Financial Statements of

SILVER MOUNTAIN MINES INC.

Years ended December 31, 2011 and 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Silver Mountain Mine 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 Mine 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 annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Committee is also responsible for recommending the appointment of Silver Mountain Mine Inc.'s external auditors.

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

March 22, 2012

"signed"	*"signed"*
Director, President and CEO – Steve Konopelky	Chief Financial Officer – Daryn Gordon

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, 2011 and 2010 and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and 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.

Auditor's 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, 2011 and 2010 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

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to 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 of $836,853 (2010 - $107,552), accumulated deficit of $1,286,444 (2010 - $449,591) and negative cash from operations of $454,418 (2010 - $16,350). Silver Mountain Mines Inc.'s ability to continue as a going concern depends on its ability to obtain the necessary financing to complete the exploration and development of mineral properties, obtain the necessary permits to mine, and obtain future profitable production or proceeds from the disposition of its mineral properties. These conditions indicate the existence of a material uncertainty which may cast significant doubt about Silver Mountain Mines Inc. ability to continue as a going concern.

MNP LLP

Calgary, Canada
March 22, 2012

Chartered Accountants

SILVER MOUNTAIN MINES INC.

Statements of Financial Position
(in Canadian dollars)

As at December 31,

		2011		2010
Assets				
Current assets:				
Cash and cash equivalents	$	3,127,548	$	3,648,332
GST receivable		151,672		27,801
Interest receivable		22,567		-
Subscriptions receivable		-		46,000
Prepaid expense		37,223		7,650
		3,339,010		3,729,783
Non-current assets:				
Property and equipment (note 3)		66,839		516
Exploration and evaluation costs (note 4)		3,322,145		1,942,983
Reclamation bond		7,000		7,000
		3,395,984		1,950,499
Total assets	$	6,734,984	$	5,680,282
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	90,278	$	138,500
Premium liability (note 6(b)(i))		87,815		292,050
		178,093		430,550
Non-current liabilities:				
Deferred tax liability (note 7)		318,963		51,456
Decommissioning liability		1,565		1,164
		320,528		52,620
Total liabilities	$	498,621	$	483,170
Going concern (note 1)				
Commitments (note 10)				
Subsequent event (note 11)				
Shareholders' equity:				
Share capital (note 6(b))	$	4,731,285	$	3,417,032
Warrants (note 6(c))		2,174,367		1,949,028
Contributed surplus (note 6(e))		617,165		280,643
Deficit		(1,286,444)		(449,591)
Total shareholders' equity		6,236,373		5,197,112
Total liabilities and shareholders' equity	$	6,734,994	$	5,680,282

Approved on behalf of the Board:

"signed"
Director, President and CEO – Steve Konopelky

"signed"
Director and Secretary – Charles Burgess

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

SILVER MOUNTAIN MINES INC.

Statements of Comprehensive Loss
(in Canadian dollars)

Years ended December 31,

	2011	2010
Expenses		
Accretion expense	$ 162	$ 106
Advertising and promotion	17,529	-
Automotive	6,086	6,137
Bank and interest charges	868	5
Consulting fees	117,794	-
Depreciation	2,238	171
Insurance	26,874	12,101
Licenses	22,198	2,152
Meals and entertainment	19,253	10,393
Office	83,517	13,160
Professional fees	190,581	57,089
Salaries and benefits	14,730	-
Share-based compensation (note 5 and note 6)	336,522	61,835
Telephone	9,301	5,223
Travel	23,691	15,657
	871,343	184,029
Interest income	39,505	-
Loss before deferred income tax expense	(831,838)	(184,029)
Deferred tax recovery (expense) (note 7)	(5,015)	76,477
Net loss and comprehensive loss for the year attributable to shareholders	(836,853)	(107,552)
Basic and diluted loss per share (note 6(f))	$ (0.02)	$ (0.01)

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

SILVER MOUNTAIN MINES INC.

