

Consolidated Financial Statements

SILVER SPRUCE RESOURCES INC.

For the years ended October 31, 2012 and 2011

(Expressed in Canadian dollars)

SILVER SPRUCE RESOURCES INC.

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Management's Report

To the shareholders
Silver Spruce Resources Inc.

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

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

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

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



Peter M Dimmell
President and Chief Executive Officer



Gordon Barnhill
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Silver Spruce Resources Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes that the Company has a history of losses and a need for working capital. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
January 16, 2013

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



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

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

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

APPROVED BY THE BOARD OF DIRECTORS

Original signed by Rob Gillis, Director

Original signed by Gordon Barnhill, CFO, Director

See accompanying notes to the consolidated financial statements

SILVER SPRUCE RESOURCES INC.

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

Years ended October 31, 2012 and 2011

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

See accompanying notes to the consolidated financial statements

SILVER SPRUCE RESOURCES INC.

Consolidated Statements of Change in Shareholders' Equity

(Expressed in Canadian Dollars)

	Number of shares	Share capital \$ (Note 18)	Warrant reserve \$	Equity reserve \$ (Note 18)	Accumulated deficit \$ (Note 18)	Total equity \$ (Note 18)
Balance, November 1, 2010	79,073,442	24,295,582	739,925	6,281,836	(28,126,219)	3,191,124
Net comprehensive loss for the year	-	-	-	-	(1,683,157)	(1,683,157)
Shares issued for private placements	11,226,481	1,345,744	-	-	-	1,345,744
Flow through share premium	-	(341,745)	-	-	-	(341,745)
Shares issue for property acquisition	500,000	67,000	-	-	-	67,000
Share issuance costs	-	(204,091)	-	-	-	(204,091)
Share-based payment issued	-	-	-	571,412	-	571,412
Options exercised	1,269,230	178,173	-	(68,124)	-	110,049
Warrants issued for private placement	-	-	567,779	-	-	567,779
Warrants expired	-	-	(96,426)	96,426	-	-
Warrants exercised	14,496,152	1,817,352	(332,736)	-	-	1,484,616
Balance October 31, 2011	106,565,305	27,158,015	878,542	6,881,550	(29,809,376)	5,108,731
Net comprehensive loss for the year	-	-	-	-	(3,550,176)	(3,550,176)
Warrants expired	-	-	(310,761)	310,761	-	-
Shares issued for property acquisition	2,650,000	127,500	-	-	-	127,500
Shares issued for private placements	2,392,500	162,804	-	-	-	162,804
Share issuance costs	-	(13,317)	-	-	-	(13,317)
Flow through share premium	-	(43,262)	-	-	-	(43,262)
Warrants issued for private placement	-	-	28,596	-	-	28,596
Balance October 31, 2012	111,607,805	27,391,740	596,377	7,192,311	(33,359,552)	1,820,876

See accompanying notes to the consolidated financial statements

SILVER SPRUCE RESOURCES INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Years ended October 31, 2012 and 2011

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

Supplemental cash flow information (See Note 15)

See accompanying notes to the consolidated financial statements

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

1. DESCRIPTION OF BUSINESS

Silver Spruce Resources Inc. (the "Company") is a public company domiciled in Canada and was incorporated in Alberta on May 8, 1996 under the name First Labrador Acquisitions Inc. The Company changed its name to Silver Spruce Resources Inc. on October 22, 2004. The Company's operations consist of the exploration for precious and base minerals. The registered office of the Company is Suite 312, 197 Dufferin Street, Bridgewater, Nova Scotia, B4V 2G9.

2. BASIS OF PREPARATION AND GOING CONCERN

Statement of compliance

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

Basis of presentation

The financial statements of the Company have been prepared in accordance with IFRS on a going concern basis, under the historical cost convention except for investments which are reflected at fair value which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Several adverse conditions, however, cast substantial doubt on the validity of this assumption. The Company does not have any proven economically recoverable reserves on the Company's interest in mineral properties held for exploration and to date; the Company has earned no direct mining related revenues. The Company's assets are subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

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

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

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

2. BASIS OF PREPARATION AND GOING CONCERN (continued)

Basis of presentation (continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

Refundable staking deposits

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

Mineral properties

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties (continued)

The Company reviews capitalized costs on its properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the properties or from sale of the properties. Management's assessment of the properties' estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the properties under review.

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

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

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

Management's estimates of recoverability of the Company's investment in its various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term, which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values. Costs incurred before the Company has obtained the legal rights to explore are recognized in profit or loss in the consolidated statements of operations and comprehensive loss.

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

Equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment (continued)

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

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

Flow-through shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to holders of the flow-through shares. To recognize the forgone tax benefits to the Company, any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through tax liability") and included in trade payables and accrued liabilities.

Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed through the statement of comprehensive loss. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery. The spending also gives rise to a deferred tax timing difference between the carrying value of the qualifying expenditure.

Share-based payments

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

Income taxes

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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

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

Loss per share

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

Decommissioning and restoration provision

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

SILVER SPRUCE RESOURCES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

The Company has made the following classifications:

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

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

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

Impairment of financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At each statement of financial position reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Foreign currency translation

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

Significant accounting judgments, estimates and assumptions

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Mineral properties

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

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

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

Equipment

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

Assets' carrying values and impairment charges

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

Share-based payments

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Deferred income taxes

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

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

Government grants

The Company received government assistance under the Junior Exploration Assistance Program designed by the Department of Natural Resources to assist companies in conducting advanced mineral exploration in Newfoundland and Labrador. The Company deducts grants received in calculating the carrying amount of the related mineral property. These grants will be recognized in profit or loss over the life of the mineral property as a reduction to depreciation expense when commercial operation is achieved.

Government assistance in the amount of \$100,000 has been deducted from the carrying value of the Big Easy property during the year ended October 31, 2012. There are no unfulfilled conditions or contingencies attached to the government assistance that has been recognized.

4. FUTURE ACCOUNTING CHANGES

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

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4. FUTURE ACCOUNTING CHANGES (continued)

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

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

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

The requirements relating to separate financial statements in IAS 27 are unchanged in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. IAS 28 *Investments in Associates and Joint Ventures* (“IAS 28”) is amended to conform with changes in IFRS 10, IFRS 11 and IFRS 12. Each of these five standards have an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards noted above are also early applied. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without technically early applying the provisions of IFRS 12 (and thereby each of the other four standards).

IFRS 13 *Fair Value Measurement* (“IFRS 13”) replaces existing IFRS guidance on fair value with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is currently assessing the impact of this new standard on the Company’s financial assets and financial liabilities.

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4. FUTURE ACCOUNTING CHANGES (continued)

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

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

Amendments were issued by the IASB to IAS 32 Financial Instruments: Recognitions and Measurement (“IAS 32”), which address inconsistencies in current practice when applying the offsetting criteria. These amendments are part of the IASB’s offsetting project. These amendments must be applied starting January 1, 2014 with early adoption permitted. The IASB also issued amendments to IFRS 7 Financial Instruments Disclosures as part of the offsetting project. This includes specific disclosures related to offsetting financial assets and liabilities that will enable users of an entities financial statements to evaluate the effect of potential effect of netting arrangements, including rights of set-off associated with the entity’s recognized financial assets and liabilities, on the entity’s financial position. These amendments must be applied starting January 1, 2013 with early adoption permitted. The Company is currently assessing the impact of adopting the IAS 32 and IFRS 7 amendments on the consolidated financial statements.

5. CAPITAL MANAGEMENT

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

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

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

There were no changes in the Company’s approach to capital management during the years ended October 31, 2012 and 2011.

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6. FINANCIAL RISK FACTORS

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

a) Credit risk

The Company's credit risk is primarily attributable to cash and other receivables. The Company's cash is held with highly rated financial institutions.

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

b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2012, the Company had a cash balance of \$129,774 (October 31, 2011 - \$874,290; November 1, 2010 - \$216,287) to settle current liabilities of \$293,498 (October 31, 2011 - \$117,113; November 1, 2010 - \$380,361). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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

c) Market risk

Interest rate risk

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

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Price risk

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

There were no significant changes to credit risk, liquidity risk and market risk during the years ended October 31, 2012 and 2011.

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6. FINANCIAL RISK FACTORS (continued)

d) Fair value

The carrying amounts for cash, other receivables, refundable staking deposits, trade payable and accrued liabilities, and current portion of long-term debt on the statements of financial position approximate fair value due to their short-term maturity. The fair value of investments in entities listed on the TSX Venture Exchange (Bayswater Uranium Corporation (“Bayswater”), Forest Gate Resources Inc. (“Forest Gate”), and Capstone Mining Corporation (“Capstone Mining”) is based on quoted market prices in active markets and are classified as a Level 1 in the fair value hierarchy.

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

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

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

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

e) Sensitivity analysis

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

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

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

A plus or minus 10% change in the value of the Canadian dollar with respect to Mexican Pesos would affect the Company’s net loss by approximately \$2,150 (October 31, 2011 - \$100; November 1, 2010 - \$18,500) based on balances denominated in Mexican Pesos on October 31, 2012.

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

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7. MINERAL PROPERTIES

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

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

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

During the year ended October 31, 2012 the Company wrote off the balance for Central Mineral Belt Joint Venture of \$2,093,991, Double Mer of \$24,123, Mount Benedict of \$118,873, Snegamook Lake of \$20,591, Straits of \$98,982 and Pope's Hill of \$460,480, for total impairments of \$2,817,040. As of October 31, 2012, these properties were not abandoned since staking claims are still held for these properties. The Company also determined that further exploration was not warranted for MRT Property and Red Wine Mountains and these properties have been abandoned with related expenditures of \$133,900 and \$14,779 respectively written off at October 31, 2012. These write-offs reflect the results of the Company's impairment analysis as of October 31, 2012. The Company reviewed the capitalized costs on its properties and recognized impairment in value based on current exploration results, adverse changes in business climate, and a decrease in the Company's market capitalization compared to the carrying value of its resource properties that indicated that impairment may exist. Management's assessment of the properties' estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the properties under review.

