

SILVER SPRUCE RESOURCES INC.

(TSXV: SSE)

Price: August 16 \$0.06
52-Week Range: \$0.14-\$0.05

Shares O/S: 45.989 million
Market Cap: \$2.76 million

Average Share Volume
50-day: 45,900
200-day: 98,100

Year-End: October 31

Symbol: TSX-V: SSE

Website:
www.silverspruceresources.com

Corporate:
Head Office:
197 Dufferin Street
Suite 312
Bridgewater, Nova Scotia
B4V 2G9

Phone: (902) 527-5700
Fax: (902) 527-5711



eResearch Analyst (on this report):
Bob Weir, B.Sc., B.Comm., CFA



THE COMPANY

Silver Spruce Resources Inc. is a junior mining exploration company with primary interests in:

- (i) a VMS (volcanogenic massive sulfides) property with silver-gold-copper-lead-zinc (Ag-Au-Cu-Pb-Zn) in Arizona; and
- (ii) two silver-gold-base metal projects in Mexico.

The Company made a transformational decision in early 2015 to change from being a miner that was focused on uranium to one that is more broadly based with an accent on investigating, identifying, and purchasing various types of mining properties that offered discernible upside potential at reasonable acquisition prices.

Silver Spruce Resources repositioned from being a company focused on early exploration potential to one seeking properties more advanced in the exploration cycle. To this end, the Company now owns two key properties with significant upside potential.

The two strategic projects are:

1. **Kay Mine:** located in the State of Arizona in the USA, and comprising a VMS deposit of silver-gold-base metals (Ag-Au-Cu-Pb-Zn); and
2. (a) **Pino de Plata:** located in the Sierra Madre Occidental region of Chihuahua State in Mexico, also comprising Ag-Au-Cu-Pb-Zn; and (b) **Encino De Oro:**

OVERVIEW

INITIAL REPORT: *eResearch Corporation published its initial report on Silver Spruce Resources on May 26, 2017. A link to that report is [HERE](#).*

Silver Spruce Resources Inc. (“Silver Spruce Resources” or the “Company”) has tactically changed its corporate strategy.

The Company’s focus has shifted from long-term mining property development, which encompasses exploration, discovery, and, eventually, production. Typically, from start to finish, the mining cycle of identifying a potentially productive property to actually bringing the property into production lasts 9-10 years.

Now, the Company’s efforts are considerably shorter term in nature with an emphasis on finding mining properties that are substantially more advanced, which will reach production faster, and, therefore, will provide a quicker return to all stakeholders. This strategy also has the benefit of not requiring the Company constantly to raise capital, a necessity that dilutes shareholders.

Silver Spruce Resources has two key properties: a silver-gold-base metals property in Arizona, and a similar mineralized property in northern Mexico. Both properties are 100% owned.

The Company is small, with a market cap around \$3.0 million, only 46 million shares outstanding, and a daily average trading volume less than 100,000 shares. The shares are unlikely to attract institutional interest, and are suitable primarily for retail investors with a speculative bias.

KAY MINE

- Silver Spruce Resources has just completed the process of acquiring a 100% interest in a 71-acre property (the Kay Mine property) of patented claims located in Yavapai County, Arizona, about 50 miles north of Phoenix, and near Black Canyon City;
- The total consideration was US\$977,000 and comprised: (i) US\$50,000 cash up-front; (ii) US\$450,000 cash, being a debenture obligation to the Company; and (iii) 8,649,142 shares at C\$0.075 per share. The purchase was completed free of any royalty commitments.
- The Company successfully staked an additional 400 acres of unpatented claims in the area.
- Discovered in the 1800s, the Kay Mine was mined on a small scale until 1916 and intermittently until 1956. Nothing much happened on the property until Exxon Minerals Company purchased it in 1972. Over the next ten years, Exxon Minerals spent about \$1.5 million exploring, mapping, sampling, and drilling. Total drill activity was 23 holes comprising 26,500 feet. A 1982 internal Exxon Minerals report (not NI 43-101 compliant) indicated that the deposit comprised about 6.4 million tons grading an estimated 2.2% Cu (copper), 3.0% Zn (zinc), 1.6 oz/ton of Ag (silver), and 0.082 oz/ton of Au (gold);
- Additional drilling is required to confirm (or not) the Exxon Minerals’ estimates. The Company expects to spend approximately \$1.5 million in exploration expenditures on the Kay Mine property in 2017. This will include further exploration, geophysics, mapping, and the drilling of about 5000 metres.

