

*Consolidated Financial Statements*

**SILVER SPRUCE RESOURCES INC.**

*A Development Stage Company*

*April 30, 2011 and 2010*

# **SILVER SPRUCE RESOURCES INC.**

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## **Notice of No Auditor Review of Interim Financial Statements**

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

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

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

Halifax, Nova Scotia  
June 28, 2011

# SILVER SPRUCE RESOURCES INC.

## Consolidated Balance Sheets

(Unaudited)

	April 30, 2011	October 31, 2010
	\$	\$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	2,140,675	216,287
HST and other receivables	100,249	47,188
Refundable staking deposits	96,000	59,800
Prepaid expenses	27,317	16,490
	<b>2,364,241</b>	339,765
Mineral properties (Note 5)	3,586,379	2,857,318
Capital assets (Note 6)	94,339	109,201
Mexican VAT receivable	183,279	182,655
Non-current refundable staking deposits	20,526	70,783
Investments	6,287	10,013
	<b>6,255,051</b>	3,569,735
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	226,583	374,385
Current portion of long-term debt (Note 7)	1,494	5,976
	<b>228,077</b>	380,361
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	24,069,742	21,522,234
Warrants (Note 9)	878,542	739,925
Contributed surplus (Note 11)	6,847,140	6,372,250
Deficit	(25,768,450)	(25,445,035)
	<b>6,026,974</b>	3,189,374
	<b>6,255,051</b>	3,569,735

Nature of operations and going concern (Note 1)

Commitments and Contingencies (Notes 5 & 14)

APPROVED BY THE BOARD OF DIRECTORS

"Lloyd Hillier" Director

"Gordon Barnhill" Director

See accompanying notes to the consolidated financial statements

**SILVER SPRUCE RESOURCES INC.**  
**Consolidated Statements of Operations, Comprehensive Loss and Deficit**  
**(Unaudited)**

	Six months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenue				
Other income	-	46,698	-	46,698
Interest income	-	42	-	42
	-	46,740	-	46,740
Expenses				
Abandonment of mineral properties (Note 5)	-	-	7,020	-
Accounting and audit	45,239	1,865	83,455	14,603
Amortization	7,122	9,982	14,600	21,006
Consulting fees	43,725	27,996	105,291	64,329
Corporate relations	67,551	8,490	74,725	14,924
Foreign exchange loss	520	7,293	389	6,404
Impairment of mineral properties	2,893	-	5,654	-
Impairment of loan	-	-	10,459	-
Legal	22,249	20,621	22,849	20,438
Listing and filing fees	19,874	11,755	24,193	18,994
Office and general	39,060	51,132	99,599	71,432
Stock-based compensation	6,115	227,732	408,139	227,732
Travel	6,745	3,476	19,805	16,910
Unrealized loss in market value of investments	3,963	12	3,726	2,862
Wages and benefits	35,332	66,255	69,843	115,790
	300,388	436,609	949,747	595,424
Loss before income taxes	(300,388)	(389,869)	(949,747)	(548,684)
Income taxes (recovery)	5,668	(256,964)	(626,332)	(351,580)
Loss for the period	(306,056)	(132,905)	(323,415)	(197,104)
Deficit, beginning of period	25,462,394	20,434,030	25,445,035	20,369,831
Deficit, end of period	25,768,450	20,566,935	25,768,450	20,566,935
Net loss per share - basic and diluted	0.00	0.00	0.00	0.00
Weighted average number of shares outstanding - basic and diluted	132,693,639	68,716,887	124,579,808	55,956,223

See accompanying notes to the consolidated financial statements

**SILVER SPRUCE RESOURCES INC.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	Six months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(304,712)	(132,905)	(322,071)	(197,104)
Items not involving cash:				
Abandonment of mineral properties (Note 5)	-	-	7,020	-
Loss on foreign exchange	49	-	389	-
Amortization	7,122	9,982	14,600	21,006
Stock-based compensation	6,115	227,732	408,139	227,732
Recovery of future income taxes	-	(256,964)	(632,000)	(351,580)
Unrealized loss in market value of investments	3,963	12	3,726	2,862
	<b>(287,463)</b>	<b>(152,143)</b>	<b>(520,197)</b>	<b>(297,084)</b>
Changes in non-cash working capital				
(Decrease) increase in prepaid expenses	(378)	7,401	5,283	18,867
(Decrease) increase in HST and other receivables	(37,630)	119,099	(47,080)	224,207
Increase (decrease) in accounts payable and accrued liabilities	73,251	(5,204)	(171,851)	(125,650)
Change in non-cash operating working capital	35,243	121,296	(213,648)	117,424
	<b>(252,220)</b>	<b>(30,847)</b>	<b>(733,845)</b>	<b>(179,660)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of shares and warrants	42,723	-	1,913,523	1,015,000
Issurance of options	-	-	42,723	-
Share issue costs	(6,152)	(1,523)	(165,769)	(90,534)
Issuance of shares for mineral properties	34,000	13,000	-	13,000
Exercise of options and warrants	-	-	1,594,664	-
Repayments of long-term debt	(2,241)	(2,241)	(4,482)	(4,482)
	<b>68,330</b>	<b>9,236</b>	<b>3,380,659</b>	<b>932,984</b>
<b>INVESTING ACTIVITIES</b>				
Mineral properties expenditures - net	(608,516)	(266,552)	(726,933)	(324,852)
Refund of refundable staking deposits	53,100	5,950	53,100	5,950
Purchase of refundable staking deposit	(28,801)	(6,200)	(48,593)	(52,000)
	<b>(584,217)</b>	<b>(266,802)</b>	<b>(722,426)</b>	<b>(370,902)</b>
Increase in cash and cash equivalents	(768,107)	(288,413)	1,924,388	382,422
Cash and cash equivalents, beginning of period	2,908,782	699,113	216,287	28,278
Cash and cash equivalents, end of period	2,140,675	410,700	2,140,675	410,700

Supplemental cash flow information (See Note 13)

See accompanying notes to the consolidated financial statements

# **SILVER SPRUCE RESOURCES INC.**

## **Notes to the Consolidated Financial Statements**

**For the three and six months ended April 30, 2011 and 2010**

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Silver Spruce Resources Inc. (the "Company") was incorporated in Alberta on May 8, 1996 under the name First Labrador Acquisitions Inc. The Company changed its name to Silver Spruce Resources Inc. on October 22, 2004. The Company's operations consist of the exploration for precious and base minerals.

There has been no determination whether the Company's interest in mineral properties held for exploration contains reserves which are economically recoverable. To date, the Company has earned no direct mining related revenues and is considered to be a development stage entity as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11.

The Company has a mining asset located outside of Canada and is subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations and restrictions.

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

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

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

### **2. ACCOUNTING POLICIES**

The interim unaudited consolidated financial statements of Silver Spruce Resources Inc. have been prepared in accordance with the accounting principles and methods of application disclosed in the audited consolidated financial statements for the year ended October 31, 2010.

These unaudited consolidated financial statements include all adjustments that are, in opinion of management, necessary for fair presentation. These unaudited consolidated financial statements do not include all the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, the financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended October 31, 2010.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the three and six months ended April 30, 2011 and 2010**

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**3. CAPITAL MANAGEMENT**

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

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

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

There were no changes in the Company's approach to capital management during the periods ended April 30, 2011 and 2010.

**4. FINANCIAL RISK FACTORS**

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

**a) Credit risk**

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

Financial instruments included in HST and other receivables consist of harmonized sales tax due from the Federal Government of Canada.

**b) Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at April 30, 2011, the Company had a cash and cash equivalents balance of \$2,140,675 (October 31, 2010 - \$216,287) to settle current liabilities of \$228,079 (October 31, 2010 - \$380,361). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the three and six months ended April 30, 2011 and 2010**

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**4. FINANCIAL RISK FACTORS (continued)**

**c) Market risk**

*Interest rate risk*

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

*Foreign currency risk*

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Mexico on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

*Price risk*

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

There were no significant changes to credit risk, liquidity risk and market risk during the periods ended April 30, 2011 and 2010.

**d) Fair value**

The carrying amounts for cash and cash equivalents, HST and other receivables, refundable staking deposits, prepaid expenses, and 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. The fair value of investments in entities listed on the TSX Venture Exchange (Bayswater Uranium Corporation and Forest Gate Resources Inc.) is based on quoted market prices.

**e) Sensitivity analysis**

The majority of the Company's cash and cash equivalents is currently in cash form. Sensitivity to a plus or minus 1% change in rates would not have a significant effect on the Company's net loss.

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

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the three and six months ended April 30, 2011 and 2010

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**4. FINANCIAL RISK FACTORS (continued)**

**e) Sensitivity analysis (continued)**

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

	<b>April 30, 2011</b>	October 31, 2010
	<u>\$</u>	<u>\$</u>
Mexican pesos:		
Cash and cash equivalents	<b>6,084</b>	5,006
VAT receivable	<b>183,279</b>	182,655
Accounts payable	<b>13,778</b>	3,785

A plus or minus 10% change in the market price of the Bayswater and Forest Gate shares would affect the Company's net loss by \$629 (6,287 x 10%).

**5. MINERAL PROPERTIES**

	<b>April 30, 2010</b>				
	<b>Opening</b>	<b>Additions</b>	<b>Refund of Expenditures</b>	<b>Impairment and Abandonments</b>	<b>Closing</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Uranium					
Central Mineral Belt	2,084,358	-	-	-	2,084,358
Double Mer	13,558	3,913	-	-	17,471
Jeanette Bay	3,600	-	-	(3,600)	-
Lake Michael	3,420	-	-	(3,420)	-
Mount Benedict	95,252	7,692	-	-	102,944
Snegamook	13,441	4,371	-	-	17,812
Straits	32,755	2,980	-	-	35,735
Tukialuk	14,820	-	-	-	14,820
Gold and Base Metals					
Big Easy	164,965	334,226	-	-	499,191
MRT Property	-	5,123	-	-	5,123
Pope's Hill	24,892	348,252	-	-	373,144
Rambler South	404,944	29,524	-	-	434,468
Red Wine Mountains	1,313	-	-	-	1,313
	<b>2,857,318</b>	<b>736,081</b>	<b>-</b>	<b>(7,020)</b>	<b>3,586,379</b>

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the three and six months ended April 30, 2011 and 2010

**5. MINERAL PROPERTIES (continued)**

	October 31, 2010				
	Opening	Additions	Refund of Expenditures	Impairment and Abandonments	Closing
	\$	\$	\$	\$	\$
Uranium					
Central Mineral Belt	2,511,440	17,357	(140,257)	(304,182)	2,084,358
Double Mer	13,140	418	-	-	13,558
Jeanette Bay	3,600	-	-	-	3,600
Lake Michael	3,420	-	-	-	3,420
Lobstick	1,160	253,696	-	(254,856)	-
Michelin	1,023	-	-	(1,023)	-
Michelin South	-	381	-	(381)	-
Mount Benedict	95,220	32	-	-	95,252
Napes Ashini	139,004	464	-	(139,468)	-
Snegamook	5,160	8,281	-	-	13,441
Straits	25,380	7,375	-	-	32,755
Tukialuk	14,820	-	-	-	14,820
Gold and Base Metals					
Big Easy	-	164,965	-	-	164,965
Centauro	2,767,662	156,574	-	(2,924,236)	-
Central Newfoundland	599,955	-	-	(599,955)	-
Lazyman	56,080	103,116	-	(159,196)	-
Pope's Hill	-	24,892	-	-	24,892
Rambler South	137,577	267,367	-	-	404,944
Red Wine Mountains	-	1,313	-	-	1,313
	<b>6,374,641</b>	<b>1,006,231</b>	<b>(140,257)</b>	<b>(4,383,297)</b>	<b>2,857,318</b>

During the year ended October 31, 2010, the Company acquired four new properties: Big Easy, Pope's Hill, Michelin South, and Red Wine Mountains. The Company determined that further exploration was not warranted for Lobstick and Lazyman and these projects have been abandoned with related expenditures of \$414,052 written off as of October 31, 2010. Refer to (e) under Uranium and (d) under Gold and Base Metals for further agreement disclosure. In addition, the Company wrote off the balances for Centauro, Michelin, Michelin South, Napes Ashini, Central Newfoundland, and a portion of the Central Mineral Belt property. These write-offs reflect the results of their impairment analysis as of October 31, 2010. The Company reviewed the capitalized costs on its properties and recognized impairment in value based upon current exploration results, adverse changes in the business climate, and a decrease in the Company's market capitalization compared to the carrying value of its resource properties that indicated that impairment may exist. Management's assessment of the properties' estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the properties under review.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the three and six months ended April 30, 2011 and 2010**

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**5. MINERAL PROPERTIES (continued)**

**Uranium**

a) Central Mineral Belt (“CMB”)/ Seal Lake Properties

The Company has certain claims that are located in the CMB and Seal Lake areas of Labrador. The Company’s joint venture partner, Universal Uranium Ltd. (“UUL”), earned a 60 percent interest in the CMB/Seal Lake Joint Venture (“CMB/SLJV”) in March 2007 by spending \$2 million under an option agreement signed in the spring of 2006. UUL signed an agreement with Crosshair Exploration and Mining Corp. (“Crosshair”) in May 2008, whereby Crosshair purchased UUL’s interest in the CMB/SL JV for 10 million shares of Crosshair plus \$500,000 with UUL retaining a 2% NSR on the 60% that they owned. This agreement was consummated on July 29, 2008 and Crosshair has taken over the operatorship of the joint venture. The Company agreed to pay UUL \$250,000 to settle any existing or future claims and forgive the net balance of \$30,827 due from UUL. Management assessed the estimated current value of properties based upon current exploration and other transactions in the same general area. As a result of the assessment management decided to abandon the Seal Lake property and \$60,424 was written off as of October 31, 2008.

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

b) Double Mer Property

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

c) Jeanette Bay

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

d) Lake Michael

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

e) Lobstick

On October 27, 2009, the Company entered into an option on the Lobstick Property located in the Smallwood Reservoir area of Labrador, in the Province of Newfoundland and Labrador. The agreement provides the Company an option to earn a 100% interest in the property and all associated mineral license rights subject to a 2.0% NSR with a 1.0% buy back by the Company for \$1,000,000. The payment for the 100% interest in the property by the Company is \$40,000 and 600,000 common shares of the Company payable over four years as follows and a further payment starting on the third anniversary date of the agreement of \$10,000 per year until production is obtained as an advance against the NSR payable:

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the three and six months ended April 30, 2011 and 2010**

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**5. MINERAL PROPERTIES (continued)**

e) Lobstick (continued)

Year 1 (issued on regulatory approval - March 12, 2010)	200,000 common shares
Year 2 (1st anniversary)	\$20,000 and 200,000 common shares
Year 3 (2nd anniversary)	\$20,000 and 200,000 common shares

In October 2010 management decided to terminate the agreement since the Company has determined that further explanation is not warranted. The project has been abandoned and related expenditures of \$254,856 were written off as of October 31, 2010.

f) Michelin

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

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

g) Michelin South

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

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

h) Mount Benedict Property

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

i) Napes Ashini

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

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

j) Snegamook Property

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

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the three and six months ended April 30, 2011 and 2010**

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**5. MINERAL PROPERTIES (continued)**

k) Straits Property

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

l) Tukialuk Bay Property

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

**Gold and Base Metals**

a) Big Easy

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

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

b) Centauro Property

On June 5, 2007, Silver Spruce Resources Mexico S.A de C.V finalized an agreement for an option on the Centauro property in Mexico. The agreement provides the Company an option for a three year term to earn a 100% interest in the Property subject to a 3% NSR, with a 2% buyback for US\$2,000,000. The payment for the 100% interest in the Property by the Company is US\$375,000 and 1,325,000 common shares of the Company payable over four years as follows and a further payment starting in Year 6 (5th anniversary) of US\$50,000 per year as an advance against the NSR payable:

Year 1 (paid on signing)	US\$50,000 and 125,000 common shares
Year 2 (paid May 22, 2008)	US\$75,000 and 200,000 common shares
Year 3 (paid June 5, 2009)	US\$100,000 and 400,000 common shares
Year 4 (3rd anniversary)	US\$150,000 and 600,000 common shares

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the three and six months ended April 30, 2011 and 2010**

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**5. MINERAL PROPERTIES (continued)**

b) Centauro Property (continued)

The Company shall pay a staged finder's fee of cash and common shares of the Company based on the Company's continued involvement with the Property as follows:

Year 1 (paid on signing)	\$9,600
Year 2 (1st anniversary - issued)	31,595 common shares
Year 3 (2nd anniversary - issued)	52,044 common shares
Year 4 (3rd anniversary)	81,831 common shares

In October 2010 the Company wrote off this property to reflect the results of its impairment analysis as of October 31, 2010. As a result the final payment of US\$150,000, 600,000 shares and 81,831 shares for a finder's fee, will not be paid/issued.

c) Central Newfoundland Property

On May 31, 2007, the Company entered into an agreement with ASK Prospecting and Guiding to acquire certain claims in central Newfoundland to cover areas with potential for base and precious metals. In accordance with the agreement, the Company issued 100,000 common shares in May 2008. Under the agreement, ASK Prospecting and Guiding retains a 2% NSR with a 1% buyback by the Company for \$1,000,000. The property option can be terminated at any time at no cost to the Company.