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7. MINERAL PROPERTIES (continued)

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

During the year ended October 31, 2011, the Company acquired two new properties; Pope's Hill Joint Venture and MRT Property. The Company determined that further exploration was not warranted for Jeanette Bay and Lake Michael and these projects have been abandoned with related expenditures of \$7,020 written off during the year ended October 31, 2011. Refer to (c) and (d) under Uranium for further agreement disclosure. The Company also determined that further exploration was not warranted for Rambler South and this project has been abandoned with related expenditures of \$572,583 written off during the year ended October 31, 2011. Refer to (b) under Gold and Base Metals for further agreement disclosure. In addition, the Company wrote off the balance for the Tukialuk Bay Property. These write-offs reflect the results of the Company's impairment analysis as of October 31, 2011. The Company reviewed the capitalized costs on its properties and recognized impairment in value based upon current exploration results, adverse changes in business climate, and a decrease in the Company's market capitalization compared to the carrying value of its resource properties that indicated that impairment may exist. Management's assessment of the properties' estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the properties under review.

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7. MINERAL PROPERTIES (continued)

Uranium

a) Central Mineral Belt (“CMB”)

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

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

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

b) Double Mer Property

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

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

c) Jeanette Bay

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

d) Lake Michael

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

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7. MINERAL PROPERTIES (continued)

Uranium (continued)

e) Mount Benedict Property

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

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

f) Snegamook Property

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

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

g) Tukialuk Bay Property

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

h) Fish Hawk Lake

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

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7. MINERAL PROPERTIES (continued)

Gold and Base Metals

a) Big Easy

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

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

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

b) Rambler South

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

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

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

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7. MINERAL PROPERTIES (continued)

Rare Earth Elements

a) MRT Property

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

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

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

b) Pope's Hill

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

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

c) Straits Property

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

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

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7. MINERAL PROPERTIES (continued)

Rare Earth Elements (continued)

d) Red Wine Mountains

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

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

8. EQUIPMENT

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

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8. EQUIPMENT (continued)

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

9. LONG-TERM DEBT

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

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

10. INCOME TAXES

a) Reconciliation of total tax expense

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

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10. INCOME TAXES (continued)

a) Reconciliation of total tax expense (continued)

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

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10. INCOME TAXES (continued)

b) Unrecognized deductible temporary differences and unused tax losses

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

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

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

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

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11. SHARE CAPITAL

The share capital is as follows:

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

- a) In February 2012, the Company issued 150,000 common shares for the acquisition of the MRT Property at \$0.09, and in April 2012, the Company issued 500,000 shares for acquisition of the Big Easy Property at \$0.07, all based on the quoted market value of the common shares on the date of issue.
- b) In May 2012, the Company closed a non-brokered private placement to raise gross proceeds of \$191,400. The offering consisted of the issuance of flow-through units ("Super FT Units") of the Company. The Super FT Units were offered at a price of \$0.08 per Super FT Unit, and consisted of one flow-through common share and one half of a common share purchase warrant. The warrants will expire three years after the closing of the Offering if unexercised, with each whole warrant exercisable for one common share at a price of \$0.15 per common share during the first year after the closing of the Offering, \$0.20 per common share during the second year after the closing of the Offering, and \$0.25 per common share during the third year after the closing of the Offering. The gross proceeds raised with the issuance of 2,392,500 Super FT Units were \$191,400. Cash finder's fees of \$560 were paid on the Offering. Officers and directors of the Company subscribed for 750,000 units for gross proceeds of \$60,000.
- c) In September 2012, the Company issued 2,000,000 shares for acquisition of the Fish Hawk Lake Mineral Property from Virginia Energy Resources Inc. at \$0.04, based on the quoted market value of the share on the date of issue.
- d) During the year ended October 31, 2011, the Company closed a non-brokered private placement, consisting of 9,764,148 flow-through units at a price of \$0.17 per unit consisting of one flow through common share and one half of a purchase warrant, with each whole warrant exercisable for one non-flow through common share at a price of \$0.20 for the 24 months following the closing and 1,462,333 non-flow through units at a price of \$0.15 per unit consisting of one common share and one whole purchase warrant, with each whole warrant exercisable for one common share at a price of \$0.20 for the 24 months following the closing. Of the \$1,879,255 proceeds, \$1,345,744 was allocated to share capital and \$533,511 was allocated to warrants. In addition, the Company issued 400,000 shares for acquisition of the Big Easy property at \$0.14, and 100,000 shares for the acquisition of the MRT property at \$0.11, all based on the quoted market value of the share on the date of issue. Officers and directors of the Company subscribed for 990,000 units for gross proceeds of \$168,300.

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12. WARRANTS

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

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

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

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12. WARRANTS (continued)

Summary of warrants outstanding as at October 31, 2012:

Warrants	Exercise price \$	Grant date fair value of warrants \$	Expiry date
1,196,250	0.20	28,596	May 18, 2015
260,721	0.20	24,271	December 31, 2012
18,250	0.20	2,966	December 31, 2012
2,955,882	0.20	267,849	December 24, 2012
185,294	0.20	23,557	December 24, 2012
1,462,333	0.20	91,717	December 23, 2012
65,394	0.20	7,744	December 23, 2012
1,665,471	0.20	149,677	December 23, 2012
7,809,595		596,377	

13. SHARE BASED PAYMENTS

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

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13. SHARE BASED PAYMENTS (continued)

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

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

At October 31, 2012 outstanding options to acquire common shares of the Company were as follows:

Exercise price \$	Number of outstanding options	Weighted average remaining contractual life of outstanding options (years)	Grant date weighted average fair value per option \$	Number of exercisable options
0.30	1,450,000	3.62	0.08	1,450,000
0.30	1,900,000	3.22	0.20	1,900,000
0.12	2,225,000	2.49	0.08	2,225,000
0.15	2,670,000	1.28	0.13	2,670,000
0.35	2,920,000	0.51	0.32	2,920,000
0.83	20,000	0.34	0.67	20,000
	11,185,000	1.96	0.17	11,185,000

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

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

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13. SHARE BASED PAYMENTS (continued)

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

	October 31, 2012	October 31, 2011
Risk-free interest rate	N/A	2.319% - 3.06%
Expected life	N/A	3-5 years
Expected volatility	N/A	127% - 134%
Expected dividend yield	N/A	Nil

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

14. RELATED PARTY TRANSACTIONS

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

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

Rent and certain building materials required by the Company for its operations are purchased from a hardware store controlled by a former officer and director of the Company. During periods of exploration management and employees of the Company stay at a hotel controlled by a former officer and director of the Company. During the year ended October 31, 2012, \$167 (October 31, 2011 - \$24,235) was paid to the hardware store and \$460 (October 31, 2011 - \$58,768) was paid to the hotel and included in mineral properties on the statement of financial position.

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

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

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

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15. SUPPLEMENTAL CASH FLOW INFORMATION

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

16. COMMITMENTS AND CONTINGENCIES

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

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

	Cash	Shares
2013	\$30,000	350,000

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

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

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

Pursuant to the issuance of 9,764,148 flow-through units on December 24, 2010, the Company renounced \$1,650,141 on qualified exploration expenditures with an effective date of December 31, 2010. The effect of this renunciation was recorded as the expenditures were incurred. The Company expended the required renounced expenditures by December 31, 2011 as required by the Canada Revenue Agency.

Pursuant to the issuance of 2,392,500 flow-through units on May 18, 2012, the Company renounced \$191,400 on qualified exploration expenditures. The effect of this renunciation was recorded as the expenditures were incurred. The Company has expended all the required renounced expenditures as of October 31, 2012.

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

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17. INTEREST IN JOINT VENTURES

The Company proportionately consolidates its interest in the joint venture with Crosshair Energy Corporation (CXX) (formerly Crosshair Exploration Mining). The consolidation was diluted from the original 60% to 40% since the Company did not fully contribute to the exploration costs incurred by CXX over the past 2 years. As a result of further exploration work expensed by CXX during 2011 the Company's interest is now diluted down to a 2% NSR. This joint venture is connected with the Company's claims in the Central Mineral Belt ("CMB") and Seal Lake areas of Labrador.

The Pope's Hill Joint Venture is between the Company and Great Western Minerals Group. (GWMG) and is a 50/50 venture with GWMG being the operator. Exploration work has been completed and results are now being evaluated.

The Company's interest in the joint venture is summarized below:

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

18. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ended October 31, 2012 are the Company's first set of annual financial statements that comply with IFRS, as issued by the IASB, including the application of IFRS 1. IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was November 1, 2010. IFRS requires first-time adopters to retrospectively apply all IFRS's that will be in effect at its October 31, 2012 reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time adopters. The Company has applied certain of these exemptions to its opening statement of financial position dated November 1, 2010, as described below.

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

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

Mandatory exceptions

Estimates

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

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18. TRANSITION TO IFRS (continued)

Optional exemptions

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

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

Changes in accounting policies

1. Share-based payments

Forfeitures

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

2. Impairments

Recoverable amount

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

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18. TRANSITION TO IFRS (continued)

Changes in accounting policies

3. Flow-Through Premium

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

The Company has adopted a policy whereby the premium paid for flow through shares in excess of the market value of the shares without the flow through features at the time of issue is credited to other liabilities and included in income at the time the qualifying expenditures are made.

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

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

a) Share-based payments

IFRS 2 requires awards to non-employees to be measured based on the fair value of the goods and services received, except in the "rare cases" where this cannot be measured, when the fair value of the equity instruments granted is used. As a result, the Company was required to restate the value of certain share-based payments issued to third parties for services rendered.

b) Flow-through shares

Flow-through shares are a unique Canadian tax incentive, which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP the Company accounted for the issue of flow through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146 "Flow-through Shares". At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a future income tax liability with a charge directly to shareholders' equity. Also under Canadian GAAP the Company recorded any deferred tax recovery eligible to be recognized to offset the deferred tax charge to equity as a tax recovery in the statement of operations.

