activation Laboratories in Ancaster, ON. Samples were analyzed for gold by fire assay using an atomic absorption finish plus an ICP 30/31 technique for other elements. Elements above the detection limit of the ICP for Pb, Zn and Ag were re-analysed for "ore grade" values using either a wet chemical method with an Atomic Absorption finish or more accurate ICP techniques. Plan maps of the trenching and drilling, the IP chargeability and resistivity survey and a compilation map of the property plus pictures showing the drilling and the drill core, are shown on the Silver Spruce website at silverspruceresources.com.

## BIG EASY (BE) - OPTION TO EARN 100 %

### Property Description

The 294 claim (74 $km^2$) property, located near Thorburn Lake in east-central Newfoundland, was optioned from prospectors Alex Turpin and Colin Kendall (NR Apr. 27, 2010). The option agreement, to earn a 100% interest subject to a 3% NSR with a 1.5% buyback for $1.5M, is: $20,000 plus 350,000 shares on signing (paid); 1st anniversary – $30,000 plus 400,000 shares (paid); 2nd anniversary - $30,000 plus 500,000 shares; 3rd anniversary - $30,000 plus 350,000 shares. A yearly, advance royalty payment, deducted from future NSR payments, of $20,000 per year, is also payable from the 4th anniversary on. The mineralized zone is a new gold / silver discovery in an area not previously known to host significant gold mineralization. The zone lies in the Avalon Zone along the northern extension of the Burin Peninsula high sulphidation belt (BPHSB) where extensive precious metal exploration is being carried out.

### Exploration Summary

The Big Easy altered/mineralized zone was found in the mid 1990's by Phil Saunders and Jim Harris working for J. Tuach Geological Consultants, during follow up of an anomalous lake sediment value of 10 ppb Au in Henry's Pond and has been staked and worked periodically since that time although named only in 2008 by Turpin. Historic work, prior to 2008, located grab sample values up to 196 ppb gold and soil sample values up to 370 ppb Au. In 2008 Cornerstone optioned the property and carried out exploration including rock sampling and Terraspec analysis which located values up to 403 ppb Au and 4.6 ppm Ag in rock samples and identified muscovite, chlorite and opal, indicating an argillic to sub-prophyllitic alteration setting. Further exploration was recommended however the option was terminated when priorities changed in the company.

Rock samples taken by the vendors, most from angular boulders or rubbly outcrop, are intensely silicified, and argillicly altered with finely disseminated sulphides (mainly pyrite). The silicified sandstone and conglomerates are vuggy, and carry banded cherty to chalcedonic quartz; possibly sinter. Values up to 997 ppb (1 g/t Au) and 145 g/t Ag were located.

**SSE Exploration**
Property evaluations by SSE in 2010 gave values up to 118 ppb Au and 14 g/T Ag with a train of angular boulders/rubbly outcrop traced over a strike length of 1.7 km and widths of 200–500 meters and the north and south extensions lost under thick till cover.

**Trenching:** A trenching/pitting program targeted an extensive area of silicified sedimentary units with seven (7) trenches, ranging from 20 to 60m in length, excavated along a 700m strike length. Overburden varies from less than 1m to > 6m. Five trenches (#'s 3 to 7), exposed a zone, 700m long by 75m wide of epithermal style alteration consisting of intense silicification and pyritization, with some clay alteration (kaolinite). The zone is anomalous in precious metals and some indicator elements (NR Aug. 26, 2010). Gold (Au) values range from 30 to 2083 ppb with a mean of 71.7 ppb. The highest gold value, 2.08 g/T over 0.7 m, is in silicified sedimentary units, most likely angular float,in Trench 5. Silver (Ag) values range from 1.9 to 13.4 ppm with a mean of 3.5 ppm. Arsenic (As) values range from 50 to 860 ppm with a mean of 130 ppm. Molybdenum (Mo) values range from 7 to 262 ppm with a mean of 28 ppm. Prospecting located highly altered (silicified) conglomerate units 150m to the south of trench 6, the southernmost trench and large angular, altered (silicified) boulders, similar to bedrock uncovered in the trenching, were located up to 1 kilometer to the north of the trenched area.

**Geophysics:** An IP/Resistivity survey, to determine the margins and orientation of the zone, and to indicate areas of higher potential, was carried out in the fall of 2010. The time domain IP survey covered 7 lines (173 to 189 N) spaced mostly 200m apart for a total of 8.9 line kilometers using a dipole-dipole array and an electrode spacing of 75m to n=6. It covered the altered (silicified)/mineralized area, as defined by prospecting and trenching surveys, (NR's October 14, August 6 and July 29, 2010). It outlined targets based on mainly chargeability of the "non-conductive" type, indicating disseminated to stringer sulphides, extending through the altered/mineralized area, in a north to north-northeast direction forming two linear trends.

**Geological Evaluation:** The BE zone occurs in the Musgravetown Group, a red to green sedimentary sequence consisting of siltstones to conglomerates. Banded, epithermal style, quartz veins that crosscut the bedding in the altered/mineralized zone are found in the central and northern part of the property while more sinter-like banded zones, which appear to parallel bedding, occur exclusively in the southern portion of the zone possibly indicating the paleo surface was at the southern end of the zone. Some quartz breccias, where the banded, sinter-like veins are broken up, also occur in the southernmost portion of the zone. Dr. Greg Arehart, the Head of the Department of Geological Sciences and Engineering at the University of Nevada in Reno, and a recognized expert in epithermal and Carlin-type gold deposits commented after visiting the property: "*Given the limitations of the exposure, the geology is clearly permissive of an epithermal system of significant size (>700 m of known strike length), and the geochemical signature is also consistent with epithermal mineralization. Some of the exposures appear to be near-surface sinter deposits, suggesting that we are seeing the top of the system. Additional geologic, geochemical, and geophysical work is needed to more clearly outline and understand this system*".

**Prospecting:** Exploration along the southern extension of the Big Easy trend resulted in the discovery, of similar mineralization, 3.5 km to the south of the Big Easy zone, in the early summer of 2011. The ET zone consists of alteration/mineralization, mainly silicification, carrying disseminated pyrite in brecciated sedimentary units with quartz veining which is sometimes chalcedonic. Three grab samples gave values of 39, 28 and 125 ppb Au and < 0.5, < 0.5 and 3.5 ppm Ag, respectively with the highest value a composite grab sample. These results are similar to those originally found in outcrop and float on the Big Easy zone. The mineralization occurs over a 50m area on the brook however it disappears under overburden to the north, south and west. Trend of the zone is approximately 150-160 degrees making the true width of the exposed portion of the zone at least 30m, open to the west.

**Diamond Drilling:** A phase 1 diamond drilling program consisting of seven holes, BE-11-1 to 7, totaling 1,577 m, tested the zone over an approximate 1 km strike length from L 7560 N (BE-11-1) to L 8600 N (BE-11-7) in March and April, 2011. All holes, **the first ever drilled on the property**, intersected strongly altered (silicified/sericitized/chloritized) and mineralized sedimentary units (NR's March 24, April 8, May 3, June 1, 2011), with significant gold/silver intersections noted in all holes. All drill holes intersected gold/silver mineralization over a 1.2 kilometre strike length (news releases dated May 31 and June 7, 2011). The best

intersection, in BE-11-3, gave 0.87 g/T gold (Au) and 33.5 g/T silver (Ag) over 30.5m (228-258.5m), including 6.05 g/T Au, 174 g/T Ag over 1.5m (240.5-242m) and 6.04 g/T Au, 114 g/T Ag over 1m (245-246m); as well as a banded, "bonanza style" 0.3m vein in BE-11-7, the northernmost drill hole, located approximately 700 m to the north of the 2012 drill area, which gave 335 g/T (> 11 oz/t) Ag and 2.57 g/T Au (231.3-231.6m).

In 2012, a Phase 2 drill program, consisting of 1,080m in five drill holes tested the epithermal-style mineralization over a 200m strike length (NR August 16, 2012). The widest mineralized zone was located, as was the case in the 2011 drilling, at depth in DDH BE-12-12. Values of 1.3 g/T Au and 36.7 g/T silver Ag over 8.7m from 200.1-208.8m, including 4.6 g/T Au / 101.3 g/T Ag over 2.2m (202.2-204.4m), including 7.9 g/T Au and 130 g/T Ag over 1.2m (202.3-203.5m) were located. This zone is comprised of brecciated quartz-adularia veining in a black matrix of fine-grained mineralization (see picture on website). Near surface, banded quartz-adularia veins, typical of epithermal systems, gave narrow, high grade values in silver and lower but significant values in gold, as follows:

- BE-12-9 – 5.65-5.9m (0.25m) - 276 g/T silver, 1.73 g/T gold
- BE-12-9 – 15.9-16.4m (0.5m) - 144 g/T silver, 1.25 g/T gold
- BE-12-10 – 30.7-30.9m (0.2m) - 191 g/T silver, 2.11 g/T gold

Extensive banded quartz-adularia veins and areas of chalcedonic (opaline) quartz up to one metre wide, but generally from 1-30 centimetres wide, as well as brecciation with associated veining and silicification, were also noted. Orientations of the mineralized veins varied but were significantly better than the 2011 drilling, where almost all the veins ran along the core axis, indicating probable down-dip drilling of the veins. Orientations of the veins in 2012, with the drill holes drilled 270 degrees (to the west) instead of 090 degrees (to the east) as in 2011, varied from 20 to 90 degrees to the core axis, averaging 40 to 50 degrees. The widths of the significant intersections are not exact due to the fact that the core angles (angle of intersection) of the mineralized zones and veins are variable. However, it is estimated that most zones would give true widths varying from 50-90 per cent of the intersected widths.

Results for check samples from the 2011 diamond drilling (Holes BE-11-1 to 7) analyzed at Eastern Analytical in Springdale NL generally correspond well with Accurassay values, on average 1% higher than the results from Eastern Analytical. The highest variation was an Ag value of 19 ppm which was 58% higher from Accurassay than the check result from Eastern Analytical at 5 ppm. The two 6 g/T Au values in BE-11-3 gave 5.8 g/T and 5.5 g/T respectively in the checks and it is believed that a nugget affect may be causing the variation is some samples. Check sample results for the 2012 diamond drilling sent to the Activation Laboratories lab in Ancaster, ON remain pending.

The most significant values from the diamond drilling carried out to date are summarized in the table following. Plan maps and a summary of the drilling; compilation maps of the property; and pictures showing the drilling, drill core and other exploration on the property are shown on the Silver Spruce website at www.silverspruceresources.com .

