

SILVER SPRUCE RESOURCES INC. SECOND QUARTER REPORT

To Our Shareholders

Silver Spruce Resources Inc. (the "Company") is a junior mineral exploration company. On November 7, 2003, the Company signed an Arms Length Letter of Intent to acquire all of the issued and outstanding shares of Synxx Synfuels Inc. ("Synxx") and Ethxx International Inc. ("Ethxx"). The transaction will constitute a Change of Business and a Reverse Take-Over under the policies of the TSX Venture Exchange. If the transaction closes, it is expected that the Company will dispose of its mineral properties. Notwithstanding the fact that the time periods as set out in the Letter of Intent have lapsed and no formal definitive agreement has been signed, the parties have continued to work towards closing. The delay in signing a definitive agreement and in making the regulatory application for approval of the transaction has been caused by the delay in obtaining audited financial statements of Ethxx. The consideration to be paid for all of the issued and outstanding shares of Synxx and Ethxx shall be \$11,550,000 payable by issuance of 33,000,000 common shares of the Company (\$0.35 per common share). The pricing was agreed upon using a concurrent financing valuation. The Letter of Intent contemplates that the price may be reduced, at the discretion of the Synxx and Ethxx shareholders if the valuation is not acceptable to the TSX Venture Exchange or if acceptable to the TSX Venture Exchange only upon imposition of escrow terms which are unacceptable to the Synxx and Ethxx shareholders or by reason of adverse tax consequences provided that the number of shares issued to Synxx and Ethxx shareholders does not exceed 33,000,000 shares. The transaction is subject to: (a) satisfactory due diligence reviews; (b) execution of definitive agreements; (c) TSX Venture Exchange approval; (d) shareholder approval, if necessary; (e) sponsorship approval; and (f) a favorable business valuation. Closing is expected to occur prior to August 30, 2004.

On behalf of the Board

Gordon Barnhill
Director, Chief Financial Officer

Halifax, Nova Scotia
June 29, 2004

SILVER SPRUCE RESOURCES INC. MANAGEMENT DISCUSSION AND ANALYSIS FOR THE 6 MONTHS ENDED APRIL 30, 2004

DISCUSSION OF OPERATIONS AND FINANCIAL POSITION

This discussion and analysis of financial position and results of Silver Spruce Resources Inc. (the "Company") is current as of June 29, 2004 and should be read in conjunction with the Company's unaudited consolidated financial statements of the Company and the notes thereto for the six months ended April 30, 2004 together with the audited consolidated financial statements for the years ended October 31, 2003 and the notes thereto. The consolidated financial statements for the six months ended April 30, 2004 have not been reviewed by the independent external auditors of the Company. Those financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Policies. All dollar figures included therein and in the following discussion and analysis is quoted in Canadian dollars unless otherwise noted. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

1.2 Overall Performance

The Company recorded a net loss of \$63,832 in the second quarter of 2004.

| Three months ended Apr 30 | 2004 | 2003 |
|-----------------------------------|----------|----------|
| Sales Revenue | \$0 | \$0 |
| Costs and expenses | 63,832 | 34,311 |
| Depreciation and amortization | n/a | n/a |
| Income (loss) before income taxes | (63,832) | (34,311) |
| Capital Assets | 8,457 | 10,571 |
| Mineral Rights | 151,000 | 149,000 |
| Cash | 31,529 | 2,203 |

1.3 Selected Financial Information

The following tables set forth selected consolidated financial information of the Company as of the end of each of the last three fiscal years in the period ended October 31, 2003.

