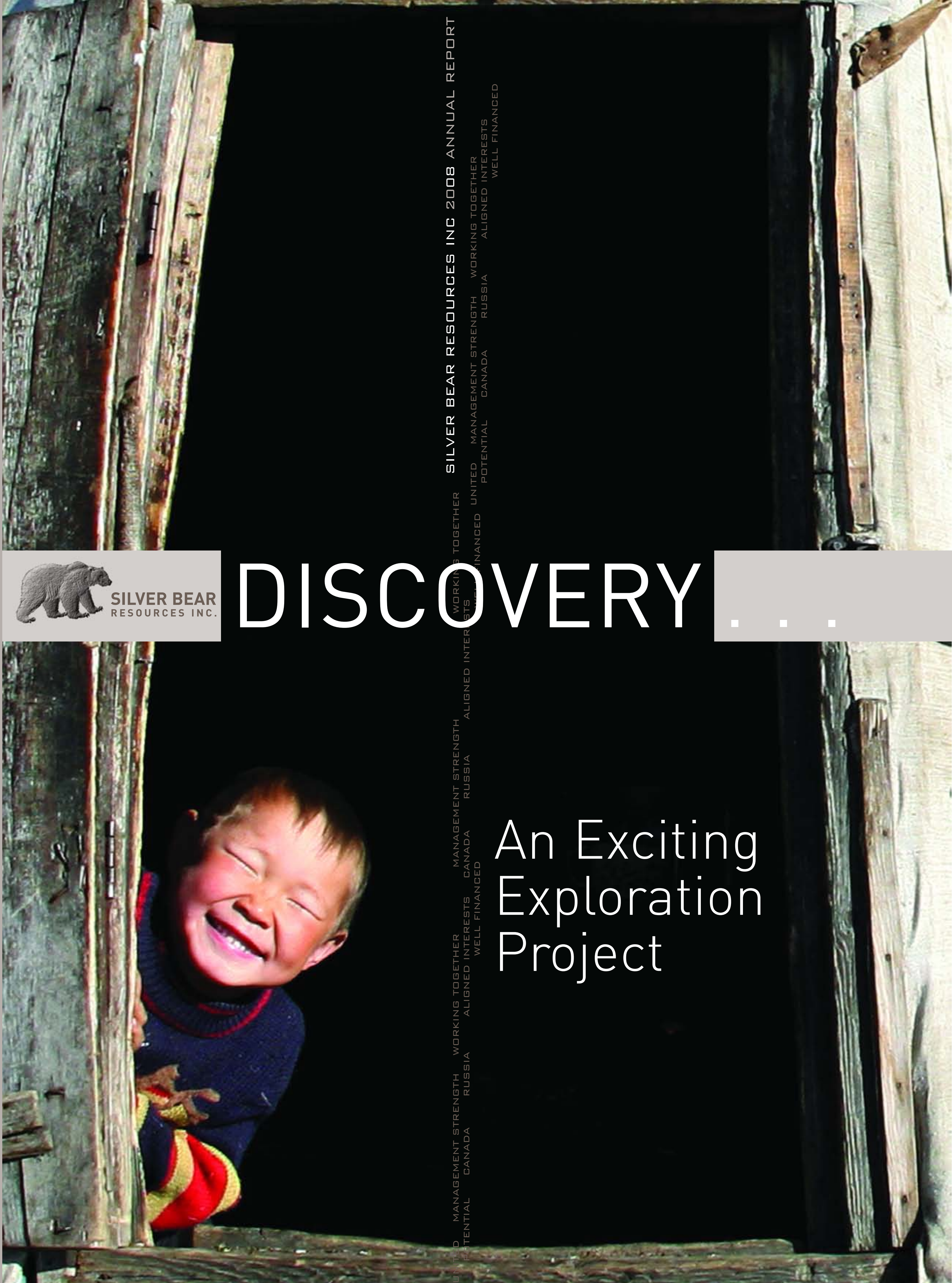


SILVER BEAR RESOURCES INC 2008 ANNUAL REPORT

SILVER BEAR
RESOURCES INC.

DISCOVERY . . .

An Exciting Exploration Project

UNITED MANAGEMENT STRENGTH WORKING TOGETHER ALIGNED INTERESTS WELL FINANCED
POTENTIAL CANADA RUSSIA

THE IMPORTANCE OF PARTNERSHIPS

Silver Bear Shareholders,

In 2008, your Company had another banner year, taking broad strides toward proving the potential of its outstanding silver discovery in Russia. In addition to a continued flow of remarkably high-grade drilling results, this progress took place in several ways that we expect to provide a context of trust, stability and predictability for our endeavours in the Russian Federation.

In my view, a key to continuing our success in 2009 and beyond will be the strong partnerships we have formed – with the people and communities surrounding our exciting Mangazeisky Project in Eastern Russia, with the business and political leadership of the Russian Federation, and with the Alfa Group industrial consortium, which joined us as a major investor, concurrently adding two great members to our Board of Directors.

Forming a mutually beneficial partnership with local communities has been a priority. An example is the agreement we entered into with the Association of Indigenous Minority Populations of the North of the Republic of Sakha (Yakutia) on co-operation and assistance for the local communities that surround the Mangazeisky Project. We signed the Agreement in 2007. Last year, we began fulfilling it by: employing over 30 members of the local community, using local suppliers for food, materials and fuel storage, building a new weather station and working with the Yakutsk State Agricultural Academy for environmental conservation programs.

We have also endeavoured to bring the story of these resilient and enterprising people to the world, through sponsoring a beautiful book of photo-essays called *Following the Reindeer.* Some of those photos grace this annual report.

Taking on a strong Russian partner as an investor in Silver Bear has multiplied the benefits of partnership dramatically. In June last year, your management invited Alfa Group to become an investor and partner, which resulted in it buying a 19.5 percent common equity stake. Alfa Group is one of the largest privately owned financial/industrial companies in Russia, with interests ranging from natural resources and banking, to asset management, insurance, retail, telecommunications and media. As such, Alfa Group brings international esteem, extensive financial resources, local operating experience and the prospect of new opportunities. I want to emphasize that we avoided the joint venture route, which can easily lead to stresses, strains and misunderstanding. Alfa has invested directly in Silver Bear. Our interests are aligned as shareholders. This is a win-win situation.

Our Board of Directors was considerably strengthened as a result. We welcomed to our Board, Dominic Gualtieri, who was Managing Director of Alfa Bank, and Alexey Mikhaylovskiy, CEO of the United Gold Company, the Alfa Group's precious metals mining arm. When combined with the rest of the members of Silver Bear's board, the group possesses vast experience in multiple facets including: business in Russia, mining and geology as well as the global capital markets.

I would like to commend CEO Randall Oliphant and his management team for the continued exciting progress at Mangazeisky. I look forward to their ongoing success in building value at Silver Bear for the benefit of our investors.

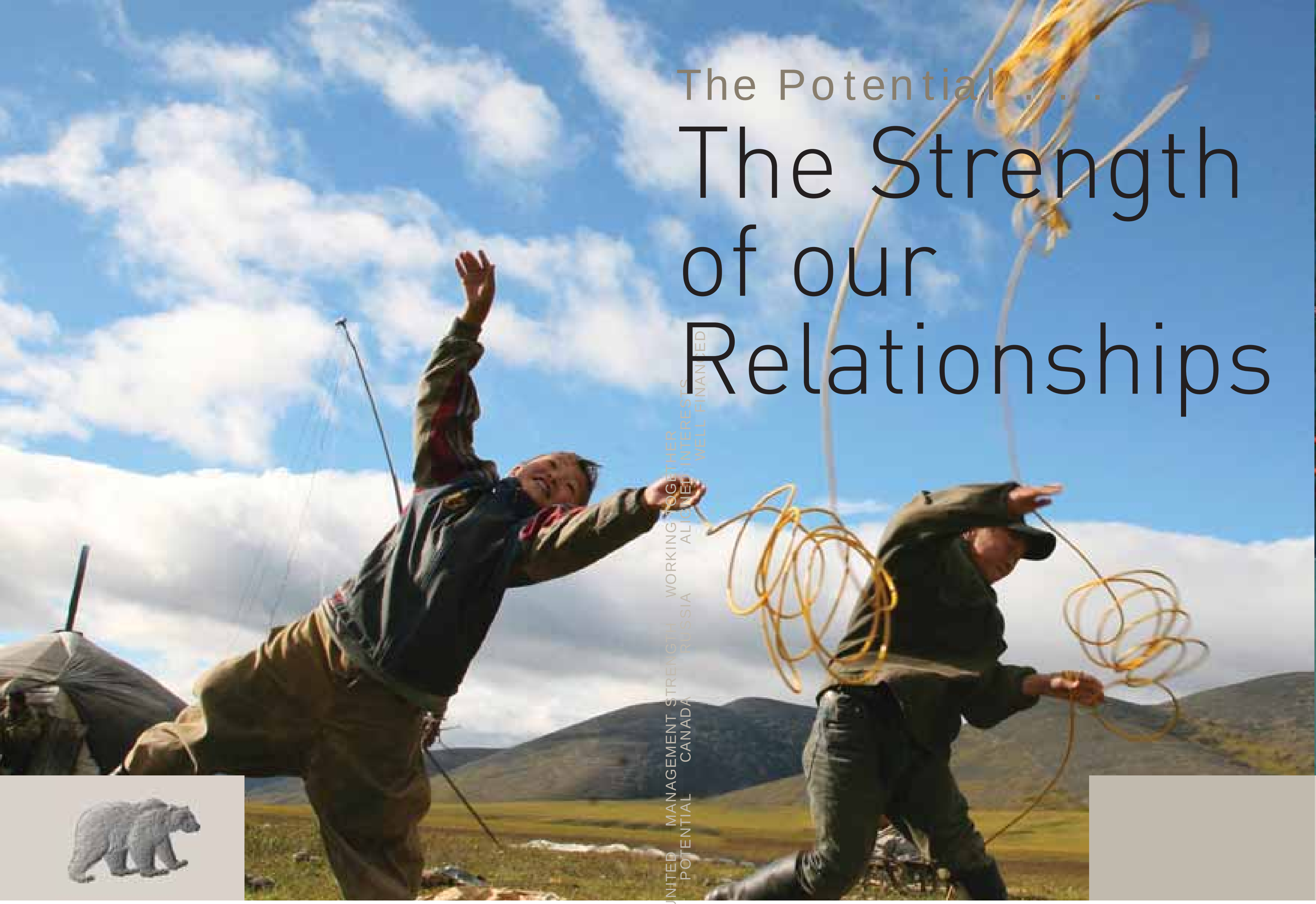
J Trevor Eyton

The Honourable J. Trevor Eyton,
Non-Executive Chairman

March 2009

The Honourable J. Trevor Eyton,
Non-Executive Chairman

UNITED MANAGEMENT STRENGTH WORKING TOGETHER



The Potential . . .

The Strength of our Relationships

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Randall Oliphant,
President and Chief Executive Officer

SPECTACULAR EXPLORATION RESULTS

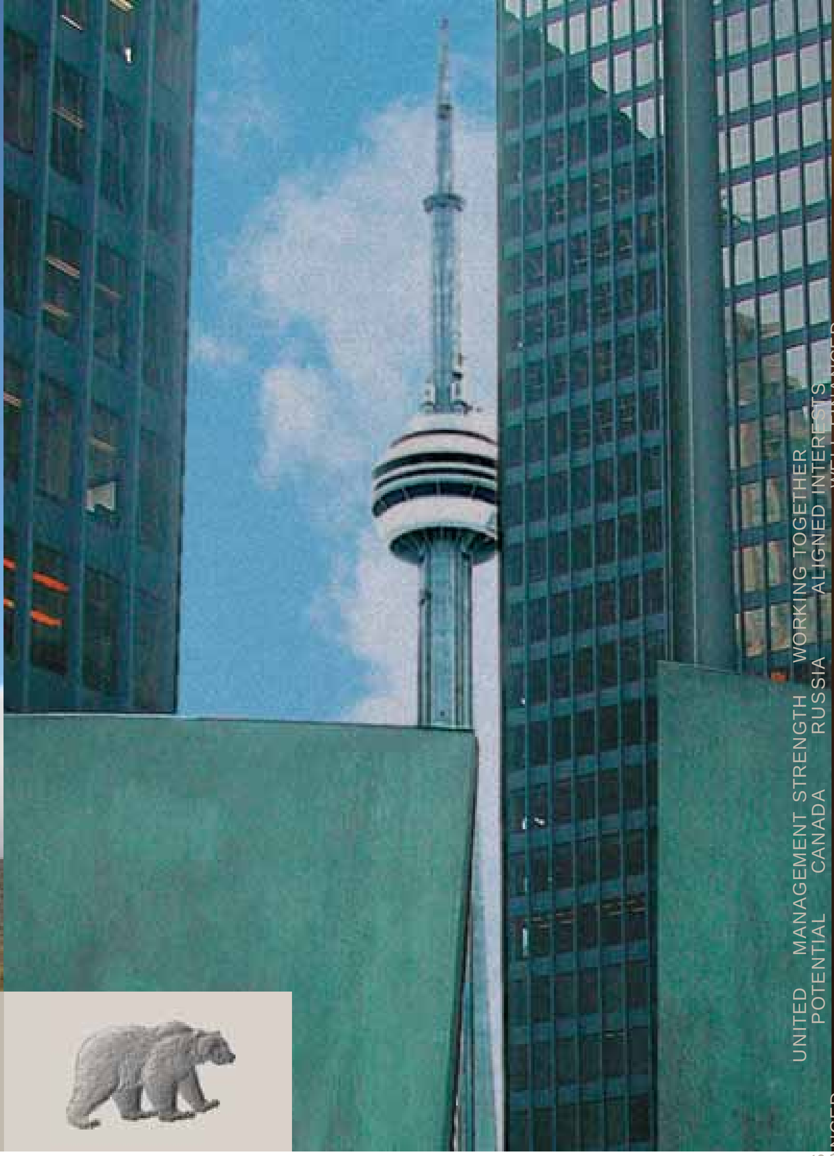
Fellow Shareholders,

Together, we have embarked on an enterprise to develop one of the world's most promising projects in precious metals. In 2008, a year in which exploration companies as a group had little to show for their efforts, Silver Bear Resources Inc. (SBR) recorded further high-grade results at our 100 percent-owned Mangazeisky Project in Eastern Russia.

