

*Condensed Consolidated Interim Financial Statements of*

**SILVER SPRUCE RESOURCES INC.**

*For the three months ended January 31, 2012 and 2011*

*(Unaudited)*

# **SILVER SPRUCE RESOURCES INC.**

**For the three months ended January 31, 2012 and 2011**

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

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

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

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

Halifax, Nova Scotia  
April 26, 2012

# **SILVER SPRUCE RESOURCES INC.**

**For the three months ended January 31, 2012 and 2011**

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**SILVER SPRUCE RESOURCES INC.**  
**Condensed Consolidated Interim Statements of Financial Position**  
(Expressed in Canadian Dollars - Unaudited)

	As at January 31, 2012	As at October 31, 2011	As at November 1, 2010
	\$	\$	\$
		(Note 17)	(Note 17)
<b>ASSETS</b>			
Current			
Cash	535,023	874,290	216,287
HST and other receivables	36,945	48,691	47,188
Refundable staking deposits	92,450	95,600	59,800
Prepaid expenses	63,624	83,252	16,490
	<b>728,042</b>	1,101,833	339,765
Mineral properties (Notes 7 and 16)	4,162,723	4,024,812	2,857,318
Property and equipment (Note 8)	118,998	128,016	109,201
Mexican VAT receivable	-	-	182,655
Non-current refundable staking deposits	8,700	8,970	70,783
Investments	2,988	3,463	10,013
	<b>5,021,451</b>	5,267,094	3,569,735
<b>LIABILITIES</b>			
Current			
Trade payable and accrued liabilities (Note 13)	114,012	171,113	374,385
Current portion of long-term debt (Note 9)	-	-	5,976
	<b>114,012</b>	171,113	380,361
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 10)	26,341,861	26,341,861	23,144,409
Warrants (Note 11)	811,185	878,542	739,925
Contributed surplus	7,050,847	6,983,490	6,372,250
Accumulated deficit	(29,296,454)	(29,107,912)	(27,067,210)
	<b>4,907,439</b>	5,095,981	3,189,374
	<b>5,021,451</b>	5,267,094	3,569,735

See accompanying notes to the condensed consolidated interim financial statements

**BASIS OF PREPARATION AND GOING CONCERN (Note 2)**

Description of business (Note 1)

Commitments and contingencies (Notes 7 and 15)

APPROVED BY THE BOARD OF DIRECTORS

Original signed by Rob Gillis, Director

Original signed by Gordon Barnhill, CFO, Director

**SILVER SPRUCE RESOURCES INC.**  
**Condensed Consolidated Interim Statements of Operations and**  
**Comprehensive Loss**

(Expressed in Canadian Dollars except earnings per share - Unaudited)

	For the three months ended January 31, 2012 \$	For the three months ended January 31, 2011 \$ (Note 17)
Revenue		
Unrealized gain on market value of investments	-	237
Interest income	-	-
	-	237
Expenses		
Impairment of mineral properties (Note 7)	-	7,020
Write-off of receivable	-	12,814
Stock-based compensation	-	402,024
Office and general	21,311	60,539
Accounting, audit and legal	79,971	38,817
Wages and benefits	5,773	34,510
Unrealized loss on market value of investments	475	-
Consulting fees	35,127	61,566
Corporate relations	29,906	7,174
Travel	2,819	13,060
Amortization	8,137	7,740
Listing and filing fees	2,965	4,319
Loss on sale of property and equipment (net)	341	-
Foreign exchange loss	1,717	-
	188,542	649,583
Loss before income taxes	188,542	649,346
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>188,542</b>	<b>649,346</b>
<b>LOSS PER SHARE - BASIC AND DILUTED</b>	<b>0.00</b>	<b>0.01</b>
<b>WEIGHTED-AVERAGE NUMBER OF SHARES</b>		
<b>OUTSTANDING - BASIC AND DILUTED</b>	<b>106,565,305</b>	<b>83,102,991</b>

See accompanying notes to the condensed consolidated interim financial statements

# SILVER SPRUCE RESOURCES INC.

## Condensed Consolidated Interim Statements of Change in Shareholders' Equity

(Expressed in Canadian Dollars - Unaudited)

	Number of shares	Share capital \$	Warrants \$	Contributed surplus \$	Accumulated deficit \$	Total equity \$
<b>Balance, November 1, 2010</b>	79,073,442	23,144,409	739,925	6,372,250	(27,067,210)	3,189,374
Total comprehensive loss to January 31, 2011	-	-	-	-	(649,346)	(649,346)
Shares issued for private placements	11,226,481	1,345,744	-	-	-	1,345,744
Share issuance costs	-	(191,251)	-	-	-	(191,251)
Share-based payment issued	-	-	-	402,024	-	402,024
Share-based payment exercised	1,269,230	122,447	-	(12,398)	-	110,049
Warrants issued for private placement	-	-	565,147	-	-	565,147
Warrants expired	-	-	(96,426)	96,426	-	-
Warrants exercised	14,496,152	1,817,352	(332,736)	-	-	1,484,616
<b>Balance January 31, 2011</b>	106,065,305	26,238,701	875,910	6,858,302	(27,716,556)	6,256,357
Total comprehensive loss to October 31, 2011	-	-	-	-	(1,391,356)	(1,391,356)
Shares issue for property acquisition	500,000	56,000	-	-	-	56,000
Flow-through offering fees	-	-	-	-	-	-
Share issuance costs	-	(12,840)	-	-	-	(12,840)
Share-based payment issued	-	-	-	185,188	-	185,188
Share-based payment exercised	-	60,000	-	(60,000)	-	-
Warrants issued for private placements	-	-	2,632	-	-	2,632
<b>Balance October 31, 2011</b>	106,565,305	26,341,861	878,542	6,983,490	(29,107,912)	5,095,981
Total comprehensive loss for the period	-	-	-	-	(188,542)	-
Warrants expired	-	-	(67,357)	67,357	-	-
<b>Balance January 31, 2012</b>	106,565,305	26,341,861	811,185	7,050,847	(29,296,454)	4,907,439

See accompanying notes to the condensed consolidated interim financial statements

# SILVER SPRUCE RESOURCES INC.

## Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars - Unaudited)

	For the three months ended January 31, 2012	For the three months ended January 31, 2011
	\$	\$
Operating activities		(Note 17)
Net loss	<b>(188,542)</b>	(649,346)
Items not affecting cash:		
Stock-based compensation	-	402,024
Amortization	<b>8,137</b>	7,740
Loss on disposal of property and equipment	<b>341</b>	-
Unrealized loss (gain) in market value of investments	<b>475</b>	(237)
Write-off of receivable	-	12,814
Impairment of mineral properties	-	7,020
	<b>(179,589)</b>	(219,985)
Changes in non-cash working capital		
(Increase) decrease in prepaid expenses	<b>19,629</b>	5,661
Decrease (increase) in HST and other receivables	<b>11,746</b>	(8,392)
(Decrease) increase in accounts payable and accrued liabilities	<b>(57,102)</b>	(245,099)
Change in non-cash operating working capital	<b>(25,727)</b>	(247,830)
	<b>(205,316)</b>	(467,815)
Financing activities		
Proceeds from exercise of warrants and options	-	1,611,498
Proceeds from issuance of share capital and warrants	-	1,879,255
Share issue costs	-	(159,616)
Repayments of long-term debt	-	(2,241)
	-	3,328,896
Investing activities		
Mineral properties expenditures	<b>(137,911)</b>	(148,794)
Proceeds from sale of equipment	<b>540</b>	-
Refund of refundable staking deposits	<b>5,420</b>	-
Purchase of refundable staking deposits	<b>(2,000)</b>	(19,792)
	<b>(133,951)</b>	(168,586)
(DECREASE) INCREASE IN CASH	<b>(339,267)</b>	2,692,495
CASH, BEGINNING OF PERIOD	<b>874,290</b>	216,287
CASH, END OF PERIOD	<b>535,023</b>	2,908,782

See accompanying notes to the condensed consolidated interim financial statements

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 14)

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended January 31, 2012 and 2011**  
**(Unaudited)**

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**1. DESCRIPTION OF BUSINESS**

Silver Spruce Resources Inc. (the “Company”) was incorporated in Alberta on May 8, 1996 under the name First Labrador Acquisitions Inc. The Company changed its name to Silver Spruce Resources Inc. on October 22, 2004. The Company’s operations consist of the exploration for precious and base minerals. 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 condensed consolidated interim financial statements (the “financial statements”) of the Company are unaudited and have been prepared in accordance with IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

These are the Company’s first IFRS condensed consolidated interim financial statements for part of the period covered by the Company’s first IFRS consolidated annual financial statements for the year ending October 31, 2012. Previously, the Company prepared its consolidated annual and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). As these condensed consolidated interim financial statements are the Company’s first financial statements prepared in accordance with IFRS, disclosure of the Company’s elected transition exemptions and reconciliation and explanation of accounting policy differences compared to Canadian GAAP have been provided in Note 17 to these financial statements.

These condensed consolidated interim statements should be read in conjunction with the Company’s consolidated annual financial statements for the year ended October 31, 2011. Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company’s most recent consolidated annual financial statements prepared in accordance with Canadian GAAP have been included in these condensed consolidated interim financial statements.

*Basis of presentation*

The financial statements of the Company have been prepared in accordance with IFRS on a going concern basis, 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.



**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(Unaudited)**

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

*Basis of presentation (continued)*

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.

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

**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 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. 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 development 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.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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(Unaudited)

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

*Mineral properties (continued)*

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.

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 recoverability whenever events or changes in 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 the assets 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 comprehensive loss.

Mineral properties 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 properties 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.

*Property and equipment*

Property and equipment are 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. Property and 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 Condensed Consolidated Interim Financial Statements**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Property and equipment (continued)*

The rates applicable to each category of property, plant, and equipment are as follows:

Class of property, plant, and equipment	Depreciation rate
Equipment	20%
Computer	55%
Vehicles	30%

*Joint ventures*

The Company has agreements with other companies whereby the Company either owns a project jointly with a partner and shares in the costs and ownership of the project, or allows the other company to earn a right to a certain percentage ownership in one of the Company's projects, by spending an agreed upon amount in exploration costs over an agreed upon period of time. The Company also has arrangements with others whereby the Company may earn an interest in a property by spending an agreed upon amount for exploration. In all cases the property is jointly controlled by the Company and its partners, and each accounts for its own expenditures.

*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. 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 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.

*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 the Black-Scholes pricing model and is charged to earnings over the vesting period with an offset to contributed surplus, 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 contributed surplus.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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 comprises 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.

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 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.

*Revenue recognition*

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.

Interest income is recognized when earned and collection is reasonably assured.

*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.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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 and development properties at the Company's risk-free interest rate. 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 liability at this time.

*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. Fair value through profit or loss 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	Held-for-trading
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Transaction costs directly attributable to the acquisition or issue of financial instruments are recognized in net income (loss) in the period incurred.

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 held-for-trading, 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

# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended January 31, 2012 and 2011

(Unaudited)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Impairment of financial assets (continued)*

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.

#### *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 balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenue and expenses are translated at the average exchange rates prevailing during the period 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.

**SILVER SPRUCE RESOURCES INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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(Unaudited)

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

*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.

*Mineral properties*

The company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration 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.

*Property and equipment*

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

*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.

*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 tax basis of assets and liabilities.

# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended January 31, 2012 and 2011

(Unaudited)

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### 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 applying the amendments of IFRS 9 and IFRS 7 on the consolidated financial statements.

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* (“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). The Company is currently assessing the impact of these new standards on the Company's consolidated financial statements.



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**4. FUTURE ACCOUNTING CHANGES (continued)**

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.

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 23 and IFRS 7 amendments on the consolidated financial statements.

# SILVER SPRUCE RESOURCES INC.

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### 5. CAPITAL MANAGEMENT

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

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

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

There were no changes in the Company's approach to capital management during the period.

### 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, HST and other receivables. The Company's cash is held with highly rated financial institutions.

#### 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 January 31, 2012, the Company had a cash balance of \$535,023 (October 31, 2011 - \$874,290; November 1, 2010 - \$216,287) to settle current liabilities of \$114,012 (October 31, 2011 - \$171,117; November 1, 2010 - \$374,395). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

#### c) Market risk

##### *Interest rate risk*

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

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

**c) Market risk (continued)**

*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 period.

**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 and Forest Gate Resources Inc.) is based on quoted market prices in active markets and are classified as a level 1 in the fair value hierarchy.

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

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

**e) Sensitivity analysis (continued)**

	<b>January 31, 2012</b>	October 31, 2011	November 1, 2010
	\$	\$	\$
Mexican pesos:			
Cash	<b>4,868</b>	2,846	5,006
VAT receivable	-	-	182,655
Accounts payable	<b>7,260</b>	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 \$250 (October 31, 2011 - \$100; November 1, 2010 - \$18,500) based on balances denominated in Mexican Pesos on January 31, 2012.

A plus or minus 10% change in the market price of the Bayswater and Forest Gate shares would affect the Company's net loss by \$299 (\$2,988 x 10%).

