



SILVER MOUNTAIN MINES INC.

Financial Statements

For the years ended December 31, 2015 and 2014

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Silver Mountain Mines Inc.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of Silver Mountain Mines Inc. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the management discussion and analysis. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee is also responsible for recommending the appointment of Silver Mountain Mines Inc.'s external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is responsible for auditing the financial statements and report directly to the shareholders; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

February 1, 2016

"Steve Konopelky"

Director, President and CEO – Steve Konopelky

"Stuart Crichton"

Chief Financial Officer – Stuart Crichton

Independent Auditors' Report

To the Shareholders of Silver Mountain Mines Inc.

We have audited the accompanying financial statements of Silver Mountain Mines Inc. which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or misstatement.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Silver Mountain Mines Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter – Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements concerning Silver Mountain Mines Inc.'s ability to continue as a going concern. Silver Mountain Mines Inc. has a net loss and comprehensive loss for the year, an accumulated deficit and negative cash from operations. These conditions indicate the existence of a material uncertainty which may cast significant doubt about Silver Mountain Mines Inc.'s ability to continue as a going concern.

Calgary, Alberta
February 1, 2016

MNP LLP
Chartered Professional Accountants



SILVER MOUNTAIN MINES INC.

Statements of Financial Position

(in Canadian Dollars)

As at December 31,

| | Note | 2015 | 2014 |
|---|------|---------------------|---------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | | \$ 531,194 | \$ 691,798 |
| GST receivable | | 925 | 39,405 |
| Receivable due from related party | 7 | - | 2,500 |
| Prepaid expense | | 14,131 | 22,011 |
| | | <u>546,250</u> | <u>755,714</u> |
| Non-current assets: | | | |
| Property and equipment | 4 | 63,523 | 68,258 |
| Exploration and evaluation costs | 5 | 6,025,763 | 6,010,863 |
| Reclamation bond | 6 | 27,734 | 27,514 |
| | | <u>6,117,020</u> | <u>6,106,635</u> |
| Total assets | | \$ 6,663,270 | \$ 6,862,349 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | \$ 12,368 | \$ 29,033 |
| Premium liability | 9(b) | - | 34,767 |
| | | <u>12,368</u> | <u>63,800</u> |
| Non-current liabilities: | | | |
| Deferred tax liability | 10 | 489,086 | 515,795 |
| Decommissioning liability | 8 | 35,036 | 34,262 |
| | | <u>524,122</u> | <u>550,057</u> |
| Total liabilities | | 536,490 | 613,857 |
| Shareholders' equity: | | | |
| Share capital | 9(b) | 4,868,823 | 4,868,823 |
| Subscription receivable | 9(b) | - | (74,890) |
| Warrants | 9(c) | 424,900 | 756,324 |
| Contributed surplus | 9(e) | 2,922,032 | 2,589,183 |
| Deficit | | (2,088,975) | (1,890,948) |
| Total shareholders' equity | | 6,126,780 | 6,248,492 |
| Total liabilities and shareholders' equity | | \$ 6,663,270 | \$ 6,862,349 |
| Going concern | 1 | | |
| Commitments | 13 | | |

Approved on behalf of the Board:

"Steve Konopelky"

Director, President and CEO – Steve Konopelky

"Daniel Belot"

Director – Daniel Belot

The accompanying notes are an integral part of these financial statements.

SILVER MOUNTAIN MINES INC.

Statements of Comprehensive Loss

(in Canadian Dollars)

For the years ended December 31,

| | Note | 2015 | 2014 |
|---|------|--------------|-------------|
| Expenses | | | |
| Accretion expense | 8 | \$ 774 | \$ 774 |
| Advertising and promotion | | 313 | 60,000 |
| Automotive | | 2,749 | 2,348 |
| Consulting and management | 7 | 177,537 | 28,005 |
| Depreciation | 4 | 3,535 | 4,746 |
| Insurance | | 21,455 | 22,039 |
| Licenses and listing fees | | 9,030 | 8,475 |
| Meals and entertainment | | 1,959 | 3,418 |
| Office and storage | 7 | 13,395 | 31,425 |
| Professional fees | | 22,144 | 42,394 |
| Share-based compensation | 9(d) | 1,425 | 26,535 |
| Telephone | | 2,899 | 4,458 |
| Travel | | 7,834 | 5,841 |
| | | 265,049 | 240,458 |
| Interest income | | 5,546 | 11,172 |
| Net loss before deferred tax recovery | | (259,503) | (229,286) |
| Deferred tax recovery | 10 | 61,476 | 157,849 |
| Total net loss and comprehensive loss for the year attributable to common shareholders | | \$ (198,027) | \$ (71,437) |
| Basic and diluted loss per share | 9(f) | \$ (0.00) | \$ (0.00) |

The accompanying notes are an integral part of these financial statements.