Statements of Changes in Equity
(in Canadian dollars)

	Share Capital						
	Number of Shares	Amount	Shared to be Issued	Contributed Surplus	Warrants	Deficit	Total
Balance, December 31, 2009	10,939,100	$ 433,281	$ 400,000	$ 218,808	$ 784,244	$ (342,039)	$1,494,294
Shares issued for cash, net of share issue costs (note 6)	16,165,201	2,798,151	-	-	950,384	-	3,748,535
Shares issued on property acquisition (note 6)	1,600,000	185,600	(400,000)	-	214,400	-	-
Share-based compensation (note 6)	-	-	-	61,835	-	-	61,835
Total comprehensive loss	-	-	-	-	-	(107,552)	(107,552)
Balance, December 31, 2010	28,704,301	$ 3,417,032	$ -	$ 280,643	$ 1,949,028	$ (449,591)	$5,197,112
Shares issued for cash, net of share issue costs (note 6)	6,416,297	1,314,253	-	-	225,339	-	1,539,592
Share-based compensation (note 6)	-	-	-	336,522	-	-	336,522
Total comprehensive loss	-	-	-	-	-	(836,853)	(836,853)
Balance, December 31, 2011	35,120,598	$ 4,731,285	$ -	$ 617,165	$ 2,174,367	$(1,286,444)	$6,236,373

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

SILVER MOUNTAIN MINES INC.

Statements of Cash Flows
(in Canadian dollars)

Years ended December 31,

	2011	2010
Cash provided by (used in):		
Operations		
Net loss and comprehensive loss	$ (836,853)	$ (107,552)
Items not involving cash:		
Amortization	2,238	171
Accretion expense	162	106
Stock-based compensation	336,522	61,835
Deferred income tax (recovery) expense	267,507	(76,477)
	(230,424)	(121,917)
Change in non-cash working capital		
GST receivable	(123,871)	(4,967)
Interest receivable	(22,567)	-
Accounts payable and accrued liabilities	(48,222)	110,435
Prepaid expense	(29,573)	46
Reclamation bond	239	53
	(223,994)	105,567
Net cash used in operations	(454,418)	(16,350)
Financing		
Issuance of common shares, net of share issue costs	1,539,592	3,748,535
Change in non-cash working capital		
Subscriptions receivable	46,000	8,000
Premium liability	(204,235)	292,050
Net cash provided from financing activities	1,381,357	4,048,585
Investing		
Exploration and evaluation costs	(1,379,204)	(491,375)
Property and equipment	(68,519)	-
Net cash used in investing activities	(1,447,723)	(491,375)
Increase (decrease) in cash	(520,784)	3,540,860
Cash and cash equivalents, beginning of year	3,648,332	107,472
Cash and cash equivalents, end of year	$ 3,127,548	$ 3,648,332

Cash and cash equivalents includes the following:

Cash	$ 610,609	$ 3,648,332
Short-term investments	2,516,939	-
Cash and cash equivalents	$ 3,127,548	$ 3,648,332

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

1. Nature of Operations and Continuance of Operations

Silver Mountain Mines Inc. (the "Company"), formerly Rupestris Mines Inc., 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. These financial statements were approved and authorized for issue on March, 22, 2012 by the Board of Directors. The registered office of the Company is Suite 301 1301 – 8^{th} Street SW, Calgary, Alberta T2R 1B7.

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, 2011, the Company incurred a total net loss and comprehensive loss of $836,853 (December 31, 2010 - $107,552) and as at December 31, 2011 had an accumulated deficit of $1,286,444 (December 31, 2010 - $449,591).

The Company raised approximately $1,540,000, net of share issuance costs, during 2011 (2010 - $3,748,000) through private placements to fund the operations of the Company.

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.

The financial statements are stated in Canadian dollars which is the Company’s functional currency and have been prepared on a going concern basis, under the historical cost convention.

