

Consolidated Financial Statements

(Expressed in Canadian dollars)

Silver Bear Resources Inc.

For the year ended December 31, 2011

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 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board which have been adopted in Canada. 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.

“Mark Trevisiol”

Mark Trevisiol
Director, President and
Chief Executive Officer

“Deborah Battiston”

Deborah Battiston
Chief Financial Officer

Toronto, Ontario, Canada
March 26, 2012

Independent Auditor's Report

To the Shareholders of Silver Bear Resources Inc.

We have audited the accompanying consolidated financial statements of Silver Bear Resources Inc. and its subsidiaries, which comprise the Consolidated Statements of Financial Position as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the Consolidated Statements of Loss and Comprehensive Loss, the Consolidated Statements of Changes in Equity, and the Consolidated Statements of Cash Flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Silver Bear Resources Inc. and its subsidiaries as at December 31, 2011 and December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that Silver Bear Resources Inc. had a reported loss for the year ended of \$12,524,327 and an accumulated deficit of \$81,881,299 as at December 31, 2011. Silver Bear Resources Inc. is currently not generating revenue and therefore relies on obtaining additional financing to maintain operations. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that may cast a significant doubt about Silver Bear Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario, Canada

March 26, 2012

Silver Bear Resources Inc.

Consolidated Statement of Financial Position

(Canadian dollars)

	December 31, 2011	December 31, 2010 (Note 4)	January 1, 2010 (Note 4)
ASSETS			
Current assets			
Cash and cash equivalents	4,282,883	11,114,277	12,320,095
Receivable (note 5)	714,033	24,117	355,438
Inventories (note 6)	573,727	1,097,946	1,226,195
Prepaid expenses (note 7)	210,433	37,697	90,677
Total current assets	5,781,076	12,274,037	13,992,405
Non-current assets			
Mineral property (note 8)	1,212,964	1,085,277	1,150,234
Property, plant and equipment (note 9)	636,008	900,072	1,621,159
Total assets	7,630,048	14,259,386	16,763,798
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (note 10)	617,446	301,535	352,298
Non-current liabilities			
Asset retirement obligation (note 17)	579,478	588,609	614,801
Total liabilities	1,196,924	890,144	967,099
EQUITY			
Equity attributable to owners of Silver Bear Resources Inc.			
Capital Stock (note 11)	78,730,574	73,771,289	73,771,289
Contributed surplus (note 11)	10,081,156	9,166,433	9,089,843
Accumulated other comprehensive loss	(497,307)	(211,508)	-
Deficit	(81,881,299)	(69,356,972)	(67,064,433)
Total equity	6,433,124	13,369,242	15,796,699
Total liabilities and shareholders' equity	7,630,048	14,259,386	16,763,798

Going concern (note 1)

Commitments and contingency (note 15)

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

Approved by the Board of Directors on March 26, 2012

“Mark Trevisiol”

Mark Trevisiol
 Director

“Bill Biggar”

Bill Biggar
 Director

Silver Bear Resources Inc.

Consolidated Statement of Comprehensive Loss

For the years ended December 31, 2011 and 2010

(Canadian dollars)

	2011	2010
Income		
Interest income	123,849	70,634
Other income	-	1,426,859
	123,849	1,497,493
Expenses (Note 13)		
Exploration costs	9,029,436	1,481,766
General and administrative	2,395,369	1,566,879
Depreciation	324,865	652,877
Share-based payments	919,649	76,590
Loss on disposal of property, plant and equipment	-	2,882
Interest expense (note 17)	8,942	8,876
Foreign exchange (gain) loss	(30,085)	162
Expenses from operations	12,648,176	3,790,032
Total Loss for the year	(12,524,327)	(2,292,539)
Other comprehensive loss		
Exchange differences on translating foreign operations	(285,799)	(211,508)
Total Comprehensive Loss for the year	(12,810,126)	(2,504,047)
Weighted average number of common shares outstanding	41,473,030	37,935,569
Basic and diluted loss per share	(0.30)	(0.06)

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

Silver Bear Resources Inc.

Consolidated Statement of Changes in Equity For the years ended December 31, 2011 and 2010

(Canadian dollars)

	Attributable to equity owners of Silver Bear Resources Inc.				
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance - January 1, 2011	73,771,289	9,166,433	(211,508)	(69,356,972)	13,369,242
Net loss for the year	-	-	-	(12,524,327)	(12,524,327)
Other comprehensive loss (net of tax):					
Cumulative translation adjustment	-	-	(285,799)	-	(285,799)
Comprehensive loss for the year	-	-	(285,799)	(12,524,327)	(12,810,126)
Share based payments	-	919,649	-	-	919,649
Options exercised	10,060	(4,926)	-	-	5,134
Net proceeds from issuance shares in private placement	4,949,225	-	-	-	4,949,225
Balance - December 31, 2011	78,730,574	10,081,156	(497,307)	(81,881,299)	6,433,124
Balance - January 1, 2010	73,771,289	9,089,843	-	(67,064,433)	15,796,699
Net loss for the year	-	-	-	(2,292,539)	(2,292,539)
Other comprehensive loss (net of tax):					
Cumulative translation adjustment	-	-	(211,508)	-	(211,508)
Comprehensive loss for the year	-	-	(211,508)	(2,292,539)	(2,504,047)
Share-based payments	-	76,590	-	-	76,590
Balance - December 31, 2010	73,771,289	9,166,433	(211,508)	(69,356,972)	13,369,242

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

Silver Bear Resources Inc.

