



**SILVER BEAR**  
**RESOURCES INC.**

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## **2015 CONSOLIDATED FINANCIAL STATEMENTS**

*For the year ended December 31, 2015*

*(Expressed in Canadian dollars)*

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## 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. 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.

**"Graham Hill"**

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**Graham Hill**

Director, President and  
Chief Executive Officer

**"Derk Hartman"**

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**Derk Hartman**

Chief Financial Officer

**Toronto, Ontario, Canada**

**March 29, 2016**



March 29, 2016

## **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, 2015 and December 31, 2014 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 then ended, 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 audit 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.

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**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, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

# Silver Bear Resources Inc.

## Consolidated Statement of Financial Position

(Canadian dollars)

	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	9,966,104	1,593,133
Receivable (note 4)	572,528	349,942
Inventories (note 5)	734,745	518,604
Prepaid expenses (note 6)	1,776,748	355,855
<b>Total current assets</b>	<b>13,050,125</b>	<b>2,817,534</b>
<b>Non-current assets</b>		
Prepaid long-term assets (note 6)	3,262,320	-
Mineral property (note 7)	5,891,369	1,607,824
Property, plant and equipment (note 8)	4,992,398	1,017,864
	14,146,087	2,625,688
<b>Total assets</b>	<b>27,196,212</b>	<b>5,443,222</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 9)	2,995,207	463,886
Short-term loans (note 10)	31,008,577	-
Finance lease (note 11)	175,348	146,981
<b>Total current liabilities</b>	<b>34,179,132</b>	<b>610,867</b>
<b>Non-current liabilities</b>		
Asset retirement obligation (note 18)	918,910	826,758
Finance lease (note 11)	13,634	139,555
	932,544	966,313
<b>Total liabilities</b>	<b>35,111,676</b>	<b>1,577,180</b>
<b>EQUITY</b>		
Equity attributable to owners of Silver Bear Resources Inc.		
Share capital (note 12)	98,277,254	98,265,379
Contributed surplus (note 12)	14,173,136	14,009,495
Accumulated other comprehensive loss	(3,153,970)	(1,880,025)
Deficit	(117,211,884)	(106,528,807)
<b>Total (deficit)/equity</b>	<b>(7,915,464)</b>	<b>3,866,042</b>
<b>Total liabilities and shareholders' equity</b>	<b>27,196,212</b>	<b>5,443,222</b>

Going concern (note 1)

Commitments and contingencies (note 16)

Approved by the Board of Directors on March 29, 2016

“Graham Hill”

Graham Hill  
Director

“Trevor Eyton”

Trevor Eyton  
Director

# Silver Bear Resources Inc.

## Consolidated Statement of Comprehensive Loss

For the years ended December 31, 2015 and 2014

(Canadian dollars)

	2015	2014
<b>Income</b>		
Interest income	2,314	12,608
	2,314	12,608
<b>Expenses (Note 14)</b>		
Exploration costs	4,289,170	4,994,803
General and administrative	3,939,852	2,451,467
Depreciation	256,465	254,071
Share-based payments	175,516	738,320
Accretion expense	68,839	95,566
Interest expense	1,231,670	133,957
Foreign exchange loss	723,879	426,757
Expenses from operations	10,685,391	9,094,941
<b>Net loss for the year</b>	<b>(10,683,077)</b>	<b>(9,082,333)</b>
<b>Other comprehensive loss</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(1,273,945)	(1,325,881)
<b>Comprehensive loss for the year</b>	<b>(11,957,022)</b>	<b>(10,408,214)</b>
<b>Weighted average number of common shares outstan</b>	<b>161,326,366</b>	<b>126,128,878</b>
<b>Basic and diluted loss per share (Note 12)</b>	<b>(0.07)</b>	<b>(0.07)</b>

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, 2015 and 2014

(Canadian dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
<b>Balance - December 31, 2013</b>	87,542,402	13,499,050	(554,144)	(97,446,474)	3,040,834
Net loss for the year	-	-	-	(9,082,333)	(9,082,333)
Other comprehensive loss:					
Cumulative translation adjustment	-	-	(1,325,881)	-	(1,325,881)
Comprehensive loss for the year	-	-	(1,325,881)	(9,082,333)	(10,408,214)
Net proceeds from issuance shares in private placement	10,466,420	-	-	-	10,466,420
Shares issued for debt	28,682	-	-	-	28,682
Shares issued under share bonus plan	227,875	-	-	-	227,875
Share-based payments	-	510,445	-	-	510,445
<b>Balance -December 31, 2014</b>	<b>98,265,379</b>	<b>14,009,495</b>	<b>(1,880,025)</b>	<b>(106,528,807)</b>	<b>3,866,042</b>
<b>Balance -December 31, 2014</b>	98,265,379	14,009,495	(1,880,025)	(106,528,807)	3,866,042
Net loss for the year	-	-	-	(10,683,077)	(10,683,077)
Other comprehensive loss:					
Cumulative translation adjustment	-	-	(1,273,945)	-	(1,273,945)
Comprehensive loss for the year	-	-	(1,273,945)	(10,683,077)	(11,957,022)
Shares issued under share bonus plan	11,875	-	-	-	11,875
Share-based payments	-	163,641	-	-	163,641
<b>Balance - December 31, 2015</b>	<b>98,277,254</b>	<b>14,173,136</b>	<b>(3,153,970)</b>	<b>(117,211,884)</b>	<b>(7,915,464)</b>

# Silver Bear Resources Inc.

## Consolidated Statement of Cash Flow

For the years ended December 31, 2015 and 2014

(Canadian dollars)