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18. TRANSITION TO IFRS (continued)

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

b) Flow-through shares (continued)

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is initially recorded as a flow-through tax liability and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery. The adjustment of \$2,757,098 to the November 1, 2010 balance sheet represents a reduction of share capital of \$487,067 from prior years' premiums and an increase in share capital of \$3,244,165 to reverse the prior years' recording of the flow-through tax benefit under Canadian GAAP. The October 31, 2011 statement of financial position includes the \$2,757,098 adjustment plus an amount of \$630,579 as a reversal of the 2010 recording of a flow-through tax benefit from a September and December 2010 flow through share issue and reduction of share capital for a flow through premium of \$341,745, for a total adjustment of \$3,045,932.

c) Restatement of shares issued for mineral properties

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

d) Restatement of stock based compensation

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

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18. TRANSITION TO IFRS (continued)

Reconciliation from Canadian GAAP to IFRS

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

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

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18. TRANSITION TO IFRS (continued)

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

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

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18. TRANSITION TO IFRS (continued)

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

Year ended October 31, 2011

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

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

18. TRANSITION TO IFRS (continued)

Reconciliation of cash flows

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

**MANAGEMENT DISCUSSION AND ANALYSIS
(MD&A)**

*This document provides management's discussion and analysis (MD&A) for our financial condition as at October 31, 2012, and results of operations for the year ended October 31, 2012. This MD&A should be read in conjunction with the Company's consolidated financial statements and notes for the year ended October 31, 2012 and the unaudited interim consolidated financial statements and notes for the quarter ended July 31, 2012. **This MD&A has been prepared as of January 16, 2013 and is current to that date unless otherwise stated.***

Effective November 1, 2011, the Company adopted accounting principles used under the International Financial Reporting Standards ("IFRS" or "GAAP"), using a transition date of November 1, 2010 to accommodate comparative periods. As a result, the condensed consolidated interim financial statements for the three months ended January 31, 2012, April 30, 2012 and July 31, 2012 and the Company's consolidated financial statement and notes for the year ended October 31, 2012, have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, and International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. For reporting periods ended prior to November 1, 2011, the Company had prepared and filed its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Detailed reconciliations of figures previously reported under Canadian GAAP to IFRS are provided in note 17 to the January 31, 2012, April 30, 2012 and July 31, 2012 condensed consolidated interim financial statements, and in note 19 to the October 31, 2012 consolidated financial statements.

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

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

Company Overview

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

The Company's uranium exploration was curtailed due to the Nunatsiavut moratorium and uranium prices, however we continue to hold significant uranium assets mainly in the CMB, making the Company a large landholder in one of the world's premier uranium districts. Projects include: the CMB joint venture (JV) with Crosshair Exploration and Mining, in which SSE holds a 2% production Net Smelter Return, and its 100% owned properties – Fishhawk Lake, Snegamook, Mount Benedict, and Double Mer. The Fishhawk Lake property, which is contiguous with the Snegamook property, was optioned from Virginia Energy in August. The CMBJV includes a mineral resource on the Two Time zone of 2.3 M lbs indicated and 3.7 M lbs U₃O₈ inferred, the first discovery in the CMB of Labrador since the 1970's. Other drill-ready opportunities exist on the Fishhawk Lake, Snegamook, Double Mer and Mount Benedict properties.

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

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

The Company has limited funds to allow maintenance of operations and the only exploration carried out in 2012 has been a 2nd Phase follow up, drill program, limited ground work and an airborne survey on the Big Easy gold/silver property. As of October 31, 2012, cash reserves, totaled approximately \$129,774. A flow through financing which closed on May 18, 2012 raised \$191,400 which was utilized for the Big Easy drilling and airborne survey programs. A proposed financing for the fall of 2012 did not materialize. The company's stock was under intense selling pressure during the time that the offering was available and the company was unwilling to reduce the price of the announced offering. The company will be evaluating its options in early 2013 which might include a financing if the share price firms up or seeking joint venture partners or a combination of both.

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

Selected Annual Information

The table below outlines selected financial information to the Company's years ended October 31, 2012, 2011 and 2010. The financial information is extracted from the Company's audited consolidated financial statements.

	2012	2011	2010
	\$	\$	\$
Income	61,741	451,572	49,540
Net and comprehensive loss	(3,550,176)	1,683,157	(5,075,204)
Net income (loss) per share - basic and diluted	(0.03)	(0.02)	(0.07)
Total assets	2,114,374	5,279,844	3,571,485
Total long-term financial liabilities	-	-	-

For the year ended October 31, 2012, the Company incurred a net loss of \$3,550,176 (loss per share of 0.03) compared to a net loss of \$2,024,902 (loss per share of 0.02) for the year ended October 31, 2011.

The Company recognized total revenue of \$61,741 for the year ended October 31, 2012 (2011 - \$109,827). Income of \$100,000 in 2012 consisted of a refund under the Junior Exploration Assistance Program of the government of NL for drilling expenditures on the Big Easy property (2011 - \$109,827 relating to Lobstick property). Foreign exchange resulted in a loss in 2012 of \$1,218 (2011 - \$14,991). Unrealized loss in market value of investments for 2012 was \$5,106 (2011 - \$6,550).

The Company recorded impairment of \$2,817,040 in 2012 (2011 - \$14,820). The 2012 impairment was against the uranium properties, Central Mineral Belt, Double Mer, Mount Benedict and Snegamook and against the Rare Earth Element properties; Pope's Hill Joint Venture, Straits and Pope's Hill. The Company reviewed the capitalized costs on its properties and recognized impairment in value based upon current exploration results and significant adverse changes in the business climate and a significant decrease in the Company's market capitalization compared to the carrying value of its resource properties that indicated that an impairment existed. Management's assessment of the properties' estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the properties under review. The 2011 impairment was against the uranium property Tukialuk Bay.

Abandonment of mineral properties expense was \$148,679 (2011 - \$579,603). The company wrote-off the MRT and RWM properties in the current year as it was decided further exploration was not warranted with the option on the MRT property to be terminated. In the prior year the company wrote-off the Jeanette Bay, Lake Michael and Rambler South properties.

Stock-based compensation decreased to \$Nil (2011 - \$519,212). In the prior year, there were 3,450,000 options granted to directors and employees at an exercise price of \$0.30, and 25,000 options granted to directors and employees at an exercise price of \$0.34.

Other general, administrative and professional expense decreased to \$633,189 in 2012 (2011 - \$999,552) largely due to the Company writing off the Mexican VAT receivable \$168,304 in the prior year as well wages decreasing to \$46,387 (2011 - \$161,832); consulting decreased to \$106,508 (2011 - \$175,917) and travel decreased to \$11,621 (2011 - \$26,307) due to less exploration activity in 2012.

For the year ended October 31, 2012 the Company spent \$560,371 on its exploration properties compared to \$1,705,916 in the prior year. In the current year there was less activity with one newly acquired property compared to two newly acquired properties with more activity in the prior year. There were nine properties impaired or abandoned in 2012 compared to four properties that were impaired or abandoned in the prior year.

Selected Quarterly Information

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

	October 31, 2012	July 31, 2012	April 30, 2012	January 31, 2012
	\$	\$	\$	\$
Revenue	7,542	35,476	18,723	-
Net (loss)	(754,864)	(2,476,802)	(129,968)	(188,542)
Net (loss) per share -basic and diluted	(0.01)	(0.02)	(0.00)	(0.00)
	October 31, 2011	July 31, 2011	April 30, 2011	January 31, 2011
	\$	\$	\$	\$
Revenue	3,767	107,411	-	237
Net (loss)	(513,636)	(188,840)	(331,335)	(649,346)
Net (loss) per share -basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)

For the three months ended October 31, 2012, the Company earned revenue, of \$7,542 compared to \$3,767 for the same quarter in the prior year. During this quarter there was a foreign exchange gain, in prior year there was a foreign exchange loss.

For the three months ended October 31, 2012 the Company had a net loss of \$754,864 (October 31, 2011 - \$872,602) and a loss per share of 0.01 (October 31, 2011 - 0.01). This quarter the Company had total expenses of \$763,778, which included impairments of \$481,629 and abandonments of \$148,679 (October 31, 2011 - \$880,942). For the three months ended October 31, 2012 and October 31, 2011, there were abandonment of mineral properties and impairment of mineral properties of \$2,335,411 (October 31, 2011 - \$630,308).

Wages decreased to \$11,122 this quarter (October 31, 2011 - \$27,620) due to a decrease in management salaries and consulting fees decreased to \$25,527 this quarter (October 31, 2011 - \$32,109) due to a decrease in management and consulting services.

Accounting and audit fees increased to \$18,629 (October 31, 2011 - \$(3,793)) due a prior year reallocation of prepaid fees for the completion of the IFRS conversion services and a \$2,000 increase of the quarterly accrual for the current year end auditor's fees.

Office and general increased to \$30,764 this quarter (October 31, 2011 – 22,179) due to decreased advertising capital raising activities and public relation costs, which were offset by a Health and Post-Secondary Education Tax (HAPSET) audit assessment relating to payroll incurred in Newfoundland and Labrador during the period; January 2007 to December 2011.

Expenditures on Mineral Properties

During the year ended October 31, 2012, and the quarter's ended July 31, 2012, April 30, 2012 and January 31, 2012, and the comparative periods, the Company incurred the following expenditures on exploration:

	October 31, 2012	July 31, 2012	April 30, 2012	January 31, 2012
	\$	\$	\$	\$
CMB	8,445	-	1,188	-
Double Mer	2,089	-	-	-
Straits	2,531	5,305	-	41,604
Mount Benedict	7,611	-	502	251
Snegamook	473	263	-	251
MRT Property	600	7,054	44,002	27,151
Rambler South	-	-	-	-
Big Easy	61,950	206,987	(21,084)	9,065
Pope's Hill	14,795	504	17,503	62,438
Red Wine Mountains	-	1,227	-	2,460
Pope's Hill JV	56,000	75,000	22	(5,309)
Fish Hawk Lake	84,583	-	-	-

	October 31, 2011	July 31, 2011	April 30, 2011	January 31, 2011
	\$	\$	\$	\$
CMB	-	-	-	-
Double Mer	4,563	-	913	3,000
Straits	13,007	800	2,200	780
Mount Benedict	7,563	-	4,303	3,390
Snegamook	1,792	-	-	4,371
MRT Property	58,325	46,493	-	3,673
Rambler South	(3,983)	142,097	9,533	19,991
Big Easy	(3,219)	60,159	358,860	14,334
Pope's Hill	349,536	242,183	280,514	72,928
Red Wine Mountains	10,017	(238)	-	-
Pope's Hill JV	903	65,190	-	-

The credit balances represent reallocations of expenses between the properties in the quarters reporting period. During the three months ended April 30, 2012, the Company had a net refund of expenditures for the Big Easy property of \$21,084, as a result of expenditures during the period of \$78,916 and a refund of expenditures of \$100,000 under the Junior Exploration Assistance Program which is administered by the Department of Natural Resources for Newfoundland and Labrador.

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

reviewed the capitalized costs on its properties and recognized impairment in value based on exploration results, adverse changes in business climate, and a decrease in the Company's market capitalization compared to the carrying value of its resource properties that indicated that impairment may exist. Management's assessment of the properties' estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the properties under review.