Consolidated Statement of Cash Flow

For the years ended December 31, 2011 and 2010

(Canadian dollars)

	2011	2010
Cash provided by (used in)		
Operating activities		
Total Loss for the year	(12,524,327)	(2,292,539)
Adjustments for items not affecting cash:		
Depreciation	324,865	652,877
Share-based payments	919,649	76,590
Loss on disposal of property, plant and equipment	-	2,882
Interest expense	8,942	8,876
Net change in non-cash working capital (note 14)	(62,819)	413,777
Net cash used in operations	(11,333,690)	(1,137,537)
Investing activities		
Acquisition of property, plant and equipment	(66,254)	(393)
Proceeds from sale of property, plant and equipment	-	1,922
Net cash (used in) provided by investing activities	(66,254)	1,529
Financing activities		
Net proceeds from issuance shares in private placement	4,949,225	-
Proceeds from exercised options	5,134	-
Net cash generated from financing activities	4,954,359	-
Effect of exchange rate changes on cash and cash equivalents	(385,809)	(69,810)
Decrease in cash and cash equivalents during the year	(6,831,394)	(1,205,818)
Cash and cash equivalents - beginning of the year	11,114,277	12,320,095
Cash and cash equivalents - end of the year	4,282,883	11,114,277

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

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

1. NATURE OF OPERATIONS AND GOING CONCERN

Silver Bear Resources Inc. (“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 Silver Bear and its subsidiaries (“the Company”) is the evaluation, acquisition, exploration and development of precious metal properties. The head office of the Company is located in Toronto, Canada. The principal asset of the Company is the project described in Note 8. The exploration strategy of the Company is to focus on the discovery of precious metal deposits. To date, Silver Bear has not earned revenue from operations and is considered to be in the exploration stage.

As at December 31, 2011, 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 the International Financial Reporting Standards (“IFRS”) 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, 2011, the Company had no source of operating cash flows and reported a loss for the year then ended of \$12,524,327 and an accumulated deficit of \$81,881,299. 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 continue to meet its obligations as they come due and, hence the ultimate appropriateness of the use of accounting principles applicable to a going concern. On May 11, 2011 the Company closed a \$5 million non-brokered private placement (“Private Placement”) of common shares at a price \$0.80 per common share. 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 the future.

These 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 comprehensive loss and balance sheet classifications used. These adjustments could be material.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

These consolidated financial statements have been prepared in accordance with the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate IFRS, and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In these financial statements the term “Canadian GAAP” (CGAAP), refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS, as issued by International Accounting Standards Board (IASB), applicable to the preparation of consolidated financial statements. Subject to certain transition elections and exceptions disclosed in Note 4, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

2. Basis of preparation and adoption of IFRS (continued)

Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 prepared under GAAP.

The Board of Directors approved the financial statements on March 26, 2012.

These 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). All significant inter-company accounts and transactions have been eliminated on consolidation.

Significant Accounting Policies

Foreign currency translation

Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which it operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars which is Silver Bear's functional, as well as functional currency of Silver Bear Holdings. The financial statements of ZAO Prognoz have a Russian rouble as its functional currency and are translated into presentation currency of Canadian dollars for consolidation purposes as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses at the average rate for each quarter (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Foreign currency transactions are translated into the functional currency of the entity in which they occur using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than functional currency at period-end exchange rates are recognized in the statement of comprehensive loss.

Mineral properties

Mineral properties include the costs of acquiring exploration and mining licenses, as well as cost of an asset associated with the obligation for environmental rehabilitation. Licenses are valued at cost at the date of acquisition.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. All property, plant and equipment, with the exception of leasehold improvements, are depreciated on a straight line basis over three years.

Leasehold improvements are amortized over the remaining life of the lease. Significant components of the property, plant and equipment are recorded and depreciated separately. Residual values, method of depreciation and the useful lives of assets are revised annually and adjusted if appropriate.

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.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

2. Basis of preparation and adoption of IFRS (continued)

Impairment of non-financial assets

The Company reviews and evaluates the recoverable amount of its mineral properties, property, plant and equipment annually and when events or changes in circumstances indicate that the carrying amounts of related assets or groups of assets might not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset). Any resulting write-down of the excess of carrying value over the recoverable amount is charged to the consolidated statement of operations.

Provision for decommissioning and restoration liability

Mining and exploration activities normally give rise to obligations for environmental rehabilitation. Rehabilitation work may include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation, including compliance with and monitoring of environmental regulations; security and other site-related costs required to perform the rehabilitation work; and operation of equipment designed to reduce or eliminate environmental effects. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and our environmental policies. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or exploration process, are not included in the provision. The timing of the actual rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the license conditions and the operating environment. Expenditures may occur before and after the site closure and can continue for an extended period of time depending on rehabilitation requirements. Rehabilitation provisions are measured at the expected value of future cash flows, associated with the settlement of the obligation and discounted to their present value using a pre-tax discount rate which reflects current assessments of the time value of money. The expected future cash flows exclude the effect of inflation. The unwinding of the discount in subsequent periods is presented as interest expense. The asset associated with retirement obligations represents the part of the cost of acquiring the future economic benefits of the operation and is capitalized to mineral properties as part of the carrying amount of the long-lived asset and amortized over the expected economic life of the operation to which it relates. The Company re-measures the liability at each reporting date. Changes in estimates are recorded using current discount rate assumptions. Adjustments are also accounted for as a change in the corresponding value of the related assets.

Financial instruments

Financial assets:

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

The Company's financial assets include cash and amounts receivable. Initially they are recognized at fair value, subsequently measured at amortized cost using the effective interest method. Amortized cost approximate fair value due to the short-term maturity of these assets.

Financial liabilities:

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

2. Basis of preparation and adoption of IFRS (continued)

The Companies financial liabilities include accounts payable and accrued liabilities. Initially they are recognized at fair value, subsequently measured at amortized cost using the effective interest method. Amortized cost approximate fair value due to the short-term maturity of these liabilities.

