

*Condensed Consolidated Interim Financial Statements of*

**SILVER SPRUCE RESOURCES INC.**

*For the three and nine months ended July 31, 2018 and 2017*

*(Unaudited)*

# **SILVER SPRUCE RESOURCES INC.**

**For the three and nine months ended July 31, 2018 and 2017**

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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  
September 27, 2018

# SILVER SPRUCE RESOURCES INC.

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

	As at July 31, 2018 \$	As at October 31, 2017 \$
<b>Assets</b>		
Current		
Cash	16,480	38,956
HST and other receivables	10,893	8,845
Prepaid expenses	62,667	102,597
Total current assets	90,040	150,398
Property and equipment (Note 7)	1,087,490	1,088,233
<b>Total assets</b>	<b>1,177,530</b>	<b>1,238,631</b>
<b>Liabilities</b>		
Current		
Trade payable and accrued liabilities (Note 11)	376,153	345,898
Property acquisition obligation (Note 6 (a))	30,733	32,233
Loans payable (Note 11)	715,850	592,492
<b>Total current liabilities</b>	<b>1,122,736</b>	<b>970,623</b>
<b>Shareholders' Equity</b>		
Share capital (Note 8)	29,842,866	29,716,911
Warrant reserve (Note 9)	628,472	594,551
Equity reserve	8,209,663	8,099,926
Accumulated deficit	(38,626,207)	(38,143,380)
<b>Total shareholders' equity</b>	<b>54,794</b>	<b>268,008</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,177,530</b>	<b>1,238,631</b>

Basis of preparation and going concern (Note 2)  
Commitments and contingencies (Note 13)

APPROVED BY THE BOARD OF DIRECTORS

Original signed by Karl Boltz, CEO, Director

Original signed by Gordon Barnhill, CFO, Director

See accompanying notes to the condensed consolidated interim financial statements

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

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

	For the three months ended July 31, 2018	For the three months ended July 31, 2017	For the nine months ended July 31, 2018	For the nine months ended July 31, 2017
	\$	\$	\$	\$
<b>Expenses</b>				
Exploration and evaluation expenditures (Note 6)	3,280	(18,544)	29,918	193,647
Stock based compensation (Note 10)	-	5,139	1,629	31,071
Office and general	19,472	18,494	49,996	47,835
Accounting and audit	10,500	7,500	26,500	23,400
Legal	-	-	4,974	10,460
Consulting fees	21,000	81,470	106,375	266,989
Corporate relations	41,425	33,345	109,976	62,202
Loan interest (Note 11)	19,659	8,423	54,846	9,298
Accretion	19,582	13,585	86,304	13,585
Amortization	-	742	742	2,227
Listing and filing fees	3,028	9,480	17,259	26,315
<b>Total expenses</b>	<b>137,946</b>	<b>159,634</b>	<b>488,519</b>	<b>687,029</b>
Foreign exchange loss (gain)	397	25,670	(5,692)	25,880
Total other income	397	25,670	(5,692)	25,880
<b>Net loss and comprehensive loss for the year</b>	<b>138,343</b>	<b>185,304</b>	<b>482,827</b>	<b>712,909</b>
Net loss per share - basic and diluted	0.00	0.00	0.01	0.02
Weighted average number of shares outstanding - basic and diluted	<b>68,124,187</b>	48,443,353	64,599,530	43,851,305