SILVER MOUNTAIN MINES INC.
Statements of Changes in Equity
(in Canadian Dollars)

| | Number of Shares | Amount | Subscription Receivable | Contributed Surplus | Warrants | Deficit | Total |
|---|---------------------|--------------|----------------------------|------------------------|--------------|---------------|--------------|
| Balance, January 1, 2014 | 45,933,703 | \$ 4,826,175 | \$ (169,400) | \$ 2,021,162 | \$ 1,259,335 | \$(1,819,511) | \$ 6,117,761 |
| Subscription receivable collected | - | - | 169,400 | - | - | - | 169,400 |
| Shares issued for cash, net of share issue costs (note 9 (b)(i)) | 2,317,800 | 42,648 | (74,890) | - | 38,475 | - | 6,233 |
| Share-based compensation (note 9 (e)) | - | - | - | 26,535 | - | - | 26,535 |
| Expiry of warrants (note 9 (c)) | - | - | - | 541,486 | (541,486) | - | - |
| Total net loss and comprehensive loss | - | - | - | - | - | (71,437) | (71,437) |
| Balance, December 31, 2014 | 48,251,503 | \$ 4,868,823 | \$ (74,890) | \$ 2,589,183 | \$ 756,324 | \$(1,890,948) | \$ 6,248,492 |
| Subscription receivable collected | - | - | 74,890 | - | - | - | 74,890 |
| Share-based compensation (note 9 (e)) | - | - | - | 1,425 | - | - | 1,425 |
| Expiry of warrants (note 9 (c)) | - | - | - | 331,424 | (331,424) | - | - |
| Total net loss and comprehensive loss | - | - | - | - | - | (198,027) | (198,027) |
| Balance, December 31, 2015 | 48,251,503 | \$ 4,868,823 | \$ - | \$ 2,922,032 | \$ 424,900 | \$(2,088,975) | \$ 6,126,780 |

The accompanying notes are an integral part of these financial statements.

SILVER MOUNTAIN MINES INC.

Statements of Cash Flows

(in Canadian Dollars)

For the years ended December 31,

| | Note | 2015 | 2014 |
|--|------|--------------|-------------|
| Cash provided by (used in): | | | |
| Operating Activities | | | |
| Total net loss and comprehensive loss | | \$ (198,027) | \$ (71,437) |
| Items not involving cash: | | | |
| Depreciation | 4 | 3,535 | 4,746 |
| Accretion expense | 8 | 774 | 774 |
| Share-based compensation | 9(d) | 1,425 | 26,535 |
| Deferred tax recovery | 10 | (61,476) | (157,849) |
| Total funds used in operations | | (253,769) | (197,231) |
| Changes in non-cash working capital: | | | |
| GST receivable | | 38,480 | (3,154) |
| Receivable due from related party | 7 | 2,500 | (2,500) |
| Prepaid expense | | 7,880 | 63,032 |
| Accounts payable and accrued liabilities | | (16,665) | (92,373) |
| Total changes in non-cash working capital | | 32,195 | (34,995) |
| Net cash used in operating activities | | (221,574) | (232,226) |
| Financing Activities | | | |
| Issuance of flow-through units, net of share issue costs | 9(b) | 74,890 | 210,400 |
| Net cash provided by financing activities | | 74,890 | 210,400 |
| Investing Activities | | | |
| Proceeds on disposition of property and equipment | 4 | 1,200 | 630 |
| Interest earned on reclamation bond | 6 | (220) | (218) |
| Purchase of exploration and evaluation assets | 5 | (14,900) | (713,079) |
| Net cash used in investing activities | | (13,920) | (712,667) |
| Decrease in cash and cash equivalents | | (160,604) | (734,493) |
| Cash and cash equivalents, beginning of the year | | 691,798 | 1,426,291 |
| Cash and cash equivalents, end of the year | | \$ 531,194 | \$ 691,798 |
| Cash and cash equivalents include the following: | | | |
| Cash | | \$ 28,175 | \$ 144,560 |
| Short-term investments | | 503,019 | 547,238 |
| Cash and cash equivalents | | \$ 531,194 | \$ 691,798 |

The accompanying notes are an integral part of these financial statements.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

1. Nature of Operations and Continuance of Operations

Silver Mountain Mines Inc. (the "Company"), was incorporated on May 12, 2008 under the laws of Alberta and on August 13, 2008 under the laws of British Columbia. The Company's principal business activity is the exploration of mineral properties in British Columbia. The registered office of the Company is 223 Riverview Circle SE, Calgary, Alberta T2C 4K6. These financial statements were approved and authorized for issuance on February 1, 2016 by the Board of Directors.

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. For the year ended December 31, 2015, the Company incurred a total net loss and comprehensive loss of \$198,027 (December 31, 2014 - \$71,437), negative cash flow from operations of \$221,574 (2014 - \$232,226) and as at December 31, 2015 had an accumulated deficit of \$2,088,975 (December 31, 2014 - \$1,890,948).