Financial instruments are initially recorded at fair value. The fair values of cash and cash equivalents, receivable from related party (Note 12), miscellaneous receivables and, accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature.

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. 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.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes, under which future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income tax in the year the changes are considered substantively enacted. Future tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is more likely than not.

Loss per share

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

Share-based payments

The fair value of any stock options granted to directors, officers, consultants and employees is recognized 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 11. An estimate for forfeitures is made when determining the number of equity instruments expected to vest. 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.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

2. Basis of preparation and adoption of IFRS (continued)

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 statement of financial position.

Inventories

Inventories consist of fuel, supplies and spare parts to be consumed in exploration activities and are stated at the lower of weighted average cost and net realizable value.

Contingencies

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, the amount can be reliably estimated, and there is a present obligation as a result of a past event, then a loss is recorded. The details of a contingent loss are disclosed unless the possibility of any outflow in settlement is remote. Legal fees incurred with pending legal proceeding are expensed as incurred.

Accounting estimates and management judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The significant areas of estimation and uncertainties considered by management in preparing the consolidated financial statements include:

Critical judgement in applying accounting policies:

- Determination of functional currency

Based on the primary indicators in IAS 21 – The Effects of Change in Foreign Exchange Rates – Russian rouble has been determined as the functional currency of ZAO Prognoz, operating subsidiary of Silver Bear, because Russian rouble is the currency that mainly influences labour, material and other costs of providing goods or services, and is the currency in which these costs are denominated and settled. Significant management judgment was exercised, since the second primary indicator related to the currency influencing the sales price is not applicable, as ZAO Prognoz that does not yet generate any revenue. Effects of changes in foreign exchange rates at the consolidation of financial statements are recorded in the other comprehensive income and carried in the form of cumulative translation adjustment in the accumulated other comprehensive income section of the Statement of financial position of the Company. If the functional currency of the Russian entity had been Canadian dollar, the effect of changes in foreign exchange rates would have been reflected in net income as foreign exchange gain (loss) on the Statement of comprehensive loss.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

2. Basis of preparation and adoption of IFRS (continued)

Key sources of estimation uncertainty:

- Depreciation rates
All property, plant and equipment, with the exception of leasehold improvements, are depreciated on a straight line basis over three years, which the Company believes is the best approximation of the asset utility to the Company. If the estimated life had been longer by than management's estimate, the carrying amount of the asset would have been higher.
- Rehabilitation provisions and asset retirement obligations
Exploration activities carried by the Company give rise to obligations for environmental rehabilitation. Significant uncertainty exists to the amount and timing of associated cash flows. A Canadian government bond yield is used in discounting of future cash flows as a pre-tax discount rate. A term of the exploration license is used as the discounting period. If the estimated pre-tax discount rate used in the calculation had been higher than the management estimate, the carrying amount of the provision would have been lower and interest expense higher. If the estimated period over which the cash flows associated with the asset retirement obligations are calculated had been longer than the management estimates, the carrying amount of the provision would have been lower as would be interest expense.
- Share-based payment transactions
The Company records share-based compensation at fair value over the vesting period. The fair value of the grant is determined using the Black-Scholes options pricing model and management assumptions regarding dividend yield, expected volatility, forfeiture rate, risk free rate and expected life. Should the underlying assumptions change, it will impact the fair value of the share-based compensation.

New accounting standards

The following items are the key new accounting standards and amendments to existing standards and interpretations that have been issued by the IASB, but not yet applied by the Company when preparing these consolidated financial statements.

IAS 1 – Financial Statements Presentation.

On 16 June 2011 the IASB issued amendments to IAS 1 *Financial Statement Presentation*. These amendments improve presentation of components of other comprehensive income. The new requirements are effective for annual periods beginning on or after 1 July 2012. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 9 – Financial Instruments

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

2. Basis of preparation and adoption of IFRS (continued)

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 – Consolidated Financial Statements.

IFRS 10 (issued in May 2011) provides a single consolidation model that identifies control as the basis for consolidation for all types of entities and establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 12 (issued in May 2011) sets the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company has not yet determined whether it will adopt the standard early, but doesn't anticipate any significant impact the standard.

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS

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 precious metal 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 ongoing activities.

In order to carry out the planned exploration and pay for administrative costs, the Company will spend existing working capital and plan to 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 year ended December 31, 2011 compared to the year ended December 31, 2010. Neither the Company nor its subsidiaries are 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:

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

3. Capital management and financial risk factors (continued)

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 a major Russian bank with credit rating from AA for Canadian banks and BB for Russian bank and a stable future outlook. Miscellaneous receivables and prepaid expenses other than taxes due from the Federal Government of Canada and Russian Value Added Tax refunds from the Russian tax authorities are insignificant. 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 it will have sufficient liquidity to meet liabilities when due. As at December 31, 2011, the Company had a cash balance of \$4,282,883 (December 31, 2010 – \$11,114,277) to settle current liabilities of \$617,446 (December 31, 2010 – \$301,535), as well as its commitments outlined in Note 15.

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in interest-earning bank accounts with Canadian and Russian financial institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk

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

Sensitivity analysis

Sensitivity to a plus (minus) 10% change in interest rates would have affected the net loss for the year by a reduction (increase) of \$10,135.

The carrying amount of accounts receivable equals fair market value. The effect of changes in foreign exchange rates on net loss is deemed to insignificant as number and amount of foreign-currency transactions are relatively small. Have the foreign exchange rates been higher (lower) by 5%, the cumulative translation adjustment in the other comprehensive income section of the Statement of financial position would have been lower (higher) by \$163,819.

4. TRANSITION TO IFRS

The effect of the Company's transition to IFRS is summarized in this note as follows:

- (i) Transition elections
- (ii) Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS
- (iii) Adjustments to the statement of cash flows.