*List of Significant Au/Ag values – Big Easy - Diamond Drilling – Phases 1 and 2*

| Hole # | From | To | Length | Au g/T | Ag g/T |
|---|---|---|---|---|---|
| BE11-03 | 183 | 272.2 | 89.2 | 0.41 | 15.4 |
| incl. | 228 | 258.5 | 30.5 | 0.87 | 33.5 |
| incl. | 239 | 246 | 7 | 2.5 | 74.1 |
| incl. | 240.5 | 242 | 1.5 | 6.05 | 174 |
| incl. | 245 | 246 | 1 | 6.04 | 114 |
| BE-11-05 | 97 | 103.5 | 6.5 | 0.16 | 32.2 |
| incl. | 97 | 98.5 | 1.5 | 0.46 | 49 |
| BE11-07 | 41 | 47 | 6 | 1.36 | 2 |
| BE-12-9 | 5 | 7.3 | 2.3 | 0.42 | 49.8 |
| incl. | 5.65 | 5.9 | 0.25 | 1.73 | 276 |
| and | 15.9 | 17.55 | 1.65 | 0.63 | 109.3 |
| incl. | 15.9 | 16.4 | 0.5 | 1.25 | 144 |
| BE-12-10 | 29.6 | 34.2 | 4.6 | 0.62 | 18.4 |
| incl. | 30.7 | 30.9 | 0.2 | 2.11 | 191 |
| incl. | 33.9 | 34.2 | 0.3 | 4.14 | 90 |
| and | 101 | 112.25 | 11.25 | 0.8 | 3.8 |
| incl. | 101 | 102.5 | 1.5 | 1.97 | 4 |
| incl. | 111.5 | 112.25 | 0.75 | 2.28 | 8 |
| BE-12-11 | 9.8 | 12.3 | 2.5 | 1.7 | 33.5 |
| incl. | 10.8 | 11.2 | 0.4 | 4.39 | 69 |
| BE-12-12 | 200.1 | 208.8 | 8.7 | 1.3 | 36.7 |
| incl. | 202.2 | 204.4 | 2.2 | 4.6 | 101.3 |
| incl. | 202.3 | 203.5 | 1.2 | 7.9 | 130 |

**Interpretation of Drilling Results**

Adularia (potassium feldspar), sinter (hot spring silica deposits) and boiling textures has been noted in both the 2011 and 2012 drill core, indicating that the mineralized zones in the drill core lie near the paleosurface of a large epithermal system. The presence of sinter in the Trench 6 area in the southern part of the alteration zone and extensive opaline to chalcedonic silica in the core indicates that we are most likely in the upper parts of the epithermal - hot spring system, and above the area where "bonanza grade" gold and silver veins would typically be found. The best gold/silver intersections have been in the deeper holes with significant gold/silver values over reasonable widths, above the possible location of "bonanza type mineralization" and therefore higher gold and silver values may be located at depth.

**Planned Exploration – Rest of 2012, Winter 2013**

A Phase three follow-up drilling program is planned for the winter of 2013. It will be based on continued detailed structural interpretation of the mineralized zones and research studies of the extensive epithermal system by Memorial University and the NL Geological Survey (News Release September 18, 2012). In addition to the drilling, a combined airborne high resolution magnetic and VLF-EM survey will cover the Big Easy trend to give lithologic (rock type) and structural information and other regional exploration will also be carried out.

**Impairment**

No impairment is indicated for the property as it is newly acquired and has demonstrated significant potential based on the early stage exploration. Impairment issues will continue to be tested and the property will be written down or off if circumstances require it.

## URANIUM - LABRADOR

### Nunatsiavut Moratorium on Uranium Development

In April 2008 the Nunatsiavut Government (NG) instituted a 3 year moratorium on uranium mine development in their territory (Labrador Inuit Lands -LIL) until a land use plan could be developed. The land use plan, targeted for completion by April 1, 2011, is still being developed, however the NG held consultations with NG beneficiaries in the fall of 2011 on the moratorium and at the NG assembly in December, 2011 voted unanimously to lift it at the same time as the NG Environmental Protection Plan came into force. This took place on March 9, 2012.

The imposition of the moratorium combined with the drop in uranium prices has made it difficult to raise money for uranium projects in Labrador. The Paladin Energy purchase of Aurora Energy, and their Michelin/Jacques Lake deposits, and their intention of proceeding to production as soon as they can is a significant positive sign for the area. Continued positive news on the uranium price and the resultant availability of financing, could result in a re-activation of our uranium projects.

### Analyses

All analyses were carried out at the Activation Laboratories (Actlabs) facility in Ancaster, Ontario, after sample preparation at the Actlabs prep facility in Goose Bay. Uranium and other elements are analyzed by an ICP technique which gives good results for uranium values up to 1000 ppm. If results in excess of 250 ppm uranium are encountered, follow-up analysis by delayed neutron counting (DNC) is performed. A quality assurance/quality control (QA/QC) program, described on the Silver Spruce website, is in place to increase confidence in the results generated.

## THE CENTRAL MINERAL BELT (CMB)

### Background/Regional Activity

The CMB was the most active uranium exploration area in Canada, after the Athabasca Basin, up until late 2008.In 2003, the **Fronteer/Altius joint venture (now Aurora Energy/Paladin)** was formed to evaluate the iron oxide copper gold (IOCG) potential of the CMB. During this work the potential for shear zone hosted uranium was noted at the Michelin and other deposits and with the increase in the price of uranium at that time, emphasis was then placed on uranium as a commodity and blanket staking of Brinex showings, discovered in the 1950's and 1960's,was carried out. On September 18$^{th}$ 2009, Aurora announced a positive preliminary economic assessment for the Michelin project which supports an open-pit and underground uranium mining operation at the Michelin and Jacques Lake deposits, and a milling facility at Michelin producing up to 3300 tonnes of uranium oxide ($U_3O_8$) per year. The deposits have measured and indicated resources of 35,000 tonnes of $U_3O_8$, plus 16,000 tonnes inferred resources, mostly requiring underground mining. An investment of C$1.05 billion is required with production ramping up to about 3000 tonnes per year. In early 2011, Paladin Energy purchased the Aurora Energy assets and indicated that they intend to move to production as soon as they can.

**Crosshair Energy (CXX)** acquired the Moran Lake property where copper/uranium/magnetite/hematite/vanadium mineralized zones of the Moran Lake deposits, discovered and drilled by Shell Canada in the 1970's, are located. A N.I. 43-101 compliant resource, in the C Zone, Armstrong and Area 1 zones, of approximately 5.2 million lbs indicated and 5.8 million lbs inferred $U_3O_8$ was announced on August 7, 2008.

In 2008, CXX purchased a 60 % interest in the CMBJV with Silver Spruce, including the Two Time zone, from Universal Uranium indicating their recognition of the potential of the area. SSE holds a 2% NSR on the properties within the CMBJV (News release May 31, 2012) meaning that SSE will share in any successes on the CMBJV properties without any further expenditures required and any further drilling successes on the Two Time deposit will greatly enhance the exploration potential of the 100% owned, Snegamook property and recently acquired Fishawk Lake property, which lies immediately to the south along the TT trend. CXX's drilling on the Two Time deposit in 2011/12 was less than one hundred metres to the north of the Snegamook boundary and U mineralization was encountered in all holes.

**SILVER SPRUCE WHOLLY OWNED PROPERTIES (100%)**

Silver Spruce owns a 100% interest in 1236 claims (309 $km^2$) in 6 uranium properties in Labrador. They include - Snegamook (86), Fishawk Lake (446), Double Mer (74), Straits (245), Mount Benedict (377) and Jeanette Bay (8). The company also retains a 2% net smelter return (NSR) on the Central Mineral Belt Joint Venture (CMBJV) properties. Uranium mineralization has also been located on the 100% owned (optioned), road accessible, MRT property along the Trans Labrador Highway just west of Goose Bay. The Snegamook property was optioned from a Newfoundland prospecting group which retains a two percent Net Smelter Return (NSR). The Double Mer and Straits properties were staked in an arm's-length deal with a local prospector who retains a one-percent NSR on portions of the properties. The Mount Benedict property was acquired by staking and option with a 1% NSR payable on 592 claims of the original staked ground, some of which have since been dropped.Limited exploration for REE on the Straits property (see REE section) was carried out in the fall of 2011.

**Planned Exploration - 2012**
No uranium exploration was carried out in 2011/12. No exploration is planned at this time until a rise in uranium prices allows financing for uranium exploration. The properties are being downsized to those areas of highest potential by reductions allowing the assessment credits to carry forward for a number of years. Some of the properties may be joint venture possibilities.

**Impairment**
Most property expenditures have either been written down or off due to the inability to raise funds for further exploration over the past few years. During the quarter ended July 31, 2012, impairments were taken for; Double Mer, Mount Benedict, Snegamook, Straits and Central Mineral Belt Properties. The details for these impairments are discussed in the following property descriptions. Impairment issues will continue to be evaluated quarterly and write downs or write-offs will be taken if required.

**SNEGAMOOK LAKE (SN)**

**Property Description**
The property, located just to the southeast of Snegamook Lake in central Labrador, in the western part of the Central Mineral Belt (CMB), consists of 86 claims (21.5 $km^2$), and is surrounded by the CMBNW JV property to the north, west and east and the recently acquired (from Virginia Energy) "Fishhawk Lake" property to the south. The Company has earned a 100-percent interest subject to a two-percent NSR. The property is located outside Inuit lands on lands subject to the Labrador Innu Land Claim.

**Exploration Summary**
Exploration from 2006 to 2008 included: an airborne radiometric / magnetic survey, prospecting, lake sediment sampling, line cutting, RadonEx radon gas surveys, prospecting and diamond drilling (53 holes, 13,765.3m).

The property hosts the Snegamook zone, on strike to the south of the TT zone and the Near Miss prospect. Seventeen (17) drill holes intersected a 20-50m wide zone of U bearing, brecciated/altered monzodiorite over a strike length of 300m, to a vertical depth of 200m, the same geological setting as the TT Zone. The zones are shallow dipping and vary in width from 5-53m, with grades ranging from 225 to 771 ppm (0.023-0.077%) $U_3O_8$. . The widest section in SN-08-8 averages 206 ppm $U_30_8$ (0.021% - 0.41 lb/ton) over 73m, similar to values located in early drilling on the TT zone. The Near Miss zone gives erratic U mineralization in hematized, brecciated, granitic to monzodioritic units with one meter intervals giving values from 113-2,117 ppm (0.011-0.21%) $U_30_8$ with the widest intersection averaging 213 ppm $U_30_8$ (0.021%, 0.43 lb/ton) over 16m, including 1m at 0.21% (4.23 lb/ton) $U_30_8$. Crosshair's drilling on the TT is less than 100m from the northern boundary of the SN property, indicating the liklihood that the TT zone continues onto the SN property at depth. Further exploration is warranted along the TT-Snegamook trend and in other prospects such as the Near Miss.

