SILVER BEAR RESOURCES INC.

SILVER BEAR RESOURCES INC 2009 ANNUAL REPORT

UNITED MANAGEMENT STRENGTH WORKING TOGETHER
POTENTIAL CANADA RUSSIA ALIGNED INTERESTS

UNITED MANAGEMENT STRENGTH WORKING TOGETHER
CANADA RUSSIA ALIGNED INTERESTS

Table of Contents

"From an exploration perspective, 2009 was another positive year for Silver Bear as we were able to successfully expand our total resource by 50%, exceeding our 2009 drilling and trenching requirements on time and under budget."

The Honourable J. Trevor Eyton,
Chairman

Randall Oliphant,
President and Chief Executive Officer

Fellow Shareholders,

As 2009 has come to an end, we would like to take this opportunity to highlight our accomplishments during this past year:

- The Mangazeisky license was renewed eight months ahead of schedule and has been extended to December 31, 2011;
- We increased and upgraded the silver resource on the Mangazeisky property:
    - Our Indicated mineral resource is 1.0 million tonnes averaging 558 grams per tonne of silver totaling approximately 18 million ounces;
    - Our Inferred mineral resource is 1.5 million tonnes averaging 596 grams per tonne of silver totaling approximately 29 million ounces;
- We exceeded the 2009 drilling and trenching requirements of our exploration license:
    - We completed 12,373 metres of drilling in 74 holes compared to a plan of 10,000 metres;
    - We completed 15,067 cubic metres of trenching compared to a plan of 10,000 cubic metres;
- We had no personnel injuries and no environmental incidents in 2009;
- The winter road resupply was completed on schedule and under budget; and
- We ended the year under budget by $2.4 million, with over $12 million of cash on hand, and remain debt-free.

However, the market continues to be challenging for junior resource companies, and we are now carefully reviewing the alternatives that are available to our Company. Our cash position of over $12 million, no debt, and our experienced management team provide us with a significant advantage when evaluating the many opportunities that lie before us.

SILVER BEAR HAS MANY ASSETS

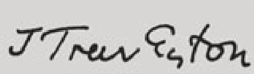
Silver Bear continues to have many assets:

- a property with a continually expanding resource and significant unexplored potential;
- a strong Russian partner;
- strong relationships with local communities;
- an exceptional Board of Directors; and
- an experienced management team.

As we look forward to 2010, we are evaluating all strategic alternatives available to us in an effort to maximize shareholder returns. These alternatives include continued exploration and development of the Mangazeisky Project, a joint venture of the Project, or a business combination or other strategic transaction with another mineral-focused company. Silver Bear has, on a cumulative basis, fulfilled its drilling and trenching requirements for 2010 through work completed in prior years, and our financial liquidity is a significant asset with over $12 million in cash and no debt. The Company's evaluation will aim to maximize the return to shareholders on this cash.

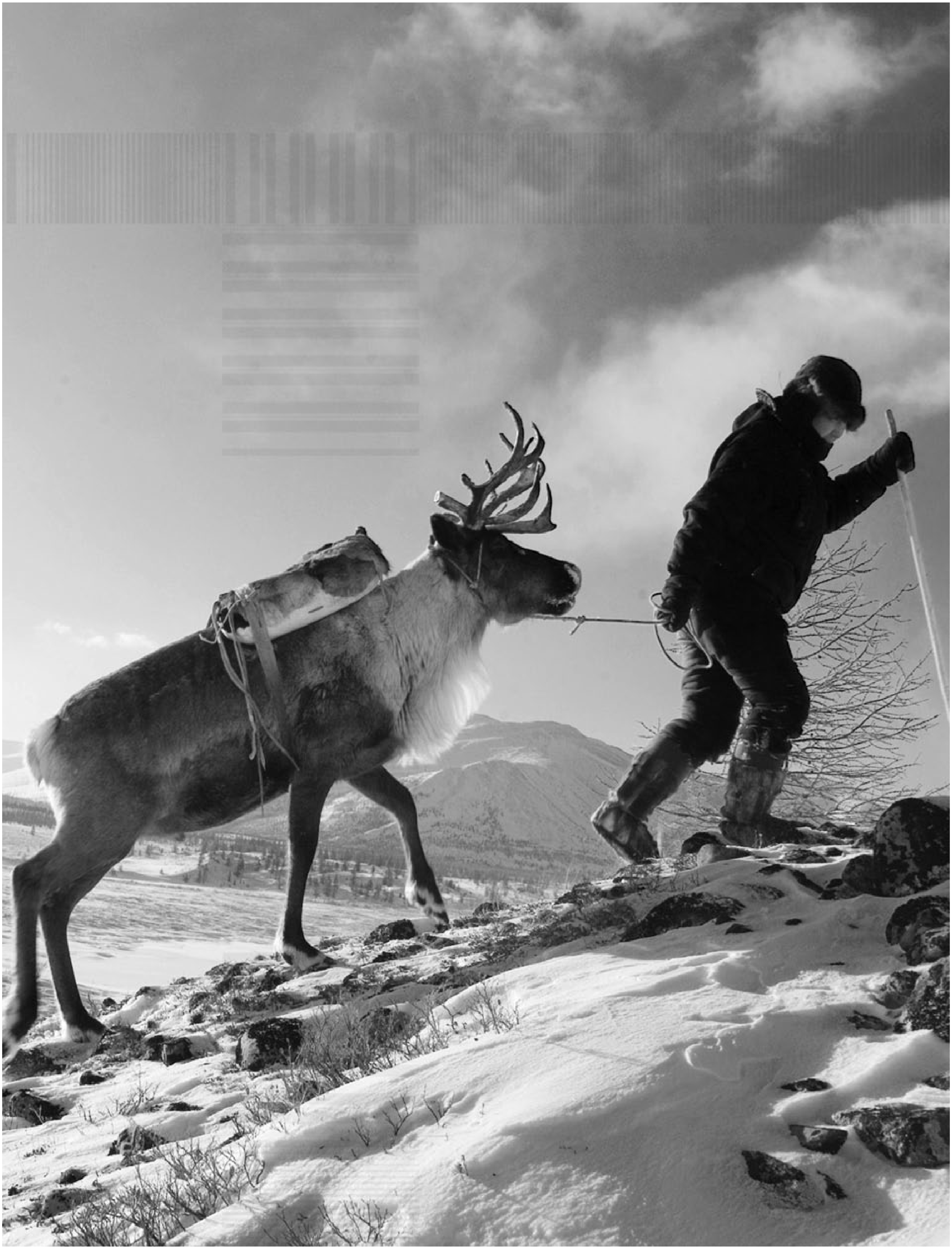
We believe Silver Bear's assets are significant, and will be the foundation as we continue our pursuit of strategic alternatives in 2010.