| ANNUAL FINANCIAL DATA | | | | | | |
|---|--|--|--|------------|----------|-----------|
| Cdn \$ thousands except for share data | | | | | | |
| | | | | 2003 | 2002 | 2001 |
| Revenues (\$) | | | | 0 | 0 | 0 |
| Net income(loss) before discontinued operations (\$) | | | | (91,383) | (43,420) | (191,713) |
| Net Income(loss)(\$) | | | | (91,383) | (43,420) | (191,713) |
| Weighted average common shares outstanding | | | | | | |
| Total Assets | | | | 165,243 | 165,311 | 166,913 |
| Long term Liabilities | | | | n/a | n/a | n/a |
| Net income(loss) before discontinued operations per common share – Basic and diluted (\$/share) | | | | (0.021) | (0.036) | (0.016) |
| Net income(loss) per common share – Basic and diluted (\$/share) | | | | (0.021)(1) | (0.036) | (0.016) |

Note: (1) the common shares of the Company were consolidated on a 8 old for 1 new basis October 22, 2003.

1.4 Operating Activities

Results of Operations

For the 6 months ended April 30, 2004, Silver Spruce Resources Inc. incurred a loss of \$63,832, as compared to a loss of \$34,311 for the same period in 2003. The loss for the second quarter was driven by professional and application fees associated with the acquisition of all of the issued and outstanding shares of Synxx Synfeuls Inc. (“Synxx”) and Ethxx International Inc. (“Ethxx”). No funds were spent on mineral exploration.

Revenues for the second quarter of 2004 were nil.

General and Administrative Expenses totaled \$63,832 for the second quarter.

Depreciation and amortization was not accrued for the second quarter.

Income taxes are calculated based on the expected tax treatment of the transactions recorded in the Company’s consolidated financial statements. The Company has tax losses carry forward which may be applied to reduce future taxable income of the Company. As virtual certainty does not exist on the ability to use these losses before expiry, a recovery amount has not been recorded in the financial results of the Company.

1.5 Summary of Quarterly Results

| QUARTERLY FINANCIAL DATA | | Quarter ended | | | | | | | | |
|---|--|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cdn \$ except for share data | | Apr-04 | Jan-04 | Oct-03 | Jul-03 | Apr-03 | Jan-03 | Oct-02 | Jul-02 | Apr-02 |
| Revenues (\$) | | 0 | 2,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net income(loss) before discontinued operations (\$) | | (63,832) | (14,244) | (108,883) | (40,252) | (34,311) | (8,196) | (43,420) | (26,491) | (25,000) |
| Net Income(loss) (\$) | | (63,832) | (14,244) | (91,383) | (40,252) | (34,311) | (8,196) | (43,420) | (26,491) | (25,000) |
| Net income(loss) before discontinued operations per common share Basic and diluted (\$/share) | | (0.014) | (0.003) | (0.021) | (0.0033) | (0.0028) | (0.0007) | (0.036) | (0.002) | (0.002) |
| Net income(loss) per common share Basic and diluted (\$/share) | | (0.014) | (0.003) | (0.021) | (0.0033) | (0.0028) | (0.0007) | (0.036) | (0.002) | (0.002) |

1.6 Liquidity

At April 30, 2004 the Company had a positive working capital of \$2,309 and accounts payable of \$49,613. The Company raised \$140,000 during the quarter by issuance of 400,000 Units at \$0.35 per Unit (Series II). Each Series II Unit consisted of 1 common share and 1 common share purchase warrant. The exercise price for the Company's common share purchase warrants is \$0.50 per common share exercisable at any time up until 2 years from closing. Additional funds will be required to fund the approval by TSX Venture Exchange (estimated to be at least \$85,000 including sponsorship costs, accounting costs, valuation costs, professional fees and TSX Venture filing costs) In addition, it is expected that the Company will raise an additional \$900,000 - \$1,000,000 to fund the obligations to Synxx and Ethxx. The Company expects to raise the funds by private placement at \$0.35 per Unit (Series III). Each Series III Unit shall consist of 1 common share and 1 common share purchase warrant. The exercise price for the Company's Series III common share purchase warrants will be \$0.50 per common share exercisable at any time up until 2 years from closing. The funds are to be used to repay debt and for working capital of Synxx and Ethxx.