2. Significant Accounting Policies

(a) Statement of Compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") of the International Accounting Standards Board ("IASB"), and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect at year end.

(b) 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.

2. Significant Accounting Policies *(continued)*

(c) 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 income.

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 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 profit or 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.

(d) Impairment

At the end of each reporting period the carrying amounts of the Company's 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 are also monitored 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 and 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.

2. Significant Accounting Policies *(continued)*

(d) 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.

(e) 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 profit and loss.

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 or 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.

(f) 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.

2. Significant Accounting Policies *(continued)*

(f) Share-based Payments *(continued)*

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 financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

(g) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred taxes. Income tax is recognized in profit and 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 income 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 income 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 income 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 income 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 income tax asset is realized or the deferred income 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.

(h) Decommissioning Obligations

An obligation to incur decommissioning obligation 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.

2. Significant Accounting Policies *(continued)*

(h) Decommissioning Obligations *(continued)*

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 profit or loss.

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.

The Company does not have any material environmental restoration obligation costs as the disturbance to date is insignificant.

(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 and Loss ("FVTPL")*

Financial assets held at fair value through profit and loss 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 including transaction costs 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. *Other Financial Liabilities*

Other financial liabilities measured at amortized cost consist of accounts payable and accrued 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 recognized at fair value of the consideration received or the value of payments received less any transaction costs. Other financial liabilities are measured at amortized cost using the effective interest rate method.

2. Significant Accounting Policies *(continued)*

(j) Financial Instruments *(continued)*

Other financial liabilities are derecognized when the contractual obligation is discharged, cancelled or expired.

iii. *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, 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 finance income in profit or loss. The losses arising from impairment are recognized in profit or loss in finance costs for loans and in operating expense for receivables. This category includes GST receivable, interest receivable and subscriptions receivable.

(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.

ii. *Available for sale financial assets*

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously 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.

2. Significant Accounting Policies *(continued)*

(m) Significant Accounting Judgments, Estimates, and Assumptions

The preparation of these financial statements requires management to make use of judgments, estimates and assumptions when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgments made by management.

Actual results could differ from those estimates as future confirming events occur. Significant assumptions and estimates about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amount of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the estimates of environmental restoration obligation, useful life and salvage values of property and equipment, recovery of assets, income taxes, share-based compensation and warrant valuation.

(n) New and Amended Standards and Intrepretations effective as of January 1, 2011

The accounting policies adopted are consistent with those of the previous financial year, except for the following:

i. IAS 24 Related Party Disclosures (Amendment) – The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definition emphasizes a symmetrical view on related party relationships as well as clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. While the adoption of the amendment did not have any current impact on the financial position or performance, or disclosures of the Company, as all required information is currently being appropriately captured and disclosed, it is relevant to the application of the Company's accounting policy in identifying future potential related party relationships.

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

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after January 1, 2012 or later. These include:

i. IFRS 7, Financial Instruments, Disclosure – in December 2011, the International Accounting Standards Board (IASB) issued final amendments to the disclosure requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for annual periods beginning on or after January 1, 2013.

2. Significant Accounting Policies *(continued)*

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

ii. IFRS 9, Financial Instruments, Classifications and Measurement – in November 2009, the IASB issued IFRS 9 to address the classification and measurement of financial assets. In October 2010, the IASB revised the standard to include financial liabilities. The standard is required to be adopted for annual periods beginning on or after January 1, 2015. Portions of the standard remain in development and the full impact of the standard will not be known until the project is complete.

iii. IFRS 10 Consolidated Financial Statements – in May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard replaces IAS 27 and is required to be adopted for annual periods beginning on or after January 1, 2013.

iv. IFRS 11 Joint Arrangements – in May 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard also amends IAS 28 to include joint ventures and is required to be adopted for annual periods beginning on or after January 1, 2013.

v. IFRS 12 Disclosure of Interests in Other Entities – in May 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for annual periods beginning on or after January 1, 2013.

vi. IFRS 13 Fair Value Measurement – in May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for annual periods beginning on or after January 1, 2013.

vii. IAS 1 Presentation of Items of Other Comprehensive Income – in June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to separate items of other comprehensive income between those that are reclassed to income and those that are not. The standard is required to be adopted for annual periods beginning on or after July 1, 2012.

viii. IAS 32 Financial Instruments: Presentation – In December 2011, the IASB issued amendments to address inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The standard is required to be adopted retrospectively for annual periods beginning on or after January 1, 2014.

