

*Consolidated Financial Statements*

**SILVER SPRUCE RESOURCES INC.**

*A Development Stage Company*

*July 31, 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

\_\_\_\_\_, 2011

**SILVER SPRUCE RESOURCES INC.**  
**Consolidated Balance Sheets**  
**(Unaudited)**

	<b>July 31</b>	<b>October 31</b>
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	1,369,183	216,287
HST and other receivables	69,900	47,188
Refundable staking deposits	96,000	59,800
Prepaid expenses	48,048	16,490
	<b>1,583,131</b>	<b>339,765</b>
Mineral properties (Notes 5 and 8)	4,176,785	2,857,318
Capital assets (Note 6)	88,299	109,201
Mexican VAT receivable	181,568	182,655
Non-current refundable staking deposits	22,256	70,783
Investments	4,788	10,013
	<b>6,056,827</b>	<b>3,569,735</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	89,676	374,385
Current portion of long-term debt (Note 7)	-	5,976
	<b>89,676</b>	<b>380,361</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	24,087,686	21,522,234
Warrants (Note 10)	878,542	739,925
Contributed surplus (Note 12)	6,958,213	6,372,250
Deficit	(25,957,290)	(25,445,035)
	<b>5,967,151</b>	<b>3,189,374</b>
	<b>6,056,827</b>	<b>3,569,735</b>

Nature of operations and going concern (Note 1)  
Commitments and Contingencies ( Notes 5, 8, 15)

APPROVED BY THE BOARD OF DIRECTORS

"Peter Dimmell" 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)**

	Three months ended July 31,		Nine months ended July 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenue				
Foreign exchange gain	351	2,259	-	-
Other income	107,060	-	107,060	46,698
Interest income	-	-	-	42
	<b>107,411</b>	<b>2,259</b>	<b>107,060</b>	<b>46,740</b>
Expenses				
Abandonment of mineral properties (Note 5)	-	159,196	7,020	159,196
Accounting and audit	9,497	19,562	92,952	34,164
Amortization	6,303	8,992	20,641	29,999
Consulting fees	32,692	23,986	137,983	88,315
Corporate relations	17,245	7,425	91,971	22,349
Foreign exchange loss	-	-	640	4,243
Impairment of loan	-	-	10,459	-
Impairment of mineral properties	465	-	7,805	-
Legal	11,697	-	34,547	20,438
Listing and filing fees	2,316	2,791	26,509	21,785
Office and general	33,543	19,592	131,115	90,926
Stock-based compensation	111,073	-	519,212	227,732
Travel	4,213	474	24,018	17,384
Unrealized loss in market value of investments	1,500	4,525	5,226	7,387
Wages and benefits	64,370	49,422	134,212	165,212
	<b>294,914</b>	<b>295,965</b>	<b>1,244,310</b>	<b>889,130</b>
Loss before income taxes	(187,503)	(293,706)	(1,137,250)	(842,390)
Income taxes (recovery)	1,337	-	(624,995)	(351,580)
Loss for the period	<b>(188,840)</b>	<b>(293,706)</b>	<b>(512,255)</b>	<b>(490,810)</b>
Deficit, beginning of period	25,768,450	20,566,935	25,445,035	20,369,831
Deficit, end of period	<b>25,957,290</b>	<b>20,860,641</b>	<b>25,957,290</b>	<b>20,860,641</b>
Net loss per share - basic and diluted	0.00	0.00	0.01	0.01
Weighted average number of shares outstanding - basic and diluted	106,525,088	69,168,188	91,663,430	54,922,048

See accompanying notes to the consolidated financial statements

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

	Three months ended July 31,		Nine months ended July 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(188,840)	(293,706)	(512,255)	(490,810)
Items not involving cash:				
Abandonment of mineral properties (Note 5)	-	159,196	7,020	159,196
Amortization	6,303	8,992	20,641	29,999
Gain on sale of depreciable asset	(1,000)	-	(1,000)	-
(Gain) loss on foreign exchange	(351)	-	640	-
Stock-based compensation	111,073	-	519,212	227,732
Recovery of future income taxes	-	-	(632,000)	(351,580)
Unrealized loss (gain) in market value of investments	1,500	4,525	5,225	7,387
	(71,315)	(120,993)	(592,517)	(418,076)
Changes in non-cash working capital				
(Increase) decrease in prepaid expenses	(20,731)	(27,848)	(31,558)	(8,982)
(Increase) decrease increase in HST and other receivables	31,048	43,657	(21,571)	267,864
Increase (decrease) in accounts payable and accrued liabilities	(136,907)	196,060	(285,853)	70,409
Change in non-cash operating working capital	(126,590)	211,869	(338,982)	329,291
	(197,905)	90,876	(931,499)	(88,785)
<b>FINANCING ACTIVITIES</b>				
Issuance of shares for mineral properties	22,000	-	22,000	-
Issuance of shares for PR agreement	-	-	42,723	-
Proceeds from issuance of shares and warrants	-	-	1,913,523	1,015,000
Share issue costs	(4,056)	-	(169,825)	(90,532)
Repayment of long-term debt	(1,494)	(2,241)	(5,976)	(6,723)
Exercise of warrants and options	-	-	1,594,664	-
	16,450	(2,241)	3,397,109	917,745
<b>INVESTING ACTIVITIES</b>				
Proceeds from sale of equipment	1,000	4,000	1,000	4,000
Mineral properties expenditures - net	(589,307)	(374,137)	(1,326,041)	(685,990)
Refund of staking deposits	-	(9,800)	53,100	5,950
Purchase of refundable staking deposit	(1,730)	-	(40,773)	(61,800)
	(590,037)	(379,937)	(1,312,714)	(737,840)
(Decrease) increase in cash and cash equivalents	(771,492)	(291,302)	1,152,896	91,120
Cash and cash equivalents, beginning of period	2,140,675	410,700	216,287	28,278
Cash and cash equivalents, end of period	1,369,183	119,398	1,369,183	119,398

Supplemental cash flow information (See Note 14)

See accompanying notes to the consolidated financial statements

# **SILVER SPRUCE RESOURCES INC.**

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

**For the three and nine months ended July 31, 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 nine months ended July 31, 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 nine months ended July 31, 2011 or 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 July 31, 2011, the Company had a cash and cash equivalents balance of \$1,369,183 (October 31, 2010 - \$216,287) to settle current liabilities of \$89,676 (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 nine months ended July 31, 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. Any cash surplus to operational needs is invested 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 nine months ended July 31, 2011.

##### **d) Fair Value**

The carrying amounts for cash and cash equivalents, HST and other receivables, refundable staking deposits, 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 are invested at fixed interest rates over the next twelve months. Sensitivity to a plus or minus 1% change in variable interest rates would not have a significant effect on the Company's results.

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 nine months ended July 31, 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>July 31, 2011</b>	October 31, 2010
	<u>\$</u>	<u>\$</u>
<b>Mexican pesos:</b>		
Cash and cash equivalents	<b>3,892</b>	5,006
VAT receivable	<b>181,568</b>	182,655
Accounts payable	<b>13,422</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 \$480 (4,788 x 10%).