PROJECTS – GOLD/BASE METAL

General

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

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

BIG EASY (BE) - OPTION TO EARN 100 %

Property Description

The 294 claim (74 km²) property, located near Thorburn Lake in east-central Newfoundland, was optioned from prospectors Alex Turpin and Colin Kendall (NR Apr. 27, 2010). The option agreement, to earn a 100% interest subject to a 3% NSR with a 1.5% buyback for \$1.5M, is: \$20,000 plus 350,000 shares on signing (paid); 1st anniversary – \$30,000 plus 400,000 shares (paid); 2nd anniversary - \$30,000 plus 500,000 shares; 3rd anniversary - \$30,000 plus 350,000 shares. A yearly, advance royalty payment, deducted from future NSR payments, of \$20,000 per year, is also payable from the 4th anniversary on. The mineralized zone is a new gold / silver discovery in an area not previously known to host significant gold mineralization. The zone lies in the western Avalon Zone along the northern extension of the Burin Peninsula high sulphidation belt (BPHSB) where extensive precious metal exploration is being carried out by companies and prospectors.

Exploration Summary

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

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

SSE Exploration

SSE has carried out exploration, including prospecting / mapping, line cutting, geophysics (IP), trenching and diamond drilling, since optioning the property in 2010. Values up to 118 ppb Au and 14 g/T Ag are found in a train of angular boulders/rubbly outcrop over a strike length of 1.7 km and widths of 200–500 m with the north

and south extensions lost under thick till cover. Trenching located a value of 2.08 g/T over 0.7 m in silicified sedimentary units, most likely angular float in the southern part of the zone while prospecting located banded sinter silica, characteristic of hot spring deposits, in trench 6, the southernmost trench. The BE zone occurs in the Musgravetown Group, a red to green sedimentary sequence consisting of siltstones to conglomerates. Banded, epithermal style, quartz veins, crosscutting the bedding in the altered/mineralized zone, are found in the central and northern part of the property while more sinter-like banded zones, which appear to parallel bedding, occur exclusively in the southern portion of the zone possibly indicating the paleo surface was at the southern end of the zone. Some quartz breccias, where the banded, sinter-like veins are broken up, also occur in the southernmost portion of the zone. Dr. Greg Arehart, the Head of the Department of Geological Sciences and Engineering at the University of Nevada in Reno, and a recognized expert in epithermal and Carlin-type gold deposits commented after visiting the property in 2010: *“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”*.

Exploration along the southern extension of the Big Easy trend resulted in the discovery, of similar mineralization the ET zone, 3.5 km to the south of the Big Easy zone. It consists of alteration /mineralization, mainly silicification, carrying disseminated pyrite in brecciated sedimentary units with quartz veining including chalcedonic quartz. Grab samples gave values up to 125 ppb Au and 3.5 ppm Ag, similar to those found in outcrop and float on the Big Easy zone. The mineralization has been traced over a 400 m strike length trending approximately 170/350 degrees and a width of a minimum of 75 m remaining open along and across strike. Also altered (sericitized / silicified) and mineralized felsic volcanic units (Love Cove or equivalent) have been discovered in the eastern part of the property to the north and south of Shoal Harbour Pond. Similar units host many of the high sulphidation altered/mineralized zones along the BPHSB.

A combined airborne high resolution magnetic and VLF-EM survey covered the Big Easy property in the fall of 2012. It was targeted at giving lithologic (rock type) and structural information on the area for follow up regional work including trenching and diamond drilling. The final maps have been received and are being compiled with the other exploration data.

Two phases of diamond drilling have tested the Big Easy zone over a 1.2 km strike length with 12 holes totaling: The phase 1 program - 1577 m in 7 holes (BE-11-1 to 7) in 2011. All holes, **the first ever drilled on the property**, intersected strongly altered (silicified/sericitized/chloritized) and mineralized sedimentary units (NR's March 24, April 8, May 3, June 1, 2011), with significant gold/silver intersections noted. The highest intersection, in BE-11-3, gave 0.87 g/T gold (Au) and 33.5 g/T silver (Ag) over 30.5m (228-258.5m), including 6.05 g/T Au, 174 g/T Ag over 1.5m (240.5-242m) and 6.04 g/T Au, 114 g/T Ag over 1m (245-246m); a banded, “bonanza style” 0.3m vein in BE-11-7, the northernmost drill hole, located approximately 700 m to the north of the 2012 drill area, gave 335 g/T (> 11 oz/t) Ag and 2.57 g/T Au (231.3-231.6m).

The Phase 2 drill program 1,080m in 5 holes in 2012 tested the epithermal-style mineralization over a 200m strike length in the vicinity of the wide intersection in BE-11-3 (NR August 16, 2012). The widest mineralized zone was located, as in the 2011 drilling, at depth in DDH BE-12-12. Values of 1.3 g/T Au and 36.7 g/T silver Ag over 8.7m from 200.1-208.8m, including 4.6 g/T Au / 101.3 g/T Ag over 2.2m (202.2-204.4m), including 7.9 g/T Au and 130 g/T Ag over 1.2m (202.3-203.5m) were located. This zone is comprised of brecciated quartz-adularia veining in a black matrix of fine-grained mineralization (see picture on website). Near surface, banded quartz-adularia veins, typical of epithermal systems, gave narrow, high grade values in silver and lower but significant values in gold, as follows:

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

Extensive banded quartz-adularia veins and areas of chalcedonic (opaline) quartz up to one metre wide, but generally from 1-30 cm wide, as well as brecciation with associated veining and silicification, were also noted. Orientations of the veins varied from 20 to 90 degrees to the core axis, averaging 40 to 50 degrees. Most zones would give true widths varying from 50-90 per cent of the intersected widths. The most significant values from the diamond drilling are summarized in the table following. Plan maps and a summary of the drilling; compilation maps of the property; and pictures showing the drilling, drill core and other exploration on the property are shown on the Silver Spruce website at www.silversprucesources.com.

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

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

Interpretation of Drilling Results

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

Planned Exploration – Winter/Spring 2013

A Phase three follow-up drilling program is planned for the winter of 2013 subject to financing. It will be based on continued detailed structural interpretation of the mineralized zones and research studies of the extensive epithermal system by Memorial University and the NL Geological Survey (NR September 18, 2012). Regional exploration along the trend will also be carried out if financing permits.

Impairment

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

URANIUM - LABRADOR

Nunatsiavut Moratorium on Uranium Development

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

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

Analyses

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

THE CENTRAL MINERAL BELT (CMB)

Background/Regional Activity

The CMB was the most active uranium exploration area in Canada, after the Athabasca Basin, up until late 2008. In 2003, the **Fronteer/Altius joint venture (now Aurora Energy/Paladin)** was formed to evaluate the iron oxide copper gold (IOCG) potential of the CMB. During this work the potential for shear zone hosted uranium was noted at the Michelin and other deposits and with the increase in the price of uranium at that time, emphasis was then placed on uranium as a commodity and blanket staking of Brinex showings, discovered in the 1950's and 1960's, was carried out. On September 18th 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 (U₃O₈) per year. The deposits have measured and indicated resources of 35,000 tonnes of U₃O₈, plus 16,000 tonnes inferred resources, most requiring underground mining. An investment of C\$1.05 billion is required with production ramping up to about 3000 tonnes per year. In early 2011, Paladin Energy purchased the Aurora Energy assets and indicated that they intend to move to production after continued definition drilling to better define the resource.

Crosshair Energy (CXX) acquired the Moran Lake property where copper/uranium/magnetite/hematite/vanadium mineralized zones of the Moran Lake deposits, discovered and drilled by Shell Canada in the 1970's, are located. A N.I. 43-101 compliant resource, in the C Zone, Armstrong and Area 1 zones, of approximately 5.2 million lbs indicated and 5.8 million lbs inferred U₃O₈ was announced on August 7, 2008. In 2008, CXX purchased a 60 % interest in the CMBJV with Silver Spruce, including the Two Time zone, from Universal Uranium indicating their recognition of the potential of the area. SSE now holds a 2% NSR on the properties within the CMBJV (News release May 31, 2012) meaning that SSE will share in any successes on the CMBJV properties without any further expenditures required and any further drilling successes on the Two Time deposit will greatly enhance the exploration potential of the 100% owned, Snegamook property and recently acquired Fishawk Lake property, which lie immediately to the south along the TT trend. CXX's drilling on the Two Time deposit in 2011/12 was less than one hundred metres to the north of the Snegamook boundary and U mineralization was encountered in all holes.

SILVER SPRUCE WHOLLY OWNED PROPERTIES (100%)

Silver Spruce owns a 100% interest in 954 claims (238.5 km²) in 6 uranium properties in Labrador. They include - Snegamook (86), Fishhawk Lake (164), Double Mer (74), Straits (245), Mount Benedict (377) and Jeanette Bay (8). The company also retains a 2% net smelter return (NSR) on the Central Mineral Belt Joint Venture (CMBJV) properties including the Two Time zone. The Snegamook, Double Mer, Straits and Mount Benedict properties are subject to NSR's as described in the property descriptions.

Planned Exploration - 2012

No uranium exploration was carried out in 2011 or 2012 and no exploration is planned at this time until a rise in uranium prices allows financing for uranium exploration. The properties have been downsized to those areas of highest potential by reductions allowing the assessment credits to carry forward for a number of years. Some of the properties may be joint venture possibilities.

Impairment

Most property expenditures have either been written down or off due to the inability to raise funds for further exploration over the past few years. During the quarter ended July 31, 2012, impairments were taken for; Double Mer, Mount Benedict, Snegamook, Straits and Central Mineral Belt Properties.

SNEGAMOOK LAKE (SN)

Property Description

The property, located just to the southeast of Snegamook Lake in central Labrador, in the western part of the Central Mineral Belt (CMB), consists of 86 claims (21.5 km²), and is surrounded by the CMBNW JV property to the north, west and east and the recently acquired (from Virginia Energy) "Fishhawk Lake" property to the south. The Company has earned a 100-percent interest subject to a two-percent NSR. The property is located outside Inuit lands on lands subject to the Labrador Innu Land Claim.

