SILVER BEAR RESOURCES Plc

ANNUAL REPORT AND ACCOUNTS

Registered Number: 10669766 (England and Wales)

For the year ended 31 December 2017

(Expressed in Canadian dollars)

INDEX

Audited Consolidated Financial Statements

Mangazeisky Silver Project

PATH TO PRODUCTION

Silver Bear Resources Plc
Management's Responsibility for Financial Reporting
For the Year Ended 31 December 2017

The consolidated financial statements of Silver Bear Resources Plc. 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 PricewaterhouseCoopers LLP London, Chartered Accountants and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

"Graham Hill"

Graham Hill
Director, President and
Chief Executive Officer

"Vadim Ilchuk"

Vadim Ilchuk
Chief Financial Officer

Toronto, Ontario, Canada
29 March 2018

Independent auditors' report to the shareholders of Silver Bear Resources Plc

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Silver Bear Resources Plc (the Company) and its subsidiaries (the Group) as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the International Accounting Standards Board (IASB).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

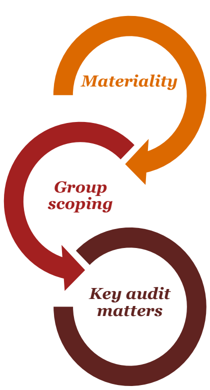
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



- Overall materiality: Canadian $1,342,000, based on 1% of total assets.

- We focused our audit procedures on all of the major components of the Group: AO Prognoz, Silver Bear Resources Inc and Silver Bear Resources Plc which accounted for approximately 95% of the Group's loss before taxation and 98% of the Group's total assets.

Our key audit matters comprised:

- Going concern assessment;
- Impairment of mineral properties and property, plant and equipment.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	Canadian $ 1,342,000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	*Considering the pre-production stage of the Group's operations, total assets is considered to be most relevant to the users of the financial statements and therefore it was used for the overall materiality calculations*

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above Canadian $67,100, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Going concern assessment As disclosed in Note 1 and Note 2 to the financial statements, at 31 December 2017, the Group had no cash flows from operating activities and reported a net loss for the year of Canadian $8,824,740 and had a cumulative deficit of Canadian $135,931,891. The Group is still in the pre-production phase and fully financed through loans from shareholders with commercial production expected to commence in April 2018. Should there be further delays in commencing production there may be a need to secure additional financing. As a result, management prepared a cash flow model through to December 2019, which is aligned to their ten year technical economic model for the Mangaziesky project, to assess their ability to generate sufficient cash flows to support the going concern status of the Group and Company. The key assumptions which underpin this model include silver prices, the Russian rouble : US dollar exchange rate, the date when commercial production commences, capital expenditure and operating expenditure budgets as well as production volumes. Based on these assumptions, management concluded that they will have a positive cash flow balance at the end of each month from the date of signing these financial statements through to the end of December 2019 and accordingly are of the view that it is appropriate to adopt the going concern basis of accounting for the financial statements.	We obtained management's cash flow forecast for 2018 and 2019, which supports their use of the going concern basis of accounting for the financial statements. We tested the integrity of the forecast, including mathematical accuracy. The forecast includes a number of key assumptions such as silver prices, the Russian rouble : US dollar exchange rate, the date when commercial production commences, capital expenditure and operating expenditure budgets as well as production volumes. We held extensive discussions with management and assessed the reasonableness of these key assumptions by benchmarking them to market forecasts and comparing them to management's mine plans, supported by the competent person's report. We considered the historical accuracy of management's forecasting and performed sensitivity testing for reasonable possible changes in the key assumptions such as a decrease in silver prices and an increase in the discount rate and operating expenditure. We found that these sensitivity analyses supported management's use of the going concern basis of accounting. We have also assessed the competency and the objectivity of the competent person. Based on our analysis, we did not identify any material issues with management's assessment and concur with their adoption of the going concern basis of accounting for the financial statements.

Impairment of mineral property and property, plant and equipment

As the Group has not yet started the commercial production of silver there is a risk that the capitalised mineral properties and property, plant and equipment balances are not recoverable and should therefore be impaired.

Management has performed an impairment trigger assessment for all of the Group's mineral properties and property, plant and equipment as a sole cash generating unit. Management determined that there were no triggers for impairment.

Notwithstanding their conclusion that there were no triggers, management nevertheless considered the carrying values of the Group's mineral properties and property, plant and equipment to determine if these were supported by value in use calculations, which are based on future cash flow forecasts.

Management determined that the recoverable amount of the mineral properties and property, plant and equipment was higher than the carrying value and no impairment charge was recognised.

As such, this was a key audit matter due to the material nature of the balance.

Impairment assessments require significant judgement and there is the risk that the valuation of the assets may be incorrect and any potential impairment charge miscalculated.

In assessing the valuation of the mineral properties and property, plant and equipment we challenged management's impairment trigger assessment and in particular considered the potential impact of changes in key assumptions such as a delay in the start of commercial silver production, silver prices, foreign currency exchange rates and discount rates.

We used independent data to assist us in evaluating the appropriateness of key market related assumptions in management's valuation model, including silver prices and discount rates. We have checked the consistency of assumptions used for impairment testing and the going concern assessment. We have also assessed the competency and the objectivity of the competent person.

Based on our analysis, we did not identify any material issues with management's impairment conclusions and the associated disclosures.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The Group consists of four entities: Silver Bear Resources plc, Silver Bear Resources Inc, AO Prognoz and Silver Bear Holdings BV. We performed full scope audits for all components except for the Silver Bear Holdings BV. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting unit level by us, as the Group engagement team, or through involvement of the component auditors of AO Prognoz in Russia. The Group's assets and operations are primarily located in Yakutsk in the Republic of Sakha within Russia. Financial reporting is undertaken in offices in Yakutsk and London.

Where work was performed by our component auditors in Russia, we determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. As part of our year end audits, the Group team's involvement comprised of conference calls, review of component auditor work papers and other forms of communication as considered necessary. The Group audit team directly performed the work over liabilities at AO Prognoz, a full scope audit of the parent company and of selected intermediate holding companies as well as over the consolidation. The above gave us coverage of approximately 95% of the consolidated loss before taxation and 98% of the total assets. This gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 management.
- Conclude on the appropriateness of management's 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 auditors' report to the related disclosures in the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 Timothy McAllister.