We finished the year with an excellent outlook based on the exciting potential of the Project, solid finances, a strong Russian partner, and an excellent team to carry out our plans. During the year, we also sold our Avlayakan Gold Project providing us with US$8.5 million and allowing us to turn all of our focus to Mangazeisky. More than ever, Silver Bear is well-positioned to realize the potential of Mangazeisky, which we believe will prove to be one of the largest silver districts in the world.

Stellar Exploration Results:

During 2008, we continued to record outstanding exploration results, adding to the high-grade discovery we made at the Project's silver-rich Vertikalny vein in 2007. We completed Phase One of our exploration program, spending $14.1 million to complete 80 holes, or 12,945 metres, of drilling and more than 20,000 cubic metres of trenching. The results demonstrate the high-grade nature and large ounce potential of this structure:



UNITED MANAGEMENT STRENGTH WORKING TOGETHER
POTENTIAL CANADA RUSSIA ALIGNED INTERESTS WELL FINANCED

UNITED MANAGEMENT STRENGTH WORKING TOGETHER
POTENTIAL CANADA RUSSIA ALIGNED INTERESTS WELL FINANCED

- Drilling results were as high as 2,154 grams of silver per tonne over an 8.4 metre interval; trenching results were as high as 1,276 grams of silver per tonne over a 3.0 metre interval.
- Based on results so far, we were able to announce a NI 43-101 inferred mineral resource estimate of approximately 31 million ounces at an average grade of 508 grams per tonne.
- This represents a strong starting point, with excellent grades, in our progress toward defining the area's potential in accordance with North American regulatory standards.

We have only begun to delineate the exciting geologic potential of the Mangazeisky Property. The Vertikalny vein represents only one of 20 silver anomalies on the Property, where we have an exploration license covering over 570 square kilometres. We first obtained the exploration license in 2004 and recently received a license extension through the end of 2011. Russian regulators proved remarkably co-operative in expeditiously renewing our license well in advance of the September 2009 deadline. We have much work to do. According to historic Russian resource estimates, the entire license area holds potential resources of 900 million ounces. Our goal is to prove up the Property's resources and reserves according to North American standards, as well as Russian standards.

Phase Two: In 2009, we aim to meet several milestones in that quest.

- We plan to drill 10,000 metres to continue to expand the resource at Vertikalny. Planned expenditure is $12 million. The reduction from an originally planned 40,000 metres is intended to conserve liquidity in view of the current financial markets.
- We intend to use 2009 results to increase the mineral resource significantly with the ultimate goal of reaching the 200-250 million ounce level, based on CIM-compliant standards.[1]

[1] The reader is cautioned that the target expressed above is based on Silver Bear's assessment of the geological data currently available and is conceptual in nature. There has been insufficient exploration with respect to the target to define any estimates of quantities. There is no guarantee that the targeted estimate will be delineated through additional exploration. This is an objective set by the Company and it is not an estimate of quantity as contemplated by Section 2.3 of NI 43-101. There is no assurance that this objective will materialize.

UNITED MANAGEMENT STRENGTH WORKING TOGETHER
POTENTIAL CANADA RUSSIA ALIGNED INTERESTS
WELL FINANCED

Achieving these goals will set the stage for commencement of a scoping study in 2010 and a feasibility study in 2011.

Outlook:

As a major shareholder myself, I am confident in the bright prospects for Silver Bear in 2009 and beyond.

We have an exceptional property...

Our exploration drilling continues to intersect high-grade silver throughout the Vertikalny vein system. Results are buttressing our view of the terrific potential for the Mangazeisky Property.

We have the finances...

Silver Bear is well-positioned to complete its plans, with approximately $24 million in cash at December 31, 2008 and budgeted 2009 exploration expenses of approximately $12 million. We have:

- Cash in place to fund exploration through 2010; and,
- No debt.

We have an outstanding team...

We have assembled an outstanding operating team in Toronto and Russia with more than enough capability to bring the property through development and into production.

And we have the right partnerships.

As Senator Eyton has pointed out in his letter, we have partnerships at many levels in the Russian Federation. None is more important than that with Alfa Group, which came on board as an investor last year. As shareholders, our interests are aligned. Together, we can pursue opportunities in Russia's world-class resource base that will increase the fundamental value and market capitalization of Silver Bear.

While our achievements over the past year have been considerable, our share price did not respond accordingly, which was a reflection of contracting financial markets. At Silver Bear, we think this presents an opportunity and we have expressed our confidence in the future with our dollars – insiders hold more than 50 percent of SBR's equity. Fellow investors, I trust you share our confidence, and our excitement, as we develop an asset that we view as the world's next high-grade silver deposit.

Randall Oliphant,
President and Chief Executive Officer

March 2009

Table of Contents

UNITED MANAGEMENT STRENGTH WORKING TOGETHER
POTENTIAL CANADA RUSSIA ALIGNED INTERESTS
WELL FINANCED
UNITED MANAGEMENT STRENGTH WORKING TOGETHER
POTENTIAL CANADA RUSSIA ALIGNED INTERESTS
WELL FINANCED

The following Management Discussion and Analysis, which has been prepared as of March 13, 2009, related to the audited consolidated financial results of Silver Bear Resources Inc. (the "Company" or "Silver Bear") for the years ended December 31, 2008 and December 31, 2007 should be read in conjunction with the December 31, 2008 audited consolidated financial statements and related notes, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion covers the period ended December 31, 2008. Other pertinent information on the Company is available on SEDAR at www.sedar.com as well as on the Company's website at www.silverbearresources.com. For the purpose of preparing our MD&A, the Company considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant effect in the market price or value of our shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. We evaluate materiality with reference to all relevant circumstances. All dollar amounts are stated in Canadian dollars unless otherwise indicated.

The following discussion contains forward-looking statements that involve numerous risks and uncertainties. Actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties, including those set forth in this MD&A under "Forward-Looking Statements" and under "Risk Factors."

OVERVIEW

The primary business of the Company is the evaluation, acquisition, exploration and development of silver properties in the Russian Federation. The exploration strategy of the Company is to focus on the discovery of silver deposits in the Russian Federation. The Company has not yet earned revenue from operations and is considered to be in the exploration stage. The Company's principal asset is the Mangazeisky Project, located approximately 400 kilometres north of Yakutsk in the Republic of Sakha, Yakutia, in the Russian Federation. The Company was granted the exploration license for the Mangazeisky Project in September 2004 for an initial term of five years. The exploration license can be extended by application. On February 18, 2009 the Mangazeisky License was extended by the Federal Subsoil Use Agency, in The Russian Federation ("Rosnedra"). The license was extended to December 31, 2011.

On March 6, 2009, Wardrop Engineering, Swindon, U.K. ("Wardrop") estimated an inferred mineral resource for the Vertikalny vein. Based on a silver price of U.S. $10.50 per ounce (consistent with Wardrop's long term price of U.S. $10.60 per ounce), the Mangazeisky Project hosts an inferred mineral resource of 1.92 million tonnes averaging 508 grams of silver per tonne totaling approximately 31 million ounces. This initial mineral resource estimate reinforces the Company's belief in its goal to define greater than 200 million ounces [1] in mineral resource of silver at the Mangazeisky project.

Wardrop's estimate was prepared by Mr. P. Gribble, FIMMM, C.Eng, a qualified person as defined by National Instrument 43-101.

The resource is limited to a 1,600 metre strike length and a 275 metre depth. Mineralization remains open in all directions offering an excellent opportunity for resource increases through additional exploration.

Silver Bear is focused on further delineating the high grade silver mineralization discovered in the Vertikalny vein of the Mangazeisky Project and the exploration of the other known silver mineralized zones on the property. Based on the encouraging results from the drilling program concluded to date, Silver Bear believes the Mangazeisky Project has the potential to become a world class silver deposit.

Pre-position of equipment and supplies for the 2009 exploration program via the winter road is currently underway. A substantial portion of the fuel and supplies for the 2009 drilling program has been purchased and is currently in transit on the winter ice road. Boart Longyear (Russia) has been contracted to complete 10,000 metres of diamond drilling on the Vertikalny vein in 2009.

In light of current uncertainty in the capital markets, the Company has decided to reduce the exploration program planned for 2009 to conserve cash. This will allow the Company to continue exploration activities into 2010. The Company has scaled back its drilling program to 10,000 metres from 40,000 metres. Silver Bear remains committed to further advancing the project through targeted exploration within the Mangazeisky license. The total estimated cost for the 2009 program is approximately $12.0 million.

Key milestones for Silver Bear:

- Complete the winter road re-supply in support of the planned exploration program for 2009 during the first quarter of 2009.
- Complete 10,000 metres of drilling and 10,000 cubic metres of trenching during the 2009 field season (May through October 2009).
- Update the existing resource estimate during the first quarter of 2010.
- This initial mineral resource estimate reinforces the Company's belief in its goal to define greater than 200 million ounces [1] in mineral resource of silver at the Mangazeisky project.

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[1] The reader is cautioned that the target expressed above is based on Silver Bear's assessment of the geological data currently available and is conceptual in nature. There has been insufficient exploration with respect to the target to define any estimates of quantities. There is no guarantee that the targeted estimate will be delineated through additional exploration. This is an objective set by the Company and it is not an estimate of quantity as contemplated by Section 2.3 of NI 43-101. There is no assurance that this objective will materialize.

Silver Bear believes it can successfully implement its corporate strategy because of its unique strengths. These strengths include:

- The Mangazeisky Project is located in a highly prospective silver anomalous region. It is located in the Republic of Sakha, Yakutia, in the Russian Federation, 160 kilometres from High River Gold's high grade Prognoz silver deposit.
- Encouraging exploration results at the Mangazeisky Project are indicative of the potential for a high grade silver deposit.
- Extensive management experience. Silver Bear's management team has considerable mining industry experience and is supported by an experienced technical and mining operations team, some of whom have had prior operating experience in the Russian Federation.
- We continue to have a high level of support from both Moscow and Yakutsk-based regulators.
- The Alfa Group, our largest shareholder, remains committed to its investment and continues to provide excellent guidance on Russian business matters.

The Mangazeisky Project

The Mangazeisky Project consists of one exploration license covering 570 square kilometres which was granted to ZAO Prognoz in September 2004 by Rosnedra and was valid for an initial term of five years. The license can be extended in accordance with Russian Federation legal requirements. On February 18, 2009 the exploration license was extended by Rosnedra to December 31, 2011. The license area has been given the status of a "geological allotment" with the preliminary borders outlined and an unlimited licensed depth for investigation.

Upon discovering C^1 and C^2 Russian reserves and undertaking of certain other steps as required by Russian law, a production license may be applied for and issued for the production life of the deposit based on technical and economic substantiation of the development of the deposit.

Silver Bear holds its interest in the Mangazeisky Project through its 100% interest in ZAO Prognoz, a Russian Federation closed joint stock company.

The 2008 exploration drilling commenced on May 26, 2008 utilizing two diamond drill rigs contracted from Boart Longyear Russia. Silver Bear completed a total of 80 holes and 12,945 metres of drilling, with 73 holes completed at Vertikalny. Trenching operations commenced once the diamond drilling program was completed. A total of 22,633 cubic metres of trenching was completed during 2008. The Vertikalny deposit remains open in all directions.

Trenching operations commenced once the diamond drilling program was completed. Surface trenching at Mangazeisky is more effective in the fall and winter months as the trenches fill with groundwater generated from melting permafrost during the summer. A total of 22,633 cubic metres of trenching has been completed for the year ending December 31, 2008. Silver Bear has exceeded the 2008 drilling and trenching requirement of the license agreement.