**7. MINERAL PROPERTIES**

	November 1, 2011	Additions	Refund of expenditures	Impairment and abandonments	<b>January 31, 2012</b>
	\$	\$	\$	\$	\$
Uranium					
Central Mineral Belt	2,084,358	-	-	-	<b>2,084,358</b>
Double Mer	22,034	-	-	-	<b>22,034</b>
Mount Benedict	110,508	251	-	-	<b>110,759</b>
Snegamook	19,604	251	-	-	<b>19,855</b>
	<b>2,236,504</b>	<b>502</b>	-	-	<b>2,237,006</b>
Gold and Base Metals					
Big Easy	572,036	9,065	-	-	<b>581,101</b>
Rare Earth Elements					
MRT Property	66,093	27,151	-	-	<b>93,244</b>
Pope's Hill Joint Venture	119,490	-	(5,309)	-	<b>114,181</b>
Straits	49,542	41,604	-	-	<b>91,146</b>
Pope's Hill	970,054	62,438	-	-	<b>1,032,492</b>
Red Wine Mountains	11,093	2,460	-	-	<b>13,553</b>
	<b>1,216,272</b>	<b>133,653</b>	<b>(5,309)</b>	-	<b>1,344,616</b>
	<b>4,024,812</b>	<b>143,220</b>	<b>(5,309)</b>	-	<b>4,162,723</b>

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**7. MINERAL PROPERTIES (continued)**

	November 1, 2010	Additions	Refund of staking deposits	Impairment and Abandonments	October 31, 2011
	\$	\$	\$	\$	\$
<b>Uranium</b>					
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>-</u>	<u>(21,840)</u>	<u>2,236,504</u>
<b>Gold and Base Metals</b>					
Big Easy	164,965	407,071	-	-	572,036
Rambler South	404,944	167,639	-	(572,583)	-
	<u>569,909</u>	<u>574,710</u>	<u>-</u>	<u>(572,583)</u>	<u>572,036</u>
<b>Rare Earth Elements</b>					
MRT Property	-	66,093	-	-	66,093
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>1,157,312</u>	<u>-</u>	<u>-</u>	<u>1,216,272</u>
	<u>2,857,318</u>	<u>1,761,917</u>	<u>-</u>	<u>(594,423)</u>	<u>4,024,812</u>

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**8. PROPERTY AND EQUIPMENT**

	January 31, 2012			
	<u>Equipment</u>	<u>Computers</u>	<u>Vehicles</u>	<u>Total</u>
	\$	\$	\$	\$
<b>Cost:</b>				
At October 31, 2011	179,036	63,483	104,508	347,027
Additions	-	-	-	-
Disposals	1,224	-	-	1,224
<b>At January 31, 2012</b>	<b>177,812</b>	<b>63,483</b>	<b>104,508</b>	<b>345,803</b>
<b>Depreciation:</b>				
At October 31, 2011	102,409	50,557	66,045	219,011
Additions	3,627	1,697	2,813	8,137
Disposals	343	-	-	343
<b>At January 31, 2012</b>	<b>105,693</b>	<b>52,254</b>	<b>68,858</b>	<b>226,805</b>
<b>Carrying Value:</b>				
At October 31, 2011	76,627	12,926	38,463	128,016
<b>At January 31, 2012</b>	<b>72,119</b>	<b>11,229</b>	<b>35,650</b>	<b>118,998</b>

  

	October 31, 2011			
	<u>Equipment</u>	<u>Computers</u>	<u>Vehicles</u>	<u>Total</u>
	\$	\$	\$	\$
<b>Cost:</b>				
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
<b>At October 31, 2011</b>	<b>179,036</b>	<b>63,483</b>	<b>104,508</b>	<b>347,027</b>
<b>Depreciation:</b>				
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
<b>At October 31, 2011</b>	<b>102,409</b>	<b>50,557</b>	<b>66,045</b>	<b>219,011</b>
<b>Carrying Value:</b>				
At November 1, 2010	60,064	18,144	30,993	109,201
<b>At October 31, 2011</b>	<b>76,627</b>	<b>12,926</b>	<b>38,463</b>	<b>128,016</b>

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**9. LONG-TERM DEBT**

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

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

**10. SHARE CAPITAL**

The share capital is as follows:

	<b>January 31, 2012</b>	October 31, 2011	November 1, 2010
	\$	\$	\$
Authorized:			
An unlimited number of non-voting preference shares			
An unlimited number of common shares			
Issued and outstanding:			
106,065,305 (October 31, 2011 - 106,065,305)			
(November 1, 2010 - 79,073,422)	<b>26,341,861</b>	26,341,861	23,144,409

- a) 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 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 \$0.085, and 100,000 shares for the acquisition of the MRT property at \$0.22, 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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**10. SHARE CAPITAL (continued)**

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

**11. WARRANTS**

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

	January 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	-	-	6,613,345	0.20
Exercised	-	-	(14,496,152)	0.10
Expired during the year	(3,053,847)	0.14	(2,450,000)	0.15
Balance, end of year	16,846,679	0.15	19,900,526	0.14

- a) 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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**11. WARRANTS (continued)**

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

Summary of warrants outstanding and additions as at January 31, 2012:

Warrants	Exercise price	Fair value of warrants	Expiry date
	\$	\$	
260,721	0.20	24,271	December 31, 2012
18,250	0.17	2,967	December 31, 2012
2,955,882	0.20	267,849	December 24, 2012
185,294	0.17	23,557	December 24, 2012
1,462,333	0.20	91,717	December 23, 2012
65,394	0.17	7,744	December 23, 2012
1,665,471	0.20	149,677	December 23, 2012
2,500,000	0.10	60,558	September 7, 2012
7,733,334	0.12	182,846	September 7, 2012
16,846,679		811,185	

**12. SHARE BASED PAYMENTS**

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

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**12. SHARE BASED PAYMENTS (continued)**

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

	January 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	(485,000)	0.52	-	-
Balance, end of year	12,806,667	0.26	13,291,667	0.27

At January 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	4.38	0.08	1,450,000
0.34	25,000	4.03	0.24	25,000
0.34	200,000	2.03	0.21	200,000
0.30	2,000,000	3.97	0.20	2,000,000
0.06	666,667	0.60	0.04	666,667
0.12	2,425,000	3.24	0.08	2,425,000
0.15	2,680,000	2.03	0.13	2,680,000
0.35	2,920,000	1.26	0.32	2,920,000
0.65	110,000	0.06	0.53	110,000
0.65	50,000	0.08	0.56	50,000
0.83	20,000	1.09	0.67	20,000
1.08	160,000	0.21	1.06	160,000
1.78	100,000	0.49	1.75	100,000
	12,806,667	2.53	0.19	12,806,667

The weighted average fair value per option of options outstanding as at January 31, 2012 is \$0.19 (October 31, 2011 - \$0.20).

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**12. 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:

	<u>January 31, 2012</u>	<u>October 31, 2011</u>
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

**13. RELATED PARTY TRANSACTIONS**

Included in accounts payable and accrued liabilities as at January 31, 2012 is \$23,441 (October 31, 2011 - \$12,322; November 1, 2010 - \$127,705) owing to directors of the Company for consulting related services rendered and \$Nil (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 three month period ended January 31, 2012, no stock options were granted to directors, officers and employees of the Company (January 31, 2011 – 2,000,000).

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 three month period ended January 31, 2012, \$70 (January 31, 2011 - \$9) was paid to the hardware store and \$460 (January 31, 2011 - \$24,639) was paid to the hotel and 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. See Note 10 (a).

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**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>January 31, 2012</b>	January 31, 2011
	<u>\$</u>	<u>\$</u>
Cash		
Cash	<b>530,155</b>	2,908,782
Cash equivalents	-	-
	<b>530,155</b>	2,908,782
Non-cash investing and financing activities:		
Acquisition of mineral properties for share consideration	-	-
Expiry of warrants	<b>67,357</b>	96,426
Options issued as finders fee	-	-
Options issued for PR Agreement	-	-
Value of share, warrants and options included in share issue costs	-	-
Effect of future income taxes on share capital upon renouncement of expenditures	-	(1,421)

**15. COMMITMENTS AND CONTINGENCIES**

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

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

	Cash	Shares
2012	\$55,000	650,000
2013	\$70,000	600,000

The Company leases its head office in Bridgewater under an operating lease. Future lease payments aggregate \$10,725 and include the following amounts payable over the next two years:

	\$
2012	7,425
2013	825
	<u>8,250</u>

The Company's mining and exploration 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.

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

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.

**16. INTEREST IN JOINT VENTURES**

The Company proportionately consolidates its 60% interest in the joint venture with Crosshair Exploration Mining, and Universal Uranium Ltd. This joint venture is connected with the Companies claims in the Central Mineral Belt (“CMB”) and Seal Lake areas of Labrador and the Pope’s Hill areas as described in Note 7.

The Companies interest in joint venture is summarized below:

	<b>January 31, 2012</b>	October 31, 2011
	<u>\$</u>	<u>\$</u>
<b>Balance Sheet</b>		
Mineral properties	<b>2,198,539</b>	2,203,848
<b>Statement of Operations</b>	-	-
<b>Statement of Cash Flow</b>		
Cash provided by operating activities		
Receipt of amounts due from JV partner	-	-
Cash used for investing activities	-	(119,420)
Cash provided by financing activities	-	-

**17. TRANSITION TO IFRS**

The Company’s consolidated financial statements for the year ending October 31, 2012 will be the Company’s first set of annual financial statements that comply with IFRS, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its October 31, 2012 annual financial statements. For the current interim period, the Company has only complied with the requirements of IAS 34.

IFRS 1 also 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 Statements of Financial Position dated November 1, 2010, as described below.

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**17. TRANSITION TO IFRS (continued)**

*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.

*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. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the additional notes that accompany the tables. The tables are unaudited.

**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.

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**17. TRANSITION TO IFRS (continued)**

**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.

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 \$1,622,175 to the November 1, 2010 balance sheet represents a reduction of share capital of \$1,621,990 from prior year’s premiums and an increase in share capital of \$3,244,651 to reverse the prior year’s recording of the flow-through tax benefit under Canadian GAAP. The October 31, 2011 balance sheet includes the \$1,622,175 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, for a total adjustment of \$2,252,754.

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**17. TRANSITION TO IFRS (continued)**

**Reconciliation from Canadian GAAP to IFRS**

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

	<i>Notes</i>	Canadian GAAP	Effect of IFRS transition	IFRS
		\$	\$	\$
<b>ASSETS</b>				
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
		339,765	-	339,765
Mineral properties		2,857,318	-	2,857,318
Property and 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
		3,569,735	-	3,569,735
<b>LIABILITIES</b>				
Current				
Trade payables and accrued liabilities		374,385	-	374,385
Current portion of long-term debt		5,976	-	5,976
		380,361	-	380,361
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	b	21,522,234	1,622,175	23,144,409
Warrants		739,925	-	739,925
Contributed surplus		6,372,250	-	6,372,250
Deficit	b	(25,445,035)	(1,622,175)	(27,067,210)
		3,189,374	-	3,189,374
		3,569,735	-	3,569,735



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**17. TRANSITION TO IFRS (continued)**

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

	<i>Notes</i>	Canadian GAAP	Effect of IFRS transition	IFRS
		\$	\$	\$
<b>ASSETS</b>				
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
		1,101,833	-	1,101,833
Mineral properties		4,024,812	-	4,024,812
Property and equipment		128,016	-	128,016
Mexican VAT receivable		-	-	-
Non-current refundable staking deposits		8,970	-	8,970
Investments		3,463	-	3,463
		5,267,094	-	5,267,094
<b>LIABILITIES</b>				
Current				
Trade payables and accrued liabilities		171,113	-	171,113
Current portion of long-term debt		-	-	-
		171,113	-	171,113
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	b	24,089,107	2,252,754	26,341,861
Warrants		878,542	-	878,542
Contributed surplus	a	6,958,213	25,277	6,983,490
Deficit	a, b	(26,829,881)	(2,278,031)	(29,107,912)
		5,095,981	-	5,095,981
		5,267,094	-	5,267,094

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**17. TRANSITION TO IFRS (continued)**

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

	Notes	Year ended October 31, 2011		
		Canadian GAAP	Effect of IFRS transition	IFRS
		\$	\$	\$
<b>Revenue</b>				
Unrealized gain in market value of investments		-	-	-
Interest income		-	-	-
Other income		109,827	-	109,827
		109,827	-	109,827
<b>Expenses</b>				
Impairment of mineral properties		14,820	-	14,820
Mexican VAT receivable		168,304	-	168,304
Impairment of 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	25,277	131,550
Travel		26,307	-	26,307
Amortization		28,226	-	28,226
Listing and filing fees		30,162	-	30,162
Loss on sale of capital assets		759	-	759
Foreign exchange loss		14,991	-	14,991
		2,125,252	25,277	2,150,529
Loss before income taxes		2,015,425	25,277	2,040,702
Future income tax recovery	b	(630,579)	630,579	-
Net and comprehensive loss for the period		1,384,846	655,856	2,040,702
Deficit, beginning of period	b	25,445,035	1,622,175	27,067,210
Deficit, end of period		26,829,881	655,856	29,107,912
Net loss per share - basic and diluted		-	-	-

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**17 TRANSITION TO IFRS (continued)**

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

	<i>Notes</i>	Three months ended January 31, 2011		
		Canadian	Effect of	
		GAAP	IFRS	IFRS
		\$	\$	\$
<b>ASSETS</b>				
Current				
Cash		2,908,782	-	2,908,782
HST and other receivables		55,020	-	55,020
Refundable staking deposits		60,592	-	60,592
Prepaid expenses		10,829	-	10,829
		3,035,223	-	3,035,223
Mineral properties		2,969,446	-	2,969,446
Property and equipment		101,461	-	101,461
Mexican VAT receivable		183,215	-	183,215
Non-current refundable staking deposits		89,783	-	89,783
Investments		10,250	-	10,250
		6,389,378	-	6,389,378
<b>LIABILITIES</b>				
Current				
Trade payables and accrued liabilities		129,286	-	129,286
Current portion of long-term debt		3,735	-	3,735
		133,021	-	133,021
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	b	23,984,526	2,254,175	26,238,701
Warrants		875,910	-	875,910
Contributed surplus		6,858,302	-	6,858,302
Deficit	b	25,462,381	(2,254,175)	(27,716,556)
		6,256,357	-	6,256,357
		6,389,378	-	6,389,378

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**17. TRANSITION TO IFRS (continued)**

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

	Notes	Three months ended January 31, 2011		
		Canadian GAAP \$	Effect of IFRS transition \$	IFRS \$
<b>Revenue</b>				
Unrealized gain in market value of investments		237	-	237
		<u>237</u>	<u>-</u>	<u>237</u>
<b>Expenses</b>				
Impairment of mineral properties		7,020	-	7,020
Write-off of receivable		12,814	-	12,814
Stock-based compensation		402,024	-	402,024
Office and general		60,539	-	60,539
Accounting, audit and legal		38,817	-	38,817
Wages and benefits		34,510	-	34,510
Consulting fees		61,566	-	61,566
Corporate relations		7,174	-	7,174
Travel		13,060	-	13,060
Amortization		7,740	-	7,740
Listing and filing fees		4,319	-	4,319
		<u>649,583</u>	<u>-</u>	<u>649,583</u>
Loss before income taxes		649,346	-	649,346
Future income tax recovery		(632,000)	632,000	-
Net and comprehensive loss for the period		17,346	632,000	649,346
Deficit, beginning of period	b	25,445,035	1,622,175	27,067,210
Deficit, end of period		<u>25,462,381</u>	<u>2,254,175</u>	<u>27,716,556</u>
Net loss per share - basic and diluted		-	-	-
<b>Weighted average number of shares</b>				
outstanding - basic and diluted		-	-	-

*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 statements 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.

