



## **SILVER MOUNTAIN MINES INC.**

Financial Statements

For the years ended December 31, 2019 and 2018

# Independent Auditor's Report

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To the Shareholders of Silver Mountain Mines Inc.:

## Opinion

We have audited the financial statements of Silver Mountain Mines Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion & Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

Calgary, Alberta

June 11, 2020

*MNP* LLP  
Chartered Professional Accountants

**MNP**

# SILVER MOUNTAIN MINES INC.

## Statements of Financial Position

(in Canadian Dollars)

As at December 31,

	Note	2019	2018
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 1,310	\$ 30,466
GST and interest receivable		1,221	1,502
Prepaid expenses		10,629	11,272
		13,160	43,240
Non-current assets:			
Property and equipment	4	51,814	54,862
Exploration and evaluation costs	5	6,085,876	6,084,923
Reclamation bond	6	28,879	28,359
		6,166,569	6,168,144
Total assets		\$ 6,179,729	\$ 6,211,384
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 9,379	\$ 11,200
Loans from directors	7	6,150	-
		15,529	11,200
Non-current liabilities:			
Deferred tax liability		316,570	381,559
Decommissioning liability	8	38,173	37,358
		354,743	418,917
Total liabilities		370,272	430,117
Shareholders' equity:			
Share capital	9(b)	4,868,823	4,868,823
Warrants	9(c)	-	-
Contributed surplus	9(e)	3,347,407	3,347,407
Deficit		(2,406,773)	(2,434,963)
Total shareholders' equity		5,809,457	5,781,267
Total liabilities and shareholders' equity		\$ 6,179,729	\$ 6,211,384
Going concern	1		
Commitments	13		
Subsequent event	14		

Approved on behalf of the Board of  
Directors:

*Signed "Steve Konopelky"*

Director, President and Chief Executive Officer

*Signed "Daniel Belot"*

Director

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

**SILVER MOUNTAIN MINES INC.**  
**Statements of Comprehensive Income (Loss)**  
**(in Canadian Dollars)**  
For the years ended December 31,

	Note	2019	2018
<b>Expenses</b>			
Accretion expense	8	\$ 815	\$ 774
Automotive		1,200	1,200
Consulting and management	7	2,825	3,733
Depreciation	4	3,048	2,887
Insurance		9,436	8,813
Interest expense	7	150	-
Licenses and listing fees		8,456	8,016
Office and storage	7	1,395	1,318
Professional fees		8,749	15,986
Telephone		1,200	1,200
		<b>37,274</b>	<b>43,927</b>
Interest income		475	447
Net loss before deferred tax recovery		<b>(36,799)</b>	<b>(43,480)</b>
Deferred tax recovery	10	64,989	11,712
Total net income (loss) and comprehensive income (loss) attributable to common shareholders		\$ 28,190	\$ (31,768)
Basic and diluted income (loss) per share	9(f)	\$ 0.00	\$ (0.00)

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

**SILVER MOUNTAIN MINES INC.**  
**Statements of Changes in Equity**  
**(in Canadian Dollars)**

	Number of Shares	Amount	Contributed Surplus	Warrants	Deficit	Total
Balance, January 1, 2018	48,251,503	\$ 4,868,823	\$ 3,093,894	\$ 253,513	\$(2,403,195)	\$ 5,813,035
Expiry of warrants (note 9 (c))	-	-	253,513	(253,513)	-	-
Total net loss and comprehensive loss	-	-	-	-	(31,768)	(31,768)
Balance, December 31, 2018	48,251,503	\$ 4,868,823	\$ 3,347,407	\$ -	\$(2,434,963)	\$ 5,781,267
Total net income and comprehensive income	-	-	-	-	28,190	28,190
<b>Balance, December 31, 2019</b>	<b>48,251,503</b>	<b>\$ 4,868,823</b>	<b>\$ 3,347,407</b>	<b>\$ -</b>	<b>\$(2,406,773)</b>	<b>\$ 5,809,457</b>

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

# SILVER MOUNTAIN MINES INC.

## Statements of Cash Flows

(in Canadian Dollars)

