

SILVER SPRUCE RESOURCES INC. THIRD 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 November 30, 2004.

On behalf of the Board

Gordon Barnhill
Director, Chief Financial Officer

Halifax, Nova Scotia
September 29, 2004

**SILVER SPRUCE RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE 9 MONTHS ENDED JULY 31, 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 September 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 nine months ended July 31, 2004 together with the audited consolidated financial statements for the years ended October 31, 2003, 2002, 2001 and the notes thereto. The consolidated financial statements for the nine months ended July 31, 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 \$121,191 in the third quarter of 2004.

Nine months ended July 31	2004	2003
Sales Revenue	\$2,000	\$0
Costs and expenses	123,191	40,252
Depreciation and amortization	n/a	n/a
Income (loss) before income taxes	(121,191)	(40,252)
Capital Assets	8,457	10,571
Mineral Rights	151,000	149,000
Cash	468	659

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 9 months ended July 31, 2004, Silver Spruce Resources Inc. incurred a loss of \$121,191, as compared to a loss of \$40,252 for the same period in 2003. The loss for the third quarter was driven by professional and application fees associated with the acquisition of all of the issued and outstanding shares of Synxx Synfuels Inc. (“Synxx”) and Ethxx International Inc. (“Ethxx”). No funds were spent on mineral exploration.

Revenues for the third quarter of 2004 were \$2,000.

General and Administrative Expenses totaled \$123,191 for the third quarter.

Depreciation and amortization was not accrued for the third 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

	July -04	Apr-04	Jan-04	Oct-03	Jul-03	Apr-03	Jan-03	Oct-02
Revenues (\$)	0	0	2,000	0	0	0	0	0
Net income(loss) before discontinued operations (\$)	(42,792)	(49,588)	(14,244)	(68,830)	(5,942)	(26,113)	(8,198)	(43,420)
Net Income(loss) (\$)	(42,792)	(49,588)	(14,244)	(51,330)	(5,942)	(26,113)	(8,198)	(43,420)
Net income(loss) before discontinued operations per common share Basic and diluted (\$/share)	(0.009)	(0.0105)	(0.003)	(0.016)	(0.0005)	(0.0022)	(0.0007)	(0.036)
Net income(loss) per common share Basic and diluted (\$/share)	(0.009)	(0.0105)	(0.003)	(0.012)	(0.0005)	(0.0022)	(0.0007)	(0.036)

1.6 Liquidity

At July 31, 2004 the Company had a working capital deficiency of \$1,947 and accounts payable of \$40,435. Funds will be required to fund the approval by the 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 May 1, 2004 to July 31, 2004, there were no related party transactions other than as described below. During the quarter ended April 30, 2004, 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 July 31, 2004.

1.14 Financial Instruments

The Company's significant financial and other instruments have not materially changed since May 1, 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 September 29, 2004 there were 4,861,582 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 September 29, 2004, there are no stock options outstanding. As of September 29, 2004, there were 835,000 warrants exercisable at \$0.15 per share exercisable until October 22, 2005, to purchase common shares.

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.

signed "Gordon Barnhill"

Gordon Barnhill

Director and Chief Financial Officer

Halifax, Nova Scotia

September 29, 2004

SILVER SPRUCE RESOURCES INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JULY 31, 2004

NOTICE TO READER

Management of Silver Spruce Resources Inc. have compiled the consolidated balance sheet as at July 31, 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 been 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.
September 25, 2004

Signed "Gordon Barnhill"
Gordon Barnhill, Chief Financial Officer

SILVER SPRUCE RESOURCES INC.