The Company does not anticipate the adoption of these standards and interpretations will have a material impact to the financial statements.

SILVER MOUNTAIN MINES INC.
Notes to Financial Statements

Years ended December 31, 2011 and 2010
(all amounts are expressed in Canadian dollars)

3. Property and Equipment

	Office Equipment	Buildings	Total
Cost			
Balance, January 1, 2011	$ 861	$ -	$ 861
Additions	5,159	63,360	68,519
Balance, December 31, 2011	$ 6,020	$ 63,360	$ 69,380
Accumulated Depreciation			
Balance, January 1, 2011	$ 345	$ -	$ 345
Depreciation	929	1,267	2,196
Balance, December 31, 2011	$ 1,274	$ 1,267	$ 2,541
Net Book Value December 31, 2011	$ 4,746	$ 62,093	$ 66,839

	Office Equipment	Buildings	Total
Cost			
Balance, January 1, 2010	$ 861	$ -	$ 861
Additions	-	-	-
Balance, December 31, 2010	$ 861	$ -	$ 861
Accumulated Depreciation			
Balance, January 1, 2010	$ 216	$ -	$ 216
Depreciation	129	-	129
Balance, December 31, 2010	$ 345	$ -	$ 345
Net Book Value December 31, 2010	$ 516	$ -	$ 516

(all amounts are expressed in Canadian dollars)

4. Exploration and Evaluation Costs

Cost		
Balance, January 1, 2011	$	1,943,025
Additions		1,379,204
Balance, December 31, 2011	$	3,322,229
Accumulated Depreciation		
Balance, January 1, 2011	$	42
Depreciation		42
Balance, December 31, 2011	$	84
Net Book Value December 31, 2011	$	3,322,145

Cost		
Balance, January 1, 2010	$	1,450,592
Additions		492,433
Balance, December 31, 2010	$	1,943,025
Accumulated Depreciation		
Balance, January 1, 2010	$	-
Depreciation		42
Balance, December 31, 2010	$	42
Net Book Value December 31, 2010	$	1,942,983

On March 6, 2009, the Company exercised an option pursuant to an option agreement (the "Option Agreement") to acquire a 100% undivided interest in the Ptarmigan Property, located about 35 km west of Radium, British Columbia within the Kootenay Mountains from related parties (see note 5). The Company is currently exploring the mineral properties.

(all amounts are expressed in Canadian dollars)

5. Related Party Transactions

During 2011, IPH Developments Inc., a privately held company owned by a director of the Company, provided exploration, mining and management services amounting to $91,665 (2010 - $78,000). Of this amount nil (2010 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in exploration and evaluation costs.

During 2011, Robert S. Didur, Mining Consultant and a former director, provided consulting services amounting to $12,571 (2010 - $95,618) up to the date of resignation. Of this amount nil (2010 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in exploration and evaluation costs.

During 2011, Seel Forest Products Ltd., a privately held company owned by a former director of the Company, provided consulting services amounting to nil (2010 - $88,116) up to the date of resignation. Of this amount nil (2010 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in exploration and evaluation costs.

During 2011, Caracle Creek International Consulting Inc., a privately held company owned by a former director of the Company, provided consulting services amounting to nil (2010 - $19,482) up to the date of resignation. Of this amount nil (2010 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in exploration and evaluation costs.