Sincerely,



The Honourable J. Trevor Eyton,
Chairman

Randall Oliphant,
President and Chief Executive Officer



The following Management's Discussion and Analysis, which has been prepared as of March 11, 2010, related to the audited consolidated financial results of Silver Bear Resources Inc. (the "Company" or "Silver Bear") for the year ended December 31, 2009, should be read in conjunction with the December 31, 2009 audited consolidated financial statements and related notes, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion covers the year ended December 31, 2009. Other pertinent information about 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. On February 18, 2009, the Mangazeisky License was extended by the Federal Subsoil Use Agency in the Russian Federation ("Rosnedra") through December 31, 2011.

In 2009, 74 holes were drilled for 12,373 metres on the Central and Northwest Zones of the Vertikalny structure. Several discrete trenches, road cuts and drill pads were mapped and sampled; the total volume excavated license-wide was 15,067 m^3.

As shown in the chart below, the Company exceeded both its drilling and trenching requirements for 2009, and Silver Bear's exploration license remains in good standing.

	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
2009	3,000	12,373	32,514	10,000	15,067	58,233

Wardrop Engineering, a Tetra Tech Company, ("Wardrop") completed a resource estimation update based on the results from 2009 drilling. Wardrop estimates an indicated mineral resource of 1.0 million tonnes averaging 558 grams per tonne totalling approximately 18 million ounces of silver for the Vertikalny vein, with an additional inferred mineral resource of 1.5 million tonnes averaging 596 grams per tonne totalling approximately 29 million ounces of silver.

The estimate, as of November 6, 2009, is based on a long term silver price of US$10.84 per ounce, a cut-off grade of 240 grams per tonne and anticipates that the mineralized zones would be mined by selective underground methods at a minimum mining width of 1.2 metres.

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

Wardrop has authored a technical report supporting the mineral resource update, titled "Technical Report for the Mangazeisky Project, Republic of Sakha (Yakutia), Russian federation" dated December 18, 2009. This report is available at www.sedar.com.

The Company's assay results and the technical report are posted on the website, www.silverbearresources.com.

OUTLOOK

While Silver Bear continues to demonstrate that the Mangazeisky Project may host an attractive silver deposit with significant potential, the Company is currently evaluating all strategic alternatives available in an effort to maximize the return to shareholders of Silver Bear's remaining cash balance. Silver Bear continues to have many strengths: a property with a significant resource and further exploration potential; a strong Russian partner; an experienced management team; cash on hand; and no debt. The challenges presented by the financial markets in 2009 have had a significant impact on exploration stage companies, many of which are faced with challenges in accessing capital. Silver Bear believes that the Company's current assets are key in its pursuit of strategic alternatives which may include: continued exploration/development of the Mangazeisky Project; a joint venture for the Mangazeisky Project; or a business combination or other strategic transaction with another mineral-focused company. Silver Bear plans on spending approximately $2.0 million to complete assessment and reconnaissance work at Mangazeisky in 2010, in addition to $1.9 million in Corporate General and Administrative costs.

RESULTS OF OPERATIONS

Year Ended December 31, 2009, compared to Year Ended December 31, 2008.

Revenues

As at December 31, 2009, the Company was in the exploration stage and therefore did not have revenues from operations. Interest income for the year ended December 31, 2009, was $0.1 million as compared to $0.8 million for the year ended December 31, 2008, a decrease of $0.7 million. Interest income decreased due to lower cash balances on hand and lower interest rates received on cash deposits and treasury bills.

Interest income for the three-month period ended December 31, 2009 was $nil as compared to $0.2 million for the three-month period ended December 31, 2008.

Expenses

Exploration

For the year ended December 31, 2009, Silver Bear spent $8.5 million on exploration activities, compared with $14.1 million during the same period in 2008. Costs associated with the Mangazeisky Project for the year ended December 31, 2009 relate to the 2009 exploration program as well as costs related to the Company's Yakutsk administrative office. Exploration expenses decreased when compared to the 2008 period as a result of the following: reduced salaries of $1.0 million; a geophysical survey carried out in 2008 for $1.0 million was completed and not required in 2009, a more efficient resupply program saving $1.1 million; Russian value added tax (VAT) refunds of $1.0 million in 2009; offsetting exploration costs, realized savings in fuel prices of $0.4 million, and other efficiencies reduced costs by $1.1 million. There was no VAT refund in the corresponding period in 2008.