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

d) Lazyman

On July 27, 2009, the Company entered into an option on the Lazyman Property located in the Little River area in the southern part of the Province of Newfoundland and Labrador. The agreement provides the Company an option to earn a 100% interest in the property and all associated mineral license rights subject to a 2.5% NSR with a 1.5% buy back by the Company for \$2,000,000. The payment for the 100% interest in the property by the Company is \$26,190 and 800,000 common shares of the Company payable over four years as follows and a further payment starting on the fourth anniversary date of the agreement of \$20,000 per year until production is obtained as an advance against the NSR payable:

Year 1 (paid on signing - July 14, 2009;	\$26,190
issued on regulatory approval - August, 2009)	200,000 common shares
Year 2 (1st anniversary)	150,000 common shares
Year 3 (2nd anniversary)	200,000 common shares
Year 4 (3rd anniversary)	250,000 common shares

In July 2010 management decided to terminate the agreement since the Company has determined that further exploration is not warranted. The project has been abandoned and related expenditures of \$159,196 were written off as of October 31, 2010.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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**5. MINERAL PROPERTIES (continued)**

e) Pope's Hill

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

f) Rambler South

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

Year 1 (issued on regulatory approval - Sept 8, 2009)	\$15,000 and 300,000 common shares and a work commitment of \$100,000
Year 2 (1st anniversary - issued July 21, 2010)	\$30,000 and 350,000 common shares and a work commitment of \$150,000
Year 3 (2nd anniversary)	\$50,000 and 400,000 common shares and a work commitment of \$250,000

The first anniversary payment of \$30,000, due July 2010, was paid subsequent to the year ended October 31, 2010.

g) Red Wine Mountains

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

h) MRT Property

On February 17, 2011 the Company entered into an option on the MRT Property located in the along and to the north of the Trans Labrador Highway, approximately 35km from Goose Bay. The agreement provides the Company an option to earn a 100% interest in the property and all associated mineral license rights subject to a 2.5% NSR with a 1.5% buy back by the Company for \$1,500,000. The payment for the 100% interest in the property by the Company is \$80,000 and 500,000 common shares of the Company payable over two years as follows:

**SILVER SPRUCE RESOURCES INC.**  
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**5. MINERAL PROPERTIES (continued)**

h) MRT Property (continued)

On Signing (Cash paid / Share issue awaiting regulatory approval )	\$15,000 and 100,000 common shares
Year 2 (1st anniversary)	\$25,000 and 150,000 common shares
Year 3 (2nd anniversary)	\$40,000 and 250,000 common shares and a work commitment of \$250,000

**6. CAPITAL ASSETS**

	<b>April 30, 2011</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
<b>Equipment</b>	<b>151,006</b>	<b>96,984</b>	<b>54,022</b>
<b>Computer</b>	<b>60,702</b>	<b>47,010</b>	<b>13,692</b>
<b>Vehicles</b>	<b>107,819</b>	<b>81,194</b>	<b>26,625</b>
	<b>319,527</b>	<b>225,188</b>	<b>94,339</b>

	October 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Equipment	151,006	90,942	60,064
Computer	60,702	42,558	18,144
Vehicles	107,819	76,826	30,993
	319,527	210,326	109,201

**7. LONG-TERM DEBT**

	<b>April 30, 2011</b>	October 31, 2010
	\$	\$
Chattel loan payments	<b>1,494</b>	5,976
Less: due in 12 months	<b>1,494</b>	5,976
Long-term portion	-	-

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

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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**8. SHARE CAPITAL**

The share capital is as follows:

	<b>April 30, 2011</b>	October 31, 2010
	<b>\$</b>	<b>\$</b>
Authorized		
An unlimited number of non-voting preference shares		
An unlimited number of common shares		
Issued and outstanding:		
106,465,305 common shares (2010 - 79,073,442)	<b>24,069,742</b>	21,522,234

The following is a summary of share capital outstanding at April 30, 2011 and October 31, 2010:

	<b>April 30, 2011</b>		October 31, 2010	
	<b>Number</b>	<b>\$</b>	Number	<b>\$</b>
Opening balance	<b>79,073,442</b>	<b>21,522,234</b>	52,526,007	20,931,594
Issued during the period:				
Private placement	<b>11,226,481</b>	<b>1,345,744</b>	25,647,435	999,789
Acquisition of property	<b>400,000</b>	<b>34,000</b>	900,000	56,750
Flow-through offering fees	-	<b>(34,267)</b>	-	(109,070)
Share issue costs	-	<b>(165,768)</b>	-	(153,829)
Warrants exercised	<b>14,496,152</b>	<b>1,668,380</b>	-	-
Options exercised	<b>1,269,230</b>	<b>331,419</b>	-	-
Tax amount of renounced expenditures	-	<b>(632,000)</b>	-	(203,000)
Closing balance	<b>106,465,305</b>	<b>24,069,742</b>	79,073,442	21,522,234

During the year ended October 31, 2010, the Company closed a non-brokered private placement, consisting of 7,066,667 flow-through units and 2,500,000 non-flow-through units at a price of \$0.06 per unit consisting of one common share and common share purchase warrant entitling the holder to purchase common shares at a price of \$0.12 for the flow-through units and \$0.10 for the non-flow-through units for the 24 months following the closing. The Company also closed a brokered private placement on December 24, 2009 consisting of 11,234,614 flow-through units and 4,846,154 non-flow-through units at a price of \$0.06 per unit consisting of one common share and common share purchase warrant entitling the holder to purchase common shares at a price of \$0.10 for the first 12 months and \$0.15 for the second 12 months following the closing. Of the \$1,565,000 proceeds, \$999,789 was allocated to share capital and \$565,211 was allocated to warrants. In addition, the Company issued 200,000 shares for the acquisition of Lobstick property at \$0.065, 350,000 shares for the acquisition of Big Easy property at \$0.085, and 350,000 shares for the acquisition of Rambler South Property at \$0.04, all based on the quoted market value of the shares on the date of issue.

**SILVER SPRUCE RESOURCES INC.**  
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**9. WARRANTS**

The following is a summary of warrants activity for the periods ended April 30, 2011 and October 31, 2010:

	April 30, 2011		October 31, 2010	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance, beginning of period	30,233,333	0.12	3,150,000	0.15
Granted in connection with private placements	6,613,345	0.20	27,083,333	0.11
Exercised	(14,496,152)	0.10	-	-
Expired during the period	(2,450,000)	0.15	-	-
Balance, end of period	19,900,526	0.14	30,233,333	0.12

Summary of warrants outstanding and additions as at April 30, 2011:

Warrants	Exercise price \$	Fair value of warrants \$	Expiry date
260,721	0.20	24,270	December 31, 2012
18,250	0.17	2,966	December 31, 2012
2,955,882	0.20	267,849	December 24, 2012
185,294	0.17	23,557	December 24, 2012
1,462,333	0.20	91,717	December 23, 2012
65,394	0.17	7,744	December 23, 2012
1,665,471	0.20	149,677	December 23, 2012
2,500,000	0.10	60,558	September 7, 2012
7,733,334	0.12	182,846	September 7, 2012
3,053,847	0.10	67,358	December 24, 2011
19,900,526		878,542	

The grant date fair value of the warrants granted during the year ended October 31, 2010 were estimated using the Black-Scholes option pricing model based on the following assumptions (a) For the December 2009 private placement, expected life of 2.0 years, expected dividend rate at 0%, expected volatility of 154% and risk-free interest rate of 1.21%. These warrants can be exercised at a price of \$0.10 in the first year and \$0.15 in the second year. (b) For the September 2010 private placement, expected life of 2.0 years, expected dividend rate at 0%, expected volatility of 160% and risk-free interest rate of 1.42%. These warrants can be exercised at a price of \$0.10 and \$0.12. The weighted average fair value of the warrants granted in 2010 was \$0.02.

**SILVER SPRUCE RESOURCES INC.**  
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**10. STOCK OPTIONS**

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

Stock option activity for the periods ended April 30, 2011 and October 31, 2010 are summarized as follows:

	<u>April 30, 2011</u>		<u>October 31, 2010</u>	
	<u>Number</u>	<u>Weighted average exercise price</u>	<u>Number</u>	<u>Weighted average exercise price</u>
		\$		\$
Balance, beginning of year	10,885,897	0.24	8,796,000	0.54
Granted	2,225,000	0.30	4,360,897	0.10
Exercised	(1,269,230)	0.09	-	-
Expired	-	-	(2,271,000)	1.13
Balance, end of year	11,841,667	0.27	10,885,897	0.24

At April 30, 2011, outstanding options to acquire common shares of the Company were as follows:

<u>Exercise Price</u>	<u>Number of Outstanding Options</u>	<u>Weighted Average Remaining Contractual Life of Outstanding Options (years)</u>	<u>Grant date Weighted Average Fair Value per Option</u>	<u>Number of Exercisable Options</u>
\$			\$	
0.34	25,000	4.79	0.24	25,000
0.34	200,000	2.79	0.21	200,000
0.30	2,000,000	4.73	0.20	2,000,000
0.06	666,667	1.36	0.04	666,667
0.12	2,425,000	3.99	0.08	2,425,000
0.15	2,690,000	2.79	0.13	2,690,000
0.35	2,920,000	2.02	0.32	2,920,000
0.50	400,000	0.57	0.48	400,000
0.65	60,000	0.64	0.53	60,000
0.65	125,000	0.82	0.53	125,000
0.65	50,000	0.83	0.56	50,000
0.83	20,000	1.85	0.67	20,000
1.08	160,000	0.96	1.06	160,000
1.78	100,000	1.24	1.75	100,000
	11,841,667	2.95	0.22	11,841,667

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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**10. STOCK OPTIONS (continued)**

The weighted average fair value per option of options outstanding as at April 30, 2011 is \$0.22 (October 31, 2010 - \$0.24).

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

	<b>April 30, 2011</b>	<b>October 31, 2010</b>
Risk-free interest rate	<b>2.31% - 3.06%</b>	1.21% - 2.80%
Expected life	<b>2-5 years</b>	2 - 5 years
Expected volatility	<b>115% - 134%</b>	154% - 203%
Expected dividend yield	<b>Nil</b>	Nil

**11. CONTRIBUTED SURPLUS**

The following is a summary of contributed surplus activity:

	<b>April 30, 2011</b>	<b>October 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of year	<b>6,372,250</b>	6,086,182
Employee stock - based compensation	<b>408,139</b>	227,732
Issuance of options	<b>42,723</b>	-
Expiry of warrants	<b>96,426</b>	-
Options exercised	<b>(72,398)</b>	-
Options issued as a finders fee	<b>-</b>	58,336
	<b>6,847,140</b>	6,372,250

**12. RELATED PARTY TRANSACTIONS**

Included in accounts payable and accrued liabilities as at April 30, 2011 is \$40,000 (April 30, 2010 - \$48,536) 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 six month period April 30, 2011, 2,025,000 stock options were granted to directors, officers and employees of the Company (April 30, 2010 – 2,925,000).

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 six month period ended April 30, 2011, \$10,434 (April 30, 2010 - \$302) was paid to the hardware store and \$42,145 (April 30, 2010 - \$9,337) was paid to the hotel and included in mineral properties on the balance sheet.

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.

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**13. SUPPLEMENTAL CASH FLOW INFORMATION**

	April 30, 2011	April 30, 2010
	\$	\$
Cash and cash equivalents		
Cash	\$ 2,140,675	\$ 410,700
Cash equivalents	-	-
	<b>2,140,675</b>	<b>410,700</b>
Interest paid in the year	-	-
Income taxes paid in the year	<b>5,668</b>	-
Non-cash investing and financing activities:		
Acquisition of mineral properties for share consideration	<b>34,000</b>	13,000
Expiry of warrants	<b>96,426</b>	-
Options issued as finders fee	<b>34,266</b>	86,040
Value of share, warrants and options included in share issue costs	<b>165,769</b>	4,522
Effect of future income taxes on share capital upon renouncement of expenditures	<b>632,000</b>	351,580

**14. COMMITMENTS AND CONTINGENCIES**

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

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

	Cash (CAD)	Shares
<b>2011</b>	300,000	500,000
<b>2012</b>	55,000	650,000
<b>2013</b>	320,000	600,000

The Company leases its head office in Bridgewater under an operating lease. Future lease payments aggregate \$20,625 and include the following amounts payable over the next three years:

	\$
2011	9,900
2012	9,900
2013	825
	<b>20,625</b>

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**14. COMMITMENTS AND CONTINGENCIES (continued)**

Pursuant to the issuance of 10,769,231 flow-through units on December 24, 2009, the Company renounced \$700,000 on qualified exploration expenditures with an effective date of December 31, 2009. The effect of this renunciation will be recorded at the time of the renunciation. The Company is required to expend the balance by December 31, 2010. The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

**15. INTEREST IN JOINT VENTURES**

The Company proportionately consolidates its interest in the joint venture with Crosshair Exploration Mining, and Universal Uranium Ltd. This joint venture is connected with the Companies claims in the Central Mineral Belt (“CMB”) and Seal Lake areas of Labrador as described in Note 5.

The Companies interest in joint venture is summarized below:

	<u>April 30, 2011</u>	<u>October 31, 2010</u>
	\$	\$
<b>Balance Sheet</b>		
Mineral properties	2,084,358	2,511,440
Impairment of property	-	(304,182)
<b>Statement of Operations</b>	-	-
<b>Statement of Cash Flow</b>		
Cash provided by operating activities		
Receipt of amounts due from JV partner	-	(140,257)
Cash used for investing activities	-	17,357
Cash provided by financing activities	-	-
	<u>2,084,358</u>	<u>2,084,358</u>

The Company proportionately consolidates its interest in the joint venture with Great Western Minerals Group Ltd. (“GWMG”). This joint venture is connected with the Companies claims in the Pope’s Hill area in Labrador as described in Note 5.