The Company is in the process of exploring its mineral property interests and has not yet determined whether the project contains mineral reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral properties, obtaining the necessary permits to mine, and future profitable production or proceeds from the disposition of the mineral properties. Management currently assesses the Company's ability to continue as a going concern using financial forecasts of 12 months to ensure the Company has adequate capital to meet its financial obligations.

2. Basis of Presentation

(a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), in effect on January 1, 2015.

(b) Basis of Presentation and Measurement

These financial statements have been prepared using the historical cost convention, except for certain financial instruments measured at fair value through profit or loss and share-based payment transactions measured at fair value.

(c) Functional and Presentation Currency

The financial statements are presented in Canadian dollars, which is the functional currency of the Company.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

3. Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents are primarily comprised of cash and short-term investments with a maturity date of three months or less at the date of purchase.

(b) Property and Equipment

The Company records property and equipment at cost less accumulated depreciation and accumulated impairment loss. Property and equipment include costs to purchase and any costs directly attributable to bring the asset to its current location and condition necessary for its intended use including costs of dismantling and removing the item and restoring the site on which it is located. Expenditures for additions and improvements are capitalized and expenditures for maintenance and repairs are charged to expense.

Depreciation is provided at rates calculated to write-off the cost of property and equipment, less their estimated residual value, using the declining balance method at 30% for office equipment, 100% for software and 4% for property per annum. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposition, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive loss.

Where an item of property and equipment consists of major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

(c) Impairment

At the end of each reporting period the carrying amounts of the Company's non-financial assets are reviewed to determine whether there are any indications that the assets are impaired. The Company uses external factors, such as changes in expected future prices and costs, and other market factors to assess for indications of impairment. If any such indication exists an estimate of the asset's recoverable amount is calculated; being the higher of fair value less direct costs to sell and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit or loss so as to reduce the carrying amount in the statement of financial position to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of assets in an arm's length transaction between knowledgeable and willing parties. Fair values for mineral assets are generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, to arrive at a net present value of the asset.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

3. Significant Accounting Policies (*continued*)

(c) Impairment (*continued*)

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and cannot take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(d) Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, exploration and evaluation activity, and the fair value, at the date of acquisition, of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained legal rights to explore an area are recognized in earnings.

Acquisition costs, including general and administration costs, are only capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploration or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation assets are assessed for impairment if sufficient evidence exists to determine technical feasibility and commercial viability, and facts and circumstances suggest the carrying amount exceeds the recoverable amount.

Once technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to the area of interest are first tested for impairment and then reclassified to mining property development assets within property and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependable on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(e) Share-based Payments

The share purchase option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share purchase options granted is recognized as an employee or consultant expense with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by employees.

The fair value is measured at the grant date and each tranche is recognized on a straight-line basis over the period during which the share purchase options vest. The fair value of the share purchase options granted is measured using the Black-Scholes pricing model taking into account the terms and conditions upon which the share purchase options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

3. Significant Accounting Policies (*continued*)

(f) Taxes

Tax on the profit or loss for the periods presented comprises current and deferred taxes. Tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting period, adjusted for any income tax reassessments from prior periods.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred taxes attributable to amounts recognized directly in equity are also recognized directly in equity.

(g) Decommissioning Liability

An obligation to incur decommissioning costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. These costs are discounted to their net present value and are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such cost arises. The timing of the actual expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through depreciation. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in earnings.

Estimated costs for environmental restoration obligation costs are adjusted as changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capital costs of the related assets, in which case the capitalized cost is reduced to zero and the difference is recognized in profit or loss.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

3. Significant Accounting Policies (*continued*)

(h) Modification of Share Purchase Warrants

The Company may modify the terms of share purchase warrants originally granted. When modifications exist, the Company will maintain the original fair value of the share purchase warrant.

(i) Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributed to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating dilutive earnings per share. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

(j) Financial Instruments

i. Financial Assets at Fair value through Profit or Loss ("FVTPL")

Financial assets held at *FVTPL* are those financial assets that are held for trading and are classified as such from the inception of the trade. This applies to assets acquired from the outset with the intention of resale in the short-term, derivatives not categorized as hedges or when the Company has elected to use this classification. These assets are initially recorded at fair value and are measured at each reporting date at fair value, based upon quoted market prices from external sources or using a discounted cash flow valuation technique or quoted prices from external sources for similar assets. This category includes cash and cash equivalents.

ii. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value less transaction costs, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included in interest income in profit or loss. The losses arising from impairment are recognized in profit or loss in interest costs for loans and in operating expense for receivables. This category includes GST receivable and receivable due from related party.

iii. Other Financial Liabilities

Other financial liabilities are recognized on the statement of financial position if the Company has a contractual obligation to transfer cash or other assets to a third party. These liabilities are initially recognized at fair value of the consideration received or the value of payments received less any transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. This category includes accounts payable and accrued liabilities.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

3. Significant Accounting Policies (*continued*)

(k) Impairment of Financial Instruments

At each reporting date, the Company assesses financial assets not carried at FVTPL to determine whether there is objective evidence of impairment. If such impairment exists, the Company recognizes an impairment loss as follows:

i. Financial assets carried at amortized cost

The amount of the impairment is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive loss.

