

**Silver Spruce Resources Inc.**  
**Management Discussion & Analysis**  
**For the Six Months Ended April 30, 2006**

Containing information up to and including June 15, 2006

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the Silver Spruce Resources Inc. (the "Company") financial statements. The information provided herein should be read in conjunction with the Company's unaudited financial statements and notes for the six months ended April 30, 2006 and 2005. The following comments may contain management estimates of anticipated future trends, activities or results. These are not a guarantee of future performance, since actual results could change based on other factors and variables beyond management control.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review Company statutory filings on [www.sedar.com](http://www.sedar.com) and to review general information including reports and maps on the Company's website at [www.sse-tsx.com](http://www.sse-tsx.com).

**DESCRIPTION OF BUSINESS AND OVERVIEW**

The Company is a mineral exploration company engaged in the acquisition and exploration of mineral properties (primarily uranium, base and precious metals). The Company's business is focused on the exploration and evaluation of various mineral deposits in the Province of Newfoundland and Labrador. The company does not have any producing mineral properties at this time.

**SELECTED QUARTERLY INFORMATION**

Selected financial indicators for the past nine quarters are shown in the following table:

	<b>April 06 Quarter</b>	Jan.06 Quarter	Oct. 05 Quarter	July 05 Quarter	<b>April 05 Quarter</b>	Jan. 05 Quarter	Oct. 04 Quarter	July 04 Quarter	<b>April 04 Quarter</b>
Total Revenue	<b>15,067</b>	Nil	Nil	Nil	<b>Nil</b>	Nil	Nil	Nil	<b>Nil</b>
Earnings (loss) for the period	<b>(361,121)</b>	(453,524)	(12,272)	(27,100)	<b>(48,647)</b>	(46,710)	(37,968)	(42,792)	<b>(64,155)</b>
Earnings (loss) per Share (Basic & Diluted)	<b>(0.026)</b>	(0.039)	(0.011)	(0.005)	<b>(0.009)</b>	(0.009)	(0.009)	(0.009)	<b>(0.003)</b>
Total Assets	<b>1,428,698</b>	1,376,684	559,406	241,838	<b>242,324</b>	244,539	242,090	165,243	<b>242,324</b>
Total long-term liabilities	<b>Nil</b>	Nil	Nil	Nil	<b>Nil</b>	Nil	Nil	Nil	<b>Nil</b>
Cash dividends declared	<b>Nil</b>	Nil	Nil	Nil	<b>Nil</b>	Nil	Nil	Nil	<b>Nil</b>

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**Results of Operations for the three months ended April 30, 2006 and three months ended April 30, 2005**

For the three months ended April 30, 2006, the Company incurred a net loss of \$ 361,121 (loss per share - \$ 0.026) compared to a net loss of \$ 53,035 (loss per share - \$0.001) for the same period in the prior year. The loss is comprised of revenues of \$ 15,067 minus the general and administrative expenses of \$ 375,690 (2005 - \$ 53,035) and amortization expense of \$ 498 (2005 - \$ Nil).

In the three month period ended April 30, 2006 compared to the same period in prior year, the Company increased its exploration, administration and financing activities by hiring new consultants and contractors. Additional administration, accounting and management time was required as the Company became more active. As a result, the Company's operating expenses increased by \$ 323,153 in the three months ended April 30, 2006 compared to the same period of 2005. The major expense categories were stock based compensation \$ 51,614 (2005 - \$ Nil); consulting fees of \$ 107,600 (2005 - \$ 3,000); management fees \$ 41,001 (2005 - \$ 16,757); legal fees \$ 44,629 (2005 - \$ 19,456); travel expenses \$ 5,086 (2005 - \$ Nil); loss in fair market value of investment \$ 59,500 (2005 - \$ Nil); amortization \$ 498 (2005 - Nil); and office and miscellaneous expenses \$ 66,260 (2005 - \$ 13,822).

During the three months ended April 30, 2006, the Company spent a total of \$ 252,632 on its properties compared to \$ 5,582 incurred during the three months ended April 30, 2005.

**Results of Operations for the six months ended April 30, 2006 and six months ended April 30, 2005**

For the six months ended April 30, 2006, the Company incurred a net loss of \$ 814,645 (loss per share - \$ 0.067) compared to a net loss of \$ 99,765 (loss per share - \$0.019) for the same period in the prior year. The loss is comprised of revenues of \$ 15,067 minus the general and administrative expenses of \$ 813,853 (2005 - \$ 99,765) and amortization expense of \$ 792 (2005 - \$ Nil).