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 \$	Warrant reserve \$	Equity reserve \$	Accumulated deficit \$	Total equity (deficiency) \$
<b>Balance October 31, 2016</b>	<b>39,620,816</b>	<b>28,572,250</b>	<b>359,214</b>	<b>8,009,637</b>	<b>(37,150,949)</b>	<b>(209,848)</b>
Net loss for the period	-	-	-	-	(712,909)	(712,909)
Private placement common shares issued	8,147,250	627,995	-	-	-	627,995
Share issuance costs	-	(8,600)	-	-	-	(8,600)
Fair value of warrants issued under private placement	-	(234,488)	234,488	-	-	-
Stock based compensation	-	-	-	31,071	-	31,071
Shares for property acquisition	8,649,147	475,703	-	-	-	475,703
Shares issue on settlement of loan commission	500,000	18,821	-	-	-	18,821
Bonus shares issued	1,735,779	104,147	-	-	-	104,147
Warrants exercised	1,505,000	75,250	(23,242)	23,242	-	75,250
Warrants expired	-	-	(20,076)	20,076	-	-
<b>Balance July 31, 2017</b>	<b>60,157,992</b>	<b>29,631,078</b>	<b>550,384</b>	<b>8,084,026</b>	<b>(37,863,858)</b>	<b>401,630</b>
Net loss for the period	-	-	-	-	(279,522)	(279,522)
Private placement common shares issued	2,650,000	132,500	-	-	-	132,500
Share issuance costs	-	(2,500)	-	-	-	(2,500)
Fair value of warrants issued under private placement	-	(44,167)	44,167	-	-	-
Stock based compensation	-	-	-	15,900	-	15,900
<b>Balance October 31, 2017</b>	<b>62,807,992</b>	<b>29,716,911</b>	<b>594,551</b>	<b>8,099,926</b>	<b>(38,143,380)</b>	<b>268,008</b>
Net loss for the period	-	-	-	-	(482,827)	(482,827)
Private placement common shares issued	5,754,000	287,700	-	-	-	287,700
Share issuance costs	-	(19,716)	-	-	-	(19,716)
Fair value of warrants issued under private placement	-	(142,029)	142,029	-	-	-
Stock based compensation	-	-	-	1,629	-	1,629
Warrants expired	-	-	(108,108)	108,108	-	-
<b>Balance July 31, 2018</b>	<b>68,561,992</b>	<b>29,842,866</b>	<b>628,472</b>	<b>8,209,663</b>	<b>(38,626,207)</b>	<b>54,794</b>

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 nine months ended July 31, 2018	For the nine months ended July 31, 2017
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(482,827)	(712,909)
Items not involving cash:		
Gain on foreign exchange	(5,692)	25,880
Amortization	742	2,227
Accrued interest	2,447	9,298
Stock based compensation	1,629	31,071
Accretion	86,304	13,585
	<u>(397,397)</u>	<u>(630,848)</u>
Changes in non-cash working capital		
Decrease/(increase) in prepaid expenses	39,930	(125,376)
Decrease/(increase) in HST and other receivables	(2,048)	(15,299)
Increase/(decrease) in trade payables and accrued liabilities	30,255	62,111
Decrease in property acquisition obligation	(1,500)	(33,964)
	<u>66,637</u>	<u>(112,528)</u>
Change in non-cash operating working capital	<u>66,637</u>	<u>(112,528)</u>
Net cash flows from operating activities	<u>(330,760)</u>	<u>(743,376)</u>
<b>Financing activities</b>		
Proceeds from issuance of shares and warrants	287,700	627,995
Share issue costs	(19,716)	(8,600)
Proceeds from warrants exercised	-	75,250
Repayment of loan payable	(5,800)	(5,000)
Proceeds from loan payable	46,100	565,911
Net cash flows from financing activities	<u>308,284</u>	<u>1,255,556</u>
<b>Investing activities</b>		
Purchase of property	-	(635,545)
Net cash flows from investing activities	<u>-</u>	<u>(635,545)</u>
Decrease in cash	<u>(22,476)</u>	<u>(123,365)</u>
Cash, beginning of period	38,956	141,439
<b>Cash, end of period</b>	<u>16,480</u>	<u>18,074</u>

See accompanying notes to the condensed consolidated interim financial statements

# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended July 31, 2018 and 2017

(Unaudited)

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### 1. DESCRIPTION OF BUSINESS

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

### 2. BASIS OF PREPARATION AND GOING CONCERN

#### *Statement of compliance*

The 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 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”). In preparing the interim financial statements, the same accounting principles and methods of computation have been applied as in the annual financial statements for the year ended October 31, 2017. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods have been made. The condensed interim consolidated financial statements of the Corporation were approved by the Board of Directors on September 26, 2018.