*This document provides management's discussion and analysis (MD&A) for our financial condition as at January 31, 2012, and results of operations for the quarter ended January 31, 2012. This MD&A should be read in conjunction with the Company's consolidated financial statements and notes for the year ended October 31, 2011 and the unaudited interim consolidated financial statements and notes for the quarter ended January 31, 2012. **This MD&A has been prepared as of April 26, 2012 and is current to that date unless otherwise stated.***

*Effective November 1, 2011, the Company adopted accounting principles used under the International Financial Reporting Standards ("IFRS" or "GAAP"), using a transition date of November 1, 2010 to accommodate comparative periods. As a result, the condensed consolidated interim financial statements for the three months ended January 31, 2012 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 condensed consolidated interim financial statements.*

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

*Additional information regarding the Company, including copies of the Company's continuous disclosure materials is available on the Company's website at [www.silverspruceresources.com](http://www.silverspruceresources.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).*

## **Company Overview**

Silver Spruce Resources Inc. is a junior exploration company headquartered in Bridgewater, Nova Scotia. Originally focused on uranium, mainly in the Central Mineral Belt (CMB) of Labrador, the Company has since diversified into rare earth minerals (REE) projects in Labrador, and a precious metal project on the island of Newfoundland, partially in response to the Nunatsiavut government's moratorium on uranium mine development on Inuit land. While the moratorium did not apply to exploration and not all the Company's assets are on Inuit land, the moratorium dampened near term interest in investing in uranium projects in the region.

Recently the Company has been focused on evaluating its significant REE projects in Labrador. These include Popes Hill, the Popes Hill JV with Great Western Minerals Group, and the MRT, RWM and Straits properties. Work is also being carried out on its gold/silver project on the island of Newfoundland, the Big Easy. All the properties are either road accessible or relatively close to infrastructure greatly reducing future development costs.

While the Company's uranium exploration was curtailed due to the moratorium, the company continues to hold significant uranium assets mainly in the CMB, making the Company a large landholder in one of the world's premier uranium districts. Projects include: the CMB joint venture (JV) with Crosshair Exploration and Mining, in which SSE retains a participating interest which is being diluted by exploration expenditures carried out by Crosshair especially in 2011, and its 100% owned properties - Snegamook, Mount Benedict, Jeannette Bay, Lake Michael, and Double Mer. The Company's projects include a mineral resource on the Two Time zone on the CMB JV, of 2.3 M lbs indicated and 3.7 M lbs U<sub>3</sub>O<sub>8</sub> inferred, the first discovery in the CMB of Labrador since the 1970's and other drill-ready opportunities, especially on the Double Mer and Mount Benedict properties.

The uranium development moratorium in Nunatsiavut territory was lifted as of March 9, 2012 by a unanimous decision of the Nunatsiavut council. This is expected to allow increased exploration and development in the CMB by companies such as Aurora Energy and Crosshair. This should also 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, all hard dollars, which will allow it to maintain operations but not fund any of its exploration projects in 2012, without a significant infusion of exploration funding through a flow through financing. As of January 31, 2012, cash reserves, all in hard dollars, totaled approximately \$500,000. Further financing will be pursued in 2012 to allow the Company to move its projects forward toward economic realization. A commitment to prudent budgeting, a strong, experienced team and an excellent property portfolio including a uranium deposit with defined resources makes Silver Spruce a leading junior explorer.

### Selected Quarterly Information

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

	January 31, 2012	October 31, 2011	July 31, 2011	April 30, 2011
	\$	\$	\$	\$
Revenue	-	3,767	-	-
Net (loss)	<b>(188,542)</b>	(871,181)	(188,840)	(331,335)
Net (loss) per share -basic and diluted	<b>(0.00)</b>	(0.01)	(0.00)	(0.00)
	January 31, 2011	October 31, 2010	July 31, 2010	April 30, 2010
	\$	\$	\$	\$
Revenue	237	2,800	2,259	46,740
Net (loss)	<b>(649,346)</b>	(6,206,569)	(293,706)	(132,905)
Net (loss) per share -basic and diluted	<b>(0.01)</b>	(0.08)	(0.00)	(0.00)

For the three months ended January 31, 2012, the Company earned revenue, of \$0 compared to \$237 for the same quarter in the prior year.

For the three months ended January 31, 2012 the Company had a net loss of \$188,542 (January 31, 2011 - \$649,346) and a loss per share of 0.00 (January 31, 2011 - 0.01). This quarter the Company had total expenses of \$188,542 (January 31, 2011 - \$649,583). For the three months ended January 31, 2012 and January 31, 2011, there were no abandonment of mineral properties and impairment of mineral properties of \$Nil was taken (January 31, 2011 - \$7,020).

This quarter no stock based compensation was granted to the directors, officers and employees of the Company (January 31, 2011 - \$402,024).

Travel decreased to \$2,819 this quarter (January 31, 2011- \$13,060) due to less exploration activity in Newfoundland and Labrador.

Wages decreased to \$5,773 this quarter (January 31, 2011 - \$34,510) and consulting fees decreased to \$35,127 this quarter (January 31, 2011 - \$61,566) due to a decrease in management and consulting services.

Accounting and audit fees increased to \$74,873 (January 31, 2011 - \$36,656) due to IFRS conversion fees and a timing difference of recording the year end accounting fees.

Office and general decreased to \$21,311 this quarter (January 31, 2011 - \$60,539) due to decreased capital raising activities and public relation costs.

### Expenditures on Mineral Properties

During the quarter ended January 31, 2012, the year ended October 31, 2011 and the three months ended July and April 2011 and the comparative periods, the Company incurred the following expenditures on exploration of properties:

	January 31, 2012	October 31, 2011	July 31, 2011	April 30, 2011
	\$	\$	\$	\$
<b>CMB</b>	-	-	-	-
<b>Double Mer</b>	-	4,563	-	913
<b>Straits</b>	<b>41,604</b>	13,007	800	2,200
<b>Mount Benedict</b>	<b>251</b>	7,563	-	4,303
<b>Snegamook</b>	<b>251</b>	1,792	-	-
<b>MRT Property</b>	<b>27,151</b>	58,325	46,493	14,673
<b>Rambler South</b>	-	(3,983)	142,097	9,533
<b>Big Easy</b>	<b>9,065</b>	(3,219)	60,159	336,860
<b>Pope's Hill</b>	<b>62,438</b>	349,536	242,183	280,514
<b>Red Wine Mountains</b>	<b>2,460</b>	10,017	(238)	-
<b>Pope's Hill JV</b>	<b>(5,309)</b>	903	65,190	-

	January 31, 2011	October 31, 2010	July 31, 2010	April 30, 2010
	\$	\$	\$	\$
<b>CMB</b>	-	17,357	2,895	10,143
<b>Double Mer</b>	3,000	418	-	-
<b>Straits</b>	780	7,375	6,539	836
<b>Mount Benedict</b>	3,390	32	-	-
<b>Snegamook</b>	4,371	8,281	5,000	-
<b>Napes Ashini</b>	-	464	-	-
<b>Centauro (MX)</b>	-	156,574	165,659	118,679
<b>Michelin South</b>	-	381	-	-
<b>Lobstick</b>	-	253,696	49,158	65,285
<b>Rambler South</b>	19,991	267,367	94,997	103,845
<b>Lazyman</b>	-	103,116	10,445	84,556
<b>Big Easy</b>	14,334	165,965	79,355	23,464
<b>Pope's Hill</b>	72,928	24,892	2,608	-
<b>Red Wine Mountains</b>	-	1,313	1,232	-

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

## **RARE EARTH ELEMENT (REE) PROPERTIES**

The Company acquired by staking two rare earth element (REE) properties in Labrador in the spring of 2010 - the Pope's Hill (PH) and RWM. The Straits (ST) property was also re-evaluated for REE mineralization. The properties are 100% owned by Silver Spruce, subject to a 1 % net smelter return (NSR) on parts of the Straits property. A 50/50 joint venture with Great Western Minerals Group is in place on part of the 100 km long PH trend. The MRT, another REE property along the PH trend, was acquired by option in the winter of 2011 and has recently been renewed for the second year (NR Mar. 15/12).

Compilation maps showing the property locations, the geophysical and geochemical results, a diamond drill plan map plus a summary of the drill hole data on the Popes Hill property and data and pictures from all the Company's REE projects can be viewed on the company website at [www.silverspruceresources.com](http://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  $U^{3}O^{8}$  and  $Nb^{2}O^{5}$  by XRF. Stream sediment and soil samples were analyzed for a suite of 8 REE's, 4 light and 4 heavy, including La, Ce, Nd, Sm (lights), Eu, Tb, Yb, and Lu (heavies) using the 1 D enhanced package at Actlabs. Values were checked by Actlabs using internal standards and blanks are routinely added to samples sent to the laboratories. A quality assurance/quality control (QA/QC) program, described on the Silver Spruce website, is in place to increase confidence in the results generated.

### **Exploration - 2011**

Exploration in 2011 included an airborne radiometric / high resolution magnetic and VLF-EM survey along the 100 km long PH trend (Popes Hill, Popes Hill JV and MRT properties), regional stream sediment geochemistry and prospecting along the entire trend, prospecting / geology and trenching, washing, cutting and sampling of the trenches on the original PH property and the optioned MRT property and line cutting 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.

### **Planned Work - 2012**

Exploration drilling is planned for 2012, when finances permit, on the PH original property – MP trend and the MRT property.

### **Impairment**

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



## **POPE'S HILL (PH) – 100 % OWNED**

### **Property Description**

The PH trend extends in a generally E-W to NE-SW direction from the Pope's Hill area, approximately 100 km from Happy Valley / Goose Bay (HVGB) on the Trans Labrador Highway (TLH), along and parallel to the Churchill River. The property totals 1,757 claims (approx. 440 km<sup>2</sup>). REE mineralization is associated with a syenitic intrusive unit 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 lanthanum/ceium lake sediment anomalies in the Government database plus structural features defined by government geological mapping. The total strike length along the PH trend, of the 100 %, JV and optioned properties is approximately 100 km. No previous REE 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 (News release Oct. 28, 2010) gave anomalous total rare earth element plus yttrium (TREE) values with 16 > 5%, and 5 > 10% with a high value of 24.1%. TREE values varied from a low of 0.07% to a high of 24.07% averaging 5.73% for the 31 samples, which included 7 "host rock" samples, with values 0.4% or lower. Two of the 5 highest values (> 10 %), were outcrop samples while the other three were from locally derived, angular float. Samples are mostly rich in light rare earth elements (LREE), but the more anomalous values give higher values in HREE up to 7.5% percent of the REEs. Individual high values for the elements, all in sample 941432, were: La – 5 %, Ce – 9.7 %, Pr – 1.08 %, Nd - 3.85 %, Sm – 0.70 %, Eu – 213 ppm, Gd – 0.56 %, Tb – 828 ppm, Dy – 0.47 %, Ho – 875 ppm, Er – 0.23 %, Tm – 283 ppm, Yb – 0.14 %, Lu – 175 ppm, with a Y value of 2.11 % for TREE+Y of 24.07 %. In this sample LREEs were 20.34 % (92.6 % of the TREES) and HREEs were 1.63 % (7.4 % of the TREES) for a total of 21.97 % REEs. Other significant values in this sample included: Nb – 911 ppm, Zr – 604 ppm, Th – 0.63 % and U – 461 ppm. High values in the other elements associated with the more highly anomalous REEs were: U – 261 ppm, Ta – 90.6 ppm, Zr – 2.33 %, and Nb – 0.59 %.

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

Magnetic, VLF-EM and radiometric (spectrometer) surveys were carried out in late 2010 under contract and lithological/alteration trends are noted striking in a 070 degree (ENE) direction. Abitibi (Berube, 2011) indicates "*The MAG/VLF-EM survey over the Popes Hill property has identified a total of 7 magnetic lows, 12 combined VLF-EM conductors/ magnetic highs and 5 stand-alone VLF-EM conductors. These VLF-EM and magnetic signatures suggest the presence of faults and shear zones that maybe available to REE mineralization*".

In addition, the magnetic results indicate three obvious crosscutting, probable fault or shear structures, trending at approximately 150/330 degrees, one of which passes through the area of the MP pit where most of the significant REE bearing mineralization was found. Radiometric results were inconclusive due to the limited area covered and the inclement weather however radiometric anomalies were defined in the MP showing area.