An induced polarity / magnetotelluric resistivity geophysical survey was also completed at Vertikalny. The 16 kilometre survey, completed by Quantec Geoscience, evaluated the geophysical response along the Vertikalny structure over a 2.4 kilometre strike length. Results are currently being evaluated by Quantec Geoscience and an interpretation of the geophysical response will be provided during the first quarter of 2009 to assist with drill planning for the 2009 exploration program.

Regionally, exploration crews completed 66.8 kilometres of mapping and geochemical sampling at targets within the Mangazeisky License area. Reconnaissance field work focused on tracing the Vertikalny structure to the north west as well as preliminary work to evaluate the Zabytiy target (approximately 5 kilometres north of Vertikalny) and the Kis-Kuelskiy target (25 kilometres southeast of Vertikalny). Both targets are similar in nature to Vertikalny and both returned significant results indicative of favourable mineralization. Exploration in 2009 will focus on establishing surface trenches at both target areas and expanding the geochemical surface sampling.

The Scientific, Research and Design Centre of Precious Metals & Diamonds NBLgold, a Russian Federation Joint Closed Stock Company ("NBL Gold"), has been contracted to assist with the preparation of a Russian C^1 and C^2 reserve estimate for Vertikalny.

On February 18, 2009 the Mangazeisky License was extended by the Rosnedra. The license was extended to December 31, 2011. In accordance of the license requirements the Company is required to complete the following work on the license area prior to December 31, 2011.

2009:

- Drilling of not less than 3,000 metres
- Digging of trenches, not less than 10,000 cubic metres

2010:

- Drilling of not less than 3,000 metres
- Digging of trenches, not less than 5,000 cubic metres

2011:

- Drilling of not less than 3,000 metres
- Digging of trenches, not less than 5,000 cubic metres

The main environmental requirements for the Mangazeisky License are as follows:

1. Observance of the established requirements for protection of the environment and subsoil;
2. Performance of necessary measures to reduce or prevent pollution caused by the execution of the exploratory work;
3. Prevention of water facility pollution and clogging, and observance of the regime of water protection zones;
4. Reclamation of land disturbed during exploratory work, restoring it to a state suitable for further use and in compliance with landscape and recreational specifics of the territory;
5. Timely payment of compensation for damages caused to hunting, agriculture, fisheries and forestry; and
6. Coordination with and approval by the Rebublic of Sakha (Yakutia) Agency for Subsoil Use ("Yakutnedra") of the terms and types of work to be carried out within the water protection zones.

On March 6, 2009, Wardrop Engineering Inc, Swindon, U.K. ("Wardrop") estimated an inferred mineral resource for the Vertikalny vein. Based on a silver price of U.S. $10.50 per ounce (consistent with Wardrop's long term price of U.S. $10.60 per ounce), the Mangazeisky Project hosts an inferred mineral resource of 1.92 million tonnes averaging 508 grams of silver per tonne totaling approximately 31 million ounces.

Wardrop's estimate was prepared by Mr. P. Gribble, FIMMM, C.Eng, a qualified person as defined by National Instrument 43-101.

The resource is limited to a 1,600 metre strike length and a 275 metre depth. Mineralization remains open in all directions offering an excellent opportunity for resource increases through additional exploration.

The Avlayakan Project

On May 12, 2008 the Company sold its 70% interest in Mine Avlayakan LLC for U.S. $8.5 million, plus the assumption of all current and contingent obligations of Silver Bear with regard to the Project. The transaction closed in May 2008. The Company recorded a gain on the sale of $2.5 million during the second quarter of 2008.

Corporate Activity

On July 16, 2008 Silver Bear completed a private placement of 1.5 million common shares pursuant to a strategic partnership with the Alfa Group Consortium (the "Alfa Group"), one of the Russian Federation's largest privately-owned financial/industrial conglomerates. The 1.5 million common shares were sold to Impetra Ltd., an indirect wholly-owned subsidiary of the Alfa Group, at the price of $3.00 per share for aggregate gross proceeds to the Company of $4.5 million.

The private placement resulted in the Alfa Group beneficially holding an aggregate of 7.4 million common shares of Silver Bear, representing approximately 19.5% of the number of common shares now outstanding. Before closing the private placement, the Alfa Group beneficially owned 5.9 million Silver Bear common shares, which represented 16.2% of the then issued and outstanding common shares of Silver Bear.

On July 16, 2008 Dominic Gualtieri and Alexey Mikhaylovskiy were appointed to the Board of Directors of Silver Bear. Mr. Gualtieri, a Canadian, brings a wealth of financial expertise to Silver Bear, having served Alfa-Bank, a division of the Alfa Group, as Managing Director and Head of Equities from 2000 to October 2008. He was previously Group Managing Director of Franklin Templeton Asset Management in South Africa and headed Templeton's Moscow office. Mr. Mikhaylovskiy, who heads up Alfa Group's gold unit, is a leader in the Russian mining sector, having previously held the position of Managing Director of Alrosa Investment Group.

In early 2008, ZAO Prognoz received notice of an application by the Yakutia Inter-district Tax Office No. five of the Federal Tax Service to the Arbitration Court of the Republic of Sakha (Yakutia) claiming that documentation filed in connection with the registration of ZAO Prognoz in 2003 was signed by a person holding an improperly delegated power of attorney. On that ground, the application requested the Yakutia Arbitration Court to order the liquidation of ZAO Prognoz. A hearing was held on August 12, 2008 at which time the court ruled to reject the claim of the Federal Tax Service to liquidate ZAO Prognoz. An official ruling was prepared by the court on August 14, 2008. The Federal Tax Service could file an appeal of the court's decision within thirty days of the official ruling. On September 14, 2008, the court's decision of August 12, 2008 came into legal force as no appeal had been filed by the Federal Tax Service. The Company has received confirmation from the court that this matter has been dismissed.

RESULTS OF EXPLORATION ACTIVITIES

The following table summarizes drilling and trenching to date at the Mangazeisky Project.

	Drilling (metres)			Trenching (metres)		
	Required	Completed	Cumulative	Required	Completed	Cumulative
2004	–	–	–	–	–	–
2005	2,000	3,370	3,370	10,000	9,642	9,642
2006	1,500	732	4,102	4,000	4,843	14,485
2007	1,500	3,094	7,196	6,000	6,048	20,533
2008	–	12,945	20,141	10,000	22,633	43,166

Silver Bear continues to focus on further delineating the high grade silver mineralization of the Vertikalny vein of its Mangazeisky Project, discovered in 2007, while exploring the project's other known silver anomalies. A total of 80 holes (12,945 metres) were drilled during 2008 with 73 holes completed at Vertikalny. The remaining seven holes tested the Semenovsky and Vasilevsky targets within the license area and failed to intersect any significant mineralization. The majority of the 73 holes completed at Vertikalny intersected the mineralized zone as planned. Nine holes failed to intersect the mineralized zone either due to poor drilling conditions, technical problems related to drilling or they were stopped by geological field staff prior to reaching the targeted drill depth. Although the Company did not complete the required amount of exploration drilling under the Mangazeisky License in 2006 and the required trenching in 2005, it has in the aggregate exceeded to date, it's exploration drilling and trenching requirements at the end of 2008.

On March 6, 2009, Wardrop estimated an inferred mineral resource for the Vertikalny vein. Wardrop's estimates, at a range of silver prices, are provided in the following table:

Inferred Mineral Resources – Vertikalny Vein

Price (US$/oz Ag)	Tonnes (x 1,000)	Grade (Ag g/tonne)
$ 15.50	2,190	466.0
$ 15.00	2,170	468.0
$ 14.50	2,150	472.0
$ 14.00	2,120	475.0
$ 13.50	2,110	477.0
$ 13.00	2,090	480.0
$ 12.50	2,070	483.0
$ 12.00	2,020	491.0
$ 11.50	2,000	494.0
$ 11.00	1,960	500.0
$ 10.50	**1,920**	**508.0**
$ 10.00	1,860	516.0
$ 9.50	1,840	521.0

All resources are classified as Inferred. Wardrop, the Independent Engineer supervising the estimate, recommended a long term silver price of U.S. $10.60 per ounce. Accordingly, the resource at a silver price of U.S. $10.50 per ounce is highlighted.

Wardrop's estimate was prepared by Mr. P. Gribble, FIMMM, C.Eng, a qualified person as defined by National Instrument 43-101.

Wardrop recommended a long term silver price of U.S. $10.60 per ounce and results obtained from 73 drill holes and 13 surface trenches that define a block measuring 1,600 metres along strike 275 metres from surface. The estimate anticipates that the mineralized zone would be mined by selective underground methods at a minimum width of 1.2 metres. Accordingly, Silver Bear considers the resource at a price of U.S. $10.50 to constitute the December 31, 2008 year end resource estimate.

The resource is limited to a 1,600 metre strike length and a 275 metre depth. Mineralization remains open in all directions offering an excellent opportunity for resource increases through additional exploration.

Wardrop is authoring a technical report supporting the resource estimate noted above. This technical report shall be complete on or about March 31, 2009.

The Company's historical technical report on the Mangazeisky project, including information with respect to historical results, a property description and map for the Mangazeisky Project can be found on SEDAR at www.sedar.com.

Trenching operations began in earnest once the diamond drilling program was completed. A total of 22,633 cubic metres of trenching was completed during the fourth quarter of 2008.

Regional reconnaissance field work concentrated on three main areas; extending the Vertikalny vein to the northwest, exploring the Zabytiy target located approximately 5 kilometres north of Vertikalny and exploring the Kis-Kuelskiy target located approximately 20 kilometres to the south of Vertikalny. Both Zabytiy and Kis-Kuelskiy lie within the Mangazeisky license boundary.

Geological mapping and surface geochemical sampling at Vertikalny has successfully traced the vein to the northwest, approximately 2,000 metres from the central portion where the 2008 drilling was focused.

Initial geological mapping of the Zabytiy target indicates a silver in soil anomaly that trends northwest-southeast. The anomaly measures 1,000 metres in length by 150 metres in width as defined by soil geochemistry sampling. Two surface trenches at the Zabytiy target returned 362 grams per tonne silver across a 2.2 metre interval and 538 grams per tonne silver over a 3.0 metre interval.

Geological mapping at Kis-Kuelskiy identified three parallel mineralized structures that trend northwest-southeast. The three zones are interpreted to represent narrow, sub vertical veins, similar to the Vertikalny vein. The three zones have been traced for 500 to 1,000 metres on surface and random grab samples have returned numerous results greater than 1,000 grams of silver per tonne.

Drilling failed to meet the initial budgeted target of 16,000 metres for 2008. Drilling operations were negatively impacted by two prolonged shutdowns. One drill was inoperable for 29 days awaiting replacement parts that could not be delivered to site due to inclement weather conditions that prevented helicopter re-supply. Another drill was shut down for 15 days pending investigation of a non-fatal accident where a drill helper injured his hand. In total, 44 days of lost drill time (equating to 3,500 metres of lost productivity) have impacted the drill program. The drilling contractor worked with the Company to extend the drilling season later in September which reduced the drilling shortfall to 3,055 metres.

RESULTS OF OPERATIONS

Year Ended December 31, 2008, compared to Year Ended December 31, 2007

Revenues

As at December 31, 2008, the Company was in the exploration stage and therefore did not have revenues from operations. Interest income was, for the year ended December 31, 2008, $0.8 million as compared to $0.2 million for the year ended December 31, 2007, an increase of $0.6 million. The increase is attributed to the interest earned on proceeds received from the December 19, 2007 initial public offering of common shares and the January 18, 2008 over-allotment option, proceeds from the sale of our Avlayakan project in May, 2008 as well as proceeds from closing a $4.5 million private placement with Alfa Group Consortium.

Interest income for the three month period ending December 31, 2008 was $0.2 million as compared to $0.1 million for the three month period ending December 31, 2007.

Expenses

Exploration

For the year ended December 31, 2008, Silver Bear spent $14.1 million on exploration activities, compared with $5.5 million during the 2007 year. All of the $14.1 million was spent on the Mangazeisky Project. Costs associated with the Mangazeisky Project in year ended December 31, 2008 relate to the 2008 exploration program and costs related to the Company's Yakutsk administrative office. Exploration expenses increased when compared to the 2007 year since 12,945 metres of diamond drilling was completed in 2008 versus 3,094 metres in 2007. Rising fuel prices and increased staffing have also contributed to the cost increases.

For the three month period ended December 31, 2008, Silver Bear spent $2.2 million on exploration activities compared with $1.0 million during the same period in 2007. The increase in the exploration expenses for the three month period ended December 31, 2008 were related to the increased exploration activity.

