



**SILVER  
BEAR**  
RESOURCES INC.

## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*For the three and nine months ended September 30, 2016*

*(Expressed in Canadian dollars)*

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## **NOTICE OF NO REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# Silver Bear Resources Inc.

## Consolidated Statement of Financial Position

(Canadian dollars)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	12,825,851	9,966,104
Receivables (note 4)	4,882,470	910,893
Inventories (note 5)	4,680,690	734,745
Prepaid expenses (note 6)	3,242,006	1,438,383
<b>Total current assets</b>	<b>25,631,017</b>	<b>13,050,125</b>
<b>Non-current assets</b>		
Prepaid long-term assets (note 6)	5,830,496	3,262,320
Mineral property (note 7)	13,542,416	5,891,369
Property, plant and equipment (note 8)	25,420,490	4,992,398
	44,793,402	14,146,087
<b>Total assets</b>	<b>70,424,419</b>	<b>27,196,212</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 9)	3,872,636	2,995,207
Short-term loans (note 10)	18,020,577	31,008,577
Finance lease (note 11)	424,873	175,348
<b>Total current liabilities</b>	<b>22,318,086</b>	<b>34,179,132</b>
<b>Non-current liabilities</b>		
Long-term loans (note 12)	56,337,243	-
Asset retirement obligation (note 13)	1,073,782	918,910
Finance lease (note 11)	952,559	13,634
	58,363,584	932,544
<b>Total liabilities</b>	<b>80,681,670</b>	<b>35,111,676</b>
<b>EQUITY</b>		
Equity attributable to owners of Silver Bear Resources Inc.		
Share capital (note 14)	98,600,274	98,277,254
Contributed surplus (note 14)	14,597,722	14,173,136
Accumulated other comprehensive loss	(1,351,418)	(3,153,970)
Deficit	(122,103,829)	(117,211,884)
<b>Total deficit</b>	<b>(10,257,251)</b>	<b>(7,915,464)</b>
<b>Total liabilities and shareholders' equity</b>	<b>70,424,419</b>	<b>27,196,212</b>

### Going concern (note 1)

### Commitments and contingencies (note 18)

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

Approved by the Board of Directors on November 14, 2016

“Graham Hill”

Graham Hill  
Director

“Trevor Eyton”

Trevor Eyton  
Director

# Silver Bear Resources Inc.

## Consolidated Statement of Comprehensive Loss

For the three and nine months ended September 30, 2016 and 2015

(Canadian dollars)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Income</b>				
Interest income	413	199	1,359	1,984
	413	199	1,359	1,984
<b>Expenses</b> (Note 16)				
Exploration and evaluation expenses	841,288	180,708	1,437,322	3,195,289
General and administrative expenses	700,878	576,243	2,387,099	2,150,983
Depreciation	(107,711)	46,052	236,137	168,914
Share-based payments	16,637	45,332	519,022	144,332
Accretion expense	20,248	-	58,317	35,272
Interest expense	617,409	372,584	2,210,713	764,518
Foreign exchange loss	(1,248,787)	637,023	(1,955,306)	724,811
Expenses from operations	839,962	1,857,942	4,893,304	7,184,119
<b>Net loss for the period</b>	<b>(839,549)</b>	<b>(1,857,743)</b>	<b>(4,891,945)</b>	<b>(7,182,135)</b>
<b>Other comprehensive loss</b>				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(420,956)	(1,006,502)	1,802,552	(486,577)
<b>Comprehensive loss for the period</b>	<b>(1,260,505)</b>	<b>(2,864,245)</b>	<b>(3,089,393)</b>	<b>(7,668,712)</b>
<b>Weighted average number of common shares outstanding</b>	161,817,452	161,327,017	161,491,689	161,326,147
<b>Basic and diluted loss per share</b> (Note 14)	(0.01)	(0.01)	(0.03)	(0.04)

