

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management's Discussion and Analysis ("MD&A") is dated August 12, 2014 for the three months and six months ended June 30, 2014. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### **BUSINESS DESCRIPTION AND READER GUIDANCE**

Silver Mountain Mines Inc. (the "Company") is a Canadian exploration and mining company incorporated on May 12, 2008. The principal business activities of the Company are the exploration and development of mining properties and are considered to be in the exploration stage.

On June 21, 2011, the Company listed on the Canadian National Stock Exchange under the symbol SMM. On February 15, 2012, the Company moved its listing from the Canadian National Stock Exchange to the TSX Venture Exchange ("TSXV") trading under the symbol SMM.

The Company's financial statements were prepared in accordance with IFRS that are applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. At June 30, 2014, the Company had an accumulated deficit of \$1,742,177 (December 31, 2013 – \$1,819,511), and a working capital surplus of \$1,394,643 (December 31, 2013 – \$1,207,454).

The Company's ability to continue as a going concern is dependent upon the ability to generate profitable operations and/or raise the necessary debt or equity financing to meet obligations and repay liabilities as they come due. The Company plans to explore all alternatives possible for securing its financial viability including joint ventures, debt and equity financings, merger opportunities and asset dispositions. There are no assurances that the Company will be successful with these initiatives and there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

### **FORWARD-LOOKING INFORMATION**

Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ materially from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include the ability of the Company to implement its strategic initiatives, the availability and price of precious metal commodities, government and regulatory decisions, plant availability, competitive factors in the mining industry and prevailing economic conditions in the regions the Company operates. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements speak only to the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required pursuant to applicable securities laws.

## OVERALL PERFORMANCE

### Performance Highlights

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Interest earned	\$4,591	\$5,222	\$6,824	\$8,438
Net loss before deferred income tax recovery	(45,674)	(58,855)	(115,356)	(168,876)
Net loss per share – basic and diluted	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.01)
Funds provided (used) by operations	(3,290)	(30,993)	69,606	39,524
Total assets	6,925,152	6,674,066	6,925,152	6,674,066
Exploration expenditures	\$52,465	\$41,562	\$97,223	\$106,242

For the three and six months ended June 30, 2014, exploration expenditures were \$52,465 and \$97,223, respectively, which were related to the Company's management activities. In comparison, for the three and six months ended June 30, 2013, exploration expenditures were \$41,562 and \$106,242, respectively, and were also related to the Company's management activities.

The net loss before deferred income tax recovery (expense) for the three and six months ended June 30, 2014 was (\$45,674) and (\$115,356), respectively. In comparison, net loss for the three and six months ended June 30, 2013 was (\$58,855) and (\$168,876), respectively. The net loss before deferred income tax recovery (expense) for the six months ended June 30, 2014 was higher by \$53,520 as compared to the same period ended June 30, 2013, primarily due to a reduction in stock based compensation, consulting and professional expenses.

Cash provided (used) in operating activities for the three and six months ended June 30, 2014 was (\$3,290) and \$69,606. In comparison, cash provided (used) by operating activities for the three and six months ended June 30, 2013 was (\$30,993) and \$39,524. Cash provided by operating activities was \$30,082 higher for the six months ended June 30, 2014 as compared to the same period ended June 30, 2013 due to a decrease in consulting and professional expenses.

On November 26, 2013, the Company announced a non-brokered private placement of flow-through shares. This private placement closed on January 6, 2014 where the Company raised \$437,450 with the issuance of 7,290,833 flow-through units. Each flow through unit consisted of one common flow-through share and one-half share purchase warrant to purchase one common share at \$0.15 expiring on December 31, 2016.

On May 30, 2013, the Company announced that the Board of Directors established a special strategic alternatives committee to review the Company's cost structure and strategic options over the next 12 to 24 months. During this review, both the committee and management approved and carried out certain cost reduction measures for both field and corporate administrative activities. In addition, the committee reviewed and evaluated several potential acquisition and merger opportunities consistent with the Company's growth objectives. The special committee and management continue to review certain potential opportunities; however no binding agreements have been executed to date.