## **Exploration 2011**

Diamond Drilling: A total of 1120 m in 10 drill holes (PH-11-1 to 10) tested the MP showing in the bedrock pit and another close by target on the Trans Labrador Highway (TLH), approximately 100 km from Goose Bay (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 to 6, 8, 9) were drilled across the geological trend in the MP showing in the pit area. DDH PH-11-7 tested a bedrock showing and magnetic anomaly approximately 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 possibly crosscutting the lithology. Wide zones, up to 140m of > 0.1 % REE mineralization, were intersected with 4 holes giving widths in the 50 m range. Narrow (0.1-0.3m) zones of higher grade TREE values in the 1 to 6 % range are also found throughout most of the drill holes. In addition strong Zr values generally > 1,000 ppm (0.1 %) were noted over wide intervals associated with the REE mineralization (NR March 29, 2011). None of the high grade segregations located in float and bedrock in the pit and along the highway were intersected. PH-11-1 gave one of the highest values at 4.79% TREE in a 0.1m unit from 66 to 66.1m which was also elevated in P<sub>2</sub>O<sub>5</sub> at 1.65% and Fe<sub>2</sub>O<sub>3</sub> at 21.3%. Two higher grade narrow zones were also intersected in PH-11-04 which gave 3.74% TREE in a 0.1m wide section from 25.6 to 25.7m and 10.79% TREE in a 0.1m unit from 66.7 to 66.8m. Strong Zr values generally in the 1,000-2,000 ppm range were noted throughout the drill hole and a 2.4m zone (58-60.4m) was intersected carrying > 5 % P<sub>2</sub>O<sub>5</sub> and > 32% Fe<sub>2</sub>O<sub>3</sub> most likely representing a metamorphosed/altered iron formation carrying the mineral apatite, which can carry REE mineralization. The syenitic units selected on the basis of anomalous scintillometer values, carry disseminated brown crystals (titanite?) which are variably radioactive. Fe<sub>2</sub>O<sub>3</sub> values ranging from 11.6% to 18.9% and P<sub>2</sub>O<sub>5</sub> values from 0.44% to 1.77% were also located. Nb and Th values are variably anomalous also with values up to 816 ppm Nb and 764 ppm Th, with higher values in these elements associated with the higher TREE values. Nb values may be subdued due to phosphate interference in the analysis.

The diamond drilling 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**

Thin sections from the various showings are being evaluated for REE mineralogy by Alex Chafe, a Master's student, supervised by Dr. John Hanchar, PhD, P.Geol., Professor and Head of the Earth Sciences Department of Memorial University of Newfoundland. Preliminary results indicate that the REE's are associated with an alteration event, most likely potassic in nature, as shown by the strong microcline and other potassium (K) rich feldspars. The syenitic unit hosting the REE minerals has been altered and mineralized with titanite (sphene), allanite and apatite and feldspar carrying REE minerals, with other minerals such as monazite, and REE/iron rich pyroxenes also noted. Work is continuing with further results to be released as they become available.

## **Prospecting / Geological Mapping**

Prospecting using scintillometers to locate radioactive mineralization on the MP trend 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 of mineralization 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 and these may be part of the same system indicating the mineralized unit could be much wider than now exposed.

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

In the T1 / T2 area, over an approximate 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 starts 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 over the approximate 2.8 km long trend. 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) to weakly anomalous (200-400 cps) to > 5000 cps were located in trenches 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 of the MP trend 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.

Trench #	From m	To m	Length m	TREO %	La <sub>2</sub> O <sub>3</sub>	Ce <sub>2</sub> O <sub>3</sub>	Pr <sub>2</sub> O <sub>3</sub>	Nd <sub>2</sub> O <sub>3</sub>	Sm <sub>2</sub> O <sub>3</sub>	LREO Total	Eu <sub>2</sub> O <sub>3</sub>	Gd <sub>2</sub> O <sub>3</sub>	Tb <sub>2</sub> O <sub>3</sub>	Dy <sub>2</sub> O <sub>3</sub>	Ho <sub>2</sub> O <sub>3</sub>	Er <sub>2</sub> O <sub>3</sub>	Tm <sub>2</sub> O <sub>3</sub>	Yb <sub>2</sub> O <sub>3</sub>	Lu <sub>2</sub> O <sub>3</sub>	Y <sub>2</sub> O <sub>3</sub>	HREO Total	HREO %
2	48.6	49.6	1	0.96	0.18	0.390	0.050	0.170	0.030	0.82	0.0010	0.0200	0.0030	0.0200	0.0030	0.0100	0.0010	0.0050	0.0015	0.0751	0.14	14.55%
3	2.3	2.9	0.6	1.81	0.45	0.875	0.089	0.287	0.034	1.74	0.0011	0.0217	0.0022	0.0092	0.0014	0.0032	0.0004	0.0025	0.0004	0.0331	0.08	4.16%
3b	0	14.8	14.8	0.66	0.13	0.283	0.030	0.117	0.020	0.58	0.0008	0.0161	0.0023	0.0114	0.0020	0.0048	0.0006	0.0033	0.0005	0.0468	0.09	13.31%
incl.	0	2.9	2.9	2.67	0.50	1.133	0.128	0.476	0.082	2.32	0.0021	0.0665	0.0092	0.0465	0.0078	0.0186	0.0022	0.0121	0.0016	0.1877	0.35	13.25%
4	7	38.3	31.3	0.47	0.10	0.203	0.023	0.082	0.013	0.42	0.0006	0.0104	0.0014	0.0071	0.0013	0.0031	0.0004	0.0020	0.0003	0.0280	0.05	11.63%
incl.	8.3	11.1	2.8	0.87	0.20	0.385	0.044	0.147	0.022	0.80	0.0007	0.0154	0.0020	0.0094	0.0016	0.0040	0.0005	0.0029	0.0004	0.0355	0.07	8.34%
incl.	16.6	29.3	12.7	0.60	0.13	0.264	0.029	0.100	0.015	0.54	0.0006	0.0115	0.0015	0.0074	0.0013	0.0032	0.0004	0.0021	0.0003	0.0291	0.06	9.61%
incl.	36	36.3	0.3	3.07	0.50	1.215	0.152	0.588	0.111	2.57	0.0026	0.0975	0.0140	0.0692	0.0122	0.0290	0.0032	0.0164	0.0020	0.2581	0.50	16.42%
5a	0	1.2	1.2	1.00	0.27	0.474	0.044	0.138	0.016	0.95	0.0008	0.0101	0.0011	0.0053	0.0010	0.0032	0.0005	0.0032	0.0006	0.0257	0.05	5.15%
5	0	9.5	9.5	0.74	0.14	0.297	0.034	0.127	0.024	0.62	0.0008	0.0213	0.0029	0.0152	0.0027	0.0067	0.0008	0.0042	0.0006	0.0630	0.12	16.06%
incl.	1.6	8.6	7	0.98	0.18	0.397	0.046	0.169	0.032	0.83	0.0010	0.0284	0.0039	0.0202	0.0036	0.0089	0.0011	0.0054	0.0007	0.0835	0.16	15.95%
incl.	1.6	2	0.4	7.63	1.60	3.337	0.367	1.283	0.224	6.81	0.0052	0.1810	0.0221	0.1112	0.0188	0.0446	0.0050	0.0248	0.0033	0.4122	0.83	10.85%
incl.	8.2	8.6	0.4	7.84	1.26	2.928	0.365	1.411	0.290	6.25	0.0073	0.2733	0.0392	0.2055	0.0374	0.0898	0.0107	0.0517	0.0065	0.8663	1.59	20.26%
7	0	22.6	22.6	0.71	0.16	0.330	0.034	0.116	0.017	0.66	0.0007	0.0127	0.0014	0.0069	0.0011	0.0027	0.0003	0.0018	0.0003	0.0247	0.05	7.39%
incl.	0	2.1	2.1	0.77	0.19	0.370	0.035	0.115	0.016	0.73	0.0007	0.0103	0.0011	0.0057	0.0009	0.0024	0.0003	0.0018	0.0003	0.0210	0.04	5.76%
incl.	1.1	2.1	1	1.47	0.37	0.703	0.067	0.221	0.030	1.39	0.0011	0.0200	0.0022	0.0110	0.0018	0.0046	0.0006	0.0035	0.0006	0.0402	0.09	5.80%
incl.	2.8	8.6	5.8	1.61	0.36	0.748	0.077	0.267	0.040	1.49	0.0014	0.0290	0.0031	0.0151	0.0024	0.0057	0.0006	0.0034	0.0005	0.0505	0.11	6.96%
incl.	20.2	22.6	2.4	1.14	0.31	0.550	0.053	0.164	0.020	1.10	0.0008	0.0126	0.0011	0.0049	0.0008	0.0018	0.0002	0.0012	0.0002	0.0175	0.04	3.61%
11	21.9	30.7	8.8	0.37	0.07	0.168	0.018	0.065	0.010	0.33	0.0005	0.0072	0.0010	0.0050	0.0008	0.0022	0.0003	0.0016	0.0003	0.0193	0.04	10.24%
incl.	21.9	24.9	3	0.57	0.11	0.264	0.028	0.101	0.016	0.52	0.0007	0.0105	0.0014	0.0068	0.0011	0.0028	0.0004	0.0020	0.0003	0.0245	0.05	8.86%
incl.	51.5	53.4	1.9	0.45	0.10	0.197	0.020	0.070	0.012	0.40	0.0005	0.0096	0.0014	0.0073	0.0013	0.0033	0.0004	0.0025	0.0004	0.0303	0.06	12.56%
11b	0	5.7	5.7	1.29	0.26	0.554	0.061	0.214	0.035	1.12	0.0012	0.0294	0.0041	0.0202	0.0036	0.0089	0.0010	0.0053	0.0007	0.0878	0.16	12.60%
incl.	4.9	5.2	0.3	16.88	3.34	7.108	0.796	2.798	0.474	14.52	0.0125	0.4012	0.0581	0.2939	0.0529	0.1314	0.0146	0.0775	0.0096	1.3058	2.36	13.97%
12	12.9	14.4	1.5	0.66	0.15	0.311	0.031	0.110	0.016	0.62	0.0007	0.0109	0.0013	0.0059	0.0009	0.0022	0.0003	0.0015	0.0002	0.0229	0.05	7.08%
and	28.9	30.9	3	0.46	0.11	0.213	0.021	0.073	0.011	0.43	0.0005	0.0077	0.0009	0.0046	0.0008	0.0020	0.0003	0.0015	0.0002	0.0199	0.04	8.29%
incl.	29.9	30.9	1	0.83	0.20	0.391	0.038	0.128	0.018	0.78	0.0006	0.0126	0.0015	0.0067	0.0011	0.0027	0.0003	0.0020	0.0003	0.0269	0.05	6.56%
15	7.6	10.4	2.8	0.49	0.13	0.235	0.022	0.073	0.010	0.47	0.0007	0.0056	0.0006	0.0028	0.0004	0.0011	0.0001	0.0007	0.0001	0.0120	0.02	4.94%
and	47.6	56.6	9	0.84	0.22	0.413	0.039	0.125	0.015	0.81	0.0010	0.0077	0.0007	0.0033	0.0005	0.0014	0.0002	0.0012	0.0002	0.0150	0.03	3.72%
incl.	47.6	49.2	1.6	1.24	0.52	0.472	0.045	0.143	0.017	0.00		0.0090	0.0009	0.0039	0.0006	0.0016	0.0002	0.0013	0.0002	0.0173	0.03	2.83%
MRT Trenches																						
1	31.4	34.6	3.2	0.72	0.19	0.350	0.030	0.100	0.011	0.69	0.0011	0.0070	0.0007	0.0036	0.0006	0.0016	0.0002	0.0012	0.0002	0.0150	0.03	4.40%
2	35.6	43.4	7.8	0.40	0.11	0.190	0.020	0.050	0.006	0.38	0.0007	0.0040	0.0005	0.0025	0.0005	0.0014	0.0002	0.0014	0.0002	0.0150	0.03	6.42%
incl.	36.9	37.4	0.5	4.33	1.31	2.190	0.190	0.540	0.044	4.27	0.0043	0.0210	0.0013	0.0056	0.0008	0.0019	0.0002	0.0014	0.0002	0.0230	0.06	1.38%

\* PH Trench 7, 2.2m was not sampled due to till cover. It was considered 0 grade for the calculations.

\* Channel sample widths are estimated at 70-90% true width.

\* TREO includes Y<sub>2</sub>O<sub>3</sub>

>1% TREO

>0.5% TREO

>10% HREO

Regional exploration: Airborne magnetic/radiometric/VLF-EM surveys, stream sediment geochemical sampling and concurrent prospecting were completed. Approximately 550 stream sediment samples were taken at approximate 300 m intervals 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 a total of 91 rock samples were taken.

The mean value for the stream sediment samples was 378 ppm giving a second order anomaly at > 686 ppm total rare earth oxides (TREO). The highest priority area, which has the highest value, 1380 ppm from the survey and three values > 900 ppm TREO, is located to the southwest of the TLH to the north of Gull Island in the Popes Hill area, on License 18104M, the same area where two rock samples gave 8.2% (float) and 7 % (o/c) TREO. Another significant stream sediment anomaly, with values up to 726 ppm and 6 values > 600 ppm TREO, was located to the west of Upper Brook, to the north of the TLH, on License 18102M coincident with an outcrop sample that gave 3.3% TREO. TREO values in the 1-4% range, with many others from 0.1-0.3%, were noted along the TLH to the west of the original group on License 18101M – these may be related to pegmatites. Two samples along the Pinus River to the northeast of the MP trend gave values of 3.2% and 1.9% TREO – these may indicate a strike extension of the MP trend mineralization. All samples are light rare earth oxide (LREO) enriched with 18 samples giving TREO values > 0.5 %, with an average of 0.34% Nd<sub>2</sub>O<sub>3</sub>. The samples were generally low in heavy rare earth oxides (HREO) giving values from 1–5% of the TREO.

