SILVER BEAR
RESOURCES Plc

ANNUAL REPORT AND ACCOUNTS

Registered Number: 10669766 (England and Wales)

For the year ended 31 December 2019

(Expressed in Canadian dollars)

Silver Bear Resources Plc

Directors’ Responsibility for Financial Reporting

For the Year Ended 31 December 2019

The consolidated financial statements of Silver Bear Resources Plc and its wholly-owned subsidiaries, Silver Bear Resources Inc., Silver Bear Resources B.V. and ZAO Prognoz are collectively referred to as the “Group” have been prepared by, and are the responsibility of the Group’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 Group within reasonable limits of materiality.

Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Group’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 Group’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 Group 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 BDO LLP UK, Chartered Accountants and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

“Vadim Ilchuk”

Vadim Ilchuk
Director, President, Chief Executive Officer and Interim Chief Financial Officer

“Maxim Matveev”

Maxim Matveev
Director

Toronto, Ontario, Canada
02 April 2020

Independent auditor’s report to the shareholders of Silver Bear Resources Plc

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of Silver Bear Resources Plc (the ‘parent company’) and its subsidiaries (the ‘Group’) for the year ended 31 December 2019 and 31 December 2018 which comprise the consolidated statement of comprehensive loss, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs). Our audit opinion does not cover the parent company financial statements.

In our opinion the financial statements:

- present fairly, in all material respects, the financial position of the Group as at 31 December 2019 and 31 December 2018 its financial performance and its cash flows for the years then ended: and
- have been properly prepared in accordance with IFRS as issued by the IAASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by IAASB and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements, which indicates the directors’ considerations over going concern, and in particular the potential impact of the current COVID-19 pandemic. As stated in note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We have highlighted going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy.

Our audit procedures in response to this key audit matter included:

Assessing and sensitising revenues, costs and production assumptions, included in the Group cash flow forecast, based on past performance in 2019, current performance in 2020 and in line with the original feasibility study.

Challenging and agreeing key Management assumptions in the cash flow forecast to the latest approved life of mine plans and budget. Key estimates such as silver price and discount rate were agreed through to market benchmarks and empirical industry data.

Agreeing post year end cash balances to supporting bank information.

Discussing with and challenging Management and the Directors, both on the current and potential future impact of the business from COVID-19. We agreed these explanations to both our knowledge of the operations from our site visit and wider audit work and to current public information regarding the impact of COVID-19 in Russia.

Reviewing the conditions attached to the shareholder’s loan facility, including future repayments and their inclusion within the cash flow forecasts.

Reviewing and considering the adequacy of the disclosure within the financial statements relating to the Directors' assessment of the going concern basis of preparation.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter referred to in the Material uncertainty related to going concern section above, the following matters were identified:

Key audit matter
Carrying value of Mineral Properties and Plant and Equipment The Group's project mining assets, including capitalised mineral property, intangible assets and property, plant and equipment represent the Group's most significant assets. Details regarding these assets have been disclosed within note 9 and 10. The Mangazeisky silver mine declared commercial production during the 2019 financial year and is ramping up to full production capacity. As at the year end, Management are required to assess whether there are any indicators that the assets may be impaired in accordance with the requirements of applicable accounting standards. We considered there to be a significant risk of material misstatement given the value attributed to these assets and the significant management judgement involved in this assessment. This judgement is disclosed in note 2.
How our audit addressed the key audit matter: Visited the Mangazeisky mine site to understand the operations, check the existence of the assets and discuss future mine operating plans with technical management. Obtained, reviewed and sensitised the key inputs in Management's discounted cash flow forecast (life of mine model), checking that key inputs such as the silver price, production and mining costs, recovery, capital expenditure and discount rate were reasonable and within an acceptable range. For key inputs such as silver price and discount rate these have been benchmarked against publically available third party information. The operational estimates have been compared to historic and post year end performance and relevant information contained in the original pre-feasibility study. Agreed the resources used in the life of mine model back to the current mineral resources statement included in the original feasibility study. Discussed with both technical management and the group's third party consultant the impact of ongoing assessments of the reserves and resources and checked that these had been appropriately included in the impairment assessment. Assessed the independence and competency of the expert who prepared the original reserve statement included in the feasibility study. Tested the mathematical accuracy of the model and checked that the basis of preparation was in line with our expectations and an accepted valuation methodology for a discounted cash flow. Reviewed and assessed the adequacy of the disclosures in the financial statements to check that they were in accordance with the requirements of applicable accounting standards.
Key Observations Based on our procedures we consider that Management's conclusion that no impairment charge was required as at 31 December 2019 is supported by the underlying models. We found the judgments and estimates applied by Management in preparing the forecasts to be reasonable.

Key audit matter
Depletion of the Mineral Properties and Property, Plant and Equipment The key judgements made by Management in assessing the depletion of Mineral Properties and Property, Plant and Equipment are disclosed in note 2. The Mangazeisky mine entered commercial production during the 2019 financial year and this is the first period in which depletion has been calculated. We considered there to be a significant risk of material misstatement given the significant value attached to the assets and the key judgments applied in calculating the depletion.
How our audit addressed the key audit matter: Checked the mathematical accuracy of Management's unit of production depletion calculation. Agreed the reserves used in the calculation to the original reserve statement used in the feasibility study. We assessed the competent person who performed the reserve assessment for independence and competency. Production figures used in the calculation were agreed to production data and other areas of our audit work to check consistency. Agreed Management's assessment of future capital spend to extract the reserves, included in the calculation, to current budgets and the original feasibility plan. Reviewed and assessed the adequacy of disclosure of the depletion accounting policy and key judgements applied.
Key Observations Based on procedures performed we found Management's depletion calculation to be reasonable and supported by reserve and production data.

Key audit matter
Carrying value of Silver Inventory The details of the Group's Silver Inventory, including Run of Mine (ROM), Silver in Circuit and Finished Product, is disclosed in note 5 and relevant accounting policies in note 2. There are key judgements that Management applies in the valuation of Silver Inventory including the allocation of costs and the use of survey and metallurgical experts to assess the silver content. We considered there to be a significant risk of material misstatement given the judgements applied and the value attributed to these assets on the statement of financial positon.

How our audit addressed the key audit matter: Attended the year end stock count on the mine site which included the survey of ROM stockpiles and metallurgical assessment of silver in circuit to observe the controls in place and whether procedures undertaken were in accordance with the instructions issued. Assessed the competency of the internal experts used by Management to survey the stockpiles and calculate the mineral content within the silver in circuit. Agreed the existence of finished product to statements from the third party refineries. Assessed the reasonableness of the cost allocation into the inventory calculations, including the allocation of depreciation through agreeing a sample of these costs to supporting documentation (invoices and mining/production data) as part of our wider audit testing. Undertaken cost verses Net Realisable Value testing, based on post year end pricing and appropriate costs to move the product through to saleable material, to check that silver inventory has been recognized in accordance with applicable accounting standards.
Key Observations Based on procedures performed, we found Management's judgement in determining the existence and valuation of Silver inventory to be reasonable.

Other information

The Directors are responsible for the other information including the Management Discussion and Analysis (MDA). The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

As explained more fully in the Directors responsibilities statement, the directors are responsible for the preparation and fair presentation of the financial statements, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for the audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Matt Crane.