## RESULTS OF OPERATIONS

### Exploration and Evaluation Expenditures

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Exploration and evaluation expenditures	\$52,465	\$41,562	\$97,223	\$106,242

For the three and six months ended June 30, 2014, the Company capitalized \$44,758 and \$85,599, respectively, of the President and Chief Executive Officer's salary and wages. In comparison, for the three and six months ended June 30, 2013, the Company capitalized \$40,037 and \$82,354, respectively, of the President and Chief Executive Officer's salary and wages. The remaining expenditures relate to licensing fees and geological work performed on the property.

### Advertising and Promotional Expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Advertising and promotion	\$15,000	\$3,295	\$30,000	\$18,620

The Company entered into an agreement with Frontier Merchant Capital Group to promote and market the Company in order to raise equity during 2014 at a cost of \$15,000 per quarter. In comparison, the company incurred marketing fees of \$3,295 and \$18,620 for the three and six months ended June 30, 2013.

### Consulting Expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Consulting fees	\$11,734	\$15,455	\$23,108	\$32,688

During the three and six months ended June 30, 2014, the Company recognized \$11,734 and \$23,108, respectively, for consulting fees paid to geologists. In comparison, consulting fees for the three and six months ended June 30, 2014 were \$15,455 and \$32,688, respectively. Consulting fees were \$9,580 lower for the six months ended June 30, 2014 as compared to the same period ended June 30, 2013 as a result of a reduction in field work.

## Professional Expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Professional fees	\$3,782	\$2,444	\$5,875	\$13,776

During the three and six months ended June 30, 2014, the Company recognized \$3,782 and \$5,875, respectively, for professional fees paid to the Company's auditors, accountant, lawyers and transfer agent. The fees paid for the same period ended June 30, 2013, was \$2,444 and \$13,776, respectively. Professional fees were \$7,901 lower for the six months ended June 30, 2014 due to a decrease in transfer agent and legal fees.

## Share-based Compensation Expense

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Share based compensation	\$3,977	\$28,629	\$8,884	\$57,259

In 2013, the Company granted 1,020,000 stock options with a vesting period of 12 months from the date of grant. The stock based compensation is recognized over the 12 month vesting period. As a result, the Company recognized share-based compensation expense of \$3,977 and \$8,884, respectively, for the three and six months ended June 30, 2014.

## Deferred Tax Recovery (Expense)

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Deferred tax recovery (expense)	\$(1,213)	\$14,223	\$192,690	\$203,409

During the three and six months ended June 30, 2014, the Company recognized a deferred tax recovery (expense) of \$(1,213) and \$192,690, respectively, compared to a recovery of \$14,223 and \$203,409 for the three and six months ended June 30, 2013. This is the result of the difference in the amount of the renouncement of the flow-through expenditures and the amount recognized as a deferred tax recovery on the premium on the flow-through shares in 2014 compared to the amounts renounced in 2013.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

The Company utilizes existing cash and the issuance of equity instruments to provide liquidity to the Company and finance development projects. The Company plans for major capital programs and preserves cash and plans equity issuances to finance these programs.

The following table shows how the activities of the Company were financed:

<b>Cash on hand, June 30,</b>	<b>2014</b>	<b>2013</b>
Cash on hand, January 1	\$1,426,291	\$2,026,974
Cash provided by operations	69,606	39,524
Cash flow from financing	(49,325)	(166,225)
Available for investments	\$1,446,572	\$1,900,273
Cash flow used in investing	(97,223)	(106,242)
<b>Total</b>	<b>\$1,349,349</b>	<b>\$1,794,031</b>

The following table shows the capital of the Company:

As at,	June 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 1,349,349	\$ 1,426,291
Shareholders' equity	\$ 6,373,379	\$ 6,117,761

Shareholders' equity increased by \$255,618 for the six months ended June 30, 2014. At December 31, 2013, \$169,400 of common share equity was reported as a subscription receivable. The funds were received during January 2014 and then recognized in shareholders' equity. In addition, there was an \$8,884 increase to contributed surplus due to the recognition of the share based compensation and a decrease to the deficit of \$77,334 as a result of the comprehensive income for the six months ended June 30, 2014.