	2015	2014
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Total loss for the year	(10,683,077)	(9,082,333)
Adjustments for items not affecting cash:		
Depreciation	256,465	254,071
Share-based payments	175,516	738,320
Accretion expense	68,839	95,566
Interest expense	1,313,723	(35,818)
Net change in non-cash working capital (note 15)	(2,138,411)	(867,839)
Net cash used in operations	(11,006,945)	(8,898,033)
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(4,753,766)	(146,818)
Mineral Property addition	(3,312,279)	-
Long term prepayments	(3,646,517)	-
Net cash used in investing activities	(11,712,562)	(146,818)
<b>Financing activities</b>		
Net proceeds from issuance shares in private placement	-	10,466,420
Finance lease repayment	(141,398)	(142,075)
Short-term loans drawn	31,008,577	1,250,000
Short-term loans repaid	-	(1,250,000)
Net cash generated from financing activities	30,867,179	10,324,345
<b>Effect of exchange rate changes on cash and cash equivalents</b>	225,299	36,730
<b>Increase in cash and cash equivalents during the year</b>	8,372,971	1,316,224
<b>Cash and cash equivalents - beginning of the year</b>	1,593,133	276,909
<b>Cash and cash equivalents - end of the year</b>	9,966,104	1,593,133
<b>Cash and cash equivalents consist of:</b>		
Cash	9,966,104	1,593,133
Cash equivalents	-	-
	9,966,104	1,593,133

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, 2015 and 2014*

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## **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 acquisition, exploration, evaluation and development of precious metal properties. The head office of the Company is registered in Toronto, Canada. The principal asset of the Company is the project described in Note 7. The strategy of the Company is to focus on exploration and development of precious metal deposits. To date, Silver Bear has not earned revenue from operations and is considered to be in the development stage.

It was determined that development, exploration and evaluation costs incurred from July 1, 2015 have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including the geological and metallurgical information, scoping and pre-feasibility studies, proximity of operating facilities, operating management expertise and existing permits. In 2015 the company decided to start the construction of the Mangezeisky silver project.

These audited consolidated financial statements have been prepared in accordance with 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, 2015, the Company had no source of operating cash flows and reported a net loss for the year of \$10,683,077 and a cumulative deficit of \$117,211,884. In order to fund development operations, repay short term loans of \$31 million and maintain rights under licenses and agreements, the Company must secure sufficient future funding. In these circumstances, there exist material uncertainties resulting in 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. The Company has a need for additional capital and while it has been successful in obtaining short term bridge financing in order to meet its funding requirements to date (see Notes 10 and 21), there can be no assurance that it will be able to do so or to obtain full project financing.

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 required to the carrying value of assets and liabilities, the expenses, the reported comprehensive loss and balance sheet classifications used that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. These adjustments could be material.

## **2. BASIS OF PREPARATION**

These consolidated financial statements have been prepared in accordance with the Handbook of the Canadian Institute of Chartered Accountants, in accordance with IFRS, as issued by International Accounting Standards Board ("IASB"), applicable to the preparation of consolidated financial statements and in accordance with accounting policies based on IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The Company has consistently applied the accounting policies used in the preparation of its IFRS financial statements throughout all periods presented, as if these policies had always been in effect.

These consolidated financial statements comprise the financial statements 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.

These audited consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on March 29, 2016.

## **2. BASIS OF PREPARATION (Continued)**

### **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 currency, as well as the functional currency of Silver Bear Holdings. The financial statements of ZAO Prognoz have the Russian rouble as its functional currency and are translated into the Canadian dollar presentation currency for consolidation purposes as follows: assets and liabilities – at the closing rate at the date of the statements 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 the cost of assets associated with the obligation for environmental rehabilitation and costs of developing the mining properties. Licenses are valued at cost at the date of acquisition less impairment. Mining properties under development are accounted for at cost and are not amortised until production has commenced. Cost includes expenditure that is directly attributable to the development of mining properties and preparing them for production.

#### **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 to five years.

Leasehold improvements are amortized over the remaining life of the lease. Significant components of property, plant and equipment are recorded and depreciated separately. Residual values, the method of depreciation and the useful lives of assets are revised annually and adjusted prospectively, if appropriate, if there is an indicator of a significant change since the last reporting date.

#### **Exploration costs**

Field exploration, supervisory costs and costs associated with maintaining the mineral property are expensed until the Company has a reasonable expectation that the property is technically feasible and commercially viable.

#### **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 of disposal and its 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.

## **2. BASIS OF PREPARATION (Continued)**

### **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 initially recognised at fair value and 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 and subsequently measured at amortized cost using the effective interest method. Amortized cost approximates fair value due to the short-term maturity of these assets. They are included in current assets, except for maturities greater than twelve months after the year-end.

Regular purchases and sales of financial assets are recognized on the trade-date, being the date on which the Company commits to purchase or sell assets.

Financial assets are derecognized when the rights to receive cash flows from investments and the Company has transferred substantially all risks and rewards of ownership.

Financial liabilities:

Financial liabilities within the scope of IAS 39 are initially recognised at fair value and 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.

The Company's financial liabilities include accounts payable, accrued liabilities and short-term loans. Initially they are recognized at fair value, and subsequently measured at amortized cost using the effective interest method. Amortized cost approximates 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, miscellaneous receivables and accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature.

## **2. BASIS OF PREPARATION (Continued)**

### **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. Monies held within foreign exchange trading accounts are also recognised as cash equivalent. Equity investments are excluded from cash equivalents.