No exploration has been carried out since 2008 however the property can be maintained without further work until 2017. No exploration is planned for 2012. It is an obvious joint venture possibility.

**Impairment**
The last $20,118 in exploration expenditures has been written off in this quarter.

## FISHHAWK LAKE (FHL)

### Property Description

The property, located to the southeast of Snegamook Lake in central Labrador, in the western part of the Central Mineral Belt (CMB), consists of 466 claims (116.5 $km^2$), and is surrounded by the CMBNW JV property to the east and the Snegamook property to the north. It was acquired by outright purchase from Virginia Energy in August 2012 (NR August 7, 2012). The Company has a 100-percent interest subject to a two-percent NSR with a 1% buyback for $500,000. The property is located outside Inuit lands on lands subject to the Labrador Innu Land Claim.

### Exploration Summary

Exploration in 2006/07 by Santoy Resources (predecessor to Virginia Energy) included: an airborne radiometric / magnetic survey, prospecting, geological mapping, lake sediment sampling, and diamond drilling. The property covers a number of significant uranium showings, including the Anomalies 7, 7a and 17 (A7, A7a, A17) showings discovered by Canico in the late 1970s and the Fishhawk Lake North, Central and South (FHLN,C+S), Brook and Whiskey Jack showings/occurrences discovered by Santoy Resources. Twenty Six (26) drill holes have been drilled since the discovery of uranium (U) mineralization in the late 70s: eight on A7 by Canico, as well as three on A7, 13 on FHLS and two on FHLN by Santoy. No exploration has been carried out since 2007. Highlights of the drilling include:

- Anomaly 7 – 0.13% $U_3O_8$ / 23.4 m, incl. 0.25% / 9.7 m
- FHLS - 0.063% $U_3O_8$ / 27.9 m, incl. 0.18% / 4.5 m and 0.106% / 9.9 m in DDH FHLS-07-3.

Narrow high grade zones in uranium with copper (Cu) and silver (Ag), were also noted in Santoy drilling, FHLS-07-9 – 1.15% $U_3O_8$, 0.79 oz/T Ag, 0.5% Cu / 0.94 m. Mineralization is hosted in at least two different geological settings - fractured to brecciated, hematized granodiorite, similar to that in the Two Time and Snegamook zones, as well as unconformity-related mineralization along the contact between a fault-bounded wedge of Moran Lake sedimentary units and Archean basement intrusive units. Zones have been mapped by drilling and by surface outcrop and float, with strike lengths from 250 to in excess of 400 m, and to depths of greater than 100 m.

### Planned Exploration

No exploration has been carried out since 2007 however the property can be reduced and maintained without further work for a number of years. No exploration is planned for 2012.

### Impairment

No impairment is indicated at this time as the property has just been acquired and costs have been minimum to date. Impairment issues will be evaluated quarterly.

## DOUBLE MER (DM)

### Property Description

The property consists of 74 claims (18.5 $km^2$), located in the Double Mer-Lake Melville area, on the north side of Lake Melville,in Labrador, approximately 110 kilometres to the east of Happy Valley-Goose Bay. The property was acquired by staking in 2006 in an arm's length deal with a local prospector who retains a 1% NSR. The property lies within LISA lands and covers strong uranium in lake sediment anomalies located by the Government in leucogranites of Helikian age. It was reduced in size to cover significant U radiometric anomalies and showings in early 2012 to allow retention without continued work required until 2015.

**Exploration Summary**
Exploration included: an airborne radiometric/magnetic survey in 2006, and data compilation, prospecting, geological mapping, geochemistry (streams, soils) and ground geophysics (scintillometer/radon gas) from 2006 to 2008.The property is characterized by a linear, 10 km long airborne radiometric anomaly. It hosts two styles of U mineralization: 1) pegmatite-hosted and 2) structurally controlled in brecciated and/or mylonitized zones in polydeformed gneisses. Early stage prospecting (grab rock samples) located seventy-six (76) values >500 ppm (0.05%) $U_3O_8$ with forty-two (42) >1,000 ppm (0.1%), seven over the 95$^{th}$ percentile of 2,200 ppm (0.22%) and a high of 4,281 ppm (0.43%) $U_3O_8$. Uranium in soil values up to 208 ppm (bg <10 ppm) and radon gas anomalies occur over the mineralization, over widths up to 30m mainly in areas associated with short, steep scarps characterized by breccia units. Mineralization also occurs in a highly deformed pegmatite up to 40m, but generally 5-10m wide which can be traced over a minimum strike length of 300m. No follow-up trenching or drilling has been carried out. Ground follow up by trenching and drilling is required to evaluate the uranium potential.

**Planned Exploration – 2012**
No exploration is planned at this time.

**Impairment**
The remaining exploration expenditures of $22,034 has been written off in this quarter.

**STRAITS (ST)**

**Property Description**
The property, located on the Straits of Belle Isle, in southern coastal Labrador, approximately 300 kilometers southeast of HVGB consists of 245 claims (61 km$^2$). The original claims were staked in an arm's length deal with a Newfoundland prospector who retains a 1% NSR. The property lies outside of the land claim areas of both the Inuit and Innu of Labrador, although it is subject to a land claim, not accepted by governments, by the Nunatukavut of southern Labrador. It covers Government uranium lake sediment anomalies, with copper values, associated with a north-northwest trending fault structure. The area had not been explored prior to the SSE work.

**Exploration Summary**
Exploration included: an airborne radiometric/magnetic survey which gave 21 significant radiometric targets for uranium; compilation; remote sensing; and ground field work, which included prospecting, lake sediment, stream and soil geochemistry, and geological mapping. The property hosts two significant U showings plus a number of prospects. The **BB Shot** gives values up to 67,439 ppm (6.7%) $U_3O_8$ in outcrop along the contact between a gneissic, fine-grained granite and a pegmatite unit. The **Bingo**, approximately 3 km away, is associated with the contact between a granite and an orthogneiss, and gives 17 anomalous values (>10 ppm $U_3O_8$), with a high value of 5,887 ppm (0.58 %) $U_3O_8$. Mineralized zones are narrow, to a maximum of 1-2 m, but are generally 1 m or less. No follow up has been carried out.

The property has been consolidatedwith claims retained over the areas of highest potential for both uranium and REE's either in good standing, restaked or recently staked.

**Planned Exploration 2012**
No exploration is planned for 2012. The project is considered a potential JV property.

**Impairment**
The remaining exploration expenditures of $96,451 has been written off in this quarter.

**MOUNT BENEDICT (MB)**

**Property Description**
The property, totalling 377 claims (94 $km^2$), is located in the Benedict Mountains area, near the Labrador coast, in the eastern part of the CMB, approximately 180 kilometres northeast of HVGB and 50 km to the south of Makkovik. The claims are 100% owned by Silver Spruce, subject to a one percent NS on the original staked claims. It is located in part on Labrador Inuit Land (LIL), with the remaining part on Labrador Inuit Settlement Area (LISA) lands. The property covers Government uranium in lake sediment anomalies hosted in felsic plutonic rocks of the Benedict Mountains Intrusive Suite (BMIS), with some felsicsupracrustal units of the Aillik Group, the host for the Michelin deposit located to the southwest of the property.

**Exploration Summary**
Exploration has included: compilation, airborne radiometric/magnetics, prospecting, geological, geochemical, geophysical and radon gas surveys, stream sediment geochemistry, line cutting, and environmental baseline and archeological studies, followed by diamond drilling. The property has two significant U prospects, in the northern part of the property, the **AT-649** and the **T Super 7** zones.

**AT-649 -** Five representative grab samples, averaging 0.497% $U_3O_8$, define a high grade U zone at least 10m wide, exposed in a small brook, flowing into Stag Bay. Float boulders downstream from the showing give values from 0.06 to 3.37% $U_3O_8$, with three values >1%. The host rock is a moderately to strongly hematized felsic to mafic intrusive which has been fractured and veined with uraninite/pitchblende and magnetite. The high grade zone has not been tested directly due to environmental regulations which require a set back of a minimum of 50m from the brook. Nearby, diamond drilling (1,262.9m in nine holes) has defined a zone of low grade mineralization hosted in a sheared and altered monzonite to monzodiorite. The zone varies from 4 to 16m wide, giving $U_30_8$ values of up to 598 ppm (0.06%, 1.2 lb/ton) over 1m and intersections of 4.3m at 0.025% at a vertical depth of 40m. The zone was tested over a strike length of 150m and to a vertical depth of 75m and remains open along strike and to depth.

**T Super 7 -** Located 4.8 km to the southwest of AT-649, it carries U mineralization in bedrock with values from 500 ppm (0.05%) to over 1% (20 lb/ton) $U_30_8$. Tested by seven holes totalling 968 m, the drilling indicated weak to moderate mineralization over good widths. Mineralization in DDH MBS7-08-5 is hosted in a northeast trending mylonite zone which carries two separate mineralized zones: 27m (5-32m) at 138 ppm (0.014%) $U_30_8$ and 22m (44-66m) at 278 ppm (0.028%) $U_30_8$ in a highly altered felsic intrusive or volcanic unit. An 8m wide, higher grade section, from 51 to 59m grades 444 ppm (0.044%) $U_30_8$. Geological mapping indicates a minimum strike length of 300m, remaining open along strike to the northeast and southwest and radon gas surveys give strong anomalies over a minimum 750m strike length coincident with the zone. The mineralization is similar to the AT-649, developed along a major northeast trending structure which trends through, and is associated with, the AT-649 mineralization. Further work, including diamond drilling, is warranted along this trend.

**Planned Exploration 2012**
No exploration is planned for 2012.

**Impairment**
The remaining exploration expenditures of $111,262 has been written off in this quarter.

**JV PROPERTIES - CENTRAL MINERAL BELT JV (CMBJV) – SSE – 2% NSR**

The CMBJV properties consist of 690 claims (172 $km^2$) in the Central Mineral Belt (CMB) of Labrador. The properties are proximal to the Michelin, Moran Lake and other uranium showings under exploration/development by Paladin Energy and CXX and are located, to the west of and inland from, the coastal Postville-Makkovik area of Labrador, approximately 150 kilometres northeast of Happy Valley-Goose Bay. They were acquired by staking in 2005/06 to cover Government uranium in lake sediment anomalies, hosted in volcanic, sedimentary and plutonic rocks, with potential for unconformity style deposits similar to those in the Athabasca Basin, iron oxide copper gold deposits such as Olympic Dam, shear hosted style uranium deposits such as the Michelin and granite hosted deposits such as the Rossing Mine in Namibia. Silver Spruce's original joint venture partner, Universal Uranium,

earned a 60% interest in the CMBJV in March 2007 by spending $2 million in an option agreement. UUL sold its 60% interest to CXX in May 2008, for 10 M CXX shares plus $500,000, with UUL retaining a 2% NSR on the 60%. Crosshair has taken over the operatorship of the JV. SSE retains a 2% NSR on the properties.