Exploration Summary

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

The property hosts the Snegamook zone, on strike to the south of the TT zone and the Near Miss prospect. Seventeen (17) drill holes intersected a 20-50m wide zone of U bearing, brecciated/alterd monzodiorite over a strike length of 300m, to a vertical depth of 200m, the same geological setting as the TT Zone. The zones are shallow dipping and vary in width from 5-53m, with grades ranging from 225 to 771 ppm (0.023-0.077%) U₃O₈. The widest section in SN-08-8 averages 206 ppm U₃O₈ (0.021% - 0.41 lb/ton) over 73m, similar to values located in early drilling on the TT zone. The Near Miss zone gives erratic U mineralization in hematized, brecciated, granitic to monzodioritic units with one meter intervals giving values from 113-2,117 ppm (0.011-0.21%) U₃O₈ with the widest intersection averaging 213 ppm U₃O₈ (0.021%, 0.43 lb/ton) over 16m, including 1m at 0.21% (4.23 lb/ton) U₃O₈. Crosshair's drilling on the TT is less than 100m from the northern boundary of the SN property, indicating the likelihood that the TT zone continues onto the SN property at depth. Further exploration is warranted along the TT-Snegamook trend and in other prospects such as the Near Miss.

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

Impairment

The last \$20,591 in exploration expenditures were written off in Q3 - \$20,118 and in Q4- \$473.

FISHHAWK LAKE (FHL)

Property Description

The property, located to the southeast of Snegamook Lake in central Labrador, in the western part of the Central Mineral Belt (CMB), consists of 164 claims (41 km²) after reductions done in Q4, and is surrounded by the CMBNW JV property to the east and the Snegamook property to the north. It was acquired by outright purchase from Virginia Energy in August 2012 (NR August 7, 2012). The Company has a 100-percent interest subject to a two-percent NSR with a 1% buyback for \$500,000. The property is located outside Inuit lands on lands subject to the Labrador Innu Land Claim.

Exploration Summary

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

- Anomaly 7 – 0.13% U₃O₈ / 23.4 m, incl. 0.25% / 9.7 m
- FHLS - 0.063% U₃O₈ / 27.9 m, incl. 0.18% / 4.5 m and 0.106% / 9.9 m in DDH FHLS-07-3

Narrow high grade zones in uranium with copper (Cu) and silver (Ag), were also noted in Santoy drilling, FHLS-07-9 – 1.15% U₃O₈, 0.79 oz/T Ag, 0.5% Cu / 0.94 m. Mineralization is hosted in at least two different geological settings - fractured to brecciated, hematized granodiorite, similar to that in the Two Time and Snegamook zones, as well as unconformity-related mineralization along the contact between a fault-bounded wedge of Moran Lake sedimentary units and Archean basement intrusive units. Zones have been mapped by drilling and by surface outcrop and float, with strike lengths from 250 to in excess of 400 m, and to depths of greater than 100 m.

Planned Exploration

No exploration has been carried out since 2007 however the property has been reduced and will be maintained without further work into 2014. No exploration is planned for 2013 dependent upon prices.

Impairment

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

DOUBLE MER (DM)

Property Description

The property consists of 74 claims (18.5 km²), located in the Double Mer-Lake Melville area, on the north side of Lake Melville, in Labrador, approximately 110 kilometres to the east of Happy Valley-Goose Bay. The property was acquired by staking in 2006 in an arm's length deal with a local prospector who retains a 1% NSR. The property lies within LISA lands and covers strong uranium in lake sediment anomalies located by the Government in leucogranites of Helikian age. It was reduced in size to cover significant U radiometric anomalies and showings in early 2012 to allow retention without continued work required until 2015.

Exploration Summary

Exploration included: an airborne radiometric/magnetic survey in 2006, and data compilation, prospecting, geological mapping, geochemistry (streams, soils) and ground geophysics (scintillometer/radon gas) from 2006 to 2008. The property is characterized by a linear, 10 km long airborne radiometric anomaly. It hosts two styles of U mineralization: 1) pegmatite-hosted and 2) structurally controlled in brecciated and/or mylonitized zones in polydeformed gneisses. Early stage prospecting (grab rock samples) located seventy-six (76) values >500 ppm

(0.05%) U₃O₈ with forty-two (42) >1,000 ppm (0.1%), seven over the 95th percentile of 2,200 ppm (0.22%) and a high of 4,281 ppm (0.43%) U₃O₈. Uranium in soil values up to 208 ppm (bg <10 ppm) and radon gas anomalies occur over the mineralization, over widths up to 30m mainly in areas associated with short, steep scarps characterized by breccia units. Mineralization also occurs in a highly deformed pegmatite up to 40m, but generally 5-10m wide which can be traced over a minimum strike length of 300m. No follow-up trenching or drilling has been carried out. Ground follow up by trenching and drilling is required to evaluate the uranium potential.

Planned Exploration

No exploration is planned for 2013 dependent upon U prices.

Impairment

The remaining exploration expenditures of \$24,123 were written off in Q3 - \$22,034 and in Q4 - \$2,089.

STRAITS (ST)

Property Description

The property, located on the Straits of Belle Isle, in southern coastal Labrador, approximately 300 kilometers southeast of HVGB consists of 245 claims (61 km²). The original claims were staked in an arm's length deal with a Newfoundland prospector who retains a 1% NSR. The property lies outside of the land claim areas of both the Inuit and Innu of Labrador, although it is subject to a land claim, not accepted by governments, by the Nunatukavut of southern Labrador. It covers Government uranium lake sediment anomalies, with copper values, associated with a north-northwest trending fault structure. The area had not been explored prior to the SSE work.

Exploration Summary

Exploration included: an airborne radiometric/magnetic survey which gave 21 significant radiometric targets for uranium; compilation; remote sensing; and ground field work, which included prospecting, lake sediment, stream and soil geochemistry, and geological mapping. The property hosts two significant U showings plus a number of prospects. The **BB Shot** gives values up to 67,439 ppm (6.7%) U₃O₈ in outcrop along the contact between a gneissic, fine-grained granite and a pegmatite unit. The **Bingo**, approximately 3 km away, is associated with the contact between a granite and an orthogneiss, and gives 17 anomalous values (>10 ppm U₃O₈), with a high value of 5,887 ppm (0.58 %) U₃O₈. Mineralized zones are narrow, to a maximum of 1-2 m, but are generally 1 m or less. No follow up has been carried out.

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

Planned Exploration

No exploration is planned for 2013. The project is considered a potential JV property.

Impairment

The remaining exploration expenditures of \$98,982 were written off in Q3 - \$96,451 and in Q4 - \$2,531.

MOUNT BENEDICT (MB)

Property Description

The property, totalling 377 claims (94 km²), is located in the Benedict Mountains area, near the Labrador coast, in the eastern part of the CMB, approximately 180 kilometres northeast of HVGB and 50 km to the south of Makkovik. The claims are 100% owned by Silver Spruce, subject to a one percent NS on the original staked claims. It is located in part on Labrador Inuit Land (LIL), with the remaining part on Labrador Inuit Settlement Area (LISA) lands. The property covers Government uranium in lake sediment anomalies hosted in felsic plutonic rocks of the Benedict Mountains Intrusive Suite (BMIS), with some felsic supracrustal units of the Aillik Group, the host for the Michelin deposit located to the southwest of the property.

Exploration Summary

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

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

T Super 7 - Located 4.8 km to the southwest of AT-649, it carries U mineralization in bedrock with values from 500 ppm (0.05%) to over 1% (20 lb/ton) U_3O_8 . Tested by seven holes totalling 968 m, the drilling indicated weak to moderate mineralization over good widths. Mineralization in DDH MBS7-08-5 is hosted in a northeast trending mylonite zone which carries two separate mineralized zones: 27m (5-32m) at 138 ppm (0.014%) U_3O_8 and 22m (44-66m) at 278 ppm (0.028%) U_3O_8 in a highly altered felsic intrusive or volcanic unit. An 8m wide, higher grade section, from 51 to 59m grades 444 ppm (0.044%) U_3O_8 . Geological mapping indicates a minimum strike length of 300m, remaining open along strike to the northeast and southwest and radon gas surveys give strong anomalies over a minimum 750m strike length coincident with the zone. The mineralization is similar to the AT-649, developed along a major northeast trending structure which trends through, and is associated with, the AT-649 mineralization. Further work, including diamond drilling, is warranted along this trend.

Planned Exploration

No exploration is planned for 2013 dependent upon uranium prices.

Impairment

The remaining exploration expenditures of \$118,873 were written off in Q3 - \$111,262 and in Q4 - \$7,611.

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

The CMBJV properties consist of 690 claims (172 km²) in the Central Mineral Belt (CMB) of Labrador. The properties are proximal to the Michelin, Moran Lake and other uranium showings under exploration/development by Paladin Energy and CXX and are located, to the west of and inland from, the coastal Postville-Makkovik area of Labrador, approximately 150 kilometres northeast of Happy Valley-Goose Bay. They were acquired by staking in 2005/06 to cover Government uranium in lake sediment anomalies, hosted in volcanic, sedimentary and plutonic rocks, with potential for unconformity style deposits similar to those in the Athabasca Basin, iron oxide copper gold deposits such as Olympic Dam, shear hosted style uranium deposits such as the Michelin and granite hosted deposits such as the Rossing Mine in Namibia. Silver Spruce's original joint venture partner, Universal Uranium, earned a 60% interest in the CMBJV in March 2007 by spending \$2 million in an option agreement. UUL sold its 60% interest to CXX in May 2008, for 10 M CXX shares plus \$500,000, with UUL retaining a 2% NSR on the 60%. Crosshair has taken over the operatorship of the JV. SSE retains a 2% NSR on the properties.

Exploration Summary

Exploration has consisted of a helicopter-borne radiometric/magnetic survey, a limited airborne gravity survey over part of the CMBNW property, prospecting using scintillometers, lake sediment, soil and radon gas geochemistry, ground scintillometer surveys, geological mapping, and trenching and diamond drilling. Follow up on the airborne radiometric survey in late 2006, led to the discovery of the Two Time zone on the CMBNW property, the only significant new uranium discovery in the CMB since the early days of exploration in the CMB by Brinex, Canico and Shell in the 1950's to 1980's. The global financial crisis in 2008 / early 2009 and the resulting budgetary restraints, the NG uranium moratorium and the price of uranium, limited exploration to that required to keep the

properties in good standing for the last few years. CXX, as operator, in consultation with SSE, carried out exploration in 2009, and 2010 aimed at consolidating, reducing and retaining those properties which showed the most potential. Three new uranium prospects were discovered in 2009/10 on the CMB JL (2) and CMB NE (1) JV properties with values up to 0.46% , 0.28% and 0.1% U₃O₈ in selected grab samples from the three showings (NR Feb. 8/11). SSE declined to participate in these programs and was diluted to a 2% NSR according to the formula in the JV agreement (NR May 31/12).