### **Income Taxes**

The Company uses the asset and liability method of accounting for income taxes, under which deferred 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. Deferred 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 deferred 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. Deferred 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 share-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 12. 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.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### **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.

## **2. BASIS OF PREPARATION (Continued)**

### **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 proceedings are expensed as incurred.

### **Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement at the inception date.

#### *Finance leases*

Finance leases which transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company as a lessee are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability. Finance charges are recognized in finance cost in the consolidated statements of earnings. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the term of the lease.

#### *Operating leases*

Leases that do not transfer substantially all the risks and rewards incidental to ownership to the Company as a lessee are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of earnings on a straight-line basis over the lease term.

### **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:

## **2. BASIS OF PREPARATION (Continued)**

### *Critical judgements in applying accounting policies:*

- Determination of functional currency

Based on the primary indicators in IAS 21 – The Effects of Change in Foreign Exchange Rates – the Russian rouble has been determined as the functional currency of ZAO Prognoz, an operating subsidiary of Silver Bear, because the 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 does not yet generate any revenue. Effects of changes in foreign exchange rates on the consolidation of the financial statements are recorded in other comprehensive income and carried in the form of a 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.

- Assets' carrying values and impairment charges

Subsequent to the identification of an impairment trigger, in the determination of carrying values and impairment charges, management looks at the recoverable amount of the asset, which is the higher of value in use or fair value less costs to sell in the case of assets, and at objective evidence of significant or prolonged decline in fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Contingencies

Refer to Note 16.

- Capitalization of development and exploration and evaluation costs

Management has determined that development and exploration and evaluation costs incurred from July 1 have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including the geological and metallurgic information, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

### *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 to five years, which the Company believes is the best approximation of the useful life. If the estimated life had been longer than management's estimate, the carrying amount of the asset would have been higher.

- Rehabilitation provisions and asset retirement obligations

Exploration and development activities carried out by the Company give rise to obligations for environmental rehabilitation. Significant uncertainty exists as to the amount and timing of associated cash flows and regulatory requirements. A Russian Central Bank borrowing rate is used in discounting of future cash flows as a pre-tax discount rate.

The 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 management's estimates, the carrying amount of the provision would have been lower as would have been interest expense.

## **2. BASIS OF PREPARATION (Continued)**

- 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.

- Impairment of mineral properties

While assessing whether any indications of impairment exist for mineral properties, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral properties. Internal sources of information include the manner in which mineral properties are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mineral properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, reductions in the amount of recoverable mineral reserves and mineral resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties.

### **New accounting standards**

The Company has adopted the following annual improvements to IFRSs.

Annual Improvements to IFRSs 2010-2012 Cycle. The annual improvements include amendments to the definition of vesting conditions for share-based payments, disclosure about judgments involved in deciding whether or not to aggregate operating segments and disclosure as related party transactions, where key management personnel services are provided by a management entity, of any amounts paid to the management entity for the service.

Annual Improvements to IFRSs 2011-2013 Cycle

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

IFRS 9 – Financial Instruments (“IFRS 9”)

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.

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.

The effective date of the standard is January 1, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

## **2. BASIS OF PREPARATION (Continued)**

Amendments to IAS 1, Presentation of Financial Statements (“IAS 1”)

On December 18, 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

On May 28, 2014, IFRS 15, Revenue from Contracts with Customers was issued. It provides a single principles based five step model to be applied to all contracts with customers. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. New disclosures about revenue are also introduced. This standard is effective for annual periods beginning on or after January 1, 2018. The Company is still assessing the impact of this standard.

On January 13, 2016, IFRS 16 Leases was issued. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 is effective from January 1, 2019. The Company has not yet assessed the impact of this 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, exploration and development of precious metal properties.

The Board of Directors does not establish quantitative return on capital (shareholders’ equity) criteria for management, but rather relies on the expertise of management to sustain future development of the business.

The Company considers excess cash balances, all the components of shareholders’ equity and loans as capital. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain future development of the business.

The property in which the Company currently has an interest is in the exploration and development stage; as such the Company is dependent on external financing to fund ongoing activities.

In order to carry out the ongoing development and pay for administrative costs, the Company will spend existing working capital and plans to raise additional amounts as needed through equity and/or debt. 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, 2015 compared to the year ended December 31, 2014. 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:

#### **Credit risk**

The Company has no significant concentration of credit risk arising from operations. Cash balances consist of interest earning bank accounts, which are invested with Canadian chartered banks and a major Russian bank with credit rating of AA for the Canadian banks and BB for the 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 with respect to accounts receivable is low.



**Silver Bear Resources Inc.**  
**Notes to Consolidated Financial Statements**  
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### **3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)**

#### **Liquidity risk**

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due by continual review of budgets and forecasts and discusses with shareholders and other providers of finance as appropriate. During the year the Company obtained short term loans amounting to \$31,008,577 (December 31, 2014 – \$Nil). As at December 31, 2015, the Company had a cash balance of \$9,966,104 (December 31, 2014 – \$1,593,133).

The Company had total obligations of \$188,982 at December 31, 2015 (December 31, 2014 – \$286,536) under a three-year finance lease of exploration equipment.

At December 31, 2015 the Company had total current assets of \$13,050,125 (December 31, 2014 - \$2,817,534) to settle current liabilities of \$34,179,132 (December 31, 2014 – \$610,867), as well as its commitments outlined in Note 16.