(i) Transition elections

The company has elected the following exemptions to full retrospective application of IFRS:

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

4. Transition to IFRS (continued)

Decommissioning liabilities (reclamation and closure cost obligations) (as described in Note 4(ii) (a,f))

- Cumulative translation adjustment (as described in Note 4(ii) (d))
- Share-based payment transactions (Note 4(ii)(c))

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS.

	December 31, 2010				January 1, 2010		
	Note 4ii	CGAAP	Adj	IFRS	CGAAP	Adj	IFRS
ASSETS							
Current assets							
Cash and cash equivalents		11,114,277	-	11,114,277	12,320,095	-	12,320,095
Receivable		24,117	-	24,117	355,438	-	355,438
Inventories		1,097,946	-	1,097,946	1,226,195	-	1,226,195
Prepaid expenses		37,697	-	37,697	90,677	-	90,677
Total current assets		12,274,037	-	12,274,037	13,992,405	-	13,992,405
Non-current assets							
Mineral property	a, b	1,265,117	(179,840)	1,085,277	1,265,117	(114,883)	1,150,234
Property, plant and equipment	b	1,169,474	(269,402)	900,072	1,969,181	(348,022)	1,621,159
Total assets		14,708,628	(449,242)	14,259,386	17,226,703	(462,905)	16,763,798
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		301,535	-	301,535	352,298	-	352,298
Non-current liabilities							
Asset retirement obligation	a, b	646,741	(58,132)	588,609	608,725	6,076	614,801
Total liabilities		948,276	(58,132)	890,144	961,023	6,076	967,099
EQUITY							
Equity attributable to owners of Silver Bear Resources Inc.							
Capital Stock		73,771,289	-	73,771,289	73,771,289	-	73,771,289
Contributed surplus	c	9,084,429	82,004	9,166,433	8,975,687	114,156	9,089,843
Accumulated other comprehensive loss	d	-	(211,508)	(211,508)	-	-	-
Deficit	a-f	(69,095,366)	(261,606)	(69,356,972)	(66,481,296)	(583,137)	(67,064,433)
Total shareholders' equity		13,760,352	(391,110)	13,369,242	16,265,680	(468,981)	15,796,699
Total liabilities and shareholders' equity		14,708,628	(449,242)	14,259,386	17,226,703	(462,905)	16,763,798

	Year ended December 31, 2010			
	Note 4(ii)	CGAAP	Adj	IFRS
Income				
Interest income	e	70,799	(165)	70,634
Other Income	e	1,405,273	21,586	1,426,859
		1,476,072	21,421	1,497,493
Expenses				
Exploration costs	e	1,484,517	(2,751)	1,481,766
General and administrative	e	1,566,869	10	1,566,879
Stock based compensation	c	108,742	(32,152)	76,590
Amortization	b	794,903	(142,026)	652,877
Accretion expense	f	38,016	(38,016)	-
Loss on disposal of property, plant and equipment		2,882	-	2,882
Interest expense	f	-	8,876	8,876
Foreign exchange loss	b,e	94,213	(94,051)	162
Expenses from operations		4,090,142	(300,110)	3,790,032
Total Loss for the period		(2,614,070)	321,531	(2,292,539)
Other comprehensive income (loss)				
Exchange differences on translating foreign operations	d	-	(211,508)	(211,508)
Total Comprehensive Loss for the period		(2,614,070)	110,023	(2,504,047)

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

4. Transition to IFRS (continued)

Reconciliation of the transitional adjustments at January 1, 2010 and December 31, 2010:

At January 1, 2010	(a)	(b1)	(b2)	(b3)	(c)	(e)	(f)	(d)	Total
Mineral property	20,843	(135,726)							(114,883)
Property, plant and equipment			(348,022)						(348,022)
Asset retirement obligation	6,076	-							6,076
Contributed surplus					114,156				114,156
Accumulated other comprehensive loss		(135,726)	(348,022)					483,748	-
Deficit	14,767				(114,156)			(483,748)	(583,137)
									-
At December 31, 2010	(a)	(b1)	(b2)	(b3)	(c)	(e)	(f)	(d)	Total
Mineral property	20,843	(200,683)							(179,840)
Property, plant and equipment			(269,402)						(269,402)
Asset retirement obligation	6,076	(35,068)					(29,140)		(58,132)
Contributed surplus					82,004				82,004
Accumulated other comprehensive loss		(165,615)	(269,402)	(142,026)		(118,213)		483,748	(211,508)
Deficit	14,767			142,026	(82,004)	118,213	29,140	(483,748)	(261,606)

- (a) The Company has elected the Exemption for decommissioning liabilities that allows the Company not to apply requirements of IFRIC 1 (that specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.) to changes in such liabilities that occurred before the date of transition to IFRS. The transition adjustments at January 1, 2010 of \$6,076 and \$20,843 have been recorded for asset retirement obligation and related asset respectively at the date of transition to IFRS with an offset of \$14,767 to accumulated deficit.
- (b) Under CGAAP the functional currency of ZAO Prognoz was Canadian dollar. Capital assets were translated at historical exchange rates. Under IFRS the functional currency of ZAO Prognoz has been determined to be the Russian rouble. Under IFRS for consolidation purposes all assets and liabilities including capital assets are translated at the closing rate at the date of the statement of financial position. Translation differences on mineral properties (b1) of \$200,683 and on property, plant and equipment (b2) of \$269,402 at December 31, 2010 (\$135,726 and \$340,022 respectively at January 31, 2010) were recognized under IFRS with an offset to the Accumulated other comprehensive loss. Translation adjustment to asset retirement obligation was \$35,068 for the year ended December 31, 2010. Under IFRS depreciation expense is translated at average rate for the period as opposed Canadian GAAP where it is translated at historical rates (b3).
- (c) CGAAP allows both an accelerated method of recognition of the fair value of stock options under graded vesting as well as a straight line method, while IFRS allows only the graded vesting method of recognition of the fair value of stock options. Under IFRS, an estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under CGAAP forfeitures can be recognized as they occur. The effect of estimated forfeiture rate and the changeover to graded vesting from straight line in the amount of \$114,156 has been recognized in the IFRS opening balance at January 1, 2010 with an offset to the accumulated deficit balance. An additional adjustment of \$32,152 was recognized in the year ended December 31, 2010 with an offset to an accumulated deficit for the year, bringing the balance at December 31, 2010 to \$82,004
- (d) Cumulative translation adjustment in Other comprehensive income (loss) represents an unrealized loss on translation of accounts of ZAO Prognoz from its functional currency (Notes (b), (c) and (e)), Russian rouble into the presentation currency, Canadian dollar.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