	<u>April 30, 2011</u>	<u>October 31, 2010</u>
	\$	\$
<b>Balance Sheet</b>		
Mineral properties	-	-
<b>Statement of Cash Flow</b>		
Cash used for investing activities	-	-
	<u>-</u>	<u>-</u>

*This document provides management's discussion and analysis (MD&A) for our financial condition as at, and results of operations for the quarter ended April 30, 2011. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended October 31, 2010 and the unaudited interim consolidated financial statements and notes for the quarter ended January 31, 2011. This MD&A has been prepared as of June 17, 2011 and is current to that date unless otherwise stated.*

*On June 16, 2011 Peter Dimmell, P.Geo, a director since 2000 and VP Exploration since 2006, was appointed President and CEO of the company. Mr. Dimmell replaces Lloyd Hillier, the former President, who resigned as President and CEO to spend more time on his extensive business ventures including three hotels. Mr. Hillier, who is the largest single, non institutional shareholder, remains committed to the company and will remain a Director and Chairman of the Board.*

*Management's discussion and analysis of financial condition and results of operations contains forward-looking statements. By their nature, these statements involve risk and uncertainties, many of which are beyond the Company's control, 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 or 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.silverspruceresources.com](http://www.silverspruceresources.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).*

## **Company Overview**

Silver Spruce Resources Inc. is a junior exploration Company headquartered in Bridgewater, Nova Scotia originally with a strategic focus on uranium, mainly in the Central Mineral Belt (CMB) of Labrador, which has diversified into rare earth minerals (REE) projects in Labrador, and precious metal projects on the island of Newfoundland. The Company has consolidated its uranium projects in Labrador where it retains interests in approximately 2200 claims totaling 550 square kilometres, 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 with Crosshair Exploration and Mining, in which SSE retains an approximate 37% participating interest, and its 100% owned properties - Snegamook, Mount Benedict, Tukialuk Bay, Jeannette Bay, Lake Michael, Double Mer, and Straits. Uranium exploration has been curtailed due to the Nunatsiavut government's moratorium on uranium mine development, which was scheduled to end in April 2011 but which has now been extended to at least until Sept. 30, 2011, and the resulting difficulty in financing uranium projects in Labrador. The Company is retaining the projects which include a resource on the Two Time zone on the CMBJV, of 2.3 M lbs indicated and 3.7 M lbs U<sub>3</sub>O<sub>8</sub> inferred, the first discovery in the CMB of Labrador since the 1970's, of which SSE retains approximately 37 %, and other drill-ready opportunities, especially on the Double Mer and Mount Benedict properties.

The Company also has significant REE projects in Labrador, Popes Hill, the Popes Hill JV with Great West Minerals Group, and the MRT, RWM and Straits properties which are either road accessible or relatively close to infrastructure and two gold/silver projects on the island of Newfoundland (Rambler South and Big Easy). Most of the projects, except most of the uranium ones, are road accessible thereby reducing exploration costs dramatically.

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 sufficient funds to maintain operations and fund its exploration projects for the next year. The Company raised \$1.6 M in flow through funds and \$219 K in hard dollars in December, 2010, and received approximately \$1.5 M in exercised warrants and options as hard dollars, to allow it to carry on its exploration work in Newfoundland and Labrador and for working capital in 2011. As of April 30, 2011, cash reserves totaled \$2.1 M.

Further financing may be undertaken in 2011, if circumstances permit, to allow the Company to move its projects forward toward economic realization.

A commitment to prudent budgeting, an excellent property portfolio including significant new REE and uranium discoveries on the Trans Labrador Highway, a uranium deposit with defined resources, two other REE projects in Labrador, and two gold/silver projects on the island of Newfoundland, make Silver Spruce a leading junior explorer.

### **Selected Quarterly Information**

The table below outlines selected financial information related to the Company's most recent audited financial year and the previous two quarters, accompanied by the applicable comparative period information. The financial information is extracted from the Company's audited consolidated financial statements for the year ended October 31, 2010 and the interim unaudited consolidated financial statements for the three months ended July and April 2010.

	<b>April 30, 2011</b>	<b>January 31, 2011</b>	<b>October 31, 2010</b>	<b>July 31, 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	-	237	2,800	2,259
Net (loss)	<b>(306,058)</b>	(17,346)	(4,584,394)	(293,706)
Net (loss) per share -basic and diluted	<b>(0.00)</b>	(0.00)	(0.06)	(0.00)
	<b>April 30, 2010</b>	<b>January 31, 2010</b>	<b>October 31, 2009</b>	<b>July 31, 2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	<b>46,740</b>	803	Nil	22,400
Net (loss)	<b>(132,905)</b>	(64,199)	(8,430,085)	(439,945)
Net (loss) per share -basic and diluted	<b>(0.00)</b>	(0.00)	(0.17)	(0.01)

For the three months ended April 30, 2011, the Company earned no revenue, compared to \$46,740 for the same quarter in the prior year. During this quarter there was a foreign exchange loss and not a gain. In the prior year there was a gain on foreign exchange.

For the three months ended April 30, 2011 the Company had a net loss of \$306,058 (April 30, 2010 - \$132,905) and a loss per share of 0.00 (April 30, 2010 - 0.00). This quarter the Company had total expenses of \$299,870 (April 30, 2010 - \$436,609). Office and general expenses decreased to \$39,061 this quarter (April 30, 2010 - \$51,132) due to the decreased activity during the current quarter. Consulting fees increased this quarter to \$43,725 (April 30, 2010 - \$27,996) due to services provided by management being restructured and classified as consulting expenses versus wages expense, which decreased this quarter to \$35,333 (April 30, 2010 - \$66,255). This quarter \$6,115 in stock options were granted to an employee of the company (April 30, 2010 - \$227,732).

### Expenditures on Mineral Properties

During the year ended October 31, 2010 and the three months ended July and April 2010 and the comparative periods, the Company incurred the following expenditures on exploration of properties:

	April 30, 2011	January 31, 2011	October 31, 2010	July 31, 2010
<b>CMB</b>			17,357	2,895
<b>Double Mer</b>	<b>913</b>	3,000	418	-
<b>Straits</b>	<b>2,200</b>	780	7,375	6,539
<b>Mount Benedict</b>	<b>4,303</b>	3,390	32	-
<b>Snegamook</b>	-	4,371	8,281	5,000
<b>Tukialuk</b>	-	-	-	-
<b>Napes Ashini</b>	-	-	464	-
<b>Centauro (MX)</b>	-	-	156,574	165,659
<b>Central NL</b>	-	-	-	-
<b>Calvin's Landing</b>	-	-	-	-
<b>Lake Michael</b>	-	-	-	-
<b>Jeanette Bay</b>	-	-	-	-
<b>Michelin</b>	-	-	-	-
<b>Michelin South</b>	-	-	381	-
<b>MRT Property</b>	<b>5,123</b>	-	-	-
<b>Lobstick</b>	-	-	253,696	49,158
<b>Rambler South</b>	<b>9,533</b>	49,991	267,367	94,997
<b>Lazyman</b>	-	-	103,116	10,445
<b>Big Easy</b>	<b>324,676</b>	14,334	164,965	79,355
<b>Pope's Hill</b>	<b>280,514</b>	72,928	24,892	2,608
<b>Red Wine Mountains</b>	-	-	1,313	1,232

### Rare Earth Element (REE) Properties

The company carried out compilation work and a re-evaluation of existing exploration projects, for rare earth elements in Labrador, in the spring of 2010. Interest was rising in these elements due to increased demand and supply concerns relating to China, which supplies most of the REEs in the world.

During the course of this work three properties were noted to have REE potential: 1) The Pope's Hill property (PH) on the Trans Labrador Highway (TLH), approximately 100 km to the west of Happy Valley – Goose Bay; the RWM, which covers the second highest heavy rare earth element (HREE) lake sediment value in Labrador in the government database, in the southern Red Wine Mountains, approximately 30 km from a road to the east of the Churchill Reservoir; and the Straits (ST) property on the Straits of Belle Isle in southern Labrador. The properties are 100% owned by Silver Spruce, subject to a 1 % NSR on the ST properties. The acquisition of the first two properties was announced in a News release on May 6, 2010 and the results of re-evaluation of ST data originally aimed at uranium was released on May 27, 2010. Compilation maps showing the property locations and data on the properties, plus pictures of the Pope's Hill area can be viewed on the company website [www.silverspruceresources.com](http://www.silverspruceresources.com). The properties are described individually below.

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 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. Values were checked by Actlabs using internal standards.

Drill core from the PH property was cut in half using a core saw, with one half sent for analysis and the other half retained in the core library. The samples were submitted to the Activation Preparation laboratory in Goose Bay where they are prepped and then sent to their laboratory in Ancaster, ON for analysis using a Code 8 REE package which uses a lithium borate fusion and then analysis by either ICP or ICP-MS. Values were checked by Actlabs using internal standards.

Compilation maps showing the property locations, the geophysical results, a diamond drill plan map plus a summary of the drill hole data and pictures from the Popes Hill area and our other REE projects can be viewed on the company website at [www.silverspruceresources.com](http://www.silverspruceresources.com).

### **Planned Work - 2011**

Exploration planned for 2011 includes a regional radiometric / high resolution magnetic and VLF-EM airborne survey along the entire 100 km long PH trend (properties including the Popes Hill, Popes Hill JV and MRT) with follow up ground work on the results of these surveys, plus detailed gridding, prospecting / geology, and geochemistry on the original PH property and the optioned MRT property. Information is also being compiled to plan limited ground follow up on both the RWM and ST properties in order to maintain the properties in good standing.

### **Impairment**

No impairment is indicated and no write offs are required due to the early stage nature of these projects and the ability to raise money on them for further exploration.

## **POPE'S HILL (PH) – 100 % OWNED**

### **Property Description**

The PH trend extends from the Pope's Hill area, approximately 100 km from Goose Bay on the TLH, along and parallel to the Churchill River. The original property, staked in May 2010, consisted of 62 claims (1,550 ha). A total of 1297 claims (324 km<sup>2</sup>), coincident with the original claim group, were acquired to protect the on-strike extensions to the east and southwest of the mineralized zone and strongly anomalous lake sediment values in La and Ce with values up to 690 ppm against a background of 30 ppm. The REE mineralization is believed to be associated with a regional shear zone in the gneisses which extends for 60 km to the northeast and 40 km to the southwest of the highway and the original showings (News Releases, October 28, and May 6, 2010). Another 360 claims were acquired on the eastern extension of the trend to both the east and west of the MRT property (News Release - January 27, 2011). The claims cover lanthanum/ cerium lake sediment anomalies in the Newfoundland government database plus structural features defined by government geological mapping and are contiguous with claims already held either as 100% owned properties or as 50/50 JV properties. The 100% owned property, with the newly staked claims included, now totals 1,708 claims (approx. 425 km<sup>2</sup>). The total strike length along the PH trend, of the 100 %, JV and optioned properties is approximately 100 km. No previous REE exploration has been carried out in the area.

### **Prospecting/Geology**

Uranium, thorium and REE mineralization was located by the President of Silver Spruce, Lloyd Hillier, in 2006 while prospecting for uranium. SSE's work in 2006 gave values up to 0.46% zirconium, 0.22% niobium, and 7.9% (TREE + yttrium) with HREEs up to 15% of the total rare-earth component. Three samples gave values > 1% (TREE + yttrium), including two (2) samples > 5%. Samples anomalous in REEs also showed elevated thorium values with the highest thorium and REE values coincident (News Release May 6, 2010). No further work was carried out in 2006 and the property was not staked until spring 2010, when interest in REEs peaked.

A one day prospecting and sampling program using scintillometers to locate radioactive mineralization was carried out by a four man SSE crew in mid September, 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 which appear to be associated with thorium rich phases.

Thirty-one samples (see news release dated Oct. 28, 2010) gave anomalous TREE+Y values with 16 > 5%, and 5 > 10% with a high value of 24% TREE+Y. TREE+Y 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 while the other three were from locally derived, angular float. Samples are mostly rich in light rare earth elements (LREE), but the more anomalous values give higher values in heavy rare earth elements (HREE) up to 7.5% percent of the REEs. Individual high values for the elements, all in sample 941432, were: La – 5 %, Ce – 9.7 %, Pr – 1.08 %, Nd – 3.85 %, Sm – 0.70 %, 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 LREEs were 20.34 % (92.6 % of the TREES) and HREEs were 1.63 % (7.4 % of the TREES) for a total of 21.97 % REEs. 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 REEs were: U – 261 ppm, Ta – 90.6 ppm, Zr – 2.33 %, and Nb – 0.59 %.

The anomalous trend on the original property has been 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 – the bedrock pit. The highest REE values are in a dark grey to black sub-metallic to glassy mineral, with another mineral showing as reddish brown spots, in veins which are variably non-magnetic to moderately magnetic. All of the REE bearing samples are also weakly to moderately radioactive with significant Th content (up to 0.7 %) and minor uranium values (up to 461 ppm but generally < 100 ppm). Overburden depths are not great (estimated at 2-3 m maximum) however outcrop is limited away from the road. One sample taken on the TLH where radiometrics showed anomalous counts per second, 30 km to the east of the original group, gave 0.3 TREE+Y. A summary of the REE and associated values is attached in Table 1.

Rock units hosting the REE mineralization are mapped as granitic to mafic gneisses of late Paleoproterozoic age, with some pegmatites. Linear monzonite bodies, possibly related to a major structure, lie just to the north and south of the MP mineralized area paralleling the highway to the northeast. Syenites and/or granitic units of peralkaline affinity have also been noted.

### Geophysics

Ground geophysical surveys, consisting of 73 line km of magnetic and VLF-EM, focused on the original 62 claim block, which covers the 7 kilometre long trend along and just to the north of the TLH, was carried out by Abitibi Geophysics in December, 2010 (News releases Dec. 30, 2010, Jan. 6 and March 29, 2011). The surveys included GPS controlled magnetics, with readings taken every 2 seconds and VLF-EM with readings at 12.5 m spacing. A radiometric survey, limited due to the Christmas season and inclement weather, covered small areas (4 lines) in the area of the MP showing and an area further to the east (2 lines). The REE mineralization is variably non magnetic to magnetic and is associated with thorium/uranium making the samples radioactive and therefore responsive to radiometric surveys. It also occurs as veins and disseminations, which may be shear hosted and the shear systems, may respond to the VLF-EM survey.

Lithological/alteration trends are noted striking in a 070 degree (ENE) direction. Abitibi (Berube, 2011) indicates “*The MAG/VLF-EM survey over the Popes Hill property has identified a total of 7 magnetic lows, 12 combined VLF-EM conductors/ magnetic highs and 5 stand alone VLF-EM conductors. These VLF-EM and magnetic signatures suggest the presence of faults and shear zones that maybe available to REE mineralization*” In addition, interpretation of the magnetic results by Abitibi (Berube, 2011) indicates 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+Y bearing mineralization was found. Radiometric results were inconclusive due to the limited area covered and the inclement weather however radiometric anomalies were defined particularly in the MP showing area.

It is possible that the REE+Y mineralized veins in the area may be related to the crosscutting structures and therefore would not have been tested by the diamond drilling. Snow conditions made it impossible to map the pit prior to the start of the drilling to define the orientation of the veins and no follow up has been carried out to evaluate any of the other geophysical targets or crosscutting structures on the original property.

## **Diamond Drilling**

A contract for 1,000 m of drilling was given to Cabo Drilling of Springdale, NL in January, 2011 (News release – Jan. 27/11). A total of 1120 m in 10 drill holes (PH-11- 1 to 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 (see news release March 3, 2011). The first phase drilling was designed to test REE+Y mineralized bedrock and float samples from the pit, that were found in the fall of 2010, VLF-EM anomalies thought to represent shear systems, and magnetic anomalies which could reflect the variably magnetic REE+Y mineralization. The drilling tested an approximate 700 m long zone of the known 7 km mineralized trend, mainly in the MP showing area. Extremely cold weather slowed the drilling considerably.

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 to 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 400 m 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 possibly crosscutting the lithology.

Wide zones, up to 140 m of > 0.1 % REE+Y mineralization has been noted with 4 holes giving widths in the 50 m range. Narrow (0.1-0.3 m) zones of higher grade REE+Y 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 (News release March 29, 2011) - see attached table for a summary of results. It is significant that none of the high grade, vein type, material located in float and bedrock in the pit and along the highway which gave an average of 5.73 % TREE+Y, from the 31 samples taken over a 7 km strike length (see news release Oct. 28, 2010) was noted in the drilling. The orientation of these veins remains unknown.