CONSOLIDATED BALANCE SHEET

JULY 31, 2004

	<u>ASSETS</u>	
	\$	\$
	Oct 31, 2003	JULY 31, 2004
Current		
Cash	533	468
Accounts receivable	5,053	12,820
Deposits and prepaid expenses	200	200
Loan receivable	-	25,000
	5,786	38,488
MINERAL PROPERTY ACQUISITION COSTS	151,000	151,000
CAPITAL ASSETS (NOTE 4)	8,457	8,457
	\$ 165,243	197,945
	<u>LIABILITIES</u>	
Current		
Accounts payable and accrued liabilities (Note 4)	30,102	40,435
	30,102	40,435
	<u>EQUITY</u>	
Capital Stock (Note 5)		
Authorized		
Unlimited common voting shares		
Unlimited preferred shares		
Issued – 4,861,582 common shares (2003 – 11,972,500 – pre 8 old for 1 new consolidation)	1,490,317	1,633,877
Deficit	(1,355,176)	(1,476,367)
	135,141	157,510
	\$ 165,243	197,945

ON BEHALF OF THE BOARD

Signed "Gordon Barnhill" _____
Gordon Barnhill

Director

See accompanying notes

SILVER SPRUCE RESOURCES INC.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

NINE MONTHS ENDED JULY 31, 2004

	Three months ended July 31		Nine months ended July 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
INCOME	-	-	2,000	-
EXPENSES				
Loan interest	-	1,700	-	5,262
TSX Venture exchange	654	-	7,175	8,178
CIBC Mellon	1,255	1,876	5,480	4,609
Bank charges	64	24	175	51
Professional fees	35,916	-	100,058	19,810
Office expenses	4,903	1,072	10,303	1,072
ADP - IICC	-	1,270	-	1,270
	42,792	5,942	123,191	40,252
NET LOSS FOR PERIOD	42,792	5,942	121,191	40,252
DEFICIT, BEGINNING OF PERIOD	1,433,575	1,298,103	1,355,176	1,263,793
DEFICIT, END OF PERIOD	1,476,367	1,304,045	1,476,367	1,304,045
LOSS PER COMMON SHARE (Note 6)				
Basic and diluted	\$ 0.009	\$ 0.0005*	\$ 0.0025	\$ 0.0033*

* Based on pre consolidation calculation

SILVER SPRUCE RESOURCES INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

NINE MONTHS ENDED JULY 31, 2004

	Three months ended July 31		Nine months ended July 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
NET (OUTFLOW) INFLOW OF CASH				
RELATED TO				
THE FOLLOWING ACTIVITIES :				
OPERATING				
Net Loss	(42,792)	(5,942)	(121,191)	(40,252)
Items not affecting cash				
Depreciation and amortization	-	-	-	-
<u> </u>				
	(42,792)	(5,942)	(121,191)	(40,252)
<u> </u>				
INVESTING				
Purchase of capital assets	-	-	-	-
Purchase of mineral property rights	-	-	-	-
Loan receivable	(11,435)	-	(25,000)	-
<u> </u>				
	(11,435)	-	(25,000)	-
<u> </u>				
FINANCING				
Issuance of common shares	43,250	-	151,250	-
Costs of issuing shares	(4,461)	-	(13,690)	-
Increase in accounts payable	(9,501)	4,571	10,333	10,755
Issuance of warrants	-	-	6,000	-
Debt advances	-	-	-	25,000
Increase in accounts receivable	(6,122)	-	(7,767)	-
Advances from Related Parties	-	-	-	5,000
<u> </u>				
	23,166	4,571	146,126	40,755
<u> </u>				
(DECREASE) INCREASE IN CASH	(31,061)	(13,71)	(65)	503
CASH, <u>BEGINNING</u> OF PERIOD	31,529	2,030	533	156
CASH, <u>END</u> OF PERIOD	468	659	468	659

SILVER SPRUCE RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED JULY 31, 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 July 31, 2004, the Company had a working capital deficiency of \$ 1,947 and incurred a year to date loss of \$ 121,191. 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 July 31, 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

NINE MONTHS ENDED JULY 31, 2004

5. CAPITAL STOCK

Authorized

An unlimited number of common shares of one class

An unlimited number of preferred shares

(a) Common shares

	July 31, 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)	475,019	137,560
Warrants exercised	40,000	6,000

Balance, end of period	4,861,582	\$ 1,633,877

(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 July 31, 2004 was 4,702,827 (three month ended July 31, 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.