In the six month period ended April 30, 2006 compared to the same period in prior year, the Company increased its exploration, administration and financing activities by hiring new consultants and contractors. Additional administration, accounting and management time was required as the Company became more active. As a result, the Company's operating expenses increased by \$ 729,947 in the three months ended April 30, 2006 compared to the same period of 2005. The major expense categories were stock based compensation \$ 316,022 (2005 - \$ Nil); consulting fees of \$ 185,350 (2005 - \$ 10,500); management fees \$ 51,501 (2005 - \$ 27,257); legal fees \$ 103,619 (2005 - \$ 34,304); travel expenses \$ 9,429 (2005 - \$ 9431); loss in fair market value of investment \$ 59,500 (2005 - \$ Nil); amortization \$ 792 (2005 - Nil); and office and miscellaneous expenses \$ 103,499 (2005 - \$ 26,761).

During the six months ended April 30, 2006, the Company spent a total of \$ 321,082 on its properties compared to \$ 5,582 incurred during the three months ended April 30, 2005.

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**NEWFOUNDLAND AND LABRADOR**

The Company has acquired 7,013 claims with uranium potential in the Central Mineral Belt (CMB), Seal Lake, Double Mer, Mount Benedict and the Straits areas of Newfoundland and Labrador up to March 27, 2006. The Company has entered into an option agreement with Universal Uranium Ltd. to fund the costs of exploration on 4,963 of the claims in the CMB and Seal Lake areas. Universal has to spend \$ 2,000,000 prior to April 1, 2008 to acquire a 60% ownership in these claims.

In each of past nine quarters, the Company incurred the following expenditures on exploration of properties:

Expressed in \$	April 06 Quarter	Jan.06 Quarter	Oct. 05 Quarter	July 05 Quarter	April 05 Quarter	Jan. 05 Quarter	Oct. 04 Quarter	July 04 Quarter	April 04 Quarter
Seal Lake	763	24,878	25,206	Nil	Nil	Nil	Nil	Nil	Nil
Central Mineral Belt	1,094	8,891	21,999	Nil	Nil	Nil	Nil	Nil	Nil
Double Mer	50,268	7,755	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Mount Benedict	26,992	4,920	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Straits	52,080	8,000	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Reid Lot 50	(6,500)	3,031	(25,092)	Nil	5,582	Nil	Nil	Nil	Nil
Motherlode	127,683	10,525	18,288	Nil	Nil	Nil	Nil	Nil	Nil

**PROPERTIES - URANIUM**

Central Mineral Belt

The Central Mineral Belt properties, acquired by staking and now part of the Silver Spruce/Universal Uranium option agreement, are located in the Postville-Makkovik area of Labrador, approximately 150 kilometers northeast of Happy Valley-Goose Bay. The properties consist of 2,494 map-staked claims of 25 hectares each (623.5 km<sup>2</sup>) in 10 separate blocks and 32 licenses.

They cover uranium in lake sediment anomalies located by the Newfoundland and Labrador government with anomalous values ranging from 8 to 98 ppm, with many in the 20 to 70 ppm range, against a background of <5 ppm, hosted in felsic volcanic, sedimentary and plutonic rocks, with potential for unconformity style uranium deposits similar to those in the Athabasca Basin, iron oxide copper gold such as the Olympic Dam or shear hosted style uranium deposits such as the Michelin deposit being evaluated by Aurora Energy.

Seal Lake

The Seal Lake properties are included in the Universal Uranium option agreement, and consist of 2,469 map-staked claims of 25 hectares each (617.25 km<sup>2</sup>) in three separate blocks in 38 licenses located in the Naskaupi River area to the west of Postville-Makkovik, approximately 150 kilometers to the northwest of Happy Valley-Goose Bay. The claims cover extensive copper mineralization in mafic volcanic units and uranium in lake sediment anomalies located by the

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Newfoundland and Labrador government with anomalous values ranging from 10 to 213 ppm against a background of <5 ppm. The only recorded uranium exploration was by Brinex in the period from 1960 to 1970's, who carried out regional radiometric surveys at minimum flight line intervals of 400 m. Weak radiometric anomalies were found but had only limited follow up.

Occurrences of copper, silver, uranium, nickel, platinum group elements, cobalt and titanium-vanadium & other rare earth elements are noted in the Seal Lake area. Copper occurrences are similar to the White Pine, Calumet-Hecla and Kearsarga deposits in Michigan and are found throughout the area with the majority of the occurrences located to the south of Seal Lake, extending from the east end of Whisky Lake to the western end of Adeline Lake, and from Seal Lake south to Salmon Lake, a distance of approximately 50 km.

Detailed uranium exploration, similar to that done in the area to the east, has never been carried out in the Seal Lake area; however, uranium has been noted associated with a radioactive conglomerate bed, giving values up to 25 ppm Uranium. Limited exploration consisting of prospecting and stream sediment sampling aimed at evaluation of the copper / gold potential of the area was carried out in the summer of 2005.

In the fall of 2005 limited work ( prospecting 20 rock samples and 4 stream sediment samples ) in the area northwest of Bessie Lake, where a 213 ppm uranium in lake sediment is noted was carried out. One stream sediment, gave 34 ppm uranium. The anomalous uranium lake bottom anomalies or the stream sediment anomaly have not been explained. Additional claims have been acquired in the Seal and Colford Lake areas since this is very limited work.