PH-11-1 gave one of the highest values at 4.79% TREE+Y in a 0.1 m mafic unit from 66 to 66.1 m which was also elevated in P<sub>2</sub>O<sub>5</sub> at 1.65% and Fe<sub>2</sub>O<sub>3</sub> at 21.3%. In addition strong Zr values generally in the 1,000-2,000 ppm range were noted throughout the drill hole and a 2.4 m zone (58-60.4 m) was intersected carrying > 5 % P<sub>2</sub>O<sub>5</sub> and > 32% Fe<sub>2</sub>O<sub>3</sub> most likely representing a metamorphosed/altered iron formation carrying the mineral apatite.

The anomalous units, mafic to granitic in composition, which were selected on the basis of anomalous scintillometer values, carry disseminated brown crystals which are variably radioactive. Fe<sub>2</sub>O<sub>3</sub> values ranging from 11.6% to 18.9% and P<sub>2</sub>O<sub>5</sub> 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 REE values. Nb values may be subdued due to phosphate interference in the analysis. No mineralogical identification has been done on the core samples.

The diamond drilling has defined an area of anomalous REE+Y mineralization hosted in the gneissic units. The vein type, high grade, REE+Y mineralization found in the prospecting survey in the fall of 2010 was not intersected in the drilling although it is noted in the MP showing on surface and in samples derived from the pit, scattered along the TLH. The geophysical interpretation indicates that cross cutting faults/shears are present, with one of these cutting the MP showing area. It is possible that the high grade mineralization located in the pit and in other locations over the 7 km strike of the original PH trend is trending essentially parallel to the drilling direction and that the vein mineralization could have been remobilized from the surrounding anomalous REE bearing units and then concentrated along the crosscutting shears / faults. This possibility will be tested by exploration planned for the spring / summer of 2011.



## Mineralogy

Mineralogy work on the REE minerals is being carried out by Dr. John Hanchar, P.Geo., Professor and Head of the Earth Sciences Department of Memorial University of Newfoundland, who is an expert in the study of REEs, and on the identification and characterization of the minerals carrying the REEs and students working with him. Preliminary mineralogical results which include thin section studies using cross polarized light and cathodoluminescence microscopy, powder X-Ray diffraction and scanning electron microscopy with energy dispersive spectroscopy, on some of the original 31 samples indicates that the REEs are associated with an alteration event, most likely potassic in nature, as shown by the strong microcline and other K rich feldspars. The predominantly granitic gneisses have been altered and mineralized with minerals such as titanite (sphene) and apatite carrying REE minerals, with other minerals such monazite, allanite and REE/iron rich pyroxenes also noted. Work is continuing with further results to be released as they become available.

## Planned Exploration 2011

Regional exploration including airborne radiometrics/magnetic/VLF-EM will evaluate the PH belt for REEs and U in the early summer of 2011. Detailed exploration including gridding, prospecting, geological mapping, geochemistry and ground geophysics on the original PH group and the MRT property and regional exploration using the same techniques began in early June from a base camp located on the TLH approximately 50 km west of HVGB.

## POPES HILL JV – 50 % INTEREST

### Property Description

A total of 491 claims (approx. 123 km<sup>2</sup>) in five licenses were acquired by staking on the southwest and northeast extensions of the PH trend, on November 6, 2010 as a 50/50 JV under a joint venture agreement with Great West Minerals Group (GWMG) (News release Nov. 30, 2010). GWMG will be the operator for the project 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 bottom results – anomalous La and Ce) and structural features. Another license of 21 claims was staked in January to protect the eastern on-strike extension of the PH trend. It becomes part of the JV as it lies within the area of influence of the JV properties. This increases the number of claims now in the JV to a total of 512 claims (News release Jan. 27/11).

### Planned Exploration 2011

Regional exploration including airborne radiometrics/magnetic/VLF-EM will evaluate the entire PH belt, including the JV areas, for REEs and U in the early summer of 2011. Regional exploration including prospecting, geological mapping, and geochemistry is planned to start in mid June.

## MRT PROPERTY – OPTION TO EARN 100 %

### Property Description

The MRT property, located along and up to 3 km to the north of the Trans Labrador Highway (TLH), approximately 50 km to the east of the original Pope's Hill Property and 35 km from HVGB, consists of 59 claims (1,475 ha). It was optioned from two Innu Prospectors, Jean Pierre (Napes) Ashini and Raphael Dominic Riche in February, 2011 (News release February 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 as follows:

	<u>Cash</u>	<u>Shares</u>	<u>Work Commitment</u>
On signing:	\$15,000 (paid)	100,000 (issued)	-
1 <sup>st</sup> anniversary	\$25,000	150,000	-
2 <sup>nd</sup> Anniversary	<u>\$40,000</u>	<u>250,000</u>	<u>\$250,000</u>
<b>Total</b>	<b><u>\$80,000</u></b>	<b><u>500,000</u></b>	<b><u>\$250,000</u></b>

In addition, advance royalty payments of \$10,000 per year are payable from the 4<sup>th</sup> anniversary on and there is an area of influence (AOI) of 2 km, from the existing property boundary, whereby any claims staked by either party become part of the agreement. A total of 119 claims in one licence have been staked within the AOI and they become part of the option.

### **Exploration**

The property was acquired after prospecting by the vendors, located three of 10 samples carrying significant REE values of 8.95%, 0.26% and 0.28% TREE+Y in an area never before evaluated for REEs. The highest value was 2.79% La, 4.26% Ce, 0.4% Pr, 1.26% Nd and 0.11% Sm with 0.23% Th, 37 ppm U. Uranium values in the samples range from 1.1 to 747 ppm, averaging 113 ppm. Other REEs and Y are weakly anomalous. The samples were selected using a scintillometer to locate areas of higher radioactivity.

A due diligence visit by the author in winter conditions (snow) in January, 2011 was not successful in duplicating the REE results with a maximum of 0.1 % TREES +Y located in one sample. Significant U and Th values of 0.825% U, 930 ppm Th; 234 ppm U, 72 ppm Th; and 744 ppm U, 288 ppm Th with U/Th ratios varying from 8 to 3, were found in the three samples taken, using a scintillometer to locate areas of higher radioactivity. The due diligence samples were taken in the same general area as the REE anomalous samples acquired by the prospectors, however the actual sample locations were not duplicated due to snow and ice which covered the outcrops. The U/REE discovery lies in an area never before evaluated for either REEs or U, 1 km from the TLH, approximately 35 km from Goose Bay.

### **Planned Exploration 2011**

Regional exploration including airborne radiometrics/magnetic/VLF-EM will evaluate the PH belt, including the MRT property, for REEs and U in the early summer of 2011. Detailed exploration including gridding, prospecting, geological mapping, geochemistry and ground geophysics and regional exploration using the same techniques began in early June from a base camp located on the TLH approximately 50 km west of HVGB.

## **RWM**

### **Property Description**

The property consists of 32 claims (800 ha) covering the second highest heavy rare earth element value, > 80 ppm HREE (includes europium, terbium, ytterbium and lutetium), in the government database for Labrador. It lies in the southern Red Wine Mountains, approximately 30 km to the east of a road which provides access to the Churchill Reservoir area. SSE staked another eight claims (200 ha) tied on to the northeast to protect a coincident U/Th/K radiometric anomaly located by the Rare Earth Metals (REM) airborne survey which was part of a due diligence evaluation of the property, and which extends off the original claim group. The property now consists of 40 claims (1000 ha) in two licences.

### **Summary**

The highly anomalous lake sediment sample includes 210 ppm cerium, 240 ppm lanthanum, 11 ppm lutetium, 18 ppm rubidium, 48.9 ppm samarium, 12 ppm terbium, 14.5 ppm uranium and 62 ppm ytterbium plus elevated fluorine. Europium is background as are thorium and vanadium. Another lake sediment sample in the same area is also moderately anomalous in rare earth elements. The geological setting is described as late paleoproterozoic granite, quartz monzonite, granodiorite, syenite, and quartz diorite.

### **Exploration**

Rare Earth Metals (REM) carried out an airborne radiometric / magnetic survey over the property as a due diligence for a possible option as part of the survey over their extensive property holdings, which include historic (Brinex) beryllium, niobium, REE and zirconium showings, located to the northeast of the RWM property in the Red Wine Mountains in July. 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 field visit, using a helicopter, by REM located float material in the vicinity of the radiometric anomalies. Six grab samples of granite gneiss (2), granite, quartz syenite (2) and mafic volcanic (1) were taken in the area of the radioactive anomalies, three in the southwestern part and three along the north eastern margin of the property. All gave anomalous values in La > 100, high of 2,510 ppm; Nd > 100, high of 1,520 ppm; Ce > 200, high of 4,360 ppm; In addition anomalous values were also found in Th > 200, high of 3,480 ppm with two values > 2,000 ppm; and Zr > 1,500, high of 1,625 ppm against a background of 50 ppm. Two anomalous values were noted in Pr > 200, high of 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 of 301 ppm Rb and 4 values > 100 ppm Y, high - 423 ppm. The highest and most coincident anomalous values were found in the mafic volcanic sample from the northeastern portion of the property. RA declined to option the property due to commitments on other claims in the area.

### **Planned Exploration 2011**

Limited follow up is planned for the summer of 2011 including prospecting, geological mapping and geochemistry.

## **STRAITS (ST)**

### **Property Description**

The property consists of 499 claims (125 km<sup>2</sup>) in a number of licences, including 82 claims acquired after all the existing data consisting of the SSE uranium associated work in 2007/08 and the government lake sediment results, was compiled (see ST summary in uranium section for further details). Lake, stream sediment and rock samples were originally analyzed for uranium primarily using an ICP technique which also gives values for other elements including La (lanthanum) and Th (thorium). No other REE, Y or other indicator elements were analyzed in the original ICP data.

### **Exploration Summary**

The property covers uranium in lake sediment anomalies associated with a north-northwest trending fault structure in Proterozoic, metamorphosed, felsic volcanics, now orthogneiss. Exploration from 2007 to 2009 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<sub>3</sub>O<sub>8</sub> in outcrop along the contact of a 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<sub>3</sub>O<sub>8</sub>) with a high value of 5,887 ppm (0.59%) U<sub>3</sub>O<sub>8</sub> associated with uranophane staining. Uranium/thorium ratios averaged 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. Since uranium was the target element the 2008 exploration defined areas of higher uranium potential to allow consolidation and downsizing (reduction) of the property to 423 claims (106 km<sup>2</sup>).

Significant values in La and Th including rock sample values up to 3,908 ppm La, 6,810 ppm Th and values up to 903 ppm La in lake and 392 ppm La in stream sediment samples were located in the 2007/08 work. Lake sediments gave 33 samples with values > 200 ppm La including seven > 300 ppm against a background of 65 ppm with the highest 903 ppm La while Th gave only background values (< 20 ppm). Stream sediments gave 19 values > 100 ppm La including four > 200 at 208, 242, 342, and 392 ppm against a background of 50 ppm. Values for Th are low with only one sample giving 50 ppm (background 20 ppm). Rock samples gave three values > 1,000 ppm La with the highest 3,908 ppm (background of < 30 ppm). Nine samples gave Th values > 1,000 ppm, including four > 2,000 ppm and a high of 6,810 ppm. Strong correlation is noted between La and Th with the four samples that gave the highest La values also giving some of the highest Th values (see news release dated May 27, 2010).

A geochemical release (OF Lab 1538) by the NL government on June 30, 2010, on a high-density lake sediment and water survey in southeastern Labrador showed anomalous values in rare earth elements with TREE values in the 400 to 650 ppm range on the Straits property, some of the highest located in the survey. Background is less than 100 ppm TREE, including Y.

Twenty-six rock sample laboratory rejects which were anomalous in either La or Th, were analyzed for the full suite of REEs, yttrium (Y) and other indicator elements such as zirconium (Zr) and niobium (Nb). Values up to 2.48% total rare earth elements (TREE) plus yttrium, 2.2% zirconium, and 636 ppm niobium were located (News release July 26). Thirteen samples gave values > 0.1% TREE + yttrium, including five (5) > 0.4%. Samples were generally LREEs with percentages in the 85-90% range of LREEs from the samples analyzed. The minerals carrying the REEs are unknown at this time. Most of the high values were 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 including yttrium. No follow up work has been carried out to date.

### **Planned Exploration 2011**

The airborne radiometric and magnetic survey carried out in 2007 will be re-evaluated for Th anomalies to guide exploration for REEs. Limited follow up is planned for 2011 including prospecting, geological mapping and geochemistry.

## **URANIUM - LABRADOR**

### **Nunatsiavut Moratorium on Uranium Development**

The Nunatsiavut Government (NG) instituted a 3 year moratorium on uranium mine development in their territory (Labrador Inuit Lands (LIL) in April 2008, until a comprehensive land use plan, which is under development is complete. Exploration is still allowed, however development is in question until the moratorium is lifted and most companies have opted to wait until it is lifted. The land use plan which had a target date for completion of April 1, 2011, has been extended to at least September 30, 2011 indicating that the moratorium will not be lifted until after that date. Labrador Inuit Settlement Area (LISA) lands are jointly controlled by the NG and NL governments and are not subject to the moratorium. The Two Time zone and the western portion of the CMBNW JV property, and the Snegamook properties lie outside of the LIL/LISA lands on lands claimed by the Innu of Labrador and are therefore not affected by the moratorium. The Straits property in southern Labrador is outside of all of the present land claim areas.

The imposition of the moratorium combined with the current uranium price has made it difficult to raise money for uranium projects. The Paladin Energy purchase of Aurora Energy, and their Michelin / Jacques Lake deposits, and their intention of proceeding to production as soon as the moratorium is lifted is a positive sign for the area. Most companies, including Silver Spruce, have had their uranium projects in Labrador on hold pending the resolution of the moratorium. Continued positive news on the uranium price and moratorium front and the resultant availability of financing, could result in re-activation of the projects.

## **THE CENTRAL MINERAL BELT (CMB)**

The CMB had been 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. The potential for shear zone hosted uranium was noted at the Michelin and other deposits and with the increase in the price of uranium, emphasis was then placed on uranium as a commodity and blanket staking of Brinex showings was carried out. Airborne radiometric/magnetic surveys in 2004/2005 resulted in definition of the known showings plus the generation of new targets in the Michelin, Otter Lake and Jacques's Lake areas. On September 18<sup>th</sup> 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 a recent positive development in early 2011, Paladin Energy has purchased the Aurora Energy assets and intends to move to production as soon as the moratorium is lifted.

**Crosshair Exploration and Mining** (Crosshair) optioned 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, Crosshair 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. The CMBJV properties now total 458 claims (115 km<sup>2</sup>) in a number of licences. Silver Spruce retains a 37.4 % interest.

Exploration on their projects in the CMB including the CMBJV, except for those that require assessment expenditures has been curtailed over the past couple of years due to the NG's moratorium on uranium development with the projects generally on hold pending higher prices, the resolution of the moratorium and better financing opportunities. Work has continued on evaluation of the vanadium resources, associated with the uranium, in the Moran Lake area. Crosshair plans significant exploration expenditures, including diamond drilling, on the CMBJV and their wholly owned properties in the summer/fall of 2011

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

Silver Spruce (SSE) owns a 100% interest in 1641 claims (410 km<sup>2</sup>) in Labrador outside of the CMB JV. These are 100% owned by SSE and include the following properties - Snegamook Lake (86 claims), Double Mer (219 claims), Straits (224 claims), Mount Benedict (788 claims), Tukialuk Bay (247 claims), Jeanette Bay (60 claims) and Lake Michael (17 claims). 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 Net Smelter Return (NSR). The Mount Benedict property was acquired by staking and option with a 1% NSR payable on 592 claims of the original staked ground. Detailed descriptions of the properties and the exploration carried out on them are in the Annual Report filed in January 2011.