1.7 Capital Resources

The Company has no commitments for capital expenditures. Technically, the Company may have obligations for capital expenditures as a result of its agreement with Share Resources Ltd., United Carina Gold Corp and Consolidated Pine Channel Gold Corp to develop claims 134434S and 134435S in Saskatchewan. There are no present plans to expend funds on these properties at this time.

1.8 Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

1.9 Transactions with Related Parties

During the period from February 1, 2004 to April 30, 2004, there were no related party transactions other than as described below. Lloyd Hillier exercised 40,000 warrants at \$0.15/share and paid \$6,000 cash. In addition, there remains an obligation to issue 10,000 pre consolidated common shares to Krinor Resources Inc, a corporation owned or controlled by Peter Dimmell relating to a property acquisition agreement. These transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

1.11 Proposed Transactions

On November 7, 2003, the Company signed an Arms Length Letter of Intent to acquire all of the issued and outstanding shares of Synxx and Ethxx. The transaction will constitute a Change of Business and a Reverse Take-Over under the policies of the TSX Venture Exchange. If the transaction closes, it is expected that the Company will dispose of its mineral properties. The consideration to be paid for all of the issued and outstanding shares of Synxx and Ethxx shall be \$11,550,000 payable by issuance of 33,000,000 common shares of the Company (\$0.35 per common share). The Letter of Intent contemplates that the price may be reduced, at the discretion of the Synxx and Ethxx shareholders if the valuation is not acceptable to the TSX Venture Exchange or if acceptable to the TSX Venture Exchange only upon imposition of escrow terms which are unacceptable to the Synxx and Ethxx shareholders or by reason of adverse tax consequences provided that the number of shares issued to Synxx and Ethxx shareholders does not exceed 33,000,000 shares. The transaction is subject to: (a) satisfactory due diligence reviews; (b) execution of definitive agreements; (c) TSX Venture Exchange approval; (d) shareholder approval, if necessary; (e) sponsorship approval; and (f) a favorable business valuation. Closing is expected to occur prior to August 30, 2004. In addition, if the transaction closes, options to acquire common shares of the Company will be granted at an exercise price of \$0.35 per common share shall be granted to the following directors: Lloyd Hillier 150,000 shares, Peter Dimmell 150,000 shares and Gordon Barnhill 100,000 shares. Options to acquire common shares of the Company at an exercise price of \$0.35 per common share shall be granted to the following consultants: Ian McGavney 150,000 shares, Jack Courage 50,000 shares and George Rodgers 50,000 shares.

1.12 Critical Accounting Estimates

There are no critical accounting estimates.

1.13 Changes in Accounting Policies including Adoption

There have been no changes in accounting policies for the interim fiscal period ended April 30, 2004.

1.14 Financial Instruments

The Company's significant financial and other instruments have not materially changed since January 31, 2004.

1.15 Other MD&A Requirements

Any additional information for the Company can be found on SEDAR at www.sedar.com.

Disclosure of Outstanding Share Data

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of the end of June 29, 2004 there were 4,421,563 common shares issued and outstanding. The sum of 40,000 common shares were erroneously issued to Lloyd Hillier a director and officer. Such shares will be returned for cancellation by Mr. Hillier and have not been recorded in the interim financial statements as being issued. As of June 29, 2004, there are no stock options outstanding. As of June 29, 2004, there were following outstanding warrants to purchase common shares:

- (a) 875,000 warrants exercisable at \$0.15 per share until October 22, 2005; and
- (b) 400,000 warrants exercisable at \$0.50 per share until May 2006.

Business Risks and Outlook

The Company has experienced significant losses as a result of its exploration program. In the event that the Company is unable to purchase all of the shares of Synxx and Ethxx, Silver Spruce's continued existence is dependent on its ability to raise additional

capital in order to financial future exploration activities. Because the Company is not spending funds on mineral exploration it is likely some of the Company's mineral property rights will be forfeited.