**Double Mer**

The Double Mer property consists of 758 claims (approx. 190 km<sup>2</sup>), in six licenses, in one contiguous block, located in the Double Mer-Lake Melville area of Labrador, approximately 110 km east of Happy Valley-Goose Bay.

The properties cover strong uranium in lake sediment anomalies located by the Newfoundland and Labrador government with anomalous values ranging from 10 to 470 ppm against a background of approximately 5 ppm hosted in leucogranites of Helikian age. Four values >100 ppm uranium, with two over 400 ppm, are noted in this survey, all of which are covered by the staked properties.

**Previous Work**

In 1978, exploration by the provincial government, which included an airborne radiometric survey and ground follow up, located uranium mineralization in float / outcrop with three values over 0.1 % U<sub>3</sub>O<sub>8</sub>, including a value of 0.29% U<sub>3</sub>O<sub>8</sub>, from eight samples.

Work by Northgate / Whim Creek Consolidated in 1979-1980, which included ground scintillometer surveys, trenching and diamond drilling, located a number of uranium showings with bulk assays in four trenches ranging from 0.44 to 2.09 lbs uranium per short ton.

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**The Straits**

The Straits property consists of 800 claims (200 km<sup>2</sup>), in four licenses, in one contiguous block, located in the Barge Bay-Henley Harbour area, on the Straits of Belle Isle, approximately 300 km southeast of Happy Valley-Goose Bay.

The claims cover uranium in lake sediment anomalies located by the Geological Survey of Canada with anomalous values ranging from 10 to 239 ppm against a background of 5 ppm (97 percentile - 28 ppm), associated with copper values over 75 ppm (99 percentile) against a background of <20 ppm, associated with a north-northwest trending fault structure.

Previous Work

There is little documented exploration work for this area. The Newfoundland and Labrador Government, Department of Natural Resources, in their evaluation of prospective exploration sites in Labrador, considers the area to show potential for Iron Oxide copper gold (IOCG) deposits in the area based on coincident anomalous copper / molybdenum / uranium / gold values in the lake sediments, associated with supracrustal units (proterozoic felsic volcanics) localized in later faults or unconformities in the area. Mineral occurrences of pyrite, malachite and molybdenite are known. The lake sediment anomalies remain unexplained.

**Mount Benedict**

The Mount Benedict property consists of 492 claims (123 Km<sup>2</sup>), in seven licenses, in four separate blocks, located in the Mount Benedict area, approximately 180 km northeast of Happy Valley-Goose Bay.

The properties cover uranium in lake sediment anomalies located by the Newfoundland and Labrador government with anomalous values ranging from 10 to 87 ppm against a background of <5 ppm hosted mainly in felsic plutonic rocks of the Benedict Mountains Suite with some felsic supracrustal units. Aillik Group units, the host for the Michelin Deposit of Aurora Energy are noted in previous work.

Previous Work

Brinex carried out exploration over their mineral concession in the area in the 1950s and 60s. In 1978, the area became part of a Placer Development-Brinex joint venture that included geological mapping and a combined radiometric-VLF-EM survey that located anomaly B-22 associated with Aillik Group metavolcanics in the Burnt Island area. Assays were generally weak with values to a maximum of 200 to 400 ppm uranium. Further prospecting and diamond drilling to test the anomaly at depth was recommended but not carried out. The anomalous uranium lake bottom anomalies have not been explained.

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**PROPERTIES - GOLD**

**Mother Lode**

The Mother Lode property consists of 168 map staked claims (42 km<sup>2</sup>), in seven licenses, in one contiguous block, located in the eastern part of the southern Burin Peninsula west of Placentia Bay, near the abandoned community of Corbin. The property was acquired by option from a local prospector in December, 2005.

One hundred thirty five (135) lake bottom samples were taken over the property in the winter of 2006. Thirteen (13) anomalous samples (> 2 ppb) were located with the highest 29 ppb Au. Three (3) values are 10 ppb or greater. The anomalies are located to the north and south of the known mineralization and remain unexplained. Follow up, which is ongoing, consists of regional prospecting and a 15.6 line km grid, at 050 degrees, placed over the known mineralized area and extending to the north and south along trend. Soil geochemistry, prospecting and geological mapping is being carried out on the grid. Positive results will result in trenching and drilling later this summer / fall.

**LIQUIDITY, FINANCINGS AND CAPITAL RESOURCES**

**Liquidity**

During the 3 month period ending April 30, 2006 the company started a major undertaking to raise capital of \$ 4,690,000 thru the issuance of shares. The private placement closed in May 2006 ( read subsequent events for details ). Proceeds will be used to meet general working capital needs and the balance to sustain future exploration and development costs as they occur.