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

### **Planned Exploration – 2012**

A diamond drill program is planned for 2012, pending availability of funding. Follow up of regional targets defined in 2011 will be carried out in the summer of 2012 again dependent upon availability of funding.

### **Impairment**

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

## **POPES HILL JV – 50 % INTEREST**

### **Property Description**

A total of 759 claims (approx. 190 km<sup>2</sup>) 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.

### **Planned Exploration 2011**

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

### **Impairment**

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

## MRT PROPERTY – OPTION TO EARN 100 %

### Property Description

The MRT property, located along the Trans Labrador Highway (TLH) approximately 35 km from HVGB, which consists of 178 claims(44.5 km<sup>2</sup>) including claims in the area of influence (AOI), 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 <sup>st</sup> anniversary	\$25,000 (paid February 20, 2012)	150,000 (issued February 20, 2012)	-
2 <sup>nd</sup> Anniversary	<u>\$40,000</u>	<u>250,000</u>	<u>\$250,000</u>
<b>Total</b>	<b><u>\$80,000</u></b>	<b><u>500,000</u></b>	<b><u>\$250,000</u></b>

In addition, advance royalty payments of \$10,000 per year are payable from the 4<sup>th</sup> anniversary on and there is an AOI of 2 km, from the existing property boundary, whereby any claims staked by either party become part of the agreement. This area has been staked and is included in the agreement. The second year option payment of \$25,000 and 150,000 shares was made to the vendor in late February (NR Mar. 15, 2012). The property is considered prospective for both REE and U mineralization.

### Exploration Summary

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 was 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 in the samples range from 1.1 to 747 ppm, averaging 113 ppm. Other REEs and Y are weakly anomalous. The showings lie in an area never before evaluated less than 1 km from the TLH, approximately 35 km from HVGB. A due diligence visit by the author in winter conditions (snow) in January, 2011 did not duplicate the REE results with a maximum of 0.1 % TREE located in one sample however significant U and Th values of 0.825% U<sub>3</sub>O<sub>8</sub>, 930 ppm Th; 234 ppm U, 72 ppm Th; and 744 ppm U, 288 ppm Th with U/Th ratios varying from 8 to 3, were found in the three samples taken, using a scintillometer to locate areas of higher radioactivity. The due diligence samples were taken in the same general area as the REE anomalous samples acquired by the prospectors, however the actual sample locations were not duplicated due to snow and ice which covered the outcrops.

### Exploration 2011

Regional exploration including airborne radiometrics/magnetic/VLF-EM, stream sediment and soil geochemistry and prospecting has evaluated the MRT property in 2011. Detailed prospecting, hand and excavator trenching has evaluated prospective areas noted 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:** Forty two (42) rock samples were taken from float and outcrop in detailed and regional prospecting. An area of REE mineralization was located over a 2 km<sup>2</sup> area just to the north of the TLH. The main area of interest is the southern portion where most of the prospecting took place. Mineralization is light rare earth oxide (LREO) enriched with five samples giving values > 1% Nd<sub>2</sub>O<sub>3</sub>. Ten samples, 6 from outcrop and 4 from float, gave TREO values > 1% with HREO values averaging 4 % of the TREO including one sample from outcrop with 0.14% Dy<sub>2</sub>O<sub>3</sub> although the average Dy<sub>2</sub>O<sub>3</sub> values for the 10 samples >1% TREO was 271 ppm. The highest rock sample value was 12.2% TREO with 1.6 % HREO, in a small float, located along the power line at the south boundary of the property. The only significant value outside of the southern area was one float which gave 0.5 % TREO with 7% HREO, on a brook in the western part, coincident with weakly anomalous stream sediment

values. Thorium values for the higher REE sample values are generally in the 0.1 to 0.2% range (NR Aug. 9/11). Three outcrop samples taken in areas of higher radioactivity in January 2011, gave values of 0.825% U<sub>3</sub>O<sub>8</sub>, 930 ppm Th; 234 ppm U (0.027% U<sub>3</sub>O<sub>8</sub>), 72 ppm Th; and 744 ppm U (0.088% U<sub>3</sub>O<sub>8</sub>), 288 ppm Th with U/Th ratios varying from 8 to 3 (NR Feb. 17/11). Seven prospecting grab samples, taken during exploration for REE mineralization, in the summer of 2011, gave values > 0.05 % U (0.059 % U<sub>3</sub>O<sub>8</sub>) or 1 lb/tonne, including four >0.1% U (0.12 % U<sub>3</sub>O<sub>8</sub>) 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:** A total of 318 soil samples were taken at approximate 100 m intervals on lines 200m apart in the southern part of the property where the significant REE mineralization occurs over a 2km<sup>2</sup> 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 (HREE) averaged 2-3% of the total rare TREE with a high of 4%.

**Stream Sediment Geochemistry:** Seventy six (76) 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. HREE 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 per cent (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. HREE values at 1.4–6.4% are lower than found in the Pope's Hill MP trend area, possibly reflecting the more pegmatitic-related mineralization. Zr is generally 500-1500 ppm in the REE mineralized zones; however, Zr values in the 0.1-0.2% range are also found in areas with low background REE values. Th values are generally 100-200 ppm, with a high value of 1000 ppm (0.1 %). True widths of the zones are estimated to be close to the sampled widths, since the units strike generally N-S with near vertical dips.

### **Planned Exploration 2012**

Dependent upon financing, diamond drilling will test targets located by the trenching and detailed prospecting and further ground follow up, will consist of gridding, detailed prospecting, geochemistry and geological mapping followed by trenching and drilling.

### **Impairment**

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

## **RWM**

### **Property Description**

The property consists of 40 claims (10 km<sup>2</sup>) 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's. 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**

Rare Earth Metals (REM) carried out an airborne radiometric / magnetic survey over the property as due diligence for a possible option as part of the survey over their extensive property holdings, in the Red Wine Mountains area located to the northeast of the RWM property, in July 2010. The survey showed coincident U/Th/K anomalies in two areas of the claim group, in the southwest and northeast, underlain by magnetically low units, which are separated by a magnetically high area. A one day field visit, using a helicopter, by REM located radioactive floats in the area of the radiometric anomalies. Six grab samples gave anomalous values in La > 100, high 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. REM declined to option the property due to commitments on other claims in the area.

### **Exploration 2011**

One day of helicopter supported prospecting and geological mapping, was carried out in early September by a 5 person SSE crew. 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 included: an ultramafic/pyroxenite boulder which gave 800 cps and in the south west, a mafic volcanic with anomalous radioactivity. Areas of boulders carrying radioactive biotite were noted and in these 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. Twenty (20) float rock samples from a variety of lithologies were taken. Results indicate an average of 0.89% total rare earth oxides plus yttrium (TREO) with 7 samples giving TREO values > 1%, with a high of 2.58%. The samples are predominantly light rare earth oxide (LREO) enriched. Generally, samples >1% TREO gave lower heavy rare earth oxide (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%. The five rock samples taken by Rare Earth Metals in 2010 (NR – Sept. 30, 2010) show similar values to those found during the SSE exploration. The number of anomalous samples combined with the airborne radiometric survey which shows significant Th anomalies (NR Sept. 30, 2010) plus the second highest HREE anomaly located in government surveys in Labrador (NR June 22, 2010) indicates that the area has significant potential for REE mineralization.



## **Planned Exploration 2012**

Continued ground follow up including prospecting, geological mapping and possible geochemistry will be carried out in 2012 dependent upon available funding.

## **Impairment**

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

## **STRAITS (ST)**

### **Property Description**

The property, located in the Straits of Belle Isle area of southern coastal Labrador, between Mary's Harbour and Red Bay, consists of 397 claims (99 km<sup>2</sup>). It was acquired for its uranium potential however REE potential has recently been noted and the property is now considered a U/REE property. Forty (40) claims were acquired over the on strike extensions of REE mineralization located on License 17761M in the fall of 2011.

### **Exploration Summary**

The property was originally staked in 2006, on a recommendation from prospector, Alex Turpin, to cover uranium in lake sediment anomalies associated with a north-northwest trending fault structure in Proterozoic, metamorphosed, felsic volcanics, now orthogneiss. Turpin retains a 1 % NSR on the original staking plus an AOI around the original property. Exploration up to 2009 included lake, stream sediment and soil geochemistry, ground scintillometer surveys, prospecting, and geological mapping. Significant uranium showings were located in the south central part of the property near the coast. The "BB Shot" showing gives grab sample values up to 67,439 ppm (6.7%) U<sub>3</sub>O<sub>8</sub> in outcrop along the contact of weakly gneissic, fine-grained granite, and a pegmatite with associated magnetite and biotite. The "Bingo" showing, approximately 3 km from the BB Shot, and also associated with the contact of the granite and orthogneiss, gave 17 anomalous values (>10 ppm U<sub>3</sub>O<sub>8</sub>) with a high value of 5,887 ppm (0.59%) U<sub>3</sub>O<sub>8</sub> associated with uranophane staining. Uranium/thorium ratios 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. ICP analyses of the lakes, streams, soils and rocks showed significant values in La and Th including rock sample values up to 3,908 ppm La and 6,810 ppm Th, lake sediment values to 903 ppm La and stream sediment values to 392 ppm La. The lake sediments gave 33 samples with values >200 ppm La including seven >300 ppm (bg 65 ppm) with the highest being 903 ppm La while Th gave only background (bg) values <20 ppm). Stream sediments gave 19 values >100 ppm La including four >200 ppm (bg 50 ppm). Values for Th are low with only one sample giving 50 ppm (bg 20 ppm). Rock samples gave three values >1,000 ppm La with the highest 3,908 ppm (bg <30 ppm). Nine samples gave Th values >1,000 ppm, including 4 >2,000 ppm and a high of 6,810 ppm. Strong correlation is noted between La and Th with the four samples that gave the highest La values also giving some of the highest Th values (NR May 27, 2010).

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 rare earth elements 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.

Twenty-six rock sample laboratory rejects which were anomalous in either La or Th, were analyzed for the full suite of REE's, yttrium (Y) and other indicator elements such as zirconium (Zr) and niobium (Nb). Values up to 2.48% TREE, 2.2% Zr, and 636 ppm Nb were located (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.

A geophysical consultant, Amer Smailbegovic, Ph.D. of Minera Inc., in Reno NV, evaluated the Fugro 2006 airborne radiometric and magnetic survey dataset over the ST property with an emphasis on thorium-channel anomalies which could be related to REE mineralization in September (NR Sept. 27/11). His technique used statistical correlation of thorium channels to those of uranium and potassium as a first pass to define general areas of interest which were then investigated individually on a line-by-line basis. The resulting radiometric anomalies were tied into high resolution imagery and aeromagnetic-data derivative products to hand pick anomalies using the geomorphology and structure of the areas as a guide. He recommended that the selected areas, mainly concentrated in the central part of the area, which appear associated with positive magnetic features, and particularly the areas along the contact between the Pinwarian Granite and the amphibolitic /metasedimentary sequences, be evaluated by a ground follow-up consisting of prospecting and rock sampling.

Helicopter supported prospecting, in mid-November, 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 the consultant. Fifty four (54) rock samples were taken, mostly from outcrop, using radioactivity, related to Th and uranium (U) bearing minerals possibly associated with REE mineralization, as a guide. Scintillometer readings in anomalous areas averaged 500 to 9000 counts per second (cps) against a background of 150 cps. In total, 11 samples gave total rare earth oxide (TREO) values > 0.1% and 13 gave U<sub>3</sub>O<sub>8</sub> values > 100 ppm (NR Jan. 19/12). The most significant mineralized area was located on License 17761M, to the north of Temple Bay, where five outcrop samples of mafic to felsic gneisses cut by pegmatites, associated with a structural lineament, gave TREO > 1% with a high of 4.76%, including 3.42% TREO with 58% heavy rare earth oxides (HREO) including 0.19% dysprosium oxide (Dy<sub>2</sub>O<sub>3</sub>). The average HREO for the five samples was 23.4%, with all having associated U<sub>3</sub>O<sub>8</sub> values ranging from 400 to 1130 ppm, while Th<sub>2</sub>O<sub>3</sub> 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. See table below for listing of the individual samples and selected oxides. While the mineralization located is narrow, the REO / uranium association, the HREO content and the apparent structural control in this relatively unexplored area are all positive indications of significant potential for both REE and uranium.

Sample #	TREO %	HREO %	Dy <sub>2</sub> O <sub>3</sub> ppm	Nd <sub>2</sub> O <sub>3</sub> %	Y <sub>2</sub> O <sub>3</sub> %	U <sub>3</sub> O <sub>8</sub> ppm	Ta <sub>2</sub> O <sub>5</sub> ppm	Nb <sub>2</sub> O <sub>5</sub> %	ZrO <sub>2</sub> %	ThO <sub>2</sub> ppm
557354	3.42	58.5	1940	0.31	1.37	580	238	0.68	2.29	1016
557355	1.05	8.1	87	0.28	0.04	1125	54	0.33	0.08	40
557408	1.95	13.7	357	0.35	0.14	406	125	0.41	0.35	157
557409	1.83	16.8	388	0.29	0.17	1131	361	2.55	0.55	70
557410	4.76	19.9	1263	0.73	0.52	755	452	1.63	1.69	196
<i>Average</i>	2.60	23.4	807	0.39	0.45	800	246	1.10	0.99	296

### Planned Exploration - 2012

Prospecting, geological mapping and geochemistry surveys are planned for 2012 depending upon the availability of financing.

