# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated July 19, 2011 and should be read in conjunction with the unaudited interim financial statements of Silver Mountain Mines Inc. ("Silver Mountain" or the "Company") for the three and six months ended June 30, 2011 and the audited annual financial statements for Silver Mountain for the year ended December 31, 2010. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada.

## BUSINESS DESCRIPTION AND READER GUIDANCE

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

The Company's financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") that are applicable to a going concern that contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. At June 30, 2011 the Company had accumulated losses of $951,750 since inception (December 31, 2010 – $449,591), a working capital surplus of $4,621,213 (December 31, 2010 – $3,299,233).

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 energy commodities, government and regulatory decisions, plant availability, competitive factors in the oil and gas 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 Corporation 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 Corporation 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 AND RESULTS OF OPERATIONS

### Performance Highlights

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | $ - | $ - | $ - | $ - |
| Net loss | (212,939) | (16,675) | (502,159) | (59,306) |
| Net loss per share - basic and diluted | (0.01) | (0.00) | (0.02) | (0.00) |
| Cash from (used) in operations | (177,454) | (23,731) | 12,692 | (33,705) |
| Total assets | 6,980,838 | 1,988,437 | 6,980,838 | 1,988,437 |
| Capital expenditures | $ 86,535 | $ 24,500 | $ 229,183 | $ 53,583 |

The net loss for the three and six month period ended June 30, 2011 increased to $212,939 and $502,159 respectively in 2011 from $16,675 and $59,306 in 2010. The increase in the net loss for the period is the result of the increase in stock based compensation, resulting from the issuance of stock options in the year, an increase in consulting fees, and obtaining office space. During the first half of the year, capital expenditures were $229,183 compared to $53,583 in 2010 from the planning of the summer exploration program. Cash provided by operating activities in the first six months was $12,692 versus cash used in operating activities of $33,705 in 2010 resulting from the reduction in the premium liability on the renouncement of the flow through expenditures.

During the first six months ended 2011, the Company closed a private placement offering of 1,756,297 flow-through units for gross proceeds of $526,889. Each unit consists of one flow-through common share and one half common share purchase warrant. Two half common share purchase warrants entitle the holder to purchase one common share at $0.50 expiring December 31, 2012. The Company has recognized a premium liability of $87,815 from the flow-through units issued during the year. 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. Two half common share purchase warrants entitle the holder to purchase one common share at $0.50 expiring December 31, 2012.

## RESULTS OF OPERATIONS

### Consulting Fees

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Consulting fees | $ 23,035 | $ - | $ 66,035 | $ - |

Consulting fees for the three and six month periods was $23,035 and $66,035 in 2011 compared to $nil and $nil for the comparative periods in 2010. This is the result of the individuals required for accounting and management services.

**Professional Fees**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | | $ | $ | $ |
| Professional fees | $ 104,283 | 8,226 | 113,636 | 8,226 |

The increase in the professional fees from $8,226 to $104,283 in the three month period and from $8,226 to $113,636 for the six month period is the result of the costs incurred in the preparation of the prospective to become a listed entity. These costs include legal and accounting fees.

**Office Expenses**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Office expense | $ 40,854 | $ 2,347 | $ 47,575 | $ 4,369 |

Office expense has increased $38,507 to $40,854 for the three months ended June 30, 2011 from $2,347 in June 30, 2010 resulting from the execution of office rental space in the quarter. Office expense has increased $43,206 from $4,369 to $47,575 for the six month period as a result of the office lease and general office stationary and courier expenses.

**Stock Based Compensation**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Stock based compensation | $ 83,968 | $ - | $ 167,936 | $ 36,275 |

During the first quarter of 2011, the Company issued 2,235,000 stock options to its employees, directors and key consultants. As a result, Silver Mountain has recognized $83,968 in stock based compensation expense in the first and second quarter.

**Deferred Income Tax Expense**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Deferred income tax recovery (expense) | $ 48,754 | $ 7,099 | $ (78,754) | $ 10,758 |

During the six month period in 2011, the company has recognized a deferred income tax expense of $78,754 compared to a recovery in 2010 of $10,758. This is the result of the recognition of the tax implication on the renouncement of the flow through expenditures in the first quarter of 2011.

During the three month period in 2011, the company has recognized a future income tax recovery of $48,754 compared to $7,099 in 2010. This is the result of the increase in the operating loss in the period.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Silver Mountain 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 the liquidity of the Company:

| | 2011 | 2010 |
|---|---|---|
| Cash | $ 4,739,931 | $ 3,648,332 |
| Working capital, net of cash | (118,718) | (349,099) |
| Working capital | $ 4,621,213 | $ 3,299,233 |

Working capital increased $1,321,980 as the result of the issuances of equity instruments for total gross proceeds of $1,691,889. These funds will be used to finance the Company's exploration and development program.