The Company had cash on hand of \$ 351,074 as of April 30, 2006 (April 30, 2005 - \$ 902). The Company currently has sufficient cash resources to meet its ongoing obligations as they become due. The working capital / (deficiency) at April 30, 2006 was \$ 319,802 (April 30, 2005 – \$ (145,471)).

The Company had cash on hand of \$ 562,113 as of January 31, 2006 (January 31, 2005 - \$ 2,028). The Company currently has sufficient cash resources to meet its ongoing obligations as they become due. The working capital / (deficiency) at January 31, 2006 was \$ 568,883 (January 31, 2005 - \$ (137,024)).

**Capital Resources**

The Company's authorized capital consists of unlimited number of common and preference shares without par value. At April 30, 2006 the Company had 14,010,814 issued and outstanding common shares (April 30, 2005 – 5,156,564 issued and outstanding common shares), and at June 15, 2006, the Company had 22,829,938 issued and outstanding common shares.

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**Subsequent Events**

In May 2006, 155,000 stock options were issued to a director of the corporation, under the Stock Option Plan.

On May 18, 2006, the Company closed a brokered private placement which consists of 8,751,000 units of which 4,800,000 were flow through at \$0.60 per unit with each unit consisting of one common share and one common share purchase warrant and 3,951,000 were non flow through at \$0.50 per unit with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at \$ 0.65 until November 18, 2007.

Brokered agents commissions including 331,000 non flow thru units, cash of \$ 162,800 and 757,800 options were paid to various agents. Each option entitles the holder to purchase one common share of the Company at \$ 0.65 until November 18, 2007. In addition to the shares and cash issued to the agents the company also incurred \$ 120,460 in costs and expenses.

**Related Party Transactions**

The Company entered into transactions with related parties as follows:

Included in accounts payable and accrued liabilities as at April 30, 2006 is \$ 14,952 (2005 - \$10,500) owing to directors of the Company.

During the six months ending April 30, 2006 a director of the Company was reimbursed \$ 390,724 (2005 - Nil) for services and expenses spent on the Company's behalf. A second director was paid \$ 28,650 (2005 - Nil) for services and expenses spent on the Company's behalf. A third director was paid \$ 27,606 (2005 - \$ 43,405) for services and expenses spent on the Company's behalf.

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

**Contingent Liabilities**

On January 13, 2006 the company entered into an agreement to purchase 168 gold claims in approximately 4,200 hectares of land called the Motherlode Gold property located in the province of Newfoundland, for \$ 55,000.00 cash and 200,000 shares, payment as follows: year one \$ 25,000 cash and 150,000 shares with a value of \$ 0.76 each totaling \$ 114,000 ( already paid ), year two cash payment of \$ 15,000.00 and deliver of 25,000 shares and year three cash payment of \$ 15,000.00 and deliver of 25,000 shares. If either party terminates the agreement, then any unpaid amounts and undelivered shares will be forfeited.

During the six month period ending April 30, 2006, the Board of Directors agreed to pay a finders fee of 265,000 shares at a value of \$ 0.50 per share to an agent of the company upon a successful consummation of a contract to joint venture it's uranium exploration and development within the regions of Central Mineral Belt and Seal Lake with Universal Uranium Ltd. On January 17, 2006 a contract was executed and signed by both parties. Upon the company receiving a deposit from Universal Uranium Ltd., it agreed to release 165,000 shares leaving a balance of 100,000 shares to be paid at a later date. If either party terminates the agreement then any and all undelivered shares will be forfeited.

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On February 28, 2006 the company entered into an option and royalty agreement on The Double Mer Property which allows the company to own the 758 claims in six licenses outright. Terms of the agreement is that Silver Spruce Resources paid \$ 12,000 on execution of the agreement and pay \$ 12,000 on each of February 28, 2007 and 2008. In addition a 1 % Net Smelter Return royalty (NSR) is payable derived from commercial production from the property. If the company terminates the agreement by abandoning the property the other party has the option to re license the claims, at his cost, in his own name. Any unpaid monies will be forfeited.

On March 15, 2006 the company entered into an option and royalty agreement on The Straits Property which allows the company to own the 800 claims in four licenses outright. Terms of the agreement is that Silver Spruce Resources paid \$ 12,000 on execution of the agreement and pay \$ 12,000 on each of March 15, 2007 and 2008. In addition a 1 % Net Smelter Return royalty (NSR) is payable derived from commercial production from the property. If the company terminates the agreement by abandoning the property the other party has the option to re license the claims, at his cost, in his own name. Any unpaid monies will be forfeited.

**Proposed Transactions**

The Company is not contemplating any other transactions, which have not already been disclosed. The Company continues to look at other property acquisitions on a regular basis with emphasis on those areas that it is already working.

**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 previous section.

**Outlook**

The Company's objective is to work aggressively on the exploration of its mineral properties toward resource definition in the Province of Newfoundland and Labrador, Canada.