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

March 2018

Silver Bear Resources Plc

Consolidated Statement of Financial Position

(Canadian dollars)

	31 December 2017	31 December 2016
ASSETS		
Current assets		
Cash and cash equivalents	24,314,402	15,759,123
Receivables (note 4)	5,264,349	5,691,897
Inventories (note 5)	9,226,581	4,219,346
Prepaid expenses (note 6)	4,535,619	5,305,839
Total current assets	43,340,951	30,976,205
Non-current assets		
Intangible assets (note 7)	19,553	-
Prepaid long-term assets (note 6)	5,474,478	6,805,868
Mineral property (note 8)	12,434,405	11,586,996
Property, plant and equipment (note 9)	74,442,027	42,031,187
	92,370,463	60,424,051
Total assets	**135,711,414**	**91,400,256**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	2,931,429	2,675,964
Short-term loans (note 11)	-	20,923,779
Finance leases (note 12)	1,429,492	1,525,369
Total current liabilities	4,360,921	25,125,112
Non-current liabilities		
Long-term loans (note 13)	128,147,211	76,282,337
Asset retirement obligation (note 14)	1,426,397	1,172,643
Finance leases (note 12)	1,334,994	2,735,911
Preference shares	83,580	-
	130,992,182	80,190,891
Total liabilities	135,353,103	105,316,003
EQUITY		
Share capital (note 15)	99,552,335	98,684,330
Share premium	21,960,054	-
Contributed surplus (note 15)	16,696,454	14,578,157
Cumulative translation adjustment	(1,918,641)	(73,421)
Accumulated deficit	(135,931,891)	(127,104,813)
Total equity/(deficit)	358,311	(13,915,747)
Total liabilities and shareholders' equity	**135,711,414**	**91,400,256**

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

The financial statements on pages 7 to 36 were approved by the Board of Directors on 29 March 2018, and signed on its behalf by:

"Graham Hill"

Graham Hill
Director, President & CEO

"Boris Granovsky"

Boris Granovsky
Director

Silver Bear Resources Plc

Consolidated Statement of Comprehensive Loss

For the years ended 31 December 2017 and 2016

(Canadian dollars)

	2017	2016
Income		
Interest income	73,239	1,731
Other income	541,689	-
	614,928	1,731
Expenses (Note 17)		
Exploration and evaluation expenses	334,366	3,192,766
General and administrative expenses	5,396,315	3,984,195
Depreciation	589,434	363,373
Amortization	7,985	-
Share-based payments	2,169,972	527,762
Accretion expense	144,435	79,524
Interest expense	5,988,647	4,670,909
Amounts written off	439,650	-
Foreign exchange gain	(5,631,136)	(2,968,587)
Expenses from operations	9,439,668	9,849,942
Net loss for the year before tax	**(8,824,740)**	**(9,848,211)**
Tax charge (Note 22)	(2,338)	(44,718)
Net loss for the year after tax	**(8,827,078)**	**(9,892,929)**
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(1,845,220)	3,080,549
Total comprehensive loss for the year	**(10,672,298)**	**(6,812,380)**
Weighted average number of common shares outstanding	331,796,154	161,835,587
Basic and diluted loss per share (Note 15)	(0.03)	(0.06)

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 2017 and 2016

(Canadian dollars)

	Share capital	Share premium	Contributed surplus	Cumulative translation adjustment	Accumulated Deficit	Total equity
Balance - 31 December 2015	98,277,254	-	14,173,136	(3,153,970)	(117,211,884)	(7,915,464)
Net loss for the year	-	-	-	-	(9,892,929)	(9,892,929)
Other comprehensive loss:						
Cumulative translation adjustment	-	-	-	3,080,549	-	3,080,549
Comprehensive loss for the year	-	-	-	3,080,549	(9,892,929)	(6,812,380)
Shares issued under stock option plan	407,076	-	(122,741)	-	-	284,335
Share-based payments	-	-	527,762	-	-	527,762
Balance - 31 December 2016	**98,684,330**	**-**	**14,578,157**	**(73,421)**	**(127,104,813)**	**(13,915,747)**
Balance - 31 December 2016	98,684,330	-	14,578,157	(73,421)	(127,104,813)	(13,915,747)
Net loss for the year	-	-	-	-	(8,827,078)	(8,827,078)
Other comprehensive loss:						
Cumulative translation adjustment	-	-	-	(1,845,220)	-	(1,845,220)
Comprehensive loss for the year	-	-	-	(1,845,220)	(8,827,078)	(10,672,298)
Shares issued on incorporation	2	-	-	-	-	2
Shares issued under stock option plan	52,198	59,897	(51,675)	-	-	60,420
Share-based payments	-	-	2,169,972	-	-	2,169,972
Shares issued upon conversion of loan note	815,806	21,900,156	-	-	-	22,715,962
Balance - 31 December 2017	**99,552,335**	**21,960,054**	**16,696,454**	**(1,918,641)**	**(135,931,891)**	**358,311**

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

Silver Bear Resources Plc

Consolidated Statement of Cash Flows

For the years ended 31 December 2017 and 2016

(Canadian dollars)

	2017	2016
Cash provided by (used in)		
Operating activities		
Total loss for the year	(8,827,078)	(9,892,929)
Adjustments for items not affecting cash:		
Depreciation	589,434	363,373
Amortization	7,985	-
Share-based payments	2,169,972	527,762
Accretion expense	144,435	79,524
Unrealised FX movement	(5,674,870)	(883,084)
Interest expense	5,988,647	4,670,909
Net change in non-cash working capital (note 18)	(3,465,623)	(9,940,947)
Net cash used in operations	(9,067,098)	(15,075,392)
Investing activities		
Purchases of property, plant and equipment	(24,651,898)	(31,760,696)
Net cash used in investing activities	(24,651,898)	(31,760,696)
Financing activities		
Proceeds from share options exercised	60,420	284,335
Finance lease repayment	(1,666,751)	(2,073,994)
Loans drawn	44,992,000	55,818,500
Net cash generated from financing activities	43,385,669	54,028,841
Effect of exchange rate changes on cash and cash equivalents	(1,111,394)	(1,399,734)
Increase in cash and cash equivalents during the year	8,555,279	5,793,019
Cash and cash equivalents - beginning of the year	15,759,123	9,966,104
Cash and cash equivalents - end of the year	24,314,402	15,759,123
Cash and cash equivalents consist of:		
Cash	24,314,402	15,759,123
	24,314,402	15,759,123

In August 2017, the convertible loan notes were exercised so that the full value of the loans and accrued interest was converted into share capital. At the date of conversion the total value of the principal and interest was $22,715,962 which was converted at $0.045 per share resulting in the issue of 504,799,162 shares. No cash was exchanged during these transactions.

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Silver Bear Resources Plc (the "Company") was incorporated on 14 March 2017 under the Companies Act 2006. 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 Company and its subsidiaries (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 kilometres north of Yakutsk in the Republic of Sakha (Yaktutia), in the Russian Federation. To date, the Group has not earned revenue from its primary business and its Mangazeisky project is considered to be in the development stage.

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 September 12, 2016, the expiry date of the above license is December 31, 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 Vertikalnoye mine. 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.

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. As at 31 December 2017, the Group had no material cash inflows from operating activities and has reported a total comprehensive loss for the year of $10,672,298 and an accumulated deficit of $135,931,891. In order to fund development operations and maintain rights under licenses and agreements, the Group has secured funding in the form of long-term loans of $114,531,923 and the Group may be dependent on securing additional financing until such time that it generates sufficient operating cash flow to meet its liabilities.

2. BASIS OF PREPARATION

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 Inc, 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.

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 Holdings Limited (a Barbados corporation, dissolved on 21 December 2017) ("Holdings"), 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 29 March 2018.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies

Foreign currency translation

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

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

Mineral properties

Mineral properties include the costs of acquiring exploration and mining licenses, as well as the cost of assets associated with the obligation for environmental rehabilitation and costs of developing the mining properties. Licenses are valued at cost at the date of acquisition less impairment. Mining properties under development are accounted for at cost and are not amortised until production has commenced. Cost includes expenditure that is directly attributable to the development of mining properties and preparing them for production.