The company's 100%-owned uranium properties in the eastern portion of the CMB include Mount Benedict, where the AT-649 and T- Super 7 showings are located, Tukialuk Bay, Jeanette Bay, and Lake Michael and the Double Mer property on the north shore of Lake Melville where seventy-six (76) grab samples gave values  $>500$  ppm  $U_3O_8$ , with 42  $>1,000$  and 7 over the 95<sup>th</sup> percentile of 2,200 ppm and a maximum value of 0.43%  $U_3O_8$  over a 10 km strike length of radiometric anomalies. No follow up trenching or drilling has been carried out.

All uranium and other analyses were done 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 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 recent (2010) results for rare earths on the Straits property were analyzed by a rare earth package (Code 8 REE) at Activation Laboratories using either ICP or MS analysis plus analysis for  $U^3O^8$  and  $Nb^2O^5$  by XRF.

## **Impairment**

All property expenditures have either been written down or off due to the NG moratorium and the inability to raise funds for further exploration over the past two years.

## **Planned Exploration**

No exploration work for uranium is planned for 2011 on any of the properties unless required to maintain them, pending resolution of the NG moratorium. Limited exploration for REEs on the Straits property (see REE property section) is planned. This project is considered a potential JV property.

## **SNEGAMOOK LAKE (SN)**

### **Property Description**

The property, located just to the southeast of Snegamook Lake, consists of 86 claims (21.5 km<sup>2</sup>), and is surrounded by the CMBNW JV property to the north, west and east and the Santoy (now Virginia Energy) "Fishhawk Lake" property to the south. The Company has earned a 100-percent interest subject to a two-percent NSR to the optionees. It is located outside of lands owned by the NG, on lands subject to the Innu Land Claim and it is not subject to the NG moratorium on uranium development.

### **Exploration**

Exploration from 2006 to 2008 included: an airborne radiometric / magnetic survey, prospecting, lake sediment sampling, linecutting, RadonEx radon gas surveys, prospecting and diamond drilling (53 holes, 13,765.3 m). Prospecting and diamond drilling has located two main areas of mineralization:

- 1) **Snegamook Zone** along the Two Time trend, 1.3 km to the southeast of the Two Time Zone where 17 drill holes, intersected a 20 to 50 meter wide section of uranium bearing, brecciated and/or altered monzodiorite with moderate to strong chlorite, hematite and carbonate alteration, the same geological setting as the Two Time Zone. Four mineralized zones were traced over a strike length of 300 meters and to a vertical depth of 200 meters. The zones are shallow dipping (15 to 20 degrees west) and vary in width from five to 53 meters with grades ranging from 225 to 771 ppm U<sub>3</sub>O<sub>8</sub> with the widest section in SN-08-8 averaging 206 ppm U<sub>3</sub>O<sub>8</sub> (0.41 lbs/ton) over 73 meters, similar to values located in early drilling on the Two Time Zone.
- 2) **Near Miss Showing:** Sub-angular boulders and outcrop cover an area approximately 100 by 30 m, located approximately 4 km southwest of the Two Time showing. Values from 78 to 5000 ppm (0.008% to 0.5%) U<sub>3</sub>O<sub>8</sub> in outcrop samples with good coincidence with RadonEx radon gas anomalies are found. Drilling gives erratic uranium mineralization over narrow widths in hematized, brecciated, granitic to monzodioritic units. Hematite microbreccias give individual one meter intervals grading from 113 to 2,117 ppm U<sub>3</sub>O<sub>8</sub> with the widest intersection averaging 213 ppm U<sub>3</sub>O<sub>8</sub> (0.43 lbs/ton) over 16 m including one meter of 0.21% (4.23 lbs/ton) U<sub>3</sub>O<sub>8</sub>. Mineralization is developed proximal to and along the contact with the Archean Gneiss, which dips shallowly to the east.

No exploration was carried out in 2009 or 2010, due to the price of uranium, the NG moratorium and budgetary restraints. Assessment reports are in progress to allow the property to be kept without further work for > 5 years. The project shows good potential which should be realized once prices return to higher levels.

## **DOUBLE MER (DM)**

### **Property Description**

The property consists of 219 claims (55 km<sup>2</sup>), located in the Double Mer-Lake Melville area of Labrador, approximately 110 kilometres 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% net smelter return (NSR). The property lies entirely within LISA lands and covers strong uranium in lake sediment anomalies located by the NL government hosted in leucogranites of Helikian age.

## **Exploration**

Exploration has included: an airborne radiometric/magnetic survey carried out in 2006, data compilation, prospecting, geological mapping, geochemistry (streams, soils) and ground geophysics (scintillometer/radon gas). The airborne survey resulted in 40 strong to moderate strength radiometric targets, in various lithologies and in magnetically low and high areas, selected for follow up.

In 2006, prospecting in the area of Zone A, located 10 rock samples giving values greater than 100 ppm  $U_3O_8$ , with a high value of 2,640 ppm uranium (0.33%  $U_3O_8$ ) associated with high spectrometer readings (> 10 K cps), in the area of the trenches. The historical trenches and ddh's were relocated and found to be north of the east-west trending magnetic high associated with a radioactive trend on the radiometric maps. Two styles of uranium mineralization are noted – pegmatite hosted (primary) and structurally-controlled (secondary) in structural traps, in the form of breccia and/or mylonite zones, developed in the polydeformed gneisses. A 10 km long, linear, east-west to east-northeast trending, anomalous radiometric zone (Anomalies DM-1 to 17), gives seventy-six (76) samples with values > 500 ppm  $U_3O_8$ , with 42 > 1,000 and 7 over the 95<sup>th</sup> percentile of 2,200 ppm with a high of 4,281 ppm (0.43%)  $U_3O_8$ . Uranium in soil values, up to 208 ppm (background < 10 ppm) and radon gas anomalies occur over mineralization, over widths up to 30 meters, associated with short, steep, scarps characterized by breccia units. Mineralization also occurs in a highly deformed, white, recrystallized, quartz pegmatite up to 40 meters wide, but generally 5-10 m, which can be traced over a 300 m strike length.

The regional surveys show areas of uranium potential which require ground follow up by trenching and drilling. The property has been consolidated / reduced with the claims over areas showing potential in good standing for at least the next year. Renewal fees for the 5<sup>th</sup> year have been paid and the claims remain in good standing.

## **STRAITS (ST)**

### **Property Description**

The property, located in the Barge Bay-Henley Harbour area, on the Straits of Belle Isle, approximately 300 kilometres southeast of Happy Valley-Goose Bay, consists of 499 claims (125 km<sup>2</sup>) after consolidation and recent staking for REE potential (see section on REE properties). The original claims were staked in an arm's length deal with a Newfoundland prospector who retains a 1% net smelter return (NSR). The property lies outside of the aboriginal land claims of both the Inuit and Innu of Labrador and covers government uranium in 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**

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 and soil geochemistry, and geological mapping. Mineralized areas were defined by prospecting and lake sediment geochemistry in three areas 1) the central portion of the claim group, along a northeast trending structure with offsetting northwest trending structures, over a 7 km strike length with a high value of 0.16 %  $U_3O_8$ ; 2) in the northeastern part of the group, a northeast trending zone with host rocks - aplites and mafic intrusives (gabbros), gneisses and pegmatites; and 3) in the western portion of the group, a linear, north-south trending zone of large, irregular, pegmatite dikes with erratic values up to 2650 ppm (0.26 %, 5.2 lbs/ton)  $U_3O_8$ . Uranium/thorium ratios were good (minimum of 3 to 1) in most areas. The two most significant showings were in the south central part of the property near the coast. The "BB shot" showing, with scintillometer values up to 34,000 cps (background < 200 cps), gave values up to 67,439 ppm (6.7 %)  $U_3O_8$  in outcrop along the contact of a weakly gneissic, fine-grained granite, and pegmatite with associated magnetite and biotite. The "Bingo" showing, approximately 3 km from the BB shot, 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  $U_3O_8$ , associated with uranophane staining. Other anomalous areas were also defined: In the south-west, in uranium bearing pegmatites where anomalous uranium in soil values are coincident with airborne radiometric anomalies. Mineralized zones are narrow, to a maximum of 1-2 m, but are generally

1 m or less. Uranium/thorium ratios average 5:1 in samples giving uranium values >250 ppm. Anomalous values in Th, Cu (to 2,720 ppm) and Pb (>5,000 ppm) were also found with the higher thorium values giving low uranium values.

The property is considered low priority for uranium due to the narrow width of the mineralized zones and the thorium association; however the Th association increases the REE potential of the area and Regional surveys show areas of uranium and REE potential which require further ground follow up. The property has been consolidated with the claims retained over the areas of highest potential in good standing.

### **Planned Exploration 2011**

Limited exploration for REEs, including a re-interpretation of the airborne survey flown in 2007 and possible ground follow up, is planned. This project is considered a potential JV property.

## **MOUNT BENEDICT (MB)**

### **Property Description**

The property has been reduced to 788 claims (197 km<sup>2</sup>), located in the Benedict Mountains area, near the Labrador coast, approximately 180 kilometres northeast of Happy Valley-Goose Bay and 30 to 70 km to the south of Makkovik. The claims are 100% owned by Silver Spruce, subject to a one percent Net Smelter Return (NSR) to the optionee on 532 of the original claims, some of which have been dropped. 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, with some felsic supracrustal units of the Aillik Group, the host for the Michelin deposit located to the southwest of the property.

### **Exploration**

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

The **AT-649 zone**, a high grade, uranium zone at least 10 metres wide, was discovered on a small brook, flowing into Stag Bay in the summer of 2007. The outcrop carries intense radioactivity with total count values > 10,000 cps over the 10 metre width, striking across the brook, and disappearing under the overburden, remaining open to the east and west along the apparent strike. Five representative grab samples averaged 0.497% U<sub>3</sub>O<sub>8</sub> and float boulders carrying uranophane, downstream of the showing giving values from 0.06 to 3.37 % U<sub>3</sub>O<sub>8</sub> with three values > 1 %. The host rock is a moderately to strongly hematized, fine grained, feldspar rich (plagioclase), felsic to mafic intrusive of the Benedict Mountains Intrusive Suite (BMIS) which has been fractured and veined with uraninite/pitchblende and magnetite and which shows extensive uranophane staining. Extensive iron oxides (magnetite) and minor sulphides (pyrite/pyrrhotite) are associated with the uranium mineralization making the unit a magnetic high.

Diamond drilling in 2008 (1,262.9 m in nine holes - MBAT-08-1 to 9), which due to NG government requirements had to stay 50 m away from the brook, defined a zone of low grade uranium mineralization hosted in a sheared to mylonitic, brecciated and fractured, felsic intrusive, a monzonite to monzodiorite, which carries extensive chlorite and carbonate alteration plus magnetite and hematite with minor pyrite. It is located along the contact between a monzonitic unit of the Mount Benedict Intrusive Suite and orthodioritic units of the Tran Labrador Granitoid Belt. The zone varies from 4 to 16 meters in width giving U<sub>3</sub>O<sub>8</sub> values of up to 598 ppm (1.2 lbs/ton) over one meter. Intersections include: 4.3 m of 0.025% (0.5 lbs/ton) U<sub>3</sub>O<sub>8</sub> in DDH MBAT-08-2, from 50.6 to 54.9 meters, at a vertical depth of 40 meters;. Drilling tested the zone, which appears to be shallow dipping to the southeast, along a strike length of 150 meters and to a vertical depth of 75 meters. The zone remains open along strike and to depth. The main mineralized zone in the brook has not been tested due to environmental regulations.

The **T Super 7 zone** is located 4.8 kilometres to the south-west of the AT-649 Zone. The 2008 drill program consisted of seven holes (MBS7-08-1 to 7) totaling 968 meters which tested high grade uranium mineralization in bedrock carrying values from 500 ppm to over 1.0% (20 lbs/ton)  $U_3O_8$ . Weak mineralization over good widths was intersected as follows: MBS7-08-5 - in a northeast trending, mylonite zone carrying two separate mineralized zones: 27 m (5-32 m) at 138 ppm  $U_3O_8$  and 22 metres (44-66 m) at 278 ppm  $U_3O_8$ , separated by a 12 meter wide, barren, mylonitized felsic unit. The zone is a highly altered (hematite/carbonate/chlorite, silicified), mylonitized, sheared to brecciated, hematized felsic intrusive or volcanic unit. An eight meter wide, higher grade section, from 51 to 59 meters graded 444 ppm  $U_3O_8$ . True thickness cannot be determined however geological mapping indicates a minimum strike length of 300 meters that remains open along strike to the northeast and southwest. Radon gas surveys give strong anomalies over a minimum 750 meter strike length coincident with the trend of the zone. The style of mineralization is similar to the AT-649 prospect and is developed along a major northeast trending structure which trends through, and is associated with, the AT-649 mineralization.

Anomalous **stream sediment** values carrying uranium, gold, molybdenum, lead, nickel, copper and zinc were located. The highest U anomaly, with values up to 397 ppm, is located in the northeastern part of the property, and is coincident with the AT 649 and T S7 showing areas, as a 5 to 6 kilometre, circular anomaly with elevated lead, molybdenum and silver values. Four circular coincident molybdenum, silver, copper, and locally lead anomalies, varying from 3 to 5 kilometres in diameter, also appear to be aligned at the intersection of northeast and northwest trending faults in the southeast part of the property. Strong pyrite-sericite alteration in a felsic unit with elevated Mo and Cu values, was located in the central part of the property suggesting that high level porphyries may be present. Gold (Au) values up to 47 ppb were clustered in the southwestern portion of the property. No follow up on the regional geochemistry has taken place.

## **TUKIALUK BAY (TB)**

### **Property Description**

The property totals 247 claims (62 km<sup>2</sup>) in one block on LIL lands, along the Labrador coast in the Tukialuk Bay area, to the east of the Mount Benedict property and approximately 60 km to the south of Makkovik. They are contiguous with claims held by Mega Uranium.

### **Exploration**

Strong uranium stream sediment geochemical anomalies, with most occurring in the central part of the claim group, coincide with anomalous lead (Pb), molybdenum (Mo), copper (Cu) and silver (Ag) values. The area is underlain by weakly foliated to massive medium to coarse grained, biotite rich, granites with accessory fluorite carrying weakly anomalous uranium values in the 100 ppm range with high thorium / uranium ratios. Anomalous Th and La values also indicate REE potential which will be evaluated. The property has been consolidated to those areas showing the highest potential and it remains in good standing for the next year with no further work required.

## **JEANETTE BAY (JB)**

### **Property Description**

The property, totaling 60 claims (15 km<sup>2</sup>), is located along the Labrador coast in the Jeanette Bay area, in LISA and LIL lands, to the east of Mount Benedict and approximately 85 km to the southeast of Makkovik. They are contiguous with claims held by Mega Uranium.

### **Exploration**

Exploration included stream sediment sampling and prospecting. A strong, coincident, uranium-lead-molybdenum stream sediment geochemical anomaly, with U values up to 103 ppm, is found in the NW along the contact between mid Paleoproterozoic foliated granodiorites and Late Paleoproterozoic massive granites, similar to the geological setting at the AT-649 U zone on the MB property. Radioactivity was noted in outcrop, however no sampling was carried out. Other uranium anomalies (to 43 ppm) were located

in the western section and several gold anomalies (to 33 ppb) occur on the eastern and central parts of the property. Anomalous radioactivity is noted in the northwestern portion of the property, coinciding with the anomalous U, Pb, and Mo stream sediment values. The property was reduced to 60 claims which can be retained for the next year.

#### **Impairment**

The property expenditures were written down by \$41,164 at year end 2009. The remaining \$3,600 has been written down during the three month period ended January 31, 2011.

### **LAKE MICHAEL (LM)**

#### **Property Description**

The property, totaling 17 claims (1 km<sup>2</sup>) is located, mainly in LISA lands, along the Labrador coast in the Lake Michael area, to the southeast of the Mount Benedict property and approximately 75 km to the SE of Makkovik.