(l) Flow-through Common Shares

Canadian tax legislation permits the Company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors of the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. When flow-through shares are issued, a liability is recognized in the amount of the premium paid for flow-through shares and is calculated as the excess over market value of the shares without the flow-through feature at the time of issuance. This liability is reversed at the time of renouncing the resource expenditures to investors and a deferred tax liability is then recognized through the statement of comprehensive loss.

(m) Significant Judgments

Significant judgment is required to determine the total provision for current and deferred taxes. The Company recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

(n) Significant Accounting Estimates and Assumptions

The preparation of financial statements requires management to make estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

3. Significant Accounting Policies (*continued*)

In the process of applying the Company's accounting policies, management has made the following estimates and assumptions, which have the most significant effect on the amounts recognized in the financial statements are:

i. Decommissioning Liability

Decommissioning liability costs will be incurred by the Company at the end of the operating life of certain of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites.

The expected timing and amount of expenditure can also change, for example, in response to changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

The decommissioning liability amounts have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning liabilities will ultimately depend upon future market prices for the necessary retirement works required which will reflect market conditions at the relevant time.

ii. Taxes

The Company follows the liability method for calculating deferred taxes. Differences between the amounts reported in the financial statements of the Company and their respective tax bases are applied to tax rates in effect to calculate the deferred tax liability. In addition, the Company recognizes the future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the statement of financial position date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

iii. Share-based Compensation

The Company uses the fair value method of valuing compensation expense associated with the Company's share-based compensation plan whereby options are granted to employees, board of directors and key consultants. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The assumptions are discussed in note 9 (d).

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

3. Significant Accounting Policies (*continued*)

iv. *Warrant Valuation*

The Company uses the fair value method of valuing warrants expense associated with the Company's equity instrument issuances. Estimating fair value requires determining the most appropriate valuation model for a grant of warrants, which is dependent on the terms and conditions of the grant. The assumptions are discussed in note 9 (c).

v. *Depreciation*

The amounts recorded for depreciation are based on estimates including economic life of the asset and residual values of the asset at the end of its economic life. The actual lives of the assets and residual values are assessed annually taking into account factors such as technological innovation and maintenance programs.

vi. *Recoverability of Assets*

The Company assesses impairment on its assets that are subject to depreciation when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. In determining fair value less costs to sell and its value in use, the amounts are sensitive to current market prices on comparable assets, commodity prices, and estimated costs to develop and produce.

(o) Accounting Standards, Interpretations and Amendments to Existing Standards That Are Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

- IFRS 9, "Financial instruments". On November 12, 2009, the IASB issued IFRS 9, "Financial Instruments", which will replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). The standard was to be effective for annual periods beginning on or after January 1, 2015. In February, the IASB tentatively decided the mandatory effective date of the final IFRS 9 would now be January 1, 2018. IFRS 9 applies to classification and measurement of financial assets as defined in IAS 39. It uses single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The Company has not yet considered the impact of IFRS 9 on its financial statements.

The Company does not anticipate the adoption of this standard and interpretations will have a material impact on the financial statements.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

3. Significant Accounting Policies (*continued*)

(p) New Accounting Policies

The Company adopted the following new standards and amendments effectively January 1, 2015:

- IFRS 2 “Share-based Payments” is an amendment to clarify the definition of vesting conditions and separately define a performance condition and a service condition. The amendments are effective for a share-based payment transaction for which the grant date was on or after July 1, 2014. There was no impact on the financial statements as a result of adopting this standard.
- IAS 24 “Related Party Disclosures” amendments clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments only affected disclosure and were effective for annual periods beginning on or after July 1, 2014.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

4. Property and Equipment

| | Office Equipment | Buildings | Total |
|-----------------------------------|---------------------|-----------|-----------|
| Cost | | | |
| Balance, January 1, 2015 | \$ 8,735 | \$ 76,194 | \$ 84,929 |
| Disposition of assets | (1,200) | - | (1,200) |
| Balance, December 31, 2015 | \$ 7,535 | \$ 76,194 | \$ 83,729 |
| Accumulated Depreciation | | | |
| Balance, January 1, 2015 | \$ 6,888 | \$ 9,783 | \$ 16,671 |
| Depreciation | 647 | 2,888 | 3,535 |
| Balance, December 31, 2015 | \$ 7,535 | \$ 12,671 | \$ 20,206 |
| Net Book Value, December 31, 2015 | \$ - | \$ 63,523 | \$ 63,523 |