**5. MINERAL PROPERTIES**

	<b>July 31, 2011</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	<b>2,084,358</b>	-	-	-	<b>2,084,358</b>
Double Mer	<b>13,558</b>	<b>3,913</b>	-	-	<b>17,471</b>
Straits	<b>32,755</b>	<b>3,780</b>	-	-	<b>36,535</b>
Snegamook	<b>13,441</b>	<b>4,371</b>	-	-	<b>17,812</b>
Mount Benedict	<b>95,252</b>	<b>7,693</b>	-	-	<b>102,945</b>
Tukialuk	<b>14,820</b>	-	-	-	<b>14,820</b>
Lake Michael	<b>3,420</b>	-	-	<b>(3,420)</b>	-
Jeanette Bay	<b>3,600</b>	-	-	<b>(3,600)</b>	-
Gold and Base Metals					
Big Easy	<b>164,965</b>	<b>411,353</b>	-	-	<b>576,318</b>
Pope's Hill Joint Venture	-	<b>65,190</b>	-	-	<b>65,190</b>
Pope's Hill	<b>24,892</b>	<b>597,638</b>	-	-	<b>622,530</b>
Red Wine Mountains	<b>1,313</b>	<b>(238)</b>	-	-	<b>1,075</b>
Rambler South	<b>404,944</b>	<b>171,622</b>	-	-	<b>576,566</b>
MRT Property	-	<b>61,165</b>	-	-	<b>61,165</b>
	<b>2,857,318</b>	<b>1,326,487</b>	-	<b>(7,020)</b>	<b>4,176,785</b>

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the three and nine months ended July 31, 2011 and 2010

**5. MINERAL PROPERTIES (continued)**

	<b>October 31, 2010</b>				
	<b>Opening</b>	<b>Additions</b>	<b>Refund of</b>	<b>Impairment and</b>	<b>Closing</b>
	<b>\$</b>	<b>\$</b>	<b>Expenditures</b>	<b>Abandonments</b>	<b>\$</b>
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 nine months ended July 31, 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. In January 2011 the Company abandoned Jeanette Bay and wrote off its remaining balance.

##### **d) Lake Michael**

The Company owns certain claims in this area of Newfoundland and Labrador. In January 2011, the Company abandoned the Lake Michael project and wrote off its remaining balance.

##### **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 nine months ended July 31, 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.

During May 2011, the Company recovered \$106,060 of Lobstick expenditures from the Province of Newfoundland's JEA program.

This amount is included in other income in the Statement of Operations.

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 nine months ended July 31, 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;	\$27,510
issued on regulatory approval - May 7, 2010)	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 nine months ended July 31, 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**

**For the three and nine months ended July 31, 2011 and 2010**

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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 - not paid and no shares issued as option terminated)	\$50,000 and 400,000 common shares

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.**  
**Notes to the Consolidated Financial Statements**  
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**5. MINERAL PROPERTIES (continued)**

h) MRT Property (continued)

On Signing (Cash paid / Share issue - issued June 6, 2011)	\$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>July 31, 2011</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
<b>Equipment</b>	<b>151,006</b>	<b>99,280</b>	<b>51,726</b>
<b>Computer</b>	<b>60,702</b>	<b>48,807</b>	<b>11,895</b>
<b>Vehicles</b>	<b>99,319</b>	<b>74,641</b>	<b>24,678</b>
	<b>311,027</b>	<b>222,728</b>	<b>88,299</b>

	<b>October 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
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>July 31, 2011</b>	<b>October 31, 2010</b>
	\$	\$
Chattel loan payments	-	5,976
Less: due in 12 months	-	5,976
Long-term portion	-	-

At June 30, 2011 the GMAC loan matured, balance paid in full.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the three and nine months ended July 31, 2011 and 2010

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**8. MINERAL PROPERTY AGREEMENTS**

On July 20, 2007, the Company jointly with Universal Uranium Ltd. (on July 29, 2008, Universal Uranium Ltd. Assigned its rights to Crosshair Explorations and Mining Corp.) signed an earn-in agreement ("the Agreement") with Bayswater Uranium Corporation ("Bayswater"), whereby Bayswater has been granted an option to acquire a 50% interest in 34 mineral claims located in the Central Mineral Belt region of Labrador, which is currently held 40% by the Company and 60% by Crosshair Explorations and Mining Corp. Pursuant to the Agreement, Bayswater issued to the Company and Universal Uranium an aggregate of 200,000 common shares (of which 100,000 shares were issued to the Company and 100,000 shares were issued to Universal Uranium).

On June 2, 2008 Bayswater forfeited its option to acquire a 50% interest in the 34 mineral claims, and therefore the agreement was terminated.

**9. SHARE CAPITAL**

The share capital is as follows:

	<b>July 31, 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:		
106,565,305 common shares (2010 - 79,073,442)	<b>24,087,686</b>	21,522,234

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

	<b>July 31, 2011</b>		<b>October 31, 2010</b>	
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<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>500,000</b>	<b>56,000</b>	900,000	56,750
Flow-through offering fees	-	<b>(34,267)</b>	-	(109,070)
Share issue costs	-	<b>(169,824)</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>106,565,305</b>	<b>24,087,686</b>	79,073,442	21,522,234

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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**9. SHARE CAPITAL (continued)**

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.

**10. WARRANTS**

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

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

Summary of warrants outstanding at July 31, 2011:

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

# SILVER SPRUCE RESOURCES INC.

## Notes to the Consolidated Financial Statements

For the three and nine months ended July 31, 2011 and 2010

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### 10. WARRANTS (continued)

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.

### 11. 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 July 31, 2011 and October 31, 2010 are summarized as follows:

	July 31, 2011		October 31, 2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance, beginning of year	10,885,897	0.24	8,796,000	0.54
Granted	3,675,000	0.30	4,360,897	0.10
Exercised	(1,269,230)	0.09		
Expired	-	-	(2,271,000)	(1.13)
Balance, end of year	13,291,667	0.27	10,885,897	0.24

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the three and nine months ended July 31, 2011 and 2010

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**11. STOCK OPTIONS (continued)**

At July 31, 2011, outstanding options to acquire common shares of the Company were as follows:

<b>Exercise Price</b> <b>\$</b>	<b>Number of Outstanding Options</b>	<b>Weighted Average Remaining Contractual Life of Outstanding Options (years)</b>	<b>Grant date Weighted Average Fair Value per Option</b> <b>\$</b>	<b>Number of Exercisable Options</b>
0.30	1,450,000	4.88	0.08	1,450,000
0.34	25,000	4.54	0.24	25,000
0.34	200,000	2.54	0.21	200,000
0.30	2,000,000	4.47	0.20	2,000,000
0.06	666,667	1.11	0.04	666,667
0.12	2,425,000	3.74	0.08	2,425,000
0.15	2,690,000	2.53	0.13	2,690,000
0.35	2,920,000	1.76	0.32	2,920,000
0.50	400,000	0.32	0.48	400,000
0.65	60,000	0.39	0.53	60,000
0.65	125,000	0.52	0.53	125,000
0.65	50,000	0.58	0.56	50,000
0.83	20,000	1.59	0.67	20,000
1.08	160,000	0.71	1.06	160,000
1.78	100,000	0.99	1.75	100,000
	13,291,667	2.93	0.22	13,291,667