COMMENT: *Silver Spruce Resources plans to complete a NI 43-101-compliant Technical Report on this VMS property within about 6 months of the Company being able to complete its initial work on the project or, at the outside, by mid-2018.*

PINO DE PLATA

- The Company acquired a 100% interest in this 397-hectare (980 acres) property in 2015;
- Mexico is a very mining-friendly jurisdiction; the property is located in the south-west part of the northern state of Chihuahua, and at the western edge of the prolific Sierra Madre Occidental silver-gold belt;
- The Sierra Madre Occidental hosts many producing gold and silver mines that are classified as having epithermal deposits, which often results in the mineralization being hosted in multiple veins, breccias (a type of sedimentary rock that often hosts mineralization), and replacement zones that come from hydrothermal activity. High base metal indications are often associated with high precious metals values in these veins.
- The property is approximately 15km southwest of Coeur Mining's open pit/underground silver-gold complex with its sizable Proven+Probable tonnage reserves;
- Some historic surface mining at Pino De Plata revealed high levels of silver but little exploration has been conducted in the last 200+ years;
- A recent NI 43-101 exploration assessment report, prepared by the Company, identified three areas for exploration and drilling;
- The Company has embarked on a Phase I exploration program with the goal of defining a mineable resource, capable of lower-cost open-pit mining techniques. The drilling budget for 2017: \$250,000-\$300,000; and
- The property is located 5-6 km, by a dirt road, south of the town of Chinipas de Almada, which is about 440 km south-west (9-hour drive) of Ciudad Chihuahua. The nearby Chinipas River has several crossings about 7 km south of the town. Crossings would present no difficulties during the dry season, but could prove problematic in the wet season. There is a small, paved airstrip about 1 km north of the town. Labour and supplies are available in Chinipas de Almada. A power-line runs across a corner of the property. There is no rail-line nearby, so transportation will have to rely on the road.

ENCINO DE ORO

The Encino De Oro property is located close to Pino De Plata, and near to the town of Chinipas de Almada in the state of Chihuahua, Mexico.

Like Pino De Plata, Encino De Oro contains epithermal gold-silver targets.

Silver Spruce Resources late last year released results from its sampling program that occurred over about 3 km². The sampling results ranged up to 8 g/t of gold (Au), 77 g/t of silver (Ag), and irregular indications of copper (Cu), lead (Pb), zinc (Zn), arsenic (As), and antimony (Sb) that suggest there could be a large system present.

In December 2016, the Company signed a binding Letter of Intent to buy additional land of over 300 hectares (740 acres) that, together with yet additional land that is being investigated, could form part of the Encino De Oro project.

At time of writing, there is no further information available about these initiatives.

INVESTMENT CONSIDERATIONS

A. Strengths

- The change in the Company's operating emphasis, away from being an early exploration play to one that is focused on developing properties further advanced in the exploration cycle, will shorten the development timetable and allow the Company to bring promising properties into production much sooner;
- Silver Spruce Resources is in the process of acquiring the Kay Mine in Arizona (the purchase is expected to close on or before June 20, 2017), and will provide the Company with a substantial silver-gold-base metals project. A significant drilling program will take place over the remainder of this year.
- The Company is also intent on advancing its significant silver-gold-base metals property, Pino De Plata, in northern Mexico by increasing its drilling and by completing a NI 43-101 Technical Report with a mineral estimate;
- Pino De Plata is strategically located at the western edge of the prolific Sierra Madre Occidental, an area that hosts many producing mines, most notably the Coeur Mining Palmerajo silver-gold complex with significant tonnage.