The Two Time (TT) U deposit, located on the CMBNW property has an NI 43-101 indicated resource of 2.33 M lb. (1.82 MT at 0.058% U₃O₈) and an additional inferred resource of 3.73 M lb. (3.16 MT at 0.053% U₃O₈). The zone remains open along strike and at depth and Crosshair has continued exploration drilling to the south towards our Snegamook property, with drill holes now within 100 m of the north boundary of the SN property. In 2011 drilling at the Firestone Showing, located 7 km to the southeast of the TT Zone, gave 3.5m at 0.084% U₃O₈, including 0.5m of 0.519% U₃O₈ (DDH FS-11-007). Other U showings are found on the Jacques Lake and Northeast properties. The 2% NSR on the CMBJV properties means that Silver Spruce will benefit from continued exploration on the TT zone and the other prospects in the JV area without any further expenditures. Crosshair's 2012 work is also enhancing the prospectively of our Snegamook and Fishhawk Lake properties which lie along strike of the TT deposit.

Exploration – 2012

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

Impairment Issues

Since SSE has no further participating interest in the CMBJV properties the remainder of the exploration costs were written off in Q3 and Q4. The company retains a 2% NSR on any production from the properties however no value can be placed on this at this point as no production is imminent.

RARE EARTH ELEMENT (REE) PROPERTIES

The Company holds five rare earth element (REE) properties in Labrador including Pope's Hill (PH), Popes Hill JV, MRT, RWM and Straits. Four of the properties are 100% owned by Silver Spruce, subject to net smelter returns (NSR's) on the MRT and Straits properties as described in the property descriptions. A 50/50 joint venture with Great Western Minerals Group is in place on part of the 100 km long PH trend.

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

Drill core from diamond drilling in the PH MP pit area was cut in half with one half sent for analysis and the other half retained in the core library. Analyses on the 2006 PH samples were by a REE package (Group 4B REE) carried out at the ACME Laboratories facility in Vancouver, BC after sample preparation at Eastern Analytical in Springdale, NL. REE analyses in 2010 and 2011 for rocks, drill core and channel samples were done at the Activation Laboratories (Actlabs) facility in Ancaster, Ontario after sample preparation at their facility in Goose Bay using their Code 8 REE package which consists of a lithium borate fusion and analysis by either ICP or ICP-MS. In addition, on the Straits property, analysis was carried out for U³O⁸ and Nb²O⁵ by XRF. Stream sediment and soil samples were analyzed for a suite of 8 REE's, 4 light and 4 heavy, including La, Ce, Nd, Sm (lights), Eu, Tb, Yb, and Lu (heavies) using the 1 D enhanced package at Actlabs. Values were checked by Actlabs using internal standards and blanks are routinely added to samples sent to the laboratories. A quality assurance/quality control (QA/QC) program, described on the Silver Spruce website, is in place to increase confidence in the results generated.

Exploration

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

Planned Exploration

No exploration is planned for these projects in 2013 due to the inability to raise money for REE exploration at this time. The properties have been reduced to allow the main prospects to be retained for the longer term.

Impairment

Impairment on these properties is indicated since no work is planned at this time – the writeoffs/writedowns are described in the individual property descriptions.

POPE'S HILL (PH) – 100 % OWNED

Property Description

The PH trend extends in a generally E-W to NE-SW direction from the Pope's Hill area, approximately 100 km from Happy Valley/Goose Bay (HVGB) on the Trans Labrador Highway (TLH), along and parallel to the Churchill River. The property totals 1,698 claims (approx. 424 km²). REE mineralization is associated with syenitic intrusive units in the gneisses at the MP trend and with pegmatites to the south of the MP trend on the original PH property and on the MRT property, 60 km to the east. The claims cover REE lake sediment anomalies and structural features defined by government geological mapping. The total strike length along the PH trend, of the 100 %, JV and optioned properties is approximately 100 km. No previous REE or other exploration is documented for the area.

Exploration Summary

Uranium, thorium and REE mineralization was located by then President of Silver Spruce, Lloyd Hillier, in 2006 while prospecting for uranium. No further work was carried out in 2006 due to the lack of interest in REE's and the property was not staked until spring 2010, when interest in REE's peaked. A one day prospecting and sampling program using scintillometers to locate radioactive mineralization was carried out by a four man SSE crew in the fall of 2010 with a total of 31 samples taken from bedrock and locally derived, angular float boulders. The samples were selected using high radioactivity with scintillometer readings from 1,000 to 7,500 cps associated with thorium rich phases. Thirty-one samples gave anomalous total rare earth element plus yttrium (TREE) values with 16 > 5%, and 5 > 10% with a high value of 24.1% (News release Oct. 28, 2010). TREE values varied from a low of 0.07% to a high of 24.07% averaging 5.73% for the 31 samples, which included 7 "host rock" samples, with values 0.4% or lower. Two of the 5 highest values (> 10 %), were outcrop samples. Samples are mostly rich in light rare earth elements (LREE), but the more anomalous values give higher values in HREE up to 7.5% percent of the REE. Other significant values in Nb, Zr, Th and U were noted. The anomalous trend was traced over a 7 km strike length extending to the east, approximately 4 km, and to the west, approximately 3 km, from the MP showing in the bedrock pit. The highest REE values were in a dark grey to black sub-metallic to glassy mineral, in segregations which are variably non-magnetic to moderately magnetic. All of the REE bearing samples are weakly to moderately radioactive with significant Th content (up to 0.7%) but generally 0.1-0.3 % and minor uranium values (up to 461 ppm but generally < 100 ppm). Overburden depths are 1-2 m maximum with scarce outcrop away from the road. The rock unit hosting the REE mineralization is a peralkaline, syenitic unit of late Paleoproterozoic age which hosts green pyroxene crystals. Magnetic, VLF-EM and radiometric (spectrometer) surveys were carried out with lithological/alteration trends noted striking in a 070 degree (ENE) direction and magnetics indicating crosscutting, probable fault or shear structures, trending at approximately 150/330 degrees, one of which passes through the area of the MP pit. Radiometric results were inconclusive due to the limited area covered and the inclement weather however radiometric anomalies were defined in the MP showing area.

Exploration

A total of 1120 m in 10 drill holes (PH-11-1-10) tested the MP showing in the bedrock pit and another close by target on the Trans Labrador Highway (TLH), approximately 100 km from Goose Bay (NR March 3, 2011). The drilling was designed to test TREE mineralized bedrock and float samples from the pit, found in the fall of 2010, VLF-EM anomalies thought to represent shear systems, and magnetic anomalies which could reflect the variably magnetic TREE mineralization. The drilling tested an approximate 700 m long zone of the known 7 km mineralized trend, mainly in the MP pit area. All drill holes were at least partially sampled however sampling was not necessarily continuous and was guided by radioactivity (Th content), visual identification of prospective zones and magnetically anomalous areas. Eight of the holes (PH-11-1-6, 8, 9) were drilled across the geological trend in the MP showing in the pit area. DDH PH-11-7 tested a bedrock showing and magnetic anomaly approximately 400m to the west of the MP showing and DDH PH-11-10 was drilled down dip at the eastern end of the MP showing pit to test the potential for the higher grade veins/segregations possibly crosscutting the lithology. Wide zones, up to 140m of > 0.1 % REE mineralization, were intersected with 4 holes giving widths in the 50 m range. Narrow (0.1-0.3m) zones of higher grade TREE values in the 1 to 6 % range are also found throughout most of the drill holes. Strong Zr values generally >1,000 ppm (0.1%) were noted over wide intervals associated with the REE mineralization (NR March 29, 2011). None of the high grade segregations noted in float and bedrock in the pit and along the highway were intersected. The syenitic units carry disseminated brown crystals (titanite?) which are variably radioactive. Fe₂O₃ values ranging from 11.6% to 18.9% and P₂O₅ values from 0.44% to 1.77% were also located. Nb and Th values are variably anomalous also with values up to 816 ppm Nb and 764 ppm Th, with higher values in these elements associated with the higher TREE values. Nb values may be subdued due to phosphate interference in the analysis. The diamond drilling defined an area of anomalous REE mineralization hosted in syenitic units in the primarily granitic gneisses; however the high grade REE segregations noted on surface in the pit were not intersected. Geological mapping in the pit, once the snow was gone in the spring, indicates that the area is cut by numerous faults making structural control more difficult than expected and possibly disrupting the REE bearing units.

Mineralogy

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

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

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

Prospecting/Geological Mapping

Prospecting using scintillometers to locate radioactive mineralization on the MP trend traced the REE mineralization in outcrop over an approximate 2.8 km strike length (NR Aug. 9 and Aug. 30/11). The zone is laterally continuous, extending from the MP showing in the pit on the TLH and to the north of the pit, through the T1 and T2 showings located 800 and 1,100m, respectively, to the T5 and T6 showings located 2,000 and 2,200m respectively, to the east of the MP showing, in the vicinity of the brook where a boulder running 24.1% TREE was

found in 2010 (NR Oct. 28, 2010). Outcrops with massive segregations are located at the MP showing, and in all the “T” showings with other areas of mineralization noted between the showings but not fully exposed. The mineralized unit, a syenitic unit, conformable with the granitic gneisses, a minimum of 10m wide, carries green pyroxene crystals, as phenocrysts or porphyroblasts, up to 5 cm long, and is open along strike to both the east and west. The massive, high grade, segregations, up to 30 cm wide, which typically run 10-25% TREE, are characterized by pinch and swell structures with at least two parallel massive segregations, separated by 5-6m of host rock, noted in the T2, T5 and T6 exposures, with other parallel zones carrying narrow veins and disseminations in the host unit. Other massive segregations are exposed in hand dug pits up to 30m across strike from the “T” showings. These may be part of the same system indicating the mineralized unit could be much wider than now exposed.