For the three-month period ended December 31, 2009, Silver Bear spent $0.4 million on exploration activities, compared with $2.2 million during the same period in 2008. Exploration expenses decreased when compared to the 2008 period for the same reasons as noted above.

General and Administrative

General and administrative expenses for the year ended December 31, 2009 were $2.4 million, compared with $4.5 million in the 2008 period. General and administrative expenses decreased primarily as a result of: a $1.0 million reduction in legal, audit and consulting fees, as the Company successfully resolved litigation matters in 2008; a $0.6 million reduction in management salaries; and a reduction of $0.5 million in other general and administrative costs for the year ended December 31, 2009.

General and administrative expenses for the three-month period ended December 31, 2009 were $0.6 million, compared with $1.3 million in the 2008 period. The decrease was attributable to the same reasons noted above.

Non-Cash Items

Non-cash stock option compensation expense for the year ended December 31, 2009 was $0.4 million compared with $1.5 million for the year ended December 31, 2008. Stock option compensation expense has decreased compared to 2008 as several option grants have fully vested and have been expensed; additionally, in December 2008, the vesting period for options changed to extend vesting by an additional year. Amortization expense for the year ended December 31, 2009 was $0.8 million (year ended December 31, 2008 – $0.9 million). The foreign exchange loss for the year ended December 31, 2009 was $0.7 million (year ended December 31, 2008 – $nil) as a result of the translation to Canadian dollars of the financial results of consolidated foreign subsidiaries.

Non-cash stock option compensation expense for the three-month period ended December 31, 2009 was $nil compared with $0.5 million in the three-month period ended December 31, 2008. Amortization expense for the three-month period ended December 31, 2009 was $0.2 million (three-month period ended December 31, 2008 – $0.2 million). The foreign exchange loss for the three-month period ended December 31, 2009 was $0.1 million (three-month period ended December 31, 2008 – $nil) 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, 2009 of $13.3 million, or $0.35 per share. This compares to a loss of $17.7 million or $0.48 per share for the year ended December 31, 2008. Exploration costs were $8.5 million in the year ended December 31, 2009 compared with $14.1 million in the year ended December 31, 2008, as the Company benefited from an efficient winter road resupply, fuel price savings, reduced overhead, and geophysical studies completed in 2008 were not required in 2009. General and administrative expenses for the year ended December 31, 2009 were $2.4 million compared with $4.5 million in the prior year's period as the Company reduced corporate office and salary related costs. Non-cash items for the year ended December 31, 2009 were $2.5 million compared with $2.5 million in the year ended December 31, 2008. Interest income for the year ended December 31, 2009 was $0.1 million compared with $0.8 million in the prior year.

Silver Bear incurred a net loss for the three-month period ended December 31, 2009 of $1.8 million or $0.04 per share. This compares to a loss of $4.0 million, or $0.11 per share for the three-month period ended December 31, 2008. Exploration costs were $0.4 million in the three-month period ended December 31, 2009 compared with $2.2 million in the three-month period ended December 31, 2008, for the same reasons indicated above. Non-cash expenses for the three-month period ended December 31, 2009 were $0.9 compared with $0.7 million in the three-month period ended December 31, 2008. General and administrative expenses for the three-month period ended December 31, 2009 were $0.5 million compared with $1.2 million in the three month-period ended December 31, 2008.

Liquidity and Capital Resources

At December 31, 2009, Silver Bear had cash and cash equivalents of $12.3 million. The Company has no debt outstanding.

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 2009 more than satisfies the commitments established in the License Agreement for the year.

In accordance with Silver Bear's 2009 drilling contract at the Mangazeisky Project, the Company must pay demobilization charges of $2,200 per month from the end of the 2009 drilling program until the equipment is returned to Khabarovsk, the Russian Federation. The Company is in the process of returning the drilling equipment to Khabarovsk and anticipates that being completed by the first quarter of 2010.

The Company may be 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. There were no material outstanding legal proceedings as of December 31, 2009.

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 guarantee. Legal fees incurred with pending legal proceeding are expensed as incurred.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Capital Stock

As at March 11, 2010, the Company had issued and outstanding 37,935,569 Common Shares (December 31, 2008, 37,935,569).

As at December 31, 2009, 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 $
2010	796,664	3.94	826,664	3.88
2011	–	–	–	–
2012	636,664	4.50	636,664	4.50
2013	675,000	0.28	224,995	0.84
2014	958,329	3.00	933,328	3.00
2015	495,002	2.21	330,001	2.21
	3,561,659	2.86	2,951,652	3.44

In order for Silver Bear to make options available for future grants and for other strategic alternatives the Company asked holders of out-of-the-money options to voluntarily surrender their options back to Silver Bear. Effective January 22, 2010 option holders voluntarily surrendered 2,694,993 options back to the Company. A total of 3,133,334 options will be available for issue in the future.