The weighted average fair value per option of options outstanding as at July 31, 2011 is \$0.27 (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>July 31, 2011</b>	<b>October 31, 2010</b>
Risk-free interest rate	<b>1.21% - 2.62%</b>	1.21% - 2.80%
Expected life	<b>2-5 years</b>	2-5 years
Expected volatility	<b>129% - 288%</b>	154% - 203%
Expected dividend yield	<b>nil</b>	nil

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the three and nine months ended July 31, 2011 and 2010

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**12. CONTRIBUTED SURPLUS**

The following is a summary of contributed surplus activity:

	<b>July 31, 2011</b>	October 31, 2010
	<u>\$</u>	<u>\$</u>
Balance, beginning of year	<b>6,372,250</b>	6,086,182
Employee stock - based compensation	<b>519,212</b>	227,732
Issuance of options	<b>42,723</b>	-
Expiry of warrants	<b>96,426</b>	
- options issued as finders fee	-	58,336
Options exercised	<b>(72,398)</b>	-
	<hr/>	<hr/>
Balance, end of year	<b>6,958,213</b>	6,372,250

**13. RELATED PARTY TRANSACTIONS**

Included in accounts payable and accrued liabilities as at July 31, 2011 is \$12,731 (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 nine month period ended July 31, 2011, 3,675,000 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 an officer and director of the Company. During periods of exploration management and employees of the Company stay at a hotel controlled by an officer and director of the Company. During the nine month period ended July 31, 2011, \$19,482 (October 31, 2010 - \$1,319) was paid to the hardware store and \$49,446 (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.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the three and nine months ended July 31, 2011 and 2010

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**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>July 31, 2011</b>	<b>October 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents		
Cash	<b>\$ 1,369,183</b>	\$ 216,287
	<b>1,369,183</b>	216,287
Interest paid in the year	-	-
Income taxes paid in the year	-	-
Non-cash investing and financing activities:		
Acquisition of mineral properties for share consideration	<b>56,000</b>	56,750
Expiry of warrants	<b>96,426</b>	-
Options issued as finders fee	<b>34,266</b>	58,336
Value of share, warrants and options included in share issue costs	<b>165,769</b>	109,070
Effect of future income taxes on share capital upon renouncement of expenditures	<b>632,000</b>	203,000

**15. 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:

	<b>Cash (CAD)</b>	<b>Cash (USD)</b>	<b>Shares</b>
<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 \$14,025 and include the following amounts payable over the next three years:

	<b>\$</b>
2011	3,300
2012	9,900
2013	825
	<b>14,025</b>

# SILVER SPRUCE RESOURCES INC.

## Notes to the Consolidated Financial Statements

For the three and nine months ended July 31, 2011 and 2010

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### 16. 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 the joint venture is summarized below:

	<u>July 31, 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>July 31, 2011</u>	<u>October 31, 2010</u>
	\$	\$
<b>Balance Sheet</b>		
Mineral properties	65,190	-
<b>Statement of Cash Flow</b>		
Cash used for investing activities	-	-
	<u>65,190</u>	<u>-</u>

Prior to April 11, 2011 when the joint venture was created, the Company held 1,719 claims on the Pepe's Hill Property which are now comprised in the joint venture agreement.

### 17. SUBSEQUENT EVENTS

On August 29, 2011 management decided to terminate the option of further exploration on the Rambler South Property. This project has been abandoned and related expenditures of \$576,566 will be written off at October 31, 2011.



**MD&A July 31, 2011**

*This document provides management's discussion and analysis (MD&A) for our financial condition as at, and results of operations for the quarter ended July 31, 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 April 30, 2011. **This MD&A has been prepared as of September 25, 2011 and is current to that date unless otherwise stated.***

*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 1900 claims totaling 475 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, and Double Mer. 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 late 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 CMB JV, 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 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 a gold/silver project on the island of Newfoundland - Big Easy. Most of the projects, except 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 into 2012. 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 July 31, 2011, cash reserves totaled \$1.3 M.

Further financing will be undertaken in 2011 to allow the Company to move its projects forward toward economic realization.

A commitment to prudent budgeting, an excellent property portfolio including new REE and uranium discoveries on the Trans Labrador Highway, a uranium deposit with defined resources, two other REE

projects in Labrador, and a gold/silver project 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>July 31, 2011</b>	<b>April 30, 2011</b>	<b>January 31, 2011</b>	<b>October 31, 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	-	-	237	2,800
Net (loss)	<b>(188,840)</b>	<b>(306,058)</b>	(17,346)	(4,584,394)
Net (loss) per share -basic and diluted	<b>(0.00)</b>	<b>(0.00)</b>	(0.00)	(0.06)
	<b>July 31, 2010</b>	<b>April 30, 2010</b>	<b>January 31, 2010</b>	<b>October 31, 2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	<b>2,259</b>	<b>46,740</b>	803	Nil
Net (loss)	<b>(293,706)</b>	<b>(132,905)</b>	(64,199)	(8,430,085)
Net (loss) per share -basic and diluted	<b>(0.00)</b>	<b>(0.00)</b>	(0.00)	(0.17)

For the three months ended July 31, 2011, the Company earned \$107,060 in revenue, compared to \$46,740 for the same quarter in the prior year. During this quarter there was a foreign exchange gain and not a loss as in prior year.

For the three months ended July 31, 2011 the Company had a net loss of \$203,840 (July 31, 2010 - \$293,706) and a loss per share of 0.00 (July 31, 2010 - 0.00). This quarter the Company had total expenses of \$294,914 (July 31, 2010- \$295,965). Office and general expenses increased to \$33,543 this quarter (July 31, 2010- \$19,592) due to the increased activity during the current quarter. Consulting fees increased this quarter to \$32,692 (July 31, 2010 - \$23,986) due to services provided by management being restructured and classified as consulting expenses versus wages expense, which increased this quarter to \$64,370 (July 31, 2010 - \$49,422). This quarter \$111,073 in stock options were granted to the former president of the company (July 31, 2010- \$Nil).