4. Transition to IFRS (continued)

Using the IFRS 1 election Cumulative translation adjustment the Company has reset to zero translation differences of \$483,748 existed at the date of transition to IFRS, January 1, 2010. Cumulative translation adjustment was \$211,508 at December 31, 2010.

- (e) For the purpose of translation of income and expense accounts quarter average exchange rates were used to restate the 2010 financial statements as an approximation of actual rate.
- (f) Under IFRS the unwinding of the discount in subsequent periods is presented as interest expense, while under Canadian GAAP it is accretion expense. A transitional adjustment of \$38,016 was recognized in the year ended December 31, 2010 with offset to the loss for year. The interest expense of \$8,876 was recognized in the year ended December 31, 2010.

(iii) Adjustments to the statement of cash flows.

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

5. RECEIVABLE

	December 31, 2011	December 31, 2010	January 1, 2010
Russian Value Added Tax	\$ 652,632	\$ 10,456	\$ 343,782
Canadian Harmonized Sales Tax	61,401	10,829	13,316
Other	-	2,832	(1,660)
	<u>\$ 714,033</u>	<u>\$ 24,117</u>	<u>\$ 355,438</u>

6. INVENTORIES

Material and supplies inventories are stated at the lower of weighted average costs and net realizable value. Inventories consist of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Fuel and lubricants	\$ 93,562	\$ 480,164	\$ 546,610
Parts and Supplies	480,165	617,782	679,585
	<u>\$ 573,727</u>	<u>\$ 1,097,946</u>	<u>\$ 1,226,195</u>

7. PREPAID EXPENSES

Prepaid expenses consist of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Insurance	\$ 30,949	\$ 30,284	\$ 38,378
Exploration services and goods	107,688	1,922	49,111
Employee advances	19,619	-	-
Rent and administrative costs	52,177	5,491	3,188
	<u>\$ 210,433</u>	<u>\$ 37,697</u>	<u>\$ 90,677</u>

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

8. MINERAL PROPERTY

Mineral property includes the cost of acquiring exploration and mining licenses, as well as value of asset associated with asset retirement obligations.

Mineral property consists of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Mangazeisky	\$ 1,212,964	\$ 1,085,277	\$ 1,150,234

The change in value of the asset is due to additional cost incurred in the process of license extension and foreign exchange difference on translation of the liability.

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. On December 21, 2011, the Mangazeisky License was extended by the Federal Subsoil Use Agency in the Russian Federation (“Rosnedra”) through December 31, 2012.

The cumulative exploration costs incurred from inception to date are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Mangazeisky	\$ 44,808,272	\$ 35,778,836	\$ 35,699,592

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost, less accumulated depreciation and consist of the following:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property plant and equipment:									
Mangazeisky site	\$ 3,961,847	\$ 3,338,917	\$ 622,930	\$ 4,016,238	\$ 3,161,630	\$ 854,608	\$ 4,256,621	\$ 2,747,796	\$ 1,508,825
Yakutsk office	121,114	117,972	3,142	124,181	105,494	18,687	134,835	89,894	44,941
Other office furniture, equipment and leasehold improvements	267,583	257,647	9,936	267,583	240,806	26,777	455,073	387,680	67,393
	\$ 4,350,544	\$ 3,714,536	\$ 636,008	\$ 4,408,002	\$ 3,507,930	\$ 900,072	\$ 4,846,529	\$ 3,225,370	\$ 1,621,159

Reconciliation of the carrying amount at the beginning and end of the years ended December 31, 2011 and 2010.

	Mangazeisky site equipment	Yakutsk equipment	Office equipment	Total
Carrying amount at January 1, 2010	\$ 1,508,825	\$ 44,941	\$ 67,393	\$ 1,621,159
Additions	-	-	393	393
Disposals	-	1,922	(4,804)	(2,882)
Depreciation	(591,998)	(24,674)	(36,205)	(652,877)
Exchange differences	(62,219)	(3,502)	-	(65,721)
Carrying amount at December 31, 2010	\$ 854,608	\$ 18,687	\$ 26,777	\$ 900,072
Carrying amount at January 1, 2011	\$ 854,608	\$ 18,687	\$ 26,777	\$ 900,072
Additions	65,581	673	-	66,254
Disposals	-	-	-	-
Depreciation	(291,263)	(16,761)	(16,841)	(324,865)
Exchange differences	(5,996)	543	-	(5,453)
Carrying amount at December 31, 2011	\$ 622,930	\$ 3,142	\$ 9,936	\$ 636,008

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Exploration costs - Mangazeisky project	\$ 147,795	\$ 130,186	\$ 70,219
Corporate - accounts payable and accrued liabilities	469,651	171,349	282,079
	\$ 617,446	\$ 301,535	\$ 352,298

11. SHAREHOLDERS' EQUITY

Common shares

Authorized:

Unlimited number of common shares and preferred shares issued with no par value:

Reconciliation of the number and value of common shares at the beginning and end of the years ended December 31, 2011 and 2010. All issued shares are fully paid.