General and Administrative

General and administrative expenses for the year ended December 31, 2008 were $4.5 million compared with $2.6 million in the prior year. The increased general and administrative costs are primarily related to legal fees associated with our Russian litigation, increased investor relations and other public company expenses and costs associated with increasing staffing in the corporate office. Management salaries for the year ended December 31, 2008 were $1.6 million, (year ended December 31, 2007 – $1.5 million). In addition, for the year ended December 31, 2008, Silver Bear spent $1.5 million on professional fees (year ended December, 2007 – $0.4 million) primarily for legal, audit and consulting fees. Other general and administrative expenses for year ended December 31, 2008 were $1.4 million, (year ended December, 2007 – $0.7 million).

General and administrative expenses for the three month period ended December 31, 2008 were $1.3 million (three month period ended December 31, 2007 – $0.9 million). Management salaries for the three month period ended December 31, 2008 were $0.6 million (three month period ended December 31, 2007 – $0.7 million). In addition, for the three month period ended December 31, 2008, Silver Bear spent $0.2 million on professional fees (three month period ended December 31, 2007 – $nil) primarily for legal, audit and consulting fees. Other general and administrative expenses for the three month period ended December 31, 2008 were $0.5 million (three month period ended December 31, 2007 – $0.2 million).

Non-Cash Items

Non-cash stock option compensation expense for the year ended December 31, 2008 was $1.5 million compared with $1.7 million in the year ended December 31, 2007. Amortization expense for the year ended December 31, 2008 was $0.9 million, (year ended December 31, 2007 – $1.0 million). The foreign exchange gain/loss for the year ended December 31, 2008 was $nil (year ended December 31, 2007 was $0.3 loss) as a result of the translation to Canadian dollars of the financial results of consolidated foreign subsidiaries. Penalty shares expense was $nil for the year ended December 31, 2008 compared to $0.6 million for the year ended December 31, 2007. Penalty shares were issued in 2007 to shareholders of a private placement completed on September 21, 2006. An additional 215,743 common shares were issued by Silver Bear since it did not complete an initial public offering or reverse takeover in Canada by June 29, 2007.

Non-cash stock option compensation expense for the three month period ended December 31, 2008 was $0.5 million compared with $0.5 million in the three month period ended December 31, 2007. Amortization expense for the three month period ended December 31, 2008 was $0.2 million (three month period ended December 31, 2007 – $0.3 million). The foreign exchange loss for the three month period ended December 31, 2008 was $nil (three month period ended December 31, 2007 was $0.1) as a result of the translation to Canadian dollars of the financial results of consolidated foreign subsidiaries.

Net Loss

Silver Bear incurred a net loss for the year ended December 31, 2008 of $17.7 million or $0.48 per share. This compares to a loss of $12.9 million or $0.52 per share for the year ended December 31, 2007. Exploration costs were $14.1 million in the year ended December 31, 2008 compared with $5.5 million in the year ended December 31, 2007. General and administrative expenses for the year ended December 31, 2008 were $4.5 million compared with $2.6 million in the prior year. Non-cash items for the year ended December 31, 2008 were $2.5 million compared with $2.7 million in the year ended December 31, 2007. Interest income for the year ended December 31, 2008 was $0.8 million compared with $0.2 million in the prior year. The Company recorded a gain on the sale of Avlayakan of $2.5 million during 2008.

Silver Bear incurred a net loss for the three month period ended December 31, 2008 of $4.0 million or $0.11 per share. This compares to a loss of $2.8 million or $.11 per share for the three month period ended December 31, 2007. Exploration costs were $2.2 million in the three month period ended December 31, 2008 compared with $1.0 million in the three month period ended December 31, 2007. General and administrative expenses for the three month period ended December 31, 2008 were $1.3 million compared with $0.9 million in the prior three month period. Non-cash items for the three month period ended December 31, 2008 were $0.2 million compared with $0.3 million in the three month period ended December 31, 2007. Interest income for the three month period ended December 31, 2008 was $0.2 million compared with $0.1 million in the prior three month period.

Liquidity and Capital Resources

At the start of 2008, Silver Bear had cash and cash equivalents of $30.0 million. On January 18, 2008, the company raised net proceeds of $1.6 million in relation to the over-allotment option granted by the Company to the underwriters in connection with the Company's initial public offering in December 2007. In May 2008, the Company sold its 70% interest in Mine Avlayakan LLC for proceeds of U.S. $8.5 million. On July 16, 2008, the Company completed a private placement with Alfa Bank Consortium for net proceeds of $4.2 million. During 2008 the Company invested $3.5 million in property, plant and equipment and had cash expenses of $16.6 million from continuing operations. December 31, 2008 cash and cash equivalents were $24.2 million.

Commitments
In order to maintain the exploration license at the Mangazeisky Project in good standing, Silver Bear is required to conduct certain minimum levels of exploration activity. The exploration program concluded in 2008 and the program planned for 2009 more than satisfies the commitments established in the License Agreement.

Silver Bear has entered into a drilling contract to complete a minimum of 10,000 metres of diamond drilling at the Mangazeisky Project for 2009. Performance of work is expected to commence on May 25, 2009 and is expected to be completed on October 1, 2009. The Company expects the cost to be $2.7 million for the contractors portion of the 10,000 metre program. Silver Bear has also agreed to pay demobilization charges of $26,000 per month at the end of the 2009 drilling program until the equipment is returned. Should the Company choose to sign a contract for drilling services in 2010 before November 15, 2009 these charges would not apply. Should the Company terminate the contract, charges of $44 per uncompleted metre would apply.

In relation to a cost sharing agreement with Western Goldfields Inc. ("WGI"), the Company anticipates paying in respect of the lease of the head office premises $0.2 million per year for the remaining nine years of the office lease.

Off-Balance Sheet Arrangements
The Company has no off-balance sheet arrangements.

Capital Stock
As at December 31, 2008 the Company had issued and outstanding 37,935,569 Common Shares (December 31, 2007, 35,735,569) issued and outstanding.

As at December 31, 2008, the Company had share options outstanding and expiring as follows:

	Outstanding		Excercisable	
Expiring during the year	Number	Weighted average exercise price $	Number	Weighted average exercise price $
2012	1,133,329	4.50	1,133,329	4.50
2014	2,438,237	1.86	1,157,221	2.37
2015	195,002	3.00	65,000	3.00
	3,766,568	2.72	2,355,550	3.41

Summary of Quarterly Results

	Dec-08	Sep-08	Jun-08	Mar-08
Net Loss	**(4,038,651)**	**(8,314,892)**	**(2,434,315)**	**(2,913,780)**
Basic and diluted loss per share (cents per share)	**(0.11)**	**(0.22)**	**(0.07)**	**(0.08)**
Cash and cash equivalents	**24,170,023**	**28,669,371**	**32,087,043**	**27,873,668**
Total assets	**30,783,897**	**35,978,821**	**38,904,042**	**40,396,900**
Total long-term financial liabilities	**570,711**	**577,814**	**252,942**	**248,959**

	Dec-07	Sep-07	Jun-07	Mar-07
Net Loss	(2,749,434)	(3,732,761)	(4,921,237)	(1,457,563)
Basic and diluted loss per share (cents per share)	(0.11)	(0.15)	(0.19)	(0.07)
Cash and cash equivalents	30,295,581	7,183,413	10,383,567	13,114,315
Total assets	41,180,972	16,492,689	20,175,969	22,482,635
Total long-term financial liabilities	245,360	–	–	–

Related Party Transactions

Since April 2004 our head office has been located in Toronto, Ontario, Canada, where we share premises with Western Goldfields Inc. ("WGI"), a related party through certain senior executives and directors of WGI also serve as senior executives and as a director of Silver Bear. Under the cost sharing agreement with WGI, we charged 50% of the rental and operating costs of the space occupied when the office was leased by Silver Bear.

We relocated our Toronto head office in June 2008 and continue to share premises with WGI. As a result of WGI entering into a new lease they have charged Silver Bear for our proportional share under the cost sharing agreement. Silver Bear's share of the estimated rental and operating costs over the first year of the lease is approximately $0.2 million and over the ten year term is approximately $1.9 million. At December 31, 2008, $23,063 (2007 – 31,052) was receivable from WGI.

In November 2008, a new cost sharing agreement was reached between Silver Bear and WGI with an effective date of January 1, 2009. The new agreement amends cost sharing ratios between the two companies to 33% for Silver Bear and 67% to WGI, to reflect current levels of activities.

SIGNIFICANT ACCOUNTING POLICIES

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

Capital Disclosures

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note 3 to these audited financial statements.

Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 4 to these audited financial statements.

Financial instruments, comprehensive income and hedges

In January 2005, the CICA issued Handbook Sections 1530, "Comprehensive Income" ("Section 1530"), 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"), and 3865, "Hedges" ("Section 3865"). These new standards were required to be applied to the Company's interim and annual consolidated financial statements for fiscal years commencing after October 1, 2007. Accordingly the Company adopted these standards effective January 1, 2007.

Section 1530 requires that certain gains and losses arising from changes in fair value be presented in comprehensive income and accumulated other comprehensive income. Comprehensive income would include the following unrealized gains and losses which are potentially relevant to the Company: changes in the currency translation adjustment relating to self-sustaining foreign operations, and unrealized gains and losses on available-for-sale investments.

Section 3855 establishes standards for the recognition and measurement of financial instruments. It requires all financial instruments within its scope, including derivatives, to be included on a company's balance sheet and measured either at fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standard also specifies when gains or losses as a result of changes in fair value are to be recognized in the consolidated statement of operations and deficit.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. The standards specify the circumstances under which hedge accounting is permissible and how hedge accounting may be performed.

The impact of these new standards on the Company's consolidated financial statements was not material.

Mineral properties

Mineral properties include the costs of acquiring exploration and mining licenses. Licenses are valued at their fair value at the date of acquisition. Any resulting write-down of the excess of carrying value over the fair value is charged to the consolidated statement of operations.

Translation of foreign currencies

The Company's functional currency is the Canadian dollar. The accounts of subsidiaries, which are integrated operations, are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars at year-end exchange rates and non monetary and liabilities are translated at historical rates. Expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings except for amortization of mineral properties, plant and equipment which are translated at the same rates as the assets to which they relate. Gains and losses on translation of monetary assets and monetary liabilities are included in results from operations for the year.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization. All property, plant and equipment, with the exception of leasehold improvements, are amortized on a straight line basis over three years. Leasehold improvements are amortized over the remaining life of the lease.

Exploration costs

Field exploration, supervisory costs and costs associated with maintaining a mineral property are expensed until the Company has a reasonable expectation that the property is capable of commercial production, supported by a positive economic analysis and approved by the Board of Directors.

Asset impairment – long-lived assets

The Company reviews and evaluates the carrying value of its mineral properties, property, plant and equipment when events or changes in circumstances indicate that the carrying amounts of related assets or groups of assets might not be recoverable. In assessing impairment for these assets, if the fair value or total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and recorded based on discounted cash flows. Future cash flows are based on estimated future recoverable mine production, expected sales prices (considering current and historical prices), production levels and costs, and further expenditures. All long-lived assets at a particular operation or project are combined for purpose of performing the recoverability test and estimating future cash flows.

Asset retirement obligations

Under the terms of the exploration license held by ZAO Prognoz, the Company has asset retirement obligations. The Company is required to record its asset retirement obligation at fair value at the time the legal liability exists and can be measured. The associated asset retirement obligations will be capitalized to mineral properties as part of the carrying amount of the long-lived asset and amortized over the estimated remaining useful life of the asset. The Company will make periodic assessments as to the reasonableness of its asset retirement obligations and will revise those estimates accordingly. The respective asset and liability balances will be adjusted, which will correspondingly increase or decrease the amounts expensed in future years.

Financial instruments and commodity contracts

Financial instruments are initially recorded at cost. The fair values of cash and cash equivalents, receivable from related party, miscellaneous receivables and, accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature.

Income taxes

The Company uses the asset and liability method of accounting for income taxes, under which future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income taxes in the year the changes are considered substantively enacted.

Future tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is more likely than not.

Loss per share

Basic loss per share is computed by dividing loss for the period by the weighted average number of common shares outstanding for the year. In the event of the Company reporting net profit, the diluted loss per share will be similar to basic earnings per share, except that the denominator will be increased to include the number of additional shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method.

Stock-based compensation

The fair value of any stock options granted to directors, officers, consultants and employees is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 12. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Prepaid Expenses

Represent payments made or obligations incurred in advance of the receipt of goods or rendering of services. Prepaid expenses are typically included in other current assets on the consolidated balance sheet. Prepaid expenses are classified as current assets for the reason that if they were not paid in advance, the item would require the use of current assets during the operating cycle.

Cash and cash equivalents

Cash represents cash on hand and demand deposits. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Such short-term investments would include treasury bills and term deposits with original maturities of less than 90 days. Treasury bills and term deposits with original maturities in excess of 90 days are classified under short-term investments. Equity investments are excluded from cash equivalents.