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. All property, plant and equipment, with the exception of leasehold improvements, are depreciated on a straight line basis over eleven years which is considered to be the life of the mine.

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

Exploration costs

Field exploration, supervisory costs and costs associated with maintaining the mineral property are expensed until the 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 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 IAS 39 are initially recognised at fair value and are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets include cash and amounts receivable. Initially they are recognized at fair value and subsequently measured at amortized cost using the effective interest method. Amortized cost approximates fair value due to the short-term maturity of these assets. They are included in current assets, except for maturities greater than twelve months after the year-end.

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

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

The Group's current financial liabilities include accounts payable, accrued liabilities, finance leases and 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. The Group's non-current financial liabilities include long-term loans, preference shares and non-current finance leases shown at their carrying values as any differences are not material.

Financial instruments are initially recorded at fair value. The fair values of cash and cash equivalents, miscellaneous receivables, short-term loans, finance lease 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 finance leases 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. Such short-term investments include treasury bills with original maturities of less than 90 days. Treasury bills with original maturities in excess of 90 days are classified under short-term investments. Monies held within foreign exchange trading accounts are also recognised as cash equivalent. Equity investments are excluded from cash equivalents.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

Income Taxes

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.

Loss per share

Basic loss per share is computed by dividing loss for the period by the weighted average number of common shares outstanding for the year.

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 together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Borrowing costs

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

Prepaid expenses

Prepaid expenses represent payments made or obligations incurred in advance of the receipt of goods or rendering of services. Prepaid expenses are typically included in other current assets on the consolidated statement of financial position.

Inventories

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

Leases

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

Finance leases

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

Operating leases

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

2. BASIS OF PREPARATION (Continued)

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:

- Going concern

  Management consider the Group to be a going concern. Although the Group currently has no material cash inflows from operating activities and has reported a net loss for the year, it has received sufficient funding in order to fund development and production ramp-up operations and maintain rights under licences and agreements. The Group has secured funding in the form of long-term loans with a first interest payment due in October 2018 and the first principal repayment due in September 2020. Management has prepared a cash flow model to December 2019 reflecting the expected cash flows after the commencement of production expected in April 2018. The key assumptions which underpin this model include silver prices, the Russian rouble: US dollar exchange rate, the date when commercial production commences, capital expenditure and operating expenditure budgets as well as production volumes.

  Having assessed their cash flow forecast management are of the view that it is appropriate to adopt the going concern basis of accounting for the financial statements. The cash flow forecast is most sensitive to the date of commercial production commencement and the production volumes. If the start of commercial production is delayed for more than three months the Group may be dependent on securing additional financing until such time that it generates sufficient operating cash flow to meet its liabilities.

- 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.

  Significant management judgment was exercised, since the second primary indicator related to the currency influencing the sales price is not applicable, as AO Prognoz does not yet generate any revenue. Effects of changes in foreign exchange rates on the consolidation of the financial statements are recorded in other comprehensive income and carried in the form of a cumulative translation adjustment in the accumulated other comprehensive income section of the Statement of financial position of the Group.

- The functional currency of Silver Bear Resources Plc, Silver Bear Holdings Ltd, 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.

- Contingencies

  Refer to Note 19.

- Capitalization of development costs

  Management has 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 (Continued)

Accounting estimates and management judgments (Continued)

- Impairment of mineral properties and property, plant and equipment

  While assessing whether any indications of impairment exist for mineral properties, consideration is given to both external and internal sources of information. Information the Group considers includes changes in the market, 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.

  Management has reviewed and evaluated the existence of impairment triggers and concluded that no impairment triggers existed as at 31 December 2017. Management have nevertheless assessed the recoverable amount of its mineral properties and property, plant and equipment by performing a value in use calculation. As at 31 December 2017 the carrying value of mineral properties and property, plant and equipment was C$86,856,432. 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 Mangaseizky combined mine plan for Vertikalny and Mangazeisky North deposits. The Group currently holds an exploration licence for a number of deposits within the Mangazeisky licence area which expires in 2023 and a mining licence for the Vertikalny deposit expiring in 2033. The key assumptions used to determine the value in use are as follows:

Key assumptions	
Silver price per ounce (USD)	17 USD/oz
Discount rate (USD real)	10%
Life of mine (years)	11
Russian ruble : US dollar exchange rate	60 Rubles/USD

  Management have performed a sensitivity analysis of the value in use future cash flows relating to the reasonably possible change in silver price, discount and exchange rate. The following sensitivities were calculated:

Key assumptions	**Change**	**Net present value**
Silver price per ounce (USD) aligned with consensus forecast prices	2018-2019: 18 USD/oz 2020-2021: 19 USD/oz 2022: 20 USD/oz 2023-2028: 19 USD/oz	121,509,550
Discount rate (USD real) and silver price per ounce (USD) aligned with consensus forecast prices	12%	106,792,829
Russian ruble : US dollar exchange rate aligned with long-term market forecasts	2018: 58.6 2019: 60.5 2020: 62.8 2021: 64.6 2022-2028: 71.9 on average	102,237,450

2. BASIS OF PREPARATION (Continued)

Accounting estimates and management judgments (Continued)

Key sources of estimation uncertainty:

- Depreciation rates

  All property, plant and equipment, with the exception of leasehold improvements, are depreciated on a straight line basis over eleven years (2016: on a straight line basis over three to five years), which the Group believes is the best approximation of the useful life. As the Group is expecting to go into production next year management have reassessed the estimated useful life of property, plant and equipment in the current period to align it with the expected term of the life of the mine. If the useful economic life had been longer than management's estimate, the carrying amount of the asset would have been higher.

- Rehabilitation provisions and asset retirement obligations

  Exploration and development activities carried out by the 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 an 11 year zero coupon year bond is used in discounting future cash flows as a pre-tax discount rate.

  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.

- Share-based payment transactions

  The Group records share-based compensation at fair value. The fair value of the grant is determined using the Black-Scholes options pricing model and management assumptions regarding dividend yield, expected volatility, forfeiture rate, risk free rate and expected life. Should the underlying assumptions change, it will impact the fair value of the share-based compensation.

- Assets' carrying values and impairment charges

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

New and amended standards adopted by the Group

The Group has adopted the following annual improvements to IFRS.

IAS 7 – Statement of Cash Flows ("IAS 7")

The objective of the amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The additional disclosure is provided in Note 11 and Note 13.

IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses ("IAS 12")

The IASB published amendments to IAS 12 on 19 January 2016. The amendments, Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value. The application of this amendment has had no impact on these financial statements.

2. BASIS OF PREPARATION (Continued)

New standards and interpretations not yet adopted

The following new accounting standards and amendments to existing standards and interpretations that have been issued by the IASB are not yet effective and have not been adopted early by the Group in preparing these financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the date of transaction for the purpose of determining the spot exchange rate used to translate foreign currency transactions on initial recognition in circumstances when an entity pays or receives some or all of the foreign currency consideration in advance of the recognition of the related asset, expense or income.

The interpretation states that the date of the transaction, for the purpose of determining the spot exchange rate used to translate the related asset, expense or income on initial recognition, is the earlier of the date of initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability; and the date that the asset, expense or income is recognized in the financial statements.