#### **Exploration**

Exploration has consisted of stream sediment sampling and prospecting. A moderate strength, coincident uranium-molybdenum-copper stream sediment geochemical anomaly was defined in the south central part of the property, a flat area with extensive bog cover masking the underlying bedrock. It is underlain by Late Paleoproterozoic intrusive quartz monzonite and granodiorite, and early Mesoproterozoic gabbro and amphibolite. Moderate radioactivity is noted in the southwestern part of the property but it is non coincident with the U-Mo-Cu stream sediment values. No follow up has been carried out. The property was reduced to retain claims showing the most potential.

#### **Impairment**

Property expenditures were written down by \$33,946 at year end 2009. The remaining \$3,420 has been written down during the three month period ended January 31, 2011.

### **JV PROPERTIES (37% SSE / 63% CXX) - CENTRAL MINERAL BELT JV (CMBJV)**

The CMBJV properties consist of 782 claims (195.5km<sup>2</sup>) 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 Aurora (now Paladin) and Crosshair 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. The properties were acquired by staking in 2005/06 to cover Newfoundland and Labrador 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 under an option agreement. UUL sold its 60% interest to Crosshair Exploration and Mining in May 2008, for 10 M Crosshair shares plus \$500,000, with UUL retaining a 2% NSR on the 60%. Crosshair has taken over the operatorship of the JV.

Exploration, from mid 2006 to early 2008, 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 on the CMBNW property only. Seventeen high priority airborne radiometric anomalies were selected for follow up in late 2006. Ground follow up in late August to September 2006, located the Two Time zone on the CMBNW property, the only significant new uranium zone to be defined in the CMB since the Brinex days in the 1960's to 1980's.

Given the problems of the global financial crisis in 2008 / early 2009 and the resulting budgetary restraints the NG uranium moratorium and the price of uranium, only limited exploration, required to keep the properties in good standing, was carried out by Crosshair, as operator, in consultation with SSE, in 2009, aimed at consolidating, reducing and retaining those properties which showed the most potential. This continued in 2010 with a total of approximately \$230,000 expended. SSE declined to participate in the 2010 program and was diluted according to the formula in the JV agreement. The company retains an approximate 37.4 % interest in the CMBJV at the end of 2010.

Work by JV operator, Crosshair, in 2009/ 2010 resulted in the discovery of three new uranium prospects on the CMB JL (2) and CMB NE (1) JV properties with values up to 0.46% , 0.28% and 0.1% U<sub>3</sub>O<sub>8</sub> in selected grab samples from the three showings (News release Feb. 8/11).

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### **Planned Exploration**

The 2011 exploration program totaling approximately \$1.5M by Crosshair is planned to consist of prospecting/sampling, trenching and drilling on the three new prospects and the Two Time uranium deposit on the CMB-NW property which remains open along strike and to depth. The properties are discussed individually in the following sections.

### **Impairment Issues**

Crosshair paid 10 M shares plus 7.5M warrants plus \$500,000 for Universal Uranium's 60 % interest in the CMB JV (worth approx. \$ 6M). This put a value, based on the stock and cash only, of SSE's portion of the JV properties at approximately \$ 4M. Consolidation (regrouping), reducing and abandonment of claims that show little promise, has been carried out by Crosshair in consultation with SSE. No write down in the value of the properties in the CMBJV, unless abandoned, is indicated at this time since the Two Time zone has significant intrinsic value and the other properties have exploration ongoing. The NG moratorium may be lifted in late 2011 and it is likely that Paladin will move ahead with development of the Michelin/Jacques Lake project once it is lifted. Any infrastructure developments will improve the economics of further exploration and development for all properties in the CMB.

A number of properties have been reduced or dropped and the exploration expenditures on them will be either partially or fully written off. As of October 31, 2010 \$304,182 has been written off. No write down was recorded for the three months ended January, 31, 2011 or the three months ended April 30, 2011, however impairment issues will continue to be examined quarterly and if required further write downs will be taken.

## **CMB Northwest (CMBNW)**

### **Property Description**

The CMBNW property, in the north-western portion of the CMB, now consists of 579 claims (145 km<sup>2</sup>) acquired by staking in 2006. It is located almost entirely on lands covered by the Innu land claim, outside of the NG moratorium area, approximately 110 km to the west of Postville.

### **Exploration**

Exploration consisted of compilation, airborne radiometric/magnetic and air gravity surveys, prospecting, line cutting, stream, lake sediment and soil geochemistry, geological mapping, and geophysical (RadonEx) surveys, trenching/stripping, diamond drilling and a resource calculation on the Two Time (TT) zone completed in April 2008. Prospecting outside of the TT area located significant mineralization, uranium bearing hematite breccia zones, along a number of linear trends in the northeastern and southeastern portions of the property. Five samples with values > 0.5% U<sub>3</sub>O<sub>8</sub> (10 lbs/ton) and 31 with values > 0.1% U<sub>3</sub>O<sub>8</sub> (2 lbs/ton) were located associated with major east-northeast (ENE) or north-northwesterly (NNW) trending structures, the most significant of which is a 12 km long east-northeast trending suture which extends across the Snegamook property, approximately 2.5 km south of the TT zone, to an area of the highly anomalous lake sediment values. Another area, trending ENE and giving values up to 0.93% U<sub>3</sub>O<sub>8</sub> (18.6 lbs/ton) in float boulders and 0.4% U<sub>3</sub>O<sub>8</sub> (8 lbs/ton) in outcrop is located in the south eastern portion of the group.

## **Two Time Zone**

The TT Zone was discovered during ground follow up of the regional radiometric survey in the fall of 2006, to the south of the Kanairiktok River as a 50 m long cliff outcrop which gave rock sample values up to 0.26 %  $U_3O_8$ . The zone was drilled in December 2006 with drilling continued through 2007 with the definition drilling program completed in December 2007. A total of 11,190.6 meters in 41 holes in three different phases, were completed. Forty of these holes (1-23 and 25-41), for a total of 10,922.6 meters, tested the TT Zone. Scott Wilson Roscoe Postle Associates (SWRPA) prepared a Mineral Resource estimate for the TT Zone using drill hole data available as of February 4, 2008. The drill hole database includes 40 diamond core holes as listed above, plus five surface trenches. The Mineral Resources are contained within eight zones, D101 through D108. At a cut-off grade of 0.03%  $U_3O_8$ , Indicated Mineral Resources are estimated to total 1.82 million tonnes grading 0.058%  $U_3O_8$  containing **2.33 million pounds  $U_3O_8$** . Inferred Mineral Resources are estimated to total 3.16 million tonnes grading 0.053%  $U_3O_8$  containing **3.73 million pounds  $U_3O_8$** . A set of cross sections and plan views were interpreted to construct three-dimensional wireframe models at a cut-off grade of 0.03%  $U_3O_8$ , and a minimum true thickness of four metres. These criteria reflect a potential underground bulk-mining scenario. High  $U_3O_8$  grades were cut to 0.3%  $U_3O_8$  prior to compositing to two metres. Variogram parameters were interpreted from two-metre composited assay values. Block model  $U_3O_8$  grades within the wireframe models were estimated by ordinary kriging. Classification into the Indicated and Inferred categories was guided by the drill hole density, interpreted variogram ranges, and the apparent continuity of the mineralized zones. The full report is available on SEDAR as filed on June 13, 2008.

The zone has been traced over a strike length of approximately 475 metres, from 2+75 N to 2+00 S, remaining open to the north and south along strike and to depth. The host for the mineralization is an altered, brecciated and fractured intrusive, monzodiorite to diorite, with extensive chlorite, carbonate and hematite alteration. Best values included: DDH CMB-07-6 on Line 0+50 S, at a 50 degree dip, which intersected the zone between 150 and 200 m deep, gave 107 m of 0.052%  $U_3O_8$  (uranium oxide) from 172 m to 279 m, including higher grade zones: 0.11%  $U_3O_8$  over 30 m from 172 m to 302 m and including 0.312%  $U_3O_8$  over 3.0 m from 172 m to 175 m. CMB-07-12, drilled under CMB-07-6, gave 147 m of 0.041% (0.82 lbs/ton)  $U_3O_8$ , including higher grade intersections of 11 m at 0.11 % (2.2 lbs/ton) and 6 m of 0.13 % (2.6 lbs/ton)  $U_3O_8$ . Hole 19 which gave the widest zone of mineralization, 199 m of 0.026%  $U_3O_8$ , was stopped in mineralization due to mechanical difficulties.. The orientation of the mineralization appears to be near vertical to steeply dipping. Modelling of the drill data shows the zone has strike and depth continuity and it remains open along strike and to depth indicating that it should continue to the southwest, plunging at 30 to 50 degrees.

## **Impairment**

The TT zone, which has defined resources, plus other, as yet, evaluated showings gives the property significant value. No write down of exploration costs is contemplated at this time however impairment issues will continue to be evaluated quarterly.

## **Planned Exploration**

Crosshair is planning further exploration on the CMBNW property in 2011. Silver Spruce has declined to participate in the 2011 exploration program and therefore will continue to be diluted as expenditures are incurred.

## **CMB Jacques lake (CMBJL)**

### **Property Description**

The property (165 claims - 41 km<sup>2</sup>) lies in the central part of the CMB on LIL lands, 15 to 25 km to the south of Postville and to the west of the Jacques Lake property of Aurora/Fronteer (now Paladin).

### **Exploration**

Exploration by SSE included: an airborne radiometric/magnetic survey which found four high priority targets, prospecting and a lake bottom survey which gave values from high background (30 ppm or less) to 217 ppm with two anomalous areas defined. Geological mapping, prospecting and sampling programs were carried out by JV operator Crosshair Exploration in 2009 and 2010 to evaluate targets generated by earlier airborne geophysical and ground geochemical surveys (News release Feb. 8/11). Two new U prospects, South Brook (SB) and Running Man (RM), were located. Forty-six (46) rock samples from the SB prospect, which is outlined by anomalous float and bedrock for approximately 3.5 kilometres (km), gave results ranging from 0.03% to 0.46%  $U_3O_8$ , averaging 0.11%. The RM prospect, located approximately 5.5 km southeast of the SB Showing, consists of a 2 km long, linear airborne radiometric anomaly. Twenty one (21) rock samples gave values from 0.03% to 0.28%  $U_3O_8$ .

### **Impairment**

No write down in the value of the property is indicated at this time due to the recent results and the early stage exploration however impairment issues will continue to be examined quarterly.

### **Planned Exploration**

Both the SB and RM targets require significant follow-up exploration. Crosshair is planning further exploration in 2011. Silver Spruce has declined to participate in the exploration and therefore will continue to be diluted as expenditures are incurred.

## **CMB Northeast (CMBNE)**

### **Property Description**

The property consists of 38 claims (9.5 km<sup>2</sup>) located in the central-eastern portion of the CMB on LISA lands.

### **Exploration**

Exploration from 2006-2007 by SSE consisted of an airborne radiometric/magnetic survey and limited prospecting follow up. In 2009 and 2010, Crosshair carried out follow up prospecting and biogeochemistry surveys based on the radiometric survey results, resulting in the discovery of two new uranium showings: 1) Big Bear - hosted in altered granitic rocks with grab sample values from 0.02 to 0.10%  $U_3O_8$ , averaging 0.06%, in a 1.25 kilometre long corridor of anomalous bedrock radioactivity near the contact of Aphebian-age, Aillik Group, felsic volcanic units and Helikian felsic intrusive; 2) JJ, located two kilometres to the west-southwest of Big Bear, magnetite-pyrite mineralization in felsic volcanic units that gave an assay of 0.127%  $U_3O_8$  in one bedrock sample, associated with a cluster of airborne radiometric anomalies which occur at the intersection of interpreted faults, near the contact of Archean-age basement rocks and Aphebian-age felsic volcanic units of the Aillik Group.

### **Impairment**

No write down in the value of the property is indicated at this time due to the recent results and the early stage exploration however impairment issues will continue to be examined quarterly.

### **Planned Exploration**

Crosshair is planning further exploration in 2011. Silver Spruce has declined to participate in the exploration and therefore will continue to be diluted as expenditures are incurred.

## **PROJECTS – GOLD/BASE METAL**

The Company's property portfolio includes one precious metal project, Big Easy (BE) in eastern Newfoundland and one precious/base metal exploration project, the Rambler South, (RS) in north-eastern Newfoundland. These are 100 % owned, subject to option agreements as described in the summaries following.

Drill core from the BE and RS properties 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 either Eastern Analytical Laboratories in Springdale, NL, a recognized local laboratory (for RS), or Accurassay Laboratories in Thunder Bay, ON, after sample prep at their Gambo, NL preparation facility (for BE). Check samples for the core are done at the other lab. Samples were analysed for gold by fire assay (1/2 assay tonne) using an atomic absorption finish plus either an ICP-11 or 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 a wet chemical method with an Atomic Absorption finish. The Brass Buckle channel samples were analyzed at Inspectorate Exploration and Mining Services in Vancouver, BC. for gold by fire assay and an ICP-31 technique for other elements including Te. The composite grab samples and the check samples from the Krissy trenching were analyzed at Eastern Analytical Laboratories. The metallics analysis were done by Accurassay laboratories of Gambo NL and Thunder Bay, ON.

## **RAMBLER SOUTH (RS) - OPTION TO EARN 100 %**

### **Property Description**

The property totals 101 claims (2,250 ha) and was optioned from Northeast Exploration Services, Krinor Resources Inc. and Peter Dimmell (PMD) (News release July 16, 2009). Terms of the option to earn a 100% interest subject to a 2.5% NSR, with a 1.0% buyback for \$1.5 M, are: total payments of \$95,000 (\$45 K paid), issuance of 1.05M shares (650 K issued) and a work commitment of \$500,000 by the end of the second year. In addition, a yearly advance royalty payment, deducted from future NSR payments, of \$10,000 per year, is payable from the 4th anniversary on. The property is road accessible via the Gull Pond Resource Road which extends past the old Rambler mine site, cutting through the northern portion and extending to the southern part of the property along the Brass Buckle trend. PMD acquired the first claims in the Rambler South property by staking the Krissy Trend after the discovery of visible gold in the “Krissy” boulder while accompanied by his daughter Krista, during prospecting in 1992.

### **Exploration**

Exploration in 2009 included: line cutting, soil geochemistry and prospecting on the Krissy trend grid, limited prospecting and sampling on the Brass Buckle zone and diamond drilling on the Krissy – trench 2 area (L22 E) and on the SB showing. The drilling, which took place from September 6 to 23, was designed to test the strong gold in till anomaly in the SB area and the Krissy, shear hosted, gold zone. A total of 542 m in 7 holes, 5 (RS-09-1 to 5) on the SB target and 2 (KT-09-1, 2) on the Krissy zone (L 22 E area), were completed. Exploration in 2010 included further diamond drilling on the SB gold zone in March and compilation/report writing, line cutting, soil geochemistry, prospecting, and geological mapping on the Krissy trend. Exploration on the Krissy trend evaluated VLF-EM anomalies (Fraser filter), which define the shear system and possible associated shears. Prospecting in the Line 24 E area located visible gold (VG) and a chip sample over 0.7 m at approximately 23+80 E which gave 12 g/t Au and values up to 25.3 g/t Au in a grab sample on L 24 E. Prospecting in the Line 16 to 17 E area located the shear system which carries recrystallized quartz veins, similar to the Krissy and AD boulders to the north (up ice) of the VG bearing boulders (see news release dated July 29, 2010), however only weak gold values were associated. Limited prospecting and sampling primarily for Te mineralization along the Brass Buckle trend was also carried out.