Inventories

Accounting Standards Section 3031 "Inventories" provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This section also requires additional disclosure regarding the expensing of inventory. The company has adopted this new standard, effective January 1, 2008 on a prospective basis. The adoption of the new standard had no impact on the results of operations. Inventories consist of fuel, supplies and spare parts to be consumed in exploration activities and are stated at the lower of average cost or net realizable value.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from these estimates.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on a review of its internal control procedures at the end of the year covered by this MD&A, management has concluded its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly impact financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for public accountable companies to convert from Canadian GAAP to IFRS. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

RISK FACTORS

The operations of the Company are speculative due to the high-risk nature of its business which is the acquisition, financing, exploration, development and operation of mining properties. The risk factors described below are not the only ones facing the Company. Additional risks currently not known to the Company or that the Company considers immaterial may also impair the business operations of the Company. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. If any of the following risks actually occurs, the Company's business, financial condition and operating results could be materially affected. In such case, the trading price of the common shares of the Company would likely decline and the holders of common shares of the Company could lose all or part of their investment.

Current Global Conditions

Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the value and the price of the Company's common shares could continue to be adversely affected.

Additional Financing

Silver Bear will require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to Silver Bear. With the collapse of the credit markets and the instability in capital market financing alternatives for junior mining companies have become very difficult to obtain at reasonable terms, if available at all. The success and the pricing of any future capital raising and/or debt financing will be dependent upon the prevailing market conditions at that time and the outcomes of any relevant feasibility studies and exploration programs. If additional capital is raised by an issue of securities, this may have the effect of diluting shareholders' interests in Silver Bear. Any debt financing, if available, may involve financial covenants which may limit Silver Bear's operations. If Silver Bear cannot obtain such additional capital, Silver Bear may not be able to continue exploration and the eventual development of the Mangazeisky Project which would adversely affect its business, operating results and financial condition.

Fluctuations in Metal Prices

The price of silver, gold and other metals fluctuates widely and is affected by numerous factors beyond the control of Silver Bear such as industrial and retail supply and demand, foreign exchange rates, inflation rates, changes in global economies, confidence in the global monetary system, forward sales of metals by producers and speculators as well as other global or regional political, social or economic events. The supply of metals consists of a combination of new mine production and existing stocks held by governments, producers, speculators and consumers. Future production from Silver Bear's mining properties, including the Mangazeisky Project, is dependent upon the price of silver, gold and other metals being adequate to make these properties economic. Future serious price declines in the market value of silver, gold and other metals could cause continued development of, and eventually commercial production from, the Mangazeisky Project and the Company's other properties to be rendered uneconomic. Depending on the price of silver, gold and other metals Silver Bear could be forced to discontinue exploration or development activities and may lose its interest in, or may be forced to sell, some of its properties. There is no assurance that, even as commercial quantities of silver and other base metals are produced, a profitable market will exist for them.

Mining is inherently dangerous and subject to conditions or events beyond the control of Silver Bear, and any operating hazards could have a material adverse effect on its business.

Silver Bear's business operations are subject to risks and hazards inherent in the mining industry. The exploration for and the development of mineral deposits involves significant risks, including: environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structure cave-in or slides, flooding, fires and interruption due to inclement or hazardous weather conditions. These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury or death, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability.

Whether income will result from projects undergoing exploration and development programs depends on the successful establishment of mining operations. Factors including costs, actual mineralization, consistency and reliability of ore grades and commodity prices affect successful project development. In addition, few properties that are explored are ultimately developed into producing mines.

Nature of Mining, Mineral Exploration and Development Projects

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that exploration efforts will be successful. Success in establishing reserves is a result of a number of factors, including quality of management, Silver Bear's level of geological and technical expertise, the quality of land available for exploration and other factors. Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling, to determine the optimal metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves.

Foreign Operations Risks

The operations of Silver Bear are currently conducted in the Russian Federation and, as such, the operations of Silver Bear are exposed to various levels of political, legal, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; abuse of legal presses; uncertainty of the rule of law; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Changes, if any, in mining or investment policies or shifts in political attitude in Russia may adversely affect the operations or profitability of Silver Bear. Operations may be affected in varying degrees by unpredictable government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

Risk of Operating in Russia

Silver Bear is subject to the considerations and risks of operating in Russia. The economy of Russia continues to display characteristics of an emerging market, which includes certain currency conversion risks. The prospects for future economic stability in Russia are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments. Russian laws, licenses and permits have been in a state of change and new laws may be given retroactive effect. Such licenses and permits, including the obtainment from the Russian authorities of a mining license to replace the exploration license in respect to the Mangazeisky Project, may not be obtained on a basis consistent with our current expectations. Further, ambiguity exists in regard to the interpretation of licenses and permits and the application of rules and regulations in regard to exploration activities in the Russian Federation. The suspension, limitation in scope or revocation of an exploration or mining license or the levying of substantial fines or penalties could have a material adverse effect on our exploration or development activities in the Russian Federation and Silver Bear's financial results. In such circumstances the exploration and development activities may be significantly and adversely affected. It is also not unusual in the context of dispute resolution in Russia for parties to use the uncertainty in the Russian legal environment as leverage in business negotiations. In addition, Russian tax legislation is subject to varying interpretations and constant change. Furthermore, Silver Bear's interpretation of tax legislation may not coincide with that of Russian tax authorities. As a result, transactions may be challenged by tax authorities and Silver Bear's Russian operations may be assessed, which could result in significant additional taxes, penalties and interest. The periods remain open to review by the tax authorities for three years (although the statute of limitations in certain circumstances may not time bar the tax claims). In addition, Russian authorities and court systems have shown to be unpredictable. Challenges to the Company's assets and operations in the Russian Federation may be brought by authorities for reasons that the company is unable to predict and which may result in material adverse changes to the Company.

Insurance and Uninsured Risks

The business of Silver Bear is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to properties of Silver Bear or others, delays in mining, monetary losses and possible legal liability. Although Silver Bear maintains insurance to protect against certain risks in such amounts it considers being reasonable, its insurance will not cover all the potential risks associated with its operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. It is not always possible to obtain insurance against all such risks and Silver Bear may decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and development is not generally available to Silver Bear or to other companies in the mining industry on acceptable terms. Losses from these events may cause Silver Bear to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Environmental Risks and Regulations

All phases of Silver Bear's operations are or will be subject to environmental regulation in the Russian Federation in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set for the limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for noncompliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Silver Bear's operations. Environmental hazards may exist on the properties on which Silver Bear holds interests which are unknown to Silver Bear at present and which have been caused by previous or existing owners or operators of the properties. Government approvals and permits are currently and may in the future be required in connection with the operations of Silver Bear. To the extent such approvals are required and not obtained, Silver Bear may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on Silver Bear and cause increases in exploration expenses, capital expenditures or production costs, or reduction in levels of production at producing properties, or require abandonment or delays in development of new mining properties.

Government Regulation

The mining, processing, development and mineral exploration activities of Silver Bear are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people, and other matters. Although the exploration and development activities of Silver Bear are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of mining and milling or more stringent implementation thereof could have a substantial adverse impact on Silver Bear.

Licenses and Permits

Silver Bear's mining exploration activities are dependent upon the grant, or as the case may be, the maintenance of appropriate licenses, concessions, leases, permits and regulatory consents which may be withdrawn or made subject to limitations. The maintaining of tenements, obtaining renewals, or getting tenements granted, often depends on the Company being successful in obtaining required statutory approvals for its proposed activities and that the licenses, concessions, leases, permits or consents it holds will be renewed as and when required. There is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith. There is no assurance that the Company will continue to keep its existing licenses in good standing as the requirements for doing so may become impractical, impossible, or uneconomic. Under Russian law, the voluntary surrender of a license will be subject to various requirements, including compliance with the license terms, liquidation, conservation, reclamation and other measures to be carried out prior to the abandonment of the license. These measures may expose Silver Bear to additional expenditures and obligations which may be onerous to the Company.

Title to Properties

There can be no assurances that the interest in the Company's properties is free from defects or that the material contracts between the Company and the relevant governmental agencies will not be unilaterally altered or revoked. There can be no assurances that the Company's rights and interests will not be challenged or impugned by third parties.

With respect to the Mangazeisky License, in 2006 Silver Bear failed to complete the required amount of drilling and it has not been in full compliance at all times with other requirements under the Mangazeisky License and applicable legislation. The Company has in the aggregate, to date, exceeded the drilling and trenching requirements of the license, and has received confirmation from Yakutnedra that: (i) Yakutnedra is not conducting any procedures regarding the suspension or cancellation of the Mangazeisky License and (ii) no material violation of the license had been observed. However there is no assurance that Russian authorities will not terminate, impose further conditions or take other action in connection with the Mangazeisky License.

There may be other failures and defects in connection with the Company's compliance with license terms and Russian legal requirements with respect to the Company's licenses in addition to those discussed above.

Generally, as Russia is an uncertain legal environment, Silver Bear's interest in its licenses may be challenged for various reasons or in connection with the conduct of an auction process related thereto. Such challenges, if any, may have a material adverse effect on the business and operations of the Company.

Competition

Silver Bear competes with other companies, some of which have greater financial and other resources than it has and, as a result, may be in a better position to compete for future business opportunities. Silver Bear competes with other mining companies for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel. Many of Silver Bear's competitors not only explore for and produce minerals, but also carry out downstream operations on these and other products on a worldwide basis. There can be no assurance that the Company can compete effectively with these companies.

Dependence on Key Personnel and Shortage of Labour Force

Silver Bear is reliant on key personnel employed or contracted by the Company. Loss of such personnel may have a material adverse impact on the performance of Silver Bear. In addition, the recruiting of qualified personnel is critical to Silver Bear's success. As Silver Bear's business grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff for operations. In addition, given the remote location of Silver Bear's properties, the lack of infrastructure in the nearby surrounding areas, and the shortage of a readily available labour force in the mining industry, Silver Bear may experience difficulties finding the skilled employees to conduct its operations in Russia in the event it develops any of its properties. While Silver Bear believes that it will be successful in attracting and retaining qualified personnel and employees, there can be no assurance of such success.

Currency

Silver Bear's functional currency is the Canadian Dollar and any possible future revenues will likely be in U.S. dollars, while most of its expenditures are in Russian Rubles. As a result of the use of these different currencies, Silver Bear's operations are subject to foreign currency fluctuations. Silver Bear has not hedged against fluctuations in exchange rates. Foreign currencies are affected by a number of factors that are beyond the control of Silver Bear. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. Foreign currency fluctuations may materially affect Silver Bear's financial position and operating results.

Repatriation of Earnings

General rules of investment and repatriation of funds in Russia, as well as currency regulation are stated by the Law On Currency Regulation and Currency Control. Currency operations between residents and non-residents can generally be carried out without any restrictions except that in Russia, parties must buy and sell foreign currency only in specially licensed and empowered banks.

Special requirements on repatriation of funds are applied to the residents of Russia performing foreign-trade activity, (business activity in the field of the international trade of goods, works, services, information, and the results of the intellectual activity, including the exclusive rights to such results (intellectual property).

To control the currency operations (particularly when a Russian entity is a part of a multinational loan/investment agreement) residents of Russia need to provide to the operating bank a deal passport supported by documents with the following exceptions:

i) total amount of credit agreement does not exceed U.S. $5,000;

ii) resident is a lending agency;

iii) resident is a physical body and is not an individual entrepreneur; and

iv) resident is a federal executive organ specially empowered by the state government.

Silver Bear Does Not Have Any Production Revenues

To date, Silver Bear has not recorded any revenues from its mining operations nor has the Company commenced commercial production on any of its properties. There can be no assurance that significant additional losses will not occur in the near future or that Silver Bear will be profitable in the future. Silver Bear's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, Silver Bear's acquisition of additional properties and other factors, many of which are beyond our control. Silver Bear expects to continue to incur losses unless and until such time as its properties enter into commercial production and generate sufficient revenues to fund its continuing operations. The development of Silver Bear's properties will require the commitment of substantial resources to conduct the time-consuming exploration and development of properties. There can be no assurance that Silver Bear will generate any revenues or achieve profitability. There can be no assurance that the underlying assumed levels of expenses will prove to be accurate.

Stock Exchange Prices

The market price of a publicly traded stock is affected by many variables not all of which are directly related to the success of Silver Bear. In recent years, the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, has experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values of such companies. There can be no assurance that such fluctuations will not affect the price of Silver Bear's securities.

Conflicts of Interest

Certain directors of Silver Bear are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnership or joint ventures which are potential competitors of Silver Bear. Situations may arise in connection with potential acquisitions in investments where the other interests of these directors may conflict with the interests of Silver Bear. Directors of Silver Bear with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies.

Resource Estimates and Lack of Mineral Reserves

Resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates, which were valid when made, may change significantly upon new information becoming available. In addition, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should Silver Bear encounter mineralization or formations different from those predicted by past sampling and drilling, resource estimates may have to be adjusted and mining plans may have to be altered in a way which could have a negative effect on Silver Bear's operations. Silver Bear does not have any mineral reserves and there is no assurance that mineral reserves will be established. A mineral resource is not the equivalent of a commercially mineable ore body or a mineral reserve.