The IFRIC is effective for accounting periods beginning on or after 1 January 2018. The interpretation is not expected to have any effect on the Group's consolidated financial statements as this is the same as the policy already being applied.

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 Group does not expect the IFRIC to have a material impact on the Group's results.

IFRS 9 – Financial Instruments ("IFRS 9")

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

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

The effective date of the standard is 1 January 2018.

The IASB has also issued an amendment to IFRS 9. The amendment permits more assets to be measured at amortised cost, in particular some prepayable financial assets. The amendment also confirms that most modifications to a financial liability will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39.

The amendment is effective for annual periods beginning on or after 1 January 2019.

The Group does not anticipate any material impact on the Group's results, financial position or disclosures on applying the classification and measurement requirements of IFRS 9. Application of the expected credit loss model is not expected to have a material impact on trade receivables measured at amortized cost. The changes in IFRS 9 relating to hedge accounting will have no impact as the Group does not currently apply hedge accounting.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued on 28 May 2014. It provides a principles based five step model to be applied to all contracts with customers. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. New disclosures about revenue are also introduced. This standard is effective for annual periods beginning on or after 1 January 2018. The Group does not currently have any contracts with customers so there will be no initial impact upon adopting this standard.

On 12 April 2016, the IASB issued Clarifications to IFRS 15. These amendments do not change the underlying principles; they clarify and offer additional transitional relief and are applicable for periods beginning on or after 1 January 2018.

2. BASIS OF PREPARATION (Continued)

New standards and interpretations not yet adopted (Continued)

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 Group has completed its preliminary assessment of the impact and has not identified any material impact. However when the Group completes its assessments, it may identify other matters in advance of adoption of the standard.

IFRS 2 – Share based payment ("IFRS 2")

On 20 June 2016, the IASB published final amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including: (a) accounting for cash-settled share-based payment transactions that include a performance condition, (b) classification of share-based payment transactions with net settlement features, as well as (c) accounting for modifications of share-based payment transactions from cash-settled to equity.

These changes are effective for annual periods beginning on or after 1 January 2018. The application of this amendment to IFRS 2 is not expected to have any impact on the financial statements.

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 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 the exploration and development stage; as such the Group is dependent on external financing to fund ongoing activities.

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 year ended 31 December 2017 compared to the year ended 31 December 2016. The Group is not subject to externally imposed capital requirements.

FINANCIAL RISK FACTORS

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

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 Canada and Russia which in the presentational currency total $186,809 and $24,127,593 respectively. The Group's Canadian chartered banks have a credit rating of at least A1 (Moody's) and the Group's Russian banks have a credit rating of at least Ba2 (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.

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

Liquidity 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 2017	31 December 2016
Total current assets	43,340,951	30,976,205
Total current liabilities	4,360,921	25,125,112

At 31 December 2017 the Group had total current assets of $43,340,951 (31 December 2016 – $30,976,205) to settle total current liabilities of $4,360,921 (31 December 2016 – $25,125,112), as well as its commitments outlined in Note 19. Total liabilities of $135,353,103 include long-term loans totalling $114,531,923 and accrued interest of $13,615,288.

During the year, the Group received an additional US$35m loans from existing shareholders and has increased its long term loans to $114,531,923 (31 December 2016 – $73,747,793). As at 31 December 2017, the Group had cash balances of $24,314,402 (31 December 2016 – $15,759,123).

The Group had total obligations of $2,764,486 at 31 December 2017 (31 December 2016 – $4,261,280) 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:

Group 2017	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 and accrued liabilities	2,931,429	2,931,429	2,931,429	-	-	-
Finance leases	1,429,492	1,486,771	743,386	743,385	-	-
Non-current liabilities						
Long-term loans principal	114,531,923	136,784,827	-	-	-	136,784,827
Long-term loans interest	13,615,288	77,055,453	-	10,372,849	41,491,398	25,191,206
Finance leases	1,334,994	1,679,939	-	-	1,630,690	49,249
Preference shares	83,580	83,580	-	-	-	83,580
	$ 133,926,706	$ 220,021,999	$ 3,674,815	$ 11,116,234	$ 43,122,088	$ 162,108,861

Group 2016	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 and accrued liabilities	2,675,964	2,675,964	2,675,964	-	-	-
Short-term loans principal	18,020,577	-	-	-	-	-
Short-term loans interest	2,903,202	-	-	-	-	-
Finance leases	1,525,369	1,570,663	785,331	785,332	-	-
Non-current liabilities						
Long-term loans principal	73,747,793	92,830,129	-	-	-	92,830,129
Long-term loans interest	2,534,544	53,360,350	-	6,943,185	27,772,739	18,644,426
Finance leases	2,735,911	3,348,910	-	-	1,725,654	1,623,256
	$ 104,143,360	$ 153,786,016.15	$ 3,461,295.44	$ 7,728,517.24	$ 29,498,393.37	$ 113,097,811.10

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 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 currency converted from its Canadian dollar bank accounts held in Canada. Recently 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 both U.S. dollar and Russian rouble.

Group companies have current assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to profit or loss. All amounts are shown in their Canadian dollar equivalents.

	31 December 2017		31 December 2016			
	USD	RUB	USD	RUB	EUR	GBP
Current assets:						
Cash and cash equivalents	21,610,586	2,593,561	14,330,326	1,194,530	33	-
Receivables	-	5,174,654	-	5,659,093	-	-
Inventories	-	9,226,581	-	4,219,346	-	-
Prepaid expenses	32,613	4,456,907	34,233	4,822,745	-	18,220
Total current assets	21,643,199	21,451,703	14,364,559	15,895,714	33	18,220
Current liabilities:						
Accounts payable and accrued liabilities	-	2,513,384	6,714	2,239,499	-	-
Finance leases	1,022,360	407,132	1,109,252	416,117	-	-
Total current liabilities	1,022,360	2,920,516	1,115,966	2,655,616	-	-

As the Group's construction work for the project is still ongoing, management believes it is not appropriate to hedge its foreign exchange risk at this stage. As the Group's proportion of project expenditure that is denominated in Russian rouble is increasing, the effect of changes in foreign exchange rates, in particular the Russian rouble, on the net loss is deemed to be significant as the number and amount of foreign currency transactions are relatively large. Had the Russian rouble foreign exchange rates been higher by 5%, the cumulative translation adjustment in the other comprehensive income section of the Statement of Financial Position would have been higher by $856,039.

4. RECEIVABLES

	31 December 2017	31 December 2016
Russian Value Added Tax	1,744,711	1,955,847
Deferred Russian Value Added Tax	3,058,715	3,652,007
Canadian Harmonized Sales Tax	6,113	32,804
Other	454,810	51,239
Amounts owed from group undertakings	-	-
	$ 5,264,349	$ 5,691,897

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 asset the VAT relates to are ready for use. The VAT recognised here is on assets that are expected to be available for use in 2018 and therefore the asset has been recognised as current.