The company, in combination with Universal Uranium, who is funding the work on the CMB / Seal Lake properties, has a budget of approximately \$ 2.4 M for 2006, with contingent follow up of another \$2 M mainly for diamond drilling to the end of April 2007. This work will consist of an airborne survey costing approximately \$ 1 M covering all the uranium properties in Labrador, follow up on these properties, consisting of prospecting, geological mapping, gridding, ground geophysical and geochemical surveys and trenching and sampling, of approximately \$1 M. The Mother Lode gold property, on the island of Newfoundland, is actively being explored by prospecting, geological mapping, geochemistry, and geophysics to be followed by trenching, sampling and diamond drilling as warranted.

The company is also looking actively for properties of merit that fit the company's criteria for exploration.

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**Forward Looking Statements**

All statements in this report that do not directly and exclusively relate to historical facts constitute forward-looking statements. These statements represent the Company's intentions, plans, expectations and beliefs, and are subject to risks, uncertainties, and other factors of which many are beyond the control of the Company. These factors could cause actual results to differ materially from such forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, as a result of new information, future events or otherwise.

**SILVER SPRUCE RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2006**

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**NOTICE TO READER OF THE INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS**

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The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these consolidated financial statements and other sections of this report. These consolidated financial statements have not been reviewed by the auditors of Silver Spruce Resources Inc.

"Signed"  
Gordon Barnhill  
Director  
June 15,2006

"Signed"  
Lowell Weir  
Director  
June 15, 2006

**SILVER SPRUCE RESOURCES INC.**  
**Unaudited**  
**CONSOLIDATED BALANCE SHEET**

**ASSETS**

	<b>April 30, 2006</b>	<b>Oct 31, 2005</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>		
Cash	351,074	45,435
HST and other receivables	108,326	18,070
Prepaid expenses	22,842	200
	<hr/>	<hr/>
	482,242	63,705
<b>STAKING DEPOSITS ON MINERAL PROPERTIES</b>	226,575	59,900
<b>INVESTMENTS ( At lower of cost or fair market value )</b>	131,750	191,250
<b>MINERAL PROPERTIES ( Note 3 )</b>	560,534	239,452
<b>EQUIPMENT ( Note 4 )</b>	27,597	5,099
	<hr/>	<hr/>
	<u>1,428,698</u>	<u>559,406</u>

**LIABILITIES**

<b>CURRENT</b>		
Accounts payable and accrued liabilities	65,842	129,675
Prepaid exploration expense	96,598	-
	<hr/>	<hr/>
	162,440	129,675

**SHAREHOLDERS' EQUITY**

<b>CAPITAL STOCK ( Note 5(a) )</b>	2,913,712	1,902,237
<b>WARRANTS ( Note 5(b) )</b>	427,285	103,610
<b>CONTRIBUTED SURPLUS ( Note 5(d) )</b>	390,970	74,948
<b>DEFICIT</b>	(2,465,709)	(1,651,064)
	<hr/>	<hr/>
	1,266,258	429,731
	<hr/>	<hr/>
	<u>1,428,698</u>	<u>559,406</u>

Subsequent events (Note 8 )  
See accompanying notes to the financial statements

**SILVER SPRUCE RESOURCES INC.**  
**Unaudited**  
**CONSOLIDATED STATEMENT OF LOSS AND DEFECIT**

	Three months ended April 30		Six months ended April 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>INCOME</b>				
Management fees	<u>15,067</u>	<u>-</u>	<u>15,067</u>	<u>-</u>
<b>ADMINISTRATIVE EXPENSES</b>				
Legal fees	44,629	19,456	103,619	34,304
Stock based compensation	51,614	-	316,022	-
Management fees	41,001	16,757	51,501	27,257
Consulting fees	107,600	3,000	185,350	10,500
Accounting and auditing	(3,750)	5,355	5,070	6,105
Shareholders' expense	41,336	3,800	48,335	8,067
Loss in market value of investment	59,500	-	59,500	-
Stock exchange fees	8,527	1,733	15,518	4,332
Telephone	3,199	1,493	6,474	2,835
Office and general	14,944	460	24,207	3,455
Occupancy costs	1,900	900	3,700	1,800
Travel	5,086	-	9,429	943
Bank Charges	104	81	195	167
Depreciation	498	-	792	-
	<u>376,188</u>	<u>53,035</u>	<u>829,712</u>	<u>99,765</u>
<b>NET LOSS FOR THE PERIOD</b>	361,121	53,035	814,645	99,765
<b>DEFICIT</b> , beginning of period	<u>2,104,588</u>	<u>1,563,065</u>	<u>1,651,064</u>	<u>1,516,335</u>
<b>DEFICIT</b> , end of period	<u>2,465,709</u>	<u>1,616,100</u>	<u>2,465,709</u>	<u>1,616,100</u>
<b>NET LOSS PER SHARE – Basic</b>	<u>0.026</u>	<u>0.001</u>	<u>0.067</u>	<u>0.019</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<u>13,878,342</u>	<u>5,279,564</u>	<u>12,206,173</u>	<u>5,279,564</u>