### Expenditures on Mineral Properties

During the year ended October 31, 2010 and the three months ended July and April 2011 and the comparative periods, the Company incurred the following expenditures on exploration of properties:

	July 31, 2010	April 30, 2010	January 31, 2010	October 31, 2009
<b>CMB</b>	2,895	10,143	2,500	153,661
<b>Double Mer</b>	-	-	418	40,277
<b>Straits</b>	6,539	836	-	38,067
<b>MountBenedict</b>	-	-	32	84,334
<b>Snegamook</b>	5,000	-	3,281	10,607
<b>Tukialuk</b>	-	-	-	11,873
<b>Hudson Bay</b>	-	-	-	-
<b>Napes Ashini</b>	-	-	464	4,462
<b>Centauro (MX)</b>	165,659	118,679	969	769,138
<b>Central NL</b>	-	-	-	2,796
<b>Calvin's Landing</b>	-	-	-	123,625
<b>Red Wine Mountains</b>	1,232	-	-	-
<b>LakeMichael</b>	-	-	-	9,169
<b>JeanetteBay</b>	-	-	-	7,874
<b>Michelin</b>	-	-	-	1,023
<b>Pope's Hill</b>	2,608	-	381	-
<b>Rambler South</b>	94,997	103,845	26,166	137,577
<b>Lazyman</b>	10,445	84,556	8,115	56,080
<b>Lobstick</b>	49,158	65,285	15,975	1,160
<b>Big Easy</b>	79,355	23,464	-	-
<b>Genex</b>	-	-	-	-

	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010
<b>CMB</b>				17,357
<b>Double Mer</b>	-	913	3,000	418
<b>Straits</b>	550	2,200	780	7,375
<b>Mount Benedict</b>	-	4,303	3,390	32
<b>Snegamook</b>	-	-	4,371	8,281
<b>Tukialuk</b>	-	-	-	-
<b>Napes Ashini</b>	-	-	-	464
<b>Centauro (MX)</b>	-	-	-	156,574
<b>Michelin South</b>	-	-	-	381
<b>MRT Property</b>	46,493	5,123	-	-
<b>Lobstick</b>	-	-	-	253,696
<b>Rambler South</b>	142,097	9,533	49,991	267,367
<b>Lazyman</b>	-	-	-	103,116
<b>Big Easy</b>	60,159	324,676	14,334	164,965
<b>Pope's Hill</b>	244,195	280,514	72,928	24,892
<b>Red Wine Mountains</b>	(238)	-	-	1,313
<b>Pope's Hill JV</b>	65,190	-	-	-

## **Rare Earth Element (REE) Properties**

The company acquired rare earth elements properties in Labrador, in the spring of 2010 including the Pope's Hill (PH); RWM and Straits (ST). The properties are 100% owned by Silver Spruce, subject to a 1 % NSR on the ST properties. A 50/50 joint venture with Great West Minerals Group is in place on part of the PH trend.

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).

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.

## **Exploration - 2011**

Exploration to date has included an airborne radiometric / high resolution magnetic and VLF-EM survey along the 100 km long PH trend (including the Popes Hill, Popes Hill JV and MRT), regional stream sediment geochemistry and prospecting along the entire trend, and prospecting / geology on the original PH property and the optioned MRT property.

## **Planned Work - 2011**

Exploration for the fall of 2011 along the PH trend includes follow up ground work on the results of the regional surveys, soil geochemistry on the MRT property, and linecutting and trenching on the PH – MP property (the original claims). Ground follow up is also planned for 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, pending results and the continued 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 property totals 1,708 claims (approx. 425 km<sup>2</sup>). REE mineralization is associated with a syenitic intrusive unit in the gneisses which has been noted 60 km to the northeast and 40 km to the southwest of the highway and the original showings. The claims cover lanthanum/cerium lake sediment anomalies in the Newfoundland government database plus structural features defined by government geological mapping. The total strike length along the PH trend, of the 100 %, JV and optioned properties is approximately 100 km. No previous REE exploration is documented for the area.

### **Previous Exploration**

Uranium, thorium and REE mineralization was located by the President of Silver Spruce, Lloyd Hillier, in 2006 while prospecting for uranium. No further work was carried out in 2006 due to the lack of interest in REEs 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 (News release Oct. 28, 2010) gave anomalous total rare earth element plus yttrium (TREE) values with 16 > 5%, and 5 > 10% with a high value of 24.1%. TREE values varied from a low of 0.07% to a high of 24.07% averaging 5.73% for the 31 samples, which included 7 "host rock" samples, with values 0.4% or lower. Two of the 5 highest values (> 10 %), were outcrop samples 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 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 PH-MP property was traced over a 7 km strike length extending to the east, approximately 4 km, and to the west, approximately 3 km, from the MP showing – 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 segregations 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 1-2 m maximum) however outcrop is limited away from the road. A summary of the REE and associated values for the 2010 samples is attached in Table 1.

The rock unit hosting the REE mineralization is a peralkaline, syenitic unit of late Paleoproterozoic age which carries green pyroxene crystals. Linear monzonite bodies, possibly related to thrust faulting, lie just to the north and south of the MP mineralized area paralleling the highway to the northeast.

Magnetic, VLF-EM and radiometric (spectrometer) surveys were carried out in late 2010 under contract. 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 standalone 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 in climate weather however radiometric anomalies were defined particularly in the MP showing area.

## Exploration 2011

### **Diamond Drilling**

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 (News release March 3, 2011). The drilling was designed to test TREE mineralized bedrock and float samples from the pit, found in the fall of 2010, VLF-EM anomalies thought to represent shear systems, and magnetic anomalies which could reflect the variably magnetic TREE mineralization. The drilling tested an approximate 700 m long zone of the known 7 km mineralized trend, mainly in the MP showing area. All drill holes were at least partially sampled however sampling was not necessarily continuous and was guided by radioactivity (Th content), visual identification of prospective zones and magnetically anomalous areas. Eight of the holes (PH-11-1 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 mineralization has been noted with 4 holes giving widths in the 50 m range. Narrow (0.1-0.3 m) zones of higher grade TREE values in the 1 to 6 % range are also found throughout most of the drill holes. In addition strong Zr values generally > 1,000 ppm (0.1 %) were noted over wide intervals associated with the REE mineralization (News release March 29, 2011). None of the high grade segregations located in float and bedrock in the pit and along the highway, which gave an average of 5.73 % TREE, from the 31 samples taken over a 7 km strike length (News release Oct. 28, 2010) was noted in the drilling. PH-11-1 gave one of the highest values at 4.79% TREE in a 0.1 m 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, which can carry REE mineralization. The syenitic units 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 TREE values. Nb values may be subdued due to phosphate interference in the analysis.

The diamond drilling has defined an area of anomalous REE mineralization hosted in syenitic units in the primarily granitic gneisses. The segregation type, high grade, REE mineralization found 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 during highway construction. Geological mapping in the pit indicates that the area is cut by numerous faults and this may be disrupting the REE bearing units.