### Capital

The following table represents the capital of the Company:

| | 2011 | 2010 |
|---|---|---|
| Cash | $ 4,739,931 | $ 3,648,332 |
| Shareholders' equity | $ 6,401,360 | $ 5,197,112 |

The Company uses shareholders' equity to fund the Company. The increase in both the cash and shareholders' equity balance is the result of the issuance of equity instruments during the six month period ended June 30, 2011.

## SELECTED QUARTERLY FINANCIAL INFORMATION

### Financial Quarter Ended (Unaudited)

| | 2011 | | 2010 | | | | 2009 |
|---|---|---|---|---|---|---|---|
| | Jun-30 | Mar-31 | Dec-31 | Sep-30 | Jun-30 | Mar-31 | Dec-30 |
| Revenue | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Net loss | (212,939) | (289,221) | (40,492) | (7,754) | (16,675) | (42,633) | (82,605) |
| Basic and diluted loss per share | $ (0.01) | $ (0.01) | $ - | $ - | $ - | $ (0.01) | $ (0.01) |

In the second quarter of 2011, the Company incurred legal and accounting fees as a result of the issuance of the preliminary prospectus, along with the expenses incurred with the commencement of the office lease. In the first quarter of 2011, the Company renounced flow through expenditures to certain shareholders resulting in a large future income tax expense for the quarter, along with recognition of stock base compensation expense on the granting of stock options. During the first quarter of 2010, the Company recognized a significant loss as the result of the issuance of stock option and the resulting stock based compensation expense, compared to the second and third quarters. During the fourth quarter of 2010, The Company recognized a significant loss as a result of professional fees and stock

based compensation offset by a deferred income tax recovery.

During the fourth quarter of 2009, the Company incurred a significant loss as a result of the issuance of stock options and incurring costs for unsuccessful financing efforts.

## 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 that are economical;
- 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 environmental damage;
- obtaining timely regulatory approvals;
- third party related operational risks including the ability to obtain access to third party processing facilities, railway and other transportation infrastructure;
- fluctuations in commodity prices;
- adverse factors including climate, geographical and weather conditions;
- timing of future debt and other obligations;
- changes to taxation policies, laws and interpretations thereof; and
- obtaining comprehensive and appropriate insurance coverage at reasonable rates;

## CHANGES IN ACCOUNTING POLICIES

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, 2011 or later. These include:

i. IFRS 9, Financial Instruments, Classifications and Measurement, effective January 1, 2013.

ii. Amendments to IAS 24, Related Party Disclosures, effective January 1, 2011.

iii. IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments has been issued at the reporting date but is not yet effective.

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

## 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. These estimates, including those related to the amortization of property and equipment, income taxes, asset retirement obligations, stock based compensation, accruals, and potential 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 consolidated balance sheet 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 five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale, or other financial liabilities.

Held-for-trading instruments are financial assets and liabilities typically acquired with the intention of generating revenues in the short-term. However, an entity is allowed to designate any financial instrument as held-for-trading on initial recognition even if it would otherwise not satisfy the definition. As at June 30, 2011, the Company does not hold any financial instruments that do not satisfy the definition. Financial assets and financial liabilities required to be classified or designated as held-for-trading are measured at fair value, with gains and losses recorded in net earnings 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 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, 2011, 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, 2011, 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 income 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 held-for-trading. The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those classified as held-for-trading, is impaired.

### Asset retirement obligations

The Company provides for future retirement obligations on resource properties and facilities based on estimates established by industry practice and prevailing legislation. The future retirement obligation is

initially recognized at fair value and capitalized as a component of oil and gas properties. The liability is adjusted each reporting period to reflect revisions to the estimated future cash flows and for the passage of time. The liability accretes until the date of expected settlement of the retirement obligations and the related accretion expense is charged to earnings. Actual expenditures incurred for site reclamation and abandonment are charged against the liability to the extent it exists on the balance sheet with the difference recognized as a gain or loss in the period in which settlement occurs.

**Stock based compensation**

The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model. The model employs various assumptions, based on management's best estimates at the time of grant, which impact the fair value calculated and ultimately the expense that is recognized over the vesting period of the stock option award. The value of the stock options is recognized as an expense over the vesting period with an offsetting credit to contributed surplus. Consideration paid for shares on exercise of the stock options will be credited to share capital together with the amount of any contributed surplus that arose as a result of the grant of the exercised stock options.

## TRANSACTIONS WITH RELATED PARTIES

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 property and equipment.

These transactions are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

## OUTSTANDING SHARE DATA

### Common shares

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

| | |
|---|---|
| Issued common shares at January 1, 2010 | 10,939,100 |
| Shares issued for cash | 16,165,201 |
| Shares issued on property acquisition | 1,600,000 |
| Total common shares December 31, 2010 | 28,704,301 |
| Shares issued for cash | 6,416,297 |
| Total outstanding stock options | 3,430,220 |
| Total outstanding warrants | 19,975,870 |
| Total diluted common shares at May 31, 2011 | 58,526,688 |