For the years ended December 31,

	Note	2019	2018
Cash provided by (used in):			
Operating Activities			
Total net income (loss) and comprehensive income (loss)		\$ 28,190	\$ (31,768)
Items not involving cash:			
Depreciation	4	3,048	2,887
Accretion expense	8	815	774
Deferred tax recovery	10	(64,989)	(11,712)
Total funds used in operations		(32,936)	(39,819)
Changes in non-cash working capital:			
GST and interest receivable		281	1,938
Prepaid expense		643	536
Accounts payable and accrued liabilities		(1,821)	(14,089)
Total changes in non-cash working capital		(897)	(11,615)
Net cash used in operating activities		(33,833)	(51,434)
Financing Activities			
Loans from directors	7	6,150	-
Net cash provided by financing activities		6,150	-
Investing Activities			
Interest earned on reclamation bond	6	(520)	(369)
Purchase of exploration and evaluation assets	5	(953)	(953)
Net cash used in investing activities		(1,473)	(1,322)
Decrease in cash and cash equivalents		(29,156)	(52,756)
Cash and cash equivalents, beginning of the year		30,466	83,222
Cash and cash equivalents, end of the year		\$ 1,310	\$ 30,466

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

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 1. Nature of Operations and Going Concern

Silver Mountain Mines Inc. (the "Company"), 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. The registered office of the Company is 223 Riverview Circle SE, Calgary, Alberta T2C 4K6. These financial statements were approved and authorized for issuance on June 11, 2020 by the Board of Directors.

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, 2019, the Company incurred a net loss before deferred tax recovery of \$36,799, had negative cash flow from operations of \$33,833 and as at December 31, 2019 had an accumulated deficit of \$2,406,773. The matters and conditions noted above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts materially different from those recorded in these financial statements.

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. Management currently assesses the Company's ability to continue as a going concern using financial forecasts of 12 months to ensure the Company has adequate capital to meet its financial obligations.

At its annual and special meeting of shareholders on June 29, 2017, a special resolution was approved cancelling all prior consolidation resolutions and allowing a consolidation of the issued and outstanding common shares on the basis of one (1) post-consolidation common share for up to thirty (30) pre-consolidation common shares. No such consolidation has taken place as at December 31, 2019.

### 2. Basis of Presentation and Accounting Policy Changes

#### (a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), in effect on January 1, 2019.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 2. Basis of Presentation and Accounting Policy Changes (*continued*)

#### (b) Basis of Presentation and Measurement

These financial statements have been prepared using the historical cost convention, except for certain financial instruments measured at fair value through profit or loss and share-based compensation transactions measured at fair value.

#### (c) Functional and Presentation Currency

The financial statements are presented in Canadian dollars, which is the functional currency of the Company.

#### (d) Accounting Policy Changes

The Company adopted IFRS 16, "Leases", on January 1, 2019. IFRS 15 introduces a single recognition and measurement model for leases, which would require the recognition of assets and liabilities for most leases with a term of more than twelve months. The new standard is effective for annual periods beginning on or after January 1, 2019. The adoption of the standard has no impact on the financial statements of the Company as the Company has no leases within the scope of IFRS 16.

### 3. Significant Accounting Policies

#### (a) 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.

#### (b) 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 expense.

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, 100% for software 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 the statement of comprehensive income (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.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 3. Significant Accounting Policies (*continued*)

#### (c) Impairment

At the end of each reporting period the carrying amounts of the Company's non-financial 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 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 of disposal 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 the statement of comprehensive income (loss) so as to reduce the carrying amount in the statement of financial position to its recoverable amount.

Fair value less costs of disposal 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.

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.

#### (d) 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 the statement of comprehensive income (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 of reserves.

Exploration and evaluation assets are assessed for impairment if sufficient evidence exists to determine technical feasibility and commercial viability or facts and circumstances suggest the carrying amount exceeds the recoverable amount.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 3. Significant Accounting Policies (*continued*)

#### (d) Exploration and Evaluation Expenditures (continued)

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.

#### (e) 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 share-based compensation 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.