Sample ID	POPE'S HILL										ROCK SAMPLES										TREE-Y			
	Light					REE's					Heavy					REE's					Lu		Nb	
	Y	La	Ce	Pr	Nd	Sm	Eu	Gd	Tb	Dy	Ho	Er	Tm	Yb	Lu	%								
	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm
553151	2505	3820	8930	986	3710	723	28.3	600	103	552	103	269	33.5	180	25.2	2.26								
553152	654	5250	9720	947	3190	492	14.7	307	41.2	188	29.5	67	7.63	39.6	5.36	2.1								
553153	15660	37500	78000	8860	32500	6080	144	4670	703	3930	712	1720	202	1020	134	19.19								
553154	151	375	770	79	288	52.7	3.37	42.8	6.9	36.9	6.8	17.1	2.16	12.3	1.68	0.18								
553155	5708	17000	33000	3550	12100	2180	53.9	1690	276	1430	257	621	75.3	376	46.8	7.92								
553156	46	388	715	68.6	231	31.9	307	18.2	2.4	11.9	2.1	5.5	0.73	4.3	0.6	0.15								
553157	48	138	319	30.8	107	17.8	1.65	13.4	2.1	11	2	4.9	0.63	3.4	0.45	0.07								
553158	31	537	967	84.6	267	30.6	5.83	14.2	1.5	6.8	1.1	2.6	0.38	1.9	0.3	0.2								
553159	55	213	416	41.6	146	24	363	15.5	2.1	11.2	2.1	6	0.92	6.8	1.32	0.09								
553160	22	203	315	27.7	87.9	11.9	2.6	7	0.9	4.7	0.9	2.6	0.39	2.8	0.53	0.07								
553161	38	445	805	74.2	237	33.3	2.34	16.5	2	9.6	1.6	3.7	0.45	2.5	0.36	0.17								
553162	28	1190	2230	219	729	90.9	6.57	35.2	2.5	9.3	1.1	2	0.24	1.4	0.24	0.45								
553163	59	2680	4900	465	1450	175	10.3	69.7	6.6	23	2.8	5.5	0.62	3.3	0.49	0.98								
553164	999	11900	24500	2450	8350	1160	24.5	613	74.4	331	49.8	109	12.8	67.9	9	5.07								
553165	2770	15700	30200	2940	9840	1520	35.2	1010	142	730	123	302	37.3	209	29	6.56								
553166	4053	18400	37200	3750	12800	2070	50.2	1440	208	1060	178	420	50.7	272	36.5	8.2								
553167	2507	15800	30700	2980	9910	1510	36	970	137	684	114	277	36.5	196	28.1	6.59								
553201	4255	15200	32400	3380	12000	2030	48.4	1470	219	1120	184	439	52.5	276	38.1	7.34								
553202	4668	16600	34000	3510	12300	2100	52.9	1520	222	1160	194	464	55	295	39.4	7.7								
553203	3125	48100	90800	9220	29900	3900	77.1	1980	236	1050	157	355	41.7	227	31.9	18.92								
553204	705	10000	20500	2100	7320	1030	41.1	480	49.9	188	27.3	62.9	7.55	42.3	5.93	4.26								
553205	4938	20500	45300	4860	17300	2840	53.3	1910	278	1360	233	563	67.6	345	46.4	10.06								
553206	43	1150	2080	179	517	56.2	3.84	23.3	2.5	12.1	1.9	4.9	0.61	3.6	0.57	0.41								
553207	264	4000	7500	679	2160	289	9.84	152	18	79.2	11.5	25	2.87	15.1	2.05	1.52								
553208	250	14600	26900	2470	7530	830	22.4	283	235	77.9	8	148	162	82	1.15	5.31								
941427	7371	28100	68000	7640	28100	4850	103	3330	482	2320	387	891	99.4	471	59	15.22								
941428	1523	5400	9990	963	3260	531	17.3	367	59.3	325	58.2	144	17.7	97.4	13	2.28								
941429	11790	17000	35900	3670	14400	2800	94	2480	410	2290	429	1120	137	735	95.2	9.37								
941430	4595	20500	43300	4680	16400	2630	48.8	1770	242	1200	199	480	58	318	43.8	9.65								
941431	276	17200	29900	2800	8390	825	46	218	20.7	73.6	9.6	20.9	2.36	12.6	1.73	5.98								
941432	21080	50000	97100	10800	38200	6880	213	5580	828	4670	875	2250	283	1400	175	24.07								
941433	280	2890	5160	473	1430	156	6.63	63	8.6	50.2	10.1	29.7	4.25	25.8	4.16	1.06								
Average	3134	12597	25419	2661	9238	1592	40	1037	150	782	137	334	40	208	27	5.73								
	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	%							



## **Mineralogy**

Mineralogical work on the REE minerals by Dr. John Hanchar, PhD, P.Geo., Professor and Head of the Earth Sciences Department of Memorial University of Newfoundland, is continuing with thin sections of the various showings being cut for further analysis. Preliminary mineralogical results on 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 syenitic unit hosting the REE minerals, been altered and mineralized with titanite (sphene), allanite and apatite carrying REE minerals, with other minerals such monazite, and REE/iron rich pyroxenes also noted. Work is continuing with further results to be released as they become available.

## **Prospecting / Geological Mapping**

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

The 136 samples taken from the moderately to highly radioactive, massive segregations and adjacent host rock along the MP trend give HREE percentages ranging from 1.1% to 47.6%, averaging 8.4%, including 45 values > 10% HREE (News release Aug. 30/11). Average values for REEs are as follows: 10,083 ppm (1.00%) La, 21,364 ppm (2.14%) Ce, 2,570 ppm (0.26%) Pr, 8,425 ppm (0.84%) Nd, 1,422 ppm (0.14%) Sm, 44 ppm Eu, 1,019 ppm (0.10%) Gd, 149 ppm Tb, 750 ppm (0.075%) Dy, 130 ppm Ho, 314 ppm Er, 37 ppm Tm, 191 ppm Yb, 25 ppm Lu and 2,775 ppm (0.28%) Y. Thirty (30) samples gave P<sub>2</sub>O<sub>5</sub> values > 2% with a high of 11.6% and preliminary studies have shown that REE mineralization, with higher HREE content, is present in apatite (calcium phosphate) and apatite content should be reflected by P<sub>2</sub>O<sub>5</sub> values. Thorium values for the radioactive, higher grade, REE samples, are generally in the 0.2% to 0.4% range.

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

The exposures will be further exposed by trenching and then channel sampled to determine the grades and widths of the occurrences. Results for similar radioactive mineralization, on trend of the zones located, and in other areas on the property, remain pending.

Regional exploration consisting of stream sediment geochemical sampling with limited prospecting has been completed with a total of approximately 550 samples taken at 300 m intervals on streams draining the prospective areas to the north and west of the Churchill River over the 100% owned properties (news release Aug. 30/11). A number of radioactive zones have been noted in the prospecting surveys with rock samples taken from these areas. All results for the regional stream and rock sampling surveys remain pending.

#### **Planned Exploration – rest of 2011/2012**

Detailed exploration including gridding, prospecting, geological mapping, geochemistry and ground geophysics followed by trenching and sampling on the original PH group (MP trend) is ongoing. The trenching is planned to be completed by mid-fall with a diamond drill program planned for winter 2012. Follow up of regional targets defined in 2011 will be carried out if time and priorities permit.

### **POPES HILL JV – 50 % INTEREST**

#### **Property Description**

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

#### **Planned Exploration 2011**

Regional exploration including airborne radiometrics/magnetics/VLF-EM, prospecting, geological mapping, and geochemistry, has been completed in evaluation of the JV areas. Results are pending and will be reported when received.

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

#### **Property Description**

The MRT property, located along the Trans Labrador Highway (TLH), approximately 35 km from Happy Valley / Goose Bay (HVGB), which consists of 178 claims (44.5 km<sup>2</sup>) including claims in the AOI, 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.