BDO LLP

BDO LLP
Chartered Accountants
London, UK
2 April 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Silver Bear Resources Plc

Consolidated Statement of Financial Position

(Canadian dollars)

	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	10	97,090,061	96,924,301
Mineral property	9	13,896,077	12,027,009
Intangible assets	8	281,073	172,495
Prepaid non-current assets	6	749,033	634,005
Other non-current assets	7	3,208,191	3,404,404
Total non-current assets		**115,224,435**	**113,162,214**
Current assets			
Inventories	5	19,564,508	19,134,628
Receivables	4	3,712,956	4,166,445
Cash and cash equivalents		5,444,288	1,141,663
Prepaid expenses	6	2,814,838	2,049,093
Total current assets		**31,536,590**	**26,491,829**
TOTAL ASSETS		**146,761,025**	**139,654,043**
EQUITY AND LIABILITIES			
Non-current liabilities			
Long-term loans	13	166,842,243	163,102,592
Asset retirement obligation	14	4,034,245	1,109,391
Lease obligation	12	261,354	690,681
Total non-current liabilities		**171,137,842**	**164,902,664**
Current liabilities			
Short-term loans	13	-	-
Account payable and accrued liabilities	11	5,328,156	3,148,788
Lease obligation	12	626,946	1,655,056
Total current liabilities		**5,955,102**	**4,803,844**
Total liabilities		**177,092,944**	**169,706,508**
Equity			
Share Capital	15	99,559,336	99,559,086
Share Premium		22,410,054	22,383,855
Shareholders Contribution	13	5,381,283	1,807,077
Contributed surplus	15	16,975,267	17,178,582
Cumulative translation adjustment		(2,240,981)	1,513,902
Retained earnings/ (Accumulated deficit)		(172,416,878)	(172,494,967)
Total equity		**(30,331,919)**	**(30,052,465)**
TOTAL EQUITY AND LIABILITIES		**146,761,025**	**139,654,043**

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

The financial statements on pages 8 to 41 were approved by the Board of Directors on 2 April 2020, and signed on its behalf by:

"Vadim Ilchuk"	**"Maxim Matveev"**
Vadim Ilchuk	**Maxim Matveev**
Director, President, CEO	Director

Silver Bear Resources Plc

Consolidated Statement of Comprehensive Profit/(Loss)

For the years ended 31 December 2019 and 2018
(Canadian dollars)

	Note	2019	2018
Revenue:			
Metal Sales		20,932,345	-
Cost of Sales:			
Production cost	18	(11,157,002)	-
Depreciation and amortization		(9,165,048)	-
Impairment of inventory	5	(1,698,015)	-
Gross loss		**(1,087,720)**	**-**
Exploration and evaluation expenses		(123,324)	(188,111)
General and administrative expenses	18	(3,497,871)	(4,593,271)
Selling expenses		(184,514)	-
Depreciation charged during pre-production stage		(1,017,590)	(1,920,182)
Amortization charged during pre-production stage		-	(40,528)
Impairment of inventory	5	-	(1,050,146)
Other income	17	1,244,048	1,361,853
Other expenses	17	(1,523,159)	-
Operating loss		**(6,190,130)**	**(6,430,385)**
Finance income		51,896	854
Finance expenses	19	(13,970,686)	(3,556,100)
Foreign exchange (loss) /gain		20,487,927	(26,616,552)
Profit / (loss) before tax		**379,007**	**(36,602,183)**
Tax charge		(916,798)	(14,563)
Loss for the year		**(537,791)**	**(36,616,746)**
Other comprehensive loss			
Items, that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(3,754,883)	3,432,543
Total comprehensive loss for the year		**(4,292,674)**	**(33,184,203)**
Basic profit (loss) per share, cents per ordinary share	15	(0.00)	(0.05)

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

Silver Bear Resources Plc

Consolidated Statement of Changes in Equity

For the years ended 31 December 2019 and 2018
(Canadian dollars)

	Share capital	Share premium	Shareholders contribution	Contributed surplus	Cumulative translation adjustment	Accumulated Deficit	Total equity
Balance - 31 December 2017	**99,552,335**	**21,960,054**	**-**	**16,696,454**	**(1,918,641)**	**(135,931,891)**	**358,311**
Net loss for the period	-	-	-	-	-	(36,616,746)	(36,616,746)
Other comprehensive profit/(loss):							
Cumulative translation adjustment	-	-	-	-	3,432,543	-	3,432,543
Comprehensive profit/(loss) for the period	-	-	-	-	3,432,543	(36,616,746)	(33,184,203)
Shares issued under bonus plan, Note 15	2,737	-	-	-	-	-	2,737
Shares issued under stock option plan, Note 15	1,557	152,893	-	(53,670)	-	53,670	154,450
Shares issued in the year, Note 15	2,457	270,908					273,365
Share-based payments, Note 18		-	-	535,798	-	-	535,798
Gain on modification of loans, Note 13	-	-	1,807,077	-	-	-	1,807,077
Balance - 31 December 2018	**99,559,086**	**22,383,855**	**1,807,077**	**17,178,582**	**1,513,902**	**(172,494,967)**	**(30,052,465)**
Net loss for the period	-	-	-	-	-	(537,791)	(537,791)
Other comprehensive profit/(loss):							
Cumulative translation adjustment	-	-	-	-	(3,754,883)	-	(3,754,883)
Comprehensive loss for the period	-	-	-	-	(3,754,883)	(537,791)	(4,292,674)
Shares issued under bonus plan, Note 15	8	-	-	-	-	-	8
Shares issued under stock option plan, Note 15	242	26,199	-	(8,773)	-	-	17,668
Share-based payments, Note 15	-	-	-	421,338	-	-	421,338
Cancelled and expired options, Note 15	-	-	-	(615,880)	-	615,880	-
Gain on modification of loans Note 13	-	-	3,574,206	-	-	-	3,574,206
Balance - 31 December 2019	**99,559,336**	**22,410,054**	**5,381,283**	**16,975,267**	**(2,240,981)**	**(172,416,878)**	**(30,331,919)**

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

Silver Bear Resources Plc
Consolidated Statement of Cash Flow
For the years ended 31 December 2019 and 2018
(Canadian dollars)

	2019	2018
Cash provided by (used in)		
Operating activities		
Total loss for the year	(537,791)	(36,616,746)
Adjustments for items not affecting cash:		
Depreciation	10,149,338	1,920,182
Amortization	46,336	40,528
Share-based payments	421,338	535,798
Accretion expenses	100,348	104,519
Unrealized FX movement	(20,487,927)	26,616,552
Impairment of inventory	1,698,015	1,050,146
Interest income	(51,896)	-
Interest expense	13,970,686	3,451,581
Net change in non-cash working capital (Note 20)	(136,019)	(7,969,922)
Net cash generated/ (used in) operations	**5,172,428**	**(10,867,362)**
Purchases of property, plant and equipment	(1,995,747)	(22,091,060)
Purchases of intangible assets	(153,654)	
Interest income	51,896	-
Net cash used in investing activities	**(2,097,505)**	**(22,091,060)**
Proceeds from share issue	-	-
Proceeds from share options exercised	190	154,450
Repayment of principal on lease obligations (2018: finance lease repayment)	(1,441,409)	(1,382,796)
Repayment of interest on lease obligations	(367,382)	(311,931)
Short-term and long-term loans drawn	5,290,156	8,185,200
Short-term and long-term loans principal repayment	(2,655,350)	-
Short-term and long-term loans Interest repayment	(167,174)	-
Net cash generated from financing activities	**659,031**	**6,644,923**
Effect of exchange rate changes on cash and cash equivalents and translation differences	568,670	3,140,760
Increase/(Decrease) in cash and cash equivalents during the year	**4,302,625**	**(23,172,739)**
Cash and cash equivalents - beginning of the year	**1,141,663**	**24,314,402**
Cash and cash equivalents - end of the year	**5,444,288**	**1,141,663**
Cash and cash equivalents consist of:		
Cash	5,444,288	1,141,663

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

1. NATURE OF OPERATIONS

Silver Bear Resources Plc was incorporated in United Kingdom on 14 March 2017 under the Companies Act 2006, registered office address 2nd Floor Regis House, 45 King William Street, London, United Kingdom, EC4R 9AN. Silver Bear Resources Plc became the parent company of Silver Bear Resources Inc. on 30 June 2017 following a plan of arrangement transaction involving a one-for-one share exchange of all then outstanding common shares of Silver Bear Resources Inc. for ordinary shares of Silver Bear Resources Plc. Silver Bear Resources Inc. was incorporated under the Business Corporations Act of the Province of Ontario, Canada, on 8 April 2004 and continued under Articles of Continuance dated 30 August 2004 under the Business Corporations Act (Yukon) and 1 February 2005 under the Business Corporations Act (Ontario). The primary business of the Group is the acquisition, exploration, evaluation and development of precious metal properties. The head office of the Group is registered in London, United Kingdom. The strategy of the Group is to focus on the exploration and development of precious metal deposits. The principal asset of the Group is its right to explore and develop the Mangazeisky project ("Mangazeisky"), located approximately 400 kilometers north of Yakutsk in the Republic of Sakha (Yaktutia), in the Russian Federation. On June 22, 2018, the Group announced that it had achieved first silver production in April 2018 as a result of its commissioning activities.

Under the license No. YAKU 12692 BP registered on September 28, 2004, the Group carries out a geological study of the Endybal area - prospecting and evaluation of silver and gold deposits. According to Supplement No. 1, registered on 12 September 2016, the expiry date of the above license is 31 December 2023. The license area is located on the territory of the Kobyai region of the Republic of Sakha (Yakutia).