See accompanying notes to the financial statements

## Unaudited

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended April 30		Six months ended April 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>CASH FLOWS (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net (loss) for the period	(361,121)	(53,035)	(814,645)	(99,765)
Operating items not involving cash :				
Stock – based compensation	51,614	-	316,022	-
Loss in fair market value of investment	59,500	-	59,500	-
Amortization	498	-	792	-
	<u>(249,509)</u>	<u>(53,035)</u>	<u>(438,331)</u>	<u>(99,765)</u>
(Increase) decrease in working capital	<u>38,042</u>	<u>47,901</u>	<u>(246,808)</u>	<u>77,435</u>
Cash flows (used in) operating activities	<u>(211,467)</u>	<u>(5,134)</u>	<u>(685,139)</u>	<u>(22,330)</u>
<b>CASH FLOWS FROM</b>				
<b>FINANCING ACTIVITIES</b>				
Issuance of shares for cash	79,500	(980)	893,025	12,800
Issuance of warrants for cash	-	12,900	344,475	19,490
Issuance of shares for debt	196,500	-	196,500	-
Share issue costs	-	(2,330)	(98,850)	(3,930)
Cash flows from financing activities	<u>276,000</u>	<u>9,590</u>	<u>1,335,150</u>	<u>28,360</u>
<b>CASH FLOWS FROM</b>				
<b>INVESTING ACTIVITIES</b>				
Expenditures on mining interest	(252,632)	(5,582)	(321,082)	(5,582)
Expenditures on equipment	(22,940)	-	(23,290)	-
Cash flows from investing activities	<u>(275,572)</u>	<u>(5,582)</u>	<u>(344,372)</u>	<u>(5,582)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<u>(211,039)</u>	<u>(1,126)</u>	<u>305,639</u>	<u>448</u>
<b>CASH, beginning of period</b>	<u>562,113</u>	<u>2,028</u>	<u>45,435</u>	<u>454</u>
<b>CASH, end of period</b>	<u><u>351,074</u></u>	<u><u>902</u></u>	<u><u>351,074</u></u>	<u><u>902</u></u>
<b>SUPPLEMENTAL INFORMATION</b>				
Interest paid in period	-	-	-	-
Income taxes paid in the period	-	-	-	-

See accompanying notes to the financial statements

Unaudited

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2006

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

Silver Spruce Resources (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 on October 22, 2003. The Company's business is exploration for precious and base minerals.

There has been no determination whether the Company's interest in mineral properties held for exploration contain reserves which are economically recoverable. To date, the Company has earned no revenues from exploration and development and is considered to be in the development stage.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern.

**2. SUMMARY OF ACCOUNTING POLICIES****Principles of Consolidation:**

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, First Labrador Resources Ltd. First Labrador Resources Ltd. is inactive.

**Interest in Mineral Properties:**

Mineral properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit-of-production method based on proven and probable reserves. If a property is subsequently determined to be significantly impaired in value, the property and related deferred costs are written down to their net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

The Company reviews its mineral properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. In reviewing its mineral properties, the Company estimates the future cash flows expected to result from each asset and its eventual disposition. If the sum of the undiscounted, expected future cash flow is less than the carrying value of the asset, an impairment loss is recognized. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

**Equipment and Amortization:**

Equipment is stated at acquisition cost. Amortization is provided on the diminishing-balance basis at the following annual rates:

Equipment	20 %
Computer	30 %

Continued...

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2006

**2. SUMMARY OF ACCOUNTING POLICIES (Continued)****Income Taxes:**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

**Loss Per Share:**

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

**Stock-based Compensation Plan:**

Effective November 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. These recommendations require that compensation for all awards made to non-employees and certain awards made to employees be measured and recorded in the financial statements at fair value. This Section also sets out a fair value based method of accounting for stock options issued to employees and applies to awards granted on or after November 1, 2002. These financial statements do not reflect the effect of stock options granted before November 1, 2002.

Effective November 1, 2004, the Company adopted the revisions to CICA Handbook Section 3870, which require a fair value based method of accounting to be applied to all stock-based compensation arrangements. The fair value of each option is accounted for in operations, over the vesting period of the options, and the related credit is included in contributed surplus.

The Company's stock-based compensation plan is described in Note 5(c).

**Investments**

The company accounts for investments at the lower of cost or fair market value.

Continued...