### Working Capital

Working capital increased by \$187,189 for the six months ended June 30, 2014, from \$1,207,454 to \$1,394,643 for the six months June 30, 2013 and December 31, 2013, respectively. The increase is primarily the result of the receipt of funds in January 2014 related to equity issued in 2013.

### Contractual Obligations

In the normal course of operations, the Company assumes various contractual obligations and commitments. The Company considers these obligations and commitments in its assessment of liquidity.

	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	Greater than one year
Trade accounts payable and accrued liabilities	\$ 36,944	\$ 36,944	\$ 36,944	\$ -	\$ -

## SELECTED QUARTERLY FINANCIAL INFORMATION

### Financial Quarter Ended (Unaudited)

	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sept 30, 2013
Revenue	\$ -	\$ -	\$ -	\$ -
Comprehensive income (loss)	\$ (46,887)	\$ 124,221	\$ (179,272)	\$ (38,071)
Basic income (loss) per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Diluted income (loss) per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Total assets	\$ 6,925,152	\$ 6,975,997	\$ 6,946,299	\$ 6,650,463

	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sept 30, 2012
Revenue	\$ -	\$ -	\$ -	\$ -
Comprehensive income (loss)	\$ (44,632)	\$ 85,101	\$ 87,443	\$ (173,298)
Basic income (loss) per share	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
Diluted income (loss) per share	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
Total assets	\$ 6,674,066	\$ 6,702,477	\$ 6,804,662	\$ 6,523,521

For the three months ended June 30, 2014, the Company incurred marketing, consulting and professional fees and salaries and office expenses required to maintain the on-going operation of the Company.

For the three months ended March 31, 2014, the Company recognized a deferred tax recovery resulting from the renouncement of the flow-through expenditures, incurred professional fees and listing fees for the TSXV, and incurred consulting fees, promotional expenses and salaries and benefits for the on-going operations of the Company.

During the fourth quarter of 2013, the Company had a net loss of \$179,272 resulting from an increase in share-based compensation expense related to the issuance of stock options along with the decrease in deferred tax recovery resulting from the renouncement of the flow through expenditures.

During the third quarter of 2013, the Company had a net loss of \$38,071 resulting from the operating costs for general purposes.

During the second quarter of 2013, the Company had net loss of \$44,632 resulting from the operating costs for general purposes. The decrease in the loss for the quarter compared to the previous quarters is the result of a decrease in consulting fees, office expenses and travel expenses in the period, offset by the increase in share-based compensation expense.

In the first quarter of 2013, the Company had net income of \$85,101 as a result of the renouncement of the flow through expenditures. As these costs were renounced, the Company allocated the premium liability to the deferred income tax recovery.

In the fourth quarter of 2012, the Company had net income as a result of the deferred tax recovery recognized on the increase in loss carry-forward in the period.

In the third quarter of 2012, the Company's loss was created by increase in share-based compensation expense from the grant of stock options, as well as increased office expenses, consulting fees, and professional fees for the on-going operations of the Company.

## **BUSINESS RISKS**

In the normal course of business the Company is exposed to a variety of risks and uncertainties. In addition to the risks associated with liquidity and capital resources, critical accounting estimates, financial instruments, credit risk and market risk described in this MD&A, the Company is exposed to various operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect future results. Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, the ability to attract and retain employees and contractors on a cost-effective basis, commodity and marketing risk and seasonality.

The Company is exposed to considerable risks and uncertainties including, but not limited to;

- finding mineral reserves on an economical basis;
- uncertainties related to estimating the Company's reserves;
- financial risks including access to debt or equity markets which the Company is dependent upon in order to meet obligations and liabilities as they fall due;
- technical problems which could lead to unsuccessful drilling programs and environmental damage;
- obtaining timely regulatory approvals;
- third party related operational risks including the ability to obtain access to certain properties, access to third party processing facilities, railway and other transportation infrastructure;
- fluctuations in commodity prices;
- adverse factors including climate, geographical and weather conditions and labour disputes;
- timing of future debt and other obligations;
- regulatory legislation and policies, including the fulfilment of contractual minimum work programs, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties, production restrictions, suspensions or revocations of contracts;
- changes to taxation policies, laws and interpretations thereof; and,
- obtaining comprehensive and appropriate insurance coverage at reasonable rates;

## **CHANGES IN ACCOUNTING POLICIES**

There have been no changes in accounting policies during the period.