These condensed consolidated interim statements should be read in conjunction with the Company's consolidated annual financial statements for the year ended October 31, 2017.

#### *Basis of presentation*

The condensed consolidated interim financial statements of the Company have been prepared in accordance with IAS 34 on a going concern basis, under the historical cost convention except for investments which are reflected at fair value which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Several adverse conditions, however, cast substantial doubt on the validity of this assumption. The Company does not have any proven economically recoverable reserves on the Company's interest in mineral properties held for exploration and to date; the Company has earned no direct mining related revenues. The Company's assets are subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

The Company's continued existence is dependent upon the discovery of economically recoverable reserves, the ability of the Company to raise additional financing, or future profitable production. It is not possible to predict whether financing efforts will be successful.

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



# **SILVER SPRUCE RESOURCES INC.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

**For the three and nine months ended July 31, 2018 and 2017**

**(Unaudited)**

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

#### *Basis of presentation (continued)*

While the condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions such as ongoing operational losses and a need for working capital cast significant doubt on the validity of this assumption. These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. The Company had continuing losses during the period ended July 31, 2018, a working capital deficiency and a cumulative deficit as at July 31, 2018. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

These condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended October 31, 2017. These financial statements should be read in conjunction with those consolidated financial statements.

### **4. CAPITAL MANAGEMENT**

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

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

The Company 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.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended July 31, 2018 and 2017

(Unaudited)

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### 4. CAPITAL MANAGEMENT (continued)

As of July 31, 2018, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

### 5. FINANCIAL RISK FACTORS

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

#### a) Credit risk

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

The Company has concluded that credit risk with regards to other receivables is minimal.

#### b) Liquidity risk

The Company's approach to managing liquidity risk is to endeavour to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2018, the Company had a cash balance of \$16,480 (October 31, 2017 - \$38,956) to settle current liabilities of \$1,122,736 (October 31, 2017 - \$970,623). Of the Company's current financial liabilities, \$1,122,736 (October 31, 2017 - \$466,603) have contractual maturities of less than 30 days and are subject to normal trade terms.

#### c) Market risk

##### *Interest rate risk*

The Company's loans payable bear a fixed interest rate and therefore are not subject to interest rate risk. The Company invests any cash surplus to its operational needs in investment-grade short-term deposit certificates issued by highly rated Canadian banks. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the bank.

##### *Foreign currency risk*

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The company's property acquisition obligation (Note 6) is denominated in United States Dollars ("US\$") and is subject to fluctuations in that currency's value relative to the Canadian dollar.

##### *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.

**SILVER SPRUCE RESOURCES INC.**  
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(Unaudited)

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

**d) Fair value**

The carrying amounts for cash, other receivables, trade payable and accrued liabilities, and loans payable on the statements of financial position approximate fair value due to their short-term maturity. The fair values of investments in entities listed on the TSX Venture Exchange are based on quoted market prices in active markets and are classified as a Level 1 in the fair value hierarchy.

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

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

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

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

**e) Sensitivity analysis**

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

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

	<b>July 31, 2018</b>	October 31, 2017
United States dollars:	\$	\$
Trade payables	<b>95,303</b>	79,937
Property acquisition obligation	<b>30,733</b>	504,019
Loans payable	<b>585,764</b>	32,233

A plus or minus 10% change in the value of the Canadian dollar with respect to United States dollar would impact the Company's net loss by approximately \$71,180 based on balances denominated in United States dollars on July 31, 2018 (October 31, 2017 - \$11,217).