In 2013, the Group obtained a subsoil license No. YAKU 03626 BE, registered on August 28, 2013, for the exploration and production of silver, copper, lead, zinc at the Vertikalny deposit. The license area is located on the territory of the Kobyai region of the Republic of Sakha (Yakutia). The license expires on September 1, 2033. In 2015 the Group commenced the development of Mangazeisky that includes the construction of a silver mine with associated processing facilities and infrastructure. It has been determined that development costs incurred from 1 July 2015 have future economic benefits and are economically recoverable. In making this judgement, management assessed various sources of information including the geological and metallurgical information, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

2. BASIS OF PREPARATION

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The Group 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 audited consolidated financial statements comprise the financial statements of Silver Bear Resources Plc and its 100% owned subsidiaries: Silver Bear Resources Inc. (a Canadian corporation), Silver Bear Resources B.V. (a Netherlands corporation) and AO 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 2 April 2020.

The financial information for the year ended 31 December 2019 and the year ended 31 December 2018 does not constitute the company's statutory accounts for those years. Statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 December 2019 will be delivered to the Registrar of Companies in due course. The auditors' reports on the accounts for 31 December 2019 is unqualified but draw attention to matters by way of emphasis in relation to going concern and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. The auditors' reports on the accounts for 31 December 2018 was unqualified but draw attention to matters by way of emphasis in relation to going concern and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Basis of consolidation

Following Silver Bear Resources Plc becoming the parent company of the Group (as detailed in note 1), this transaction was not treated as a business combination under IFRS 3 "Business combinations" but was considered as a capital reorganisation, as these entities are under common control.

The consolidated financial statements of Silver Bear Resources Plc are presented using the values from the consolidated financial statements of Silver Bear Resources Inc. The equity structure (that is, the issued share capital) reflects that of Silver Bear Resources Plc, with other amounts in equity being those from the consolidated financial statements of the previous group holding entity, Silver Bear Resources Inc. The resulting difference that will arise was recognised as a component of equity.

2. BASIS OF PREPARATION (Continued)

Going Concern

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 Group will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future.

Starting from 1 July 2019 the commissioning activities was completed with the successful installation and implementation of equipment to implement Merrill–Crowe process. This allow the Group to achieve sustainable commercial production in line with the life of mine plans. In 2020 the Group has acquired XRT equipment, which is currently being installed on site, which will help increase recoveries in the production process. This equipment will need to go through a commissioning period before the results of this are seen.

The Group has reported $5,444,288 cash and cash equivalents, total operating cash inflow of $5,172,428. The Group has reported a total net loss for the period of $537,791 and net current assets of $25,581,488. The Group is in an overall net liability position of $30,331,919 due to the significant funding from the Group’s major shareholders.

Management have prepared cash flow forecasts for the 12 month period from the date of approval of these financial statements, which are based on the Group's principal asset, the Mangazeisky silver asset in Russia, achieving sustainable production levels to generate sufficient cash flows to fund its operations and repay debt obligations and other liabilities as they fall due.

Management has assessed the impact of the current COVID-19 pandemic. Due to the remote location of the mine site, operations are currently unaffected by the pandemic, but given the uncertainty in the global economic market, Management note it could cause issues with production and sale of silver in the future. Management has extended the rotation of the current employees on the mine staff to provide continuity of operations over the next 3 months. Management continue to monitor Government and local legislation on a daily basis. The directors and Management continue to assess the Group’s funding position to ensure sufficient facilities are in place to manage any short term impact on working capital.

The Group’s cash flow forecast is reliant on sustained production from the mine. Given the mine is in the first 12 months of commercial production and the current issues with the COVID-19 pandemic, these events indicate the existence of a material uncertainty, which may cast significant doubt over the Group’s ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. If consistent sustained production is not realized then additional funds will be needed within twelve months from the date of the approval of these financial statements to fund both working capital and meet the Group’s liabilities as and when they fall due. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The Directors are confident that production in 2020-2021 will be in line with budget. Accordingly, the Directors continue to adopt the going concern basis for the preparation of these financial statements.

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 the functional currency of Silver Bear Resources Inc, and Silver Bear Resources B.V. Silver Bear Resources Plc has changed its functional currency as of 1 January 2018 from Canadian dollars to Russian roubles when it was deemed that the majority of underlying transactions now took place in roubles. Silver Bear Resources Plc functional currency is different to presentation currency, because the group is listed on TSX and presentation of financial statements in Canadian dollars is considered to be beneficial for potential and current shareholders in Canada. The financial statements of AO Prognoz have the Russian rouble as their functional currency. The results of both Silver Bear Resources Plc and AO Prognoz 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 profit or loss.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

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.

Intangible assets

Intangible assets are carried at cost, less accumulated amortization. All intangible assets are amortized on a straight-line basis over one to eleven years.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses.

Once a mine development phase was ceased and the production phase was commenced the processing plant equipment and buildings depreciated using a unit-of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves.

Other property, plant and equipment, with the exception of leasehold improvements, are depreciated on a straight-line basis

Leased equipment 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. Depreciation of underlying property, plant and equipment which directly contributed the developing the mining properties are capitalized as additions in mineral properties.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

In order to determine whether the project is ready to operate as intended by management, judgement was applied taking into account commercial production indicators such as pre-production output has reached a nominated percentage, the internal project management team has transferred the mine to the operational team, the majority of the assets necessary for the mining project are substantially complete and ready for use and the project's ability to sustain commercial levels of production. These indicators provided guidance to recognize that the mine development phase was ceased and the production phase is commence starting from 1 July 2019.

During the mine development phase from 1 July 2015 to 1 July 2019, all costs that was directly attributable to developing the mine was capitalized and the incidental revenue generated was credited against the capital cost up to the date when the commercial production indicators are met.

Exploration costs

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

Impairment of non-financial assets

The Group reviews and evaluates the recoverable amount of its mineral properties, property, plant and equipment and other non-current assets 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)

Significant Accounting Policies (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 Group 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 IFRS 9 are initially recognized at fair value and are classified financial assets at amortised cost. The Group determines the classification of its financial assets at initial recognition.

The Group’s financial assets include cash and cash equivalents, accounts. Regular purchases and sales of financial assets are recognized on the trade-date, being the date on which the Group commits to purchase or sell assets.

Under IFRS 9, impairment provisions are recognized based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

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

Financial liabilities:

Financial liabilities within the scope of IFRS 9 are initially recognized at fair value and are classified as financial liabilities at fair value through profit or loss, financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group’s current 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, short-term loans, lease liabilities and accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature. The fair value of long-term loans and non-current lease liabilities is shown at their carrying values as any differences are not material.

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.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

Revenue recognition

Timing of recognition is governed by IFRS 15. Entity recognizes revenues when a performance obligation is satisfied, which is when "control" of the goods has transferred to the customer. Control of goods is transferred at the point of time, when silver is passed to the buyer at the refinery site. Payments terms allows 80% prepayment in advance and the remaining payment based on the final Price, dependent on silver weight per Act of Acceptance and London price on London Market of metals, adjusted for the prepaid amount under provisional price. Pre-commercial production silver sales that were generated from 1 April 2018 to 1 July 2019 was excluded from operating activities and was reflected within non-current assets on the consolidated statement of financial position.

Current and deferred income Taxes

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

The Group 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.

The Group did not recognized deferred taxes raised during pre-production stage.

Earnings per share

Basic earnings per share is computed by dividing the profit/(loss) for the period by the weighted average number of common shares outstanding.

Diluted earnings per share is computed by dividing the profit/(loss) for the period by the diluted weighted average number of common shares outstanding.

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 15. 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 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, using the average exchange rate prevailing for that period. Translation differences associated with borrowings costs are expensed.

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

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials: purchase price plus transportation cost plus any applicable customs duties and taxes;

Ore stockpiles comprises direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

The cost of silver for sale and silver in circuit comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs

Inventories are accounted for using weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventory measured at lower of cost and net realisable value.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

Leases of low value assets; and leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless.

On initial recognition, the carrying value of the lease liability also includes amounts expected to be payable under any residual value guarantee, the exercise price of any purchase option granted in favour of the group if it is reasonably certain to assess that option;

any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Lease liabilities accounted under a separate line in financial statement.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease, initial direct costs incurred and the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Right of the use assets represent by mining equipment under leased contracts, leased equipment accounted in property plant and equipment.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

Amounts payable for leases covered by the short-term exemption are charged to the income statement on a straight-line basis over the term of the relevant lease

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 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 AO Prognoz, an operating subsidiary of the Group, 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.