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

#### (f) Taxes

Tax on the profit or loss for the periods presented comprises current and deferred taxes. Tax is recognized in the statement of comprehensive income (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 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 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 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 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 tax asset is realized, or the deferred 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.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 3. Significant Accounting Policies (*continued*)

#### (f) Taxes (continued)

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.

#### (g) Decommissioning Liability

An obligation to incur decommissioning 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 recognised in the statement of comprehensive income (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 the statement of comprehensive income (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.

#### (h) Income (loss) per Share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the total net income (loss) and comprehensive income (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 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 income (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.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 3. Significant Accounting Policies (*continued*)

#### (i) Financial Instruments

##### Classification and measurement

All financial assets are initially recognized at fair value and are subsequently classified as measured at fair value through profit of loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost based on the Company's assessment of the business model within which the financial asset is managed and the financial asset's contractual cash flow characteristics.

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principal and interest. A financial asset is measured at FVTOCI if the financial asset is held within a business model of both collecting contractual cash flows and selling the financial assets or through an irrevocable election for equity instruments that are not held for trading. All other financial assets are measured at FVTPL. A financial asset that would otherwise be measured at amortized cost or FVTOCI can be designated as FVTPL through an irrevocable election if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets can only be reclassified when there is a change to the business model within which they are managed. Such reclassifications are applied on a prospective basis. Financial liabilities are classified either as measured at amortized cost using the effective interest method or as FVTPL, which are recorded at fair value.

The Company measures all of its financial instruments at amortized cost, with the exception of cash which is measured at FVTPL.

##### Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to 12 months of expected credit losses. For accounts receivable, the Company applies the simplified approach to providing for expected credit losses, which allows for the use of a lifetime expected credit loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and is related to an event occurring after the impairment was recognized.

#### (j) 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 income (loss).

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 3. Significant Accounting Policies (*continued*)

#### (k) Significant Judgments

Significant judgment is required to determine the total provision for current and deferred taxes. The Company recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

#### (l) Significant Accounting Estimates and Assumptions

The preparation of financial statements requires management to make estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following estimates and assumptions, which have the most significant effect on the amounts recognized in the financial statements are:

##### *i. Decommissioning Liability*

Decommissioning liability costs will be incurred by the Company at the end of the operating life of certain of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites.

The expected timing and amount of expenditure can also change, for example, in response to changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be adjustments to the provisions established which would affect future financial results.

The decommissioning liability amounts have been created based on British Columbia Government's estimate and is supported by the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed at least annually to take into account any material changes to the assumptions. However, actual decommissioning cost will ultimately depend upon market prices for the necessary retirement works required which will reflect the British Columbia Government's policies and procedures.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 3. Significant Accounting Policies (*continued*)

#### (l) Significant Accounting Estimates and Assumptions

##### *ii. Taxes*

The Company follows the liability method for calculating deferred taxes. Differences between the amounts reported in the financial statements of the Company and their respective tax bases are applied to tax rates in effect to calculate the deferred tax liability. In addition, the Company recognizes the future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction.

To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the statement of financial position date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

##### *ii. Share-based Compensation*

The Company uses the fair value method of valuing compensation expense associated with the Company's share-based compensation plan whereby options are granted to employees, board of directors and key consultants. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant.

##### *iii. Warrant Valuation*

The Company uses the fair value method of valuing warrants expense associated with the Company's equity instrument issuances. Estimating fair value requires determining the most appropriate valuation model for a grant of warrants, which is dependent on the terms and conditions of the grant.

##### *iv. Depreciation*

The amounts recorded for depreciation are based on estimates including economic life of the asset and residual values of the asset at the end of its economic life. The actual lives of the assets and residual values are assessed annually taking into account factors such as technological innovation and maintenance programs.