**6. MINERAL EXPLORATION PROPERTIES**

a) Pino de Plata

On February 29, 2016, the Company signed an amended agreement that supersedes the original purchase agreement and enables the Company to purchase a 100% interest in the Pino de Plata property. The new revised financial terms are as follows:

**SILVER SPRUCE RESOURCES INC.**  
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(Unaudited)

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**6. MINERAL EXPLORATION PROPERTIES (continued)**

a) Pino de Plata (continued)

- Total cash payments reduced from US\$1,000,000 to US\$500,000 over two years (US\$125,000 (\$168,459) paid);
- One share issuance of 2,500,000 common shares, issued on June 15, 2016 and valued at \$0.07 per common share based on the quoted market value of the common shares on that date. One payment of \$250,000 to be paid in common shares in lieu of cash, at a share price equal to the 20-day average closing price of the Company's shares on the TSXVSE, subject to exchange approvals;
- A three percent (3%) gross production royalty capped at US\$4 million, which can be purchased for US\$1,333,333 per percentage point at any time and are reduced by the total amount of advanced royalty payments; and
- The Company is subject to advanced Royalty payments of US\$10,000 per month to commence 30 days after the acquisition is finalized, registered and documented with the proper authorities.

As a result of a delay in being able to access the property, an addendum to the purchase agreement was made during 2017 to suspend the terms of the agreement until access is gained to the property. The ongoing interest in the property is subject to satisfactory resolution of the access restriction.

The present value of the Company's minimum commitment as at April 30, 2018 has been estimated using an effective interest rate of 20% and recorded as property acquisition obligation on the statement of financial position in the amount of \$30,733 (US\$25,000) (October 31, 2017 - \$32,233 (US\$25,000)).

b) Kay Mine

On July 19, 2017, the Company closed a purchase agreement with Cedar Forest LLC for 100 per cent, free of any royalty, of the Kay mine parcel of patented claims near Black Canyon City, Arizona. The Company issued 8,649,147 common shares based on the quoted market value of the common shares on that date, and paid the balance of the purchase price (US\$500,000) in cash. To finance a portion of the transaction the Company secured a loan. See Note 11.

The Company allocated the value paid, totaling \$1,111,248, between the underlying value of the land, and an incremental value related to potential exploration value. The value of the land of \$1,087,490 was estimated based on comparable land values in the area. The residual value was expensed as an exploration expense in accordance with the Company's policy for exploration and evaluation expenditures.

# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended July 31, 2018 and 2017

(Unaudited)

### 7. PROPERTY AND EQUIPMENT

	<u>Land</u>	<u>Equipment</u>	<u>Computers</u>	<u>Total</u>
<b>Cost:</b>	\$	\$	\$	\$
At October 31, 2017	1,087,490	7,204	1,483	1,096,177
Additions	-	-	-	-
Disposals/Write-offs	-	-	-	-
<b>At July 31, 2018</b>	<b>1,087,490</b>	<b>7,204</b>	<b>1,483</b>	<b>1,096,177</b>
<b>Amortization:</b>				
At October 31, 2017	-	6,461	1,483	7,944
Additions	-	743	-	743
Disposals/Write-offs	-	-	-	-
<b>At July 31, 2018</b>	<b>-</b>	<b>7,204</b>	<b>1,483</b>	<b>8,687</b>
<b>Carrying Value:</b>				
At October 31, 2017	1,087,490	743	-	1,088,233
<b>At July 31, 2018</b>	<b>1,087,490</b>	<b>-</b>	<b>-</b>	<b>1,087,490</b>

### 8. SHARE CAPITAL

The share capital is as follows:

	<u>July 31, 2018</u>	<u>October 31, 2017</u>
	\$	\$
Authorized:		
An unlimited number of non-voting preference shares		
An unlimited number of common shares, no par value		
Issued and outstanding:		
68,561,992 (October 31, 2017 - 62,807,992)	<b>29,842,866</b>	29,716,911