  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 Group.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

The functional currency of Silver Bear Resources Plc changed from Canadian dollars to Russian rouble in 2018 as it is now deemed that the majority of underlying transactions for this entity are undertaken in roubles and therefore it is appropriate for this to be its functional currency.

The functional currency of Silver Bear Resources Inc. and Silver Bear Resources BV has been determined to be the Canadian Dollar reflecting the current principal equity and financing structure.

- Commercial production

  In order to determine whether the project is ready to operate as intended by management, judgement was applied taking into account commercial production indicators such as pre-production output has reached a nominated percentage, the internal project management team has transferred the mine to the operational team, the majority of the assets necessary for the mining project are substantially complete and ready for use and the project′s ability to sustain commercial levels of production. These indicators provided guidance to recognize that the mine development phase was ceased and the production phase is commence starting from 1 July 2019. The commercial production was announced by the Group during 2019 Far East Economic forum in Vladivostok.

- Capitalization of development costs (note 9 and 10)

  Management has determined that development costs incurred from 1 July 2015 to 1 July 2019 have future economic benefits and are economically recoverable. In making this judgement, management assessed various sources of information including the geological and metallurgical information, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. In order to determine whether the project is ready to operate as intended by management, judgement was applied taking into account commercial production indicators such as pre-production output has reached a nominated percentage, the internal project management team has transferred the mine to the operational team, the majority of the assets necessary for the mining project are substantially complete and ready for use and the project’s ability to sustain commercial levels of production. These indicators have provided guidance to recognize that the mine development phase was ceased and the production phase was commenced starting from 1 July 2019.

- Impairment of mineral properties and property, plant and equipment

  The carrying value of mineral properties and property, plant and equipment is $13,896,077 and $97,060,061 respectively, as disclosed in Note 9 and note 10. While assessing whether any indications of impairment exist for mineral properties, consideration is given to both external and internal sources of information. Information that management considers includes, changes in the market, and changes in the economic and legal environment in which the Group 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 Group’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 Group’s mineral properties.

Key sources of estimation uncertainty:

- Depreciation rates
  Once a mine development phase was ceased and the production phase was commenced the processing plant equipment and buildings depreciated using a unit-of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves.

  The groups uses proven and probable mineral reserves, that at the beginning of commercial production was 717 tonnes, depletion for the period 1 July 2019- 31 December 2019 was 58 tonnes.

- Rehabilitation provisions and asset retirement obligations
  The carrying value of the asset retirement obligation is $4,034,245, as disclosed in Note 14. Exploration and development activities carried out by the Group 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 for a 10-year zero coupon year bond is used in discounting future cash flows as a pre-tax discount rate.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

The expected life of the mine is used as the discounting period. If the estimated discount rate used in the calculation had been higher than the management estimate, the carrying amount of the provision would have been lower and the 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 the interest expense.

Management has reviewed and evaluated the existence of impairment triggers and concluded that no impairment triggers existed as at 31 December 2019. Management have assessed the recoverable amount of its mineral properties and property, plant and equipment by performing a value in use calculation, expected future economic benefits and future cash flows exceed carrying value of mineral properties and property, plant and equipment.

Mineral properties and property, plant and equipment relate to a sole cash generating unit, the Vertikalny silver mine development. The Vertikalny silver mine development is part of the Mangazeisky combined mine plan for Vertikalny and Mangazeisky North deposits. The Group currently holds an exploration license for a number of deposits within the Mangazeisky license area which expires in 2023 and a mining license for the Vertikalny deposit expiring in 2033.

New standards and interpretations adopted by the Group

The following new accounting standards and amendments to existing standards and interpretations that have been issued by the IASB and have been adopted by the Group in preparing these financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Issued on 7 June 2017 this IFRIC clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019. The IFRIC does not have a material impact on the Group's results.

IFRS 16 – Leases ("IFRS 16")

On 13 January 2016, IFRS 16 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 1 January 2019.

The new standard was issued in January 2016 replacing the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases for the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating or finance as is required by IAS 17 and, instead, introduces a single lessee accounting model requiring a lessee to recognize assets and liabilities for all leases unless the underlying asset has a low value or the lease term is twelve months or less. This new standard applies to annual reporting periods beginning on or after 1 January 2019.

The Group has reviewed its arrangements in place and has concluded that the adoption of this standard does not have a material impact on the financial results of the Group as all leases of the Group are already was accounted as financial lease under property plant and equipment and leased liabilities

The Group applied retrospective modified approach without adjustment in accounts, finance lease was transferred to right of the used assets accounted in property plant and equipment, finance lease liabilities was transferred to lease liabilities accounted in lease obligations.

Accounting developments not yet adopted

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the Group has decided not to adopt early. The Group is currently assessing the impact of these new accounting standards and amendments.

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS

The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group, in order to support the current production operations, acquisition, exploration and development of precious metal properties.

The Group 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 Group's management to sustain the future development of the business.

The property in which the Group currently has an interest is in production stage.

In order to fund the ongoing development activities, the Group will spend existing working capital and plans to raise additional amounts as needed through equity and/or debt. The Group 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 Group, is reasonable.

There were no changes in the Group's approach to capital management during the period ended 31 December 2019 compared to the year ended 31 December 2018. The Group is not subject to externally imposed capital requirements.

FINANCIAL RISK FACTORS

The Group is exposed to credit and liquidity risks and market risk. The risk management policies employed by the Group to manage these risks are discussed below

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) silver prices (b) foreign currencies, (c) interest bearing assets and liabilities and (d) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.
Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Credit risk

The Group has no significant concentration of credit risk arising from operations. Cash equivalents consist of interest earning bank accounts held in banks in the United Kingdom, Canada and Russia which in the presentational currency total $1,910, $23,338 and $5,419,040 respectively. The Group's United Kingdom bank has a credit rating of at least baa3 (Moody's), Canadian chartered banks have a credit rating of at least A2 (Moody's) and the Group's Russian banks have a credit rating of at least ba1 (Moody's).

Miscellaneous receivables and prepaid expenses other than tax refunds due from the Canadian and Russian tax authorities are insignificant.

Management believes that the credit risk concentration with respect to accounts receivable is not higher than the country credit risk.

The Group'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 discussions with shareholders and other providers of finance as appropriate. The Group's current assets and current liabilities are show in the table below:

	31 December 2019	31 December 2018
Total current assets	31,536,590	26,491,829
Total current liabilities	5,955,102	4,803,844

As at 31 December 2019 the Group had total current assets of $31,536,590 (31 December 2018 – $26,491,829) to settle total current liabilities of $5,955,102 (31 December 2018 – $4,803,844), as well as its commitments outlined in Note 21. Total liabilities of $177,092,944 include long-term loans totaling $128,473,156 accrued interest of $41,999,355 and fair value gain on modification of loans of $3,630,267.

As at 31 December 2019, the Group had cash balances of $5,444,288 (31 December 2018 – $1,141,663).

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

Liquidity risk

The Group had total obligations of $888,300 at 31 December 2019 (31 December 2018 – $2,345,737) under a combination of three and five-year leases for equipment in relation to the development of Mangazeisky, as outlined in Note 12.

The contractual maturities of the Group's financial liabilities (which are all carried at amortised cost) are shown in the table below:

31 December 2019	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	12 to 36 months	36 to 72 months
Current liabilities						
Accounts payable & accrued liabilities	5,328,156	5,328,156	5,328,156	-	-	-
Lease liabilities	626,946	738,291	369,146	369,146	-	-
Non-current liabilities						
Long-term loans principal	124,842,888	128,473,156	-	-	-	128,473,156
Interest to be capitalized to principal	41,999,355	41,999,355	-	-	-	41,999,355
Long-term loans interest	-	50,076,300	7,756,499	7,841,735	31,111,233	3,366,832
Lease liabilities	261,354	283,686	-	-	283,686	-
	173,058,699	226,898,944	13,453,801	8,210,881	31,394,919	173,839,343

Group 31 December 2018	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	12 to 36 months	36 to 72 months
Current liabilities						
Accounts payable & accrued liabilities	3,148,788	3,148,788	3,148,788	-	-	-
Finance leases	1,655,056	1,740,401	938,379	802,022	-	-
Non-current liabilities						
Long-term loans principal	130,925,313	132,732,390	-	-	-	132,732,390
Interest to be capitalized to principal	32,177,279	38,183,420				38,183,420
Long-term loans interest		58,068,646	-	3,931,064	31,234,864	22,902,719
Finance leases	690,681	824,087	-	-	824,087	-
	168,597,117	234,697,732	4,087,167	4,733,086	32,058,952	193,818,529

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

Interest rate risk

The Group has cash balances and interest-bearing debt on short term loans and long-term loans at commercial fixed rates. The Group's current policy is to invest excess cash in interest-earning bank accounts with Canadian and Russian financial institutions. The Group periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk

The Group has funded certain exploration, project construction and administrative expenses on a transaction by transaction basis using U.S. dollar and Russian rouble. USD funding has been provided directly to AO Prognoz in Russia and converted to Russian rouble. This exposes the Group to changes in foreign exchange rates for Great British pound, U.S. dollar and Russian rouble.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's borrowings (when borrowing is denominated in a different currency from functional currencies of the Group companies).