During 2011, Charles D. Burgess Professional Corporation, a privately held company owned by a director of the Company, provided consulting services amounting to nil (2010 - $8,700). Of this amount nil (2010 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in professional fees.

During 2011, Daryn Gordon Professional Corporation, a privately held company owned by a senior officer of the Company, provided consulting services amounting to $60,000 (2010 - nil). Of this amount $5,000 (2010 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in consulting fees.

The terms and conditions of the transactions with IPH Developments Inc., Robert S. Didur, Seel Forest Products Ltd., Caracle Creek International Consulting Inc., and Charles D. Burgess Professional Corporation were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

During 2009, the Company acquired certain mining claims and crown grants from two directors of the Company for $750,000. Consideration for this purchase comprised the issuance of 1,400,000 units at a deemed fair value of $350,000 during 2009, and the issuance of 1,600,000 units with a deemed fair value of $400,000 during 2010. Each unit consists of one common share and one purchase warrant to purchase one common share at $0.25, expiring December 31, 2012.

Key management personnel compensation:

	2011	2010
Management salaries and consulting fees	$ 150,000	$ 78,000
Share-based compensation	328,358	61,835
Total compensation	$ 478,358	$ 139,825

(all amounts are expressed in Canadian dollars)

6. Share Capital and Reserves

(a) Authorized Share Capital

The Company has authorized an unlimited number of common shares without nominal or par value. At December 31, 2011, the Company has a subscription receivable of nil (2010 - $46,000) resulting from the issuance of these shares.

(b) Issued:

Share capital:

	Number	Share Capital
Common shares		
Balance, December 31, 2009	10,939,100	$ 433,281
Private placement offering - flow-through (iii)	5,841,001	1,120,695
Private placement offering – common (iv)	10,324,200	2,139,414
Property acquisition (v)	1,600,000	185,600
Share issue costs	-	(461,958)
Balance, December 31, 2010	28,704,301	3,417,032
Private placement offering - flow-through (i)	1,756,297	383,964
Private placement offering – common (ii)	4,660,000	1,018,964
Share issue costs	-	(88,675)
Balance, December 31, 2011	35,120,598	$ 4,731,285

i. In 2011, the Company closed a private placement offering of 1,756,297 flow-through units for gross proceeds of $526,889. Each unit consisted of one flow-through common share and one-half purchase warrant to purchase one common share at $0.50 expiring eighteen months from the date of issuance. The Company has recognized a premium liability of $87,815 from these flow-through units issued.

ii. In 2011, the Company closed a private placement offering of 4,660,000 common share units at $0.25 for gross proceeds of $1,165,000. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant consisting of two half common share purchase warrants entitles the holder to purchase one common share at $0.50 expiring eighteen months from the date of issuance.

(all amounts are expressed in Canadian dollars)

6. Share Capital and Reserves *(continued)*

(b) Issued *(continued)*

iii. In 2010, the Company closed a private placement offering of 5,841,001 flow-through units for gross proceeds of $1,752,300. Each unit consists of one flow-through common share and one half common share purchase warrant. Each whole warrant consisting of two half common share purchase warrants entitles the holder to purchase one common share at $0.50 expiring December 31, 2012. The Company has recognized a premium liability of $292,050 from these flow-through units issued.

iv. In 2010, the Company closed a private placement offering of 10,324,200 common share units at $0.25 for gross proceeds of $2,581,050. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant consisting of two half common share purchase warrants entitles the holder to purchase one common share at $0.50 expiring December 31, 2012.

v. In 2010, the Company completed its transaction relating to the acquisition of certain mining claims and crown grants from related parties through the issuance of 1,600,000 common share units with a deemed fair value of $400,000 (see note 5). Each common share unit consists of one common share and one purchase warrant to purchase one common share at $0.25, expiring December 31, 2012.