##### *v. Recoverability of Assets*

The Company assesses impairment of its assets that are subject to depreciation when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. In determining fair value less costs of disposal and its value in use, the amounts are sensitive to current market prices on comparable assets, commodity prices, and estimated costs to develop and produce.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

### 4. Property and Equipment

	Office Equipment	Buildings	Total
<b>Cost</b>			
Balance, January 1 and December 31, 2019	\$ 7,535	\$ 76,194	\$ 83,729
<b>Accumulated Depreciation</b>			
Balance, January 1, 2019	\$ 7,535	\$ 21,332	\$ 28,867
Depreciation	-	3,048	3,048
Balance, December 31, 2019	\$ 7,535	\$ 24,380	\$ 31,915
Net Book Value, December 31, 2019	\$ -	\$ 51,814	\$ 51,814
<b>Cost</b>			
Balance, January 1 and December 31, 2018	\$ 7,535	\$ 76,194	\$ 83,729
<b>Accumulated Depreciation</b>			
Balance, January 1, 2018	\$ 7,535	\$ 18,445	\$ 25,980
Depreciation	-	2,887	2,887
Balance, December 31, 2018	\$ 7,535	\$ 21,332	\$ 28,867
Net Book Value, December 31, 2018	\$ -	\$ 54,862	\$ 54,862

### 5. Exploration and Evaluation Costs

<b>Cost</b>	
Balance, January 1, 2019	\$ 6,084,923
Additions	953
Balance, December 31, 2019	\$ 6,085,876
<b>Cost</b>	
Balance, January 1, 2018	\$ 6,083,970
Additions	953
Balance, December 31, 2018	\$ 6,084,923

For the year ended December 31, 2019, the Company capitalized \$953 (2018 - \$953) of exploration and evaluation costs. The capitalized costs for the year ended December 31, 2019 is comprised entirely of costs associated with the field exploration program.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

### 6. Reclamation Bond

For the years ending December 31,	2019	2018
Guaranteed investment certificate bearing interest at 1.95% maturing January 24, 2021	\$ 21,587	\$ 21,103
Guaranteed investment certificate bearing interest at 1.50% maturing August 28, 2020	7,292	7,256
	\$ 28,879	\$ 28,359

The reclamation bond is required by the Province of British Columbia in order to pursue drilling in the province. The cash is held in custody by the issuing bank in the form of guaranteed investment certificates and is restricted as to withdrawal or use. Interest income earned from the certificates is paid to the Company upon maturation of the deposit.

The Company will not receive the deposit back until such time that they have fulfilled their decommissioning liability with respect to their property. Accordingly, the reclamation bond has been classified as a non-current asset.

### 7. Related Party Transactions

During 2019, 1888025 Alberta Ltd., a privately held company owned by a senior officer of the Company, provided consulting services amounting to \$2,825 (2018 - \$3,733) and included \$500 (2018 - \$1,200) in accounts payable and accrued liabilities at year end.

Automotive, office and storage and telephone expenses were paid to a senior officer of the Company totalling \$3,600 for the year 2019 (2018 - \$3,600) which are included in the same expenses on the statement of comprehensive income (loss).

During 2019, \$2,000 was received from each of 3 directors in exchange for promissory notes which bear simple interest at 15% per annum and is repayable, at the sole discretion of each lender no sooner than 1 year from the date of issue.

Key management personnel compensation:

For the years ending December 31,	2019	2018
Included as part of:		
Consulting and management expenses	\$ 2,825	\$ 3,733
Total compensation	\$ 2,825	\$ 3,733

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

### 8. Decommissioning Liability

The Company's decommissioning liability is based on its net ownership in the property and represents management's and the British Columbia Government's estimate of the costs to reclaim the affected areas as well as an estimate of the future timing of the costs to be incurred. Estimated cash flows have been discounted at the risk-free rate of 1.76% (2018 – 2.31%) and an inflation rate of 2.0% (2018 – 2.0%).

The total undiscounted amount of future cash flows required to settle the decommissioning liability is estimated to be \$38,600 (2018 - \$37,800) and will be incurred in approximately twenty years from the date of these financial statements.