### Impairment

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

## **PROJECTS – GOLD/BASE METAL**

### **General**

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

Drill core is sawed in half using a diamond saw with one half of the core retained and the other half sent for analyses. Standard QA/QC techniques including check sampling is carried out. Analyses were done at Eastern Analytical Laboratories in Springdale, NL, a recognized local laboratory, or Accurassay Laboratories in Thunder Bay, ON, after sample prep at their Gambo, NL preparation facility. Samples were analyzed for gold by fire assay (1/2 assay tonne) using an atomic absorption finish plus an ICP 30/31 technique for other elements. Elements above the detection limit of the ICP for Pb, Zn and Ag were re-analysed for “ore grade” values using a wet chemical method with an Atomic Absorption finish. Plan maps of the trenching and drilling, the IP chargeability and resistivity survey and a compilation map of the property plus pictures showing the drilling and the drill core, are shown on the Silver Spruce website at [silverspruceresources.com](http://silverspruceresources.com).

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

#### **Property Description**

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

#### **Exploration Summary**

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

Thirty seven (37) rock samples taken by the vendors, most from angular boulders or rubbly outcrop, are intensely silicified, and argillicly altered and carry finely disseminated sulphides (mainly pyrite). The silicified sandstone and conglomerates are vuggy, and carry banded cherty to chalcedonic quartz; possibly sinter. Mean and high values: Au - 248 ppb with a high value of 997 ppb (1 g/t Au); Ag - 9.9 ppm with a high value of 145 ppm (145 g/t Ag). The extensive alteration zone hosts significant anomalous gold and silver values with the highest Ag values located to the north of Bottle Ponds and Grassy Pond in the north central part of the property.

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

**Trenching:** After optioning the property in April 2010, a trenching/pitting program by SSE targeted an extensive area of Au/Ag anomalous angular boulders of silicified conglomerate with seven (7) trenches, ranging from 20 to 60m in length, excavated along a 700m strike length. Overburden varies from less than 1m to > 6m. Five trenches (#'s 3 to 7), exposed a zone, 700m long by 75m wide of epithermal style alteration consisting of intense silicification and pyritization, with some clay alteration (kaolinite). Bedrock in trenches 3, 4, 6 and 7 consists of intensely sheared to brecciated, silicified and pyritized conglomerate/sandstone, cut by banded quartz veins which range from a few millimeters to 20 centimeters. Pyrite is ubiquitous, occurring as disseminated grains, blebs and micro stringers, ranging from 2% to 25% and averaging 5%. The zone is anomalous in precious metals and some indicator elements (NR Aug. 26, 2010). Gold (Au) values range from 30 to 2083 ppb with a mean of 71.7 ppb. The highest gold value, 2.08 g/T over 0.7 m, is in silicified sediments cut by a 1.5m quartz vein in Trench 5. Silver (Ag) values range from 1.9 to 13.4 ppm with a mean of 3.5 ppm. Arsenic (As) values range from 50 to 860 ppm with a mean of 130 ppm. Molybdenum (Mo) values range from 7 to 262 ppm with a mean of 28 ppm. Anomalous aluminum, bismuth, and potassium values are also noted. Prospecting located highly altered (silicified) conglomerate units 150m to the south of trench 6, the southernmost trench and large angular, altered (silicified) boulders, similar to bedrock uncovered in the trenching, were located up to 1 kilometer to the north of the trenched area. Five rock samples from outside of the alteration area gave values < 10 ppb gold.

**Geophysics:** An IP/Resistivity survey, to determine the margins and orientation of the zone, and to indicate areas of higher potential, was carried out in the fall of 2010. The time domain IP survey covered 7 lines (173 to 189 N) spaced mostly 200m apart for a total of 8.9 line kilometers using a dipole-dipole array and an electrode spacing of 75m to n=6. It covered the altered (silicified)/mineralized area, as defined by prospecting and trenching surveys, (NR's October 14, August 6 and July 29, 2010), which extends in a north-northwesterly direction, over an area of > 1 km by 300 to 500m wide. Results show: 1) nine shallow (i.e., 25 m depth or so) anomalous IP features, all of which are of the "non-conductive" type, indicating disseminated to stringer sulphides, extend through the altered/mineralized area, in a north to north-northeast direction and 2) The IP anomalies appear to be grouped to form two linear trends, one of which falls along the corridor of silicification in the central portion of the grid and which appears to outline a significant pyritized zone.

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

**Prospecting:** Limited exploration along the southern extension of the Big Easy trend resulted in the discovery, of similar mineralization, 3.5 km to the south of the Big Easy zone, in the early summer of 2011. The ET zone consists of alteration/mineralization, mainly silicification, carrying disseminated pyrite in brecciated sedimentary units with quartz veining which is sometimes chalcedonic. Three grab samples gave values of 39, 28 and 125 ppb Au and < 0.5, < 0.5 and 3.5 ppm Ag, respectively. The highest value was a composite grab sample. These results are similar to those originally found in outcrop and float on the Big Easy zone. Arsenic was elevated with a high value of 152 ppm with the higher gold value. The mineralization occurs over a 50m area on the brook however it disappears under overburden to the north, south and west. Trend of the zone is approximately 150-160 degrees making the true width of the exposed portion of the zone at least 30m, open to the west.

**Diamond Drilling:** A phase 1 diamond drilling program consisting of seven holes, BE-11-1 to 7, totaling 1,577 m, tested the zone over an approximate 1 km strike length from L 7560 N (BE-11-1) to L 8600 N (BE-11-7) in March and April, 2011. All holes, **the first ever drilled on the property**, intersected strongly altered (silicified/sericitized/chloritized) and mineralized sedimentary units (NR's March 24, April 8, May 3, June 1, 2011), with significant gold / silver intersections noted in all holes. A strong gold/silver zone was located in DDH BE-11-3 (NR May 3, 2011). The zone gave 0.41 g/t Au and 15.4 g/T Ag over 89.2m from 183 to 272.2m, including 0.87 g/t Au and 33.5 g/T Ag over 30.5m from 228 to 258.5 m, including 2.5 g/t Au and 74.1 g/T Ag over 7m from 239 to 246 m, including 6.05 g/t Au and 174 g/T Ag over 1.5m from 240.5 to 242m and 6.04 g/T Au and 114 g/T Ag over 1m from 245 to 246m. The highest grades are associated with a brecciated zone located between 228 and 272 m. Pyrite, as disseminations and veins/veinlets averaging 2-3%, and an unknown, minor fine grained grey black metallic mineral, is noted in this section. Alteration is illite, muscovite/sericite and potassium feldspar (Kspar) with strong silicification throughout. Gold/silver values were also located in drill holes 4, 5, 6 and 7 located to the north of BE-11-3 (NR June 7, 2011). Highlights include: 163 ppb Au and 32.3 ppm Ag over 6.5m (97-103.5m) in BE-11-5; 1358 ppb Au and 2 ppm Ag over 6m (41-47 m) including 1 m (43-44m) at 7645 ppb Au and 10 ppm Ag, and 319 ppb Au and 13 ppm Ag over 18.6m (231.3-249.9m) including 1067 ppb Au and 64 ppm Ag over 2.4m (231.3-233.7m) in BE-11-7. All drill holes gave at least 1 value >100 ppb Au over at least 1m. Significant results are given in the table following.

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

Results for check samples analyzed at Eastern Analytical in Springdale NL, generally correspond well with Accurassay values, on average, 1% higher than the results from Eastern Analytical. The highest variation was an Ag value of 19 ppm which was 58% higher from Accurassay than the check result from Eastern Analytical at 5 ppm. The two 6 g/T Au values in BE-11-3 gave 5.8 g/T and 5.5 g/T respectively in the checks. It is believed that a nugget affect may be causing the variation in some samples.

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

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

**Planned Exploration – 2012**

All data has been compiled in a 3D database to allow modeling of the mineralized / altered system for a planned Phase 2 drilling program on the Big Easy. Regional work, consisting of an airborne high resolution magnetic / VLF-EM survey, gridding, ground geophysics (IP), geochemistry, geological mapping and prospecting, between the ET and Big Easy showings is planned for 2012 contingent on financing.

**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

### Update on 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) to allow a comprehensive land use plan to be completed. Exploration was still permitted on LIL, however with development in question most companies, including SSE, curtailed exploration. Labrador Inuit Settlement Area (LISA) lands are jointly controlled by the NG and NL governments and were not subject to the moratorium, however to most funding agencies Labrador was not open for business and it became almost impossible to raise money for continued exploration for uranium. 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. That said, the Paladin Energy purchase of Aurora Energy, and their Michelin / Jacques Lake deposits, and their intention of proceeding to production as soon as the moratorium is lifted is a significant positive sign for the area. Continued positive news on the uranium price and the resultant availability of financing, could result in an early 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. Airborne radiometric/magnetic/VLF-EM surveys in 2004/2005 resulted in definition of the known showings plus the generation of new targets in the Michelin, Otter Lake and Jacques Lake areas. On September 18<sup>th</sup> 2009, Aurora announced a positive preliminary economic assessment for the Michelin project which supports an open-pit and underground uranium mining operation at the Michelin and Jacques Lake deposits, and a milling facility at Michelin producing up to 3300 tonnes of uranium oxide (U<sub>3</sub>O<sub>8</sub>) per year. The deposits have measured and indicated resources of 35,000 tonnes of U<sub>3</sub>O<sub>8</sub>, plus 16,000 tonnes inferred resources, mostly requiring underground mining. An investment of C\$1.05 billion is required with production ramping up to about 3000 tonnes per year. In early 2011, Paladin Energy purchased the Aurora Energy assets and indicated that it intends to move to production as soon as the moratorium was lifted.

**Crosshair Energy (CXX)** acquired the Moran Lake property where copper/uranium/magnetite/hematite/vanadium mineralized zones of the Moran Lake deposits, discovered and drilled by Shell Canada in the 1970's, are located. A N.I. 43-101 compliant resource, in the C Zone, Armstrong and Area 1 zones, of approximately 5.2 million lbs indicated and 5.8 million lbs inferred U<sub>3</sub>O<sub>8</sub> 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. The CMBJV properties now total 557 claims (139 km<sup>2</sup>) in nine licences. Silver Spruce retained a 37.4 % interest at the start of 2011 however has been diluted by Crosshair's exploration in 2011 since it did not contribute to the 2011 budget. If dilution drops SSE's interest below 10 % then it reverts to a 2% NSR on the properties. Significant exploration was carried out on both the CMBJV and their 100 % owned properties by drilling including evaluation of the vanadium resources, associated with the uranium, in the Moran Lake area in 2011. The actual dilution incurred is being defined at this time.

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

Silver Spruce Resources (SSE) owns a 100% interest in 1011 claims (253 km<sup>2</sup>) in Labrador outside of the CMB JV. These are 100% owned and include the following properties - Snegamook Lake (86), Double Mer (74), Straits (397), Mount Benedict (377), where the AT-649 and T- Super 7 showings are located, Jeanette Bay (60) and Lake Michael (17). The Snegamook property was optioned from a Newfoundland prospecting group which retains a two percent Net Smelter Return (NSR). The Double Mer and Straits properties were staked in an arm's-length deal with a local prospector who retains a one-percent NSR on portions of the properties. The Mount Benedict property was acquired by staking and option with a 1% NSR payable on 592 claims of the original staked ground, some of which have since been dropped. Limited exploration for REE on the Straits property (see REE section) was carried out in the fall of 2011.

### **Planned Exploration - 2012**

No uranium exploration was carried out in 2011. Exploration in 2012 may take place if a rise in uranium prices allows financing. Some of the properties may be joint venture possibilities.

### **Impairment**

Most property expenditures have either been written down or off due to the NG moratorium and the inability to raise funds for further exploration over the past two years. No further impairment is indicated at this time due to the lifting of the NG moratorium and, it is hoped, an increase in interest in this part of the province. Impairment issues will continue to be evaluated quarterly and write downs or write-offs will be taken if required.

## **SNEGAMOOK LAKE (SN)**

### **Property Description**

The property, located just to the southeast of Snegamook Lake in central Labrador, consists of 86 claims (21.5 km<sup>2</sup>), and is surrounded by the CMBNW JV property to the north, west and east and the Virginia Energy "Fishhawk Lake" property to the south. The Company has earned a 100-percent interest subject to a two-percent NSR. The property is located outside Inuit landson 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). Prospecting and diamond drilling has located two main areas of mineralization:

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

No exploration was carried out from 2009 to the present, due to the price of uranium, the NG moratorium and budgetary restraints. The property can be maintained without further work until 2017. The project shows good potential which should be realized once prices return to higher levels and is an obvious joint venture possibility.



## **Planned Exploration – 2012**

No exploration is planned for 2012 at this point.

## **Impairment**

All exploration expenditures except for \$19,604 have been written off. No further impairment is indicated at this time due to the lifting of the NG moratorium and the potential for a JV on the property. Impairment issues will continue to be evaluated quarterly and write downs or write-offs will be taken if required.

## **DOUBLE MER (DM)**

### **Property Description**

The property consists of 74 claims (18.5 km<sup>2</sup>), located in the Double Mer-Lake Melville area of Labrador, approximately 110 kilometres to the east of Happy Valley-Goose Bay. The property was acquired by staking in 2006 in an arm's length deal with a local prospector who retains a 1% 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 airborne survey resulted in 40 strong to moderate strength radiometric targets, in various lithologies and in magnetically low and high areas, selected for follow up mainly along and parallel to Lake Melville. In 2006, prospecting in the area of Zone A (Northgate discovery - 1970's), located 10 rock samples giving values greater than 100 ppm U<sub>3</sub>O<sub>8</sub>, with a high value of 2,640 ppm U (0.33% U<sub>3</sub>O<sub>8</sub>) associated with high spectrometer readings (>10 K cps), in the area of the historical trenches. The trenches and diamond drill holes (ddh's) were relocated and found to be north of the east-west trending magnetic high associated with a radioactive trend on the radiometric maps. Two styles of uranium mineralization are noted – pegmatite hosted (primary) and structurally-controlled (secondary) in structural traps, in the form of breccia and/or mylonite zones, developed in the polydeformed gneisses. A 10 km long, linear, east-west to east-northeast trending, anomalous radiometric zone (Anomalies DM-1 to 17), gives seventy-six (76) selected grab rock samples with values >500 ppm U<sub>3</sub>O<sub>8</sub>, with 42 >1,000 and 7 over the 95<sup>th</sup> percentile of 2,200 ppm with a high of 4,281 ppm (0.43%) U<sub>3</sub>O<sub>8</sub>. Uranium in soil values, up to 208 ppm (background <10 ppm) and radon gas anomalies occur over mineralization, over widths up to 30m, associated with short, steep, scarps characterized by breccia units. Mineralization also occurs in a highly deformed, white, recrystallized, quartz pegmatite up to 40 meters wide, but generally 5-10 m, which can be traced over a minimum 300m strike length. Ground follow up by trenching and drilling is required to evaluate the uranium potential.

