

Condensed Interim Financial Statements of

**SILVER MOUNTAIN MINES INC.**

Three and six months ended June 30, 2012 and 2011

# SILVER MOUNTAIN MINES INC.

Interim Balance Sheet  
(Unaudited)

As at June 30, 2012 and December 31, 2011  
(In Canadian Dollars)

	2012	2011
<b>Assets</b>		
Current assets:		
Cash	\$ 2,612,941	\$ 3,127,548
GST receivable	178,977	151,672
Interest receivable	-	22,567
Prepaid expenses	31,842	37,223
	<u>2,823,760</u>	<u>3,339,010</u>
Non-current assets:		
Property and equipment	77,590	66,839
Exploration and evaluation costs (note 3)	3,542,917	3,322,145
Reclamation bond	20,000	7,000
	<u>3,640,507</u>	<u>3,395,984</u>
<b>Total Assets</b>	<b>\$ 6,464,267</b>	<b>\$ 6,734,984</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 34,254	\$ 90,278
Premium liability	-	87,815
	<u>34,254</u>	<u>178,093</u>
Non-current liabilities:		
Deferred income taxes	461,049	318,963
Asset retirement obligation	1,635	1,565
	<u>462,684</u>	<u>320,528</u>
<b>Total Liabilities</b>	<b>496,938</b>	<b>498,621</b>
Shareholders' equity:		
Share capital (note 4(b))	4,731,285	4,731,285
Warrants (note 4(c))	1,351,147	2,174,367
Contributed surplus (note 4(e))	1,441,679	617,165
Deficit	(1,556,782)	(1,286,444)
	<u>5,967,329</u>	<u>6,236,373</u>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 6,464,267</b>	<b>\$ 6,734,984</b>

The notes to the condensed interim financial statements are an integral part of these condensed interim financial statements.

# SILVER MOUNTAIN MINES INC.

Interim Statement of Comprehensive Loss  
(Unaudited)

For the three and six months ended June 30, 2012 and 2011  
(In Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Expenses:				
Accretion	\$ 35	\$ 29	\$ 70	\$ 58
Advertising	2,645	-	32,780	-
Amortization	1,118	243	2,109	302
Automotive	206	1,299	1,406	2,828
Bank and interest charges	7	10	7	687
Consulting fees	29,430	23,035	59,863	66,035
Insurance	6,500	5,924	13,000	9,319
Licenses	4,500	-	36,821	-
Meals and entertainment	2,147	1,076	3,674	7,501
Office	11,835	40,854	23,277	47,575
Professional fees	2,991	104,283	19,447	113,636
Salaries and benefits	7,142	-	21,882	-
Share-based compensation	647	83,968	1,294	167,936
Telephone	784	1,208	1,889	2,546
Travel	6,176	1,881	9,334	8,997
	76,163	263,810	226,853	427,420
Interest income	5,406	2,117	10,786	4,014
Net loss before deferred income tax expense	70,757	261,693	216,067	423,406
Deferred income tax recovery (expense)	(10,362)	48,754	(54,271)	(78,754)
Total net loss and comprehensive loss for the period attributable to common shareholders	81,119	212,939	270,338	502,160
Basic and diluted income per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)

The notes to the condensed interim financial statements are an integral part of these condensed interim financial statements.

# SILVER MOUNTAIN MINES INC.

Interim Statement of Changes in Equity  
(in Canadian dollars)

Period ended June 30, 2012 and June 31, 2011

	Number of Shares	Amount	Contributed Surplus	Warrants	Deficit	Total Equity
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	6,416,297	1,314,253	-	225,339	-	1,539,592
Share-based compensation	-	-	167,936	-	-	167,936
Total comprehensive loss	-	-	-	-	(502,159)	(502,159)
Balance, June 30, 2011	35,120,598	\$ 4,731,285	\$ 448,579	\$ 2,174,367	\$ (951,750)	\$6,402,481
Share-based compensation	-	-	168,586	-	-	168,586
Total comprehensive loss	-	-	-	-	(334,694)	(334,694)
Balance, December 31, 2011	35,120,598	\$ 4,731,285	\$ 617,165	\$ 2,174,367	\$ (1,286,444)	\$6,236,373
Expiry of warrants	-	-	823,220	(823,220)	-	-
Share-based compensation	-	-	1,294	-	-	1,294
Total comprehensive loss	-	-	-	-	(270,338)	(270,338)
Balance, June 30, 2011	35,120,598	\$ 5,273,987	\$ 1,441,679	\$ 1,351,147	\$ (1,556,782)	\$5,967,329

The notes to the condensed interim financial statements are an integral part of these condensed interim financial statements.