#### **Interest rate risk**

The Company has cash balances and interest-bearing debt on short term loans at commercial rates. 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, development and administrative expenses on a transaction by transaction basis using U.S. dollar and Russian rouble currencies 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. The Company does not keep substantial balances in Russian rubles for a long period of time to minimize impact of volatile exchange rates.

#### **Sensitivity analysis**

The effect of changes in foreign exchange rates on net loss is moderate due to the number and amount of foreign-currency transactions. The Company minimizes impact of changes in foreign exchange rates by converting into Russian rubles only amounts required for immediate use. Had 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 \$54,223.

### **4. RECEIVABLE**

	<b>December 31,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
Russian Value Added Tax	265,216	256,676
Canadian Harmonized Sales Tax	31,359	31,322
Other	275,953	61,944
	<b>\$ 572,528</b>	<b>\$ 349,942</b>

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**5. 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, 2015	December 31, 2014
Fuel and lubricants	207,921	76,412
Parts and supplies	526,824	442,192
	\$ 734,745	\$ 518,604

**6. PREPAID EXPENSES**

Prepaid expenses consist of the following:

	December 31, 2015	December 31, 2014
Insurance	38,315	19,844
Exploration services and goods	1,670,498	326,576
Rent and administrative costs	67,935	9,435
	\$ 1,776,748	\$ 355,855

Prepaid long-term assets consist of the following:

	December 31, 2015	December 31, 2014
Construction supplies	3,262,320	-
	\$ 3,262,320	\$ -

**7. MINERAL PROPERTY**

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

Mineral property consists of the following:

	December 31, 2015	December 31, 2014
Balance at the beginning of the year	1,607,824	2,519,401
Additions	4,612,987	-
Translation adjustment	(329,442)	(911,577)
Balance at the end of the year	\$ 5,891,369	\$ 1,607,824

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 27, 2012, the Mangazeisky License was extended by the Federal Subsoil Use Agency in the Russian Federation ("Rosnedra") through December 31, 2016.

In September 2013, the Company acquired the mining license in respect of the Mangazeisky property which is valid for a period of 20 years from the grant date.

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**7. MINERAL PROPERTY (Continued)**

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

	December 31, 2015	December 31, 2014
Mangazeisky	\$ 63,204,676	\$ 58,915,506

**8. PROPERTY, PLANT AND EQUIPMENT**

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

	December 31, 2015			December 31, 2014		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property plant and equipment:						
Mangazeisky site	7,602,989	2,610,591	4,992,398	3,515,540	2,497,676	1,017,864
Yakutsk office	72,492	72,492	-	76,094	76,094	-
Other office furniture, equipment and leasehold improvements	59,620	59,620	-	59,620	59,620	-
	\$ 7,735,101	\$ 2,742,703	\$ 4,992,398	\$ 3,651,254	\$ 2,633,390	\$ 1,017,864

Reconciliation of the carrying amount at the beginning and end of the years ended December 31, 2015 and 2014:

	Mangazeisky site equipment	Total
Carrying amount at January 1, 2013	1,770,284	1,770,284
Additions	146,818	146,818
Disposals	-	-
Depreciation	(254,071)	(254,071)
Exchange differences	(645,167)	(645,167)
Carrying amount at December 31, 2014	\$ 1,017,864	\$ 1,017,864
Additions	4,753,766	4,753,766
Disposals	-	-
Depreciation	(256,465)	(256,465)
Exchange differences	(522,767)	(522,767)
Carrying amount at March 31, 2015	\$ 4,992,398	\$ 4,992,398

The carrying value of equipment held under finance leases as at December 31, 2015 was \$154,827 (December 31, 2014 - \$284,409). The Company acquired capital assets for \$4,753,766 during the year ended December 31, 2015 and disposed of a number of fully depreciated capital assets with a cost value of \$184,660. The additions in the year include \$3,837,919 of assets that are not yet ready for use and as such no depreciation has been charged on them. Leased assets are pledged as security for the related finance lease obligations.

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## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31, 2015	December 31, 2014
Exploration costs and construction costs - Mangazeisky project Corporation	396,286	99,859
	2,598,921	364,027
	<b>\$ 2,995,207</b>	<b>\$ 463,886</b>

Within Accounts payable and accrued liability in the table above is \$1,313,723 of accrued interest.

## 10. SHORT-TERM LOANS

On March 2, 2015, the Company entered into unsecured non-convertible promissory notes with FrontDeal Limited ("FrontDeal") and with Inflection Management Corporation ("Inflection"), pursuant to which FrontDeal and Inflection have each agreed to lend the Company US\$3,500,000 respectively for a total of US\$7,000,000. The promissory notes bear interest at a rate of 15% per year and the principal and accrued interest are payable on the maturity date which was initially agreed as June 27, 2015. Subsequently, the maturity date was extended from June 27, 2015 to March 31, 2016.

In October 2015, A.B. Aterra Resources Ltd. ("Aterra") and Inflection provided additional loans to the Company of \$2,310,000 and \$3,300,000 respectively. These additional loans were made under contingent convertible promissory notes that bore interest at 15% per year and had a maturity date of December 31, 2015 and were contingently convertible into Common Shares of the Company at a price of \$0.075 per Common Share. In November 2015, Inflection advanced a further \$5,610,000 under convertible promissory note with a maturity date of December 31, 2015 and which was convertible into Common Shares at a price of \$0.045 per Common Share, subject to an upward ratchet on the conversion price. This note also bore interest at 15% per year.

In December 2015 loan notes from Aterra and accrued interest thereon were consolidated into a new convertible loan note for \$5,669,807 in favour of FrontDeal.