- a) In March 2017, the Company closed a non-brokered private placement to raise gross proceeds of \$461,500. The offering consisted of the issuance of 5,768,750 units ("Unit") of the Company. Each Unit was offered at a price of \$0.08 and consisted of one common share and one share purchase warrant, with each whole warrant exercisable at a price of \$0.12 per common share if exercised within 24 months of the closing of the offering. Officers and directors of the Company subscribed for 2,173,750 Units for gross proceeds of \$173,900.
- b) In July 2017, the Company closed a non-brokered private placement to raise gross proceeds of \$166,495. The offering consisted of the issuance of 2,378,500 units ("Unit") of the Company. Each Unit was offered at a price of \$0.07 and consisted of one common share and one share purchase warrant, with each whole warrant exercisable at a price of \$0.10 per common share if exercised within 24 months of the closing of the offering.

# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended July 31, 2018 and 2017

(Unaudited)

### 8. SHARE CAPITAL (continued)

- c) During the year ended October 31, 2017, the Company received proceeds of \$75,250 and issued 1,505,000 shares when it received a notice of exercise for 1,505,000 warrants at an exercise price of \$0.05.
- d) In October 2017, the Company closed a non-brokered private placement to raise gross proceeds of \$132,500. The offering consisted of the issuance of 2,650,000 units (“Unit”) of the Company. Each Unit was offered at a price of \$0.05 and consisted of one common share and one share purchase warrant, with each whole warrant exercisable at a price of \$0.075 per common share if exercised within 24 months of the closing of the offering. Officers and directors of the Company subscribed for 850,000 Units for gross proceeds of \$42,500.
- e) In May 2018, the Company closed a non-brokered private placement to raise gross proceeds of \$287,700. The offering consisted of the issuance of 5,754,000 units (“Unit”) of the Company. Each Unit was offered at a price of \$0.05 and consisted of one common share and one share purchase warrant, with each whole warrant exercisable at a price of \$0.06 per common share if exercised within 24 months of the closing of the offering. Officers and directors of the Company subscribed for 1,700,000 Units for gross proceeds of \$85,000.

### 9. WARRANTS

The following is a summary of warrants activity for the periods ended July 31, 2018 and October 31, 2017:

	July 31, 2018		October 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance, beginning of year	21,993,651	0.09	14,001,401	0.09
Granted in connection with private placements	5,754,000	0.06	10,797,250	0.10
Exercised during the year	-	-	(1,505,000)	0.05
Expired during the year	(2,738,633)	0.10	(1,300,000)	0.05
Balance, end of year	25,009,018	0.09	21,993,651	0.09

- a) In connection with the March 13, 2017 private placement disclosed in Note 8, the Company issued 5,768,750 warrants. The grant date fair value of \$173,063 assigned to the warrants was estimated using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility based on historical volatility of 140%, a risk free interest rate of 0.87%, and an expected life of 2 years.

# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended July 31, 2018 and 2017

(Unaudited)

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### 9. WARRANTS (continued)

- b) In connection with the July 25, 2017 private placement disclosed in Note 8, the Company issued 2,378,500 warrants. The grant date fair value of \$61,425 assigned to the warrants was estimated using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility based on historical volatility of 133%, a risk free interest rate of 1.04%, and an expected life of 2 years.
- c) In connection with the October 31, 2017 private placement disclosed in Note 8, the Company issued 2,650,000 warrants. The grant date fair value of \$44,167 assigned to the warrants was estimated using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility based on historical volatility of 115%, a risk free interest rate of 1.39%, and an expected life of 2 years.
- d) In connection with the May 7, 2018 private placement disclosed in Note 8, the Company issued 5,754,000 warrants. The grant date fair value of \$142,029 assigned to the warrants was estimated using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility based on historical volatility of 223%, a risk free interest rate of 2.14%, and an expected life of 5 years.