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

# Silver Bear Resources Inc.

## Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2016 and 2015

(Canadian dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
<b>Balance - December 31, 2014</b>	98,265,379	14,009,495	(1,880,025)	(106,528,807)	3,866,042
Net loss for the period	-	-	-	(7,182,135)	(7,182,135)
Other comprehensive loss:					
Cumulative translation adjustment	-	-	(486,577)	-	(486,577)
Comprehensive loss for the period	-	-	(486,577)	(7,182,135)	(7,668,712)
Shares issued under share bonus plan	11,875	-	-	-	11,875
Share-based payments	-	132,457	-	-	132,457
<b>Balance - September 30, 2015</b>	<b>98,277,254</b>	<b>14,141,952</b>	<b>(2,366,602)</b>	<b>(113,710,942)</b>	<b>(3,658,338)</b>
<b>Balance - December 31, 2015</b>	98,277,254	14,173,136	(3,153,970)	(117,211,884)	(7,915,464)
Net loss for the period	-	-	-	(4,891,945)	(4,891,945)
Other comprehensive loss:					
Cumulative translation adjustment	-	-	1,802,552	-	1,802,552
Comprehensive loss for the period	-	-	1,802,552	(4,891,945)	(3,089,393)
Shares issued under stock option plan	323,020	(94,436)	-	-	228,584
Share-based payments	-	519,022	-	-	519,022
<b>Balance - September 30, 2016</b>	<b>98,600,274</b>	<b>14,597,722</b>	<b>(1,351,418)</b>	<b>(122,103,829)</b>	<b>(10,257,251)</b>

# Silver Bear Resources Inc.

## Consolidated Statement of Cash Flow

For the nine months ended September 30, 2016 and 2015

(Canadian dollars)

	September 30, 2016	September 30, 2015
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Total loss for the period	(4,891,945)	(7,182,135)
Adjustments for items not affecting cash:		
Depreciation	236,137	168,914
Share-based payments	519,022	144,332
Accretion expense	58,317	35,272
Interest expense	2,210,713	384,452
Net change in non-cash working capital (note 17)	(9,263,411)	(2,911,663)
Net cash used in operations	(11,131,167)	(9,360,828)
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(16,984,300)	(1,106,426)
Mineral property addition	(7,499,147)	-
Long term prepayments	(2,096,041)	-
Net cash used in investing activities	(26,579,488)	(1,106,426)
<b>Financing activities</b>		
Proceeds from share options exercised	228,584	-
Finance lease repayment	(1,552,941)	(65,020)
Short-term and long-term loans drawn net	41,352,181	8,743,000
Net cash generated from financing activities	40,027,824	8,677,980
Effect of exchange rate changes on cash and cash equivalents	542,578	209,900
Increase in cash and cash equivalents during the period	2,859,747	(1,579,374)
Cash and cash equivalents - beginning of the period	9,966,104	1,593,133
Cash and cash equivalents - end of the period	12,825,851	13,759
<b>Cash and cash equivalents consist of:</b>		
Cash	12,825,851	1,780,118
Cash equivalents	-	-
	12,825,851	1,780,118

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

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Silver Bear Resources Inc. ("Silver Bear") was incorporated under the Business Corporations Act of the Province of Ontario, Canada, on April 8, 2004 and continued under Articles of Continuance dated August 30, 2004 under the Business Corporations Act (Yukon) and February 1, 2005 under the Business Corporations Act (Ontario). The primary business of Silver Bear and its subsidiaries (the "Company") is the acquisition, exploration, evaluation and development of precious metal properties. The head office of the Company is registered in Toronto, Canada. The strategy of the Company is to focus on exploration and development of precious metal deposits. The principal asset of the Company is its right to explore and develop the Mangazeisky property ("Mangazeisky"), located approximately 400 kilometres north of Yakutsk in the Republic of Sakha (Yakutia), in the Russian Federation. To date, Silver Bear has not earned revenue from operations and is considered to be in the development stage.

It has been determined that development, exploration and evaluation costs incurred from July 1, 2015 have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including the geological and metallurgical information, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. In 2015 the Company decided to start the development of Mangazeisky that includes the construction of a silver mine with associated processing facilities and infrastructure.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future. As at September 30, 2016, the Company had no source of operating cash flows and reported a net loss for the period of \$4,891,945 and a cumulative deficit of \$122,103,829. In order to fund development operations and maintain rights under licenses and agreements, the Company has secured funding in the form of short-term and long-term loans of \$18,020,577 and \$56,337,243 respectively. In these circumstances, there exist material uncertainties resulting in significant doubt as to the ability of the Company to continue to meet its obligations as they come due and, hence the ultimate appropriateness of the use of accounting principles applicable to a going concern.