Unaudited

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2006

**2. SUMMARY OF ACCOUNTING POLICIES (Continued)****Asset Retirement Obligations**

During the course of acquiring and exploring potential exploration properties, the Company must comply with government regulated environmental evaluation, updating and reclamation requirements. The costs of complying with these requirements are capitalized as incurred. The carrying value will be amortized over the life of the related assets on a unit-of-production basis and the related liabilities are accreted to the original value estimate. Asset retirement obligations, if any, cannot be determined at this time and no amount has been recorded in these financial statements.

The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations by regulatory authorities, which affect the ultimate cost of remediation and reclamation. Such charges will be reflected in the accounts of the Company as they arise.

**Use of Estimates:**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the related reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

**3. MINERAL PROPERTIES****Newfoundland**

Balance, October 31, 2005	\$ 239,452
Additions	<u>321,082</u>
Balance, April 30, 2006	<u>\$ 560,534</u>

The Company has an agreement in place with Universal Uranium Ltd., whereby 4,963 claims in Seal Lake and Central Mineral Belt properties have been staked. The Company also has a 100 % interest in 2,050 claims of which 758 are located in the Double Mer Property, 492 claims in the Mount Benedict Property and 800 claims in the Straits Property. The Company has an agreement in place whereby it can earn a 100% interest in approximately 4,200 hectares called the Motherlode Gold Property located in the Province of Newfoundland, subject to a net smelter royalty of 2.0 % . The Company has a 100% interest in approximately 870 hectares in the Reid Lot 50 property located in the Province of Newfoundland, subject to a net smelter royalty of 1.75% with a minimum royalty of \$5,000 per year

**4. EQUIPMENT**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net 2006</u>	<u>Net 2005</u>
	\$	\$	\$	\$
Equipment	49,473	25,630	23,843	4,075
Computer	8,780	5,026	3,754	1,024
	<u>58,253</u>	<u>30,656</u>	<u>27,597</u>	<u>5,099</u>

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Unaudited

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2006

**5. CAPITAL STOCK**

(a) The capital stock is as follows:

## Authorized

Unlimited number of non-voting preference shares

Unlimited number of common shares

## Issued

14,010,814 Common shares

\$ 2,913,712

The following is a summary of capital stock outstanding at April 30, 2006 :

	<u>Number of Shares</u> #	<u>Amount</u> \$
Balance, October 31, 2004	4,996,564	1,604,127
Private placement	1,623,000	174,840
Warrants exercised	940,000	143,600
Share issue fees	-	(20,330)
Balance, October 31, 2005	<u>7,559,564</u>	<u>1,902,237</u>
Private placement	5,741,250	803,775
Warrants exercised	395,000	110,050
Shares for debt	315,000	196,500
Share issue fees	-	(98,850)
Balance, April 30, 2006	<u>14,010,814</u>	<u>2,913,712</u>

During the six months ended April 30, 2006, the Company issued 5,741,250 units at \$ 0.20 per unit. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$ 0.30 until December 10, 2007. During the six months ended April 30, 2006, the Company issued 315,000 shares for debt with no warrant attached, 150,000 units at \$ 0.76 and 165,000 units at \$ 0.50.

**(b) WARRANTS**

The following is a summary of warrants outstanding at April 30, 2006 :

	<u>Number of Warrants</u> #	<u>Average Price</u> \$
Balance, October 31, 2004	1,337,500	0.25
Warrants granted	1,186,500	0.25
Warrants exercised	<u>(940,000)</u>	<u>(0.15)</u>
Balance, October 31, 2005	1,584,000	.31
Warrants granted	5,741,250	0.30
Warrants exercised	<u>(395,000)</u>	<u>(0.23)</u>
Balance, April 30, 2006	<u>6,930,250</u>	<u>0.31</u>

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Unaudited

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2006

**5. WARRANTS (Continued)**

Summary of warrants outstanding at April 30, 2006 :

<u>Number of Warrants</u> #	<u>Exercise Price</u> \$	<u>Fair Value of Warrants</u> \$	<u>Expiry Date</u>
400,000	0.50	40,000	December 01, 2006
289,000	0.15	12,810	February 22, 2007
700,000	0.30	42,000	November 14, 2006
<u>5,541,250</u>	0.30	<u>332,475</u>	December 10, 2007
<u>6,930,250</u>		<u>427,285</u>	

The grant date fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate at 4%, expected life of two years, dividend rate at 0% and volatility of 100%.

**(c) STOCK OPTIONS**

The Board of Directors of the Company has adopted a stock option plan for the Company. Pursuant to the plan, the board of directors of the Company may allocate common shares to its directors, officers and certain consultants. The aggregate number of stock options to be granted under the plan should not exceed 20% of the issued and outstanding capital of the Company as at the last annual general meeting 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 at the market price of the common shares, subject to all applicable regulatory requirements. All options are exercisable upon issuance.