**Exploration Summary**
Exploration has consisted of a helicopter-borne radiometric/magnetic survey, a limited airborne gravity survey over part of the CMBNW property, prospecting using scintillometers, lake sediment, soil and radon gas geochemistry, ground scintillometer surveys, geological mapping, and trenching and diamond drilling. Follow up on the airborne radiometric survey in late 2006, led to the discovery of the Two Time zone on the CMBNW property, the only significant new uranium discovery in the CMB since the early days of exploration in the CMB by Brinex, Canico and Shell in the 1950's to 1980's. The global financial crisis in 2008 / early 2009 and the resulting budgetary restraints, the NG uranium moratorium and the price of uranium, limited exploration to that required to keep the properties in good standing for the last few years. CXX, as operator, in consultation with SSE, carried out exploration in 2009, and 2010 aimed at consolidating, reducing and retaining those properties which showed the most potential. Three new uranium prospects were discovered in 2009/10 on the CMB JL (2) and CMB NE (1) JV properties with values up to 0.46% , 0.28% and 0.1% $U_3O_8$ in selected grab samples from the three showings (NR Feb. 8/11). SSE declined to participate in these programs and was diluted to a 2% NSR according to the formula in the JV agreement (NR May 31/12).

The Two Time (TT) U deposit, located on the CMBNW property has an NI 43-101 indicated resource of 2.33 M lb. (1.82 MT at 0.058% $U_3O_8$) and an additional inferred resource of 3.73 M lb. (3.16 MT at 0.053% $U_3O_8$). The zone remains open along strike and at depth and Crosshair has continued exploration drilling to the south towards our Snegamook property, with drill holes now within 100 m of the north boundary of the SN property. In 2011 drilling at the Firestone Showing, located 7 km to the southeast of the TT Zone, gave 3.5m at 0.084% $U_3O_8$, including 0.5m of 0.519% $U_3O_8$ (DDH FS-11-007). Other U showings are found on the Jacques Lake and Northeast properties. The 2% NSR on the CMBJV properties means that Silver Spruce will benefit from continued exploration on the TT zone and the other prospects in the JV area without any further expenditures. Crosshair's 2012 work is also enhancing the prospectivity of our Snegamook and Fishhawk Lake properties which lies along strike of the TT deposit.

**Exploration – 2012**
Crosshair reported (NR August 22, 2012) that drilling on the Two Time deposit, on the CMB Northwest (NW) property, intersected mineralization at the expected depth over a significant interval giving 0.031% U3O8 over 28.5m including 4m at 0.051% and 3m at 0.074%, indicating the deposit is continuous to the south along strike and down dip. Drill hole CMB-12-49 is a 50m step out to the south from previous holes that were drilled in 2011, lying approximately 50 m to the north of the north boundary of the Snegamook property, which is owned 100% by Silver Spruce.

**Impairment Issues**
Since SSE has no further participating interest in the CMBJV properties the remainder of the exploration costs will be written down in this quarter. The company retains a 2% NSR on any production from the properties however no value can be placed on this at this point as no production is imminent.

## RARE EARTH ELEMENT (REE) PROPERTIES

The Company holds five rare earth element (REE) properties in Labrador including Pope's Hill (PH), Popes Hill JV, MRT, RWM and Straits. The properties are 100% owned by Silver Spruce, subject to a 1 % net smelter return (NSR) on parts of the Straits property. A 50/50 joint venture with Great Western Minerals Group is in place on part of the 100 km long PH trend. The MRT property along the PH trend, was acquired by option in the winter of 2011 and was renewed for the second year in the spring of 2012 (NR Mar. 15/12).

Compilation maps showing the property locations, the geophysical and geochemical results, a diamond drill plan map plus a summary of the drill hole data on the Popes Hill property and data and pictures from all the Company's REE projects can be viewed on the company website at www.silversprucerесources.com. The properties are described individually below.

Drill core from diamond drilling in the PH MP pit area was cut in half with one half sent for analysis and the other half retained in the core library. Analyses on the 2006 PH samples were by a REE package (Group 4B REE) carried out at the ACME Laboratories facility in Vancouver, BC after sample preparation at Eastern Analytical in Springdale, NL. REE analyses in 2010 and 2011 for rocks, drill core and channel samples were done at the Activation Laboratories (Actlabs) facility in Ancaster, Ontario after sample preparation at their facility in Goose Bay using their Code 8 REE package which consists of a lithium borate fusion and analysis by either ICP or ICP-MS. In addition, on the Straits property, analysis was carried out for $U^3O^8$ and $Nb^2O^5$ by XRF. Stream sediment and soil samples were analyzed for a suite of 8 REE's, 4 light and 4 heavy, including La, Ce, Nd, Sm (lights), Eu,Tb, Yb, and Lu (heavies) using the 1 D enhanced package at Actlabs. Values were checked by Actlabs using internal standards and blanks are routinely added to samples sent to the laboratories. A quality assurance/quality control (QA/QC) program, described on the Silver Spruce website, is in place to increase confidence in the results generated.

**Exploration**
Exploration in 2011 included an airborne radiometric/high resolution magnetic and VLF-EM survey along the 100 km long PH trend (Popes Hill, Popes Hill JV and MRT properties), regional stream sediment geochemistry and prospecting along the entire trend, prospecting/geology and trenching, washing, cutting and sampling of the trenches on the original PH property and the optioned MRT property and gridding on the original PH property and a wide spaced soil grid on the MRT property. The RWM and ST properties were also evaluated by limited prospecting and sampling using helicopters for access. In 2012, work in the winter/spring has been compilation and report writing in order to maintain the properties in good standing.

**Planned Exploration**
No exploration is planned for these projects in 2012 due to the inability to raise money for REE exploration at this time. The properties will be reduced to allow the main prospects to be retained for the longer term.

**Impairment**
No impairment is indicated and no write offs are required at this time due to the early stage nature of these projects, and the significant results to date.

**POPE'S HILL (PH) – 100 % OWNED**

**Property Description**
The PH trend extends in a generally E-W to NE-SW direction from the Pope's Hill area, approximately 100 km from Happy Valley/Goose Bay (HVGB) on the Trans Labrador Highway (TLH), along and parallel to the Churchill River. The property totals 1,698 claims (approx. 424 $km^2$). REE mineralization is associated with syenitic intrusive units in the gneisses at the MP trend and with pegmatites to the south of the MP trend on the original PH property and on the MRT property, 60 km to the east. The claims cover REE lake sediment anomalies and structural features defined by government geological mapping. The total strike length along the PH trend, of the 100 %, JV and optioned properties is approximately 100 km. No previous REE or other exploration is documented for the area.

**Exploration Summary**
Uranium, thorium and REE mineralization was located by then President of Silver Spruce, Lloyd Hillier, in 2006 while prospecting for uranium. No further work was carried out in 2006 due to the lack of interest in REE's and the property was not staked until spring 2010, when interest in REE's peaked. A one day prospecting and sampling program using scintillometers to locate radioactive mineralization was carried out by a four man SSE crew in the fall of 2010 with a total of 31 samples taken from bedrock and locally derived, angular float boulders. The samples were selected using high radioactivity with scintillometer readings from 1,000 to 7,500 cps associated with thorium

rich phases. Thirty-one samples gave anomalous total rare earth element plus yttrium (TREE) values with 16 > 5%, and 5 > 10% with a high value of 24.1% (News release Oct. 28, 2010). TREE values varied from a low of 0.07% to a high of 24.07% averaging 5.73% for the 31 samples, which included 7 "host rock" samples, with values 0.4% or lower. Two of the 5 highest values (> 10 %), were outcrop samples. Samples are mostly rich in light rare earth elements (LREE), but the more anomalous values give higher values in HREE up to 7.5% percent of the REE. Individual high values for the elements, all in sample 941432, were: La – 5%, Ce – 9.7%, Pr – 1.1%, Nd - 3.9%, Sm – 0.7%, Eu – 213 ppm, Gd – 0.56%, Tb – 828 ppm, Dy – 0.47%, Ho – 875 ppm, Er – 0.23%, Tm – 283 ppm, Yb – 0.14%, Lu – 175 ppm, with a Y value of 2.11% for TREE+Y of 24.07%. In this sample LREE were 20.3% (92.6% of the TREE) and HREE were 1.63% (7.4% of the TREE) for a total of 21.97% REE. Other significant values in this sample included: Nb – 911 ppm, Zr – 604 ppm, Th – 0.63% and U – 461 ppm. High values in the other elements associated with the more highly anomalous REE were: U – 261 ppm, Ta – 90.6 ppm, Zr – 2.3%, and Nb – 0.59%.

The anomalous trend was traced over a 7 km strike length extending to the east, approximately 4 km, and to the west, approximately 3 km, from the MP showing in the bedrock pit. The highest REE values were in a dark grey to black sub-metallic to glassy mineral, in segregations which are variably non-magnetic to moderately magnetic. All of the REE bearing samples are weakly to moderately radioactive with significant Th content (up to 0.7%) but generally 0.1-0.3 % and minor uranium values (up to 461 ppm but generally < 100 ppm). Overburden depths are 1-2 m maximum with scarce outcrop away from the road. The rock unit hosting the REE mineralization is a peralkaline, syenitic unit of late Paleoproterozoic age which hosts green pyroxene crystals. Linear monzonite bodies, possibly related to thrust faulting, are shown on government maps, just to the north and south of the MP mineralized area, paralleling the highway to the northeast although regional mapping was unsuccessful in l;ocating these units.

Magnetic, VLF-EM and radiometric (spectrometer) surveys were carried out in late 2010 with lithological/alteration trends noted striking in a 070 degree (ENE) direction. The magnetic results indicate three obvious crosscutting, probable fault or shear structures, trending at approximately 150/330 degrees, one of which passes through the area of the MP pit where most of the significant REE bearing mineralization was found. Radiometric results were inconclusive due to the limited area covered and the inclement weather however radiometric anomalies were defined in the MP showing area.