These unaudited condensed consolidated interim financial statements do not include adjustments or disclosures that may result should the Company not be able to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be required to the carrying value of assets and liabilities, the expenses, the reported comprehensive loss and balance sheet classifications used that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. These adjustments could be material.

### 2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with the Handbook of the Canadian Institute of Chartered Accountants, in accordance with IFRS, as issued by International Accounting Standards Board ("IASB"), applicable to the preparation of consolidated financial statements and in accordance with accounting policies based on IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, including IAS 34 – Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated statements for the year ended December 31, 2015, which has been prepared in accordance with IFRS as issued by the IASB. The Company has consistently applied the accounting policies used in the preparation of its IFRS financial statements throughout all periods presented, as if these policies had always been in effect.

These consolidated financial statements comprise the financial statements of Silver Bear Resources Inc. and its 100% owned subsidiaries: Silver Bear Holdings Limited (a Barbados corporation) ("Holdings"), and ZAO Prognoz (a Russian Federation corporation). All significant inter-company accounts and transactions have been eliminated on consolidation.

These unaudited consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on November 14, 2016.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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### 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:*

- Determination of functional currency

Based on the primary indicators in IAS 21 – The Effects of Change in Foreign Exchange Rates – the Russian rouble has been determined as the functional currency of ZAO Prognoz, an operating subsidiary of Silver Bear, because the Russian rouble is the currency that mainly influences labour, material and other costs of providing goods or services, and is the currency in which these costs are denominated and settled.

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

If the functional currency of the Russian entity had been Canadian dollar, the effect of changes in foreign exchange rates would have been reflected in net income as foreign exchange gain (loss) on the Statement of comprehensive loss.

- Assets' carrying values and impairment charges

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

- Contingencies

Refer to Note 18.

- Capitalization of development and exploration and evaluation costs

Management has determined that development and exploration and evaluation costs incurred from July 1, 2015 have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including the geological and metallurgical information, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.



# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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### 2. BASIS OF PREPARATION (Continued)

#### *Key sources of estimation uncertainty:*

- Depreciation rates

All property, plant and equipment, with the exception of leasehold improvements, are depreciated on a straight line basis over three to five years, which the Company believes is the best approximation of the useful life. If the estimated life had been longer than management's estimate, the carrying amount of the asset would have been higher.

- Rehabilitation provisions and asset retirement obligations

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

The term of the exploration license is used as the discounting period. If the estimated pre-tax discount rate used in the calculation had been higher than the management estimate, the carrying amount of the provision would have been lower and interest expense higher.

If the estimated period over which the cash flows associated with the asset retirement obligations are calculated had been longer than management's estimates, the carrying amount of the provision would have been lower as would have been interest expense.

- Share-based payment transactions

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

- Impairment of mineral properties

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

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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### 2. BASIS OF PREPARATION (Continued)

#### New accounting standards

The Company has adopted the following annual improvements to IFRSs.

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

On December 18, 2014, the International Accounting Standards Board (IASB) issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The adoption of the amendments has not had any material impact.

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

##### *IFRS 9 – Financial Instruments (“IFRS 9”)*

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

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

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

##### *IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)*

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

On April 12, 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 January 1, 2018.

##### *IFRS 16 – Leases (“IFRS 16”)*

On January 13, 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 January 1, 2019. The Company has not yet assessed the impact of this standard.

##### *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 will 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.

These amendments are mandatory for annual periods beginning on or after January 1, 2017. The Company has not yet assessed the impact of this amendment.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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### 2. BASIS OF PREPARATION (Continued)

#### New accounting standards (Continued)

##### *IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses (“IAS 12”)*

The IASB published amendments to IAS 12 on January 19, 2016. The amendments, Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value. The revisions apply for periods beginning on or after January 1, 2017, with early adoption permitted. The Company has not yet assessed the impact of this amendment.