(c) Warrants

Warrants issued and outstanding at December 31, 2011 are as follows:

	2011			
	Number	Warrant	Average Exercise Price	Weighted Average Remaining Life
Balance, opening	16,379,129	$1,949,028	$ 0.38	2.00
Private placement offering – flow-through	878,149	$ 55,110	$ 0.50	0.66
Private placement offering – common	2,330,000	$ 146,036	$ 0.50	0.67
Private placement offering – broker warrants	388,592	$ 24,193	$ 0.50	0.67
Warrants, December 31, 2011	19,975,870	$2,174,367	$ 0.40	0.94

(all amounts are expressed in Canadian dollars)

6. Share Capital and Reserves *(continued)*

(c) Warrants *(continued)*

Warrants issued and outstanding at December 31, 2010 are as follows:

	2010			
	Number	Warrant	Average Exercise Price	Weighted Average Remaining Life
Balance, opening	4,939,100	$ 784,244	$ 0.27	2.00
Private placement offering – flow-through	2,920,501	$ 339,555	$ 0.50	2.00
Private placement offering – common	5,162,100	$ 441,636	$ 0.50	2.00
Private placement offering – broker warrants	1,757,428	$ 169,193	$ 0.25	2.00
Property acquisition	1,600,000	$ 214,400	$ 0.25	2.00
Warrants, December 31, 2010	16,379,129	$1,949,028	$ 0.38	2.00

During 2011, the Company, in conjunction with the brokered private placements of units and flow-through shares described in notes 6(b)(i) and (ii) issued 388,592 (2010 – 1,757,428) broker warrants. Each broker warrant expires either June 20, 2012 or September 20, 2012 and entitles the holder to acquire one common share at an average exercise price of $0.50 per share. At the time of issuance, the average fair value of the broker warrants was estimated to be $24,193 (2010 - $169,193) and has been recognized as share issuance costs.

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

	2011	2010
Risk-free interest rate	1.66%	1.60%
Expected life	1.5 years	2.4 years
Expected volatility	95%	95%
Grant date share price	$ 0.25 – 0.30	$ 0.25 – 0.30
Expected dividend yield	0%	0%

(all amounts are expressed in Canadian dollars)

6. Share Capital and Reserves *(continued)*

(d) Stock options

The Company has a share purchase option plan under which employees, directors and key consultants and/or advisors are eligible to receive grants. Under the stock option plan, which was approved by the shareholders, the granted stock options vest to the grantee over one year and the grantee has the right to exercise those stock 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 stock options under the plan is limited to 20% of the number of common shares outstanding. The number of stock options and the exercise price is set by the Company's Board of Directors based on the market value at the time of granting. Stock options granted and outstanding are as follows:

Stock options issued and outstanding at December 31, 2011 are as follows:

	Number		**Weighted Average Exercise Price**
Balance, December 31, 2010	1,720,220	$	0.25
Forfeited	(775,000)		(0.25)
Granted	2,272,000		0.25
Balance, December 31, 2011	3,217,220	$	0.25

Details of the stock options outstanding at December 31, 2011 are as follows:

Exercise Price	**Outstanding Number of Options**	**Exercisable Number of Options**	**Weighted Average Remaining Life**
$ 0.25	3,217,220	3,189,470	4.24

Stock options issued and outstanding at December 31, 2010 are as follows:

	Number		**Weighted Average Exercise Price**
Balance, December 31, 2009	1,520,220	$	0.25
Forfeited	(250,000)		(0.25)
Granted	450,000		0.25
Balance, December 31, 2010	1,720,220	$	0.25

(all amounts are expressed in Canadian dollars)

6. Share Capital and Reserves *(continued)*

(d) Stock options *(continued)*

Details of the stock options outstanding at December 31, 2010 are as follows:

Exercise Price	Outstanding Number of Options	Exercisable Number of Options	Weighted Average Remaining Life
$ 0.25	1,720,220	1,720,220	2.00

During 2011, the Company granted 2,272,000 (2010 - 450,000) share purchase options to purchase common shares at an average exercise price of $0.25 per common share.