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 2017	31 December 2016
Fuel and lubricants	3,561,799	738,483
Parts and supplies	5,664,782	3,480,863
	$ 9,226,581	$ 4,219,346

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses consist of the following:

	31 December 2017	31 December 2016
Insurance	16,223	42,950
Exploration and construction services and goods	4,480,277	5,144,895
Rent and administrative costs	39,119	117,994
	$ 4,535,619	$ 5,305,839

Prepaid and other long-term assets consist of the following:

	31 December 2017	31 December 2016
Construction supplies	5,474,478	6,805,868
	$ 5,474,478	$ 6,805,868

7. INTANGIBLE ASSETS

Software	31 December 2017	31 December 2016
Balance at the beginning of the year	-	-
Additions	27,538	-
Amortization	(7,985)	-
Balance at the end of the year	$ 19,553	$ -

8. MINERAL PROPERTY

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

Mineral property consists of the following:

Mangazeisky		31 December 2017		31 December 2016
Balance at the beginning of the year		11,586,996		5,640,690
Development costs capitalised		746,327		5,688,903
Impact of adjustment to ARO		137,933		3,876
Translation adjustment		(36,851)		253,527
Balance at the end of the year	$	12,434,405	$	11,586,996

The Group acquired the exploration licence 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 2017		31 December 2016
Mangazeisky	$	66,523,580	$	66,397,442

9. PROPERTY, PLANT AND EQUIPMENT

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

	31 December 2017			December 31, 2016		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property, plant and equipment:						
Mangazeisky site	79,510,067	5,068,040	74,442,027	45,989,334	3,958,147	42,031,187
Yakutsk office	83,336	83,336	-	85,175	85,175	-
Other office furniture, equipment and leasehold improvements	59,620	59,620	-	59,620	59,620	-
	$ 79,653,023	$ 5,210,996	$ 74,442,027	$ 46,134,129	$ 4,102,942	$ 42,031,187

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

Reconciliation of the carrying amount at the beginning and end of the years ended 31 December 2017 and 2016:

	Mangazeisky site		
	Property, plant and equipment	**Assets under construction**	**Total**
Carrying amount at 1 January 2016	1,154,479	4,088,598	5,243,077
Additions	8,230,752	25,959,241	34,189,993
Transfers	1,785,311	(1,785,311)	-
Disposals	(26,152)	-	(26,152)
Depreciation	(1,347,556)	-	(1,347,556)
Exchange differences	1,014,826	2,956,999	3,971,825
Carrying amount at 31 December 2016	$ 10,811,660	$ 31,219,526	$ 42,031,187
Additions	-	34,632,224	34,632,224
Transfers	5,238,377	(5,238,377)	-
Disposal at cost	(11,963)	-	(11,963)
Depreciation	(1,113,125)	-	(1,113,125)
Depreciation eliminated on disposal	3,233	-	3,233
Exchange differences	(217,246)	(882,283)	(1,099,529)
Carrying amount at 31 December 2017	$ 14,710,936	$ 59,731,091	$ 74,442,027

The carrying value of equipment held under finance leases as at 31 December 2017 was $5,070,908 (31 December 2016 - $5,885,506). The Group acquired capital assets of $34,632,224 during the year ended 31 December 2017.

The additions in the year ended 31 December 2017 include $34,632,224 of assets that are not yet ready for use and as such no depreciation has been charged on them. In the year ended 31 December 2016 additions included $25,959,241 of assets that were not yet ready for use, during the year ended 31 December 2017, $5,238,377 of these assets became available for use and depreciation was charged on them. Leased assets are pledged as security for the related finance lease obligations.

The additions in the year ended 31 December 2017 include capitalised borrowing costs of $9,542,210 (31 December 2016 - $4,087,105)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	31 December 2017	**31 December 2016**
Trade and other payables	1,849,916	2,060,302
Accrued liabilities	414,239	453,552
Tax and other liabilities	667,274	162,110
	$ 2,931,429	$ 2,675,964

11. SHORT-TERM LOANS

			31 December 2017
Lender	**Principal**	**Interest**	**Total**
Unifirm Ltd (formerly A.B. Aterra Resources Ltd)	-	-	-
Inflection Management Corp.	-	-	-
	$ -	$ -	$ -

			December 31, 2016
Lender	**Principal**	**Interest**	**Total**
Unifirm Ltd (formerly A.B. Aterra Resources Ltd)	4,505,144	723,223	5,228,367
Inflection Management Corp.	13,515,433	2,179,979	15,695,412
	$ 18,020,577	$ 2,903,202	$ 20,923,779

Movement in short term loans is analysed as follows:

	Unifirm (formerly Aterra)		**Inflection**		**Total**
	Principal *CAD$*	*Interest* *CAD$*	*Principal* *CAD$*	*Interest* *CAD$*	*CAD$*
Principal amounts received	5,610,000		12,210,000	-	17,820,000
Interest accrued in period	-	59,807	-	140,770	200,577
Consolidation of convertible loan notes	59,807	(59,807)	140,770	(140,770)	-
Revised Convertible loan Principal	5,669,807	-	12,350,770	-	18,020,577
Interest accrued	-	674,854	-	1,480,371	2,155,225
Reassignment of loan	(1,164,663)	(138,625)	1,164,663	138,625	-
Interest accrued	-	635,040	-	1,905,120	2,540,160
Conversion into Share capital	(4,505,144)	(1,171,269)	(13,515,433)	(3,524,116)	(22,715,962)
As at December 31 2017	$ -	$ -	$ -	$ -	$ -

Unifirm are indirectly wholly-owned by Alexey Mordashov, who is also the owner of Aterra Investments Limited, an insider and related party to the Group. Mr. Boris Granovsky, a director of the Group, is a managing partner of Aterra Capital, a management company for Aterra Investments Limited. Unifirm Ltd (''Unifirm'') is an affiliate of Aterra. Inflection Management Corp ("Inflection") is an insider and related party of the Group. Mr. Alexey Sotskov, a director of the Group, is also a director of Inflection.

(a) Unsecured non-convertible promissory notes

On 2 March 2015, the Group entered into unsecured non-convertible promissory notes with Aterra and with Inflection, pursuant to which Aterra and Inflection each agreed to lend the Group US$3,500,000 respectively for a total of US$7,000,000. The promissory notes bear interest at a rate of 15% per year and the principal and accrued interest are payable on the maturity date.

In the second quarter of 2016, the Group obtained waivers from Inflection and Aterra in respect of the default caused by the Group's failure to repay on the 31 March 2016 maturity date the principal amounts and accrued interest on these notes. Such waivers terminated on the earlier of 30 September 2016 and the date on which the notes were repaid in full. Subsequently, on 19 September 2016, the Group replaced all the existing non-convertible loans, including interest, with funds received in accordance with the Facilities Agreement, the detail of which is in Note 13.

(b) Contingent convertible promissory notes

In October 2015, Aterra and Inflection provided additional loans to the Group of C$2,310,000 and C$3,300,000 respectively. These additional loans were made under contingent convertible promissory notes that bore interest at 15% per year and had a maturity date of 31 December 2015 and were contingently convertible into Common Shares of the Group at a price of C$0.075 per Common Share. These loan notes were consolidated into new convertible loan notes as detailed below (Note 11 (d)).

(c) Convertible promissory note

In November 2015, Inflection advanced a further C$5,610,000 under a convertible promissory note with a maturity date of 31 December 2015 and which was convertible into Common Shares at a price of C$0.045 per Common Share. This note also bore interest at 15% per year. This loan note was consolidated into the new convertible loan notes as detailed below (Note 11 (d)).