# SILVER MOUNTAIN MINES INC.

## Interim Statement of Cash Flows

For the three and six month periods ended June 30, 2012 and 2011  
(In Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cash provided by (used in):				
Operations				
Total comprehensive loss	\$ (81,119)	\$ (212,938)	\$ (270,338)	\$ (502,159)
Items not involving cash:				
Amortization	1,118	241	2,109	300
Accretion expense	35	29	70	58
Share-based compensation	647	83,968	1,294	167,936
Deferred income tax (recovery) expense	10,362	(48,754)	142,086	346,557
	(68,957)	(177,454)	(124,779)	12,692
Change in non-cash working capital				
GST receivable	(20,984)	19,192	(27,305)	5,384
Accounts payable and accrued liabilities	(38,539)	52,000	(56,023)	(46,073)
Interest receivable	-	-	22,567	-
Prepaid expenses	(21,326)	(16,894)	5,381	(25,458)
	(80,849)	54,298	(55,380)	(66,147)
Net cash from (used in) operations	(149,806)	(123,156)	(180,159)	(53,455)
Financing				
Issuance of common shares, net of share issue costs	-	57,139	-	1,538,471
Change in non-cash working capital				
Subscriptions receivable	-	160,000	-	40,000
Premium liability	-	-	(87,815)	(204,235)
Net cash provided from financing activities	-	217,139	(87,815)	1,374,236
Investing				
Exploration and evaluation costs	(150,187)	(81,375)	(220,800)	(224,023)
Property and equipment	(12,833)	(5,159)	(12,833)	(5,159)
	(163,020)	(86,534)	(233,633)	(229,182)
Increase (decrease) in cash	(312,826)	7,449	(501,607)	1,091,599
Cash, beginning of period	2,938,767	4,732,482	3,127,548	3,648,332
Cash, end of period	\$ 2,625,941	\$ 4,739,931	\$ 2,625,941	\$ 4,739,931

The notes to the condensed interim financial statements are an integral part of these condensed interim financial statements.

# SILVER MOUNTAIN MINES INC.

Notes to Condensed Interim Financial Statements, Page 1

For the three and six months ended June 30, 2012  
(Amounts in Canadian Dollars)

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## 1. Basis of Presentation

Silver Mountain Mines Inc. (the "Company"), was incorporated on May 12, 2008 under the laws of Alberta and 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 August 24, 2012 by the Board of Directors. The registered office of the Company is Suite 301, 1301 – 8<sup>th</sup> Ave 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 period ended June 30, 2012, the Company incurred a total net loss and comprehensive loss of \$270,338 (December 31, 2011 - \$107,552) and as at June 30, 2012 had an accumulated deficit of \$1,556,782 (December 31, 2011 - \$1,286,444).

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 and have been prepared on a going concern basis, under the historical cost convention.

This condensed interim financial information for the three and six months ended June 30, 2012 have been prepared in accordance with IAS 34 "Interim financial reporting". The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

## 2. Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year. Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. There are material items of income or expense that have been shown separately due to the significance of their nature or amount.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

# SILVER MOUNTAIN MINES INC.

Notes to Condensed Interim Financial Statements, Page 2

For the three and six months ended June 30, 2011

(Amounts in Canadian dollars)

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## 2. Significant Accounting Policies (continued)

The preparation of these interim 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.