| | Office Equipment | Buildings | Total |
|-----------------------------------|---------------------|-----------|-----------|
| Cost | | | |
| Balance, January 1, 2014 | \$ 9,365 | \$ 76,194 | \$ 85,559 |
| Disposition of assets | (630) | - | (630) |
| Balance, December 31, 2014 | \$ 8,735 | \$ 76,194 | \$ 84,929 |
| Accumulated Depreciation | | | |
| Balance, January 1, 2014 | \$ 5,029 | \$ 6,896 | \$ 11,925 |
| Depreciation | 1,859 | 2,887 | 4,746 |
| Balance, December 31, 2014 | \$ 6,888 | \$ 9,783 | \$ 16,671 |
| Net Book Value, December 31, 2014 | \$ 1,847 | \$ 66,411 | \$ 68,258 |

During the year ended December 31, 2015, the Company disposed of office equipment for proceeds of \$1,200 (2014 – \$630), which was the net book value of the equipment at the time.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

5. Exploration and Evaluation Costs

| Cost | |
|----------------------------|--------------|
| Balance, January 1, 2015 | \$ 6,010,863 |
| Additions | 14,900 |
| Balance, December 31, 2015 | \$ 6,025,763 |

| Cost | |
|----------------------------|--------------|
| Balance, January 1, 2014 | \$ 5,297,784 |
| Additions | 713,079 |
| Balance, December 31, 2014 | \$ 6,010,863 |

For the year ended December 31, 2015, the Company capitalized \$14,900 of exploration and evaluation costs. The capitalized costs for the year ended December 31, 2015 is comprised entirely of costs associated with the field exploration program.

For the year ended December 31, 2014, the Company capitalized \$713,079 of exploration and evaluation costs which was comprised of the following: President and Chief Executive Officer's salary was \$158,864 and costs associated with the 2014 field exploration program were \$554,215.

For the year ended December 31, 2015, the President and Chief Executive Officer's salary of \$161,283 was included in consulting and management expenses.

6. Reclamation Bond

| For the years ending December 31, | 2015 | 2014 |
|--|-----------|-----------|
| Guaranteed investment certificate bearing interest at 0.50% maturing May 29, 2016 | \$ 20,565 | \$ 20,402 |
| Guaranteed investment certificate bearing interest at 0.40% maturing August 27, 2016 | 7,169 | 7,112 |
| | \$ 27,734 | \$ 27,514 |

The reclamation bond is required by the Province of British Columbia in order to pursue drilling in the province. The cash is held in custody by the issuing bank in the form of guaranteed investment certificates and is restricted as to withdrawal or use. Interest income earned from the certificates is paid to the Company upon maturation of the deposit.

The Company will not receive the deposit back until such time that they have fulfilled their decommissioning liability with respect to their property. Accordingly, the reclamation bond has been classified as a non-current asset.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

7. Related Party Transactions

During 2014, Daryn Gordon Professional Corporation, a privately held company owned by a senior officer of the Company, provided consulting services amounting to \$10,220. Daryn Gordon Professional Corporation ceased providing consulting services in the capacity as a senior officer effective May 2014.

During 2014 and 2015, Basenji Solutions, a privately held company owned by a senior officer of the Company, provided consulting services amounting to \$1,209 (2014 - \$17,785). Basenji Solutions ceased providing consulting services in the capacity as a senior officer effective March 2015.

During 2015, 1888025 Alberta Ltd., a privately held company owned by a senior officer of the Company, provided consulting services amounting to \$13,445 (2014 - \$nil) and included \$4,000 in accounts payable at year end.

During 2015, the President and Chief Executive Officer's salary of \$161,283 was included along with the above costs as consulting and management expenses. For 2014, the President and Chief Executive Officer's salary of \$158,864 was capitalized as exploration and evaluation costs.

Office and storage rent was paid to a senior officer of the Company totalling \$7,200 for the year 2015 (2014 - \$4,800) which is included in the office and storage expenses on the statement of comprehensive loss.

Included in receivable due from related party at December 31, 2014 is \$2,500 due from an officer of the Company. The receivable due from related party was repaid during 2015.

Key management personnel compensation:

| For the years ending December 31, | 2015 | 2014 |
|------------------------------------|-------------------|-------------------|
| Included as part of: | | |
| Exploration and evaluation costs | \$ - | \$ 158,864 |
| Consulting and management expenses | 175,937 | 30,450 |
| Share-based compensation | 1,425 | 4,835 |
| Total compensation | \$ 177,362 | \$ 194,149 |

8. Decommissioning Liability

The Company's decommissioning liability is based on its net ownership in the property and represents management's and BC Government's estimate of the costs to reclaim the affected areas as well as an estimate of the future timing of the costs to be incurred. Estimated cash flows have been discounted at the risk free rate of 2.31% (2014 - 2.31%) and an inflation rate of 2.0% (2014 - 2.0%).