##### *IFRS 2 – Share based payment (“IFRS 2”)*

On June 20, 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 January 1, 2018. The Company has not yet assessed the impact of this amendment.

### 3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS

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

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

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

In order to fund the ongoing development activities, the Company will spend existing working capital and plans to raise additional amounts as needed through equity and/or debt. The Company will continue to assess new properties and seek to acquire an interest in additional properties where sufficient geologic or economic potential are noted and if financial resources exist to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2016 compared to the year ended December 31, 2015. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

### FINANCIAL RISK FACTORS

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

#### **Credit risk**

The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of interest earning bank accounts held in banks in Canada and Russia. The Company's Canadian chartered banks have a credit rating of at least Aa3 (Moody's) and the Company's Russian banks have a credit rating of at least Ba2 (Moody's).

Miscellaneous receivables and prepaid expenses other than taxes due from the Federal Government of Canada and Russian Value Added Tax refunds from the Russian tax authorities are insignificant. Management believes that the credit risk concentration with respect to accounts receivable is low.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

#### Liquidity risk

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due by continual review of budgets and forecasts and discussions with shareholders and other providers of finance as appropriate. At September 30, 2016 the Company had total current assets of \$25,631,017 (December 31, 2015 - \$13,050,125) to settle total current liabilities of \$22,318,086 (December 31, 2015 - \$34,179,132), as well as its commitments outlined in Note 18. Total liabilities of \$80,681,670 include short-term and long-term loans of \$74,357,820 and \$2,465,743 of accrued interest.

During the period the Company increased its short term and long term loans to \$74,357,820 (December 31, 2015 - \$31,008,577). As at September 30, 2016, the Company had cash balances of \$12,825,851 (December 31, 2015 - \$9,966,104).

The Company had total obligations of \$1,377,432 at September 30, 2016 (December 31, 2015 - \$188,982) under a combination of three and five year leases for equipment in relation to the development of Mangazeisky, as outlined in Note 11.

#### Interest rate risk

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

#### Foreign currency risk

The Company has funded certain exploration, 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. This exposes the Company to changes in foreign exchange rates for both U.S. dollar and Russian rouble.

As the Company'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 Company'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 lower by \$723,056.

### 4. RECEIVABLES

	September 30, 2016	December 31, 2015
Russian Value Added Tax	1,016,575	265,216
Deferred Russian Value Added Tax	3,779,272	602,731
Canadian Harmonized Sales Tax	34,154	31,359
Other	52,469	11,587
	<b>\$ 4,882,470</b>	<b>\$ 910,893</b>

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 5. INVENTORIES

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

	September 30, 2016	December 31, 2015
Fuel and lubricants	1,111,274	207,921
Parts and supplies	3,569,416	526,824
	\$ 4,680,690	\$ 734,745

### 6. PREPAID EXPENSES

Prepaid expenses consist of the following:

	September 30, 2016	December 31, 2015
Insurance	26,666	38,315
Exploration and construction services and goods	3,067,556	1,332,133
Rent and administrative costs	147,784	67,935
	\$ 3,242,006	\$ 1,438,383

Prepaid long-term assets consist of the following:

	September 30, 2016	December 31, 2015
Construction supplies	5,830,496	3,262,320
	\$ 5,830,496	\$ 3,262,320

### 7. MINERAL PROPERTY

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

Mineral property consists of the following:

	September 30, 2016	December 31, 2015
<b>Mangazeisky</b>		
Balance at the beginning of the period	5,891,369	1,607,824
Development costs capitalised	4,141,691	4,362,308
Borrowing costs capitalised	3,357,456	250,679
Translation adjustment	151,900	(329,442)
Balance at the end of the period	\$ 13,542,416	\$ 5,891,369