In December 2015 all loan notes from Inflection and accrued interest thereon were also consolidated into a new convertible loan note with a value of \$12,350,770.

Both these convertible loan notes bear interest at 15% per year, mature on December 31, 2016 and give the holder the right to convert the principal and any accrued interest into fully paid Common share of the Company at conversion price of \$0.045 per Common Share. Management considers 15% per year to be the prevailing market rate on loans that do not have an associated equity conversion option; accordingly all of the principal is recognised as a liability.

In December 2015, Inflection also paid \$3,300,000 as partial consideration for the Company issuing a contingent convertible loan note bearing interest at 15% and maturing on December 31, 2016; the loan note was issued on January 11, 2016. No interest has been accrued on this partial payment.

Interest accruing on all these loans amounted to \$1,313,723 at December 31, 2015.

FrontDeal and Aterra are indirectly wholly-owned by Alexey Mordashov, who is also the owner of Aterra Investments Limited, an insider and related party to the Company. Mr. Boris Granovsky, a director of the Company, is a managing partner of Aterra Capital, a management company for Aterra Investments Limited. Inflection is an insider and related party of Silver Bear. Mr. Alexey Sotskov, a director of the Company, is also a director of Inflection.

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**11. FINANCE LEASE**

The Company entered into a long-term lease agreement, extended in 2014, with Caterpillar Financial Ltd. for the purchase of certain exploration equipment payable in monthly installments of US\$11,300. The lease payments were discounted at a rate of 11.5%. The Company made a down-payment for 50% of the cost of equipment.

Future minimum lease payments under finance lease, together with the present value of the net minimum lease payments, are as follows:

	December 31, 2015	December 31, 2014
Payments due by period		
Within one year	187,682	157,319
Within two to five years	15,640	170,430
	203,322	327,749
Future finance charges on finance lease	(14,340)	(41,213)
Present value of the net lease payments	188,982	286,536
Current portion	175,348	146,981
Long-term portion	13,634	139,555
Total obligations under finance lease	\$ 188,982	\$ 286,536

**12. SHAREHOLDERS' EQUITY**

**Common shares**

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

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the year ended December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Number of common shares	\$	Number of common shares	\$
Balance - Beginning of the period	161,089,517	98,265,379	94,642,170	87,542,402
Issued pursuant to private placement, net	-	-	64,420,467	10,466,420
Issued for debt	-	-	220,630	28,682
Issued under share bonus plan	237,500	11,875	1,806,250	227,875
Balance - End of the period	161,327,017	98,277,254	161,089,517	98,265,379

**Share Bonus Plan**

In June 2013, the shareholders of the Company approved a share bonus plan whereby an aggregate of up to 2.5 million common shares of the Company have been reserved for issuance to officers, directors and employees of the Company.

**Silver Bear Resources Inc.**  
**Notes to Consolidated Financial Statements**  
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**12. SHAREHOLDERS' EQUITY (Continued)**

On August 22, 2013 the board approved the issuance of up to 1,100,000 common shares and on February 21, 2014 the allocation issuance of up to a further 1,375,000 common shares pursuant to the share bonus plan, subject to the terms of the share bonus plan and final approval by the President and Chief Executive Officer ("CEO") prior to issuance on or about the following dates:

October 1, 2013	-	275,000 common shares
January 1, 2014	-	275,000 common shares
April 1, 2014	-	618,750 common shares
July 1, 2014	-	618,750 common shares
October 1, 2014	-	293,750 common shares
January 1, 2015	-	237,500 common shares

**Stock options and warrants**

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 ("TSX") 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.

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 its option plan together with all shares reserved for issuance under the share bonus plan must not exceed 10% of the outstanding Shares (on a non-diluted basis) issued and outstanding at the time of the granting of the Options.

As at December 31, 2015 the total number of options available for issue was 16,132,702. A total of 3,673,952 options are available for future issue as at December 31, 2015.

On February 28, 2014, 2,240,000 options were granted to directors, officers and consultants of the Company. The exercise price of the options is \$0.17 per option. Granted stock options vest immediately on the day of the grant and expire on February 28, 2019.

The fair value of these options was estimated to be \$295,402 with the following assumptions: expected volatility of 132%, dividend yield of 0%, risk-free interest rate of 1.25% and expected life of 3.3 years.

On November 17, 2014, 6,500,000 options were granted to the President and CEO of the Company, as follows: 2,500,000 stock options at an exercise price of \$0.175 per option, 2,500,000 stock options at an exercise price of \$0.25 per option and 1,500,000 stock options at an exercise price of \$0.30 per option. Granted stock options vest in three equal tranches from the date of grant over a two-year period and expire on November 17, 2019. The fair value of these options was estimated to be \$355,802 with the following assumptions: expected volatility of 140%, dividend yield of 0%, risk-free interest rate of 1.19% and expected life of 3.3 years.

During the year ended December 31, 2015, options generated a share based payments expense of \$163,641 (year ended December 31, 2014: \$510,445). The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option). Expected volatility is based on the historical share price volatility over the past 4 years. The expected life of the option was calculated based on the history of option exercises.