	December, 2011		December 31, 2010		January 1, 2010	
	Number of common shares	\$	Number of common shares	\$	Number of common shares	\$
Balance - Beginning of year	37,935,569	73,771,289	37,935,569	73,771,289	37,935,569	73,771,289
Issued pursuant to private placement, net	6,250,000	4,949,225	-	-	-	-
Issued pursuant to options exercised	18,333	10,060	-	-	-	-
Balance - End of year	44,203,902	78,730,574	37,935,569	73,771,289	37,935,569	73,771,289

On May 11, 2011, the Company announced the closing of Private Placement of common shares resulting in aggregate proceeds to the Company of \$5 million from the issue of 6,250,000 common shares at a price of \$0.80 per share. Share issue costs amounted to \$50,775.

Stock Options

The Company has a stock option plan which is intended to provide an incentive to officers, employees, directors and consultants of the Company. Stock options are granted from time to time and the option price is determined by the Compensation Committee of the Board of Directors at its sole discretion but shall not be less than the closing price of the Company's common stock on the Toronto Stock Exchange on the last trading date preceding the date of the grant. The term of each option is 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 twelve months after the date of termination.

In May 2008, the Board of Directors approved an increase of 958,333 options to the stock option plan bringing the total options available to issue to 4,000,000.

Effective June 9, 2011 the Company changed the maximum aggregate number of Shares reserved by the Company for issuance and which may be purchased upon the exercise of all Options granted under this Plan to be not greater than 10% of the outstanding Shares (on a non-diluted basis) issued and outstanding at the time of the granting of the Options. This increased the total number of options available to issue to 4,420,390.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

11. Shareholder's equity (continued)

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 2,861,659 options back to the Company. A total of 383,723 options are available for future issue as at December 31, 2011.

On December 7, 2010, 1,245,000 stock options were granted to various directors, officers and employees of the Company. The exercise price of the options is \$0.59 and the term is five years. For the purpose 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 123.8%, forfeiture rate of 6.1%, risk free rate of return of 2.4% and an average expected life of five years. Fair market value of these options at the time of grant was \$619,580. Stock options granted vest as follows: one third on the first anniversary of the grant, one third on the second anniversary of the grant and the final one third vests on the third anniversary of the grant.

On February 8, 2011, 75,000 stock options from the December 2010 grant have been cancelled without vesting upon the resignation of the director, to whom they were granted.

On March 25, 2011, 75,000 stock options were granted to a new director that replaced the one that has resigned. The exercise price of the options is \$0.95.

Fair market value of the grant was estimated at \$53,709 using the Black-Scholes stock pricing model with the following assumptions: dividend yield of 0%, expected volatility of 125.5%, forfeiture rate of 6.9%, risk free rate of return of 2.2% and an average expected life of five years. Stock options granted vest gradually over three years, one-third on every anniversary of the grant.

On May 11, 2011 1,841,000 options were granted to directors, officers and consultants of the Company. The exercise price of the options is \$0.89. Fair market value of the grant was estimated at \$1,237,229 using the Black-Scholes stock pricing model with the following assumptions: dividend yield of 0%, expected volatility of 125.7%, forfeiture rate of 6.6%, risk free rate of return of 2.1% and an average expected life of five years. Granted stock options vest gradually over three years, one-third on every anniversary of the grant.

On August 2, 2011 125,000 options were granted to a new officer of the company. The exercise price of the option is \$1.07. Fair market value of the grant was estimated at \$101,107 using the Black-Scholes stock pricing model with the following assumptions: dividend yield of 0%, expected volatility of 126.4%, forfeiture rate of 7.3%, risk free rate of 1.5% and expected life of 3.3 years. Grated stock options vest gradually over three years, one-third on every anniversary of the grant.

On August 11, 2011 290,000 options were granted to various officers and consultants of the Company. The exercise price of the options is \$1.01. Fair value market value of the grant was estimated at \$221,204 using the Black-Scholes stock pricing model with the following assumptions: dividend yield of 0%, expected volatility of 127%, forfeiture rate of 7.3%, risk free rate of 1.13% and expected life of 3.3 years. Granted stock options vest gradually over two years, one-third immediately, and one-third on every anniversary of the grant.

	2011		2010	
	Number	Exercise price, \$	Number	Exercise price, \$
Balance - Beginning of the year	1,903,333	0.48	3,561,659	2.86
Granted	2,331,000	0.91	1,245,000	0.59
Surrendered	-	-	(2,861,659)	3.16
Exercised	(18,333)	0.28	-	-
Expired / Cancelled / Forfeited	(179,333)	0.59	(41,667)	0.28
Balance - End of the year	4,036,667	0.73	1,903,333	0.48

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

11. Shareholder's equity (continued)

As at December 31, 2011, the Company had share options outstanding and exercisable as follows:

Expiry year	Outstanding		Exercisable	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
2013	636,667	0.28	636,667	0.28
2015	1,070,000	0.59	356,666	0.59
2016	2,330,000	0.91	96,667	1.01
	4,036,667	0.73	1,090,000	0.45

Contributed surplus consists of the following:

	December 31, 2011	December 31, 2010
Balance-Beginning of year	\$ 9,166,433	\$ 9,089,843
Share-based payments	919,649	76,590
Exercised options	(4,926)	-
Balance- End of year	\$ 10,081,156	\$ 9,166,433

Loss per share

Basic and dilutive loss per share is calculated by dividing the net loss by the weighted average number of shares in issue during the year. 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.