Summary of Quarterly Results ($)

	Dec-09	Sept-09	Jun-09	Mar-09
Net Loss	**(1,847,058)**	**(3,647,977)**	**(3,806,528)**	**(3,985,866)**
Basic and diluted loss per share ($ per share)	**(0.04)**	**(0.10)**	**(0.10)**	**(0.11)**
Cash and cash equivalents	**12,320,095**	**13,179,442**	**17,076,808**	**19,347,148**
Total assets	**17,226,703**	**19,190,361**	**24,033,044**	**26,936,190**
Total long-term financial liabilities	**608,725**	**599,225**	**589,717**	**580,215**

	Dec-08	Sept-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 ($ 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	35,978,824	38.904,042	40,396,900
Total long-term financial liabilities	570,711	577,814	252,942	248,959

Related Party Transactions

In November 2008, a new cost sharing agreement was reached between Silver Bear and Western Goldfields (which has been acquired by New Gold Inc. (NGD)) 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 NGD, to reflect current levels of activities. NGD would initially incur the costs and Silver Bear will reimburse NGD based on the revised cost sharing agreement.

Silver Bear relocated its Toronto head office in June 2008 and share premises with NGD. As a result of NGD 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 is approximately $1.9 million over the ten-year term. At December 31, 2009, $10,689 (2008 – $23,063) was receivable from NGD for items paid by Silver Bear and billed to NGD. At December 31, 2009, $52,861 (2008 – $85,704) was payable to NGD for items paid by NGD and billed to Silver Bear.

ADOPTION OF NEW ACCOUNTING STANDARDS

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, CICA Emerging Issues Committee Abstract 27, *Revenues and Expenditures in the Pre-operating Period* ("EIC-27"), was withdrawn. The standard is effective for the fiscal year beginning January 1, 2009. Adoption of this standard did not have a significant effect on our financial statements.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to account for credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the fiscal year beginning January 1, 2009. Adoption of this EIC did not have a significant effect on the Company's financial statements.

Mining Exploration Costs

In March 2009, the CICA issued EIC-174, *Mining Exploration Costs*. The EIC provides guidance on the accounting and the impairment review of exploration costs. This standard is effective for the fiscal year beginning January 1, 2009. The application of this EIC did not have an effect on the Company's financial statements.

Amendment to Financial Instruments – Disclosures ("Section 3862")

During 2009, CICA Handbook Section 3862, *Financial Instruments – Disclosures* ("Section 3862"), was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At December 31, 2009 and 2008, the Company's financial instruments consisted of cash and cash equivalents, other current assets, accounts payable and accrued liabilities. With respect to all of these financial instruments, the Company estimates that the fair value of these financial instruments approximates the carrying values at December 31, 2009 and 2008, respectively.

SIGNIFICANT ACCOUNTING POLICIES

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.

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 purposes 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 records a liability and corresponding asset for estimated costs for future site reclamation and closure. The estimated present value of the asset retirement obligation is reassessed on an annual basis or when new material information becomes available. Increases or decreases to the obligation usually arise due to changes in the legal or regulatory requirements, the extent of environmental remediation required or methods of reclamation or cost estimates. The present value of the estimated costs of these changes are recorded in the period in which the change is identified and quantified. Changes to the asset retirement obligations related to operating mines are recorded with an offsetting change to the related asset. The present value is determined using the Company's credit adjusted risk free interest rate.

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

Loss per share calculations are based on the weighted average number of common shares and common shares equivalents issued and outstanding during the year. Diluted earnings per share are calculated using the treasury method and if converted method, as applicable, which requires the calculation of diluted earnings per share by assuming that outstanding stock options, with an average market price that exceeds the average exercise prices of the options for the period, are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of the common share for the period.

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 10. 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

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 the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period.

Significant areas where management's judgment is applied include, but are not limited to:

- The carrying value of mineral properties and inventories and impairment charges related thereto
- Estimation of asset retirement obligations
- Estimation of future income taxes
- Estimated useful lives of depreciable assets

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for the design and effectiveness 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 the accounting principles generally accepted in Canada. Based on an assessment by management, with participation of its Chief Executive Officer and Chief Financial Officer, of its internal control procedures, as at the end of the period covered by this MD&A, the Company 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.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, our Code of Ethics, Disclosure and Trading policies, our Whistle Blower policy, our Information Technology policy, our Delegation of Authority policy the effective functioning of our Audit Committee and procedures in place to systematically identify matters warranting consideration of disclosure by the Audit Committee.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Office and Chief Financial Officer have concluded that, as at the end of the period covered by this MD&A, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods.

CHANGES TO INTERNAL CONTROLS 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, 2009 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

CHANGES TO DISCLOSURE CONTROLS AND PROCEDURES

There have been no significant changes to the Company's disclosure controls and procedures that occurred during the most recent period ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect the Company's disclosure controls and procedures.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the CICA Accounting Standards Board confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be significant differences on recognition, measurement and disclosure that may materially impact the Company's financial statements.

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the financial year ended December 31, 2010. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared in accordance with IFRS. In light of the timing of the transition, the Company has: formalized the project team and resources and continues to monitor and will add resources as required; defined the governance structure including definition of reporting requirements to, among others, the Audit Committee; and conducted a detailed evaluation of accounting issues.

The project team has completed a diagnostic and made an assessment of what the key areas of impact for the Company will be, among others: IFRS 1 – first time adoption, property, plant and equipment, asset retirement obligations, impairment of assets, presentation of financial statements and share-based payments. The final impact of the conversion on the Company's financial statements cannot be measured at this time.

The Company will be prioritizing certain IFRS conversion related activities that should be completed within a reasonable time period following January 1, 2010, the Company's IFRS transition date.

The Company will continue to monitor results from the existing conversion plan, as well as ongoing changes to IFRS, and adjust its transition and implementation plans accordingly.

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. Although recent months have signaled the start of an economic recovery, there remains considerable levels of volatility and market turmoil, which could continue to adversely affect the Company's operations and the value and the price of the Company's common shares.