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**12. SHAREHOLDERS' EQUITY (Continued)**

Reconciliation of the number of options at the beginning and end of the year ended December 31, 2015 and 2014 follows:

	December 31, 2015		December 31, 2014	
	Number	Weighted average exercise price, \$	Number	Weighted average exercise price, \$
Balance - Beginning of the period	12,572,500	0.37	4,522,500	0.68
Granted	-	-	8,740,000	0.22
Surrendered	-	-	-	-
Exercised	-	-	-	-
Expired / Cancelled / Forfeited	(2,432,500)	0.52	(690,000)	0.56
Balance - End of the period	10,140,000	0.33	12,572,500	0.37

As at December 31, 2015, the Company had share options outstanding and exercisable as follows:

Expiry year	Outstanding		Exercisable	
	Number	Weighted average exercise price, \$	Number	Weighted average exercise price, \$
2016	1,330,000	0.89	1,330,000	0.89
2017	585,000	0.54	585,000	0.54
2018	375,000	0.23	375,000	0.23
2019	7,850,000	0.22	3,516,666	0.50
	10,140,000	0.33	5,806,666	0.57

Contributed surplus consists of the following:

	December 31, 2015	December 31, 2014
Balance-Beginning of year	14,009,495	13,499,050
Share-based payments	163,641	510,445
Warrants	-	-
Exercised options	-	-
Balance- End of year	\$ 14,173,136	\$ 14,009,495

Share purchase warrant transactions are summarized as follows:

	December 31, 2015		December 31, 2014	
	Number of share purchase warrants	Weighted average exercise price, \$	Number of share purchase warrants	Weighted average exercise price, \$
Balance - Beginning of the period	38,383,422	0.26	38,383,422	0.26
Expired / Cancelled / Forfeited	(34,860,924)	0.27	-	-
Balance - End of the period	3,522,498	0.33	38,383,422	0.26

**Silver Bear Resources Inc.**  
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**12. SHAREHOLDERS' EQUITY (Continued)**

At December 31, 2015, the following warrants were outstanding:

<b>Expiry</b>	<b>Exercise price, \$</b>	<b>Number of warrants</b>	<b>Grant date fair value recorded, \$</b>
June 4, 2016	0.33	3,522,498	296,789
		3,522,498	296,789

The fair value of warrants is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: risk free rate of return 1.17%, volatility of 116.2% and expected life of 3 years.

**Loss per share**

Basic and diluted 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.

	<b>Year ended</b>	
	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Net loss	(10,683,077)	(9,082,333)
Weighted average number of common shares outstanding	161,326,366	126,128,878
Basic and diluted loss per share	\$ (0.07)	\$ (0.07)

**13. RELATED PARTY DISCLOSURES**

The Company shared office space and services with companies that had officers or directors in common with the Company. The costs associated with this space and certain other services were administered by 2227929 Ontario Inc. A fee of \$14,000 per month was charged by 2227929 Ontario Inc. On June 1, 2015, an agreement was reached between the Company and 2227929 Ontario Inc. to terminate the management agreement between the companies. A termination fee of \$84,000 was paid pursuant to the agreement. This fee is included in the table below.

In addition, effective May 11, 2011, an administration fee of \$25,000 per month was charged by Forbes & Manhattan Inc. pursuant to a consulting agreement entered into between the companies. Mr. Stan Bharti, a former director of the Company, is the Executive Chairman of Forbes & Manhattan Inc. On March 17, 2015, an agreement was reached between the Company and Forbes & Manhattan Inc. to terminate the management agreement between the companies. A termination fee of \$75,000 was paid pursuant to the agreement. This fee is included in the table below.

On March 2, 2015, the Company entered into unsecured non-convertible promissory notes with FrontDeal and with Inflection, pursuant to which FrontDeal and Inflection each agreed to lend the Company US\$3,500,000 respectively for a total of US\$7,000,000, such notes having a maturity date of June 27, 2015. Amounts outstanding under the promissory notes incur interest at a rate of 15% per year and the principal and accrued interest are payable on the maturity date. Subsequently, Inflection and FrontDeal agreed to extend the maturity date from June 27, 2015 to March 31, 2016.

In October 2015, A.B. Aterra Resources Ltd. ("Aterra") and Inflection provided additional loans to the Company of \$2,310,000 and \$3,300,000 respectively. These additional loans were made under contingent convertible promissory notes that bore interest at 15% per year and had a maturity date of December 31, 2015 and were contingently convertible into Common Shares of the Company at a price of \$0.075 per Common Share. In November 2015, Inflection advanced a further \$5,610,000 under convertible promissory note with a maturity date of December 31, 2015 and which was convertible into Common Shares at a price of \$0.045 per Common Share, subject to an upward ratchet on the conversion price. This note also bore interest at 15% per year.

In December 2015 loan notes from Aterra and accrued interest thereon were consolidated into a new convertible loan note for \$5,669,807 in favour of FrontDeal.



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**13. RELATED PARTY DISCLOSURES (Continued)**

In December 2015 all loan notes from Inflection and accrued interest thereon were also consolidated into a new convertible loan note with a value of \$12,350,770.

Both these convertible loan notes bear interest at 15% per year, mature on December 31, 2016 and give the holder the right to convert the principal and any accrued interest into fully paid Common share of the Company at conversion price of \$0.045 per Common Share. Management considers 15% per year to be the prevailing market rate on loans that do not have an associated equity conversion option; accordingly all of the principal is recognised as a liability.

In December 2015, Inflection also paid \$3,300,000 as partial consideration for the Company issuing a contingent convertible loan note bearing interest at 15% and maturing on December 31, 2016; the loan note was issued on January 11, 2016. No interest has been accrued on this partial payment.

Interest accruing on all these loans amounted to \$1,313,723 at December 31, 2015.

FrontDeal and Aterra are indirectly wholly-owned by Alexey Mordashov, who is also the owner of Aterra Investments Limited, an insider and related party to the Company. Mr. Boris Granovsky, a director of the Company, is a managing partner of Aterra Capital, a management company for Aterra Investments Limited. Inflection is an insider and related party of Silver Bear. Mr. Alexey Sotskov, a director of the Company, is also a director of Inflection.