	2019	2018
Balance, January 1,	\$ 37,358	\$ 36,584
Accretion expense	815	774
Balance, December 31,	\$ 38,173	\$ 37,358

### 9. 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, January 1, 2018	48,251,503	\$4,868,823
Balance, December 31, 2018 and 2019	48,251,503	\$4,868,823

#### (c) Warrants

There are no warrants issued, outstanding or exercisable at December 31, 2018 or 2019.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

### 9. Share Capital and Reserves (*continued*)

#### (d) Share Purchase Options

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

Share options issued and outstanding at December 31, 2019 are as follows:

	Number	Weighted Average Exercise Price
Balance, January 1 and December 31, 2019	100,000	\$ 0.05

Details of the share options outstanding at December 31, 2019 are as follows:

Exercise Price	Outstanding Number of Options	Exercisable Number of Options	Weighted Average Remaining Life (years)
\$ 0.05	100,000	100,000	0.29

Share options issued and outstanding at December 31, 2018 are as follows:

	Number	Weighted Average Exercise Price
Balance, January 1, 2018	945,000	\$ 0.05
Expired	(845,000)	(0.05)
Balance, December 31, 2018	100,000	\$ 0.05

Details of the share options outstanding at December 31, 2018 are as follows:

Exercise Price	Outstanding Number of Options	Exercisable Number of Options	Weighted Average Remaining Life (years)
\$ 0.05	100,000	100,000	1.29

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 9. Share Capital and Reserves (*continued*)

#### (e) Contributed Surplus

Balance, January 1, 2018	3,238,045
Expiry of warrants	109,362
Balance, December 31, 2018 and 2019	\$ 3,347,407

#### (f) Loss per Share

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

The Company's dilutive instruments consist of share purchase options.

The weighted average number of shares outstanding for purposes of calculating basic loss per share for the year ended December 31, 2019 was 48,251,503 (2018 – 48,251,503). Diluted weighted average number of shares outstanding for the year ended December 31, 2019 was 48,351,503.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

### 10. Tax

Deferred tax recovery varies from the amount that would be computed by applying the expected basic federal and provincial tax rates for Canada at December 31, 2019 at 26.5% (2018 – 27%) to loss before deferred tax recovery. The statutory tax rate decreased due to a decrease in the Alberta provincial tax rate on July 1, 2019.

A reconciliation of the differences is as follows:

For the years ended December 31,	2019	2018
Loss before deferred tax recovery	\$(36,799)	\$(43,480)
Computed taxes	(9,752)	(11,740)
Increase (decrease) in taxes:		
Change in enacted rates	(55,237)	-
Non-deductible expenses	-	28
Deferred tax recovery	\$ (64,989)	\$ (11,712)
Deferred tax asset (liability)	2019	2018
Non-capital losses	\$ 592,265	\$ 686,375
Exploration and evaluation costs	(908,835)	(1,067,934)
Net deferred tax liability	\$ (316,570)	\$ (381,559)

At December 31, 2019, the Company had non-capital losses of \$2,575,065 (2018 - \$2,542,128) for tax purposes, expiring in various years ranging from 2028 to 2040. The Company also has \$1,398,117 (2018 - \$1,397,164) of resource tax and CCA pools available, which can be carried forward and utilized to reduce current taxes related to certain resource income.

### 11. 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 of Directors has established the Audit 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.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 11. Financial Instruments and Risk Management (continued)

#### (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 which are due within the next 12 months. (note 1)

#### (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.

#### (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 inputs used to value the instrument. The carrying value of interest receivable, reclamation bond and accounts payable and accrued liabilities equals fair value due to the short-term nature.

# SILVER MOUNTAIN MINES INC.

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### 11. Financial Instruments and Risk Management (*continued*)

(d) Fair value of financial instruments (continued)

- 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 other than quoted prices that are observable for the assets or 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).

### 12. 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:

As at December 31,	2019	2018
Cash and cash equivalents	\$ 1,310	\$ 30,466
Shareholders' equity	5,809,457	5,781,267

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.

### 13. Commitment

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 property 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.

# **SILVER MOUNTAIN MINES INC.**

## **Notes to the Financial Statements**

For the years ended December 31, 2019 and 2018  
(all amounts are expressed in Canadian dollars)

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### **14. Subsequent Event**

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.