**Exploration 2011**

A total of 1120 m in 10 drill holes (PH-11-1-10) tested the MP showing in the bedrock pit and another close by target on the Trans Labrador Highway (TLH), approximately 100 km from Goose Bay (NR March 3, 2011). The drilling was designed to test TREE mineralized bedrock and float samples from the pit, found in the fall of 2010, VLF-EM anomalies thought to represent shear systems, and magnetic anomalies which could reflect the variably magnetic TREE mineralization. The drilling tested an approximate 700 m long zone of the known 7 km mineralized trend, mainly in the MP pit area. All drill holes were at least partially sampled however sampling was not necessarily continuous and was guided by radioactivity (Th content), visual identification of prospective zones and magnetically anomalous areas. Eight of the holes (PH-11-1-6, 8, 9) were drilled across the geological trend in the MP showing in the pit area. DDH PH-11-7 tested a bedrock showing and magnetic anomaly approximately 400m to the west of the MP showing and DDH PH-11-10 was drilled down dip at the eastern end of the MP showing pit to test the potential for the higher grade veins/segregations possibly crosscutting the lithology. Wide zones, up to 140m of > 0.1 % REE mineralization, were intersected with 4 holes giving widths in the 50 m range. Narrow (0.1-0.3m) zones of higher grade TREE values in the 1 to 6 % range are also found throughout most of the drill holes. In addition strong Zr values generally >1,000 ppm (0.1%) were noted over wide intervals associated with the REE mineralization (NR March 29, 2011). None of the high grade segregations noted in float and bedrock in the pit and along the highway were intersected. PH-11-1 gave one of the highest values at 4.79% TREE in a 0.1m unit from 66 to 66.1m which was also elevated in $P_2O_5$ at 1.65% and $Fe_2O_3$ at 21.3%. Two higher grade, narrow zones, were also intersected in PH-11-04 which gave 3.74% TREE in a 0.1m wide section from 25.6-25.7m and 10.79% TREE in a 0.1m unit from 66.7-66.8m. Strong Zr values generally in the 1,000-2,000 ppm range were noted throughout the drill hole and a 2.4m zone (58-60.4m) was intersected carrying > 5 % $P_2O_5$ and > 32% $Fe_2O_3$ most likely representing a metamorphosed/altered iron formation carrying apatite, which can carry REE mineralization. The syenitic units carry disseminated brown

crystals (titanite?) which are variably radioactive. $Fe_2O_3$ values ranging from 11.6% to 18.9% and $P_2O_5$ values from 0.44% to 1.77% were also located. Nb and Th values are variably anomalous also with values up to 816 ppm Nb and 764 ppm Th, with higher values in these elements associated with the higher TREE values. Nb values may be subdued due to phosphate interference in the analysis.

The diamond drilling defined an area of anomalous REE mineralization hosted in syenitic units in the primarily granitic gneisses; however the high grade REE segregations noted on surface in the pit were not intersected. Geological mapping in the pit, once the snow was gone in the spring, indicates that the area is cut by numerous faults making structural control more difficult than expected and possibly disrupting the REE bearing units.

**Mineralogy**

A REE mineralogical research study is being carried out by Alex Chafe, a Master's student at Memorial University of Newfoundland (MUN), under the supervision of Dr. John Hanchar, the Head of MUN's Department of Earth Sciences. Silver Spruce would like to acknowledge that this research is partially supported through a GeoEXPLORE research grant from the Research Development Corporation of Newfoundland and Labrador.

REE rich rock samples from the Pope's Hill – MP trend area were evaluated by thin section to ensure that they were representative of the mineralization and scanning electron microscopy - mineral liberation analysis (SEM-MLA) was then used to determine the grain size, distribution, modal abundances and elemental distribution of each REE-rich mineral phase in the representative thin section. Electron probe microanalysis (EPMA) was used to determine the average Rare Earth Element Oxide (REO) composition for each individual mineral present in the samples. The data from both techniques were then used to calculate each mineral's contribution to the average whole-rock REO composition.

The results indicate that the REE from the MP trend of the Pope's Hill prospect are primarily hosted in allanite, titanite, monazite and britholite, with trace amounts hosted in fergusonite, REE-carbonates and apatite. The total average rare earth oxide (REO) composition of the sample was 17.5 wt%, with the percentage contributed by each mineral: allanite - 47.6%; high-REE titanite - 24.1%; monazite - 16.7%; both varieties of britholite (high-REE and low-REE) - 11.1%; and the rest in fergusonite, REE carbonate and apatite. Disseminated allanite and monazite were also noted in the adjacent host rock units in the thin section analysis.

**Prospecting/Geological Mapping**

Prospecting using scintillometers to locate radioactive mineralization on the MP trend traced the REE mineralization in outcrop over an approximate 2.8 km strike length (NR Aug. 9 and Aug. 30/11). The zone is laterally continuous, extending from the MP showing in the pit on the TLH and to the north of the pit, through the T1 and T2 showings located 800 and 1,100m, respectively, to the T5 and T6 showings located 2,000 and 2,200m respectively, to the east of the MP showing, in the vicinity of the brook where a boulder running 24.1% TREE was found in 2010 (NR Oct. 28, 2010). Outcrops with massive segregations are located at the MP showing, and in all the "T" showings with other areas of mineralization noted between the showings but not fully exposed. The mineralized unit, a syenitic unit, conformable with the granitic gneisses, a minimum of 10m wide, carries green pyroxene crystals, as phenocrysts or porphyroblasts, up to 5 cm long, and is open along strike to both the east and west. The massive, high grade, segregations, up to 30 cm wide, which typically run 10-25% TREE, are characterized by pinch and swell structures with at least two parallel massive segregations, separated by 5-6m of host rock, noted in the T2, T5 and T6 exposures, with other parallel zones carrying narrow veins and disseminations in the host unit. Other massive segregations are exposed in hand dug pits up to 30m across strike from the "T" showings. These may be part of the same system indicating the mineralized unit could be much wider than now exposed.

The 136 samples taken from the moderately to highly radioactive, massive segregations and adjacent host rock along the MP trend give HREE percentages ranging from 1.1% to 47.6%, averaging 8.4%, including 45 values > 10% HREE (NR Aug. 30/11). Average values for REEs are: 10,083 ppm (1.00%) La, 21,364 ppm (2.14%) Ce, 2,570 ppm (0.26%) Pr, 8,425 ppm (0.84%) Nd, 1,422 ppm (0.14%) Sm, 44 ppm Eu, 1,019 ppm (0.10%) Gd, 149 ppm Tb, 750 ppm (0.075%) Dy, 130 ppm Ho, 314 ppm Er, 37 ppm Tm, 191 ppm Yb, 25 ppm Lu and 2,775 ppm (0.28%) Y. Thirty (30) samples gave $P_2O_5$ values > 2% with a high of 11.6% and preliminary mineralogy studies

have shown that REE mineralization, with higher HREE content, is present in apatite (calcium phosphate) and apatite content should be reflected by $P_2O_5$ values. Thorium values for the radioactive, higher grade, REE samples, are generally in the 0.2% to 0.4% range.

In the T1 / T2 area, over an approximate 600m strike length, 28 outcrop/sub crop grab samples gave an average of 8.6% TREE including 6 host rock samples with values <1% (0.1 to 0.9%) (NR Aug. 30/11). HREE values ranged from 2.7% to 47.6%, averaging 12.7%, with 16 > 10% HREE. The average values for the REE's are: 16,652 ppm (1.67%) La, 36,417 ppm (3.64%) Ce, 4,135 ppm (0.41%) Pr, 15,351 ppm (1.54%) Nd, 2,552 ppm (0.26%) Sm, 62 ppm Eu, 1,977 ppm (0.2%) Gd, 287 ppm Tb, 1,512 ppm (0.15%) Dy, 261 ppm Ho, 633 ppm Er, 74 ppm Tm, 379 ppm Yb, 49 ppm Lu, and 5,716 ppm (0.57%) Y. It should be noted that since these are selected grab samples they are not representative of the overall values in the zone.

A trenching program along the MP trend, which lies just to the north of the bedrock pit (MP showing) on the TLH was carried out in the fall of 2011 (NR Aug. 31, Sept. 27, Oct. 20 and Nov. 3/11). The program was designed to expose the favorable, REE anomalous, syenitic unit which carries the high grade segregations. A series of 14 trenches from 100 to 500m apart were dug to evaluate and give grade / width information on the zone over a 2.5 km long trend. Radioactivity, representing Th bearing minerals associated with the REE mineralization, was used to guide the trenching and sampling. Total count values from background (< 100 counts per second -cps) to weakly anomalous (200-400 cps) to > 5000 cps were located with REE mineralization noted in a number of areas, both disseminated and as massive segregations up to 30 cm wide, in two hand dug trenches, 5 and 11A. Another trench, #15, located approximately 200m from the TLH, to the south of the MP trend, gave anomalous (> 300 cps) to strong (> 2000 cps) radioactivity in three zones over widths up to 25m. Mineralization in the trench 15 area is related to pegmatite veining carrying REE minerals such as allanite, similar to the MRT REE mineralization located 60 km to the east. Twelve trenches were washed, mapped and channel sampled with approximately 290 samples taken over widths varying from 10 cm to 2m. Trenches 9, 10, 13 and 14 were not sampled due to the low radioactivity noted and the lateness of the season, with snow and ice conditions making continued exploration very difficult.

Total Rare Earth Oxide plus yttrium oxide (TREO) results give wide (up to 30m) low grade zones grading 0.2% to 0.75% TREO, narrower (>3m) medium grade zones >0.75% TREO and narrow zones (<1m) of high grade values >3% TREO (NRFebruary 9, 2012). The highest values were found in the T1 to T5 area in trenches 3, 4, 5, 6, 7 and 11. Some trenches gave anomalous values over the entire exposed zone, including: Tr 7 - 0.71% TREO / 22.6m; Tr 5 - 0.74% TRE0 / 9.5m; and Tr 11b - 1.29% TREO / 5.7m, indicating that the zones could be much wider. The highest individual value was 16.88% TREO / 0.3m in Tr 11b, located near the 24% TREE boulder found in 2010. Heavy rare earth oxide (HREO) percentages of the TREO range from 3.6 to 20.3 %, generally 5-13 %, with dysprosium oxide being one of the higher HREO, in the syenitic units. Narrow high grade zones, related to the massive segregations, carry the mineralized zones in most instances; however, significant background values in the 0.1 to 0.5% range are noted through the syenite that hosts the mineralization. Values of 0.84% TREO / 9m, including 1.24% / 1.6m, were found in Trench 15, located in more pegmatitic material near the TLH. HREO was 2.8-4.9% of the TREO in these samples. Zirconium (Zr) values in the REE mineralized zones along the MP trend are mainly in the 500-1500 ppm range, with a high value of 2.32% noted in trench seven. Trench 15, has generally much higher Zr values in the 1000-9000 ppm (0.1-0.9 %) range. Thorium (Th) values are generally 2-500 ppm in the REE mineralized areas, with a high of 0.31 % (3100 ppm) noted in trench 11b. The host syenite units strike at approximately 70 degrees and dip to the south (toward the TLH) at approximately 30-40 degrees, parallel to the gneissosity of the geological units. True width of the zones is estimated at 70-90%, depending upon the steepness of the hill where the mineralization occurs. The better mineralized zones are described in the table on page 8 which gives results for all elements and gives the HREO percentages of the TREO. Note that in cases where continuous samples could not be taken due to water or overburden, the sample intervals were given values of 0.