	31 December 2019				31 December 2018			
	GBP	**USD**	**RUB**	**EUR**	**GBP**	**USD**	**RUB**	**EUR**
Current assets:								
Cash and cash equivalents	1,910	2,606,566	2,804,519	-	2,281	5,815	1,111,980	-
Receivables	-	-	2,286,670	-	-	-	296,849	-
Total current assets	1,910	2,606,566	5,091,189	-	2,281	5,815	1,408,829	-
Current liabilities:								
Accounts payable and accrued liabilities	199,255	373,325	2,561,461	-	143,824	646,833	1,889,871	16,947
Finance leases	-	311,380	315,566	-	-	969,793	685,263	-
Total current liabilities	199,255	684,705	2,877,027	-	143,824	1,616,626	2,575,134	16,947
Non-current liabilities:								
Long-term loans	-	166,842,243	-	-	-	163,102,592	-	-
Finance leases	-	170,452	90,902	-		200,953	489,728	-
Total non-current liabilities	-	167,012,695	90,902	-	-	163,303,545	489,728	-

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

Group	**31 December 2019**	**31 December 2018**
	Impact on profit or loss	**Impact on profit or loss**
US Dollar strengthening by 20% (2018: strengthening by 20%)	(33,009,566)	(34,772,437)
US Dollar weakening by 20% (2018: weakening by 20%)	33,009,566	34,772,437
CAD strengthening by 20% (2018: strengthening by 20%)	1,206	(11,046)
CAD weakening by 20% (2018: weakening by 20%)	(1,206)	11,046
GBP strengthening by 20% (2018: strengthening by 20%)	(37,997)	(36,403)
GBP weakening by 20% (2018: weakening by 20%)	37,997	36,403
EUR strengthening by 20% (2018: strengthening by 20%)	7	(904)
EUR weakening by 20% (2018: weakening by 20%)	(7)	904

4. RECEIVABLES

	31 December 2019	31 December 2018
Russian Value Added Tax	1,130,031	3,090,346
Deferred Russian Value Added Tax	301,909	782,079
Other receivables	2,281,016	294,020
	3,712,956	**4,166,445**

Deferred Russian Value Added Tax relates to the VAT paid on the costs incurred on the construction of both building and technological equipment. This VAT can be claimed once the assets the VAT relates to are ready for use. The VAT recognized here is on assets that are expected to be available for use in 2019 and first quarter of 2020 therefore the asset has been recognized as current.

The amount of VAT recovered in cash during the period was RUB 274,001,441 (CAD: $5,618,793). All VAT is expected to be received.

Other receivables mainly consist of receivables from fuel sales. Sales of fuel was accounted on net basis in other income.

5. INVENTORIES

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

	31 December 2019	31 December 2018
Fuel and lubricants	1,641,989	5,285,668
Parts and supplies	2,168,065	2,885,520
Reagents	6,550,178	4,996,639
Silver for sale	989,754	2,958,192
Ore stockpile	5,470,799	2,194,729
Silver in circuit	2,743,723	813,880
	19,564,508	**19,134,628**

The total cost of inventory recognized in cost of sales is $20,322,050 (2018: nil).

Impairment provision charged to profit and loss for the period was $1,698,015 (2018: $1,050,146). Impairment provision was accrued based on result of the year-end stock count.

6. PREPAID EXPENSES AND NON-CURRENT ASSETS

Prepaid expenses consist of the following:

	31 December 2019	31 December 2018
Insurance	-	-
Prepayments to suppliers	2,676,818	2,049,093
Taxes	138,020	-
	2,814,838	**2,049,093**

Prepaid non-current assets consist of the following:	31 December 2019	31 December 2018
Prepayments for property, plant and equipment	749,033	634,005
	749,033	**634,005**

Non-current prepayments consist of prepayments that will be converted to non-current assets – property, plant and equipment. The equipment will be delivered and transferred to construction in progress within next twelve months.

7. OTHER NON-CURRENT ASSETS

	31 December 2019	31 December 2018
Construction supplies	2,217,895	2,584,850
Non-current inventory	990,296	819,554
	3,208,191	**3,404,404**

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8. INTANGIBLE ASSETS

Software	31 December 2019	31 December 2018
Balance at the beginning of the year	**172,495**	**19,553**
Additions	141,234	219,327
Disposal	-	-
Amortization	(46,336)	(40,528)
Translation adjustment	13,680	(25,857)
Balance at the end of the period	**281,073**	**172,495**

9. 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 capitalized project development costs.

Mineral property consists of the following:			31 December 2019	31 December 2018
Mangazeisky	**Licenses and Development costs**	**Asset Retirement Obligation**	**2019 Total**	**2018 Total**
Balance at the beginning of the year	**11,444,620**	**582,389**	**12,027,009**	**12,434,405**
Development costs capitalized	-	-	-	46,391
Depreciation of license	(888,238)	(79,531)	(967,770)	-
Impact of adjustment to ARO	(177,388)	2,882,612	2,705,224	(274,272)
Translation adjustment	39,179	92,434	131,613	(179,515)
Balance at the end of the year	**10,418,173**	**3,477,904**	**13,896,077**	**12,027,009**

Mineral property is made up of the following classes of assets; licenses $668,455 (2018: $930,948), asset retirement obligation $3,477,904 (2018: $582,389) and development costs of $9,749,718 (2018: $10,513,671).

The Group acquired the exploration license in respect of the Mangazeisky property when it acquired all the shares of AO Prognoz on 21 October 2004. In September 2016, the Mangazeisky exploration license was extended by the Federal Subsoil Use Agency in the Russian Federation ("Rosnedra") through to 31 December 2023.

In September 2013, the Group acquired the mining license in respect of the Mangazeisky property which is valid for a period of 20 years from the grant date. The cumulative exploration costs incurred and expensed from inception to date are as follows:

	31 December 2019	**31 December 2018**
Mangazeisky	66,711,691	66,711,691

10. PROPERTY, PLANT AND EQUIPMENT

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

			31 December 2019			**31 December 2018**
	Cost	**Accumulated depreciation**	**Net book value**	**Cost**	**Accumulated depreciation**	**Net book value**
Property, plant and equipment:						
Mangazeisky site	115,207,480	18,117,419	97,090,061	105,258,756	8,334,455	96,924,301
Yakutsk office	83,336	83,336	-	83,336	83,336	-
Other office furniture, equipment and leasehold improvements	59,620	59,620	-	59,620	59,620	-
	115,350,436	**18,260,375**	**97,090,061**	**105,401,712**	**8,477,411**	**96,924,301**

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

Reconciliation of the carrying amount at the beginning and end of the periods ended 31 December 2019 and 31 December 2018:

	Property plant and equipment	Assets under construction	Total
Carrying amount at 1 January 2018	**14,710,936**	**59,731,091**	**74,442,027**
Additions	-	33,852,228	33,852,228
Transfers	5,830,539	(5,830,539)	-
Disposals at cost	(1,018,671)	-	(1,018,671)
Depreciation	(3,326,852)	-	(3,326,852)
Depreciation eliminated on disposal	60,437	-	60,437
Translations adjustment	(1,384,512)	(5,700,356)	(7,084,868)
Carrying amount at 31 December 2018	**14,871,877**	**82,052,424**	**96,924,301**

	Processing plant	Mining vehicles	Infrastructure and other	Assets under construction	Total
Carrying amount at 31 December 2018	**1,747,802**	**1,864,029**	**11,260,046**	**82,052,424**	**96,924,301**
Additions	227,816	-	-	4,347,312	4,575,128
Transfers	72,034,222	656	8,076,980	(80,111,859)	(1)
Disposal at cost	(1,474)	(91,760)	(168,439)	-	(261,673)
Depreciation	(6,796,488)	(1,068,401)	(2,173,249)	-	(10,038,138)
Depreciation eliminated on disposal	1,474	98,287	155,415	-	255,176
Translation adjustment	994,482	104,486	842,805	3,693,495	5,635,268
Carrying amount at 31 December 2019	**68,207,834**	**907,297**	**17,993,558**	**9,981,372**	**97,090,061**

The Group capital asset additions were $4,575,128 during the period ended 31 December 2019. Capitalised borrowing costs of $nil (31 December 2018 - $13,406,024), capitalised costs of $14,327,368 (31 December 2018 - $14,540,873), capitalised pre-production revenue of $12,773,554 (31 December 2018 - $8,349,634) and acquisition of new assets of $3,021,314 (31 December 2018 - $14,254,965) were part of additions during the period.