## 3. Exploration and Evaluation Costs

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<b>Cost</b>	
Balance, December 31, 2011	\$ 3,322,229
Additions	220,800
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Balance, June 30, 2012	\$ 3,543,029
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<b>Accumulated Depreciation</b>	
Balance, December 31, 2010	\$ 84
Depreciation	28
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Balance, June 30, 2012	\$ 112
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Net Book Value June 30, 2012	\$ 3,542,917

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<b>Cost</b>	
Balance, December 31, 2010	\$ 1,943,025
Additions	1,379,204
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Balance, December 31, 2011	\$ 3,322,229
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<b>Accumulated Depreciation</b>	
Balance, December 31, 2010	\$ 42
Depreciation	42
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Balance, December 31, 2011	\$ 84
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Net Book Value December 31, 2011	\$ 3,322,145

# SILVER MOUNTAIN MINES INC.

Notes to Condensed Interim Financial Statements, Page 3

For the three and six months ended June 30, 2011

(Amounts in Canadian dollars)

## 4. Share Capital and Reserves

### (a) Authorized Share Capital

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

### (b) Issued:

Share capital:

	Number	Share Capital
Common shares		
Balance, December 31, 2010	28,704,301	\$ ,417,032
Private placement offering - flow-through	1,756,297	383,964
Private placement offering – common	4,460,000	1,018,964
Share issue costs	-	(88,675)
Balance, December 31, 2011 and June 30, 2012	35,120,598	\$ 4,731,285

### (c) Warrants

Warrants issued and outstanding at June 30, 2012 are as follows:

	Number	Warrant	Average Exercise Price	Weighted Average Life
Warrants				
Balance, December 31, 2011	19,975,870	\$ 2,174,367	\$ 0.38	0.94
Expired	(9,862,493)	(823,220)	\$ 0.50	-
Balance, June 30, 2012	10,113,377	\$ 1,351,147	\$ 0.35	0.46

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

	Number	Warrant	Average Exercise Price	Weighted Average Life
Warrants				
Balance, December 31, 2010	16,379,129	\$ 1,949,028	\$ 0.38	2.00
Private placement - flow-through	878,149	55,110	\$ 0.50	0.66
Private placement – common	2,330,000	146,036	\$ 0.50	0.67
Broker warrants	388,592	24,193	\$ 0.50	0.67
Balance, December 31, 2011	19,975,870	\$ 2,174,367	\$ 0.40	0.94



# SILVER MOUNTAIN MINES INC.

Notes to Condensed Interim Financial Statements, Page 4

For the three and six months ended June 30, 2011

(Amounts in Canadian dollars)

## 4. 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 immediately 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 June 30, 2012 are as follows:

	Number	Weighted Average Exercise Price
Balance, June 30, 2012	3,217,220	\$ 0.25

Details of the stock options outstanding at June 30, 2012 are as follows:

Exercise Price	Outstanding Number of Options	Exercisable Number of Options	Weighted Average Remaining Life
\$ 0.25	3,217,220	3,207,970	3.74
	3,217,220	3,207,970	3.74

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, 2010 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
	3,217,220	3,189,470	4.24

# SILVER MOUNTAIN MINES INC.

Notes to Condensed Interim Financial Statements, Page 5

For the three and six months ended June 30, 2011  
(Amounts in Canadian dollars)

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## 4. Share Capital and Reserves (continued)

### (e) Contributed surplus

Balance, December 31, 2010	\$ 280,643
Stock-based compensation	336,522
Balance, December 31, 2011	617,165
Stock-based compensation	1,294
Expiry of warrants	823,220
Balance, June 30, 2012	\$ 1,441,679

### (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 June 30, 2012 was 35,120,598 (2011 – 32,892,965) for the six month period and 35,120,598 (2011 - 35,111,807) for the three month period.

## 5. Related Party Transactions

During 2012, Daryn Gordon Professional Corporation, a privately held company owned by an officer of the Company, provided management services amounting to \$30,000 (2011 - \$30,000). Of this amount \$5,000 (2011 - nil) was due to the related party at the end of the reporting period. These amounts have been recorded in consulting services.

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

## 6. Subsequent Events

Subsequent to June 30, 2012, the Company granted 1,990,000 stock options at an exercise price of \$0.10 to Directors, Management, and key consultants to the Company. These options vest over a 12 month period and expire 5 years from the date of grant.

Subsequent to June 30, 2012, 12,000 stock options with an exercise price of \$0.25 were forfeited.