CAUTIONARY STATEMENT

This MD&A contains "forward looking statements" that reflect Silver Spruce Resources Inc.'s current expectations about its future results. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A, or otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. Silver Spruce Resources Inc. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Gordon Barnhill
Director and Chief Financial Officer

Halifax, Nova Scotia
June 29, 2004

SILVER SPRUCE RESOURCES INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED APRIL 30, 2004

NOTICE TO READER

Management of Silver Spruce Resources Inc. have compiled the consolidated balance sheet as at April 30, 2004 and the consolidated statements of loss and deficit, and consolidated statement of changes in financial position for the period then ended from information. These statements have not audited, reviewed, or otherwise verified by the Company's external auditor as to the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Halifax, Nova Scotia
June 29, 2004

Signed "Gordon Barnhill"
Gordon Barnhill, Chief Financial Officer

SILVER SPRUCE RESOURCES INC.

CONSOLIDATED BALANCE SHEET

APRIL 30, 2004

| | <u>ASSETS</u> | |
|--|--------------------|--------------|
| | \$ | \$ |
| | Oct 31, 2003 | Apr 30, 2004 |
| Current | | |
| Cash | 533 | 31,529 |
| Accounts receivable | 5,053 | 6,698 |
| Deposits and prepaid expenses | 200 | 200 |
| <u>Loan receivable</u> | - | 13,565 |
| | 5,786 | 51,922 |
| MINERAL PROPERTY ACQUISITION COSTS | 151,000 | 151,000 |
| <u>CAPITAL ASSETS (NOTE 4)</u> | 8,457 | 8,457 |
| | \$ 165,243 | 211,449 |
| | | |
| | <u>LIABILITIES</u> | |
| Current | | |
| <u>Accounts payable and accrued liabilities (Note 4)</u> | 30,102 | 49,613 |
| | 30,102 | 49,613 |
| | | |
| | <u>EQUITY</u> | |
| Capital Stock (Note 5) | | |
| Authorized | | |
| Unlimited common voting shares | | |
| Unlimited preferred shares | | |
| Issued – 4,738,010 common shares (2003 – 11,972,500 – pre 8 old for 1 new consolidation) | 1,490,317 | 1,595,088 |
| Deficit | (1,355,176) | (1,433,252) |
| | 135,141 | 161,836 |
| | | |
| | \$ 165,243 | 211,449 |

ON BEHALF OF THE BOARD

Signed "Gordon Barnhill" _____ Director
Gordon Barnhill

See accompanying notes

SILVER SPRUCE RESOURCES INC.
CONSOLIDATED STATEMENT OF LOSS AND DEFICIT
SIX MONTHS ENDED APRIL 30, 2004

| | Apr 30, 2003 | Apr 30, 2004 |
|--------------------------------|--------------|--------------|
| | \$ | \$ |
| INCOME | - | - |
| EXPENSES | | |
| Loan interest | 3,562 | - |
| TSX Venture exchange | 8,178 | 7,175 |
| CIBC Mellon | 2,735 | 3,258 |
| Bank charges | 26 | 84 |
| Professional fees | 19,810 | 47,915 |
| Office expenses | - | 5,400 |
| NET LOSS | 34,311 | 63,832 |
| DEFICIT, BEGINNING OF PERIOD | 1,263,793 | 1,369,420 |
| DEFICIT, END OF PERIOD | \$ 1,298,104 | 1,433,252 |
| LOSS PER COMMON SHARE (Note 6) | | |
| Basic and diluted | \$ 0.0028* | .014 |