11. SHORT-TERM LOANS (Continued)

(d) Consolidated convertible loan notes

In December 2015 loan notes from Aterra of C$2,310,000 originally issued in October 2015 (Note 11 (b)), accrued interest thereon of C$59,807 and an additional loan of C$3,300,000, were consolidated into a new convertible loan note for C$5,669,807 in favour of Aterra. In September 2016, Aterra reassigned C$1,164,663 of this new convertible loan note, plus interest of C$138,625, to Inflection.

In December 2015 all convertible loan notes from Inflection with a combined principal amount of C$8,910,000 (Note 11 (b), Note 11 (c)), accrued interest thereon of C$140,770 and an additional loan of C$3,300,000, were also consolidated into a new convertible loan note with a value of C$12,350,770.

Both these convertible loan notes bore interest at 15% per year, were due to mature on 31 December 2017 and gave the holder the right to convert the principal and any accrued interest into fully paid Common Shares of the Group at a conversion price of C$0.045 per Common Share. Management considered 15% per year to be the prevailing market rate on loans that do not have an associated equity conversion option; accordingly all of the principal is recognised as a liability.

In August 2017, both Aterra and Inflection exercised their right to convert the full value of these loan notes and interest. At the date of conversion the total value of the principal and interest was $22,715,962 which was converted at $0.045 per share resulting in the issue of 504,799,162 shares

(e) Contingent non-convertible loan note

In December 2015, Inflection also paid C$3,300,000 as consideration for the Group issuing a contingent non-convertible loan note bearing interest at 15% and maturing on 31 December 2016; the loan note was issued on 11 January 2016. This loan was replaced on 19 September 2016 along with all interest of C$377,014 incurred up to that date and by new loans (Note 13).

(f) Unsecured contingent non-convertible promissory notes

In March 2016, Aterra and Inflection provided additional loans to the Group of US$5,500,000 and US$14,500,000 respectively. These additional loans were made under unsecured contingent non-convertible promissory notes that bore interest at 15% per year and had a maturity date of 31 December 2016. These loans were replaced on 19 September 2016 along with interest of US$1,543,356 incurred up to that date by new loans (Note 13).

12. FINANCE 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.

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

	31 December 2017	31 December 2016
Within one year	1,425,999	1,376,996
Within two to five years	1,740,711	3,736,005
	3,166,710	5,113,001
Future finance charges on finance leases	(402,224)	(851,721)
Present value of the net lease payments	2,764,486	4,261,280
Current portion	1,429,492	1,525,369
Long-term portion	1,334,994	2,735,911
Total obligations under finance leases	$ 2,764,486	$ 4,261,280

13. LONG-TERM LOANS

			31 December 2017
Lender	**Principal**	**Interest**	**Total**
Unifirm Ltd (formerly A.B. Aterra Resources Ltd)	24,589,758	3,504,807	28,094,564
Inflection Management Corp.	89,942,165	10,110,481	100,052,647
	$ 114,531,923	$ 13,615,288	$ 128,147,211

			December 31, 2016
Lender	**Principal**	**Interest**	**Total**
Unifirm Ltd (formerly A.B. Aterra Resources Ltd)	19,035,716	721,610	19,757,326
Inflection Management Corp.	54,712,077	1,812,934	56,525,011
	$ 73,747,793	$ 2,534,544	$ 76,282,337

Movement in long term loans is analysed as follows:

	Unifirm (formerly Aterra)		**Inflection**		**Total**
	Principal	*Interest*	*Principal*	*Interest*	
	USD	*USD*	*USD*	*USD*	*USD*
Principal amounts received	9,000,000	-	20,502,085	-	29,502,085
Interest accrued in period	-	1,177,192	-	2,245,718	3,422,910
Consolidation of individual loans into Facilities Agreement	1,177,192	(1,177,192)	2,245,718	(2,245,718)	-
Initial principal amount of Facilities Agreement	10,177,192	-	22,747,803	-	32,924,995
Interest accrued	-	424,050	-	947,825	1,371,875
Reassignment of loan to subsidiary	424,050	(424,050)	947,825	(947,825)	-
Additional principal received	9,000,000	-	48,000,000	-	57,000,000
Interest accrued	-	2,793,788	-	8,059,371	10,853,159
As at December 31 2017 (USD)	19,601,242	2,793,788	71,695,628	8,059,371	102,150,029
As at December 31 2017 (CAD)	$ 24,589,758	$ 3,504,807	$ 89,942,165	$ 10,110,481	$ 128,147,211

On 5 September 2016, the Group entered into a Facilities Agreement (the "Facilities Agreement") and certain related security documents with the Lenders, to provide financing for the final development, construction and commissioning of the Group's Mangazeisky Silver Project (the "Project").

Pursuant to the Facilities Agreement, the Lenders have made available to Silver Bear Resources Inc secured loans in the aggregate principal amount of US$54.9 million comprising three tranches ("Secured Loan Funding"). Tranche A consisted of a term loan facility of US$42.9 million, of which Inflection has provided US$30.4 million and Aterra has provided US$12.5 million (the "Term Loan Facility"). Of the US$42.9 million total Tranche A commitment, US$32.9 million was made available to Silver Bear Resources Inc with the remaining US$10.0 million being made available to Prognoz (collectively "Tranche A"). On 28 December 2016, a set off agreement was entered into resulting in the amounts due to the Lenders by the Silver Bear Resources Inc under the Facilities Agreement, plus the accrued interest, becoming due by Prognoz instead.

The Lenders have also made available to Prognoz, the Tranche B working capital facility of US$10.0 million (the "Working Capital Facility") and the Tranche C contingent facility of US$2.0 million (the "Contingent Facility", and together with the Working Capital Facility, the "Additional Facilities").

A portion of the Term Loan Facility (US$32,924,995) has been used by the Group to replace the principal and accrued interest for all outstanding non-convertible notes previously issued by the Group to the Lenders described above (Note 11 (a), Note 11 (e), Note 11 (f)).

On 28 March 2017, the Group concluded formal agreements with the Lenders to increase the Facilities Agreement by a further US$15 million ("Facilities Agreement Increase"). Under the Facilities Agreement Increase, the lenders have agreed to provide an additional working capital tranche of US$10 million to meet expenses during the rescheduled ramp-up plus a discretionary US$5 million cost over-run tranche, should that be required. No other principal terms of the existing project facilities have been changed. On 19 April 2017, the Group received US$10 million of this additional working capital. On 8 August 2017, the Group received the remaining US$5 million of the additional working capital.

On 7 November 2017, the Group entered into an amended Facility Agreement relating to the above. Under this agreement, the lenders have agreed to provide an additional US$20 million of working capital which was drawn down on 15 November 2017.

13. LONG-TERM LOANS (Continued)

The Secured Loan Funding accrues interest at a rate of 15% per annum, calculated and accrued quarterly, and is payable on 1 January, 1 April, 1 July and 1 October in each calendar year and on the maturity date, being 20 March 2022. Pursuant to the terms of the Facilities Agreement, all interest accrued before 1 July 2018 will be capitalized and added to the principal amount of the Term Loan Facility such that the first interest payment under the Facilities Agreement would therefore be in respect of the quarterly period ending 1 October 2018.