The 136 samples taken from the moderately to highly radioactive, massive segregations and adjacent host rock along the MP trend give HREE percentages ranging from 1.1% to 47.6%, averaging 8.4%, including 45 values > 10% HREE (NR Aug. 30/11). Average values for REEs are: 10,083 ppm (1.00%) La, 21,364 ppm (2.14%) Ce, 2,570 ppm (0.26%) Pr, 8,425 ppm (0.84%) Nd, 1,422 ppm (0.14%) Sm, 44 ppm Eu, 1,019 ppm (0.10%) Gd, 149 ppm Tb, 750 ppm (0.075%) Dy, 130 ppm Ho, 314 ppm Er, 37 ppm Tm, 191 ppm Yb, 25 ppm Lu and 2,775 ppm (0.28%) Y. Thirty (30) samples gave P₂O₅ values > 2% with a high of 11.6% and preliminary mineralogy studies have shown that REE mineralization, with higher HREE content, is present in apatite (calcium phosphate) and apatite content should be reflected by P₂O₅ values. Thorium values for the radioactive, higher grade, REE samples, are generally in the 0.2% to 0.4% range.

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

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

Total Rare Earth Oxide plus yttrium oxide (TREO) results give wide (up to 30m) low grade zones grading 0.2% to 0.75% TREO, narrower (>3m) medium grade zones >0.75% TREO and narrow zones (<1m) of high grade values >3% TREO (NR February 9, 2012). The highest values were found in the T1 to T5 area in trenches 3, 4, 5, 6, 7 and 11. Some trenches gave anomalous values over the entire exposed zone, including: Tr 7 - 0.71% TREO / 22.6m; Tr 5 - 0.74% TREO / 9.5m; and Tr 11b - 1.29% TREO / 5.7m, indicating that the zones could be much wider. The highest individual value was 16.88% TREO / 0.3m in Tr 11b, located near the 24% TREE boulder found in 2010. Heavy rare earth oxide (HREO) percentages of the TREO range from 3.6 to 20.3 %, generally 5-13 %, with dysprosium oxide being one of the higher HREO, in the syenitic units. Narrow high grade zones, related to the massive segregations, carry the mineralized zones in most instances; however, significant background values in the

0.1 to 0.5% range are noted through the syenite that hosts the mineralization. Values of 0.84% TREO / 9m, including 1.24% / 1.6m, were found in Trench 15, located in more pegmatitic material near the TLH. HREO was 2.8-4.9% of the TREO in these samples. Zirconium (Zr) values in the REE mineralized zones along the MP trend are mainly in the 500-1500 ppm range, with a high value of 2.32% noted in trench seven. Trench 15, has generally much higher Zr values in the 1000-9000 ppm (0.1-0.9 %) range. Thorium (Th) values are generally 2-500 ppm in the REE mineralized areas, with a high of 0.31 % (3100 ppm) noted in trench 11b. The host syenite units strike at approximately 70 degrees and dip to the south (toward the TLH) at approximately 30-40 degrees, parallel to the gneissosity of the geological units. True width of the zones is estimated at 70-90%, depending upon the steepness of the hill where the mineralization occurs. The better mineralized zones are described in the table on page 8 which gives results for all elements and gives the HREO percentages of the TREO. Note that in cases where continuous samples could not be taken due to water or overburden, the sample intervals were given values of 0.

Regional Exploration

Airborne magnetic/radiometric/VLF-EM surveys, stream sediment geochemical sampling and concurrent prospecting were completed on streams draining the prospective areas to the north and west of the Churchill River over the 100% owned properties (NR Aug. 30/11). A number of radioactive zones were noted in the scintillometer prospecting surveys and areas of anomalous stream sediments some with contiguous anomalous rock samples were located. No follow up was carried out due to the lateness of the season.

Planned Exploration

No exploration is planned for 2013, due to lack of funding.

Impairment

Impairment is indicated as no exploration is planned however results to date indicate a significant area of REE mineralization in the Popes Hill area which requires further work. A writedown of 42% of the exploration costs is being taken this quarter. Impairment issues will be evaluated quarterly and write-downs or further write-offs will be taken if required.

POPES HILL JV – 50 % INTEREST

Property Description

A total of 759 claims (approx. 190 km²) are part of the Popes Hill joint venture (PHJV) along the PH trend as a 50/50 JV with Great Western Minerals Group (GWMG) (NR Nov. 30, 2010). GWMG is the operator with funding at 50/50 at least for the first year. The claims cover areas considered to be prospective for REE mineralization based on geology, geochemistry (lake sediment results – anomalous La and Ce) and structural features.

Exploration

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

Impairment

No impairment is indicated at this time and the property remains in good standing. We are awaiting GWMG's plans for the area. Impairment issues will be evaluated quarterly and further write-downs or write-offs will be taken if required.

MRT PROPERTY – OPTION TO EARN 100 %

Property Description

The MRT property, located along the Trans Labrador Highway (TLH) approximately 35 km from HVGB, which consists of 178 claims (44.5 km²) was optioned from two Innu Prospectors, Jean Pierre (Napes) Ashini and Raphael Dominic Riche in February, 2011 (NR Feb. 17, 2011). Terms of the agreement to earn a 100% interest subject to a 2.5% NSR with a buyback of 1.5% for \$1.5M, are:

	<u>Cash</u>	<u>Shares</u>	<u>Work Commitment</u>
On signing:	\$15,000 (paid March 2, 2011)	100,000 (issued June 6, 2011)	-
1 st Anniversary	\$25,000 (paid February 20, 2012)	150,000 (issued February 20, 2012)	-
2 nd Anniversary	<u>\$40,000</u>	<u>250,000</u>	<u>\$250,000</u>
Total	<u>\$80,000</u>	<u>500,000</u>	<u>\$250,000</u>

In addition, advance royalty payments of \$10,000 per year are payable from the 4th anniversary on. The property is considered prospective for both REE and U mineralization.

Exploration

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

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

Prospecting: An area of REE mineralization was located over a 2 km² area just to the north of the TLH. Mineralization is light rare earth oxide (LREO) enriched with five samples giving values >1% Nd₂O₃. Ten samples, 6 from outcrop and 4 from float, gave TREE values >1% with HREO values averaging 4% of the TREE including one sample from outcrop with 0.14% Dy₂O₃ although the average Dy₂O₃ values for the 10 samples >1% TREE was 271 ppm. The highest rock sample value was 12.2% TREE with 1.6% HREO, in a small float, located along the power line at the south boundary of the property. The only significant value outside of the southern area was one float which gave 0.5% TREE with 7% HREO, on a brook in the western part, coincident with weakly anomalous stream sediment values. Thorium values for the higher REE sample values are generally in the 0.1 to 0.2% range (NR Aug. 9/11). In uranium, three outcrop samples taken in areas of higher radioactivity in the area of the powerline gave values of 0.825% U₃O₈, 930 ppm Th; 234 ppm U (0.027% U₃O₈), 72 ppm Th; and 744 ppm U (0.088% U₃O₈), 288 ppm Th with U/Th ratios varying from 8 to 3 (NR Feb. 17/11). Seven prospecting grab samples, taken during exploration for REE mineralization, in the summer of 2011, gave values >0.05 % U (0.059 % U₃O₈) or 1 lb/tonne, including four >0.1% U (0.12 % U₃O₈) or 2 lbs/tonne (NR Sept. 13/11). All samples were acquired in the southern part of the property over a 2 km long trend, along and to the north of the power line and are not coincident with the high REE values. Th values were a maximum of 391 ppm, giving a U/Th ratio of approximately 3 to 1 or better (NR Aug. 9/11). All samples were selected grab samples, based on radioactivity using scintillometers and are not necessarily representative of the overall values in the area.

Soil Geochemistry: Soil samples were taken at approximate 100 m intervals on lines 200m apart in the southern part of the property where the significant REE mineralization occurs over a 2km² area, within 2 km of the TLH and upstream of a significant anomalous stream sediment value (NR Sept. 13/11). A number of anomalies with values up to 831 ppm total rare earth oxides (TREE) against a background of <200 ppm (NR Jan. 17/12) were located. Heavy rare earth oxides (HREO) averaged 2-3% of the total rare TREE with a high of 4%.

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

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

Planned Exploration

No exploration is planned for 2013 due to lack of funding. The property will most likely be returned to the vendor in early 2013.

Impairment

Impairment is indicated as no exploration is planned in the near future and the property will most likely be returned to the vendor in early 2013. The property has been written off this quarter.

RWM

Property Description

The property consists of 40 claims (10 km²) covering the second highest heavy rare earth element value, >80 ppm HREE (Eu, Tb, Yb and Lu), in the Government lake sediment database for Labrador, in the southern Red Wine Mountains, approximately 30 km to the east of the Orma Lake road which provides access to the Churchill Reservoir area.

Summary

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

Exploration Summary

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

Planned Exploration

No exploration is planned for 2013 due to lack of funding.

Impairment

Impairment is indicated as no further exploration is planned and the expenditures has been written off in this quarter.

STRAITS (ST)

Property Description

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

Exploration Summary

The property was originally staked in 2006 to cover uranium in lake sediment anomalies associated with a north-northwest trending fault structure in Proterozoic, metamorphosed, felsic volcanics, now orthogneiss. The vendor, Alex Turpin retains a 1 % NSR on the original staking plus and AOI around the original property. Exploration has included lake, stream sediment and soil geochemistry, ground scintillometer surveys, prospecting, and geological mapping. Significant uranium showings were located in the south central part of the property near the coast. The "BB Shot" showing gives grab sample values up to 67,439 ppm (6.7%) U₃O₈ in outcrop along the contact of weakly gneissic, fine-grained granite, and a pegmatite with associated magnetite and biotite. The "Bingo" showing, approximately 3 km from the BB Shot, and also associated with the contact of the granite and orthogneiss, gave 17 anomalous values (>10 ppm U₃O₈) with a high value of 5,887 ppm (0.59%) U₃O₈, associated with uranophane staining. Uranium/thorium ratios average 5:1 in samples giving uranium values >250 ppm. Anomalous values in Th (to 6,810 ppm), Cu (to 2,720 ppm) and Pb (>5,000 ppm) were also found with the higher thorium values giving low uranium values.