The total undiscounted amount of future cash flows required to settle the decommissioning liability is estimated to be \$35,700 (2014 - \$35,000) and will be incurred in approximately twenty years from the date of these financial statements.

| | 2015 | 2014 |
|------------------------------|------------------|------------------|
| Balance, January 1, | \$ 34,262 | \$ 33,488 |
| Accretion expense | 774 | 774 |
| Revisions | - | - |
| Balance, December 31, | \$ 35,036 | \$ 34,262 |

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

9. Share Capital and Reserves

(a) Authorized Share Capital

The Company has authorized an unlimited number of common shares without nominal or par value.

(b) Issued Share Capital

| | Number | Share Capital |
|---|------------|---------------|
| Common shares | | |
| Balance, January 1, 2014 | 45,933,703 | \$4,826,175 |
| Private placement offering - flow-through | 2,317,800 | 42,648 |
| Balance, December 31, 2014 and 2015 | 48,251,503 | \$4,868,823 |

In 2014, the Company closed a private placement offering of 2,317,800 flow-through units for gross proceeds of \$115,890. At December 31, 2014, \$74,890 had been received but not yet deposited into the Company's bank account. Each unit consisted of one flow-through common share and one half (1/2) of a purchase warrant to purchase one common share at \$0.10 expiring on December 31, 2017 (note 9 (c)). The Company recognized a premium liability of \$34,767 from the flow-through units issued for the year ended December 31, 2014. The premium liability was recognized in income for year ended December 31, 2015.

(c) Warrants

Warrants issued and outstanding and exercisable at December 31, 2015 are as follows:

| | Number | Warrants | Average Exercise Price | Weighted Average Remaining Life (years) |
|----------------------------|-------------|-----------|------------------------|---|
| Balance, January 1, 2015 | 11,763,301 | \$756,324 | \$ 0.23 | 2.68 |
| Expiry of warrants | (3,144,834) | (331,424) | \$ 0.40 | - |
| Balance, December 31, 2015 | 8,618,467 | \$424,900 | \$ 0.18 | 2.29 |

Details of the warrants outstanding at December 31, 2015 are as follows:

| Exercise Price | Outstanding Number of Warrants | Weighted Average Remaining Life (years) |
|----------------|--------------------------------|---|
| \$0.10 | 1,158,900 | 2.00 |
| \$0.15 | 3,645,417 | 3.00 |
| \$0.20 | 3,522,500 | 1.83 |
| \$0.50 | 291,650 | 0.18 |
| | 8,618,467 | 2.29 |

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

9. Share Capital and Reserves (continued)

Warrants issued and outstanding and exercisable at December 31, 2014 are as follows:

| | Number | Warrant | Average Exercise Price | Weighted Average Remaining Life (years) |
|---|-------------------|------------------|------------------------|---|
| Balance, January 1, 2014 | 14,134,901 | \$ 1,259,335 | \$ 0.26 | 1.52 |
| Private placement offering – flow-through | 1,158,900 | 38,475 | \$ 0.10 | 3.00 |
| Expiry of warrants | (3,530,500) | (541,486) | \$ 0.27 | - |
| Balance, December 31, 2014 | 11,763,301 | \$756,324 | \$ 0.23 | 2.68 |

Details of the warrants outstanding at December 31, 2014 are as follows:

| Exercise Price | Outstanding Number of Warrants | Weighted Average Remaining Life (years) |
|----------------|--------------------------------|---|
| \$0.10 | 1,158,900 | 3.00 |
| \$0.15 | 3,645,417 | 4.00 |
| \$0.20 | 3,522,500 | 2.83 |
| \$0.25 | 1,300,000 | 0.99 |
| \$0.50 | 2,136,484 | 1.02 |
| | 11,763,301 | 2.68 |

The warrants were valued using the Black-Scholes option pricing model using the weighted average assumptions to estimate the fair value as follows:

| | |
|-------------------------|-------|
| As at December 31 | 2014 |
| Risk-free interest rate | 1.06% |
| Expected life - years | 3.0 |
| Expected volatility | 248% |
| Expected dividend yield | 0% |
| Forfeiture rate | 0% |

During 2014, the Company extended the expiry date of 10,604,401 share purchase warrants.