Stock option activity for the period ended April 30, 2006 and October 31, 2005 is summarized as follows :

	<u>Common Shares</u> #	<u>Weighted Average Exercise Price</u> \$
Balance, October 31, 2004	-	-
Granted	<u>600,000</u>	<u>0.30</u>
Balance, October 31, 2005	600,000	-
Granted	<u>900,000</u>	<u>0.67</u>
Balance, April 30, 2006	<u>1,500,000</u>	<u>0.52</u>

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Unaudited

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2006

**(d) CONTRIBUTED SURPLUS**

The following is a summary of contributed surplus activity :

Balance, October 31, 2004	-
Employee stock - based compensation	<u>74,948</u>
Balance, October 31, 2005	74,948
Employee stock - based compensation	<u>316,022</u>
Balance, April 30, 2006	<u>390,970</u>

**6. RELATED PARTY TRANSACTIONS**

Included in accounts payable and accrued liabilities as at April 30, 2006 is \$ 14,952 (2005 - \$10,500) owing to directors of the Company. During the six months ending April 30, 2006 a director of the Company was reimbursed \$ 390,724 (2005 - Nil) for services and expenses spent on the Company's behalf. A second director was paid \$ 28,650 (2005 - Nil) for services and expenses spent on the Company's behalf. A third director was paid \$ 27,606 (2005 - \$ 43,405) for services and expenses spent on the Company's behalf.

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

**7. FINANCIAL INSTRUMENTS**

Fair Value:

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

The carrying amounts for cash, amounts receivable, prepaid expenses, staked mineral claims, investments and accounts payable and accrued liabilities on the balance sheets approximate fair value because of the limited term of these instruments.

**8. SUBSEQUENT EVENTS**

In May 2006, 155,000 stock options were issued to a director of the corporation, under the Stock Option Plan.

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Unaudited

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2006

**8. SUBSEQUENT EVENTS (Continued)**

On May 18, 2006, the Company issued 8,751,000 brokered units of which 4,800,000 were flow through at \$0.60 per unit with each unit consisting of one common share and one common share purchase warrant and 3,951,000 were non flow through at \$0.50 per unit with each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at \$ 0.65 until November 18, 2007. Agents fees totaling 331,000 non flow through units, cash of \$ 162,800 and 757,800 brokered options, were paid to the various agents. Each broker option entitles the holder to purchase one common share of the Company at \$ 0.65 until November 18, 2007. In addition to the shares and cash issued to the agents the company paid \$ 120,460.53 in costs and expenses to finalize the private placement.

**9. CONTINGENT LIABILITIES**

On January 13, 2006 the company entered into an agreement to purchase 168 gold claims in approximately 4,200 hectares of land called the Motherlode Gold property located in the province of Newfoundland, for \$ 55,000.00 cash and 200,000 shares, payment as follows: year one \$ 25,000 cash and 150,000 shares with a value of \$ 0.76 each totaling \$ 114,000 ( already paid ), year two cash payment of \$ 15,000.00 and deliver of 25,000 shares and year three cash payment of \$ 15,000.00 and deliver of 25,000 shares. The Company has a work commitment in place whereby it must spend \$ 800,000 on exploration over three years to earn a 100 % interest subject to a 2 % NSR. If either party terminates the agreement, then any unpaid amounts and undelivered shares is forfeited.

During the six month period ending April 30, 2006, the Board of Directors agreed to pay a finders fee of 265,000 shares at a value of \$ 0.50 per share to an agent of the company upon a successful consummation of a contract to joint venture it's uranium exploration and development within the regions of Central Mineral Belt and Seal Lake with Universal Uranium Ltd. On January 17, 2006 a contract was executed and signed by both parties. Upon the company receiving a deposit from Universal Uranium Ltd., it agreed to release 165,000 shares leaving a balance of 100,000 shares to be paid at a later date. If either party terminates the agreement then any and all undelivered shares will be forfeited.

On February 28, 2006 the company entered into an option and royalty agreement on The Double Mer Property which allows the company to own the 758 claims in six licenses outright. Terms of the agreement is that Silver Spruce Resources paid \$ 12,000 on execution of the agreement and pays \$ 12,000 on each of February 28, 2007 and 2008. In addition a 1 % Net Smelter Return royalty (NSR) is payable derived from commercial production from the property. At any time during the agreement if the company terminates the agreement by abandoning the property the other party has the option to relicense the claims, at his cost, in his own name. Any unpaid monies will be forfeited.

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Unaudited

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

APRIL 30, 2006

**9. CONTINGENT LIABILITIES** (Continued)

On March 15, 2006 the company entered into an option and royalty agreement on The Straits Property which allows the company to own the 800 claims in four licenses outright. Terms of the agreement is that Silver Spruce Resources paid \$ 12,000 on execution of the agreement and pays \$ 12,000 on each of March 15, 2007 and 2008. In addition a 1 % Net Smelter Return royalty (NSR) is payable derived from commercial production from the property. At any time during the agreement if the company terminates the agreement by abandoning the property the other party has the option to relicense the claims, at his cost, in his own name. Any unpaid monies will be forfeited.