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

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

Helicopter supported prospecting, in November 2011, evaluated areas of thorium (Th) radioactivity in the airborne surveys as well as other areas anomalous in lanthanum (La), Th and REE from previous ground surveys (NR Nov. 18/11, May 27, 2010) and favorable geologic units as suggested by a consultant. Fifty four (54) rock samples were taken, mostly from outcrop, using radioactivity, related to Th and uranium (U) bearing minerals possibly associated with REE mineralization, as a guide. Scintillometer readings in anomalous areas averaged 500 to 9000 counts per second (cps) against a background of 150 cps. In total, 11 samples gave total rare earth oxide (TREE) values > 0.1% and 13 gave U₃O₈ values >100 ppm (NR Jan. 19/12). The most significant mineralized area was located on Licence 17761M, to the north of Temple Bay, where five outcrop samples of mafic to felsic gneisses cut by pegmatites, associated with a structural lineament, gave TREE >1% with a high of 4.76%, including 3.42% TREE with 58% heavy rare earth oxides (HREE) including 0.19% dysprosium oxide (Dy₂O₃). The average HREE for the five samples was 23.4%, with all having associated U₃O₈ values ranging from 400 to 1130 ppm, while Th₂O₃ values are generally low at 40-196 ppm, except for one sample at 1016 ppm. The samples were also anomalous in Zr, Nb and Ta. The samples were taken from narrow veins < 30 cm wide associated with the pegmatites. Scintillometer readings over the mineralization ranged from 1300 to 4200 cps. While the mineralization located is narrow, the REE / uranium association, the HREE content and the apparent structural control in this relatively unexplored area are all positive indications of significant potential for both REE and uranium.

Planned Exploration

No exploration is planned in 2013 due to lack of funding. The properties will be reduced to allow maintenance for the longer term.

Impairment

Impairment is indicated as no exploration is planned at this time. And the expenditures have been written off in this quarter.

OTHER PROPERTIES/PROJECTS

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

MANAGEMENT

Peter Dimmell, BSc, P.Geo. - President and CEO, Director

Mr. Dimmell is a geologist and prospector who has been involved in mineral exploration in Canada, the United States and overseas for 43 years. He is a past president and a life member of the Prospectors and Developers Association of Canada, a past Chairman and past director of Mining Industry NL (formerly the Newfoundland and Labrador Chamber of Mineral Resources), a member and past councillor of the Geological Association of Canada, a life member of the Canadian Institute of Mining, Metallurgy and Petroleum, and an associate member of the Association of Applied Geochemists. He is also currently a director of three other public companies: Pele Mountain Resources Inc., VVC Exploration Corp. and Atocha Resources Inc.

Gordon Barnhill - VP Corporate Affairs, Director, CFO

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

LIQUIDITY, FINANCINGS AND CAPITAL RESOURCES GORD TO COMPLETE

Operating Activities

The Company had a net cash outflow from operating activities of \$478,040 for the year ended October 31, 2012 (October 31, 2011 - \$964,615 outflow).

Financing Activities

During the year ended October 31, 2012 the Company had a net inflow of \$177,085, generated by \$191,400 in proceeds from issuance and exercise of shares and warrants. In the prior year, the Company had a net inflow of \$3,298,120, generated by \$1,931,458 in proceeds from issuance and exercise of shares, warrants and options, and (\$1,594,664 from exercise of warrants and options).

Investing Activities

The Company had a net outflow of \$473,561 from investing activities for the year October 31, 2012 (October 31, 2011 - \$1,727,703 net outflow). Of this amount in the current year \$530,371 was invested in mineral property exploration activities (October 31, 2011 – \$1,705,916).

Liquidity

The Company had cash and cash equivalents of \$129,774 as at October 31, 2012 (October 31, 2011 - \$874,290). The change in non-cash operating working capital as at October 31, 2012 was a cash inflow of \$132,419 (October 31, 2011 - \$103,874 outflow). Exploration will continue primarily in compilation and report writing in early 2013. Working capital is sufficient for this work however the company will be seeking additional funding to allow significantly increased activity especially planned diamond drilling on both the Big Easy and Pope's Hill properties.

In the short term the Company expects receipts of an approved Junior Exploration Assistance Program ("JEAP") grant from the Newfoundland government in the amount of \$100,00 and claim refunds of \$22,000.

Capital Resources

The Company's authorized capital consists of an unlimited number of common and preference shares without par value. At October 31, 2012, the Company had 111,607,805 issued and outstanding common shares (October 31, 2011 – 106,565,305).

RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at October 31, 2012 are \$75,250 (October 31, 2011 - \$12,322) owing to directors of the Company for consulting related services rendered. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

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

Rent and certain building materials required by the Company for its operations are purchased from a hardware store controlled by 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 year ended October 31, 2012, \$167 (October 31, 2011 - \$24,235) was paid to the hardware store and \$460 (October 31, 2011 - \$58,768) was paid to the hotel and are included in mineral properties on the statement of financial position.

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

COMMITMENTS

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

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

	Cash	Shares
2013	\$30,000	350,000

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

2013	\$825
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FINANCIAL INSTRUMENTS

Fair Value

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

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

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

CURRENT MARKET CONDITIONS

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

The Company's main focus until recently has been uranium. Demand for uranium is forecast to outstrip supply over the next 10 years or so growing at an annual rate of approximately 2% per year. Much of this demand will come from expanding nuclear power requirements of developing economies with 130 new reactors expected to be constructed over the next 15 years (IAEA report), representing a 30 percent global increase in reactors. China has announced plans to build 27 new nuclear reactors by 2020, and India has announced plans to build 17 new nuclear reactors by 2012. This rate of expansion compares with the USA, which built over 100 nuclear power plants in 15 years between 1965 and 1980 (IAEA). Uranium supply is constrained by a lack of new mine production and declining world inventories. World requirement of uranium oxide (U₃O₈) is about 77 kilotons per annum (ktpa), while current mine production accounts for 48ktpa. The balance, 29ktpa, comes from inventory - primarily the down-blending of weapons grade uranium which has greatly diminished over the past years. Mine output is expected to increase to 54 ktpa over the next three to five years, leaving a significant supply gap to be filled by new production (IAEA). Cameo's 2005 annual report estimated that uranium fuel consumption will reach 217 ktpa by 2015.

While the short term outlook for uranium and the spot price has been impacted by the problems at the nuclear plant in Japan related to the earthquake and tsunami damage, the long term outlook remains positive with prices expected to rise starting in 2013. Uranium is currently trading at around US\$60/lb on the term market with spot prices around \$40/lb. Market pressures remain strong for the long term and it is expected that the long term uranium price should increase.

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

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

The market cap of the Company has dropped significantly in the past few years due to continued weakness in the overall junior sector. Our emphasis on the Big Easy gold/silver property allowed us to obtain a small flow through financing in early 2012 and hopefully more flow through funding in 2013. The global economic situation, especially in Europe, remains confused, and the share prices in junior explorers such as ourselves are being impacted. Impairment issues related to Market Capitalization will continue to be evaluated quarterly and further write downs or write offs will be taken if required.

OUTLOOK

The Company maintained its 2012 exploration program, at a lower level from 2011 with approximately \$815K spent, down from \$1.8M in 2011. In May 2012, the Company completed a small flow through, private placement with approximately \$191K raised. These financings, in concert with return of staking deposits, JEAP payments and warrant and options exercised allowed the Company to carry out a diamond drilling program at the Big Easy which better defined the epithermal gold/silver mineralization. Continued financing will be required for further exploration on the Big Easy property on the island of Newfoundland.

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

The requirements relating to separate financial statements in IAS 27 are unchanged in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. IAS 28 *Investments in Associates and Joint Ventures* (“IAS28”) is amended to conform with changes in IFRS 10, IFRS 11 and IFRS 12. Each of these five standards have an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards noted above are also early applied. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without technically early applying the provisions of IFRS 12 (and thereby each of the other four standards).

IFRS 13 *Fair Value Measurement* (“IFRS 13”) replaces existing IFRS guidance on fair value with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is currently assessing the impact of this new standard on the Company’s financial assets and financial liabilities.

Amendments were issued by the IASB to IAS 32 *Financial Instruments: Recognitions and Measurement* (“IAS32”), which address inconsistencies in current practice when applying the offsetting criteria. These amendments are part of the IASB’s offsetting project. These amendments must be applied starting January 1, 2014 with early adoption permitted. The IASB also issued amendments to IFRS 7 *Financial Instruments Disclosures* as part of the offsetting project. This includes specific disclosures related to offsetting financial assets and liabilities that will enable users of entities financial statements to evaluate the effect of potential effect of netting arrangements, including rights of set-off associated with the entity’s recognized financial assets and liabilities, on the entity’s financial position. These amendments must be applied starting January 1, 2013 with early adoption permitted. The Company is currently assessing the impact of adopting the IAS 23 and IFRS 7 amendments on the consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

Share-based Payment Transactions

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

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

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

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

Under both CICA 3870 and IFRS 2, the treatment of awards to non-employees differs in some respects from that to employees. IFRS 2 generally measures awards to non-employees based on the fair value of the goods and services received, except in the “rare cases” where this cannot be measured, when the fair value of the equity instruments granted is used. CICA 3870 measures the awards based on the fair value of the equity instruments granted, if they are tradable. This change in accounting policy has resulted in an increase to operating expenses of \$9,477 as at April 30, 2011 and increase to contributed surplus as at April 30, 2011.

Flow through Shares

Flow through Share Premiums

When flow through shares are issued, if the price the flow through shares are issued for is in excess of the market value of the shares, the premium is considered a sale of tax deductions and the premium is initially booked as a liability and then released into income as the renounced expenditures are incurred. Per the attached analysis provided by Alexis Brown of the Silver Spruce IFRS conversion team, the only flow through issuances that had share premiums were incurred in 2007 and before. For a flow through issued in 2007, the renounced expenditures were required to be incurred by December 31, 2008. The IFRS transition date is November 1, 2010, thus all renounced expenditures associated with flow through issuances with premiums were incurred before the transition date and there will not be any liabilities associated with flow through share premiums recorded on the opening IFRS balance sheet. All flow through share issuances after the November 14, 2007 issuance were made at fair market value of a non-flow through share and thus no premium has to be recorded. Since the premium is recorded as revenue when the expenditures are renounced, the premium associated with flow through share issuances completed before the IFRS transition date an adjustment was made to reallocate \$828,812 from share capital to retained earnings as of November 1, 2010.

Tax Impact of Renounced Expenditures

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

All flow through share issuances which had incurred their renounced expenditures before the November 1, 2010 IFRS transition date will have the full tax impact of their renounced expenditures moved from share capital to retained earnings since the expenditures do not straddle the transition date. For any issuances that the expenditures incurred straddle the transition date, only the tax impact of these expenses incurred before the transition date will be recognized in the opening balance sheet. Expenses incurred after the transition date will be recognized in the income statement when incurred. Accordingly, an adjustment was made to reverse \$630,579 from share capital to tax recovery.

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

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

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

Mandatory exceptions

Estimates

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

Optional Exemptions

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

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