The details of the warrants extended are as follows:

| Year Issued | Original Expiry Date | Number of Warrants | Extended Expiry Date | Exercise Price |
|-------------|----------------------|--------------------|----------------------|----------------|
| 2010 | December 31, 2014 | 1,844,834 | December 29, 2015 | \$0.50 |
| 2010 | December 31, 2014 | 1,300,000 | December 29, 2015 | \$0.25 |
| 2011 | December 31, 2014 | 291,650 | March 7, 2016 | \$0.50 |
| 2012 | December 31, 2014 | 3,522,500 | October 29, 2017 | \$0.20 |
| 2013 | December 31, 2016 | 3,645,417 | December 31, 2018 | \$0.15 |
| | | 10,604,401 | | |

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

9. Share Capital and Reserves (*continued*)

(d) Share purchase options

The Company has a share purchase option plan under which employees, directors and key consultants and/or advisors are eligible to be granted options. Under the share purchase option plan, which was approved by the shareholders, the granted share purchase options vest to the grantee over one year and the grantee has the right to exercise those share options for five years from the date of the granting and typically terminate 90 days following the termination of the optionee's employment or engagement. The maximum number of outstanding share purchase options under the plan is limited to 20% of the number of common shares outstanding. The number of share purchase options and the exercise price is set by the Company's Board of Directors based on the market value at the time of granting. During 2015, the Company recorded share-based compensation expense of \$1,425 (2014 - \$26,535).

Share options issued and outstanding at December 31, 2015 are as follows:

| | Number | Weighted Average Exercise Price |
|----------------------------|-----------|------------------------------------|
| Balance, January 1, 2015 | 4,815,220 | \$ 0.17 |
| Expired | (540,220) | (0.09) |
| Granted | 100,000 | 0.05 |
| Balance, December 31, 2015 | 4,375,000 | \$ 0.17 |

Details of the share options outstanding at December 31, 2015 are as follows:

| Exercise Price | Outstanding Number of Options | Exercisable Number of Options | Weighted Average Remaining Life (years) |
|----------------|-------------------------------------|----------------------------------|---|
| \$ 0.05 | 1,260,000 | 1,235,000 | 3.05 |
| \$ 0.10 | 615,000 | 615,000 | 1.59 |
| \$ 0.25 | 2,500,000 | 2,500,000 | 0.23 |

Share options issued and outstanding at December 31, 2014 are as follows:

| | Number | Weighted Average Exercise Price |
|----------------------------|-------------|------------------------------------|
| Balance, January 1, 2014 | 6,150,220 | \$ 0.17 |
| Expired | (1,700,000) | (0.15) |
| Granted | 315,000 | 0.05 |
| Granted | 50,000 | 0.07 |
| Balance, December 31, 2014 | 4,815,220 | \$ 0.17 |

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

9. Share Capital and Reserves (continued)

Details of the share options outstanding at December 31, 2014 are as follows:

| Exercise Price | Outstanding Number of Options | Exercisable Number of Options | Weighted Average Remaining Life (years) |
|----------------|-------------------------------|-------------------------------|---|
| \$ 0.05 | 1,235,000 | 1,235,000 | 3.94 |
| \$ 0.07 | 50,000 | 12,500 | 4.74 |
| \$ 0.10 | 985,000 | 985,000 | 2.59 |
| \$ 0.25 | 2,545,220 | 2,545,220 | 1.23 |

During 2015, the Company granted 100,000 (2014 – 365,000) share purchase options to purchase common shares at an average exercise price of \$0.05 (2014 - \$0.05). Options were priced using the Black-Scholes option pricing model using the weighted average assumptions to estimate the fair value of options granted:

| | 2015 | 2014 |
|--------------------------|-------|---------------|
| Risk-free interest rate | 0.82% | 1.33% - 1.66% |
| Expected life - years | 5.00 | 5.00 |
| Expected volatility | 358% | 233% - 248% |
| Expected dividend yield | 0% | 0% |
| Expected forfeiture rate | 5% | 5% |

(e) Contributed surplus

| | |
|----------------------------------|--------------|
| Balance, December 31, 2013 | \$ 2,021,162 |
| Share-based compensation expense | 26,535 |
| Expiry of warrants | 541,486 |
| Balance, December 31, 2014 | 2,589,183 |
| Share-based compensation expense | 1,425 |
| Expiry of warrants | 331,424 |
| Balance, December 31, 2015 | \$ 2,922,032 |

(f) Loss per share

Basic loss per share amounts are calculated by dividing the total net loss and comprehensive loss for the year attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the year.

The Company's dilutive instruments consist of share purchase options and warrants.

The basic and diluted loss per share amounts are the same as the share purchase options and warrants were excluded from the dilution calculation, as they were anti-dilutive.

The weighted average number of shares outstanding for purposes of calculating basic loss per share for the year ended December 31, 2015 was 48,251,503 (2014 – 45,940,053).

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

10. Tax

Deferred tax recovery varies from the amount that would be computed by applying the expected basic federal and provincial tax rates for Canada at December 31, 2015 at 26% (2014 – 25%) to loss before deferred tax recovery.