B. Challenges

- The Company's market cap is about \$3.0 million, with only 46 million shares outstanding and, therefore, not suitable for institutional ownership; fairly illiquid share trading (average 45,900 per day over last 50 days and 98,100 per day over the last 200 days);
- The Company regularly needs financing, and equity financing is often difficult when shares sell for less than \$0.10 each;
- The Company needs to firm up its deposit information at both the Kay Mine and Pino De Plata, and publish a resource estimate for both projects; and
- Silver Spruce Resources needs to initiate its permitting process for both of its key properties. The permitting for the exploration of Kay Mine should be granted in 2017, probably about a month after initial application, but the actual permitting process will not start until the Company has raised the necessary financing. Permitting for Pino de Plata is also expected in 2017. Both of these events may not occur until 2018.
- Production at its properties is still years away.

FINANCIAL INFORMATION

TABLE 1: SELECTED ANNUAL FINANCIAL INFORMATION

(C\$)	Actual Year End Oct 31/2013	Actual Year End Oct 31/2014	Actual Year End Oct 31/2015	Actual Year End Oct 31/2016	Actual TTM Jan 31/2017	Actual TTM Apr 30/2017
Statement of Income (Loss)						
General & Administrative	-304,922	-137,103	-147,219	-401,097	-466,386	-491,150
Exploration & Evaluation Expenses	0	0	-2,075,569	-494,993	-570,119	-775,494
Other Operating (Expenses)/Income	0	-107,130	1,907,450	193,621	193,621	293,207
Non-Operating (Expenses)/Income	15,107	-9,805	-26,958	-14,460	-13,263	-8,753
Non-Cash Items	<u>-811,882</u>	<u>-759,814</u>	<u>-1,921,110</u>	<u>1,304,487</u>	<u>1,512,412</u>	<u>1,187,058</u>
Net Profit/(Loss)	-1,101,697	-1,013,852	-2,263,406	587,558	656,265	204,868
Total Shares Outstanding	11,195,781	14,025,781	21,135,781	39,620,816	39,970,816	45,989,566
Weighted Average Shares O/S	11,179,810	11,203,561	16,601,507	28,694,586	31,453,299	43,613,091
Net Profit/(Loss) Per Share	(\$0.10)	(\$0.09)	(\$0.14)	\$0.02	\$0.02	\$0.00
Cash Flow Statement						
Net Profit/(Loss)	-1,101,697	-1,013,852	-2,263,406	587,558	656,265	204,868
Non-Cash Items	<u>811,882</u>	<u>759,814</u>	<u>1,921,110</u>	<u>-1,304,487</u>	<u>-1,512,412</u>	<u>-1,187,058</u>
Cash Flow from Operations	-289,815	-254,038	-342,296	-716,929	-856,147	-982,190
Capital Expenditures (Properties)	23,512	-40,507	0	0	0	0
Other Investing Items	<u>46,527</u>	<u>6,800</u>	<u>0</u>	<u>4,000</u>	<u>4,000</u>	<u>0</u>
Free Cash Flow	-219,776	-287,745	-342,296	-712,929	-852,147	-982,190
Working Capital Changes	<u>92,725</u>	<u>208,022</u>	<u>53,245</u>	<u>-31,235</u>	<u>-136,213</u>	<u>-31,426</u>
Cash Flow before Financing	-127,051	-79,723	-289,051	-744,164	-988,360	-1,013,616
Equity Financing	0	128,938	183,400	859,316	1,001,466	980,050
Debt Financing	<u>30,000</u>	<u>35,000</u>	<u>0</u>	<u>15,000</u>	<u>-10,000</u>	<u>1,000</u>
Change in Cash	-97,051	84,215	-105,651	130,152	3,106	-32,566
Cash, Beginning of the Period	129,774	32,723	116,938	11,287	8,211	32,691
Cash, End of the Period	32,723	116,938	11,287	141,439	11,317	125
Balance Sheet						
(C\$) As at:	<u>Oct 31/2013</u>	<u>Oct 31/2014</u>	<u>Oct 31/2015</u>	<u>Oct 31/2016</u>	<u>Jan 31/2017</u>	<u>Apr 30/2017</u>
Cash and Equivalents	32,723	116,938	11,287	141,439	11,317	125
Other Current Assets	39,320	35,198	7,509	21,703	94,777	110,234
Mineral Properties	816,885	1,195	1,195	0	0	0
Equipment	67,128	49,581	9,491	3,712	2,970	2,227
Investments	<u>338</u>	<u>338</u>	<u>338</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>956,394</u>	<u>203,250</u>	<u>29,820</u>	<u>166,854</u>	<u>109,064</u>	<u>112,586</u>
Current Liabilities	372,706	532,975	1,280,782	376,702	508,698	341,207
Property Acquisition Obligation	0	0	1,124,000	0	0	0
Shareholders' Equity (Deficiency)	<u>583,688</u>	<u>-329,725</u>	<u>-2,374,962</u>	<u>-209,848</u>	<u>-399,634</u>	<u>-228,621</u>
Total Liabilities & Equity	<u>956,394</u>	<u>203,250</u>	<u>29,820</u>	<u>166,854</u>	<u>109,064</u>	<u>112,586</u>
Book Value (S.E.) Per Share	\$0.05	(\$0.02)	(\$0.11)	(\$0.01)	(\$0.01)	(\$0.00)
Cash Per Share	\$0.00	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00

