

Condensed Interim Financial Statements of

**SILVER MOUNTAIN MINES INC.**

Three and six months ended June 30, 2011 and 2010

# SILVER MOUNTAIN MINES INC.

Interim Balance Sheet  
(Unaudited)

As at June 30, 2011 and December 31, 2010  
(In Canadian Dollars)

	2011	2010
<b>Assets</b>		
Current assets:		
Cash	\$ 4,739,931	\$ 3,648,332
GST receivable	22,417	27,801
Subscriptions receivable	6,000	46,000
Prepaid expenses	33,108	7,650
	<u>4,801,456</u>	<u>3,729,783</u>
Non-current assets:		
Property and equipment	355,396	350,516
Exploration and evaluation costs (note 3)	1,816,986	1,592,983
Reclamation bond	7,000	7,000
	<u>2,179,382</u>	<u>1,950,499</u>
<b>Total Assets</b>	<b>\$ 6,980,838</b>	<b>\$ 5,680,282</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 92,428	\$ 138,500
Premium liability	87,815	292,050
	<u>180,243</u>	<u>430,550</u>
Non-current liabilities:		
Deferred income taxes	398,013	51,456
Asset retirement obligation	1,222	1,164
	<u>399,235</u>	<u>52,620</u>
<b>Total Liabilities</b>	<b>579,478</b>	<b>483,170</b>
Shareholders' equity:		
Share capital (note 4(b))	4,730,164	3,417,032
Warrants (note 4(c))	2,174,367	1,949,028
Contributed surplus (note 4(e))	448,579	280,643
Deficit	(951,750)	(449,591)
	<u>6,401,360</u>	<u>5,197,112</u>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 6,980,838</b>	<b>\$ 5,680,282</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, 2011 and 2010  
(In Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Expenses:				
Accretion	\$ 29	\$ -	\$ 58	\$ -
Amortization	243	43	302	86
Automotive	1,299	1,602	2,828	2,089
Bank and interest charges	10	-	687	-
Insurance	5,924	3,025	9,319	6,050
Consulting fees	23,035	-	66,035	-
Meals and entertainment	1,076	2,878	7,501	4,053
Office	40,854	2,347	47,575	4,369
Professional fees	104,283	8,226	113,636	8,226
Share-based compensation	83,968	-	167,936	36,275
Telephone	1,208	2,162	2,546	2,800
Travel	1,881	3,491	8,997	6,116
	263,810	23,774	427,420	70,064
Interest income	2,117	-	4,014	-
Net loss before deferred income tax expense	261,693	23,774	423,406	46,292
Deferred income tax recovery (expense)	48,754	7,099	(78,754)	10,758
Total net loss and comprehensive loss for the period attributable to common shareholders	212,939	16,675	502,160	35,534
Basic and diluted income per share	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.00)

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, 2011 and June 31, 2010

	Share Capital		Shared to be issued	Contributed Surplus	Warrants	Deficit	Total Equity
	Number of Shares	Amount					
Balance, December 31, 2009	10,939,100	\$ 433,281	\$ 400,000	\$ 218,808	\$ 784,244	\$ (342,039)	\$1,494,294
Share-based compensation	-	-	-	36,725	-	-	36,725
Total comprehensive loss	-	-	-	-	-	(16,675)	(16,675)
Balance, June 30, 2010	10,939,100	\$ 433,281	\$ 400,000	\$ 255,533	\$ 784,244	\$ (358,714)	\$1,514,344
Shares issued for cash, net of share issue costs	16,165,201	2,798,151	-	-	950,384	-	3,748,535
Shares issued on property acquisition	1,600,000	185,600	(400,000)	-	214,400	-	-
Share-based compensation	-	-	-	25,110	-	-	25,110
Total comprehensive loss	-	-	-	-	-	(90,877)	(90,877)
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	1,313,132	-	-	225,339	-	1,538,471
Share-based compensation	-	-	-	167,936	-	-	167,936
Total comprehensive loss	-	-	-	-	-	(502,159)	(502,159)
Balance, June 30, 2011	35,120,598	\$ 4,730,164	\$ -	\$ 448,579	\$ 2,174,367	\$ (951,750)	\$6,401,360

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, 2011 and 2010  
(In Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Cash provided by (used in):				
Operations				
Total comprehensive loss	\$ (212,938)	\$ (16,675)	\$ (502,159)	\$ (59,307)
Items not involving cash:				
Amortization	241	43	300	86
Accretion expense	29	-	58	-
Share-based compensation	83,968	-	167,936	36,725
Deferred income tax (recovery) expense	(48,754)	(7,099)	346,557	(10,758)
	(177,454)	(23,731)	12,692	(33,254)
Change in non-cash working capital				
GST receivable	19,192	20,365	5,384	18,004
Accounts payable and accrued liabilities	52,000	(3,602)	(46,073)	(28,065)
Prepaid expenses	(16,894)	3,026	(25,458)	6,051
	54,298	(3,942)	(66,147)	(4,010)
Net cash from (used in) operations	(123,156)	-	(53,455)	(37,715)
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	48,000
Premium liability	-	-	(204,235)	-
Net cash provided from financing activities	217,139	-	1,374,236	48,000
Investing				
Exploration and evaluation costs	(81,375)	(24,500)	(224,023)	(53,583)
Property and equipment	(5,159)	-	(5,159)	-
	(86,534)	(24,500)	(229,182)	(53,583)
Increase (decrease) in cash	7,449	(28,442)	1,091,599	(43,298)
Cash, beginning of year	4,732,482	92,616	3,648,332	107,472
Cash, end of year	\$ 4,739,931	\$ 64,174	\$ 4,739,931	\$ 64,174

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, 2011  
(Amounts in Canadian Dollars)

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## 1. Basis of Presentation

Silver Mountain Mines Inc. (the "Company"), formerly Rupestris Mines Inc., 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 XXX, 2011 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, 2011, the Company incurred a total net loss and comprehensive loss of \$502,159 (December 31, 2010 - \$107,552) and as at June 30, 2011 had an accumulated deficit of \$951,750 (December 31, 2010 - \$449,591).