**Regional exploration:** Airborne magnetic/radiometric/VLF-EM surveys, stream sediment geochemical sampling and concurrent prospecting were completed on streams draining the prospective areas to the north and west of the Churchill River over the 100% owned properties (NR Aug. 30/11). A number of radioactive zones were noted in the scintillometer prospecting surveys.

The mean value for the stream sediment samples was 378 ppm giving a second order anomaly at > 686 ppm total rare earth oxides (TREO). The highest priority area, which has the highest value, 1380 ppm from the survey and three values > 900 ppm TREO, is located to the southwest of the TLH to the north of Gull Island in the Popes Hill area, on Licence 18104M, the same area where two rock samples gave 8.2% (float) and 7 % (o/c) TREO. Another significant stream sediment anomaly, with values up to 726 ppm and 6 values > 600 ppm TREO, was located to the west of Upper Brook, to the north of the TLH, on Licence 18102M coincident with an outcrop sample that gave 3.3% TREO. TREO values in the 1-4% range, with many others from 0.1-0.3%, were noted along the TLH to the west of the original group on Licence 18101M – these may be related to pegmatites. Two samples along the Pinus River to the northeast of the MP trend gave values of 3.2% and 1.9% TREO – these may indicate a strike extension of the MP trend mineralization. All samples are light rare earth oxide (LREO) enriched with 18 samples giving TREO values >0.5 %, with an average of 0.34% $Nd_2O_3$. The samples were generally low in heavy rare earth oxides (HREO) giving values from 1–5% of the TREO.

A number of significant anomalous stream sediments, without backup rock samples, were also found including: 4 areas on Licences 18104-106M, in the SW portion of the property both to the east and west of the Churchill River and to the south of the TLH – these areas are not road accessible; in Licence 18108M between Upper and Lower brooks, to the north of the TLH; and on Licence 18564M to the northwest of the MRT property, to the north of the TLH, approximately 40 km from HVGB. All the stream sediments are LREO enriched with HREO averaging 6-12% of the TREO in samples > 600 ppm and in the 2-12 % range, but mainly 3-5 % in samples with values < 600 ppm. No follow up was carried out due to the lateness of the season.

**Planned Exploration – 2012**
No exploration is planned for 2012, due to lack of funding.

**Impairment**
No impairment is indicated due to the early stage nature of the exploration and the results to date. Impairment issues will be evaluated quarterly and write-downs or write-offs will be taken if required.

**POPES HILL JV – 50 % INTEREST**

**Property Description**
A total of 759 claims (approx. 190 $km^2$) are part of the Popes Hill joint venture (PHJV) along the PH trend as a 50/50 JV with Great Western Minerals Group (GWMG) (NR Nov. 30, 2010). GWMG is the operator with funding at 50/50 at least for the first year. The claims cover areas considered to be prospective for REE mineralization based on geology, geochemistry (lake sediment results – anomalous La and Ce) and structural features.

**Exploration**
Regional exploration including airborne radiometrics/magnetics/VLF-EM, prospecting, geological mapping, and geochemistry, has been completed by GWMG in evaluation of the JV areas. A number of anomalous areas were defined by the stream geochemical survey. No follow up has been carried out.

**Impairment**
No impairment is indicated due to the early stage nature of the exploration and the results to date. Impairment issues will be evaluated quarterly and write-downs or write-offs will be taken if required.

**MRT PROPERTY – OPTION TO EARN 100 %**

**Property Description**
The MRT property, located along the Trans Labrador Highway (TLH)approximately 35 km from HVGB, which consists of 178 claims (44.5 $km^2$) was optioned from two Innu Prospectors, Jean Pierre (Napes) Ashini and Raphael Dominic Riche in February, 2011 (NR Feb. 17, 2011). Terms of the agreement to earn a 100% interest subject to a 2.5% NSR with a buyback of 1.5% for $1.5M, are:

| | **Cash** | **Shares** | **Work Commitment** |
|---|---|---|---|
| On signing: | $15,000 (paid March 2, 2011) | 100,000 (issued June 6, 2011) | - |
| 1st anniversary | $25,000 (paid February 20, 2012) | 150,000 (issued February 20, 2012) | - |
| 2nd Anniversary | $40,000 | 250,000 | $250,000 |
| **Total** | **$80.000** | **500.000** | **$250.000** |

In addition, advance royalty payments of $10,000 per year are payable from the 4th anniversary on. The second year option payment of $25,000 and 150,000 shares was made to the vendor in late February (NR Mar. 15, 2012). The property is considered prospective for both REE and U mineralization.

**Exploration**
The property was acquired after the vendors located three (of 10) samples carrying significant REE values of 8.95%, 0.26% and 0.28% TREE using a scintillometer to locate areas of high radioactivity. The highest value carried 2.79% La, 4.26% Ce, 0.4% Pr, 1.26% Nd and 0.11% Sm with 0.23% Th, and 37 ppm U. Uranium values range from 1.1 to 747 ppm, averaging 113 ppm. Other REE and Y are weakly anomalous. The showings lie in an area never before evaluated less than 1 km from the TLH, approximately 35 km to the west of HVGB.

Regional exploration including airborne radiometrics/magnetics/VLF-EM, stream sediment and soil geochemistry and prospecting evaluated the MRT property in 2011. Detailed prospecting, hand and excavator trenching evaluated prospective areas from in the regional exploration. A test geochemical survey carried out by Ralph Stea, a geochemical consultant for Great Western Minerals Group, as part of due diligence for the Popes Hill Joint Venture (PHJV) gave the highest soil and two of the highest stream sediment values in the survey, located in the western portion of the property just north of the TLH (NR Sept.13/11).

**Prospecting:** An area of REE mineralization was located over a 2 $km^2$ area just to the north of the TLH. Mineralization is light rare earth oxide (LREO) enriched with five samples giving values >1% $Nd_2O_3$. Ten samples, 6 from outcrop and 4 from float, gave TREO values >1% with HREO values averaging 4% of the TREO including one sample from outcrop with 0.14% $Dy_2O_3$ although the average $Dy_2O_3$ values for the 10 samples >1% TREO was 271 ppm. The highest rock sample value was 12.2% TREO with 1.6% HREO, in a small float, located along the power line at the south boundary of the property. The only significant value outside of the southern area was one float which gave 0.5% TREO with 7% HREO, on a brook in the western part, coincident with weakly anomalous stream sediment values. Thorium values for the higher REE sample values are generally in the 0.1 to 0.2% range (NR Aug. 9/11). In uranium, three outcrop samples taken in areas of higher radioactivity in the area of the powerline gave values of 0.825% $U_3O_8$, 930 ppm Th; 234 ppm U (0.027% $U_3O_8$), 72 ppm Th; and 744 ppm U(0.088% $U_3O_8$), 288 ppm Th with U/Th ratios varying from 8 to 3 (*NR Feb. 17/11*). Seven prospecting grab samples, taken during exploration for REE mineralization, in the summer of 2011, gave values >0.05 % U (0.059 % $U_3O_8$) or 1 lb/tonne, including four >0.1% U (0.12 % $U_3O_8$) or 2 lbs/tonne (*NR Sept. 13/11*). All samples were acquired in the southern part of the property over a 2 km long trend, along and to the north of the power line and are not coincident with the high REE values. Th values were a maximum of 391 ppm, giving a U/Th ratio of approximately 3 to 1 or better (NR Aug. 9/11). All samples were selected grab samples, based on radioactivity using scintillometers and are not necessarily representative of the overall values in the area.

**Soil Geochemistry:** Soil samples were taken at approximate 100 m intervals on lines 200m apart in the southern part of the property where the significant REE mineralization occurs over a 2km$^2$ area, within 2 km of the TLH and upstream of a significant anomalous stream sediment value (NR Sept. 13/11). A number of anomalies with values up to 831 ppm total rare earth oxides (TREO) against a background of <200 ppm (NR Jan. 17/12) were located. Heavy rare earth oxides (HREO) averaged 2-3% of the total rare TREO with a high of 4%.

**Stream Sediment Geochemistry:** Stream sediment samples were taken at nominal 300m spacing covering most of the streams on the property except those in the NE corner where outwash sands and gravels are present. One second order anomaly with a high of 521 ppm against a background of < 220 ppm, was found in the central portion of the claims, north of the trenches on Licence 18545M. The second highest stream sediment value of 488 ppm was located in the southern part of the claims near a float rock sample that gave 12.2% TREO. Also in this area are three first order soil sample values and a Th radiometric anomaly trending east – west. HREO as a total of TREO averaged 5% with a high value of 9.2%.

**Trenching:** Two REE mineralized areas with TREE values up to 6.9% (NR Aug. 9/11*)*, approximately 75 m apart, in the southern part of the property were trenched in the late fall of 2011. Weakly to moderately anomalous radioactive units up to 25m wide consisting of felsic and mafic gneisses with values in the 250 to 500 cps range, cut by radioactive pegmatitic units, up to 1.5m wide, with values up to >2000 cps, carrying REE mineralization, mainly allanite and associated green pyroxenes were exposed (NR Nov. 3/11). Eighty (80) channel samples were taken in the two trenches over widths varying from 0.2 to 2m. Anomalous zones are associated with allanite mineralization in pyroxene-rich pegmatitic units. The most significant value was 4.33% TREO over 0.5m in trench 2, in a zone that ran 0.4% TREO / 7.8m. HREO values at 1.4–6.4% are lower than found in the Pope's Hill MP trend area, possibly reflecting the more pegmatitic-related mineralization. Zr is generally 500-1500 ppm in the REE mineralized zones; however, Zr values in the 0.1-0.2% range are also found in areas with low background REE values. Th values are generally 100-200 ppm, with a high value of 1000 ppm (0.1 %). True widths of the zones are estimated to be close to the sampled widths, since the units strike generally N-S with near vertical dips.

**Planned Exploration 2012**
No exploration is planned for 2012 due to lack of funding. The property remains in good standing and will be reduced to allow maintenance for the longer term.

**Impairment**
No impairment is indicated due to the early stage nature of the exploration and the results to date. Impairment issues will be evaluated quarterly and write-downs or write-offs will be taken if required.

**RWM**

**Property Description**
The property consists of 40 claims (10 km$^2$) covering the second highest heavy rare earth element value, >80 ppm HREE (Eu, Tb, Yb and Lu), in the Government lake sediment database for Labrador, in the southern Red Wine Mountains, approximately 30 km to the east of the Orma Lake road which provides access to the Churchill Reservoir area.