During the years ended December 31, 2015 and 2014 the Company entered into transactions for goods and services with the following related parties:

Goods and services received from (provided to):	Goods and services received	
	December 31, 2015	December 31, 2014
2227929 Ontario Inc.	170,952	172,724
Forbes & Manhattan Inc.	150,000	300,000
	<b>\$ 320,952</b>	<b>\$ 472,724</b>

There were no balances related to goods and services outstanding at the end of the reporting period:

See also Note 21 for events after the reporting period.

**Compensation of key management**

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

	December 31, 2015	December 31, 2014
Salaries, fees and short-term employee benefits	887,121	1,473,755
Termination payments	91,800	-
Share-based payments	175,516	194,054
	<b>\$ 1,154,437</b>	<b>\$ 1,667,809</b>

A one-time fee of \$499,992 was been paid to the former Chief Executive Officer of the Company in 2014. The fee was paid as a result of a change of control provision in his contract. The amount has been included in the line item, general and administrative expenses in the Consolidated Statement of Comprehensive Loss

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**14. EXPENSES BY NATURE**

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

	December 31, 2015	December 31, 2014
Employee compensation	2,760,500	3,523,048
Drilling and trenching	1,097,112	1,524,735
Depreciation	257,887	245,472
Professional fees	981,084	436,476
Geological & environmental studies	1,722,825	1,243,613
Transportation	131,296	310,934
Camp maintenance	341,855	342,844
Taxes	6,326	32,425
Office expenses	230,527	302,302
Project expenses	113,490	-
Travel expenses	211,603	157,507
Air transportation	173,231	-
Accretion expense	69,212	92,107
Interest expense	1,208,313	132,576
Foreign exchange	761,505	462,539
Other expenses	618,625	288,363
	<b>\$ 10,685,391</b>	<b>\$ 9,094,941</b>

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

Employee benefits expense for the years ended December 31, 2015 and 2014 consisted of the following:

	December 31, 2015	December 31, 2014
Salaries, fees and short-term employee benefits	2,584,984	2,784,729
Share-based payments	175,516	738,319
	<b>\$ 2,760,500</b>	<b>\$ 3,523,048</b>

**15. NET CHANGE IN NON-CASH WORKING CAPITAL**

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

	December 31, 2015	December 31, 2014
Receivable	(1,152,023)	(107,387)
Inventories	(269,032)	250,945
Prepaid expenses	(1,606,957)	(380,344)
Accounts payable and accrued liabilities	889,602	(631,053)
	<b>\$ (2,138,411)</b>	<b>\$ (867,839)</b>

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**16. 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 cubic metres of trenching and 3,000 metres of drilling to satisfy exploration license agreement requirements in 2015.

Minimum requirement under the mining license for the 2015-2017 period is 15,000 metres of drilling and 15,000 cubic metres of trenching.

The Company entered into a long-term lease agreement with Caterpillar Financial Ltd. for the purchase of certain exploration equipment payable in monthly installments of US\$11,300 over a three-year period.

The Company is party to certain management contracts and severance obligations. These contracts contain clauses requiring that additional payments of up to \$640,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements.

The Company paid an amount of RUR 17,884,000 to Toms Engineering, an entity that had been contracted to provide exploration work, which is now in dispute. After obtaining external legal counsel it is considered probable that RUR 8 million of this is potentially recoverable. The full amount has been expensed in year as the recovery is not considered virtually certain.

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, 2015

**17. SEGMENTED INFORMATION**

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

As at December 31, 2015

Country/Property	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Net loss for the period
Russia - Mangazeisky	1,450,741	734,745	4,952,550	539,475	5,891,369	4,992,398	256,465	30,291	5,992,369
Canada - corporate	8,515,363	-	86,518	33,054	-	-	-	1,201,379	4,690,708
	\$ 9,966,104	\$ 734,745	\$ 5,039,068	\$ 572,528	\$ 5,891,369	\$ 4,992,398	\$ 256,465	\$ 1,231,670	\$ 10,683,077

As at December 31, 2014

Country/Property	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Net loss for the period
Russia - Mangazeisky	58,357	518,604	200,298	318,620	1,607,824	1,017,864	254,071	42,605	5,024,978
Canada - corporate	1,534,776	-	155,557	31,332	-	-	-	91,352	4,057,355
	\$ 1,593,133	\$ 518,604	\$ 355,855	\$ 349,952	\$ 1,607,824	\$ 1,017,864	\$ 254,071	\$ 133,957	\$ 9,082,333

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**18. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY**

The Company's mining, exploration and development 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 and other costs defined by the license requirements.

Asset retirement obligation consists of the following:

	December 31, 2015	December 31, 2014
Balance at the beginning of the year	826,758	1,241,223
Accretion expense	68,839	95,566
Impact of rates adjustment	69,363	-
Translation adjustment	(46,050)	(510,031)
Balance at the end of the year	\$ 918,910	\$ 826,758

The estimated value of the obligation to rehabilitate the site expressed in Canadian dollars is \$994,675. A Russian Central bank borrowing rate of 8.25% has been used in discounting of future cash flows.

**19. FINANCIAL INSTRUMENTS**

Financial instruments measured at fair value on the consolidated statements of financial position are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. 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.