Effecting Service of Process

Some of Silver Bear's directors reside outside of Canada. Substantially all of the assets of these persons are located outside of Canada. It may not be possible for investors to effect service of process within Canada upon the directors, officers and experts. It may also not be possible to enforce against certain of Silver Bear's directors and officers, and certain experts named herein, judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable securities laws in Canada.

Inclement Weather and Climate Conditions

Silver Bear's mineral properties are situated in remote parts of Russia, where access is limited and often only available by winter road or air, increasing the risk that Silver Bear may be unable to explore, develop or operate efficiently due to periods of extreme cold (or by warm weather, or the long term effects of global warming, in the case of the winter roads on which Silver Bear may be highly dependent). Climate change or prolonged periods of inclement weather may severely limit the length of time per year in which exploration programs and eventually development activities can be carried out.

OUTLOOK

Mangazeisky Project

Silver Bear will continue to explore the Mangazeisky property in 2009. In light of current uncertainty in the capital markets, the Company has decided to reduce the exploration program planned for 2009 to conserve cash. This will allow the Company to continue exploration activities into 2010. The Company has scaled back its drilling program to 10,000 metres from 40,000 metres. Silver Bear remains committed to further advancing the project through targeted exploration within the Mangazeisky license. Total estimated cost for the 2009 program is approximately $12.0 million.

Key milestones for Silver Bear:

- Complete the winter road re-supply in support of the planned exploration program for 2009 during the first quarter of 2009.
- Complete 10,000 metres of drilling and 10,000 cubic metres of trenching during the 2009 field season (May through October 2009).
- Update the existing resource estimate during the first quarter of 2010.
- This initial mineral resource estimate reinforces the Company's belief in its goal to define greater than 200 million ounces [1] in mineral resource of silver at the Mangazeisky project.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements relating to, but not limited to, the Company's expectations, estimates, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "budget", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that are inherently subject to a number of business and economic risks and uncertainties and contingencies. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any forward-looking statement. These risks, uncertainties and other factors include, but are not limited to, the following: failure to establish estimated resources and reserves; the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; delays in obtaining or failures to obtain required governmental, environmental or other project approvals; changes in national and local government legislation, taxation or regulations; political or economic developments; inflation; changes in currency exchange rates; fluctuations in commodity prices; delays in the development of projects, challenges from governmental authorities of Silver Bear's validity of the title to its Russian assets, and other factors, disclosed herein and other documentation filed by the Company in SEDAR. All forward-looking statements in this MD&A are qualified by these cautionary statements.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company disclaims any intention or obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by applicable laws.

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[1] The reader is cautioned that the target expressed above is based on Silver Bear's assessment of the geological data currently available and is conceptual in nature. There has been insufficient exploration with respect to the target to define any estimates of quantities. There is no guarantee that the targeted estimate will be delineated through additional exploration. This is an objective set by the Company and it is not an estimate of quantity as contemplated by Section 2.3 of NI 43-101. There is no assurance that this objective will materialize.

Management's Responsibility for Financial Reporting

The consolidated financial statements of Silver Bear Resources Inc. have been prepared by, and are the responsibility of the Company's management.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments on information currently available. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized, and financial information is reliable. All internal control systems have inherent limitations, including the possibility of circumvention and overriding controls, and, therefore, can provide only reasonable assurance as to financial statement preparation and safeguarding of assets.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee meets with the Company's management and external auditors to discuss the results of the audit and to review the annual consolidated financial statements prior to the Audit Committee's submission to the Board of Directors for approval. The Audit Committee also reviews the quarterly financial statements and recommends them for approval to the Board of Directors, reviews with management the systems of internal control and security, approves the scope of the external auditors' audit and non-audit work. The Audit Committee is composed entirely of directors not involved in the daily operations of the Company and thus is considered to be free from any relationship that could interfere with the exercise of independent judgment as a Committee member.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

March 13, 2009

Randall Oliphant
Director, President
and Chief Executive Officer

Brian Penny
Chief Financial Officer

Auditors' Report

To the Shareholders of Silver Bear Resources Inc.

We have audited the consolidated balance sheets of **Silver Bear Resources Inc.** as at December 31, 2008 and December 31, 2007 and the consolidated statements of operations and comprehensive loss and deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 13, 2009

Consolidated Balance Sheets

(Canadian dollars)
Audited

	December 31, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	**$ 24,170,023**	$ 30,295,581
Related party receivable (note 13)	**23,063**	31,052
Non-controlling interest receivable (note 5)	**–**	151,592
Inventories (note 6)	**1,142,408**	628,196
Prepaid expenses (note 7)	**666,396**	2,305,284
Miscellaneous receivables	**52,475**	50,232
	26,054,365	33,461,937
Capital assets		
Mineral properties (notes 4, 8 and 17)	**1,265,117**	959,670
Property, plant and equipment (note 9)	**2,520,265**	874,147
Asset held for sale (notes 4 and 20)	**944,150**	5,885,218
	$ 30,783,897	$ 41,180,972
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities from continuing operations (note 10)	**$ 1,013,888**	$ 1,127,478
Accounts payable and accrued liabilities from discontinued operations	**–**	200,265
	1,013,888	1,327,743
Long-term liabilities		
Asset retirement obligation (note 17)	**570,711**	245,360
Non-controlling interest (note 11)	**–**	127
Total Liabilities	**1,584,599**	1,573,230
Shareholders' equity		
Capital Stock (note 12)	**73,771,289**	67,991,311
Warrants (note 12)	**–**	273,575
Contributed surplus (note 12)	**8,621,876**	6,835,085
Deficit	**(53,193,867)**	(35,492,229)
	29,199,298	39,607,742
	$ 30,783,897	$ 41,180,972

Going concern (note 1)

Commitments and contingency (note 15)

See accompanying notes to interim consolidated financial statements

Approved by the Board of Directors

Randall Oliphant
President and
Chief Executive Officer

Bill Biggar
Chairman Audit Committee

Consolidated Statements of Operations and Comprehensive Loss and Deficit

(Canadian dollars)
Audited

	December 31, 2008	December 31, 2007
Income		
Interest income	**$ 769,201**	$ 242,513
Expenses		
Exploration costs	**14,129,938**	5,532,314
General and administrative	**4,461,726**	2,632,158
Stock option compensation (note 12)	**1,513,216**	1,734,382
Amortization	**915,118**	955,402
Accretion expense	**19,905**	–
Penalty shares (note 12)	**–**	647,233
Gain on disposal of property, plant and equipment	**–**	(11,034)
Foreign exchange loss (gain)	**(33,859)**	270,414
Expenses from continuing operations	**21,006,044**	11,760,869
Non-controlling interest (note 11)	**(33,178)**	(704,776)
Loss and Comprehensive Loss for the year from continuing operations	**(20,203,665)**	(10,813,580)
Discontinued operations (note 4)	**2,502,027**	(2,047,415)
Net Loss and Comprehensive Loss	**(17,701,638)**	(12,860,995)
Deficit – Beginning of the year	**(35,492,229)**	(22,631,234)
Deficit – End of the year	**$ (53,193,867)**	$ (35,492,229)
Weighted average number of common shares outstanding	**37,095,678**	24,661,988
Income (loss) per share from continued operations (note 12)	**$ (0.54)**	$ (0.44)
Income (loss) per share from discontinued operations (note 12)	**0.07**	(0.08)
Income (loss) per share	**$ (0.48)**	$ (0.52)

Nature of Operations and going concern (note 1)

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(Canadian dollars)
Audited

	December 31, 2008	December 31, 2007
Cash provided by (used in)		
Operating activities		
Loss from continuing operations	**$ (20,203,665)**	$ (10,813,580)
Items not affecting cash:		
Amortization	**915,118**	955,402
Accretion expense	**19,905**	–
Stock option compensation	**1,513,216**	1,734,382
Penalty shares issued	**–**	647,233
Gain on sale of property, plant and equipment	**–**	(11,034)
Net change in non-cash working capital (note 14)	**1,168,424**	(1,823,097)
Net cash from continuing operations	**(16,587,002)**	(9,310,694)
Investing activities		
Acquisition of property, plant and equipment	**(3,505,387)**	(327,263)
Proceeds of sale of property, plant and equipment	**–**	21,894
	(3,505,387)	(305,369)
Financing activities		
Issuance of common shares	**5,779,977**	44,737,319
Non-controlling interest	**(127)**	127
	5,779,850	44,737,446
Increase (decrease) in cash and cash equivalents during the year	**(14,312,539)**	35,121,383
Increase (decrease) in cash and cash equivalents during the year from discontinued operations (note 4)	**8,186,981**	(6,804,731)
Cash and cash equivalents – beginning of the year	**30,295,581**	1,978,929
Cash and cash equivalents – end of the year	**$ 24,170,023**	$ 30,295,581

See accompanying notes to consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Silver Bear Resources Inc. (the "Company" or "Silver Bear") was incorporated under the Business Corporations Act of the Province of Ontario, Canada, on April 8, 2004 and continued under Articles of Continuance dated August 30, 2004 under the Business Corporations Act (Yukon) and February 1, 2005 under the Business Corporations Act (Ontario). The primary business of the Company is evaluation, acquisition and exploration of silver and gold mineral properties in the Russian Federation. The principal assets of the Company are projects described in Note 8. The exploration strategy of the Company is to focus on the discovery of silver deposits. To date Silver Bear has not earned revenue and is considered to be in the exploration stage.

As at December 31, 2008, the Company has no source of operating cash flows. The Company's ability to meet its obligations and continue as a going concern is dependent on the ability to identify and complete future funding.

These audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due. As at December 31, 2008, the Company had no source of operating cash flows and reported a loss for the year of $17,701,638 and an accumulated deficit of $53,193,867 as at that date. In order to fund its future operations, maintain its rights under licenses and agreements and to advance its projects, the Company must secure sufficient future funding. In these circumstances, there exists significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, as to the appropriateness of the use of accounting principles applicable to a going concern. The Company secured funding through an initial public offering of its common shares in December 2007, and an over-allotment option was completed on January 18, 2008 for aggregate gross proceeds of $32,091,239. On July 16, 2008 the company completed a private placement of 1,500,000 common shares for an aggregate gross proceeds to the company of $4,500,000 to meet its exploration requirements and contractual obligations and to continue as a going concern. While the Company has been successful in raising financing to date, there can be no assurance that it will be able to do so in future.

These audited consolidated financial statements do not include adjustments or disclosures that may result should the Company not be able to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, and the reported net loss and balance sheet classifications used. These adjustments could be material.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

These audited consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries: Silver Bear Holdings Limited (a Barbados corporation) which was incorporated on April 27, 2004 ("Holdings"), ZAO Prognoz (a Russian Federation corporation) which was acquired on October 21, 2004. These audited consolidated financial statements include the assets and liabilities of the Company as at December 31, 2008 and its results of operations and its cash flows for the year ended December 31, 2008. All significant inter-company accounts and transactions have been eliminated on consolidation.

b) Significant accounting policies

Capital disclosures and financial instruments – disclosures and presentation

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

Capital disclosures

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note 3 to these consolidated financial statements.

Financial instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 3 to these consolidated financial statements.

Financial instruments, comprehensive income and hedges

In January 2005, the CICA issued Handbook Sections 1530, "Comprehensive Income" ("Section 1530"), 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"), and 3865, "Hedges" ("Section 3865"). These new standards were required to be applied to the Company's interim and annual consolidated financial statements for fiscal years commencing after October 1, 2007. Accordingly the Company adopted these standards effective January 1, 2007.

Section 1530 requires that certain gains and losses arising from changes in fair value be presented in comprehensive income and accumulated other comprehensive income. Comprehensive income would include the following unrealized gains and losses which are potentially relevant to the Company: changes in the currency translation adjustment relating to self-sustaining foreign operations, and unrealized gains and losses on available-for-sale investments.

Section 3855 establishes standards for the recognition and measurement of financial instruments. It requires all financial instruments within its scope, including derivatives, to be included on a company's balance sheet and measured either at fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standard also specifies when gains or losses as a result of changes in fair value are to be recognized in the consolidated statement of operations and deficit.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. The standards specify the circumstances under which hedge accounting is permissible and how hedge accounting may be performed.

The impact of these new standards on the Company's consolidated financial statements was not material.

Translation of foreign currencies

The Company's functional currency is the Canadian dollar. The accounts of subsidiaries, which are integrated operations, are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars at year-end exchange rates and non monetary assets and liabilities are translated at historical rates. Expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings except for amortization of mineral properties, plant and equipment which are translated at the same rates as the assets to which they relate. Gains and losses on translation of monetary assets and monetary liabilities are included in results from operations for the year.

Mineral properties

Mineral properties include the costs of acquiring exploration and mining licenses. Licenses are valued at their fair value at the date of acquisition. Any resulting write-down of the excess of carrying value over the fair value is charged to the consolidated statement of operations.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization. All property, plant and equipment, with the exception of leasehold improvements, are amortized on a straight line basis over three years. Leasehold improvements are amortized over the remaining life of the lease.