	2011	2010
Net loss	(12,524,327)	\$ (2,292,539)
Weighted average number of common shares outstanding	41,473,030	37,935,569
	\$ (0.30)	\$ (0.06)

12. RELATED PARTY DISCLOSURES

Silver Bear shared premises and senior management with New Gold Inc. (NGD) and as a result a cost sharing agreement existed between Silver Bear and NGD for our proportional share of office costs. This agreement was terminated on June 15, 2011.

Effective June 15, 2011 the Company shares office space with the Forbes & Manhattan group (F&M) of companies that may have officers or directors in common with the Company. The costs associated with this space are administered by 2227929 Ontario Inc. Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan Inc. An administration fee of \$25,000 per month effective May 11, 2011 is charged by Forbes & Manhattan Inc. pursuant to a consulting agreement between the companies. In 2011 Aservices Ltd., a company controlled by Alfa Group Consortium, a shareholder of the Company, provided consulting services relating to exploration license extension.

During 2011 the Company entered in the transactions with the following related parties:

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

12. Related party disclosures (continued)

Goods and services received from (provided to):	Goods and services received		Goods and services provided	
	2011	2010	2011	2010
New Gold Inc.	\$ 76,760	\$ 162,408	\$ 1,798	\$ 19,325
2227929 Ontario Inc.	133,086	-	-	-
Forbes & Manhattan Inc.	211,875	-	52,257	-
Aservices Ltd.	160,000	-	-	-
Other entities of F&M Group	83,251	-	-	-
	\$ 664,972	\$ 162,408	\$ 54,055	\$ 19,325

The following balances were outstanding as at December 31, 2011:

Outstanding balances	Amounts owed by related parties		Amounts owed to related parties	
	2011	2010	2011	2010
New Gold Inc.	\$ -	\$ 670	\$ -	\$ 13,203
2227929 Ontario Inc.	36,104	-	20,259	-
Forbes & Manhattan Inc.	-	-	-	-
Aservices Ltd.	-	-	160,000	-
Other entities of F&M Group	-	-	-	-
	\$ 36,104	\$ 670	\$ 180,259	\$ 13,203

Compensation of key management

Key management includes the Company's directors and officers. Compensation awarded to key management included:

	2011	2010
Salaries, fees and short-term employee benefits	\$ 561,409	\$ 524,333
Share-based payments	556,514	50,303
	\$ 1,117,923	\$ 574,636

13. EXPENSES BY NATURE

The following table provides the breakdown of Company's expenses by nature.

	2011	2010
Employee Benefits	\$ 3,587,124	\$ 1,802,892
Drilling and trenching	2,633,297	-
Amortization	324,865	652,877
Professional fees	426,578	372,106
Geological & environmental studies	1,203,009	(60,796)
Transportation	3,192,337	226,823
Camp maintenance	414,856	29,151
Taxes	46,322	69,500
Office expenses	1,062,768	629,242
Travel expenses	619,376	96,748
VAT refund	(888,016)	(31,137)
Other expenses	25,660	2,626
	\$ 12,648,176	\$ 3,790,032

Employee benefits expense for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Salaries, fees and short-term employee benefits	\$ 2,667,475	\$ 1,726,302
Share-based payments	919,649	76,590
	\$ 3,587,124	\$ 1,802,892

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Year ended	
	December 31, 2011	December 31, 2010
Receivable	\$ (722,970)	\$ 351,450
Inventories	516,831	\$ 63,787
Prepaid expenses	(176,900)	\$ 53,007
Accounts payable and accrued liabilities	320,220	\$ (54,467)
	\$ (62,819)	\$ 413,777

15. COMMITMENTS AND CONTINGENCIES

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 Company is required to undertake 5,000 metres of trenching and 3,000 of drilling to satisfy license agreement requirements in 2012. The company is in the process of converting its exploration license, which expires December 31, 2012, to a mining license. As part of the process the Company has completed a required Russian Feasibility Study (“RFS”) and submitted it along with a Russian reserve estimate to the Russian government. The Company is currently in the process of developing an exploration program for this coming summer. The program primarily consists of both trenching and drilling activities as well as some infrastructure improvements. Silver Bear is seeking to raise approximately \$10 million to \$15 million to complete the majority of its 2012 program. Silver Bear is targeting 15,000 meters of drilling and approximately 5,000 cubic meters of trenching in 2012.

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. 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, 2011.

16. SEGMENTED INFORMATION

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

As at December 31, 2011								
Country / Property	Cash and cash equivalents	Inventories	Prepaid expenses	Receivables	Mineral Properties	Property, plant and equipment	Net Loss	
Russia - Mangazeisky	\$ 241,847	\$ 573,727	\$ 117,597	\$ 652,632	\$ 1,212,964	\$ 626,072	\$ 8,289,601	
Canada - corporate	4,041,036	-	92,836	61,401	-	9,936	4,234,726	
	\$ 4,282,883	\$ 573,727	\$ 210,433	\$ 714,033	\$ 1,212,964	\$ 636,008	\$ 12,524,327	

As at December 31, 2010								
Country / Property	Cash and cash equivalents	Inventories	Prepaid expenses	Receivables	Mineral Properties	Property, plant and equipment	Net Loss	
Russia - Mangazeisky	\$ 1,208,168	\$ 1,097,946	\$ 7,413	\$ 12,123	\$ 1,085,277	\$ 873,295	\$ 165,439	
Canada - corporate	9,906,109	-	30,284	11,994	-	26,777	2,127,100	
	\$ 11,114,277	\$ 1,097,946	\$ 37,697	\$ 24,117	\$ 1,085,277	\$ 900,072	\$ 2,292,539	

As at January 1, 2010								
Country / Property	Cash and cash equivalents	Inventories	Prepaid expenses	Receivables	Mineral Properties	Property, plant and equipment		
Russia - Mangazeisky	\$ 116,233	\$ 1,226,195	\$ 18,184	\$ 345,906	\$ 1,150,234	\$ 1,553,766		
Canada - corporate	12,203,862	-	72,493	9,532	-	67,393		
	\$ 12,320,095	\$ 1,226,195	\$ 90,677	\$ 355,438	\$ 1,150,234	\$ 1,621,159		

Silver Bear Resources Inc.