The Company's financial instruments consist of cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments. Financial assets and financial liabilities as at December 31, 2015 and 2014 were as follows:

<b>As at December 31, 2015</b>	<b>Loans and receivables</b>	<b>Other liabilities</b>	<b>TOTAL</b>
Cash and cash equivalents	9,966,104	-	9,966,104
Accounts Receivable	572,528	-	572,528
Short-term loans	-	31,008,577	31,008,577
Accounts payables and accrued liabilities	-	2,995,207	2,995,207
Finance lease	-	188,982	188,982

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**19. FINANCIAL INSTRUMENTS (Continued)**

As at December 31, 2014	Loans and receivables	Other liabilities	TOTAL
Cash and cash equivalents	1,593,133	-	1,593,133
Accounts Receivables	349,942	-	349,942
Short-term loans	-	-	-
Accounts payables and accrued liabilities	-	463,886	463,886
Finance lease	-	286,536	286,536

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

**20. INCOME TAXES**

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

	2015	2014
Statutory tax rate	26.50%	26.50%
Tax benefit of statutory rate	(2,815,664)	(2,406,818)
Expenses not deductible for income tax purposes	702,199	390,575
Prior year true-up	-	-
Tax effect of unrecognized temporary difference	1,938,148	1,690,728
Losses not previously recognized	-	-
Foreign tax rate differential	175,318	325,515
Total tax expense	-	-

The 2015 statutory tax rate of 26.50% is consistent with the 2014 statutory tax rate of 26.50%.

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 has not been recognized in the financial statements due to the unpredictability of future earnings:

	December 31, 2015	December 31, 2014
Deductible Temporary Differences		
Tax loss carry-forwards	31,639,683	27,609,428
Exploration and development	25,931,390	28,969,247
Share issue costs	325,694	458,269
Asset retirement obligation	849,547	826,758
Property plant and equipment	7,090,934	6,812,560
	<b>65,837,247</b>	<b>64,676,262</b>

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**20. INCOME TAXES (Continued)**

At December 31, 2015, the Company has unclaimed non-capital losses that expire as follows:

<b>Expiry Date</b>	<b>Amount</b>
2026	2,104,195
2027	2,934,330
2028	3,240,724
2029	3,527,150
2030	2,401,498
2031	3,109,109
2032	2,484,534
2033	2,076,956
2034	2,669,955
2035	4,888,144
	<b>\$ 29,436,595</b>

In addition, ZAO Prognoz has approximately \$705,708 (2014 – \$493,031) of non-capital losses for Russian income tax purposes that expire at the end of the years 2017 through 2025 (2014 – 2017 through 2024).

**21. EVENTS AFTER THE REPORTING PERIOD**

On January 13, 2016, The Company sought and obtained minority and disinterested shareholder approvals at a special meeting of the Company held on January 11, 2016 (the "Special Meeting") for the issuance of the Inflection Note as required by Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("MI 61-101") and the TSX Company Manual (the "Manual"). The Inflection Note bears interest at a rate of 15% per annum until its maturity on December 31, 2016 and is non-convertible. The financing was conducted on a non-brokered basis. No fee is payable by the Company in respect of the issuance of securities under the Private Placement.

At the Special Meeting, the Company also obtained minority and disinterested shareholder approvals, as required under MI 61-101 and the Manual, for the payment of interest on and conversion into common shares of the Corporation ("Common Shares") of certain consolidated contingent convertible notes (the "Consolidated Contingent Convertible Notes") in the aggregate principal amounts of \$12,350,769.86 and \$5,669,806.85 previously issued by the Company to Inflection and Aterra., respectively, on December 4, 2015. The Consolidated Contingent Convertible Notes will now bear interest at a rate of 15% per annum and mature on December 31, 2016. All interest accrued under the Consolidated Contingent Convertible Notes will be convertible into Common Shares on the same terms as the principal amount.

In March 2016, the Company entered into an agreement with its major shareholders, Aterra and Inflection, to provide the Company with loans in the aggregate principal amount of US\$20,000,000. As part of the Financing, the Company agreed to issue unsecured contingent non-convertible promissory notes to each of Inflection and Aterra in the principal amounts of US\$14,500,000 and US\$5,500,000, respectively, for a total of US\$20,000,000 (together, the "Contingent Non-Convertible Notes"), which notes will mature and will be due and payable on December 31, 2016. Details of the terms of the Contingent Non-Convertible Notes are discussed below.

The Company intends to use the gross proceeds from the Financing to finance further construction and development of the Mangazeisky property and for general working capital purposes.

## **21. EVENTS AFTER THE REPORTING PERIOD (Continued)**

The Contingent Non-Convertible Notes, once issued, will pay no interest until such time as the Company obtains disinterested shareholder approval (as required under the TSX Company Manual) for the payment of interest thereon (the "Shareholder Approval"). If the Contingent Non-Convertible Notes receive the Shareholder Approval, the notes will bear interest at a rate of 15% per annum. The Toronto Stock Exchange (the "TSX") has conditionally approved the issuance of the Contingent Non-Convertible Notes, subject to, among other things, receipt of the Shareholder Approval. The Company intends to call and hold an annual general and special meeting of its shareholders on or before June 30, 2016 to, among other things, seek the required Shareholder Approval. The Contingent Non-Convertible Notes were approved by the board of directors of Silver Bear with Mr. Alexey Sotskov and Mr. Boris Granovsky abstaining from participating in the vote as a result of their respective relationship with Inflection and Aterra, respectively.

The Financing was conducted on a non-brokered basis. No fee will be payable by the Company in respect of the issuance of the Contingent Non-Convertible Notes. Completion of the Financing is expected in early April, 2016.