Exploration costs

Field exploration, supervisory costs and costs associated with maintaining a mineral property are expensed until the Company has a reasonable expectation that the property is capable of commercial production, supported by a positive economic analysis and approved by the Board of Directors.

Asset impairment – long-lived assets

The Company reviews and evaluates the carrying value of its mineral properties, property, plant and equipment when events or changes in circumstances indicate that the carrying amounts of related assets or groups of assets might not be recoverable. In assessing impairment for these assets, if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and recorded based on discounted cash flows. Future cash flows are based on estimated future recoverable mine production, expected sales prices (considering current and historical prices), production levels and costs, and further expenditures. All long-lived assets at a particular operation or project are combined for purpose of performing the recoverability test and estimating future cash flows.

Asset retirement obligations

Under the terms of the exploration licenses held by ZAO Prognoz, the Company has an asset retirement obligation. The Company will record its asset retirement obligation at fair value at the time the legal liability exists and can be measured. The associated asset retirement obligations will be capitalized to mineral properties as part of the carrying amount of the long-lived asset and amortized over the estimated remaining useful life of the asset. The Company will make periodic assessments as to the reasonableness of its asset retirement obligations and will revise those estimates accordingly. The respective asset and liability balances will be adjusted, which will correspondingly increase or decrease the amounts expensed in future years.

Financial instruments and commodity contracts

Financial instruments are initially recorded at cost. The fair values of cash and cash equivalents, receivable from related party, miscellaneous receivables and, accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature.

Income taxes

The Company uses the asset and liability method of accounting for income taxes, under which future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income tax in the year the changes are considered substantively enacted.

Future tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is more likely than not.

Loss per share

Basic loss per share is computed by dividing loss for the period by the weighted average number of common shares outstanding for the year. In the event of the Company reporting net profit, the diluted loss per share will be similar to basic earnings per share, except that the denominator will be increased to include the number of additional shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method.

Stock-based compensation

The fair value of any stock options granted to directors, officers, consultants and employees is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 12. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Prepaid expenses

Represent payments made or obligations incurred in advance of the receipt of goods or rendering of services. Prepaid expenses are typically included in other current assets on the consolidated balance sheet. Prepaid expenses are classified as current assets for the reason that if they were not paid in advance, the item would require the use of current assets during the operating cycle.

Cash and cash equivalents

Cash represents cash on hand and demand deposits. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Such short-term investments would include treasury bills with original maturities of less than 90 days. Treasury bills with original maturities in excess of 90 days are classified under short-term investments. Equity investments are excluded from cash equivalents.

Inventories

Accounting Standards Section 3031 "Inventories" provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This section also requires additional disclosure regarding the expensing of inventory. The Company has adopted this new standard, effective January 1, 2008. The adoption of the new standard will have no impact on the results of operations. Inventories consist of fuel, supplies and spare parts to be consumed in exploration activities and are stated at the lower of average cost or net realizable value.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from these estimates.

3. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The property in which the Company currently has an interest is in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008 compared to the year ended December 31, 2007. Neither the Company nor its subsidiaries is subject to externally imposed capital requirements.

Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of interest earning bank accounts, which are invested with a Canadian chartered bank as well as Government of Canada Treasury Bills and management believes the risk of loss to be remote. Miscellaneous receivables consist of taxes due from the Federal Government of Canada and costs paid on behalf of a supplier. Management believes that the credit risk concentration with respect to accounts receivable is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2008, the Company had a cash balance of $24,170,023, (December 31, 2007 – $30,295,581) to settle current liabilities of $1,013,888 (December 31, 2007 – $1,327,743).

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in high interest earning bank accounts with a Canadian financial institution as well as Government of Canada Treasury Bills. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk

The Company's functional currency is the Canadian dollar. The Company funds certain exploration and administrative expenses on a transaction by transaction basis using U.S. dollar currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Sensitivity analysis

The Company's cash and cash equivalents are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The carrying amount of accounts receivable equals fair market value.

Based on management's knowledge and experience of the financial markets, the Company believes the following statements to be reasonable.

- The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.
- Price risk is remote since the Company is not a producing entity.

4. MINE AVLAYAKAN LLC

On June 1, 2006, the Company acquired a 70% interest in Mine Avlayakan LLC ("Avlayakan") from Gold Mining Artel ("Vostok"). Avlayakan was incorporated to hold exploration and gold production licenses in the Avlayakan and Kirankan license areas in the Khabarovsk region of the Russian Federation.

The purchase price paid by Silver Bear was U.S. $5,100,000 (CAD$5,852,854). Of this amount, U.S. $1,000,000 was paid on June 16, 2006 and the balance of U.S. $4,100,000 was paid on March 31, 2007. These payments were treated as property acquisition costs and the financial statements of Avlayakan were consolidated.

On May 12, 2008 the Company signed an agreement to sell its 70% interest in Mine Avlayakan LLC for the U.S. $8,500,000 million, plus the assumption of all current and contingent obligations of Silver Bear with regard to the Project. The agreement, which was subject to a number of standard conditions, closed in May 2008. The Company recorded a gain on the sale of discontinued operations of $2,502,027 during the second quarter.

The 2007 comparative balance sheet classifies the Avlayakan property as an asset held for sale. The consolidated statement of operations and comprehensive loss and deficit has separately presented Avlayakan's results as discontinued operations.

5. RECEIVABLE FROM NON-CONTROLLING INTEREST

Under the terms of the Framework Financing Agreement for the Avlayakan project, the Company was required to unilaterally fund Avlayakan's exploration activities and feasibility study costs of up to U.S. $3,000,000. Costs above that limit were funded by the Company and the non-controlling interest partner in proportion to their respective equity interests in the charter capital of Avlayakan. The Company paid costs in excess of U.S. $3,000,000 and reflected the portion of the excess relating to the non-controlling interest partner as a receivable. Mine Avlayakan was sold in May 2008 and as part of the sale the non-controlling interest and accounts receivable were settled. Also see Note 4.

6. INVENTORIES

	December 31, 2008 $	December 31, 2007 $
Fuel and lubricants	**673,239**	273,134
Explosives	**139,186**	22,161
Drilling supplies and food	**329,983**	387,301
Transportation costs in inventory	**579,766**	352,367
	1,722,174	1,034,963
Adjustments / Writedown of inventory	**–**	(54,400)
Provision for reduction to net realizable value	**(579,766)**	(352,367)
	$ 1,142,408	$ 628,196

7. PREPAID EXPENSES

	December 31, 2008 $	December 31, 2007 $
Project advances – Mangazeisky		
Fuel	**–**	1,230,730
Exploration Equipment, Supplies and Services	**582,263**	966,627
Transportation	**–**	29,481
Rent	**24,691**	24,394
Other	**59,442**	54,052
	$ 666,396	$ 2,305,284

8. MINERAL PROPERTY

	December 31, 2008 $	December 31, 2007 $
Mangazeisky – exploration license	**1,265,117**	959,670

The Company acquired the exploration licenses in respect of the Arkachan and Mangazeisky properties when it acquired all the shares of ZAO Prognoz on October 21, 2004. The cost attributed to the mineral properties was determined as U.S. $890,310 of which approximately 20% was allocated to the Arkachan property and approximately 80% to the Mangazeisky property. The value of the Arkachan license was written off at December 31, 2005 based on the results of the 2005 drilling program. The increase in the Mangazeisky exploration license in 2008 is directly related to the Company's Asset Retirement Obligation for the Mangazeisky Property. See Note 17.

The following disclosure provides cumulative exploration costs pursuant to CICA Accounting Guideline 11 "Enterprises in the Development Stage".

	December 31, 2008 $	December 31, 2007 $
Mangazeisky	**24,764,978**	10,635,040
Russian management costs	**1,563,283**	1,563,283
Corporate costs related to exploration activities	**477,411**	477,411
	$ 26,805,672	$ 12,675,734

9. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2008			December 31, 2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Exploration plant and equipment						
Mangazeisky site	**$ 4,546,848**	**$ 2,771,239**	**$ 1,775,609**	$ 2,730,361	$ 2,006,905	$ 723,456
Construction in progress	**622,833**	**–**	**622,833**	–	–	–
Yakutsk office	**171,013**	**105,156**	**65,857**	99,931	77,431	22,500
Other office furniture, equipment and leasehold improvements	**395,453**	**339,487**	**55,966**	449,333	321,142	128,191
	$ 5,736,147	**$ 3,215,882**	**$ 2,520,265**	$ 3,279,625	$ 2,405,478	$ 874,147

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2008 $	December 31, 2007 $
Exploration costs – Mangazeisky project	**435,809**	308,609
Corporate – accounts payable and accrued liabilities	**578,079**	818,869
	$ 1,013,888	$ 1,127,478

11. NON-CONTROLLING INTEREST

The non-controlling interest in Avlayakan represented the cost to the non-controlling shareholder's 30% investment in the charter capital of Avlayakan. As at May 27, 2008, the non-controlling interest was eliminated upon the sale of the Company's 70% interest in mine Avlayakan LLC. Also see Note 4.

12. SHAREHOLDERS' EQUITY

At the Company's special meeting of shareholders held on December 4, 2007, shareholders approved a consolidation of the Common Shares based on a ratio of one new Common Share for each three outstanding Common Shares of Silver Bear (the "Share Consolidation"). Accordingly, the Company has retroactively adjusted share capital and per share amounts to reflect the impact of the Share Consolidation.

Common shares

Authorized:

Unlimited number of common shares and preference shares issued:

Issued and outstanding

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	Number of Common Shares	$	Number of Common Shares	$
Balance – Beginning of year	**35,735,569**	**67,991,311**	19,324,271	22,908,565
Issued pursuant to Initial Public Offering (a)	**700,000**	**1,560,013**	10,000,000	27,339,953
Issued pursuant to private placement, net (b)	**1,500,000**	**4,219,965**	6,195,555	17,095,560
Issuance of penalty shares (c)	**–**	**–**	215,743	647,233
Balance – End of year	**37,935,569**	**73,771,289**	35,735,569	67,991,311

(a) On January 18, 2008 Silver Bear completed the sale of 700,000 common shares at a price of $3.00 per common share pursuant to the exercise in part of an over-allotment option for gross proceeds of $2,100,000 (net proceeds of $1,560,013) the underwriting syndicate was co-led by RBC Capital Markets and Merrill Lynch & Co., and included GMP Securities L.P. and Wellington West Capital Markets Inc. No further over-allotment options remain outstanding. On December 19, 2007, Silver Bear successfully completed its initial public offering of 10,000,000 common shares at a price of $3.00 per share for gross proceeds of $30,000,000. Net proceeds after payment of Agent's commission of 6% and related expenses were $27,339,953.

(b) On July 16, 2008 the company completed a private placement with Alfa Bank Consortium for 1,500,000 common shares for net proceeds to the company of $4,219,965. On March 16 and 20, 2007, the Company completed a private placement of 6,195,555 common shares at a price of $3.00 per common shares for gross proceeds of $18,586,667. Net cash proceeds to the Company, after payment of Agent's commission of 6% and legal expenses were $17,279,568. In addition to the Agent's commission, the Company granted the Agent a non-transferable Broker Warrants, of 185,866 common shares, at the private placement price of $3.00 per share, valued at $184,008.

(c) Subscribers to the September 21, 2006 private placement were entitled to receive a bonus payment of 10% payable in common shares if Silver Bear had not completed an initial public offering or reverse take-over transaction in Canada, which resulted in there being a public market for the common shares, by June 30, 2007. Pursuant to this provision, 215,743 shares were issued for no additional consideration on June 29, 2007. The value of $647,233 attributed to these shares was expensed and included in share capital.

Warrants

	December 31, 2008		December 31, 2007	
	Number	Exercise price $	Number	Exercise price $
Balance – Beginning of year	**304,812**	**2.70**	118,946	2.25
Granted	**–**	**–**	185,866	3.00
Expired	**(304,812)**	**(2.70)**	–	–
Balance – End of year	**–**	**–**	304,812	2.70

(a) In connection with the private placement of common shares on March 20, 2007, the Company issued 185,866 broker warrants to the agents as part of their compensation. The broker warrants were exercisable at a price of $3.00 per warrant and expired on September 20, 2008. For purposes of valuation, the fair value of the warrants was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 65%; risk-free rate of return of 3.95% and an expected life of 1.5 years. The broker warrants were valued at $184,008 on issue.

(b) In connection with the private placement of common shares on September 21, 2006, the Company issued 118,946 broker warrants to the agents as part of their compensation. These broker warrants were exercisable at a price of $2.25 per warrant and expired on March 21, 2008. For purposes of valuation, the fair value of the warrants was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 65%; risk-free rate of return of 4.93% and an expected life of 1.5 years. The warrants were valued at $89,567 on issue.