#### **Exploration**

The property was acquired after the vendors located three of 10 samples carrying significant REE values of 8.95%, 0.26% and 0.28% TREE 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 did not duplicate the REE results with a maximum of 0.1 % TREE 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.

#### Exploration 2011

Regional exploration including airborne radiometrics/magnetic/VLF-EM, stream sediment geochemistry and prospecting has been utilized to evaluate the MRT property. Stream sediment and regional prospecting results remain pending.

Results have been received for prospecting rock samples and test geochemical surveys (News release Sept. 13/11). The highest soil and two of the highest stream sediment values from a test survey carried out by Ralph Stea, a geochemical consultant for Great West Minerals Group, as part of due diligence for the Popes Hill Joint Venture (PHJV), were located in the western portion of the MRT property just north of the TLH. Rock sample results give a number of significant REE values over a 2 km<sup>2</sup> area to the northeast of the anomalous stream and soil values and additional prospecting to the northwest of the known mineralization and to the north, upstream of the anomalous stream value, has located radioactive samples, possibly indicating Th mineralization related to the REE mineralization – some analyses remain pending. A total of 60 outcrop/float results have been received giving an average of 1.7% TREE+Y, including 14 values > 1.5 % TREE+Y, and 36 < 0.2% TREE+Y. Average values in the area are: 2,752 ppm (0.27%) La, 4,969ppm (0.5%) Ce, 483 ppm Pr, 1,532 ppm (0.15%) Nd, 183 ppm Sm, 10.5 ppm Eu, 110.5 ppm Gd, 12 ppm Tb, 57 ppm Dy, 9.5 ppm Ho, 23 ppm Er, 3 ppm Tm, 16.5 ppm Yb, 2 ppm Lu, and 225 ppm Y. Average values for sample results > 1.5% TREE+Y are: 10,708 ppm (1.07%) La, 19,166 ppm (1.92%) Ce, 1,851 ppm (0.18%) Pr, 5806 ppm (0.58%) Nd, 672 ppm Sm, 35 ppm Eu, 398 ppm Gd, 41 ppm Tb, 192 ppm Dy, 31 ppm Ho, 76 ppm Er, 9 ppm Tm, 52 ppm Yb, 7 ppm Lu, and 789 ppm Y. Uranium results from the 60 rock samples give seven values > 500 ppm U, including four >1000 ppm (0.1%) U. The REE and U values are located in different parts of the property and are not coincident. The samples are selected grab samples, based on radioactivity using scintillometers and are not representative of the overall values in the area.

Three (3) significant values of 5.65, 5.96 and 10.4% TREE were located in float (2) and outcrop (1) in the southern portion of the property near the power line where Th values were anomalous with two values > 2,000 ppm. The 5.96% outcrop sample gave a HREE percentage of 16.7% and a P<sub>2</sub>O<sub>5</sub> value of 4.99%. In addition an area approximately 800 m in strike length in the western part of the property gives four significant TREE values ranging from 2.17% to 7.05% in limited sampling. Thorium values for the higher REE sample values are generally in the 0.1 to 0.2% range (News release Aug. 9/11). Four uranium values > 500 ppm U (635, 727, 881 and 1,870 ppm) were located in the southern part of the MRT property and appear unrelated to the high REE values. The highest value was float sample while the others were outcrop. Th values in these samples were a maximum of 391 ppm, giving a U/Th ratio of approximately 2-3 to 1 (News release Aug. 9/11). Other samples from the area remain pending.

A total of 68 stream sediments have been taken with all results pending.

#### **Planned Exploration Fall 2011, Winter 2012**

A regional soil geochemical program and follow up prospecting / geological mapping is planned for the fall of 2011. Diamond drilling will test targets located in the winter of 2012.

## **RWM**

### **Property Description**

The property consists of 40 claims (10 km<sup>2</sup>) over the second highest heavy rare earth element value, > 80 ppm HREE (includes europium, terbium, ytterbium and lutetium), in the government database for Labrador, in the southern Red Wine Mountains, approximately 30 km to the east of a road which provides access to the Churchill Reservoir area.

### **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, lying just to the south of the Red Wine peralkaline suite.

### **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, in the Red Wine Mountains area located to the northeast of the RWM property in July, 2010. The survey showed coincident U/Th/K anomalies in two areas of the claim group, in the southwest and northeast, underlain by magnetically low units, which are separated by a magnetically high area. A one day field visit, using a helicopter, by REM located radioactive floats in the area of the radiometric anomalies. Six grab samples 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; 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 ground follow up including prospecting, geological mapping and possible geochemistry. is planned for late summer / early fall of 2011

## **STRAITS (ST)**

### **Property Description**

The property consists of 490 claims (123km<sup>2</sup>) including 82 claims acquired after the existing data on SSE uranium associated work in 2007/08 and the government lake sediment results, was compiled.

### **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>).

ICP analyses showed significant values in La and Th including rock sample values up to 3,908 ppm La, 6,810 ppm Th, lake sediment values to 903 ppm La and stream sediment values to 392 ppm La in the 2007/08 work. The 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 plus yttrium (TREE), 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. No follow up has been carried out to date.

### **Planned Exploration 2011**

The airborne radiometric and magnetic survey carried out in 2007 is being re-evaluated for Th as a guide for exploration for REEs. Limited follow up is planned for the fall of 2011 including prospecting, geological mapping and geochemistry.

## **URANIUM - LABRADOR**

### **General**

#### **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 completed. 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 and the NG has recently announced (Sept. 14, 2011) that they are holding consultations with NG beneficiaries this fall to enable them to present recommendations to the NG assembly in early December, 2011. 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 rest 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 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.

### **Analyses**

All analyses were carried out at the Activation Laboratories (Actlabs) facility in Ancaster, Ontario, after sample preparation at the Actlabs prep facility in Goose Bay. Uranium and other elements are analyzed by an ICP technique which gives good results for uranium values up to 1000 ppm. If results in excess of 250 ppm uranium are encountered, follow-up analysis by delayed neutron counting (DNC) is performed. A quality assurance/quality control (QA/QC) program, described on the Silver Spruce website, is in place to increase confidence in the results generated. The 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  $U^{3+}$  and  $Nb^{5+}$  by XRF.

### **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 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 early 2011, Paladin Energy 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 although the company is not contributing to the 2011 budget and is therefore being diluted. 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 is carrying out significant exploration, including diamond drilling, on the CMBJV and their wholly owned properties in 2011.

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

Silver Spruce (SSE) owns a 100% interest in 1348 claims (337 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 (348 claims), Mount Benedict (371 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, some of which have since been dropped. Detailed descriptions of the properties and the exploration carried out on them are in SSE's 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.

### **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 for uranium was planned for 2011 on any of the properties pending resolution of the NG moratorium. Limited exploration for REEs on the Straits property (see REE property section) is planned as 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 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 a 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 from 2009 to the present, due to the price of uranium, the NG moratorium and budgetary restraints. Assessment reports in progress will 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 to the east of Happy Valley-Goose Bay. The property was acquired by staking in 2006 in an arm's length deal with a local prospector who retains a 1% 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. It is not affected by the NG uranium moratorium.