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 economically viable. 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 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 its property. 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, structural 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 with regard to the interpretation of licenses and permits and the application of rules and regulations with 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 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 in 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 material 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.

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 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 US$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 its property. 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 or business prospects 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 or 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.

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; 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 risk factors as disclosed herein and in other documentation filed by the Company on 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.

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 11 2010

Randall Oliphant
Director, President
and Chief Executive Officer

Brian Penny
Chief Financial Officer

To the Shareholders of Silver Bear Resources Inc.

We have audited the consolidated balance sheets of **Silver Bear Resources Inc.** as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss and deficit and cash flows for the years then ended. These consolidated 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March

Consolidated Balance Sheets

(Canadian dollars)

	December 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	**$ 12,320,095**	$ 24,170,023
Other receivable	**355,438**	75,538
Inventories (note 4)	**1,226,195**	1,142,408
Prepaid expenses (note 5)	**90,677**	666,396
	13,992,405	26,054,365
Capital assets		
Mineral properties (note 6)	**1,265,117**	1,265,117
Property, plant and equipment (note 7)	**1,969,181**	2,520,265
Asset held for sale (note 16)	**–**	944,150
	$ 17,226,703	$ 30,783,897
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (notes 8 & 11)	**$ 352,298**	$ 1,013,888
Long-term liabilities		
Asset retirement obligation (note 15)	**608,725**	570,711
Shareholders' equity		
Capital Stock (note 10)	**73,771,289**	73,771,289
Contributed surplus	**8,975,687**	8,621,876
Deficit	**(66,481,296)**	(53,193,867)
	16,265,680	29,199,298
	$ 17,226,703	$ 30,783,897

Going concern (note 1)

Commitments and contingency (note 13)

See accompanying notes to 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)

	Year Ended	
	December 31, 2009	December 31, 2008
Income		
Interest income	**$ 99,759**	$ 769,201
Expenses		
Exploration costs	**8,545,160**	14,129,938
General and administrative	**2,390,332**	4,461,726
Stock option compensation	**353,811**	1,513,216
Amortization	**765,067**	915,118
Accretion expense	**38,014**	19,905
Loss on disposal of property, plant and equipment	**610,203**	–
Foreign exchange loss (gain)	**684,601**	(33,859)
Expenses from continuing operations	**$ 13,387,188**	$ 21,006,044
Non-controlling interest (note 9)	**–**	(33,178)
Loss and Comprehensive Loss for the year from continuing operations	**(13,287,429)**	(20,203,665)
Discontinued operations (note 17)	–	2,502,027
Net Loss	**(13,287,429)**	(17,701,638)
Deficit – Beginning of year	**(53,193,867)**	(35,492,229)
Deficit – End of year	**$ (66,481,296)**	$ (53,193,867)
Weighted average number of common shares outstanding	**37,935,569**	37,095,678
Income (loss) per share from continued operations	**$ (0.35)**	$ (0.54)
Income (loss) per share from discontinued operations	**–**	0.07
Loss per share	**$ (0.35)**	$ (0.48)

Going concern (note 1)

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(Canadian dollars)

	Year Ended	
	December 31, 2009	December 31, 2008
Cash provided by (used in)		
Operating activities		
Loss from Continuing operations	**$ (13,287,429)**	$ (20,203,665)
Items not affecting cash:		
Amortization	**765,067**	915,118
Accretion expense	**38,014**	19,905
Stock option compensation	**353,811**	1,513,216
Loss on disposal of property, plant and equipment	**610,203**	–
Net change in non-cash working capital (note 12)	**(414,500)**	1,168,424
Net cash from continuing operations	**(11,934,834)**	(16,587,002)
Financing activities		
Issuance of common shares	**–**	5,779,977
Non-controlling interest	**–**	(127)
	–	5,779,850
Investing activities		
Acquisition of property, plant and equipment	**(260,672)**	(3,505,387)
Proceeds of sale of property, plant and equipment	**345,578**	–
	84,906	(3,505,387)
Decrease in cash and cash equivalents during the year	**(11,849,928)**	(14,312,539)
Increase in cash and cash equivalents during the year discontinued operations	**–**	8,186,981
Cash and cash equivalents – beginning of the year	**24,170,023**	30,295,581
Cash and cash equivalents – end of the year	**$ 12,320,095**	$ 24,170,023

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 the evaluation, acquisition, exploration and development of silver mineral properties in the Russian Federation. The principal asset of the Company is the project described in Note 6. The exploration strategy of the Company is to focus on the discovery of silver deposits. To date, Silver Bear has not earned revenue from operations and is considered to be in the exploration stage.

As at December 31, 2009, 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 for the foreseeable future. As at December 31, 2009, the Company had no source of operating cash flows and reported a loss for the year then ended of $13,287,429 and an accumulated deficit of $66,481,296. In order to fund future operations, maintain rights under licenses and agreements and to advance the project, 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 that was completed on January 18, 2008 for aggregate gross proceeds of $32,091,239. On July 16, 2008 the Company also completed a private placement of 1,500,000 common shares for an aggregate gross proceeds of $4,500,000; the funds were used to meet the Company's 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) ("Holdings"), and ZAO Prognoz (a Russian Federation corporation). These audited consolidated financial statements include the assets and liabilities of the Company as December 31, 2009 and its results of operations and its cash flows for the period ended December 31, 2009. All significant inter-company accounts and transactions have been eliminated on consolidation.

b) Adoption of new accounting policies

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*. This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, CICA Emerging Issues Committee Abstract 27, *Revenues and Expenditures in the Pre-operating Period* ("EIC-27"), was withdrawn. The standard is effective for the fiscal year beginning January 1, 2009. Adoption of this standard did not have a significant effect on our financial statements.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to account for credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the fiscal year beginning January 1, 2009. Adoption of this EIC did not have a significant effect on the Company's financial statements.