## **Planned Exploration – 2012**

No exploration is planned at this time unless financing becomes available for U projects.

## **Impairment**

All exploration expenditures except for \$22,034 have been written off. No further impairment is indicated at this time due to the lifting of the NG moratorium. Impairment issues will continue to be evaluated quarterly and further write-downs or write-offs will be taken if required.

## **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 397 claims (99 km<sup>2</sup>) after recent staking for REE (see section on REE properties). 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. Mineralized areas were defined by prospecting and lake sediment geochemistry in three areas: 1) the central portion of the claim group, along a northeast trending structure with offsetting northwest trending structures, over a 7 km strike length with a high value of 0.16%  $U_3O_8$ ; 2) in the north eastern part of the group, a northeast trending zone with host rocks - aplites and mafic intrusives (gabbros), gneisses and pegmatites; and 3) in the western portion of the group, a linear, north-south trending zone of large, irregular, pegmatite dikes with erratic values up to 2650 ppm (0.26%, 5.2 lbs/ton)  $U_3O_8$ . Uranium/thorium ratios were good (minimum of 3 to 1) in most areas. The two most significant showings were in the south central part of the property near the coast. The "BB Shot" showing, with scintillometer values up to 34,000 cps (background <200 cps), gave values up to 67,439 ppm (6.7%)  $U_3O_8$  in outcrop along the contact of a weakly gneissic, fine-grained granite, and pegmatite with associated magnetite and biotite. The "Bingo" showing, approximately 3 km from the BB Shot, also associated with the contact of the granite and orthogneiss, gave 17 anomalous values (>10 ppm  $U_3O_8$ ) with a high value of 5,887 ppm  $U_3O_8$  associated with uranophane staining. Mineralized zones are narrow, to a maximum of 1-2 m, but are generally 1 m or less. Uranium/thorium ratios average 5:1 in samples giving uranium values >250 ppm. Anomalous values in Th, Cu (to 2,720 ppm) and Pb (>5,000 ppm) were also found with the higher thorium values giving low uranium values. The property 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 2012**

No uranium exploration is planned for the claims unless financing permits – see REE section for REE exploration plans. The project is considered a potential JV property.

### **Impairment**

All exploration expenditures except for \$49,542 have been written off. No further impairment is indicated at this time due to the lifting of the NG moratorium and the recent results from the REE exploration. Impairment issues will continue to be evaluated quarterly and write-downs or write-offs will be taken if required.

## **MOUNT BENEDICT (MB)**

### **Property Description**

The property, totalling 377 claims (94km<sup>2</sup>), is located in the Benedict Mountains area, near the Labrador coast, 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 NSR 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 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. Two significant uranium prospects, the AT-649 and the T Super 7, are located in the northern part of the property.

The **AT-649 zone**, a high grade uranium zone at least 10m wide, was discovered on a small brook, flowing into Stag Bay in the summer of 2007. The outcrop carries intense radioactivity with total count values >10,000 cps over the 10 meter width, striking across the brook, and disappearing under the overburden, remaining open to the east and west along the apparent strike. Five representative grab samples averaged 0.497%  $U_3O_8$  and float boulders carrying uranophane, downstream of the showing giving values from 0.06 to 3.37 %  $U_3O_8$  with three values >1 %. The host rock is a moderately to strongly hematized, fine grained, feldspar rich (plagioclase), felsic to mafic intrusive of the BMIS which has been fractured and veined with uraninite/pitchblende and magnetite and which shows extensive

uranophane staining. Extensive iron oxides (magnetite) and minor sulphides (pyrite/pyrrhotite) are associated with the uranium mineralization making the unit a magnetic high.

Diamond drilling in 2008 (1,262.9m in 9 holes - MBAT-08-1 to 9), which due to NG requirements had to stay 50 m away from the brook, defined a zone of low grade uranium mineralization hosted in a sheared to mylonitic, brecciated and fractured, felsic intrusive, a monzonite to monzodiorite, which carries extensive chlorite and carbonate alteration plus magnetite and hematite with minor pyrite. It is located along the contact between a monzonitic unit of the BMIS and orthodioritic units of the Tran Labrador Granitoid Belt (TLGB). The zone varies from 4 to 16m wide giving  $U_3O_8$  values of up to 598 ppm (1.2 lbs/ton) over 1m. Intersections include: 4.3m of 0.025% (0.5 lbs/ton)  $U_3O_8$  in DDH MBAT-08-2, from 50.6 to 54.9m, at a vertical depth of 40m. The zone, which appears to be shallow dipping to the southeast, was tested over a strike length of 150m and to a vertical depth of 75m. It is open along strike and to depth. The mineralized zone in the brook has not been tested due to environmental regulations which require a set back of a minimum of 50m from the stream.

The **T Super 7 zone** is located 4.8 km to the southwest of the AT-649. The 2008 drill program consisted of seven holes (MBS7-08-1 to 7) totalling 968 m which tested high grade uranium mineralization in bedrock with values from 500 ppm to over 1.0% (20 lbs/ton)  $U_3O_8$ . Weak mineralization over good widths was intersected as follows: MBS7-08-5 - a northeast trending, mylonite zone carrying two separate mineralized zones: 27m (5-32 m) at 138 ppm  $U_3O_8$  and 22m (44-66 m) at 278 ppm  $U_3O_8$ , separated by a 12m wide, barren, mylonitized felsic unit. The zone is a highly altered (hematite/carbonate/chlorite, silicified), mylonitized, sheared to brecciated, hematized felsic intrusive or volcanic unit. An 8m wide, higher grade section, from 51 to 59m graded 444 ppm  $U_3O_8$ . True thickness was not determined however 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 style is similar to the AT-649 and is developed along a major northeast trending structure which trends through, and is associated with, the AT-649 mineralization.

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

### **Planned Exploration 2012**

No uranium exploration is planned for the claims at this time pending availability of funding. The project is considered a potential JV property.

### **Impairment**

All exploration expenditures except for \$110,508 have been written off. No further impairment is indicated at this time due to the lifting of the NG moratorium. Impairment issues will continue to be evaluated quarterly and write-downs or write-offs will be taken if required.

## **JEANETTE BAY (JB)**

### **Property Description**

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

### **Exploration Summary**

Exploration included stream sediment sampling and prospecting. A strong, coincident, uranium-lead-molybdenum stream sediment geochemical anomaly, with U values up to 103 ppm, was found in the NW along the contact between mid Paleoproterozoic foliated granodiorites and Late Paleoproterozoic massive granites, similar to the geological setting at the AT-649 U zone on the MB property. Radioactivity was noted in outcrop, however no sampling was carried out. Other uranium anomalies (to 43 ppm) were located in the western section and several gold anomalies (to 33 ppb) occur on the eastern and central parts of the property.

### **Planned Exploration 2012**

No exploration is planned and it will be dropped when it comes due.

### **Impairment**

The remaining property expenditures were written off during the period ended January 31, 2011.

## **LAKE MICHAEL (LM)**

### **Property Description**

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

### **Exploration Summary**

Exploration consisted of stream sediment sampling and prospecting. A moderate strength, coincident uranium-molybdenum-copper stream sediment geochemical anomaly was defined in the south central part of the property, a flat area with extensive bog cover masking the underlying bedrock. It is underlain by Late Paleoproterozoic intrusive quartz monzonite and granodiorite, and early Mesoproterozoic gabbro and amphibolite. Moderate radioactivity is noted in the southwestern part of the property not coincident with the U-Mo-Cu stream sediment values. No follow up has been carried out.

### **Planned Exploration 2012**

No exploration is planned and it will be dropped when it comes due.

### **Impairment**

The remaining property expenditures were written off during the three month period ended January 31, 2011.

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

The CMBJV properties consist of 690 claims (172 km<sup>2</sup>) in the Central Mineral Belt (CMB) of Labrador. The properties are proximal to the Michelin, Moran Lake and other uranium showings under exploration/development by Paladin Energy and 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.

### **Exploration Summary**

Exploration, from mid-2006 to early 2008, consisted of a helicopter-borne radiometric/magnetic survey, a limited airborne gravity survey over part of the CMBNW property, prospecting using scintillometers, lake sediment, soil and radon gas geochemistry, ground scintillometer surveys, geological mapping, and trenching and diamond drilling on the CMBNW property only. Seventeen high priority airborne radiometric anomalies were selected for follow up in late 2006. This work led to the discovery of the Two Time zone on the CMBNW property, the only significant new uranium discovery in the CMB since the Brinex days 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, only limited exploration, required to keep the properties in good standing, was carried out by CXX, as operator, in consultation with SSE, in 2009, and 2010 aimed at consolidating, reducing and retaining those properties which showed the most potential. Three new uranium prospects were discovered in 2009/10 on the CMB JL (2) and CMB NE (1) JV properties with values up to 0.46% , 0.28% and 0.1% U<sub>3</sub>O<sub>8</sub> in selected grab samples from the three showings (NR Feb. 8/11). SSE declined to participate in the programs in 2010 and 2011 and is being diluted according to the formula in the JV agreement. SSE's interest was 37.4% at the beginning of 2011 and given the expenditures by Crosshair in 2011, is likely to have been diluted to below 10% which then causes the interest to revert to a 2% NSR. Discussions are ongoing with CXX re the dilution amount and it will be reported when confirmed.

Uranium analysis for the 2011 CXX exploration was carried out by Activation Labs of Ancaster, ON. utilizing the delayed neutron counting (DNC) method, while multi-element analysis was performed using Inductively Coupled Plasma Mass Spectrometry (ICP-MS). Samples exceeding the upper limit for uranium were re-assayed using X-ray fluorescence (XRF). Standards, blanks, and duplicate assays were included at regular intervals in each sample batch submitted from the field as part of Crosshair's ongoing Quality Assurance/Quality Control program.

### **Planned Exploration – 2012**

CXX plans to continue diamond drilling on the three new prospects in the northeastern portion of the CMBJV and the Firestone prospect and the Two Time uranium deposit on the CMBNW property in 2012. Budgets are not known at this time.

### **Impairment Issues**

CXX paid 10 M shares plus 7.5 M warrants plus \$500,000 for Universal Uranium's 60 % interest in the CMB JV (worth approx. \$6 M). This put a value, based on the stock and cash only, of SSE's portion of the JV properties at approximately \$4 M. Consolidation (regrouping), reducing and abandonment of claims that show little promise, has been carried out by CXX in consultation with SSE. No write down in the value of the properties in the CMBJV, unless abandoned, is indicated at this time since the Two Time (TT) zone has significant intrinsic value and the other properties have exploration ongoing. When Paladin moves ahead with development of the Michelin/Jacques Lake project, any infrastructure developments will improve the economics of further exploration and development for all properties in the CMB. The TT zone, which has defined resources plus other showings and continuing exploration by CXX, gives the property significant value. If the dilution as described above continues to <10 %, as is likely given the planned expenditure in 2011, SSE will revert to a 2 % NSR and the exploration costs will be written off at that time.

## **CMB NORTHWEST (CMBNW)**

### **Property Description**

The CMBNW property, in the north-western portion of the CMB, consists of 557 claims (139 km<sup>2</sup>) acquired by staking in 2006. It is located almost entirely on lands covered by the Innu land claim, outside of the NG lands, approximately 110 km to the west of Postville.

## Exploration Summary

Exploration consisted of compilation, airborne radiometric/magnetic and air gravity surveys, prospecting, line cutting, stream, lake sediment and soil geochemistry, geological mapping, and geophysical (RadonEx) surveys, trenching/stripping, diamond drilling and a resource calculation on the Two Time (TT) zone completed in April 2008. Prospecting outside of the TT area located significant mineralization, uranium bearing hematite breccia zones, along a number of linear trends in the northeastern and southeastern portions of the property. Five samples with values  $> 0.5\%$   $U_3O_8$  (10 lbs/ton) and 31 with values  $> 0.1\%$   $U_3O_8$  (2 lbs/ton) were found associated with major east-northeast (ENE) or north-northwesterly (NNW) trending structures, the most significant of which is a 12 km long east-northeast trending suture which extends across the Snegamook property, approximately 2.5 km south of the TT zone, to an area of the highly anomalous lake sediment values. Another area, trending ENE and giving values up to  $0.93\%$   $U_3O_8$  (18.6 lbs/ton) in float boulders and  $0.4\%$   $U_3O_8$  (8 lbs/ton) in outcrop is located in the south eastern portion of the group. In 2011 drilling was carried out on the Two Time zone to depth and coincident airborne radiometric geophysical and rock geochemical anomalies on 4 different prospects on the Jacques Lake and Northeast properties were tested with fourteen diamond drill holes, totaling 1,245m. Three holes intersected uranium mineralized zones with the most notable from the Firestone prospect on the CMBNW. Drilling at the other three eastern-most prospects - South Brook, Running Man and Big Bear, was preliminary, with the program cut short due to inclement weather.