Summary of warrants outstanding as at July 31, 2018:

<u>Warrants</u>	<u>Exercise price</u>	<u>Grant date fair value of warrants</u>	<u>Expiry date</u>
#	\$	\$	
8,457,768	0.10	207,788	August 12, 2018
5,768,750	0.12	173,063	March 13, 2019
2,378,500	0.10	61,425	July 25, 2019
2,650,000	0.075	44,167	October 31, 2019
5,754,000	0.060	142,029	May 7, 2023
<u>25,009,018</u>		<u>628,472</u>	

### 10. 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.

# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended July 31, 2018 and 2017

(Unaudited)

### 10. SHARE BASED PAYMENTS (continued)

Share based payment activity for the periods ended July 31, 2018 and October 31, 2017 are summarized as follows:

	July 31, 2018		October 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance, beginning of year	3,800,000	0.14	2,900,000	0.15
Granted	-	-	900,000	0.13
Forfeited	-	-	-	-
Expired	-	-	-	-
Balance, end of year	3,800,000	0.14	3,800,000	0.14

At July 31, 2018, 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
\$			\$	
0.15	2,900,000	1.04	0.118	2,900,000
0.15	300,000	1.39	0.072	300,000
0.08	300,000	0.60	0.046	300,000
0.15	300,000	1.93	0.044	300,000
	3,800,000	1.10	0.103	3,800,000

### 11. LOANS PAYABLE

On June 19, 2017, the Company obtained a 12-month, US\$450,000 loan at a 12-per-cent coupon rate. The Company also issued 1,735,779 fully paid bonus shares and a commission of 500,000 shares valued at \$0.055 per common share based on the quoted market value of the shares at the time of issue to the lender.

The value of the bonus shares and commission shares is amortized over the term of the loan using the effective interest method using an effective interest rate of 39%. The Company accretes the carrying value of the loan each quarter by recognizing an accretion expense in the statement of loss and comprehensive loss and a credit to loans payable. For the period ended July 31, 2018, \$86,304 (October 31, 2017 - \$42,533) of accretion expense from the debt discount was recorded by the Company.



# SILVER SPRUCE RESOURCES INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended July 31, 2018 and 2017

(Unaudited)

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### 11. LOANS PAYABLE (continued)

The following table summarizes the loans payable for the period ended July 31, 2018 and October 31, 2017:

	Principal	As at July 31, 2018	As at October 31, 2017
Loan payable - Kay Mine property	US\$450,000	\$ 585,763	\$ 504,019
Loan payable - former director	65,000	81,287	79,973
Loan payable - current directors	48,600	42,800	2,500
Loan payable - others	6,000	6,000	6,000
Total loans payable outstanding		\$ 715,850	\$ 592,492

### 12. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at July 31, 2018 is \$241,255 (October 31, 2017 - \$217,451) owing to directors and companies controlled by directors of the Company for consulting related services rendered. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

As at July 31, 2018 the total loans payable to a former director is \$81,287 (October 31, 2017 - \$79,973). The loans are unsecured and bear interest at rates from 0% - 5% per year. During the period ended July 31, 2018, the loans incurred interest expense of \$1,314 which is outstanding at period end and is due on demand.

During the period ended July 31, 2018, nil stock options were granted to directors, officers and employees of the Company (2017 - 300,000). The stock based compensation related to the options issued is \$nil (2017 - \$21,600).

During the period ended, directors of the Company provided loans to the Company in the amount of \$42,800. The amounts are due on demand.

During the period ended July 31, 2018 key management personnel compensation consisted of services provided by companies owned by directors of \$34,625 (2017 - \$137,509) which are classified as consulting fees on the consolidated statement of operations.

See also Note 8 (a), (c) and (d).

### 13. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws 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.

The Company has indemnified the subscribers of current and past flow-through share subscriptions from any tax consequences arising from the failure of the Company to meet its commitments under the flow-through subscription agreements.