Mining Exploration Costs

In March 2009, the CICA issued EIC-174, *Mining Exploration Costs*. The EIC provides guidance on the accounting and the impairment review of exploration costs. This standard is effective for the fiscal year beginning January 1, 2009. The application of this EIC did not have an effect on the Company's financial statements.

Amendment to *Financial Instruments – Disclosures* ("Section 3862")

During 2009, CICA Handbook Section 3862, *Financial Instruments – Disclosures* ("Section 3862"), was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At December 31, 2009 and 2008, the Company's financial instruments consisted of cash and cash equivalents, other current assets, accounts payable and accrued liabilities. With respect to all of these financial instruments, the Company estimates that the fair value of these financial instruments approximates the carrying values at December 31, 2009 and 2008, respectively.

c) Significant accounting policies

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 purposes 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 records a liability and corresponding asset for estimated costs for future site reclamation and closure. The estimated present value of the asset retirement obligation is reassessed on an annual basis or when new material information becomes available. Increases or decreases to the obligation usually arise due to changes in the legal or regulatory requirements, the extent of environmental remediation required or methods of reclamation or cost estimates. The present value of the estimated costs of these changes are recorded in the period in which the change is identified and quantified. Changes to the asset retirement obligations related to operating mines are recorded with an offsetting change to the related asset. The present value is determined using the Company's credit adjusted risk free interest rate.

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 substantially inacted 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

Loss per share calculations are based on the weighted average number of common shares and common shares equivalents issued and outstanding during the year. Diluted earnings per share are calculated using the treasury method and if converted method, as applicable, which requires the calculation of diluted earnings per share by assuming that outstanding stock options, with an average market price that exceeds the average exercise prices of the options for the period, are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of the common share for the period.

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

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 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 the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period.

Significant areas where management's judgment is applied include, but are not limited to:

- The carrying value of mineral properties and inventories and impairment charges related thereto
- Estimation of asset retirement obligations
- Estimation of future income taxes
- Estimated useful lives of depreciable assets

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 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 on-going activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend 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 where sufficient geologic or economic potential are noted and if financial resources exist 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 period ended December 31, 2009 compared to the year ended December 31, 2008. 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 Canadian chartered banks and management believes the risk of loss to be remote. Miscellaneous receivables consist of taxes due from the Federal Government of Canada, and value added tax refund in the Russian Federation. Management believes that the credit risk concentration with respect to accounts receivable is low.

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, 2009, the Company had a cash balance of $12,320,095, (December 31, 2008 – $24,170,023) to settle current liabilities of $352,298 (December 31, 2008 – $1,013,888), as well as its commitments outlined in Note 13.

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 Canadian financial intuitions. 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 and Russian ruble 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. Sensitivity to a plus 1% change in interest rates would have affected the net loss for year by a reduction of $154,389, a minus 0.3% change in interest rates would have increased the net loss for the year by $89,915 as some deposits currently earn less than 1%.

The carrying amount of accounts receivable equals fair market value.

Sensitivity to a plus or minus 1% change in the foreign exchange rate would affect net loss by $301 with all other variables held constant.

Price risk is remote since the Company is not a producing entity.

4. INVENTORIES

Material and supplies inventories are stated at the lower of average cost or net realizable value.

Inventories consist of the following:

	December 31, 2009 $	December 31, 2008 $
Fuel and lubricants	**546,610**	673,239
Explosives	**–**	139,186
Camp supplies and food	**679,585**	329,983
	$ 1,226,195	$ 1,142,408

5. PREPAID EXPENSES

Prepaid expenses consists of the following:

	December 31, 2009 $	December 31, 2008 $
Project advances – Mangazeisky		
Exploration Services	**49,111**	582,263
Rent	**–**	24,691
Other	**41,566**	59,442
	$ 90,677	$ 666,396

6. MINERAL PROPERTY

Mineral property includes the cost of acquiring exploration and mining licenses.

Mineral property consists of the following:

	December 31, 2009 $	December 31, 2008 $
Mangazeisky – exploration license	**1,265,117**	1,265,117

The Company acquired the exploration licence in respect of the Mangazeisky property when it acquired all the shares of ZAO Prognoz on October 21, 2004.

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

	December 31, 2009 $	December 31, 2008 $
Mangazeisky	33,658,898	24,764,978
Russian management costs	1,563,283	1,563,283
Corporate costs related to exploration activities	477,411	477,411
	$ 35,699,592	$ 26,805,672

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost, less accumulated amortization.