COMMENT: The above statement does not conform to the reporting statement provided by the Company and available on SEDAR. eResearch believes the adjusted format presented above better represents the financial picture of the Company. See more detailed commentary with the next table on the ensuing page.

TABLE 2: SELECTED QUARTERLY FINANCIAL INFORMATION

(C\$)	Actual 3 Months <u>Jan 31/2016</u>	Actual 3 Months <u>Jan 31/2017</u>	Actual 3 Months <u>Apr 30/2016</u>	Actual 3 Months <u>Apr 30/2017</u>	Actual 6 Months <u>Apr 30/2016</u>	Actual 6 Months <u>Apr 30/2017</u>
Statement of Income (Loss)						
General & Administrative	-56,147	-121,436	-140,712	-165,476	-196,859	-286,912
Exploration & Evaluation Expenses	-10,914	-86,040	79,224	-126,151	68,310	-212,191
Other Operating (Expenses)/Income	438	438	-99,149	437	-98,711	875
Non-Operating (Expenses)/Income	-1,635	-438	-4,947	-437	-6,582	-875
Non-Cash Items	<u>-229,335</u>	<u>-21,410</u>	<u>318,262</u>	<u>-7,092</u>	<u>88,927</u>	<u>-28,502</u>
Net Profit/(Loss)	-297,593	-228,886	152,678	-298,719	-144,915	-527,605
Total Shares Outstanding	22,935,781	39,970,816	28,413,047	45,989,566	28,413,047	45,989,566
Weighted Average Shares O/S	21,174,911	39,772,990	23,544,366	43,613,091	22,346,619	41,757,349
Net Profit/(Loss) Per Share	(\$0.01)	(\$0.01)	\$0.01	(\$0.01)	(\$0.01)	(\$0.01)
Cash Flow Statement						
Net Profit/(Loss)	-297,593	-228,886	152,678	-298,719	-144,915	-527,605
Non-Cash Items	<u>229,335</u>	<u>21,410</u>	<u>-318,262</u>	<u>7,092</u>	<u>-88,927</u>	<u>28,502</u>
Cash Flow from Operations	-68,258	-207,476	-165,584	-291,627	-233,842	-499,103
Capital Expenditures (Properties)	0	0	0	0	0	0
Other Investing Items	0	0	4,000	0	4,000	0
Free Cash Flow	-68,258	-207,476	-161,584	-291,627	-229,842	-499,103
Working Capital Changes	<u>-11,568</u>	<u>-116,546</u>	<u>-114,352</u>	<u>-9,565</u>	<u>-125,920</u>	<u>-126,111</u>
Cash Flow before Financing	-79,826	-324,022	-275,936	-301,192	-355,762	-625,214
Equity Financing	56,750	198,900	305,416	284,000	362,166	482,900
Debt Financing	<u>20,000</u>	<u>-5,000</u>	<u>-5,000</u>	<u>6,000</u>	<u>15,000</u>	<u>1,000</u>
Change in Cash	-3,076	-130,122	24,480	-11,192	21,404	-141,314
Cash, Beginning of the Period	11,287	141,439	8,211	11,317	11,287	141,439
Cash, End of the Period	8,211	11,317	32,691	125	32,691	125