Stock Options

The Company has a stock option plan which is intended to provide an incentive to officers, employees, directors and consultants of the Company. Stock options are granted from time to time and the option price is determined by the Compensation Committee of the Board of Directors at its sole discretion but shall not be less then the closing price of the Company's common stock on The Toronto Stock Exchange two trading days after the date of the grant. The term of each option granted for a period not exceeding ten years from the date of the grant. Except as expressly provided for in the option holder's employment, consulting or termination contract, the option holder may exercise the option to the extent exercisable on the date of such termination at any time within three months after the date of termination.

In May 2008, the Board of Directors approved an increase of 958,333 options to the stock option plan bringing the total options available to issue to 4,000,000. As at December 31, 2008 the Company had 3,776,568 options outstanding.

	December 31, 2008		December 31, 2007	
	Number	Exercise price $	Number	Exercise price $
Balance – Beginning of year	**2,841,654**	**3.76**	1,433,328	4.50
Granted	**1,375,002**	**0.98**	1,408,326	3.00
Expired	**(449,998)**	**4.00**	–	–
Balance – End of year	**3,766,658**	**2.72**	2,841,654	3.76

As at December 31, 2008, the Company had share options outstanding and expiring as follows:

	Outstanding		Exercisable	
Expiring during the year	Number	Weighted average exercise price	Number	Weighted average exercise price
2012	**1,133,329**	**4.50**	**1,133,329**	**4.50**
2014	**2,438,237**	**1.86**	**1,232,221**	**2.37**
2015	**195,002**	**3.00**	**65,000**	**3.00**
	3,766,568	**2.72**	**2,430,550**	**3.41**

In December 2008, 880,000 stock options were granted to various employees and a director of the Company. The exercise price of the options is $0.28 and the term is seven years. For purposes of valuation, the fair value of the stock options was estimated on the date of the grant using the Black-Scholes stock option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 165.18%; risk-free rate of return of 2.41% and an average expected life of 6 years.

In August, 2008, 300,000 stock options were granted to various directors and an employee of the Company. The exercise price of the options is $1.70 and the term is seven years. For purposes of valuation, the fair value of the stock options was estimated on the date of the grant using the Black-Scholes stock option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 91.7%; risk-free rate of return of 3.13% and an average expected life of 6 years.

In February, 2008, 195,002 stock options were granted to various directors and an employee of the Company. The exercise price of the options is $3.00 and the term is seven years. For purposes of valuation, the fair value of the stock options was estimated on the date of the grant using the Black-Scholes stock option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 65%; risk-free rate of return of 4.37% and an average expected life of 6 years.

In 2008, 449,998 options expired that had been granted at an average option price of $4.00.

In 2007, 1,408,326 stock options were granted to various directors and employees of the Company. The exercise price of the options is $3.00 and the term is seven years. For purposes of valuation, the fair value of the stock options was estimated on the date of the grant using the Black-Scholes stock option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 65%; risk-free rate of return of 4.37% and an average expected life of 6 years.

Stock options granted in December 2008 vest as follows: one third on the first anniversary of the grant, one third on the second anniversary of the grant and one third on the third anniversary of the grant. Stock options granted before December 2008 vest as follows: one third immediately, one third on the first anniversary of the grant and one third on the second anniversary of the grant.

Contributed Surplus

	December 31, 2008 $	December 31, 2007 $
Balance – Beginning of year	**6,835,085**	5,100,703
Stock option compensation	**1,513,216**	1,734,382
Value assigned to expired warrants	**273,575**	–
Balance – End of year	**$ 8,621,876**	$ 6,835,085

Loss per share

As a result of net losses in each of the years, the potential effect of exercising stock options and warrants has not been included in the calculation of loss per share because to do so would be anti-dilutive.

13. RELATED PARTY TRANSACTIONS

Since April 2004 our head office has been located in Toronto, Ontario, Canada, where we share premises with Western Goldfields Inc. ("WGI"), a related party through certain senior executives and directors of WGI also serve as senior executives and a director of Silver Bear. Under the cost sharing agreement with WGI, the Company charged 50% of the rental and operating costs of the space occupied when the office was leased by Silver Bear.

We relocated our Toronto head office in June 2008 and continue to share premises with WGI. As a result of WGI entering into a new lease they have charged Silver Bear for our proportional share under the cost sharing agreement. Estimated rental and operating costs over the first year of the lease is approximately $193,472 and over the ten year term is approximately $1,905,984. At December 31, 2008, $23,063 (2007 – $31,052) was receivable from WGI.

In November 2008, a new cost sharing agreement was reached between Silver Bear and WGI with an effective date of January 1, 2009. The new agreement amends cost sharing ratios between the two companies to 33% for Silver Bear and 67% to WGI, to reflect current levels of activities and WGI would initially incur the costs.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

	Year Ended December 31,	
	2008 $	2007 $
Receivable from related party	**7,989**	5,268
Non-controlling interest receivable	**151,592**	(151,592)
Inventories	**(514,213)**	(178,457)
Prepaid expenses	**1,638,888**	(1,704,665)
Miscellaneous receivables	**(2,243)**	(20,382)
Accounts payable and accrued liabilities	**(113,589)**	226,731
	$ 1,168,424	$(1,823,097)

15. COMMITMENTS AND CONTINGENCY

In order to maintain the exploration license at the Mangazeisky Project in good standing, Silver Bear is required to conduct certain minimum levels of exploration activity. The exploration program concluded in 2008 and the program planned for 2009 more than satisfy the commitments established in the License Agreement.

Silver Bear has entered into a drilling to complete a minimum of 10,000 metres of diamond drilling at the Mangazeisky Project for 2009. Performance of work is expected to commence on May 25, 2009 and is expected to be completed on October 1, 2009. The Company expects cost to be $2.7 million for the contractors charges portion of the 10,000 metre program. Silver Bear has also agreed to pay demobilization charges of $26,000 per month at the end of the 2009 drilling program until the equipment is returned. Should the Company choose to sign a contract for drilling services in 2010 before November 15, 2009 these charges would not apply. Should the Company terminate the contract, charges of $44 per uncompleted metre would apply.

In relation to a cost sharing agreement with Western Goldfields Inc. ("WGI"), the Company anticipates paying in respect of the lease of the head office premises $200,000 per year for the remaining nine years of the office lease.

The Company is involved in legal proceedings from time to time, arising in the ordinary course of its business. Typically, the amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect Silver Bear's financial position, results of operations or cash flows.

In assessing loss contingencies related to legal proceedings that are pending against us or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims of the amount of relief sought or expected to be sought. If the assessment of a contingency suggests that a loss is probable, and the amount can be reliably estimated, then a loss is recorded. When a contingent loss is not probable but is reasonably possible, or it is probable but the amount cannot be reliably estimated, then details of the contingent loss are disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case we disclose the nature of the quantities. Legal fees incurred with pending legal proceeding are expensed as incurred.

16. SEGMENTED INFORMATION

The Company's operating segments include one property in the Russian Federation, (Mangazeisky) and a corporate office in Toronto, Canada. In May, 2008 the company sold its 70% interest in Mine Avalayalan LLC.

The following is segmented information as at December 31, 2008:

Country / Property	Cash and cash equivalents	Inventories	Prepaid expenses	Other Current Assets	Mineral Properties	Property, plant and equipment
Russia – Mangazeisky	**2,739,256**	**1,142,408**	**531,483**	**47,579**	**1,265,117**	**2,464,300**
Canada – corporate	**21,430,767**	**–**	**134,913**	**27,958**	**–**	**1,000,116**
	$ 24,170,023	**$ 1,142,408**	**$ 666,396**	**$ 75,537**	**$ 1,265,117**	**$ 3,464,416**

As at December 31, 2007 the Company's operating segments include one property in the Russian Federation and a corporate office in Toronto, Canada.

						As at December 31, 2007
Country / Property	Cash and cash equivalents	Inventories	Prepaid expenses	Other Current Assets	Mineral Properties	Property, plant and equipment
Russia – Mangazeisky	115,969	628,196	2,251,232	–	959,670	745,956
Canada – corporate	30,179,612	–	54,052	232,876	–	128,191
	$30,295,581	$ 628,196	$ 2,305,284	$ 232,876	$ 959,670	$ 874,147

17. ASSET RETIREMENT OBLIGATION

	December 31, 2008 $	December 31, 2007 $
Balance at the beginning of the period	**245,360**	–
Increase in liability	**305,446**	245,360
Accretion	**19,905**	–
Balance, end of year	**570,711**	245,360

The asset retirement obligation relates to the Mangazeisky project located in the Republic of Sakha, Yakutia in the Russian Federation. The Company estimated the cost of rehabilitating the site at $538,070 in the next three years. Such estimated costs have been discounted using a credit adjusted risk-free rate of 5.8%. Gross payments are expected to be $602,292 in 2012, an inflation factor of 12.6% was used to determine future gross payments.

18. CORPORATE REGULATORY MATTERS

In early 2008, ZAO Prognoz received notice of an application by the Yakutia Inter-district Tax Office No. five of the Federal Tax Service to the Arbitration Court of the Republic of Sakha (Yakutia) claiming that documentation filed in connection with the registration of ZAO Prognoz in 2003 was signed by a person holding an improperly delegated power of attorney. On that ground, the application requested the Yakutia Arbitration Court to order the liquidation of ZAO Prognoz.

A hearing was held on August 12, 2008 at which time the court ruled to reject the claim of the Federal Tax Service to liquidate ZAO Prognoz. An official ruling was prepared by the court on August 14, 2008. The Federal Tax Service could file an appeal of the court's decision within thirty days of the official ruling.

On September 14, 2008, the court's decision of August 12, 2008 came into legal force as no appeal had been filed by the Federal Tax Service. The Company has received confirmation from the court that this matter has been dismissed.

19. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

20. ASSETS HELD FOR SALE

Assets held for sale consist of two Zinex drill rigs and all ancillary equipment. The Company has engaged Goldstone Developments Ltd, to find and introduce potential purchasers of the drill rigs and ancillary equipment to the Company. The drill rigs were purchased in the third quarter of 2008 for $778,287, the ancillary equipment was purchased in the fourth quarter of 2008 for $165,863.

21. INCOME TAXES

The estimated taxable income for the period is $nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income taxes or the amounts owing from future income tax liabilities. Consequently, future recovery of losses arising from differences in tax values and accounting values has been reduced by an equivalent estimated temporary difference valuation allowance. The estimated valuation allowance will be adjusted in the period that it is determined that it is more likely than not that some or all of the future tax assets will be realized.

		2008		2007
	%	$	%	$
Loss and comprehensive loss for the year		**17,701,638**		12,860,995
Expected Recovery	**33.50**	**(5,930,049)**	36.12	(4,649,004)
Foreign Tax Differential	**(7.46)**	**1,320,389**	(6.77)	871,511
Permanent differences	**(3.35)**	**592,169**	(10.92)	1,405,260
Current year losses not recognized	**(22.70)**	**4,017,490**	(18.43)	2,372,233
Provision for Income Taxes		**–**		–

The components of the Company's future income tax assets are as follows:

	2008 $	2007 $
Mineral properties	**5,111,276**	3,658,000
Property, plant and equipment	**683,130**	555,000
Non-Capital losses carried forward	**3,183,595**	2,223,000
Cumulative foreign exchange loss	**28,772**	34,000
Share issue costs	**1,090,950**	1,231,000
Future income tax liability	**10,097,723**	7,701,000
Valuation allowance	**(10,097,723)**	(7,701,000)
Net future income tax asset	**–**	–

As at December 31, 2008, the Company has Canadian non-capital losses that expire as follows:

Year of Expiry	
2014	78,000
2015	2,261,000
2026	2,104,000
2027	2,934,000
2028	3,505,000
	10,882,000

Corporate Information

DIRECTORS

The Honourable J. Trevor Eyton, O.C. [1, 5, 6]
Non-executive Chairman of the Board of Directors
Member of the Senate of Canada

William Biggar [2, 4]
President and CEO
North American Palladium Ltd.

Dzhulustan Borisov
President, National Republic Bank

Dominic Gualtieri [5]
Corporate Director

Pavel Kepezhinskas
Professional Geologist

Alexey Mikhaylovskiy [6]
CEO, United Gold Company

Cameron Mingay [6]
Partner, Cassels Brock & Blackwell, LLP

Randall Oliphant
President and CEO, Silver Bear Resources Inc.
Chairman, Western Goldfields Inc.

Stephen Shefsky
President, CanCap Investments Limited

Christopher Westdal [3, 4, 5]
Consultant in International Affairs

1. *Chairman, Compensation Committee*
2. *Chairman, Audit Committee*
3. *Chairman, Governance and Environmental Committee*
4. *Member, Compensation Committee*
5. *Member, Audit Committee*
6. *Member, Governance and Environmental Committee*

OFFICERS

Randall Oliphant
President and Chief Executive Officer

Raymond Threlkeld
Chief Operating Officer

Brian Penny
Chief Financial Officer and Corporate Secretary

Wesley Hanson
Vice President of Mine Development

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