The property, plant and equipmentas of the period ended 31 December 2019 include $9,981,372 of assets that are not yet ready for use and as such no depreciation has been charged on them. During the period ended 31 December 2019, $69,012,980 of these assets became available for use, they were transferred into property, plant and equipment and depreciation was charged on them. Leased assets are pledged as security for the related lease obligations.

Group acquires property, plant and equipment on prepayment terms. Cash paid to suppliers of property, plant and equipment and capitalized expenses paid by cash during the period was $1,995,747 (31 December 2018 - $22,091,060).

All the property plant and equipment of the Group is pledged to shareholders under borrowings agreements.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	31 December 2019	31 December 2018
Trade and other payables	2,506,742	2,082,357
Accrued liabilities	686,750	733,895
Property tax liabilities	985,583	-
Income tax liabilities	724,601	-
Other taxes and other liabilities	424,480	332,536
Amounts owed to group undertakings	-	-
	5,328,156	**3,148,788**

12. LEASES

In 2016, the Group entered into long term lease agreements for the purchase of equipment in relation to the development of the Mangazeisky project payable in monthly instalments of circa US$85,000. The lease payments have been discounted at rates of between 9.5% and 21.9%. The Group made down payments of between 0.4% and 33.6% of the cost of the equipment.

Right of use assets consist of the following:

	Processing plant	Mining vehicles	Infrastructure and other	Total
Carrying amount at 31 December 2018	**863,497**	**1,835,879**	**992,710**	**3,692,086**
Additions	227,816	-	-	227,816
Depreciation	(375,921)	(1,044,063)	(635,653)	(2,055,637)
Translation adjustment	54,226	102,908	54,292	211,426
Carrying amount at 31 December 2019	**769,618**	**894,724**	**411,349**	**2,075,691**

Interest expenses on lease liabilites were $368,684, total cash outflow for leases was $1,808,791,

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

	31 December 2019	31 December 2018
Within one year	738,291	1,740,401
Within two to five years	283,686	824,087
Over 5 years	-	-
	1,021,977	**2,564,488**
Future finance charges on finance leases	(133,677)	(218,751)
Present value of the net lease payments	**888,300**	**2,345,737**
Current portion	626,946	1,655,056
Long-term portion	261,354	690,681
Total obligations under finance leases	**888,300**	**2,345,737**

13. LONG-TERM LOANS

	31 December 2019			31 December 2018		
Lender	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
Unifirm Ltd (formerly A.B. Aterra Resources Ltd)	25,360,652	9,440,938	34,801,590	26,740,014	7,514,149	34,254,163
Inflection Management Corp.	103,112,503	32,558,417	135,670,920	105,992,376	24,663,130	130,655,506
Fair value gain on modification of loans	(3,630,267)	-	(3,630,267)	(1,807,077)	-	(1,807,077)
	124,842,888	**41,999,355**	**166,842,243**	**130,925,313**	**32,177,279**	**163,102,592**

Movement in long term loans is analyzed as follows in USD:

	Unifirm (formerly Aterra)		Inflection		Gain on modification of loans	Total
	Principal USD	***Interest USD***	***Principal USD***	***Interest USD***	***USD***	***USD***
As at 31 December 2017 (CAD)	**24,589,758**	**3,504,807**	**89,942,165**	**10,110,481**		**128,147,211**
Principal amounts received	-	-	6,000,000	-	-	6,000,000
Interest accrued to 31 December 2018	-	2,714,311	-	10,019,452	-	12,733,763
Gain on modification of loans	-	-	-	-	(1,324,642)	(1,324,642)
As at 31 December 2018 (USD)	**19,601,242**	**5,508,099**	**77,695,628**	**18,078,823**	**(1,324,642)**	**119,559,150**
As at 31 December 2018 (CAD)	**26,740,014**	**7,514,149**	**105,992,376**	**24,663,130**	**(1,807,077)**	**163,102,592**
Principal amounts received	-	-	4,000,000	-	-	4,000,000
Interest accrued to 31 December 2019	-	1,788,799	-	7,212,562	1,211,226	10,212,587
Principal and interest repayment	-	-	(2,000,000)	(126,993)	-	(2,126,993)
Gain on modification of loans	-	-	-	-	(2,692,416)	(2,692,416)
As at 31 December 2019 (USD)	**19,601,242**	**7,296,898**	**79,695,628**	**25,164,392**	**(2,805,832)**	**128,952,328**
As at 31 December 2019 (CAD)	**25,360,652**	**9,440,938**	**103,112,504**	**32,558,417**	**(3,630,267)**	**166,842,244**

13. LONG-TERM LOANS (Continued)

Movement in long term loans is analyzed as follows in CAD:

	Unifirm (formerly Aterra)		Inflection		FV gain	Total
	Principal	Interest	Principal	Interest		
	CAD$	*CAD$*	*CAD$*	*CAD$*	*CAD$*	*CAD$*
As at 31 December 2017	**24,589,758**	**3,504,807**	**89,942,165**	**10,110,481**	**-**	**128,147,211**
Principal amounts received	**-**	**-**	**8,185,200**	**-**	**-**	**8,185,200**
Interest accrued to 31 December 2018	-	3,702,864	-	13,668,536	-	**17,371,400**
Principal and interest repayment	**-**	**-**	**-**	**-**	**-**	**-**
Foreign exchange loss	4,592,300	654,546	16,797,294	1,888,199	-	**23,932,339**
Gain on modification of loans	-	-	-	-	(1,807,077)	**(1,807,077)**
Translation adjustment	(2,442,044)	(348,068)	(8,932,283)	(1,004,086)	**-**	**(12,726,481)**
As at 31 December 2018	**26,740,014**	**7,514,149**	**105,992,376**	**24,663,130**	**(1,807,077)**	**163,102,592**
Principal amounts received	-	-	5,290,156	-	-	**5,290,156**
Interest accrued to 31 December 2019	-	2,363,127	-	9,530,614	1,607,913	**13,501,654**
Principal and interest repayment	-	-	(2,655,350)	(167,174)	-	**(2,822,524)**
Foreign exchange loss	(3,040,724)	(947,042)	(12,148,731)	(3,172,841)	-	**(19,309,338)**
Gain on modification of loans	-	-	-	-	(3,574,206)	**(3,574,206)**
Translation adjustment	1,661,362	510,703	6,634,053	1,704,689	143,103	**10,653,910**
As at 31 December 2019	**25,360,652**	**9,440,937**	**103,112,504**	**32,558,418**	**(3,630,267)**	**166,842,244**

On 18 September 2018, the Group entered into a third amendment and restatement deed relating to the Facilities Agreement. Under this agreement, the lenders have agreed to provide an additional US$8 million of working capital of which US$2.5 million was drawn down in September 2018, US$3.5 million in November 2018 and US$2.0 million in January 2019.

The Secured Loan Funding accrued interest at a rate of 15% per annum to the 17 September 2018 and 28 September 2018 and 10% per annum between 18 September 2018 and 29 September 2018 to 31 December 2018. The modification of the loan interest from 15% to 10% in 2018 was considered to be substantive and resulted in a de-recognition of the loan carrying value, recognition of the loan at fair value as of modification date and recognition of shareholders contribution reserve of $1,807,077.

On 1 January 2019, the Group's major shareholders Aterra and Inflection agreed to further reduce the interest rate applicable to all funds drawn under the Facilities Agreement, as amended, from 10% to 9% per annum. The accrued interest accrued quarterly, and is payable on 1 January, 1 April, 1 July and 1 October in each calendar year starting from 31 December 2019 and on the maturity date, being 20 March 2023. The modification of the loan interest from 10% to 9% in 2019 was considered to be non-substantive and resulted recognition of shareholders contribution reserve of $3,574,206

On 24 December 2019, the Group entered into an amendment and restatement deed relating to the Facilities Agreement. Under this agreement, the lenders have agreed to provide an additional US$4 million of working capital of which US$2 million was drawn down in December 2019.