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 2017 this Secured Loan Funding has accrued interest of C$13,615,288.

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 2017	31 December 2016
Balance at the beginning of the year	1,172,643	918,910
Accretion expense	144,435	79,524
Impact of change to underlying cost estimate	610,998	14,754
Impact of rates adjustment	(473,066)	(10,878)
Translation adjustment	(28,613)	170,333
Balance at the end of the year	$ 1,426,397	$ 1,172,643

At 31 December 2017, the expected life of the Mangazeisky project has been assessed to be 11 years. The projected cost for reclamation and closure of the Mangazeisky project in 2028 has been estimated to be $3,226,000. A Russian Government 11 year zero coupon year bond of 7.70% (2016: 8.35%) has been used in discounting of future cash flows.

15. SHAREHOLDERS' EQUITY

Common shares

Authorized: Unlimited number of common shares and preferred shares issued with a par value of £0.001 and £1 respectively. As of 31 December 2017 1,000 preference shares were held in treasury (2016: nil).

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the year ended 31 December 2017 and 2016:

	Number of common shares	$	Number of common shares	$
Balance - Beginning of the year	162,930,351	98,684,330	161,327,017	98,277,254
Issued upon conversion of loan note	504,799,162	815,806	-	-
Issued under stock option plan	318,000	52,198	1,603,334	407,076
Shares issued on incorporation	1,000	2	-	-
Balance - End of the year	668,048,513	99,552,335	162,930,351	98,684,330

15. SHAREHOLDERS' EQUITY (Continued)

Convertible loans

On 30 August 2017, the Group was notified by its major shareholders, Aterra and Inflection, of their intention to convert their respective outstanding convertible promissory notes (the "Notes"). The Aterra and Inflection Notes represented C$4,505,144 and C$13,515,432 principal amount respectively, in addition to their respective accrued and unpaid interest.

Prior to the conversion, Aterra held 40,468,579 common shares of the Group, representing 24.8% of the Group's then shares outstanding and Inflection held 41,176,471 common shares of the Group representing 25.2% of the Group's then shares outstanding. After the conversion of the principal amount of the Notes and accrued and unpaid interest thereon, the Group now has an aggregate of 668,048,513 common shares outstanding. Of these, Aterra holds 166,611,092 common shares, representing 24.94% of the total issued and outstanding common shares and Inflection holds 419,833,120, representing 62.84% of the total issued and outstanding common shares.

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 8 June 2016, the board of directors resolved, and the Group obtained approval from the 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 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 following dates:

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
Total		2,318,750	

The total number of bonus shares that are currently issued under the share bonus plan is 2,318,750. As shareholders approved an aggregate of up to 5,400,000 common shares for issuance, a further 3,081,250 common shares may be issued under the share bonus plan as at 31 December 2017.

Stock options and warrants

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 Toronto Stock Exchange ("TSX") on the last trading date preceding the date of the grant. The term of each option is granted for a period not exceeding five years from the date of the grant. Except as expressly provided for in the option holder's employment, consulting or termination contract, the option holder may exercise the option to the extent exercisable on the date of such termination at any time within twelve months after the date of termination.

The maximum aggregate number of Shares reserved by the 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.

As at 31 December 2017, the total number of options available for issue was 66,804,751. A total of 55,957,335 options or shares for issuance under the share bonus plan (subject to a maximum of 3,081,250 common shares that can be issued under the share bonus plan as at 31 December 2017) are available for future issue as at 31 December 2017.

15. SHAREHOLDERS' EQUITY (Continued)

Stock options and warrants (Continued)

During the year ended 31 December 2017, options generated a share based payments expense of $2,169,972 (31 December 2016: $527,762). 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.

Reconciliation of the number of options at the beginning and end of the year ended 31 December 2017 and 2016 follows:

	31 December 2017		31 December 2016	
	Number	**Weighted average exercise price, $**	**Number**	**Weighted average exercise price, $**
Balance - Beginning of the year	9,221,666	0.24	10,140,000	0.33
Granted	18,000,000	0.24	2,900,000	0.19
Exercised	(318,000)	0.19	(1,603,334)	0.18
Expired / Cancelled / Forfeited	(375,000)	0.65	(2,215,000)	0.64
Balance - End of the year	26,528,666	0.24	9,221,666	0.24

As at 31 December 2017, the Group had share options outstanding and exercisable as follows:

	Outstanding		Exercisable	
Expiry year	**Number**	**Weighted average exercise price, $**	**Number**	**Weighted average exercise price, $**
2018	300,000	0.24	300,000	0.24
2019	5,746,666	0.24	5,746,666	0.24
2021	2,482,000	0.19	2,482,000	0.19
2022	18,000,000	0.24	18,000,000	0.24
	26,528,666	0.24	26,528,666	0.24

Contributed surplus consists of the following:

	Group	
	31 December 2017	**31 December 2016**
Balance - Beginning of the year	14,578,157	14,173,136
Share-based payments	2,169,972	527,762
Exercised options	(51,675)	(122,741)
Balance - End of the year	$ 16,696,454	$ 14,578,157

15. SHAREHOLDERS' EQUITY (Continued)

Stock options and warrants (Continued)

Share purchase warrant transactions are summarized as follows:

	31 December 2017		31 December 2016	
	Number of share purchase warrants	**Weighted average exercise price, $**	**Number of share purchase warrants**	**Weighted average exercise price, $**
Balance - Beginning of the year	-	-	3,522,498	0.33
Expired / Cancelled / Forfeited	-	-	(3,522,498)	-
Balance - End of the year	-	-	-	-

At 31 December 2017, there were no warrants outstanding.

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

Loss per share

The calculation of the basic and diluted loss per share attributable to the owners of the Group is based on the following data. As a result of net losses in each of the periods, the potential effect of stock options and convertible loan notes has not been included in the calculation of loss per share because to do so would be anti-dilutive.

	31 December 2017	**31 December 2016**
Net loss	(8,824,740)	(9,848,211)
Weighted average number of common shares outstanding	331,796,154	161,835,587
Basic and diluted loss per share	$ (0.03)	$ (0.06)

16. RELATED PARTY DISCLOSURES

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

The Group has appointed TechnoNICOL Corporation ("TechnoNICOL"), a company controlled by the same beneficial owner of Inflection, a major shareholder of the Group, to provide services specific to the Mangazeisky Project. In accordance with contracts entered into as at 31 December 2017, TechnoNICOL has provided goods to the value of RUB 13,236,185 (C$287,960) excluding VAT.

During the year ended 31 December 2017 and 2016 the Group entered into transactions for goods and services with the following related parties:

	Goods and services received	
Goods and services received from (provided to):	**31 December 2017**	**31 December 2016**
TechnoNICOL Corporation	287,960	283,418
	$ 287,960	$ 283,418

At the end of the reporting period, the Group was owed from TechnoNICOL C$2,146 (31 December 2016: C$Nil) 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.

(b) <u>Financing transactions</u>

The Group has entered into a series of financing transactions with major shareholders. Refer to notes 11 and 13.

The Group was required to reimburse Aterra for legal fees incurred in relation to the lending agreements in the year of C$142,259 (31 December 2016: C$183,045).