The weighted average fair value of the share purchase options granted during the period is $0.15 (2010 – $0.13). Options were priced using the Black-Scholes option pricing model using the weighted average assumptions to estimate the fair value of options granted:

	2011	2010
Risk-free interest rate	1.72%	1.56 - 1.61%
Expected life	4.24 years	2.0 years
Expected volatility	90%	95%
Weighted average grant date share price	$ 0.25	$ 0.25
Expected dividend yield	0%	0%

(e) Contributed surplus

Balance, January 1, 2010	$ 218,808
Share-based compensation	61,835
Balance, December 31, 2010	280,643
Share-based compensation	336,522
Balance, December 31, 2011	$ 617,165

(f) Loss per share

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

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

The basic and diluted loss per share amounts are the same as the stock 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 at December 31, 2011 was 34,033,515 (2010 – 12,771,774).

(all amounts are expressed in Canadian dollars)

7. Income Tax

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada at December 31, 2011 at 26.50% (2010 – 28.00%) to income before income taxes.

A reconciliation of the differences is as follows:

		2011		2010
Computed income taxes	$	(220,437)	$	(51,528)
Increase (decrease) in taxes:				
Share issue costs		-		(67,240)
Non-deductible expenses		93,588		18,768
Differences in tax rates		7,180		3,510
Prior estimate adjustment		(21,339)		20,013
Renouncement on flow-through shares		438,073		-
Premium on issuance of flow-through shares		(292,050)		-
	$	5,015	$	(76,477)

Deferred income tax assets (liabilities)		2011		2010
Non-capital losses	$	228,569	$	66,688
Share issue costs		66,315		57,280
Net deferred income tax assets		294,884		123,968
Exploration and evaluation costs		(613,847)		(175,424)
Net deferred income tax liability	$	(318,963)	$	(51,456)

A summary of the gross tax balances in which a deferred income tax asset was recognized is as follows:

Expiry		Non-capital losses		CCA and Resource pools		Other
Within one year	$	-	$	-	$	-
Two to five years		-		-		-
After five years		914,275		-		265,263
No expiry date		-		564,838		17,193
	$	914,275	$	564,838	$	282,456

At December 31, 2011, the Company had losses of $914,275 (2010 - $266,752) for income tax purposes, expiring in various years ranging from 2028 to 2031. The Company also has $498,312 (2010 - $871,637) of resource tax pools available, which can be carried forward and utilized to reduce current taxes related to certain resource income. During 2011, the Company renounced $1,752,300 (2010 - nil) of its resource pools to its shareholders. As a result, the Company has recognized a deferred income tax liability and a corresponding deferred income tax expense of $438,073 (2010 – nil). This expense has been reduced by the premium charged on the issuance of the flow-through shares of $292,050 (2010 –nil).

8. 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 and Risk Management 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 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.

8. 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 imputs used to value the instrument.

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 than quoted prices that are observable for the assets for 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). Interest receivable, subscription receivable, accounts payable and accrued liabilities are measured using Level 3 inputs.

9. 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:

	2011	2010
Cash and cash equivalents	$ 3,127,548	$ 3,648,332
Shareholders' equity	$ 6,236,373	$ 5,197,112

(all amounts are expressed in Canadian dollars)

9. Capital Management (continued)

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.

10. Commitments

I. 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 lease 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.

II. The Company has a commitment under its issuance of flow through shares to spend approximately $526,000 in flow through expenditures in 2012.

III. The Company entered into a lease with a third party to rent office space. The following is the lease commitments for the next five years:

2012	$	31,567
2013	$	-
2014	$	-
2015	$	-
2016	$	-

11. Subsequent Event

On February 15, 2012 the Company completed a listing application with the TSX-Venture exchange to trade its Class A common shares and common share purchase warrants. The Company has also delisted from the Canadian Stock Exchange ("CNSX").

12. Comparative Figures

Certain prior year's figures have been reclassified to conform to the current year's presentation.