### **Exploration**

Exploration included: an airborne radiometric/magnetic survey in 2006, and data compilation, prospecting, geological mapping, geochemistry (streams, soils) and ground geophysics (scintillometer/radon gas) in 2006 to 2008. 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<sub>3</sub>O<sub>8</sub>, with a high value of 2,640 ppm uranium (0.33% U<sub>3</sub>O<sub>8</sub>) 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<sub>3</sub>O<sub>8</sub>, 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<sub>3</sub>O<sub>8</sub>. 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 exploration shows uranium potential which requires 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 348 claims (87 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 ground follow up, is planned. This project is considered a potential JV property.

## MOUNT BENEDICT (MB)

### Property Description

The property, totalling 371 claims (93km<sup>2</sup>), is located in the Benedict Mountains area, near the Labrador coast, approximately 180 kilometres northeast of Happy Valley-Goose Bay and 50 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 (BMIS), 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, are 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%  $U_3O_8$  and float boulders carrying uranophane, downstream of the showing

giving values from 0.06 to 3.37 %  $U_3O_8$  with three values > 1 %. The host rock is a moderately to strongly hematized, fine grained, feldspar rich (plagioclase), felsic to mafic intrusive of the 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 9 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 MBIS and orthodioritic units of the Tran Labrador Granitoid Belt (TLGB). The zone varies from 4 to 16 m wide giving  $U_3O_8$  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)  $U_3O_8$  in DDH MBAT-08-2, from 50.6 to 54.9 meters, at a vertical depth of 40 meters; The zone, which appears to be shallow dipping to the southeast, was tested over a strike length of 150 m and to a vertical depth of 75 m. It is open along strike and to depth. The mineralized zone in the brook has not been tested due to environmental regulations.

The **T Super 7 zone** is located 4.8 km to the southwest of the AT-649 Zone. The 2008 drill program consisted of seven holes (MBS7-08-1 to 7) totaling 968 m which tested high grade uranium mineralization in bedrock with 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 - 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 was not determined however geological mapping indicates a minimum strike length of 300 meters remaining open along strike to the northeast and southwest. Radon gas surveys give strong anomalies over a minimum 750 m strike length coincident with the zone. The mineralization style is similar to the AT-649 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 km, circular anomaly with elevated lead, molybdenum and silver values. Four circular coincident molybdenum, silver, copper, and locally lead anomalies, varying from 3 to 5 km 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 when circumstances permit. The property has been consolidated to areas of higher 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. The claims 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, was 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. 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 was written down during the three month period ended January 31, 2011.

## **LAKE MICHAEL (LM)**

### **Property Description**

The property, of 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 not 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 was 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 566 claims (142 km<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 Paladin Energy 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. They were acquired by staking in 2005/06 to cover government uranium in lake sediment anomalies, hosted in volcanic, sedimentary and plutonic rocks, with potential for unconformity style deposits similar to those in the Athabasca Basin, iron oxide copper gold deposits such as Olympic Dam, shear hosted style uranium deposits such as the Michelin and granite hosted deposits such as the Rossing Mine in Namibia. Silver Spruce's original joint venture partner, Universal Uranium, earned a 60% interest in the CMBJV in March 2007 by spending \$2 million 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 and ground follow up in August/ September 2006, discovered the Two Time zone on the CMBNW property, the only significant new uranium discovery 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, and 2010 aimed at consolidating, reducing and retaining those properties which showed the most potential. SSE declined to participate in the programs 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.

Three new uranium prospects were discovered in 2009/10 on the CMB JL (2) and CMB NE (1) JV properties with values up to 0.46% , 0.28% and 0.1% U<sub>3</sub>O<sub>8</sub> in selected grab samples from the three showings (News release Feb. 8/11).

### **Planned Exploration**

The 2011 exploration program by Crosshair, totaling approximately \$1.5M, will consist of prospecting/sampling, trenching and drilling on the three new prospects, and the Firestone prospect and the Two Time uranium deposit on the CMBNW property. The properties are discussed individually in the following sections.

### **Impairment Issues**

Crosshair paid 10 M shares plus 7.5 M warrants plus \$500,000 for Universal Uranium's 60 % interest in the CMB JV (worth approx. \$ 6 M). This put a value, based on the stock and cash only, of SSE's portion of the JV properties at approximately \$ 4 M. 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. 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, consists of 363 claims (91 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, linecutting, 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 found 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. 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<sub>3</sub>O<sub>8</sub>, Indicated Mineral Resources are estimated to total 1.82 million tonnes grading 0.058% U<sub>3</sub>O<sub>8</sub> containing **2.33 million pounds U<sub>3</sub>O<sub>8</sub>**. Inferred Mineral Resources are estimated to total 3.16 million tonnes grading 0.053% U<sub>3</sub>O<sub>8</sub> containing **3.73 million pounds U<sub>3</sub>O<sub>8</sub>**. 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<sub>3</sub>O<sub>8</sub>, and a minimum true thickness of four metres. These criteria reflect a potential underground bulk-mining scenario. High U<sub>3</sub>O<sub>8</sub> grades were cut to 0.3% U<sub>3</sub>O<sub>8</sub> prior to compositing to two metres. Variogram parameters were interpreted from two-metre composited assay values. Block model U<sub>3</sub>O<sub>8</sub> 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 SEDARas 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<sub>3</sub>O<sub>8</sub> (uranium oxide) from 172 m to 279 m, including higher grade zones: 0.11% U<sub>3</sub>O<sub>8</sub> over 30 m from 172 m to 302 m and including 0.312% U<sub>3</sub>O<sub>8</sub> 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<sub>3</sub>O<sub>8</sub>, 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. A technical report on the CMBNW Property, prepared for Silver Spruce and Crosshair, dated June 22, 2009, is filed on SEDAR.

### **Impairment**

The TT zone, which has defined resources, plus other, as yet, evaluated showings and continuing exploration by Crosshair as operator, 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.

### **Exploration 2011**

The CMBJV operator, Crosshair Exploration and Mining, is testing for deeper mineralization on the Two Time uranium zone with 1,642 m of diamond drilling in 4 holes completed with drilling ongoing (News release Sept. 13/11). Down hole gamma logging has confirmed uranium mineralization to a depth of at least 460 m. A second drill is testing the Firestone Showing, a brecciated hematitic monzogranite, located 7 kilometres to the southeast of the Two Time Zone, which has given uranium values ranging from 200-900 parts per million (ppm) in trench and float samples. Seven drill holes, totaling 1734 m, have been completed with an additional seven planned. All results (assays) are pending.

### **Planned Exploration**

Crosshair is continuing exploration including diamond drilling on both the TT zone and the Firestone prospect. Silver Spruce has declined to participate in the 2011 program and therefore have its interest in the JV diluted as expenditures are incurred.

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

### **Property Description**

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

### **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 carried out by JV operator Crosshair Exploration in 2009 and 2010 evaluated these targets the earlier airborne geophysical 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, approximately 5.5 km southeast of the SB Showing, which consists of a 2 km long, linear airborne radiometric anomaly, gave values from 0.03% to 0.28%  $U_3O_8$  from 21 rock samples.