COMMENT: The table above shows the quarterly financials in adjusted eResearch format. In the far right column, the figures for the six-month period ending April 30, 2017 indicate that the Company had only \$125 of cash. Not shown in Table 4, Warrants and Options, on the next page are 2,455,000 warrants that expired "in-the-money" on June 5 and, therefore, we assume that they were exercised in full, which would have provided \$122,750 of cash. This was likely the reason that the Company did not complete a non-brokered private placement until later in July.

On July 13, the Company completed a private placement and raised \$166,495. As shown in Table 3 on the following page, the Company is currently experiencing an average monthly "operating burn" between (about) \$40,000 and \$50,000. Thus, the warrant exercise plus the recent capital raise provided about 6 to 6 1/2 months of operating cost "coverage", or until some-time in October-November. We expect there will be another capital raise around about that time.

TABLE 3: SALIENT FINANCIAL STATISTICS

Balance Sheet	Year End	Q1 Ending	Q2 Ending
	<u>Oct 31/2016</u>	<u>Jan 31/2017</u>	<u>Apr 30/2017</u>
Cash	\$141,439	\$11,317	\$125
Current Assets	\$163,142	\$106,094	\$110,359
Total Assets	\$166,854	\$109,064	\$112,586
Current Liabilities	\$376,702	\$508,698	\$341,207
Working Capital	-\$213,560	-\$402,604	-\$230,848
Working Capital Ratio	0.43	0.21	0.32
Total Equity	-\$209,848	-\$399,634	-\$228,621
Actual Shares O/S	39,620,816	39,970,816	45,989,566
Weighted Average Shares O/S	28,694,586	39,772,990	41,757,349
Statement of Net Profit/(Loss)	12 Months	3 Months	6 Months
	<u>Jan 31/2017</u>	<u>Jan 31/2017</u>	<u>Apr 30/2017</u>
Non-discretionary OpEx ("Burn")	-\$466,386	-\$121,436	-\$286,912
Average Monthly Burn	-\$38,866	-\$40,479	-\$47,819
Equity Financing	\$1,001,466	\$198,900	\$482,900
Debt Financing/(Repayment)	-\$10,000	-\$5,000	\$1,000
Exploration/Evaluation Expenses	-\$570,119	-\$86,040	-\$212,191
Net Profit/(Loss)	\$656,265	-\$228,448	-\$527,605

Source: Company and eResearch

Table 4: Warrants and Options as at April 30, 2017 (ProForma July 13, 2017)**WARRANTS**

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Status</u>	<u>Potential Equity</u>
2,738,633	\$0.10	20-Apr-2018	Out-of-the-Money	\$273,863
8,457,768	\$0.10	12-Aug-2018	Out-of-the-Money	\$845,777
5,768,750	\$0.12	13-Mar-2019	Out-of-the-Money	\$692,250
<u>2,378,500</u>	\$0.10	13-Jul-2019	Out-of-the-Money	<u>\$237,850</u>
19,343,651				\$1,811,890

Current Price: \$0.060 (2017-08-16)

OPTIONS

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Status</u>	<u>Potential Equity</u>
300,000	\$0.08	March 2018	Out-of-the-Money	\$24,000
2,900,000	\$0.15	July 2019	Out-of-the-Money	\$435,000
<u>300,000</u>	\$0.15	November 2019	Out-of-the-Money	<u>\$45,000</u>
3,500,000				\$504,000

Source: Company

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ANALYST ACCREDITATION

eResearch Analyst on this Report: Bob Weir, B.Sc., B.Comm., CFA

Analyst Affirmation: I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own shares of Silver Spruce Resources Inc.

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