Property, plant and equipment consist of the following;

	December 31, 2009			December 31, 2008		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Property plant and equipment						
Mangazeisky site	**$ 5,282,704**	**$ 3,434,782**	**$ 1,847,922**	$ 4,546,848	$ 2,771,239	$ 1,775,609
Construction in progress	**–**	**–**	**–**	622,833	–	622,833
Yakutsk office	**165,614**	**111,748**	**53,866**	171,013	105,156	65,857
Other office furniture, equipment and leasehold improvements	**455,073**	**387,680**	**67,393**	395,453	339,487	55,966
	$ 5,903,391	**$ 3,934,210**	**$ 1,969,181**	$ 5,736,147	$ 3,215,882	$ 2,520,265

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consists of the following:

	December 31, 2009 $	December 31, 2008 $
Exploration costs – Mangazeisky project	**70,219**	435,809
Corporate – accounts payable and accrued liabilities	**282,079**	578,079
	$ 352,298	$ 1,013,888

9. NON-CONTROLLING INTEREST

The non-controlling interest relates to a previous investment in Mine Avlayakan LLC (Avlayakan). On May 27, 2008, the non-controlling interest was eliminated upon the sale of the Company's 70% interest in Avlayakan.

10. SHAREHOLDERS' EQUITY

Common shares

Authorized:

Unlimited number of common shares and preference shares issued:

Issued and outstanding

	December 31, 2009		December 31, 2008	
	Number of Common Shares	$	Number of Common Shares	$
Balance – Beginning of year	**37,935,569**	**73,771,289**	35,735,569	67,991,311
Issued pursuant to Initial Public Offering (a)	**–**	**–**	700,000	1,560,013
Issued pursuant to private placement, net (b)	**–**	**–**	1,500,000	4,219,965
Balance – End of year	**37,935,569**	**73,771,289**	37,935,569	73,771,289

(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.

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 is 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 five 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 and 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, 2009 the Company had 3,561,659 options outstanding.

	December 31, 2009		December 31, 2008	
	Number	Exercise price $	Number	Exercise price $
Balance – Beginning of year	**3,766,659**	**2.72**	2,841,655	3.76
Granted	**–**	**–**	1,375,002	0.98
Expired/Cancelled/Forfeited	**(205,000)**	**0.28**	(449,998)	4.00
Balance – End of year	**3,561,659**	**2.86**	3,766,659	2.72

As at December 31, 2009, 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
2010	**796,664**	**3.94**	**826,664**	**3.88**
2011	**–**	**–**	**–**	**–**
2012	**636,664**	**4.50**	**636,664**	**4.50**
2013	**675,000**	**0.28**	**224,995**	**0.84**
2014	**958,329**	**3.00**	**933,328**	**3.00**
2015	**495,002**	**2.21**	**330,001**	**3.32**
	3,561,659	**2.86**	**2,951,652**	**3.44**

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 five 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 six years. The fair market value of these options at time of grant was $171,600.

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 3.14% and an average expected life of six years. The fair market value of these options at time of grant was $510,000.

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 3.14% and an average expected life of six years. The fair market value of these options at time of grant was $477,755.

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

Stock options granted after 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.

In 2009, 200,000 options were cancelled and 5,000 were forfeited that had been granted at an average option price of $0.28.

Contributed surplus consists of the following:

	December 31, 2009 $	December 31, 2008 $
Balance – Beginning of year	**8,621,876**	6,835,085
Stock option compensation	**353,811**	1,513,216
Value assigned to expired warrants	**–**	273,575
Balance – End of year	**$ 8,975,687**	$ 8,621,876

Loss per share

As a result of net losses in each of the periods, 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.

11. RELATED PARTY TRANSACTIONS

In November 2008, a new cost sharing agreement was reached between Silver Bear and Western Goldfields (which has been acquired by New Gold Inc. (NGD)) 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 NGD, to reflect current levels of activities. NGD would initially incur the costs and Silver Bear will reimburse NGD based on the revised cost sharing agreement.

Silver Bear relocated its Toronto head office in June 2008 and share premises with NGD. As a result of NGD 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 is approximately $1.9 million over the ten-year term. At December 31, 2009, $10,689 (2008 – $23,063) was receivable from NGD for items paid by Silver Bear and billed to NGD. At December 31, 2009, $52,861 (2008 – $85,704) was payable to NGD for items paid by NGD and billed to Silver Bear.

12. NET CHANGE IN NON-CASH WORKING CAPITAL

Net change in non-cash working capital consists of the following:

	December 31, 2009 $	December 31, 2008 $
Non-controlling interest receivable	**–**	151,592
Inventories	**(83,787)**	(514,213)
Prepaid expenses	**575,719**	1,638,888
Miscellaneous receivables	**(279,901)**	5,746
Accounts payable and accrued liabilities	**(661,590)**	(113,589)
Donated asset	**35,059**	
	$ (414,500)	$ 1,168,424

13. 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 2009 more than satisfies the commitments established in the License Agreement.

Per Silver Bear's 2009 drilling contract at the Mangazeisky Project the company must pay demobilization charges of $2,200 per month from end of the 2009 drilling program until the equipment is returned to Khabarovsk, the Russian Federation.

The Company may be 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 Bears' financial position, results of operations or cash flows. There were no material outstanding legal proceedings as of December 31, 2009.

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 guarantee. Legal fees incurred with pending legal proceeding are expensed as incurred.

14. SEGMENTED INFORMATION

The Company's operating segments include one property in the Russian Federation (Mangazeisky) and a corporate office in Toronto, Canada.