The Secured Loan Funding is secured and the parent and subsidiaries of the Group will act as guarantor of each other's obligations under the Facilities Agreement and all related security documents.

As at 31 December 2019 this Secured Loan Funding has a principal of totaling $128,473,156, accrued interest of $41,999,355 and fair value gain on modification of loans of ($3,630,267).

14. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY

The Group'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 Group has made, and intends to make in the future, expenditures to comply with such laws and regulations. The Group 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 Group's provision for decommissioning and restoration liability consists of management's best estimate of reclamation and closure costs for the Mangazeisky project.

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:

	31 December 2019	31 December 2018
Balance at the beginning of the year	**1,109,391**	**1,426,397**
Accretion expense	100,348	104,519
Impact of change to underlying cost estimate	1,978,457	-
Impact of rates adjustment	726,768	(277,858)
Translation adjustment	119,281	(143,667)
Balance at the end of the year	**4,034,245**	**1,109,391**

At 31 December 2019, the expected life of the Mangazeisky project has been assessed to be 8 years. The projected cost for reclamation and closure of the Mangazeisky project in 2028 has been estimated to be $7.05m. A Russian Government 10-year zero coupon year bond of 6.41% (2018: 8.64%) has been used in discounting of future cash flows.

15. SHAREHOLDERS' EQUITY

Common shares

Authorized: Unlimited number of common shares with a par value of GBP 0.001.

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the period ended 31 December 2019 and 31 December 2018:

Common shares		**31 December 2019**		**31 December 2018**
	Number of common shares	**$**	**Number of common shares**	**$**
Balance - Beginning of the year	**671,984,902**	**99,559,086**	**668,048,513**	**99,552,335**
Issued under stock option plan	151,000	242	880,000	1,557
Issued under share bonus plan	5,000	8	1,600,000	2,737
Shares issued during the period	-	-	1,456,389	2,457
Balance - End of the year	**672,140,902**	**99,559,336**	**671,984,902**	**99,559,086**

Share Bonus Plan

In June 2013, the shareholders of the Group approved a share bonus plan whereby an aggregate of up to 2,500,000 common shares of the Group have been reserved for issuance to officers, directors and employees of the Group.

On 22 August 2013, the board approved the issuance of up to 1,100,000 common shares and on 21 February 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 dates in the table below.

On 8 June 2016, the board of directors resolved, and the Group obtained approval from the Toronto Stock Exchange ("TSX") and the shareholders, an amendment to the Share Bonus Plan to increase the maximum number of Common Shares available for issuance under such plan from 2,500,000 to 5,400,000.

On 16 January 2018, the Group issued 1,600,000 common shares under the share bonus plan for the nominal fee of £0.001.

On 27 June 2019, the board of directors resolved, and the Group obtained approval from the TSX and the shareholders an amendment to the Share Bonus Plan, in particular the Share Bonus Plan has a fixed maximum of 5,400,000 shares, but in any event awards granted under the Share Bonus Plan and all other security based compensation plans cannot exceed 10% of the Group's issued and outstanding shares.

On 26 September 2019, the Group issued 5,000 common shares under the share bonus plan for the nominal fee of £0.001

1 October 2013	-	275,000	common shares
1 January 2014	-	275,000	common shares
1 April, 2014	-	618,750	common shares
1 July 2014	-	618,750	common shares
1 October 2014	-	293,750	common shares
1 January 2015	-	237,500	common shares
16 January 2018	-	1,600,000	common shares
26 September 2019	-	5000	common shares
Total		3,923,750	

15. SHAREHOLDERS' EQUITY (Continued)

Stock options

The Group has a stock option plan which is intended to provide an incentive to officers, employees, directors and consultants of the Group. 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 Group's common stock on the "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 Group for issuance and which may be purchased upon the exercise of all options granted under its option plan together will 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.

On 18 May 2016, 2,900,000 options were granted to directors, officers and consultants of the Group. The exercise price of the options is $0.19 per option. Granted stock options vest immediately on the day of grant and expire on 18 May 2021.

On 21 December 2017, 18,000,000 options were grated to directors of the Group. 6,000,000 of these options have an exercise price of $0.17 per option, 6,000,000 have an exercise price of $0.25 per share and the remaining 6,000,000 have an exercise price of $0.30 per share.

On 4 April 2018, 2,600,000 options were granted to directors, officers and consultants of the Group. 866,667 of these options have an exercise price of $0.22 per option, 866,667 have an exercise price of $0.30 per share and the remaining 866,666 have an exercise price of $0.35 per share.

On 14 November 2018, 3,000,000 options were granted to directors, officers and consultants of the Group. 1,000,000 of these options have an exercise price of $0.18 per option and will fully invest on 14 November 2019, 1,000,000 have an exercise price of $0.25 per share and will be fully vested on 14 November 2020, and the remaining 1,000,000 have an exercise price of $0.30 per share and will be fully vested on 14 November 2021.

On 24 May 2019, 500,000 options were granted to officer of the Group 166,667 of these options have an exercise price of $0.11 per option and will fully vested on 24 May 2020, 166,667 have an exercise price of $0.25 per share and will be fully vested on 24 May 2021, and the remaining 166,666 have an exercise price of $0.30 per share and will be fully vested on 24 May 2022.

During the period ended 31 December 2019, options generated a share-based payments expense of $421,338 (31 December 2018: $535,798). 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 and 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.

15. SHAREHOLDERS' EQUITY (Continued)

Stock options (Continued)

Reconciliation of the number of options at the beginning and end of the periods ended 31 December 2019 and 31 December 2018 follows:

		31 December 2019		31 December 2018
	Number	Weighted average exercise price, $	Number	Weighted average exercise price, $
Balance - Beginning of the year	**30,948,666**	**0.25**	**26,528,666**	**0.24**
Granted	500,000	0.22	5,600,000	0.26
Exercised	(151,000)	0.18	(880,000)	0.18
Expired / Cancelled / Forfeited	(6,246,666)	0.26	(300,000)	0.24
Balance - End of the year	**25,051,000**	**0.25**	**30,948,666**	**0.25**

As at 31 December 2019, the Group had share options outstanding and exercisable as follows:

	Outstanding		Exercisable	
Expiry year	Number	Weighted average exercise price, $	Number	Weighted average exercise price, $
2019	-	-	-	-
2020	800,000	0.19	800,000	0.19
2021	1,651,000	0.28	1,651,000	0.19
2022	18,000,000	0.24	18,000,000	0.24
2023	4,100,000	0.26	2,733,334	0.23
2024	500,000	0.22	-	-
	25,051,000	**0.24**	**23,184,334**	**0.23**

Contributed surplus consists of the following:

	31 December 2019	31 December 2019
Balance - Beginning of the year	**17,178,582**	**16,696,454**
Share-based payments	421,338	535,798
Exercised options	(8,773)	(53,670)
Expired / Cancelled / Forfeited options	(615,880)	-
Balance - End of the year	**16,975,267**	**17,178,582**

15. SHAREHOLDERS' EQUITY (Continued)

Earnings per share

The calculation of the basic and diluted profit/(loss) per share attributable to the owners of the Group is based on the following data

	31 December 2019	31 December 2018
Net Loss	(537,791)	(36,616,746)
Weighted average number of shares used in basic EPS	672,048,891	670,472,459
Basic and diluted profit/ (loss) , cents per ordinary share	(0.00)	(0.05)

16. RELATED PARTY DISCLOSURES

(a) <u>Goods and services</u>

During the years ended 2019 and 2018 the Group entered into transactions for goods and services with the following related parties:

Goods and services received from:	2019	2018
TechnoNICOL Corporation	-	116,000
	-	**116,000**

At the end of the reporting period, the Group was owed from TechnoNICOL nil (31 December 2018: $357) for services provided. There were no other balances outstanding at the end of the reporting period related to goods and services received from related parties.

<u>Financing transactions</u>

The Group has entered into a series of financing transactions with major shareholders. As set out in note 13.

The Group was required to reimburse Aterra for legal fees incurred in relation to the lending agreements in the period of C$ nil (31 December 2018: C$19,349).