A 10 hole drilling program in holes RSKT-11-1 to 10, totaling 924 m, tested the Krissy trend gold zone, in May, 2011 over a 850 m strike length from Line 25 E (RSKT-11-1) to 16+50 E (RSKT-11-8). Drill holes RSKT-11-1 to 5 tested the zone in the vicinity of lines 24 and 25 E, where trenching / channel sampling in the fall of 2010 gave results up to 5.2 g/T / 4.6 m including 10.3 g/T / 2 m (see news release dated Oct. 21, 2010). Drill holes RSKT-11-6, 8 and 9 tested the Krissy shear system on lines 16+50 to 18+50 E, to the west of the Gull Pond (GP) access road and to the north of the VG bearing Krissy boulder. The other two holes, RSKT-11-7 and RSKT-11-10 tested a VLF-EM trend to the north of the Krissy shear on Line 17 E and the Krissy shear on L 20 E respectively. The Krissy shear lies along the contact between quartz porphyry (to the north) and mafic volcanics of the Pacquet Harbour Group (to the south) in the Line 22 to 25 E area to the east of the GP road. It is not well defined to the west of the road where shearing is noted along the contact between massive gabbros and the sheared mafic volcanics. Mineralization / alteration

consists of recrystallized quartz veining carrying variable sulphides, mainly pyrite with variable chalcopyrite and minor bornite, galena and visible gold (VG) in the sericite schists along the contact in both the mafics and quartz porphyry. Results are pending.

All gold mineralized zones, from north to south, the **Krissy**, **SB** and **Brass Buckle**, are structurally related. Gold mineralization at the **Krissy** and **Brass Buckle** zones, both of which have visible gold, is associated with sulphide rich quartz veins emplaced along shear zones and related to the intrusion of linear quartz porphyry bodies. Values vary from background (100 ppb or less) to 12.5 g/t / 1.5 m - Krissy channel and 65 g/t over 1 m (including 280 g/t over 0.25 m) – Brass Buckle - DDH. The host rocks are the Pacquet Harbour Group (PHG), mainly mafic volcanic units, the host for the gold rich Rambler deposits located to the north, which are cut by intrusive units – the Burlington Granodiorite to the west and a number of quartz porphyry dikes thought to be related to the Cape Brule Porphyry, to the east.

### **SB Zone**

The SB zone was discovered in follow up of a gold in till anomaly related to shearing along the southern contact of the northeasterly trending “tongue” of Burlington Granodiorite (BG) that cuts the PHG to the northeast of Gull Pond. Four till exploration programs from 1989 to 2007, defined a gold in till anomaly, with gold grain counts up to 200 grains and background values < 10 grains with many at 0 grains, 3.5 km long and up to 1.5 km wide to the southeast of the “tongue”. The source area, which was defined in 2007 gives gold grain counts up to 1360 grains with 96 % pristine, and lies along the south side of the “tongue” and is related to a chlorite/biotite altered shear zone, with quartz breccia, in the mafic volcanic units of the PHG. The gold in the tills is very fine (generally 20-30 micron) free gold with a strong chlorite association.

In September, 2009, drill holes RS-09-1 to 5, totaling 457 m, tested the presumed source area for the gold in till anomaly with four holes drilled at approximate 50 m intervals over a 150 m strike length and 1 hole, # 5, under Hole # 1 (News Releases Sept. 30 and Oct. 22, 2009). Gold values of 5.9 g/t over 0.8 metres in RS-09-1 and 1.3 g/t over 17.5 m in RS-09-3 are hosted in a quartz breccia, with recrystallized quartz fragments, cemented by fine grained chlorite/biotite which carries disseminated pyrite and minor chalcopyrite and 2.3 g/t over 1.85 m in RS-09-04 associated with the chloritized mafic volcanic units. A follow up drill program, totaling 889 m in 11 holes (RSSB-10-6 to 16), designed to further test the near surface extent of the SB gold zone, was carried out in March 2010. Drill holes RSSB-10-6 to 13 tested a 160 m strike length at approximately 20 to 30 m intervals, with holes RSSB-13 to 15 drilled under holes RSSB-10-6, 7 and 12. DDH RSSB-10-16 was drilled perpendicular to the assumed trend of the SB zone to test a possible fault structure offsetting the north-northeast trending Burlington Granodiorite (BG) contact. All holes intersected variably chloritized, pillowed to hyaloclastic, mafic volcanics of the Pacquet Harbour Group (PHG) along the contact with the BG. Shearing is variable however the contact zone between the PHG and the BG is strongly sheared with some gouge noted. Shearing (foliation) extends a maximum of a few metres into the BG. The widest gold intersection was 3.5 g/t over 3 m including a high value of 6.5 g/t over 1.5 m, in RSSB-10-13 (News Release April 27, 2010). Other significant intersections include: 2.7 g/t Au over 1.5 m in RSSB-10-7 and 1.1 g/t over 1.5 m in RSSB-16. Unlike the 2009 drilling, no chlorite/biotite/quartz breccia was intersected, with the mineralization hosted in chloritized mafic volcanic units. Weak gold values in the 100 to 300 ppb range over up to 1.5 m were noted in the chloritized volcanics in other drill holes. No significant gold values were noted in the BG. Silver with minor copper mineralization, grading 149.6 g/t Ag and 0.05% copper over 1.5 m from 45.5 to 47 m, was located in a quartz vein in RSSB-10-11 however the silver results are considered to be suspect as the drill bit was damaged in this area and silver solder is used in the drill bits. Only background values in Au and Zn were noted. This zone if real is considered to be separate from the SB gold zone.

The SB gold zone has been traced over a 125 m strike length with erratic gold values. It is assumed that the source area for the gold in till anomaly is a shear zone along the BG contact however, given the results of the drilling, it is possible that the source lies either in a shear zone within the BG body, in crosscutting shears which offset the BG and extend into the mafic volcanic of the PHG or in the mafic volcanic units but dipping to the west into the BG.

### Krissy Zone

Gold mineralization, including visible gold, at the Krissy zone, is associated with sulphide rich quartz veins emplaced along a shear zone, up to 5+ m wide, related to the intrusion of linear quartz porphyry bodies. Significant values include: 12.5 g/T / 1.5 m in a channel sample in the trench 95-2 area near L 22 E, and 9.96 g/T over 0.51 m in drill hole KT-09-1 also near L 22 E. The Krissy boulder, an approximate 200 kg boulder of recrystallized quartz with pyrite and visible gold in an altered/sheared sericitic volcanic / porphyry unit, located on L 17 E, and the AD boulder which also carries visible gold and is located 25 m to the north of the Krissy boulder, are approximately 500 m to the west of the Trench 2 area and across the ice direction. Trenching and channel sampling was carried out in the fall of 2010. Results are summarized below.

### Significant Assay Values - Krissy Trend Channel samples - 2010

Trench #	Location	Length	Au	Ag	Pb	Cu
		m	g/t	g/t	ppm	ppm
T1	24+25 E	0.3	8.94	2.1	210	341
T1	24+20 E	0.6	17.12	21.2	14303	2313
incl.		0.25	38.49	29.1	19900	2964
T1	24+14 E	0.7	5.73	0.5	85	134
incl.		0.5	7.51	0.5	86	141
T1	24+10 E	3.9	5.73	1.66	263	227
incl.	“	3.1	7.3	1.95	330	335
incl.		1.9	9.88	1.62	301	149
T1	24+05 E	2.5	4.41	3.16	227	416
incl.		0.5	14.44	8.05	612	409
T1	24 E	4.6	5.2	1.6	45	522
incl.		2.0	10.29	3.15	37	942
incl.		1.1	15.81	4.5	44	1176
T1	23+94 E	2.9	3.5	3.48	193	160
incl.		2.1	4.5	4.44	258	157
incl.		0.4	5.47	17.3	1276	418
and incl.		1.1	6.59	1.92	20	99
incl.		0.5	12.86	3.5	27	113
T1	23+89 E	3.2	2.98	1.69	27	236
incl.		1.8	4.73	2.73	15	186
incl.		0.9	7.66	4.8	9	228
T1	23+84 E	0.5	3.69	2.14	53	585
T1	23+80 E	0.3	5.59	12.8	753	1082
incl.		0.1	8.55	31.8	365	1477
T2	23+55 E	0.3	11.55	10.7	372	245
T3	23+43 E	0.5	2.94	0.5	14	66

Note: ND - non detect; NSV - no significant values; Ag - 0.5 g/t is detection limit; lengths reported are approximately 80-90 % true widths

### **Brass Buckle**

The Brass Buckle zone was discovered during prospecting / geological mapping by Corona Corporation in the late 1980's. Drilling has tested the Brass Buckle zone (13 holes) with significant but narrow gold intersections, up to 65 g/t over 1 m (incl. 280 g/t / 0.25 m) noted. Due diligence work by SSE personnel in 2009 noted visible gold in both the Brass Buckle and Brass Buckle South zones. Two selected grab samples and three channel samples over an approximate 10 m strike length, were taken from the surface exposure of the Brass Buckle quartz-pyrite vein, along the contact between a quartz porphyry unit and mafic volcanics of the Pacquet Harbour Group. The channel cuts, taken at 5 m intervals varied from 0.5 to 0.7 m long. Samples were analyzed for gold (Au), tellurium (Te) and 30 other elements. The two grab samples taken approximately 5 m apart assayed 573.3 g/T Au, 60 g/T Te, 23.6 g/T Ag and 84.3 g/T Au, ND for Te, 73.2 g/T Ag. The three channel samples gave values of 25.3, 248.9 and 189.1 g/T Au, 94, 45 and 17 g/T Te and 31.7, 15 and 2.1 g/T Ag respectively. Bismuth (Bi) was elevated with values from < 100 to 598 ppm indicating that the Te may be associated with the gold as a bismuth telluride.

### **Impairment**

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

### **Planned Exploration**

No further exploration is planned pending receipt of the drilling results on the Krissy trend. A decision on continuation of the option will be made at that time.

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

### **Property Description**

The 121 claim (30 km<sup>2</sup>) property, located near Thorburn Lake in east-central Newfoundland, was optioned from prospectors Alex Turpin and Colin Kendall (News Release April 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); 1<sup>st</sup> anniversary – \$30,000 plus 400,000 shares (paid); 2<sup>nd</sup> anniversary - \$30,000 plus 500,000 shares; 3<sup>rd</sup> 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 4<sup>th</sup> 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 where extensive precious metal exploration is being carried out.

### **Exploration**

The altered / mineralized zone was found in the mid 1990's 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. Historic work has given grab sample values up to 196 ppb gold and unexplained soil sample values up to 370 ppb Au. In 2008 Cornerstone carried out three days of exploration including rock sampling and Terraspec analysis. Values up to 403 ppb Au and 4.6 ppm Ag in rock samples were located and muscovite, chlorite and opal were identified, indicating an argillic to sub-prophyllitic alteration setting. Further exploration was recommended however the option was terminated when priorities changed in the company.

Thirty Seven (37) rock samples taken by the vendors, most from angular boulders or rubbly outcrop are intensely silicified, are argillicly altered and carry finely disseminated sulphides (mainly pyrite). The silicified sandstone and conglomerates are locally vuggy, and carry banded cherty to chalcedonic quartz. The mean and high values for the samples are: Au - 248 ppb with a high value of 997 ppb (1 g/t Au); Ag - 9.9 ppm with a high value of 145 ppm (145 g/t Ag). Fifteen (15) of the 37 samples gave values > 100 ppb including three (3) > 900 ppb Au. In silver (Ag), ten (10) samples gave > 10 ppm with five (5) > 20 ppm

(20 g/t Ag). These results show that the extensive alteration zone consistently hosts anomalous gold and silver values with the highest Ag grades located to the north of Bottle Pond and Henry's Pond in the north central part of the property. Gold values were highest near the north end of Henry's Pond and near the northern extent of the alteration zone.

Property evaluations in early 2010, included fourteen (14) due diligence samples. All samples were subcrop to angular float of silicified sandstone and conglomerate that contained finely disseminated pyrite. All were anomalous in gold, with values up to 118 ppb and most were anomalous in silver with values up to 14 ppm. A train of angular boulders/rubbly outcrop has been traced over a strike length of 1.7 km and widths of 200–500 metres. The north and south extensions of the zone are lost under thick till cover.

The property is underlain by variably altered, Precambrian age, Musgravetown Group sandstones and conglomerates and lies in a favorable geological setting similar to other alteration zones on the Burin and Avalon Peninsulas, where numerous occurrences of epithermal style alteration, some carrying gold mineralization, such as Hickey's Pond and the Stewart, are documented. The results indicate that the property has the potential to host a low to intermediate sulphidation gold/silver epithermal deposit.

In 2010, a trenching/pitting program was carried out from July 12-20, targeting an area where prospecting had located an extensive area of Au/Ag anomalous angular boulders of silicified conglomerate. Seven (7) trenches, ranging from 20 to 60 m in length, were excavated along a 700 meter strike length. The trenches were washed, mapped and channel sampled across the trend of the mineralization. A total of 121 samples were taken over lengths varying from 0.5 to 2 m. Overburden varies from less than 1 m to > 6 m. The first two trenches, both 45 to 60 meters long, failed to reach bedrock due to extensive till cover. Five trenches (#'s 3 to 7), all 10 to 50 meters in length, exposed a zone 700 m long by 75 m wide of epithermal style alteration consisting of intense silicification and pyritization, with some clay alteration (kaolinite?). Bedrock in trenches 3,4,6 and 7 consists of intensely sheared to brecciated, silicified and pyritized conglomerate/sandstone, cut by banded quartz veins which range from a few millimeters to 20 centimeters. Pyrite is ubiquitous, occurring as disseminated grains, blebs and micro stringers, ranging from 2% to 25% and averaging 5%. Bedrock in Trench 5 is white to grey, cherty to chalcedonic, quartz, over 4 m wide, which carries minor disseminated pyrite and is cut by a 1.5 m white quartz vein. Analyses confirm the zone is anomalous in precious metals and some indicator elements (News Release 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 sediments cut by a 1.5 m quartz vein in Trench 5. Silver (Ag) values range from 1.9 to 13.4 ppm with a mean of 3.55 ppm. Arsenic (As) values range from 50 to 860 ppm with a mean of 130.2 ppm. Molybdenum (Mo) values range from 7 to 262 ppm with a mean of 28.4 ppm. Anomalous aluminum, bismuth, and potassium values are also noted. Five rock samples acquired outside the altered area gave values < 10 ppb gold.

Prospecting located highly altered (silicified) conglomerate units 150 m to the south of trench 6, the southernmost trench. Large angular, altered (silicified) boulders, similar to bedrock uncovered in the trenching, have also been located up to 1 kilometre to the north of the trenched area.

Grid cutting and an IP/Resistivity survey to determine the margins and orientation of the zone, and to indicate areas of higher potential was carried out in late September and early October, 2010. The time domain IP survey covered 7 lines (173 to 189 N) spaced mostly 200 m apart for a total of 8.9 line kilometres using a dipole-dipole array and an electrode spacing of 75 m to n=6. It covered the altered (silicified)/mineralized area, defined by prospecting and trenching surveys carried out in the summer (see News Releases dated October 14, August 6 and July 29, 2010), which extends in a north-northwesterly direction, over an area of > 1 km by 300 to 500 m wide, narrowing to the north and south. Ponds in the central portion of the grid made it impossible to survey in these areas.

Results were interpreted by Gerard Lambert, a geophysical consultant. His conclusions are: 1) Results indicate nine shallow (i.e., 25 m depth or so) anomalous IP features, all of which are of the "non-conductive" type, indicating disseminated to stringer sulphides, which extend through the altered / mineralized area, in a north to north-northeast direction and 2) The IP anomalies appear to be grouped to

form two linear trends, one of which falls along the corridor of silicification in the central portion of the grid which appear to show potential for outlining a significant pyritized zone.

Further geological evaluation of the altered / mineralized zone indicates that the epithermal style, banded quartz veins that crosscut the bedding are found in the central and northern part while the more sinter-like banded zones, which appear to parallel bedding, occur exclusively in the southern portion of the zone. Some quartz breccias, where the banded, sinter-like veins are broken up, 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, visited the property in October in company with the VP Exploration. He has also been provided with data from the exploration to date. He comments: *“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”.*

A phase 1 diamond drilling program consisting of seven holes, BE-11-1 to 7, totaling 1,577 m, tested the altered / mineralized 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 (see news releases dated March 24, April 8, May 3, and June 1, 2011), with significant gold / silver intersections noted.