A reconciliation of the differences is as follows:

| For the years ended December 31, | 2015 | 2014 |
|--|-------------|--------------|
| Loss before deferred tax recovery | \$(259,503) | \$(229,286) |
| Computed taxes | (67,471) | (57,322) |
| Increase (decrease) in taxes: | | |
| Non-deductible expenses | 738 | 7,062 |
| Change in enacted tax rates | 9,374 | (1,507) |
| Renouncement on flow-through shares | 30,650 | 112,643 |
| Premium on issuance of flow-through shares | (34,767) | (218,725) |
| Deferred tax recovery | \$ (61,476) | \$ (157,849) |

The statutory tax rate increased from 25% to 26% due to an increase in the provincial tax rate on July 1, 2015.

| Deferred tax asset (liability) | 2015 | 2014 |
|----------------------------------|--------------|--------------|
| Non-capital losses | \$ 550,848 | \$ 468,496 |
| Share issue costs | 274 | 6,521 |
| Net deferred tax assets | 551,122 | 475,017 |
| Exploration and evaluation costs | (1,040,208) | (990,812) |
| Net deferred tax liability | \$ (489,086) | \$ (515,795) |

A summary of the gross tax balances available to the Company are as follows:

| Expiry | Non-capital losses | CCA and Resource pools | Other |
|-------------------|--------------------|------------------------|----------|
| Within one year | \$ - | \$ - | \$ - |
| Two to five years | - | - | - |
| After five years | 2,098,468 | - | 1,049 |
| No expiry date | - | 1,328,748 | 12,861 |
| | \$ 2,098,468 | \$ 1,328,748 | \$13,910 |

At December 31, 2015, the Company had non-capital losses of \$2,098,468 (2014 - \$1,819,401) for tax purposes, expiring in various years ranging from 2028 to 2034. The Company also has \$1,328,748 (2014 - \$1,433,276) of resource tax and CCA pools available, which can be carried forward and utilized to reduce current taxes related to certain resource income. Tax expense has been reduced by the premium received on the issuance of the prior year's flow-through shares of \$34,767 (2014 - \$218,725) as the expenditures were renounced to investors during the year.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

11. Financial Instruments and Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The committee reports regularly to the Board of Directors on its activities.

(a) Credit risk

Credit risk arises from the possibility that a counterparty to which the Company provides goods or services is unable or unwilling to fulfill their obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents. The Company limits its exposure to credit risk by dealing with well rated entities. No amounts are past due.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is through regular monitoring of cash requirements by preparing short-term and long-term cash flow analyses. When necessary, the Company obtains financing from various investors to ensure all future obligations are fulfilled. The Company does not have any contractual obligations other than the accounts payable and accrued liabilities which are due within the next 12 months, reported on the statement of financial position.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of market price changes: foreign currency exchange rates, interest rates and commodity prices.

i. Foreign currency exchange risk

The Company is not exposed to foreign currency exchange rate fluctuations as the Company conducts all of its business in Canada.

ii. Interest rate risk

Interest rate risk is the risk of change in the borrowing rates of the Company. The Company does not have any exposure to changes in interest rates and is therefore not exposed to this risk.

iii. Commodity price risk

Commodity price risk is the risk of price volatility of commodity prices, such as mineral prices. Currently the Company does not have commercial operations and is therefore not exposed to this risk. Commodity prices generally fluctuate beyond the control of the Company. Factors which contribute to the fluctuation are, but not limited to, demand, forward sales, worldwide production, speculative hedging activities, and bank lending rates.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

11. Financial Instruments and Risk Management (*continued*)

(d) Fair value of financial instruments

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument. The carrying value of GST receivable, receivable due from related party, reclamation bond and accounts payable and accrued liabilities equals fair value due to the short-term nature.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (adjusted) in the active market for identical assets or liabilities. Cash and cash equivalents are measured using Level 1 inputs.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

12. Capital Management

The Company manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors.

The Company's objectives when managing capital are:

- (a) to safeguard the Company's ability to continue as a going concern and provide returns for shareholders; and,
- (b) to facilitate the development of its core business.

The Company considers the following items capital of the Company:

- (a) cash and cash equivalents; and,
- (b) shareholders' equity.

The following table represents the capital of the Company:

| As at December 31 | 2015 | 2014 |
|---------------------------|--------------|--------------|
| Cash and cash equivalents | \$ 531,194 | \$ 691,798 |
| Shareholders' equity | \$ 6,126,780 | \$ 6,248,492 |

The Company does not have any externally imposed restrictions on its capital.

There have been no changes in the Company's approach to capital management from previous years.

SILVER MOUNTAIN MINES INC.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014
(all amounts are expressed in Canadian dollars)

13. Commitment

The Company entered into two Net Smelter Royalty Agreements ("NSR") on May 16, 2008 with one director and two former directors of the Company. Each NSR requires the Company to pay a 3% royalty on the gross value of all products shipped from the property to a third party smelter less allowable expenses. If the minerals are shipped to a party other than a smelter, the royalty is decreased to 2% of the value of the recoverable metals and minerals determined by third party testing.