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

The zone has been traced over a strike length of approximately 475m, from 2+75 N to 2+00 S, remaining open to the north and south along strike and to depth. The host is an altered, brecciated and fractured intrusive, monzodiorite to diorite, with extensive chlorite, carbonate and hematite alteration. Best values included: DDH CMB-07-6 on Line 0+50 S, at a 50 degree dip, which intersected the zone between 150 and 200m deep, gave 107m of  $0.052\%$   $U_3O_8$  (uranium oxide) from 172 to 279m, including higher grade zones:  $0.11\%$   $U_3O_8$  over 30m from 172 to 302m and including  $0.312\%$   $U_3O_8$  over 3m from 172 to 175m. CMB-07-12, drilled under CMB-07-6, gave 147m of  $0.041\%$  ( $0.82$  lbs/ton)  $U_3O_8$ , including higher grade intersections of 11m at  $0.11\%$  ( $2.2$  lbs/ton) and 6m of  $0.13\%$  ( $2.6$  lbs/ton)  $U_3O_8$ . Hole 19 which gave the widest zone of mineralization, 199m of  $0.026\%$   $U_3O_8$ , was stopped in mineralization due to mechanical difficulties. The orientation of the mineralization appears to be near vertical to steeply dipping. Modelling of the drill data shows the zone has strike and depth continuity and it remains open along strike and to depth indicating that it should continue to the southwest, plunging at 30 to 50 degrees. A technical report on the CMBNW Property, prepared for Silver Spruce and CXX, dated June 22, 2009, is filed on SEDAR.

## Exploration 2011

CXX carried out diamond drilling in 2011 testing the Two Time Zone intersecting additional uranium mineralization down dip / plunge. A total of 2,961m of drilling confirmed uranium mineralization to depths of over 500m. Highlights from the program are shown in the table below. CXX stated in their Dec. 13<sup>th</sup> news

release that they were pleased with the results of the drilling, as data indicates the mineralization at the Two Time Zone has been extended beyond the current resource envelope (*NR December 13/11* - [www.crosshairenergy.com](http://www.crosshairenergy.com)). Assays with drill plans and additional information can be found on the CXX website: <http://www.crosshairenergy.com/s/CMBJointVenture.asp> and in the Technical Report on the CMBNW Property, Labrador, Canada prepared for CXX and Silver Spruce dated June 22, 2009 and filed on SEDAR at [www.sedar.com](http://www.sedar.com). The true width of the mineralized zone is 60% to 90% of the lengths stated.

<b>Highlights</b>				
<b>Crosshair Energy Corporation</b>				
<b>2011 CMB – Two Time Drilling Program</b>				
<b>Drill Hole</b>	<b>From (metres)</b>	<b>To (meters)</b>	<b>Length (meters)</b>	<b>U<sub>3</sub>O<sub>8</sub>%</b>
<b>CMB-11-43</b>	546.5	551	4.5	0.069
<b>CMB-11-44</b>	229	233	4.0	0.059
<i>including</i>	239.5	241	1.5	0.057
	245.5	246.5	1.0	0.047
<i>including</i>	245.5	246	0.5	0.063
	281	282.5	1.5	0.055
	298	299.5	1.5	0.069
<i>including</i>	299	299.5	0.5	0.150
<b>CMB-11-45</b>	219	220.5	1.5	0.048
<b>CMB-11-47</b>	144	145	1.0	0.056
	466.5	473.5	7.0	0.033
	476.5	477	0.5	0.055
<b>CMB-11-48</b>	280.5	281	0.5	0.079
<i>including</i>	325.5	326	0.5	0.069
	458.5	490	31.5	0.031
<i>including</i>	470.5	472.5	2.0	0.067
<i>and</i>	483.5	487	3.5	0.051
<i>and</i>	499.5	502.5	3.0	0.061

A second drill tested the Firestone Showing, a brecciated hematitic monzogranite, located 7 kilometres to the southeast of the Two Time Zone, which gave uranium values ranging from 200-900 parts per million (ppm) in trench and float samples. The best intersection was in DDH FS-11-007 which intersected 3.5m at 0.084% U<sub>3</sub>O<sub>8</sub> including 0.5m of 0.519% U<sub>3</sub>O<sub>8</sub>.

#### **Planned Exploration - 2012**

CXX is planning continuing exploration including diamond drilling on both the TT zone and the Firestone prospect with budgets not yet set. Silver Spruce has declined to participate in any further programs and its interest in the JV will continue to be diluted as expenditures are incurred unless we are already below 10 % and thereby retain a 2% NSR.

#### **CMB JACQUES LAKE (CMBJL)**

##### **Property Description**

The property of 95claims (24 km<sup>2</sup>) lies in the central part of the CMB on LIL lands, 15 to 25km to the south of Postville and to the west of the Jacques Lake property of Paladin Energy.

### **Exploration Summary**

Exploration by SSE included: an airborne radiometric/magnetic survey which found four high priority targets, prospecting and a lake bottom survey which gave values from high background (30 ppm or less) to 217 ppm with two anomalous areas defined. Geological mapping, prospecting and sampling carried out by CXX in 2009 and 2010 evaluated these targets (NR Feb. 8/11). Two new U prospects, South Brook (SB) and Running Man (RM), were located. Forty-six (46) rock samples from the SB prospect, which is outlined by anomalous float and bedrock for approximately 3.5 kilometers (km), gave results ranging from 0.03% to 0.46% U<sub>3</sub>O<sub>8</sub>, averaging 0.11%. The RM prospect, approximately 5.5 km southeast of the SB Showing, which consists of a 2 km long, linear airborne radiometric anomaly, gave values from 0.03% to 0.28% U<sub>3</sub>O<sub>8</sub> from 21 rock samples. CXX carried out prospecting, trenching and drilling on the showings in 2011.

### **Exploration 2012**

CXX is planning to continue exploration including diamond drilling in 2012. Budgets are not known.

## **CMB NORTHEAST (CMBNE)**

### **Property Description**

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

### **Exploration Summary**

Exploration from 2006-2007 by SSE consisted of an airborne radiometric/magnetic survey and limited prospecting follow up. In 2009/10, CXX carried out follow up prospecting and biogeochemistry surveys based on the airborne survey results, resulting in the discovery of two new uranium showings:

- 1) **Big Bear** - hosted in altered granitic rocks with grab sample values from 0.02 to 0.10% U<sub>3</sub>O<sub>8</sub>, averaging 0.06%, in a 1.25 kilometer long corridor of anomalous bedrock radioactivity near the contact of Aphebian-age, Aillik Group, felsic volcanic units and Helikian felsic intrusive;
- 2) **JJ** - located two kilometers to the west-southwest of Big Bear, magnetite-pyrite mineralization in felsic volcanic units that gave an assay of 0.127% U<sub>3</sub>O<sub>8</sub> in one bedrock sample, associated with a cluster of airborne radiometric anomalies which occur at the intersection of interpreted faults, near the contact of Archean-age basement rocks and Aphebian-age felsic volcanic units of the Aillik Group.

Preliminary diamond drilling was carried out in 2011 with some mineralization intersected however the program was curtailed due to inclement weather in the late fall.

### **Planned Exploration - 2012**

CXX is planning to continue exploration including diamond drilling in 2012. Budgets are not known.

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



General exploration costs are expensed as spent unless they result in the acquisition of a property when they are then capitalized against the property.

## **MANAGEMENT**

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

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

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

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

## **LIQUIDITY, FINANCINGS AND CAPITAL RESOURCES**

### **Operating Activities**

The Company had a net cash outflow from operating activities of \$205,316 for the three months ended January 31, 2012 (January 31, 2011 - \$467,815 outflow).

### **Financing Activities**

The Company had no financing activities during the three months ended January 31, 2012. In the comparative period ended January 31, 2011, the Company had a net inflow of \$3,328,896, generated by \$3,490,573 in proceeds from issuance and exercise of shares, warrants and options.

In a news release on April 12, 2012 the Company announced a non-brokered private placement of Super-flow-through units to raise gross proceeds of up to \$500,000.

### **Investing Activities**

The Company had a net outflow of \$133,951 from investing activities for the three months ending January 31, 2012 (January 31, 2011 - \$168,586 net outflow). Of this amount in the current period \$137,911 was invested in mineral property exploration activities (January 31, 2011 - \$148,794).

### **Liquidity**

The Company had cash and cash equivalents of \$535,023 as at January 31, 2012 (October 31, 2011 - \$874,290). The change in non-cash operating working capital as at January 31, 2012 was a cash outflow of \$25,727 (January 31, 2011 - \$247,830 outflow). Exploration will be continue primarily in compilation and report writing in early 2012. Working capital is sufficient for this work however the company will be seeking additional funding to allow significantly increased activity especially planned diamond drilling on both the Big Easy and Pope's Hill properties.

### **Capital Resources**

The Company's authorized capital consists of an unlimited number of common and preference shares without par value. At January 31, 2012, the Company had 106,565,305 issued and outstanding common shares (January 31, 2011 - 106,065,305).

## RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at January 31, 2012 is \$23,441 (October 31, 2011 - \$12,322) owing to directors of the Company for consulting related services rendered, and \$Nil (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 three month period ended January 31, 2012, no stock options were granted to directors, officers and employees of the Company (January 31, 2011 – 2,000,000).

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 three month period ended January 31, 2012 and January 31, 2011 transactions paid to the hardware store and to the hotel were negligible.

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

## COMMITMENTS

The Company has acquired various properties from third party 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
2012	55,000	650,000
2013	70,000	600,000

The Company leases its head office in Bridgewater under an operating lease. Future lease payments aggregate \$10,725 and include the following amounts payable over the next three years:

	\$
2012	7,425
2013	825
	<hr/>
	8,250

## 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 in Labrador - Popes Hill and the MRT REE/U properties, and on the island of Newfoundland, the Big Easy Au/Ag property, are road accessible thereby keeping exploration costs relatively low. Plans are to continue to move forward on these projects using "flow through" (FT) funds which will be acquired in 2012 and available matching government funding where available and as required. Drill programs on both the Popes Hill and MRT REE zones and the Big Easy gold/silver zone will require significant new cash and therefore either FT financing or a joint venture with another company.

## **CURRENT MARKET CONDITIONS**

The fundamentals for REE's and gold/silver are strong and it is for this reason that the Company is emphasizing these commodities. The Company's REE and gold/silver/base metal/projects are mainly road accessible and therefore cheap to explore. No emphasis is placed on exploration for base metals however any discoveries made on our properties are in good locations for future development.

The Company's main focus until recently has been uranium. Demand for uranium is forecast to outstrip supply over the next 10 years or so growing at an annual rate of approximately 2 % per year. Much of this demand will come from expanding nuclear power requirements of developing economies with 130 new reactors expected to be constructed over the next 15 years (IAEA report), representing a 30 percent global increase in reactors. China has announced plans to build 27 new nuclear reactors by 2020, and India has announced plans to build 17 new nuclear reactors by 2012. This rate of expansion compares with the USA, which built over 100 nuclear power plants in 15 years between 1965 and 1980 (IAEA). Uranium supply is constrained by a lack of new mine production and declining world inventories. World requirement of uranium oxide (U<sub>3</sub>O<sub>8</sub>) is about 77 kilotons per annum (ktpa), while current mine production accounts for 48ktpa. The balance, 29ktpa, comes from inventory - primarily the down-blending of weapons grade uranium which has greatly diminished over the past years. Mine output is expected to increase to 54 ktpa over the next three to five years, leaving a significant supply gap to be filled by new production (IAEA). 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\$65/lb on the term market with spot prices around \$50/lb. Market pressures remain strong for the long term and it is expected that the long term uranium price should increase.

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

The impairment of exploration assets in Labrador has been carefully considered and it is felt that at this point there is a continued general impairment of the 100 % owned properties in the CMB since financing is difficult to 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 at year ends 2008, 2009 and 2010. Impairment issues will continue to be evaluated each quarter.

The market cap of the Company has dropped significantly in the last year due mainly to selling by one of our major institutional shareholders. Our emphasis on REE projects and the Big Easy Gold/Silver property should allow us to obtain flow through and hard dollar financing in 2012. The global economic situation, especially in Europe, remains confused, and the share prices in junior explorers such as ourselves are being impacted. Impairment issues related to Market Capitalization will continue to be evaluated quarterly and further write downs or write offs will be taken if required.

## **OUTLOOK**

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

In 2012, continued financings will be required to continue to explore the REE properties in Labrador and the gold / silver Big Easy property on the island of Newfoundland.

The company has a property portfolio with REE properties, a new gold silver discovery (Big Easy), an interest in a uranium deposit with defined resources (Two Time), plus other significant uranium projects. 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 REE's and precious metals with drilling projects planned for both pending financing and longer term success in uranium exploration and development.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

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 *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 applying the amendments of IFRS 9 and IFRS 7 on the consolidated financial statements.

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). The Company is currently assessing the impact of these new standards on the Company’s consolidated financial statements.

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.

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* (“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 condensed consolidated interim financial statements. All IFRS transition differences that resulted in an adjustment to the Company's Statement of Financial Position, at November 1, 2010 and October 31, 2011 and Statements of Operations and Comprehensive Income for the quarters ended January 31, 2011, April 30, 2011 and July 31, 2011 as well as the year ended October 31, 2011 are as follows:

### **Share-based Payment Transactions**

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

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

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

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

Under both CICA 3870 and IFRS 2, the treatment of awards to non-employees differs in some respects from that to employees. IFRS 2 generally measures awards to non-employees based on the fair value of the goods and services received, except in the "rare cases" where this cannot be measured, when the fair value of the equity instruments granted is used. CICA 3870 measures the awards based on the fair value of the equity instruments granted, if they are tradable. This change in accounting policy has resulted in an increase to operating expenses of \$25,277 as at April 30, 2011 and increase to contributed surplus as at April 30, 2011.

### **Flow through Shares**

#### Flow through Share Premiums

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

### Tax Impact of Renounced Expenditures

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