The following is segmented information as at December 31, 2009:

Country/Property	Cash and cash equivalents	Inventories	Prepaid expenses	Other current assets	Mineral properties	Property, plant and equipment	Asset held for sale	Net loss
Russia – Mangazeisky	116,233	1,226,195	18,184	345,906	1,265,117	1,901,788	–	8,892,507
Canada – corporate	12,203,862	–	72,493	9,532	–	67,393	–	4,394,922
	$12,320,095	$ 1,226,195	$ 90,677	$ 355,438	$ 1,265,117	$ 1,969,181	$ –	$ 13,287,429

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	Asset held for sale	Net loss
Russia – Mangazeisky	2,739,256	1,142,408	531,483	47,579	1,265,117	2,464,300	–	13,281,736
Canada – corporate	21,430,767	–	134,913	27,959	–	55,966	944,150	4,419,902
	$24,170,023	$ 1,142,408	$ 666,396	$ 75,538	$ 1,265,117	$ 2,520,266	$ 944,150	$ 17,701,638

15. ASSET RETIREMENT OBLIGATION

Asset retirement obligation consists of the following:

	December 31, 2009 $	December 31, 2008 $
Balance at the beginning of the period	**570,711**	245,360
Increase in liability	**–**	305,446
Accretion	**38,014**	19,905
Balance, end of year	**608,725**	570,711

The asset retirement obligation relates to the Mangaziesky project located in the Republic of Sakha, Yakutia in the Russian Federation. The Company initially estimated the fair value of the obligation to rehabilitate the site to be $550,805 by discounting future cash flows at a credit adjusted risk free rate of 5.8%. Present value of gross payments that are due in 2012 is $608,725. Management has used an inflation factor of 12.6% to determine future gross payments.

16. ASSETS HELD FOR SALE

The Company sold its two diamond drill rigs and all ancillary equipment which were purchased for $944,150. The sale was completed in November 2009 for $350,000; the Company paid $10,500 commission on the sale and recorded a loss of $604,650.

17. DISCONTINUED OPERATIONS

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 Khabarovsk region of the Russian Federation.

The purchase price paid by Silver Bear was US$5,100,000 (CAD$5,852,854).

On May 12, 2008 the Company signed an agreement to sell its 70% interest in Avlayakan for the US$8,500,000, 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 of 2008.

18. INCOME TAXES

	2009		2008	
	%	$	%	$
Loss and comprehensive loss for the year		**13,287,429**		17,701,638
Expected Recovery	**33.00**	**(4,384,852)**	33.50	(5,930,049)
Foreign Tax Differential	**(8.74)**	**1,160,673**	(7.46)	1,320,389
Permanent differences	**(3.48)**	**462,908**	(3.35)	592,159
Current year losses not recognized	**(20.78)**	**2,761,271**	(22.70)	4,017,490
Provision for Income taxes				–

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

	2009 $	2008 $
Mineral properties	**5,748,963**	5,111,276
Property, plant and equipment	**998,681**	683,130
Non-Capital losses carried forward	**3,548,870**	3,183,595
Cumulative foreign exchange loss	**34,322**	28,772
Asset Retirement Obligation	**121,745**	–
Share issue costs	**522,805**	1,090,950
Future income tax liability	**10,975,385**	10,097,723
Valuation allowance	**(10,975,385)**	(10,097,723)
Net future income tax asset	**–**	–

As at December 31, 2009, the Company has Canadian non-capital losses that expire as follows:

Year of Expiry		
2014	78,000	78,000
2015	2,261,000	2,261,000
2026	2,104,000	2,104,000
2027	2,934,000	2,934,000
2028	3,241,000	3,505,000
2029	3,521,000	–
	14,139,000	10,882,000

19. SUBSEQUENT EVENT

In order for Silver Bear to make options available for future grants and for other strategic alternatives the Company asked option holders of out-of-the-money options to voluntarily surrender their options back to Silver Bear. On January 22, 2010 option holders voluntarily surrendered 2,694,993 options back to the Company. A total of 3,133,334 options are available for future issue. In January 2010 Silver Bear incurred an additional expense of approximately $30,000 relating to the unamortized portion of the surrendered shares.

Corporate Information

DIRECTORS

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

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

Dominic Gualtieri [5]
Corporate Director

Alexey Mikhaylovskiy [6]
CEO, United Gold Company

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

Randall Oliphant
President and CEO, Silver Bear Resources Inc.
Executive Chairman, New Gold Inc.

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*

Mr. Dzhulustan Borisov, a Director since 2004, will not stand for re-election to the Board in 2010, and will be retained as a Special Advisor to Silver Bear Resources.

SENIOR MANAGEMENT

Randall Oliphant
President and Chief Executive Officer

Brian Penny
Chief Financial Officer and Corporate Secretary

Randy Lewis
Managing Director – Russia

Greg Powell
Corporate Controller

TORONTO OFFICE

Royal Bank Plaza, South Tower
200 Bay Street, Suite 3120, PO Box 167
Toronto, Ontario, Canada M5J 2J4
T. 416 324 6000

TRANSFER AGENT

Computershare
100 University Avenue, 8th Floor
Toronto, Ontario, Canada M5J 2Y1
www.computershare.com

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange (TSX:SBR)

INVESTOR RELATIONS

Hannes Portmann
hportmann@silverbearresources.com
T. 416 324 6014

AUDITORS

PricewaterhouseCoopers LLP
Toronto, Ontario, Canada

Designed and Produced by SUTTON INTEGRATED SOLUTIONS Printed in Canada

UNITED MANAGEMENT STRENGTH WORKING TOGETHER
POTENTIAL CANADA RUSSIA ALIGNED INTERESTS

UNITED MANAGEMENT STRENGTH WORKING TOGETHER
CANADA RUSSIA ALIGNED INTERESTS

SILVER BEAR
RESOURCES INC.

200 Bay Street, South Tower
Royal Bank Plaza, Suite 3120
Toronto, ON M5J 2J4

www.silverbearresources.com