The Company raised approximately \$1,538,471, 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 and have been prepared on a going concern basis, under the historical cost convention.

These condensed interim financial information have been reviewed, not audited.

This condensed interim financial information for the three and six months ended June 30, 2011 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, 2010, 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, 2010	\$ 1,593,025
Additions	224,024
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Balance, June 30, 2011	\$ 1,817,049
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<b>Accumulated Depreciation</b>	
Balance, December 31, 2010	\$ 42
Depreciation	21
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Balance, June 30, 2011	\$ 63
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Net Book Value June 30, 2011	\$ 1,816,986

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<b>Cost</b>	
Balance, December 31, 2009	\$ 1,100,592
Additions	492,433
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Balance, December 31, 2010	\$ 1,593,025
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<b>Accumulated Depreciation</b>	
Balance, December 31, 2009	\$ -
Depreciation	42
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Balance, December 31, 2010	\$ 42
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Net Book Value December 31, 2010	\$ 1,592,983

# 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
<b>Common shares</b>		
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	-	(89,786)
Balance, June 30, 2011	35,120,598	\$ 4,730,174

- 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 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 period.
- 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. Two half common share purchase warrants entitle the holder to purchase one common share at \$0.50 expiring December 31, 2012.
- 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. 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 \$292,050 from the flow-through units issued during the year.
- 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. Two half common share purchase warrants entitle the holder to purchase one common share at \$0.50 expiring December 31, 2012.



# 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)

- v. In 2010, the Company acquired 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. 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.
- vi. At March 31, 2011, the Company has subscriptions receivable of \$166,000 (2010 - \$46,000) resulting from the issuance of these shares.

### (c) Warrants

	Number	Warrant	Average Exercise Price	Weighted Average Life
<b>Warrants</b>				
Balance, December 31, 2009	4,939,100	\$ 784,244	\$ 0.27	3.00
Private placement - flow-through	2,920,501	339,555	0.50	2.25
Private placement – common	5,162,100	441,636	0.50	2.25
Property acquisition	1,600,000	214,400	0.25	2.25
Broker warrants			0.25	2.25
	1,757,428	169,193		
Balance, December 31, 2010	16,379,129	1,949,028	0.38	2.00
Private placement - flow-through	878,149	55,110	0.50	1.42
Private placement – common	2,330,000	146,036	0.50	1.42
Broker warrants	388,592	24,193	0.50	1.50
Balance, March 31, 2011	19,975,870	\$ 2,174,367	\$ 0.41	1.35

During 2011, the Company, in conjunction with the brokered private placements of units and flow-through shares described in notes 4(b)(i) and (ii) issued 388,592 broker warrants. Each broker warrant expires eighteen months from the date of issuance 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 (\$0.06 per warrant) 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	1.71%	1.60%
Expected life	1.50 years	2.4 years
Expected volatility	95%	95%
Grant date share price	\$0.25	\$0.25 – 0.30
Expected dividend yield	0%	0%

# 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)

## 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, 2011 are as follows:

	Number		Weighted Average Exercise Price
Balance, December 31, 2010	1,720,220	\$	0.25
Forfeited	(525,000)		(0.25)
Granted	2,235,000		0.25
Balance, June 30, 2011	3,430,220	\$	0.25

Details of the stock options outstanding at June 30, 2011 are as follows:

Exercise Price	Outstanding Number of Options	Exercisable Number of Options	Weighted Average Remaining Life
\$ 0.25	3,680,220	2,003,970	1.75
	3,680,220	2,003,970	1.75

During the first six months of 2011, the Company granted 2,235,000 share purchase options to purchase common shares at an average exercise price of \$0.25 per common share.

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

# SILVER MOUNTAIN MINES INC.

Notes to Condensed Interim Financial Statements, Page 6

For the three and six months ended June 30, 2011

(Amounts in Canadian dollars)

## 4. Share Capital and Reserves (continued)

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

<b>Exercise Price</b>	<b>Outstanding Number of Options</b>	<b>Exercisable Number of Options</b>	<b>Weighted Average Remaining Life</b>
\$ 0.25	1,720,220	1,720,220	2.00
	1,720,220	1,720,220	2.00

During 2010, the Company granted 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 \$0.14 (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	1.69%	1.56 - 1.61%
Expected life	5.0 years	2.0 years
Expected volatility	90%	95%
Grant date share price	\$ 0.25	\$ 0.25
Expected dividend yield	0%	0%

### (e) Contributed surplus

Balance, December 31, 2009	\$ 218,808
Stock-based compensation	61,835
Balance, December 31, 2010	280,643
Stock-based compensation	167,936
Balance, June 30, 2011	\$ 448,579

### (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 for the three and six month periods ending June 30, 2011 was 35,111,807 and 32,892,965 (2010 – 12,771,774 and 12,771,774) respectively.

# SILVER MOUNTAIN MINES INC.

Notes to Condensed Interim Financial Statements, Page 7

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

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## 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 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.