* Based on pre consolidation calculation

SILVER SPRUCE RESOURCES INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

SIX MONTHS ENDED APRIL 30, 2004

| NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES : | Apr 30, 2003 \$ | Apr 30, 2004 \$ |
|--|--------------------|--------------------|
| OPERATING | | |
| Net Loss | (34,311) | (63,832) |
| Items not affecting cash | | |
| Depreciation and amortization | - | - |
| | (34,311) | (63,832) |
| Changes in non-cash operating working capital items | - | - |
| | (34,311) | (63,832) |
| INVESTING | | |
| Purchase of capital assets | - | - |
| Purchase of mineral property rights | - | - |
| Loan receivable | - | (13,565) |
| | - | (13,565) |
| FINANCING | | |
| Issuance of common shares | - | 96,750 |
| Costs of issuing shares | - | (9,229) |
| (Reduction) Increase in accounts payable | 4,311 | 19,535 |
| Issuance of warrants | - | 6,000 |
| Debt advances | 30,000 | - |
| (Reduction) Increase in accounts receivable | 2,047 | (6,698) |
| | 36,358 | 106,358 |
| (DECREASE) INCREASE IN CASH | 2,047 | 28,961 |
| CASH, BEGINNING OF PERIOD | 156 | 2,568 |
| CASH, END OF PERIOD | \$ 2,203 | 31,529 |

SILVER SPRUCE RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED APRIL 30, 2004

1. DESCRIPTION OF BUSINESS

Silver Spruce Resources Inc. is a public company and was incorporated under the Business Corporations Act of the Province of Alberta on May 8, 1996 as First Labrador Acquisitions Inc. It changed its name on October 22, 2003. The Company's principal activity is the acquisition, exploration and development of mineral properties.

2. ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal period ended October 31, 2003 and as such the interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

3. CONTINUATION OF BUSINESS

The financial statements have been prepared on the basis of accounting principles applicable to a going concern, that is, that assets can be realized and liabilities discharged in the normal course of business. As of April 30, 2004, the Company had a working capital surplus of \$ 2,309 and incurred a year to date loss of \$ 78,076. The Company has experienced significant losses as a result of its exploration program. The Company's continued existence is dependent on its ability to raise additional capital in order to financial future exploration activities. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported net earnings, and the balance sheet classifications used.

4. RELATED PARTY TRANSACTIONS

During the period from November 1, 2003 to April 30, 2004 there were no related party transactions other than as described below. There was \$ 11,178.78 owing to Lloyd Hillier (President and Director) as of October 31, 2003. These sums were reflected in the accounts payable as they related mostly to monies paid on behalf of the Corporation by Lloyd Hillier. The debts along with \$ 132.22 of another creditor were exchanged for 75,000 shares at \$ 0.15 / share upon exercise of warrants. During the quarter ended April 30, 2004, Lloyd Hillier exercised 40,000 warrants at \$ 0.15 per share for \$ 6,000. In addition there remains an obligation to issue 10,000 pre consolidated common shares to Krinor resources Inc, a corporation owned or controlled by Peter Dimmell relating to a property acquisition agreement.

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

SILVER SPRUCE RESOURCES INC.

NOTES TO THE FINANCIAL STATEMENTS

SIX MONTHS ENDED APRIL 30, 2004

5. CAPITAL STOCK

Authorized

An unlimited number of common shares of one class

An unlimited number of preferred shares

(a) Common shares

| | April 30, 2004 unaudited | |
|-------------------------------------|-----------------------------|---------------|
| | # of Shares | Consideration |
| Issued | | |
| Common shares | | |
| Balance, beginning of period | 4,346,563 | \$ 1,490,317 |
| Issued for cash (net of issue cost) | 351,447 | 104,771 |
| Warrants exercised | 40,000 | 6,000 |
| | | |
| Balance, end of period | 4,738,010 | 1,595,088 |
| | | |

(b) Preferred shares

The preferred shares may be issued in one or more series, and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series. No preferred shares have been issued.

The Company has established stock option plans for the purpose of granting incentive common share options primarily to directors, officers, employees and consultants of the Company. There are no options outstanding. Warrants to purchase 835,000 common shares up until October 22, 2005 for \$ 0.15 / share.

6. PER SHARE INFORMATION

Both the basic loss per share and diluted per share are calculated using the weighted average number of shares outstanding during the period. The weighted average number of shares outstanding for the three month period ended April 30, 2004 was 4,526,712 (three month ended April 30, 2003 was 11,972,500 – pre 8 old for 1 new consolidation). There were no outstanding options during the period. There were 835,000 warrants outstanding.