## **CRITICAL ACCOUNTING ESTIMATES AND POLICIES**

### **Use of Estimates**

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of commitments and contingent liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Proved reserves, taxes, decommissioning liability, share-based compensation, accruals, contingent liabilities and commitments are reviewed on an ongoing basis. These estimates are subject to measurement uncertainty and the impact on the financial statements of changes in such estimates and actual results could be material.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the statement of financial position at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument.

These instruments can be classified into one of the following categories: financial assets and liabilities at fair value through profit and loss, loans and receivables, and other financial liabilities.

Financial assets and financial liabilities at fair value through profit or loss instruments are typically

acquired with the intention of generating revenues in the short-term. However, an entity is allowed to designate any financial instrument as financial assets and financial liabilities at fair value through profit or loss on initial recognition even if it would otherwise not satisfy the definition. As at June 30, 2014, the Company does not hold any financial instruments that do not satisfy the definition. Financial assets and liabilities required to be classified or designated as financial assets and financial liabilities at fair value through profit or loss are measured at fair value, with gains and losses recorded in profit or loss for the period in which the change occurs.

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and fixed maturity dates that an entity has the intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. As at June 30, 2014, the Company does not have any financial assets classified as held-to-maturity.

Available-for-sale financial assets are non-derivative assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or held-for-trading. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Available-for-sale assets are measured at fair value, except for assets that do not have a readily determinable fair value which are recorded at cost. As at June 30, 2014, the Company does not have any financial assets classified as available-for-sale.

Financial assets classified as loans and receivables are measured at amortized cost using the effective-interest method. An impairment in the fair value of financial assets, which is not temporary, will be included in the determination of profit and loss for the period in which the impairment occurs.

Other financial liabilities are measured at amortized cost using the effective interest method and include all liabilities other than derivatives or liabilities that have been identified as financial assets and financial liabilities at fair value through profit or loss. The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those classified as financial assets and financial liabilities at fair value through profit or loss, is impaired.

### **Exploration and Evaluation Costs**

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 are related 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.

### **Decommissioning Liability**

An obligation to incur environmental restoration 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 profit or loss.

Estimated costs for environmental restoration 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.

### **Share-based Compensation**

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

### **CONTROLS AND PROCEDURES**

Disclosure controls and procedures ('DC&P') are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ('ICFR') are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

TSXV listed companies are not required to provide representations in filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument MI- 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding absence of misrepresentations and fair disclosures of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **TRANSACTIONS WITH RELATED PARTIES**

For the three and six months ended June 30, 2014, Daryn Gordon Professional Corporation, a privately held company owned by a former senior officer of the Company, provided consulting services amounting to \$7,140 and \$10,220, respectively. Of this amount nil was due to the related party as of June 30, 2014. These amounts have been recorded in consulting fees.

For the three and six months ended June 30, 2013, Daryn Gordon Professional Corporation, a privately held company owned by a former senior officer of the Company, provided consulting services amounting to \$15,000 and \$30,000, respectively. Of this amount \$5,000 was due to the related party as of June 30, 2013. These amounts were recorded in consulting fees

The terms and conditions of the transactions with Daryn Gordon Professional Corporation were no more favorable 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.

## **OUTSTANDING SHARE DATA**

### **Common shares**

The following table sets forth the Company's outstanding share data:

Issued common shares at January 1, 2013	38,642,870
Shares issued for cash	7,290,833
Total common shares June 30, 2014 and December, 31, 2013	45,933,703
Total outstanding stock options	4,800,220
Total outstanding warrants	14,134,901

## **SUBSEQUENT EVENTS**

There have been no subsequent events since June 30, 2014.