16. RELATED PARTY DISCLOSURES (Continued)

(c) Compensation of key management

Key management includes the Group's directors and officers. Compensation awarded to key management comprised:

	31 December 2017	31 December 2016
Salaries, fees and short-term employee benefits	785,238	1,164,624
Termination payments	126,252	30,000
Share-based payments	2,169,972	527,762
	$ 3,081,462	$ 1,722,386

As at 31 December 2017 the Group owed key management $85,797 (31 December 2016: $290,554) for fees and bonuses payable in accordance with contracts and agreements.

The amounts set out in the above table includes employee costs relating to Silver Bear Plc for $112,671 (31 December 2016: $nil) and remuneration in respect of the highest paid director as shown in the table below:

	31 December 2017	31 December 2016
Emoluments	297,867	648,675
Share options exercised	-	219,333
	$ 297,867	$ 868,009

(d) Interest in other entities

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 Holdings Limited	Whitepark House, White Park Road, Bridgetown, BB11135, Barbados	Ordinary USD 58,442,152 shares	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 Saha (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 company's subsidaries are as follows:

- Silver Bear Resources Inc. – holding company;
- Silver Bear Holdings Limited – holding company;
- Silver Bear Resources B.V. – holdings company;
- AO Prognoz - acquisition, exploration, evaluation and development of precious metal properties.

17. EXPENSES BY NATURE

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

	31 December 2017	31 December 2016
Employee compensation	3,558,188	1,772,879
Exploration & evaluation	334,366	2,658,561
Depreciation	589,434	363,373
Amortisation	7,985	-
Geological & environmental studies	-	534,204
Professional fees	1,385,462	1,373,405
Auditors' remuneration - Audit fees	205,034	171,354
Auditors' remuneration - Non-audit fees	235,406	165,579
Office expenses	118,268	75,986
Travel expenses	268,201	218,723
Accretion expense	144,435	79,524
Interest expense	5,988,646	4,670,910
Foreign exchange	(5,631,136)	(2,968,587)
Loss on disposal of fixed assets	2,840	26,152
Amounts written off	439,650	-
Investor relations expenses	444,954	432,347
Other expenses	1,347,936	275,531
	$ 9,439,668	$ 9,849,942

Expenses relating to the development and construction of the Mangazeisky Project have been capitalised from 1 July 2015. This means that certain categories of expenses are no longer charged to the income statement.

As at 31 December 2017 depreciation of property, plant and equipment totalling $523,690 has been capitalised on the basis that the equipment being depreciated is being used in the construction of the Mangazeisky Project.

Compensation of key management personnel is presented in Note 16. Employee benefits relating to the construction of the Mangazeisky Project are capitalised within mineral properties. Employee benefits expensed for the year ended 31 December 2017 and 2016 consisted of the following:

	31 December 2017	31 December 2016
Salaries, fees and short-term employee benefits	1,863,871	1,456,922
Employee compensation costs capitalised	(601,907)	(241,805)
Termination payments	126,252	30,000
Share-based payments	2,169,972	527,762
	$ 3,558,188	$ 1,772,879

18. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	31 December 2017	31 December 2016
Receivables	1,536,707	(4,561,998)
Inventories	(5,098,336)	(3,034,323)
Prepaid expenses	312,513	(2,961,432)
Accounts payable and accrued liabilities	(216,507)	616,807
	$ (3,465,623)	$ (9,940,947)

19. CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2017 the Group entered into long-term lease agreements for the purchase of additional necessary equipment. Minimum lease payments under finance lease agreements are presented in Note 12.

The Group is party to certain management contracts and severance obligations. These contracts contain clauses requiring that additional payments of up to $430,000 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 2017.

20. 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 2017

Country/Property	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Net (profit)/loss for the year
Russia - Mangazeisky	24,127,593	9,226,581	9,931,384	5,174,654	12,434,405	74,442,027	589,434	5,035,033	(1,288,525)
Corporate	186,809	-	78,713	89,695	-	-	-	953,614	10,113,265
	$ 24,314,402	$ 9,226,581	$ 10,010,097	$ 5,264,349	$ 12,434,405	$ 74,442,027	$ 589,434	$ 5,988,647	$ 8,824,740

As at 31 December 2016

Country/Property	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Net loss for the year
Russia - Mangazeisky	10,407,498	4,219,346	11,982,190	5,659,093	11,586,996	42,031,187	363,373	875,707	4,502,269
Corporate	5,351,625	-	129,517	32,804	-	-	-	3,795,202	5,345,942
	$ 15,759,123	$ 4,219,346	$ 12,111,707	$ 5,691,897	$ 11,586,996	$ 42,031,187	$ 363,373	$ 4,670,909	$ 9,848,211

21. 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, restricted cash, accounts receivable, short-term loans, finance leases 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, finance leases and preference shares. 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 2017 and 2016 were as follows:

As at 31 December 2017	Loans and receivables	Other liabilities	TOTAL
Cash and cash equivalents	24,314,402	-	24,314,402
Accounts receivable	454,810	-	454,810
Short-term loans	-	-	-
Long-term loans	-	128,147,211	128,147,211
Accounts payables and accrued liabilities	-	2,350,666	2,350,666
Finance leases	-	2,764,486	2,764,486
Preference shares	-	83,580	83,580

As at 31 December 2016	Loans and receivables	Other liabilities	TOTAL
Cash and cash equivalents	15,759,123	-	15,759,123
Accounts receivable	51,239	-	51,239
Short-term loans	-	20,923,779	20,923,779
Long-term loans	-	73,747,793	73,747,793
Accounts payables and accrued liabilities	-	2,675,506	2,675,506
Finance leases	-	4,261,280	4,261,280

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

22. INCOME TAXES

	2017	2016
Current tax expense	2,338	44,718
Total tax expense	**2,338**	**44,718**

22. INCOME TAXES (Continued)

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

	2017	2016
Loss before taxation	(8,824,740)	(9,848,211)
Statutory tax rate	20.00%	26.50%
Tax benefit of statutory rate	(1,764,948)	(2,609,776)
Expenses not deductible for income tax purposes	618,164	834,588
Tax effect of unrecognized temporary difference	1,158,450	2,218,213
Losses not previously recognized	-	1,317,559
Foreign tax rate differential	(11,666)	(1,715,866)
Silver Bear Holdings Ltd final tax obligation	2,338	-
Total tax expense	**2,338**	**44,718**

The 2017 statutory tax rate of 20% changed from 26.5% as a result of Silver Bear Resources Plc becoming the parent the company of Silver Bear Resources Inc. Silver Bear Resources Plc is a corporate tax resident in Russia.

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.

At 31 December 2017, Silver Bear Resources Inc. has the unclaimed non-capital losses that expire as follows:

Expiry Date	Amount
2026	$ 2,104,195
2027	$ 2,934,330
2028	$ 3,240,724
2029	$ 3,527,150
2030	$ 2,401,498
2031	$ 3,109,109
2032	$ 2,484,534
2033	$ 2,076,956
2034	$ 2,669,955
2035	$ 4,888,144
2036	$ 10,844,222
2037	$ 4,871,278
	$ 45,152,095

In addition, AO Prognoz has approximately $8,647,278 (2016 – $625,482) of non-capital losses for Russian income tax purposes that expire at the end of the years 2017 through 2027 (2017 through 2026).