(b) <u>Compensation of key management</u>

Key management are the Group's directors. Compensation awarded to key management comprised:

	2019	2018
Salaries, fees and short-term employee benefits	504,332	1,026,153
Share-based payments	382,575	535,798
	886,907	**1,561,951**

The amounts set out in the above table includes employee costs and remuneration in respect of the highest paid director as shown in the table below:

	2019	2018
Emoluments	132,751	149,325
Termination payments	-	271,995
Share issue	-	273,364
Share option exercise	-	148,750
	132,751	**843,434**

16. RELATED PARTY DISCLOSURES (Continued)

(c) <u>Interest in other entities</u>

Name of subsidiary undertaking	Registered address/ Principal place of business	Description of shares held	Proportion of nominal value of issued shares held by:	
			Group %	Company %
Silver Bear Resources Inc.	Suite 2500, 120 Adelaide Street West, Toronto, Ontario, Canada, M5H 1T1	Ordinary CAD 120,863,139 shares	100	100
Silver Bear Resources B.V.	Zekeringstraat 21 B, 1014 BM, Amsterdam	Ordinary CAD 2,833,801 shares	100	-
AO Prognoz	36/1 Ordzhonikidze Street, Yakutsk, Republic of Sakha (Yakutia), 677000, Russian Federation	Ordinary RUB 10,000 shares	100	-

All subsidiary undertakings have been included in the consolidation. The voting rights in the subsidiary undertakings are in proportion to the amount of shares held.

The prinicipal activites of the Group's subsidaries are as follows:
- Silver Bear Resources Inc. – holding company;
- Silver Bear Resources B.V. – holding company;
- AO Prognoz - acquisition, exploration, evaluation and development of precious metal properties.

17. OTHER INCOME AND EXPENSES

OTHER INCOME

	2019	2018
Meals distribution	272,904	600,161
Winter road maintenance	130,244	455,313
Rent	363,010	119,388
Income from fuel sales	268,176	1,287
Other income	209,714	185,704
	1,244,048	**1,361,853**

OTHER EXPENSES

	2019	2018
VAT write-off	(211,507)	-
Property tax	(1,177,226)	-
Penalties	(134,426)	-
	(1,523,159)	**-**

18. PRODUCTION COST, GENERAL AND ADMINISTRATIVE EXPENSES

Production cost:

	2019	**2018**
Employee compensation	(3,480,100)	-
Process reagents	(2,057,974)	-
Repair and maintenance	(748,464)	-
Fuel	(2,899,042)	-
Mining tax	(1,365,949)	-
Blasting	(698,672)	-
Energy	(574,591)	-
Refinery	(214,272)	-
Other	(2,096,927)	-
Change in finished goods and work in progress	2,978,989	-
	(11,157,002)	**-**

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

General and administrative expenses:

	2019	**2018**
Employee compensation	(2,029,245)	(1,871,000)
Professional fees	(301,010)	(971,901)
Auditors' remuneration - Audit fees	(290,439)	(87,195)
Auditors' remuneration - Non-audit fees	(30,543)	-
Office expenses	(62,496)	(97,100)
Travel expenses	(45,022)	(45,024)
Legal fees	(90,611)	(153,614)
Investor relations expenses	(97,802)	(248,733)
Depreciation	(13,036)	-
Amortization	(3,751)	-
Rent	(73,794)	-
IT and communications	(137,676)	-
Other expenses	(322,446)	(1,118,704)
	(3,497,871)	**(4,593,271)**

Expenses relating to the development and construction of the Mangazeisky Project have been capitalized from 1 July 2015 to 1 July 2019. This means that certain categories of expenses were not charged to the income statement during this period.

The average number of employees during the period was 268 (2018: 201).

18. PRODUCTION COST, GENERAL AND ADMINISTRATIVE EXPENSES (Continued)

The following table provides the breakdown of Group's employee compensation charged to the income statement:

	2019	2018
Salaries, fees and short-term employee benefits	(5,088,006)	(1,063,207)
Termination payments	-	(271,995)
Share-based payments	(421,338)	(535,798)
	(5,509,344)	**(1,871,000)**

Total employee benefits relating to the construction of the Mangazeisky Project are capitalized within property, plant and equipment totaling $3,555,469 (31 December 2018: $5,669,440).

The following table provides the breakdown of Group's total staff costs including those that have been capitalized:

	2019	2018
Salaries, fees and short-term employee benefits	(8,643,475)	(6,732,647)
Share-based payments	(421,339)	(535,798)
	(9,064,814)	**(7,268,445)**

19. FINANCE EXPENSE

	2019	2018
Interest accrued from loans	(13,501,654)	(3,139,650)
Interest accrued from lease obligations	(368,684)	(311,931)
Accretion expenses	(100,348)	(104,519)
	(13,970,686)	**(3,556,100)**

20. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	2019	2018
Receivables	219,517	627,369
Inventories	(2,025,182)	(10,824,351)
Prepaid expenses	(313,823)	2,000,385
Accounts payable and accrued liabilities	1,983,469	226,675
	(139,019)	**(7,969,922)**

21. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group is party to certain management contracts and severance obligations. These contracts contain clauses requiring that additional payments of up to $70,000 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 Group 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 the Group's financial position, results of operations or cash flows. There were no material outstanding legal proceedings as of 31 December 2019.

22. SEGMENTED INFORMATION

The Group has one operating segment based on geographical location being the property in the Russian Federation (Mangazeisky). The Corporate balances are provided below to allow reconciliation back to the primary statements.

As at 31 December 2019

Country/Property	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Profit / (loss) before tax
Russia - Mangazeisky	5,308,151	19,564,508	3,563,870	3,712,956	13,896,077	97,090,061	(10,149,338)	(13,970,686)	5,139,359
Corporate	136,137	-	(0)	-	-	-	-	-	(4,760,350)
	5,444,288	**19,564,508**	**3,563,870**	**3,712,956**	**13,896,077**	**97,090,061**	**(10,149,338)**	**(13,970,686)**	**379,009**

-

As at 31 December 2018

Country/Property	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Profit / (loss) before tax
Russia - Mangazeisky	1,117,720	19,134,628	2,647,904	4,166,445	12,027,009	96,924,301	(1,920,182)	(3,451,581)	(34,183,004)
Corporate	23,943	-	35,194	-	-	-	-	-	(2,419,179)
	1,141,663	**19,134,628**	**2,683,098**	**4,166,445**	**12,027,009**	**96,924,301**	**(1,920,182)**	**(3,451,581)**	**(36,602,183)**

23. 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 Group's current financial instruments consist of cash, accounts receivable, short-term loans, lease liabilities 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. The Group's non-current financial instruments consist of long-term loans and lease liabilities. The fair value of these instruments approximates their carrying values as any differences are not material. Financial assets and financial liabilities as at 31 December 2019 and 31 December 2018 were as follows:

23. FINANCIAL INSTRUMENTS (Continued)

31 December 2019	Cash and receivables	Loans and other liabilities	TOTAL
Cash and cash equivalents	5,444,288	-	**5,444,288**
Accounts receivable	2,281,016	-	**2,281,016**
Long-term loans	-	(166,842,243)	**(166,842,243)**
Accounts payables and accrued liabilities	-	(3,193,492)	**(3,193,492)**
Lease liabilities	-	(888,300)	**(888,300)**
	7,725,304	**(170,924,035)**	**(163,198,731)**

31 December 2018	Cash and receivables	Loans and other liabilities	TOTAL
Cash and cash equivalents	1,141,663	-	**1,141,663**
Accounts receivable	294,020	-	**294,020**
Long-term loans	-	(163,102,592)	**(163,102,592)**
Accounts payables and accrued liabilities	-	(2,914,448)	**(2,914,448)**
Finance leases	-	(2,345,737)	**(2,345,737)**
	1,435,683	**(168,362,777)**	**(166,927,094)**

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

24. INCOME TAXES

	2019	2018
Current tax expense	(916,798)	(14,563)
Total tax expense	**(916,798)**	**(14,563)**

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

	2019	2018
Profit/(Loss) before taxation	**379,007**	**(36,602,183)**
Statutory tax rate	20.00%	20.00%
Tax benefit of statutory rate	(75,801)	7,320,437
Expenses not deductible for income tax purposes	(1,208,259)	(3,551,074)
Recognition of previously written off deferred tax asset	924,382	-
Deferred taxes not recognized for the period	(557,120)	-
Tax losses carried forward not recognized	-	(6,913,757)
Foreign tax rate differential	-	3,144,395
Silver Bear Plc Moscow branch tax obligation	-	(14,563)
Total tax expense	**(916,798)**	**(14,562)**

The Group 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.

In addition, ZAO Prognoz has approximately $34,571,789 (2018: $36,820,178) of non-capital losses for Russian income tax purposes. Silver Bear PLC has approximately $2,528,728 (2018: $1,514,368) in non-capital losses that can be carried forward indefinitely.

25. CONTROLLING AND ULTIMATE CONTROLLING PARTY

The controlling and ultimate controlling party is Kolesnikov Sergei Anatolievich.