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17. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY

The Company's mining and exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. The Company has recorded a liability and corresponding asset for the estimated future cost of reclamation and closure, including site rehabilitation and long-term treatment and monitoring costs, discounted to net present value. Such estimates are, however, subject to change based on negotiations with regulatory authorities, or changes in laws and regulations.

The Company's provision for decommissioning and restoration liability consist of management's best estimate of reclamation and closure costs for Mangazeisky exploration project located in the Republic of Sakha, Yakutia in the Russian Federation. Significant reclamation and closure activities include land rehabilitation, demolition of buildings and site facilities, on-going care and maintenance and other costs.

Asset retirement obligation consists of the following:

	December 31, 2011		December 31, 2010	
Balance at the beginning of the period	\$	588,609	\$	614,801
Interest expense		8,942		8,876
Translation adjustment		(18,073)		(35,068)
Balance at the end of the period	\$	579,478	\$	588,609

The estimated value of the obligation to rehabilitate the site expressed in Canadian dollars is \$579,478. A Canadian government bond yield of 1.47% has been used in discounting of future cash flows.

18. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at December 31, 2011 and December 31, 2010 were as follows:

	Loans and receivables	Assets/liabilities at fair value through profit and loss	Other liabilities	TOTAL
At December 31, 2011				
Cash and cash equivalents	4,282,883	-	-	4,282,883
Accounts Receivables	714,033	-	-	714,033
Accounts payables and accrued liabilities	-	-	617,446	617,446
	Loans and receivables	Assets/liabilities at fair value through profit and loss	Other liabilities	TOTAL
At December 31, 2010				
Cash and cash equivalents	11,114,277	-	-	11,114,277
Accounts Receivables	24,117	-	-	24,117
Accounts payables and accrued liabilities	-	-	301,535	301,535

The carrying value of cash equivalents, amounts receivable, and accounts payable and accrued liabilities reflected in the consolidated statement of financial position approximate fair value because of the relatively short-term maturities.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

19. INCOME TAXES

Reconciliation between tax expense and the product of accounting loss multiplied by the Company's domestic tax rate is as follows:

	2011	2010
Statutory tax rate	28.25%	31.00%
Tax benefit of statutory rate	\$ (3,538,122)	\$ (710,687)
Expenses not deductible for income tax purposes	553,015	181,369
Prior year true-up	-	-
Tax effect of unrecognized temporary difference	2,294,831	507,847
Losses not previously recognized	6,384	-
Foreign tax rate differential	683,892	21,471
Total tax expense	\$ -	\$ -

The 2011 statutory tax rate of 28.25% differs from the 2010 statutory tax rate of 31% because of the reduction in both federal and Ontario substantively enacted tax rates.

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

The tax benefit of the following unused tax losses and deductible temporary differences have not been recognized in the financial statements due to the unpredictability of future earnings:

Deductible Temporary Differences	December 31, 2011	December 31, 2010	January 1, 2010
Tax loss carry-forwards	19,702,205	16,618,595	14,209,771
Exploration and Development	33,437,358	26,251,060	26,455,301
Share issue costs	48,273	845,537	1,761,969
Asset Retirement Obligation	579,487	588,609	614,801
Property plant and equipment	6,119,491	5,789,566	5,071,050
	59,886,814	50,093,367	48,112,893

At December 31, 2011, the Company has the unclaimed non-capital losses that expire as follows:

Expiry Date	Amount
2014	\$ 77,604
2015	\$ 2,260,735
2026	\$ 2,104,195
2027	\$ 2,934,330
2028	\$ 3,240,724
2029	\$ 3,527,150
2030	\$ 2,401,498
2031	\$ 3,108,985
	\$ 19,655,221

In addition, ZAO Prognoz has approximately \$46,984 (2010 – \$70,364) of non-capital losses for Russian income tax purposes that expire at the end of the years 2017 through 2020 (2010 – 2014 through 2019).

Certain comparative figures have been reclassified to conform to the current period presentation.

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Notes to Consolidated Financial Statements

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20. EVENTS AFTER THE REPORTING PERIOD

On March 6, 2012 the Company entered into a loan agreement with Forbes & Manhattan Inc. Forbes & Manhattan Inc. agreed to provide an unsecured bridge loan in the amount of \$800,000 repayable within 30 days. The company agreed to pay an arrangement fee of \$50,000 to a third party in order to facilitate the agreement. The Company repaid the loan on March 19, 2012.

The bridge loan was obtained so that the Company could secure the shipment of certain equipment and supplies while the winter road in Russia was still available. Failure to do so would have hampered the summer programs.

On March 16, 2012 the Company completed a non-brokered private placement financing of 4,375,000 common shares of the Company (the "Common Shares") at an issue price of \$0.80 for gross proceeds in the amount of \$3,500,000 (the "Private Placement"). Tabac Ventures Limited ("Tabac"), a company affiliated with Aterra Capital, an investment fund established by Alexey Mordashov, acquired all of the Common Shares issued in connection with the Private Placement. It is anticipated that a nominee of Tabac will be appointed to the Board of Directors of the Company. The Company intends to use the net proceeds of the Private Placement to fund exploration activities and improve infrastructure at the Company's Mangazeisky property in Yakutia, Russia.