### **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.

### **Exploration 2011**

Crosshair is carrying out trenching and may drill a few holes on the showings in 2011. Silver Spruce has declined to participate in the exploration and therefore its interest in the JV will continue to be diluted as expenditures are incurred. All results are pending.

## **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 2009/10, Crosshair carried out follow up prospecting and biogeochemistry surveys based on the airborne 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<sub>3</sub>O<sub>8</sub>, 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<sub>3</sub>O<sub>8</sub> 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 including trenching and possible diamond drilling in 2011. Silver Spruce has declined to participate in the exploration and therefore its interest in the JV 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. The property is 100 % owned, subject to option agreements as described in the summary following. The option on the Rambler South project was terminated in this quarter and SSE retains no interest in the property.

Drill core is sawed in half using a diamond saw with one half of the core retained and the other half sent for analyses. Standard QA/QC techniques including check sampling is carried out. Analyses were done at both Eastern Analytical Laboratories in Springdale, NL, a recognized local laboratory, or Accurassay Laboratories in Thunder Bay, ON, after sample prep at their Gambo, NL preparation facility. Samples were analyzed for gold by fire assay (1/2 assay tonne) using an atomic absorption finish plus an ICP 30/31 technique for other elements. Elements above the detection limit of the ICP for Pb, Zn and Ag were re-analyzed for "ore grade" values using a wet chemical method with an Atomic Absorption finish..

### **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). Although some significant gold values were intersected in the diamond drilling (News release July 14/11), the option on the property was terminated at the end of July 2011 and the property was returned to the vendors.

#### **Impairment**

The exploration expenditures will be written down in this quarter.



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

### **Property Description**

The 294 claim (74 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 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 intensely silicified, are argillic altered and carry finely disseminated sulphides (mainly pyrite). The silicified sandstone and conglomerates are locally vuggy, and carry banded cherty to chalcedonic quartz possibly sinter. The mean and high values 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) gave values > 100 ppb including three (3) > 900 ppb Au. In silver (Ag), ten (10) gave > 10 ppm with five (5) > 20 ppm (20 g/t Ag). The extensive alteration zone hosts significant anomalous gold and silver values with the highest Ag values located to the north of Bottle Pond and Henry's Pond in the north central part of the property.

Property evaluations by SSE in 2010, included fourteen (14) due diligence samples of subcrop to angular float of silicified sandstone and conglomerate containing 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.

In the summer of 2010, a trenching/pitting program targeted an extensive area of Au/Ag anomalous angular boulders of silicified conglomerate with seven (7) trenches, ranging from 20 to 60 m in length, excavated along a 700 meter strike length. Overburden varies from less than 1 m to > 6 m. A total of 121 channel samples were taken over lengths varying from 0.5 to 2 m.

The first two trenches failed to reach bedrock due to extensive till cover. Five trenches (#'s 3 to 7), 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 from outside of the altered area gave values < 10 ppb gold. Prospecting also 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.

An IP/Resistivity survey, to determine the margins and orientation of the zone, and to indicate areas of higher potential, was carried out in the fall of 2010. The time domain IP survey covered 7 lines (173 to 189 N) spaced mostly 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, as defined by prospecting and trenching surveys, (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. Results, interpreted by Gerard Lambert, a geophysical consultant, are: 1) 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, 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 solidification in the central portion of the grid and which appears to outline a significant pyritized zone.

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. 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 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 in all holes.

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 89.2m from 183 m to 272.2m, including 0.87 g/t Au and 33.5 g/T Ag over 30.5m 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 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.

*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 of 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 is being compiled in a 3D database to allow modeling of the system for a Phase 2 drilling program to be carried out in the winter of 2012. Continued 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 in 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 (i.e. Lobstick U and MRT REE/U properties) has been continued, 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, a past Chairman and past director of Mining Industry NL (formerly the Newfoundland and Labrador Chamber of Mineral Resources), a member and past councillor of the Geological Association of Canada, a life member of the Canadian Institute of Mining, Metallurgy and Petroleum, and an associate member of the Association of Applied Geochemists. He is also currently a director of three other public companies: Pele Mountain Resources Inc, VVC Exploration Corp. and Atocha Resources Inc.

**Gordon Barnhill - VP Corporate Affairs, Director, CFO**

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

**LIQUIDITY, FINANCINGS AND CAPITAL RESOURCES****Operating Activities**

The Company had a net cash outflow from operating activities of \$197,905 for the three months ended July 31, 2011 (July 31, 2010 –inflow of \$90,876).

**Financing Activities**

The Company had a net inflow of \$16,450 the three months ended July 31, 2011 through financing activities compared to an outflow of \$2,241 for the three months ended July 31, 2010.

**Investing Activities**

The Company had a net outflow of \$590,037 from investing activities for the three months ending July 31, 2011 (July 31, 2010 - \$379,937). Of this amount in the current year \$589,307 was invested in mineral property exploration activities (July 31, 2010 - \$374,137).

**Liquidity**

The Company had cash and cash equivalents of \$1,368,183 as at July 31, 2011, 2011 (July 31, 2010 - \$119,398). The change in non-cash operating working capital as at July 31, 2011 was a cash outflow of \$126,590 (July 31, 2010 - inflow of \$211,869). 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 July 31, 2011, the Company had 106,525,088 issued and outstanding common shares (July 31 2010 - 69,168,188).

**RELATED PARTY TRANSACTIONS**

Included in accounts payable and accrued liabilities as at July 31, 2011 is \$12,730 (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 nine month period ended July 31, 2011, 3,675,000 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 nine month period ended July 31, 2011, \$19,482 (October 31, 2010 - \$1,319) was paid to the hardware store and \$49,446 (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>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 \$14,025 and include the following amounts payable over the next three years:

	\$
2011	3,300
2012	9,900
2013	825
	<u>14,025</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, 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 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 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. Uranium 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 in the CMB and Double Mer mainly, 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 on uranium mine development hopefully at the end of 2011. SSE will benefit from maintaining a strong land position in Labrador when the moratorium is lifted, allowing Paladin to develop the "world class" Michelin and Jacques Lake deposits which host approximately 135 M lbs of uranium. This will bring renewed attention and investor interest to the area and any Company with assets in this area.

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 nine months ended July 21, 2011.

The market cap of the Company has dropped significantly in the last few quarters due 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 fall and winter – the end of the first year of exploration along this trend. The global economic situation, remains confused, and the share prices in junior explorers such as ourselves is being impacted although these could be short term corrections. 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 has maintained its 2011 exploration program, to a higher level from 2009 with approximately \$1 M spent to date.

The company completed both flow through and hard dollar financings in September and December 2010, with approximately \$1.6 M in flow through and \$219 K in hard dollars raised. These financings, in concert with return of staking deposits, JEAP payments and warrant and options exercised has allowed the company to maintain exploration programs in 2011 as described in the previous sections. More financings are

required to continue to explore the REE properties in Labrador and the gold / silver Big Easy property on the island of Newfoundland.

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.