**Summary**
The highly anomalous lake sediment sample includes 210 ppm Ce, 240 ppm La, 11 ppm Lu, 18 ppm Rb, 48.9 ppm Sm, 12 ppm Tb, 14.5 ppm U and 62 ppm Yb plus elevated F. Eu, Th and V give background values. Another lake sediment sample in the same area is also moderately anomalous in REE. The geological setting is described in government mapping as late paleoproterozoic granite, quartz monzonite, granodiorite, syenite, and quartz diorite, lying just to the south of the Red Wine peralkaline suite.

**Exploration Summary**
An airborne radiometric / magnetic survey was carried out over the property in July 2010. The survey showed coincident U/Th/K anomalies in two areas of the claim group, in the southwest and northeast, underlain by magnetically low units, which are separated by a magnetically high area. A one day field visit, using a helicopter, located radioactive floats in the area of the radiometric anomalies. Six grab samples gave anomalous values in La >100, high 2,510 ppm; Nd>100, high 1,520 ppm; and Ce>200, high 4,360 ppm; Anomalous values were also found in Th>200, high 3,480 ppm with two values >2,000 ppm; and Zr>1,500, high 1,625 ppm against a background of 50 ppm. Two anomalous values were noted in Pr>200, high 449 ppm; and 1 anomalous value in Sm, 215 ppm against a background of 30 ppm, were also located. Rb and Y also gave elevated values >100, high 301 ppm Rb and 4 values >100 ppm Y, high 423 ppm. The highest/most coincident anomalous values were found in the mafic volcanic sample from the northeastern portion of the property. In 2011, one day of helicopter supported prospecting and geological mapping, was carried out in early September. The area is primarily boulder fields and eskers with no outcrop noted (NR Sept. 27/11). The eastern part has a wide variety of rock types with most of the larger boulders biotite rich granitic gneiss with some smaller syenitic boulders. Quartz veins with hornblende were noted in potassic granitic boulders and recrystallized granite boulders were also seen however no anomalous radioactivity was noted. In the western part, again a boulder field, background total count (TC) radioactivity was elevated in the 300-400 counts per second (cps) range, with more abundant biotite rich gneisses giving elevated TC values up to 8000 cps. Other anomalously radioactive boulders were also noted and boulders carrying radioactive biotite were found in areas where hand dug pits, up to 60 cm deep in possible regolithic material, gave anomalous TC readings up to 2000 cps. The western area shows anomalous radioactivity in all three elements (K, U, Th) on the 2010 airborne survey. Results indicate an average of 0.89% TREO with 7 samples giving TREO values >1%, with a high of 2.58%. The samples are predominantly LREO enriched. Generally, samples >1% TREO gave lower HREO percentages in the 5-15% range. Samples with lower TREO values (in the 0.4% range) give HREO percentages averaging 9.8% with the highest at 56.5%.

**Planned Exploration 2012**
No exploration is planned for 2012 due to lack of available funding.

**Impairment**
No impairment is indicated due to the early stage nature of the exploration and the results to date. Impairment issues will be evaluated quarterly and write-downs or write-offs will be taken if required.

**STRAITS (ST)**

**Property Description**
The property, located in the Straits of Belle Isle area of southern coastal Labrador, between Mary's Harbour and Red Bay, consists of 245 claims (61 km2). It was acquired for its uranium potential however REE potential has recently been noted and the property is now considered a U/REE property.

**Exploration Summary**
The property was originally was staked in 2006 to cover uranium in lake sediment anomalies associated with a north-northwest trending fault structure in Proterozoic, metamorphosed, felsic volcanics, now orthogneiss. The vendor, Alex Turpin retains a 1 % NSR on the original staking plus and AOI around the original property. Exploration has included lake, stream sediment and soil geochemistry, ground scintillometer surveys, prospecting, and geological mapping. Significant uranium showings were located in the south central part of the property near the coast. The "BB Shot" showing gives grab sample values up to 67,439 ppm (6.7%) $U_3O_8$ in outcrop along the contact of weakly gneissic, fine-grained granite, and a pegmatite with associated magnetite and biotite.The "Bingo" showing, approximately 3 km from the BB Shot, and also associated with the contact of the granite and orthogneiss, gave 17 anomalous values (>10 ppm $U_3O_8$) with a high value of 5,887 ppm (0.59%) $U_3O_8$, associated with uranophane staining. Uranium/thorium ratios average 5:1 in samples giving uranium values >250 ppm. Anomalous values in Th (to 6,810 ppm), Cu (to 2,720 ppm) and Pb (>5,000 ppm) were also found with the higher thorium values giving low uranium values.

Data from the project was re-evaluated for REE potential in 2010, using La as a guide, since significant Th values were located during the uranium exploration. A geochemical release (OF Lab 1538) by the Government of Newfoundland on June 30, 2010, on a high-density lake sediment and water survey in southeastern Labrador showed anomalous values in REE with TREE values in the 400 to 650 ppm range on the property, some of the highest located in the survey. Background is less than 100 ppm TREE.

Values up to 2.48% TREE, 2.2% Zr, and 636 ppm Nb were located in rocks from the area (NR July 26/11). Thirteen samples gave values >0.1% TREE, including five (5) >0.4%. Samples were generally LREEs with percentages in the 85-90% range. Most high values are located in outcrop in the north central and north-eastern ends of the property, however, one sample in the southwestern part gave a value of 0.5 % TREE.

Helicopter supported prospecting, in November 2011, evaluated areas of thorium (Th) radioactivity in the airborne surveys as well as other areas anomalous in lanthanum (La), Th and REE from previous ground surveys (NR Nov. 18/11, May 27, 2010) and favorable geologic units as suggested by a consultant. Fifty four (54) rock samples were taken, mostly from outcrop, using radioactivity, related to Th and uranium (U) bearing minerals possibly associated with REE mineralization, as a guide. Scintillometer readings in anomalous areas averaged 500 to 9000 counts per second (cps) against a background of 150 cps. In total, 11 samples gave total rare earth oxide (TREO) values > 0.1% and 13 gave $U_3O_8$ values >100 ppm (NR Jan. 19/12). The most significant mineralized area was located on Licence 17761M, to the north of Temple Bay, where five outcrop samples of mafic to felsic gneisses cut by pegmatites, associated with a structural lineament, gave TREO >1% with a high of 4.76%, including 3.42% TREO with 58% heavy rare earth oxides (HREO) including 0.19% dysprosium oxide ($Dy_2O_3$). The average HREO for the five samples was 23.4%, with all having associated $U_3O_8$ values ranging from 400 to 1130 ppm, while $Th_2O_3$ values are generally low at 40-196 ppm, except for one sample at 1016 ppm. The samples were also anomalous in Zr, Nb and Ta. The samples were taken from narrow veins < 30 cm wide associated with the pegmatites. Scintillometer readings over the mineralization ranged from 1300 to 4200 cps. While the mineralization located is narrow, the REO / uranium association, the HREO content and the apparent structural control in this relatively unexplored area are all positive indications of significant potential for both REE and uranium.

**Planned Exploration - 2012**
No exploration is planned due to lack of funding. The properties will be reduced to allow maintenance for the longer term.

**Impairment**
No further impairment is indicated due to the early stage nature of the REE exploration and the results to date. Impairment issues will be evaluated quarterly and write-downs or write-offs will be taken if required

## OTHER PROPERTIES/PROJECTS

The Company evaluates properties and opportunities under a “general exploration” budget. These projects/properties/opportunities include various commodities in various parts of the world, mainly Newfoundland and Labrador, generally where the Company already has assets. Other projects may be generated from this work and information will be released as they are acquired. General exploration costs are expensed as spent unless they result in the acquisition of a property when they are then capitalized against the property.

## MANAGEMENT

**Peter Dimmell, BSc, P.Geo. - President and CEO, Director**
Mr. Dimmell is a geologist and prospector who has been involved in mineral exploration in Canada, the United States and overseas for 43 years. He is a past president and a life member of the Prospectors and Developers Association of Canada, a past Chairman and past director of Mining Industry NL (formerly the Newfoundland and Labrador Chamber of Mineral Resources), a member and past councillor of the Geological Association of

Canada, a life member of the Canadian Institute of Mining, Metallurgy and Petroleum, and an associate member of the Association of Applied Geochemists. He is also currently a director of three other public companies: Pele Mountain Resources Inc., VVC Exploration Corp. and Atocha Resources Inc.

**Gordon Barnhill - VP Corporate Affairs, Director, CFO**
Prior to joining Silver Spruce Resources, Mr.Barnhill was the President of a company providing management consulting, capital research, business evaluations, deal structuring and investment strategies. From 1973 to 1997 Mr. Barnhill had an extensive career in banking with Canada's largest banking institution as a senior commercial lending officer.

## LIQUIDITY, FINANCINGS AND CAPITAL RESOURCES

**Operating Activities**
The Company had a net cash outflow from operating activities of $172,376 for the three months ended July 31, 2012 (July 31, 2011 - $71,315 outflow).

**Financing Activities**
During the three months ended July 31, 2012 the Company had a net inflow of $188,119, generated by $191,400 in proceeds from issuance and exercise of shares and warrants. In the comparative period ended July 31, 2011, the Company had a net inflow of $16,450, generated by $22,000 in proceeds from issuance and exercise of shares, warrants and options.

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

**Investing Activities**
The Company had a net outflow of $213,490 from investing activities for the three months ending July 31, 2012 (July 31, 2011 - $590,037 net outflow). Of this amount in the current period $296,340 was invested in mineral property exploration activities (July 31, 2011 – $589,307).

**Liquidity**
The Company had cash and cash equivalents of $267,589 as at July 31, 2012 (October 31, 2011 - $874,290). The change in non-cash operating working capital as at July 31, 2012 was a cash inflow of $99,735 (July 31, 2011 - $126,590 outflow). Exploration will continue primarily in compilation and report writing in early 2012. Working capital is sufficient for this work however the company will be seeking additional funding to allow significantly increased activity especially planned diamond drilling on both the Big Easy and Pope's Hill properties.

**Capital Resources**
The Company's authorized capital consists of an unlimited number of common and preference shares without par value. At July 31, 2012, the Company had 109,607,805 issued and outstanding common shares (July 31, 2011 – 106,565,305).

## RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at July 31, 2012 are $45,314 (October 31, 2011 - $12,322) owing to directors of the Company for consulting related services rendered. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

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

Rent and certain building materials required by the Company for its operations are purchased from a hardware store controlled by an officer and director of the Company. During periods of exploration, management and employees of the Company stay at a hotel controlled by an officer and director of the Company. During the nine month period ended July 31, 2012and July 31, 2011 transactions paid to the hardware store and to the hotel were negligible.