A strong gold/silver zone was located in DDH BE-11-3 (News release May 3, 2011). The zone gave 0.41 g/t Au and 15.4 g/T Ag over 89.2 m from 183 m to 272.2m, including 0.87 g/t Au and 33.5 g/T Ag over 30.5 m from 228 m to 258.5 m, including 2.5 g/t Au and 74.1 g/T Ag over 7 m from 239 m to 246 m, including 6.05 g/t Au and 174 g/T Ag over 1.5 m from 240.5 m to 242 m and 6.04 g/T Au and 114 g/T Ag over 1 m from 245 m to 246 m. The highest grades are associated with a brecciated zone located between 228 m and 272 m. Pyrite, as disseminations and veins/veinlets averaging 2-3%, and an unknown, minor fine grained grey black metallic mineral, is noted in this section. Alteration noted is illite, muscovite/sericite and potassium feldspar (Kspar) with strong silicification throughout.

Gold/silver values were also located in drill holes 4,5,6 and 7 located to the north of BE-11-3 (News release June 7, 2011). Highlights include: 163 ppb Au and 32.3 ppm Ag over 6.5 m (97-103.5m) in BE-11-5; 1358 ppb Au and 2 ppm Ag over 6 m (41-47 m) including 1 m (43-44 m) at 7645 ppb Au and 10 ppm Ag, and 319 ppb Au and 13 ppm Ag over 18.6 m (231.3-249.9 m) including 1067 ppb Au and 64 ppm Ag over 2.4 m (231.3-233.7 m) in BE-11-7. All drill holes gave at least 1 value >100 ppb Au over at least 1 m. Significant results are given in the table following.

Holes 1, 2, 4 and 5 tested the altered / mineralized zone to a maximum vertical depth of 170 m, with most shallower, while Hole 3 tested the zone to a vertical depth of 230 m, with the Au/Ag zone located below 170 m vertical depth. Holes 6 and 7, located 500 m and 700 m to the north of holes 4 and 5, tested the zone to vertical depths beyond 200 m. True widths are not known, due to variable dips of the units, but are believed to be close to drill intersections. The structural control on the mineralization is not yet known although gouge zones representing shears or faults were noted in most holes.

Results for check samples with background, anomalous and higher values from drill holes BE-11-1 to 3 analyzed at Eastern Analytical generally correspond quite 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 from BE-11-3 gave 5.8 g/T and 5.5 g/T respectively in the checks. It is believed that a nugget affect may be causing the variation in some samples. Check samples from holes 4 to 7 have been submitted to Eastern Analytical for analysis. Results are pending.

*List of Significant Au.Ag values – Big Easy Phase 1 Diamond Drilling*

Hole #	From	To	Total	Au ppb	Ag ppm
BE-11-01	29	30.3	1.3	126	1
BE-11-02	34	35.5	1.5	175	17
BE-11-03	183	272.2	89.2	410	15.4
incl.	228	258.5	30.5	870	33.5
incl.	239	246	7	2500	74.1
incl.	240.5	242	1.5	6052	174
incl.	245	246	1	6043	114
BE-11-04	95	102	7	410	3.4
incl.	95	98	3	908	4.7
BE-11-05	86.2	89	2.8	299	9.2
and	97	103.5	6.5	163	32.3
incl.	97	98.5	1.5	460	49
BE-11-06	37.7	44	6.3	212	8.2
incl.	43	44	1	136	36
and	53	60	7	168	5.5
and	96	104.7	8.7	156	1.9
and	180.6	196.8	16.2	163	3.4
incl.	255	256.5	1.5	541	2
BE-11-07	41	47	6	1358	2
incl.	43	44	1	7645	10
and	217.8	222	4.2	480	4.4
incl.	220	221	1	1549	7
and	231.3	249.9	18.6	319	13
incl.	231.3	233.7	2.4	1067	64
incl.	231.3	231.6	0.3	2569	335

Plan maps of the drilling, the IP chargeability and resistivity and a compilation map for the property, plus pictures showing the drilling and the drill core, are shown on the Silver Spruce website at [silverspruceresources.com](http://silverspruceresources.com).

**Impairment**

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

**Planned Exploration**

All data will be compiled in a 3D database to allow modeling of the system for a Phase 2 drilling program to be carried out later in the summer or in the early fall. Evaluation of mineralized sections will also be carried out by thin section analysis. Further exploration will be funded out of existing funds however a large drill program will require more funds and these will most likely have to be raised on the market or by a JV with another company.

## **OTHER PROPERTIES / PROJECTS**

The Company continues to evaluate 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. An example of the projects generated includes the Napes Ashini grubstake arrangement with an Innu Prospector, Napes Ashini and his associates. The Company provides transportation, other logistical support and geological expertise to this group, led by Napes, who is using historical knowledge gained from his ancestors to evaluate prospective sites throughout their traditional areas. This project, which has had some success in generating areas of interest (ie Lobstick U and MRT REE/U properties) will be continued, albeit at a lower level, in 2011.

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 42 years. He is a past president and a life member of the Prospectors and Developers Association of Canada, and is a past Chairman and a past director of 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 \$252,220 for the three months ended April 30, 2011 (April 30, 2010 - \$30,847).

### **Financing Activities**

The Company had a net inflow of \$68,330 the three months ended April 30, 2011 through financing activities compared to \$9,236 for the three months ended April 30, 2010.

### **Investing Activities**

The Company had a net outflow of \$584,217 from investing activities for the three months ending April 30, 2011 (April 30, 2010 - \$266,802). Of this amount in the current year \$618,066 was invested in mineral property exploration activities (April 30, 2010 - \$266,552).

### **Liquidity**

The Company had cash and cash equivalents of \$2,140,675 as at April 30, 2011 (April 30, 2010 - \$410,700). The change in non-cash operating working capital as at April 30, 2011 was a cash inflow of \$36,589 (April 30, 2010 - \$121,296). The exploration budget for 2011 is \$1,500,000. \$100,000 has been allocated for Rambler South, \$200,000 for Big Easy, \$1,000,000 for the Popes Hill with Popes Hill JV, and the remainder of \$200,000 for the other uranium and REE projects and general exploration. This activity will be funded from the existing flow through funds which were raised in December, 2010. Working

capital is sufficient to support the planned exploration expenditures and to allow the Company to maintain its operations and properties for at least the next year.

### **Capital Resources**

The Company's authorized capital consists of an unlimited number of common and preference shares without par value. At April 30, 2011, the Company had 106,465,305 issued and outstanding common shares (April 30, 2010 - 68,806,775).

### **RELATED PARTY TRANSACTIONS**

Included in accounts payable and accrued liabilities as at April 30, 2011 is \$40,000 (October 31, 2010 - \$127,705) 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 six month period ended April 30, 2011, 2,025,000 stock options were granted to directors, officers and employees of the Company (October 31, 2010 – 2,925,000).

Rent and certain building materials required by the Company for its operations are purchased from a hardware store controlled by a director of the Company. During periods of exploration management and employees of the Company stay at a hotel controlled by a director of the Company. During the six month period ended April 30, 2011, \$10,434 (October 31, 2010 - \$1,319) was paid to the hardware store and \$42,145 (October 31, 2010 - \$2,992) was paid to the hotel and included in mineral properties on the balance sheet.

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:

	<b>Cash</b>	<b>Shares</b>
<b>2011</b>	300,000	500,000
<b>2012</b>	55,000	650,000
<b>2013</b>	320,000	600,000

The Company leases its head office in Bridgewater under an operating lease. Future lease payments aggregate \$18,150 and include the following amounts payable over the next three years:

	\$
2011	9,900
2012	9,900
2013	825
	<u>20,625</u>

## **FINANCIAL INSTRUMENTS**

### **Fair Value**

Canadian generally accepted accounting principles require 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 quoted market prices.

## **RISKS AND UNCERTAINTIES**

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 in Labrador - Popes Hill and the MRT property, and on the island of Newfoundland, Rambler South and Big Easy, are road accessible keeping exploration costs relatively low. Plans are to move forward on these projects using flow through funds acquired in 2010 and available matching government funding where available and as required. An extensive drill program on the Big Easy gold/silver zone will require significant new cash and therefore either a new financing or a joint venture with another company.

## **CURRENT MARKET CONDITIONS**

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<sub>3</sub>O<sub>8</sub>) 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). Cameco's 2005 annual report estimated that uranium fuel consumption will reach 217 ktpa by 2015.

While the short term (1-3 years) 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, which is currently trading at around US\$65/lb on the term market with spot prices around \$50/lb. Market pressures remain strong for the long term and the sentiment is that the long term uranium price while lower in the next few years should increase over the next 5 to 10 years.

The main areas of uranium potential defined over the past few years will be maintained for the next year or so without requiring significant exploration expenditures. This will allow the Company to maintain its properties until the end of the Nunatsiavut Government moratorium which will hopefully be at the end of September, 2011. SSE will benefit from maintaining a strong land position in Labrador when the Nunatsiavut government lifts the moratorium on uranium mine development, allowing Paladin (formerly Aurora) to develop the “world class” Michelin and Jacques Lake deposits which host approximately 135 M lbs of uranium (non 43-101 compliant). This will bring renewed attention and investor interest to the area and any Company with assets in this area.

The fundamentals for REE’s and gold/silver are strong and it is for this reason that the Company is emphasizing these commodities. The demand for REEs and other commodities is expected to continue to rise as the global economy expands. The Company’s REE and gold/silver/base metal/projects are mainly road accessible and therefore relatively cheap to explore. No emphasis is placed on exploration for base metals however any discoveries made on our properties are in good locations for future development.

The impairment of the 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 the moratorium continues and financing is difficult to impossible to obtain at this point. For the most part the 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 at year ends 2008, 2009 and 2010. Impairment issues will continue to be evaluated each quarter with impairments \$7,020 being recorded during the six months ended April 30, 2011.

The market cap of the Company has dropped significantly in the last quarter due to mainly to selling by one of our major institutional shareholders. Our emphasis on REE projects and the PH property in particular should generate a continued positive news flow over the summer – the first year of actual exploration along this trend. The global economic situation, while still confused, appears to be getting better and the share prices in junior explorers such as ourselves is either increasing or holding steady, especially for those companies with significant REE assets. 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 2010 exploration program, to a similar level as 2009, but down from the high level of 2008 to approximately \$700,000, including drilling on the Rambler South project, with the funding met from existing cash resources.

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 being exercised will allow the company to maintain exploration programs in 2011 as described in the previous sections.

A property portfolio with REE and precious metal properties, a new gold silver discovery (Big Easy) and a uranium discovery with defined resources (Two Time), plus other significant uranium projects, make Silver Spruce a leading junior explorer. The company is poised for short term success in REE’s and precious metals and longer term success in uranium exploration and development.

## **MULTILATERAL INSTRUMENT 52-109 DISCLOSURE**

### **Evaluation of disclosure controls and procedures**

The Corporation has established and maintains disclosure controls and procedures over financial reporting. The certifying officers have evaluated the effectiveness of the issuer’s disclosure controls and procedures as of July 31, 2009 and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in interim and annual filings.

### **Internal controls over financial reporting**

Management is responsible for the establishment and maintenance of a system of internal controls over financial reporting. This system has been designed to provide reasonable assurance that assets are safeguarded and that the financial reporting is accurate and reliable.

In compliance with Form 52-109F2 of Multilateral Instrument 52-109, management must disclose in its MD&A any material weakness found to exist within its system of internal control over financial reporting. Typical with smaller organizations, management has identified a material weakness during the year caused by a lack of segregation of duties. This is a typical issue for smaller companies, and management believes that the risks associated with the lack of segregation of duties have been mitigated by the implementation of other controls.

The Audit Committee has direct oversight responsibilities for the review and approval of the quarterly and annual financial disclosures. The Company has qualified senior accounting personnel engaged on a full time basis to manage the Company's financial disclosures.

### **FUTURE ACCOUNTING PRONOUNCEMENTS**

#### *International Financial Reporting Standards ("IFRS")*

The Canadian Accounting Standards Board ("AcSB") recently confirmed the convergence of Canadian GAAP with IFRS for publicly-listed companies to use IFRS, effective for the Company for interim and annual financial statements beginning on November 1, 2011. The change date will require the restatement for comparative purposes of amounts reported by the Company for interim periods and for the year ended October 31, 2011. The Company has developed and commenced the execution of an IFRS implementation plan (the "plan") to prepare for this transition. This plan has three distinct phases:

- Phase 1 - Scoping and Planning;
- Phase 2 - Design and Build; and
- Phase 3 – Implement and Review.

The Company has completed Phase 1 of the implementation plan, identifying key areas of change between Canadian GAAP and IFRS and grading the impact the difference between each accounting standard will have on the Company. While a detailed analysis of this impact will be completed in Phase 2 of the plan, the initial key areas of significance include:

- Exploration and development expenditures;
- Impairment;
- Share-based compensation;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

The Company is currently in the process of completing Phase 2 of the plan which it commenced during the third quarter of 2010. Phase 2 involves a "deep dive" into IFRS standards that impact the Company, such that management can make decisions as to accounting policy choices, as well as system, process and control changes.

#### *Business combinations*

In January 2009, the CICA issued Section 1582, "Business Combinations", replacing Section 1581 of the same name. The new section will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1582, which provides the Canadian equivalent to International Financial Reporting Standard 3, Business Combinations (January 2008), establishes standards for the accounting for a business combination. Section 1582 requires business acquisitions (including non-controlling interests and contingent consideration) to be measured at fair value on the acquisition date,

generally requires acquisition-related costs to be expensed, requires gains from bargain purchases to be recorded in net earnings, and expands the definition of a business. As Section 1582 will apply only to future business combinations, it will not have a significant effect on the Company's financial statements prior to such acquisitions.

## **CHANGE IN ACCOUNTING POLICIES**

The Company has adopted the following recommendations of the CICA Handbook:

### *Goodwill and intangible assets*

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning November 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this Section had no impact on the consolidated financial statements.

### *Consolidated financial statements and non-controlling interests*

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace the existing Section 1600, "Consolidated Financial Statements", and provide the Canadian equivalent to International Accounting Standard 27, "Consolidated and Separate Financial Statements (January 2008)". The new sections will be applicable to the Company for the year ended October 31, 2011. Section 1601 establishes standards for the preparation of consolidated financial statements, and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of these new sections had no impact on its consolidated financial statements.

### *Credit risk and the fair value of financial assets and financial liabilities*

In January 2009, the Emerging Issues Committee ("EIC") concluded that an entity's own credit risk and the credit risk of the counterparty should be taken into accounting in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable retrospectively without restatements of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for period ending on or after the date of the issue of the Abstract (January 20, 2009). Retrospective application with restatement of prior periods is permitted but not required. Early adoption is encouraged. The application of incorporating credit risk into the fair value should result in entities re-measuring the financial assets and financial liabilities as at the beginning of the period of adoption with any resulting difference recorded in retained earnings except when derivatives in a fair value hedging relationship accounted for by the short cut method (difference is adjusted to the hedged item) and for derivatives in cash flow hedging relationship (differences are recorded in accumulated other comprehensive income). The adoption of this EIC had no impact on the consolidated financial statements.

### *Financial statement concepts*

Effective for financial statements relating to fiscal years beginning on or after October 1, 2008, CICA Handbook Section 1000 "Financial Statement Concepts" was revised to remove material that omitted the recognition of assets that might not otherwise meet the definition of an asset and to add guidance from the International Accounting Standards Board's (IASB) "Framework for the Preparation and Presentation of Financial Statements" that helps distinguish assets from expenses. The adoption of this section had no impact on the consolidated financial statements.