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

## COMMITMENTS

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

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

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

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

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

## FINANCIAL INSTRUMENTS

### Fair Value

IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash, amounts receivable, deposits, prepaid expenses, accounts payable and accrued liabilities on the balance sheets approximate fair value due to their short-term maturity. The fair value of long term debt approximates its carrying value based on current borrowing rates. The fair value of investments is based on quoted market prices.

## RISKS AND UNCERTAINITIES

The Company's financial success is dependent upon the extent to which it can discover mineralization or acquire mineral properties and the economic viability of developing its properties. The market price of minerals and/or metals is volatile and cannot be controlled. There is no assurance that the Company's mineral exploration and development activities will be successful. The development of mineral resources involves many risks in which

even a combination of experience, knowledge and careful evaluation may not be able to overcome. The Company has no source of financing other than those identified in the section on liquidity, financings and capital resources.

Recent acquisitions on the island of Newfoundland - the Big Easy Au/Ag property and in Labrador - Popes Hill and the MRT REE/U properties, are road accessible thereby keeping exploration costs relatively low. Plans are to continue to move forward on these projects using "flow through" (FT) funds which will be acquired in late 2012 and available matching government funding where available. A phase 3 diamond drill program is planned for the Big Easy property in the winter of 2013 pending availability of FT financing or a joint venture with another company. No other exploration is planned at this time.

**CURRENT MARKET CONDITIONS**

The fundamentals for gold/silver remain strong and the Company is emphasizing the Big Easy project for this reason in 2012 and 2013. The fundamentals for U are strong in the longer term although short term interest is not there yet and financing for these projects is therefore not available. The Company's gold/silver project is road accessible and therefore cheap to explore. No emphasis is being placed on REE or base metals exploration at this time.

The Company's main focus until recently has been uranium. Demand for uranium is forecast to outstrip supply over the next 10 years or so growing at an annual rate of approximately 2% per year. Much of this demand will come from expanding nuclear power requirements of developing economies with 130 new reactors expected to be constructed over the next 15 years (IAEA report), representing a 30 percent global increase in reactors. China has announced plans to build 27 new nuclear reactors by 2020, and India has announced plans to build 17 new nuclear reactors by 2012. This rate of expansion compares with the USA, which built over 100 nuclear power plants in 15 years between 1965 and 1980 (IAEA). Uranium supply is constrained by a lack of new mine production and declining world inventories. World requirement of uranium oxide ($U_3O_8$) is about 77 kilotons per annum (ktpa), while current mine production accounts for 48ktpa. The balance, 29ktpa, comes from inventory - primarily the down-blending of weapons grade uranium which has greatly diminished over the past years. Mine output is expected to increase to 54 ktpa over the next three to five years, leaving a significant supply gap to be filled by new production (IAEA). Cameo's 2005 annual report estimated that uranium fuel consumption will reach 217 ktpa by 2015.

While the short term outlook for uranium and the spot price has been impacted by the problems at the nuclear plant in Japan related to the earthquake and tsunami damage, the long term outlook remains positive with prices expected to rise starting in late 2012 and into 2013. Uranium is currently trading at around US$62/lb on the term market with spot prices around $50/lb. Market pressures remain strong for the long term and it is expected that the long term uranium price should increase.

The main properties with uranium potential in the CMB and at Double Mer, can be maintained for the next few years without requiring significant exploration expenditures. SSE will benefit from maintaining a strong land position in uranium in Labrador with Paladin developing the "world class" Michelin and Jacques Lake deposits which host approximately 135 M lbs of uranium and CXX continuing to increase their global resource in the CMB. This will bring renewed attention and investor interest to the area and any Company with assets in this area.

The impairment of exploration assets in Labrador has been carefully considered and it is felt that at this point there is a continued general impairment of the 100 % owned properties in the CMB since financing is difficult to impossible to obtain. The most significant properties can be maintained until prices, and the global economic climate, returns to normal. As properties are abandoned, they are written off and those projects showing impairment were written down or off in 2008, 2009, 2010, 2011 and this will continue in 2012.

The market cap of the Company has dropped significantly in the past few years due to continued weakness in the overall junior sector. Our emphasis on the Big Easy gold/silver property allowed us to obtain a small flow through financing in early 2012 and hopefully more flow through funding in late 2012. The global economic situation, especially in Europe, remains confused, and the share prices in junior explorers such as ourselves are being impacted. Impairment issues related to Market Capitalization will continue to be evaluated quarterly and further write downs or write offs will be taken if required.

## OUTLOOK

The Company maintained its 2011 exploration program, at a higher level from 2010 with approximately $1.8 M spent, up from $1M in 2010. The Company completed both flow through and hard dollar financings in September and December 2010, with approximately $1.6 M in flow through and $219 K in hard dollars raised. These financings, in concert with return of staking deposits, JEAP payments and warrant and options exercised allowed the Company to maintain exploration programs in 2011 as described in the previous sections.

In 2012, a small flow through, private placement, financing allowed us to carry out a diamond drilling program at the Big Easy which better defined the epithermal gold/silver mineralization. Continued financing will be required for further exploration on the Big Easy property on the island of Newfoundland.

The company has a property portfolio with a new gold/silver discovery (Big Easy), a carried interest in a uranium deposit with defined resources (Two Time), plus other significant uranium projects and REE properties with significant discoveries for the longer term. It is felt that uranium prices should increase over the next few years thereby allowing financing for our uranium projects. The company is poised for short term success in precious metals with continued drilling pending financing, and longer term success in uranium exploration and development.

## FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

The requirements relating to separate financial statements in IAS 27 are unchanged in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. IAS 28 *Investments in Associates and Joint Ventures* (“IAS28”) 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, 2013with early application permitted. The Company is currently assessing the impact of this new standard on the Company’s financial assets and financial liabilities.

Amendments were issued by the IASB to IAS 32 *Financial Instruments: Recognitions and Measurement* (“IAS32”), 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 entities financial statements to evaluate the effect of potential effect of netting arrangements, including rights of set-off associated with the entity’s recognized financial assets and liabilities, on the entity’s financial position. These amendments must be applied starting January 1, 2013 with early adoption permitted. The Company is currently assessing the impact of adopting the IAS 23 and IFRS 7 amendments on the consolidated financial statements.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Accounting Standards Board in Canada and the Canadian Securities Administrators confirmed that Canadian reporting issuers will be required to transition to IFRS for fiscal years beginning on or after January 1, 2011. The Company’s transition date is November 1, 2010 and the Company has prepared the opening IFRS Statement of Financial Position at that date. For further information on the Company’s significant accounting policies under IFRS, refer to Note 17 in the January 31, 2012 condensed consolidated interim financial statements.

All IFRS transition differences that resulted in an adjustment to the Company’s Statement of Financial Position, at November 1, 2010 and October 31, 2011 and Statements of Operations and Comprehensive Income for the quarters ended January 31, 2011, April 30, 2011 and July 31, 2011 as well as the year ended October 31, 2011 are as follows:

### Share-based Payment Transactions

Both IFRS 2 and CICA 3870 are built on the concept that an entity should record share-based transactions in its financial statements. They both prescribe the recognition, measurement, and disclosure requirements for transactions in which an entity grants some form of equity instrument, or incurs a liability based on its share price, in exchange for goods and services. Both Standards share the basic principle that share-based payments should be measured using a fair value based method. In addition, they both conclude the following:

- cash-settled instruments should be classified as liabilities; and
- equity-settled instruments should be classified as equity.

Furthermore, both Standards generally contain the same exclusions from their scope (with some notable exceptions i.e. related parties are not excluded from IFRS 2). Therefore, at a high level, IFRS 2 and CICA 3870 can be described as highly converged.

Share based payments issued to employees for their service as employees and to other service providers have been fair valued using the Black Scholes option-pricing model. Silver Spruce has also issued warrants to various third parties in return for services rendered. These warrants have primarily been issued to agents and brokers for services received in relation to equity offerings ('compensation warrants'). Under CGAAP these have also been valued using the Black Scholes pricing model.

Under both CICA 3870 and IFRS 2, the treatment of awards to non-employees differs in some respects from that to employees. IFRS 2 generally measures awards to non-employees 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. CICA 3870 measures the awards based on the fair value of the equity instruments granted, if they are tradable. This change in accounting policy has resulted in an increase to operating expenses of $25,277 as at April 30, 2011 and increase to contributed surplus as at April 30, 2011.

**Flow through Shares**

Flow through Share Premiums

When flow through shares are issued, if the price the flow through shares are issued for is in excess of the market value of the shares, the premium is considered a sale of tax deductions and the premium is initially booked as a liability and then released into income as the renounced expenditures are incurred. Per the attached analysis provided by Alexis Brown of the Silver Spruce IFRS conversion team, the only flow through issuances that had share premiums were incurred in 2007 and before. For a flow through issued in 2007, the renounced expenditures were required to be incurred by December 31, 2008.The IFRS transition date is November 1, 2010, thus all renounced expenditures associated with flow through issuances with premiums were incurred before the transition date and there will not be any liabilities associated with flow through share premiums recorded on the opening IFRS balance sheet. All flow through share issuances after the November 14, 2007 issuance were made at fair market value of a non-flow through share and thus no premium has to be recorded. Since the premium is recorded as revenue when the expenditures are renounced, the premium associated with flow through share issuances completed before the IFRS transition date an adjustment was made to reallocate $1,621,990 from share capital to retained earnings as of November 1, 2010.

*Tax Impact of Renounced Expenditures*

Under Canadian GAAP the tax impact of renounced expenditures are booked when the renunciation forms are filed with the CRA. Under IFRS the tax impact of renounced expenditures are booked when the expenditures are incurred. For flow through share issuances that would have had all of their renounced expenditures incurred before the IFRS transition date of November 1, 2010, the tax impact of those expenditures will be moved from share capital to retained earnings. The tax impact is moved to retained earnings because the tax impact is recorded on the income statement under IFRS whereas it was recorded under share capital in Canadian GAAP. Accordingly, an adjustment was made to reallocate $3,244,165from share capital to retained earnings as of November 1, 2010.

All flow through share issuances which had incurred their renounced expenditures before the November1, 2010 IFRS transition date will have the full tax impact of their renounced expenditures moved from share capital to retained earnings since the expenditures do not straddle the transition date. For any issuances that the expenditures incurred straddle the transition date, only the tax impact of these expenses incurred before the transition date will be recognized in the opening balance sheet. Expenses incurred after the transition date will be recognized in the income statement when incurred. Accordingly, an adjustment was made to reverse $630,579 from share capital to tax recovery.

IFRS 1 provides for certain optional exemptions and certain mandatory exceptions for first-time adopters. The Company has applied certain of these exemptions to its opening Statements of Financial Position dated November 1, 2010, as described below.

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

In preparing these consolidated interim 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.

*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.