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

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

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

	September 30, 2016	December 31, 2015
Mangazeisky	\$ 64,641,998	\$ 63,204,676

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 8. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2016			December 31, 2015		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property, plant and equipment:						
Mangazeisky site	28,687,745	3,267,255	25,420,490	7,602,989	2,610,591	4,992,398
Yakutsk office	79,772	79,772	-	72,492	72,492	-
Other office furniture, equipment and leasehold improvements	59,620	59,620	-	59,620	59,620	-
	<b>\$ 28,827,137</b>	<b>\$ 3,406,647</b>	<b>\$25,420,490</b>	<b>\$ 7,735,101</b>	<b>\$ 2,742,703</b>	<b>\$4,992,398</b>

Reconciliation of the carrying amount at the beginning and end of the year ended December 31, 2015 and the nine months ended September 30, 2016:

	Mangazeisky site		
	Property, plant and equipment	Assets under construction	Total
Carrying amount at January 1, 2015	1,017,864	-	1,017,864
Additions	651,190	4,102,576	4,753,766
Disposals	-	-	-
Depreciation	(256,465)	-	(256,465)
Exchange differences	(258,110)	(264,657)	(522,767)
Carrying amount at December 31, 2015	<b>\$ 1,154,479</b>	<b>\$ 3,837,919</b>	<b>\$ 4,992,398</b>
Additions	3,930,691	15,381,759	19,312,449
Disposals	(26,152)	-	(26,152)
Depreciation	(656,664)	-	(656,664)
Exchange differences	351,342	1,447,116	1,798,458
Carrying amount at September 30, 2016	<b>\$ 4,753,696</b>	<b>\$20,666,794</b>	<b>\$25,420,490</b>

The carrying value of equipment held under finance leases as at September 30, 2016 was \$2,323,359 (December 31, 2015 - \$154,827). The Company acquired capital assets of \$19,312,449 during the nine month period ended September 30, 2016. The additions in the nine month period ended September 30, 2016 and the year ended December 31, 2015 include \$16,828,875 and \$3,837,919 respectively of assets that are not yet ready for use and as such no depreciation has been charged on them. Leased assets are pledged as security for the related finance lease obligations.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	September 30, 2016	December 31, 2015
Trade and other payables	932,485	1,344,067
Accrued liabilities	377,102	328,894
Accrued interest	2,465,743	1,313,723
Other liabilities	97,307	8,523
	<b>\$ 3,872,636</b>	<b>\$ 2,995,207</b>

On September 5, 2016, the Company repaid the non-convertible short term loans and accrued interest on those loans. The interest balance above represents the interest payable on the existing convertible short term loans as well as the interest payable on the new Facilities Agreement. Please see notes 10 and 12 for more information on this.

### 10. SHORT-TERM LOANS

	September 30, 2016		
Lender	Principal	Interest	Total
A.B. Aterra	4,505,144	552,892	5,058,036
Inflection Management Corp.	13,515,433	1,668,985	15,184,417
	<b>\$ 18,020,577</b>	<b>\$ 2,221,876</b>	<b>\$ 20,242,453</b>

	December 31, 2015		
Lender	Principal	Interest	Total
A.B. Aterra	10,513,807	674,051	11,187,858
Inflection Management Corp.	20,494,770	748,183	21,242,953
	<b>\$ 31,008,577</b>	<b>\$ 1,422,234</b>	<b>\$ 32,430,811</b>

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

On March 2, 2015, the Company entered into unsecured non-convertible promissory notes with FrontDeal and with Inflection Management Corporation ("Inflection"), pursuant to which FrontDeal and Inflection each agreed to lend the Company US\$3,500,000 respectively for a total of US\$7,000,000. The promissory notes bear interest at a rate of 15% per year and the principal and accrued interest are payable on the maturity date. These loans were repaid on September 19, 2016 along with all interest incurred up to that date and replaced by new loans, the detail of which is in Note 12.

In October 2015, Aterra and Inflection provided additional loans to the Company 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 December 31, 2015 and were contingently convertible into Common Shares of the Company at a price of C\$0.075 per Common Share.

In November 2015, Inflection advanced a further C\$5,610,000 under convertible promissory note with a maturity date of December 31, 2015 and which was convertible into Common Shares at a price of C\$0.045 per Common Share. This note also bore interest at 15% per year.

In December 2015 loan notes from Aterra and accrued interest thereon were consolidated into a new convertible loan note for C\$5,669,807 in favour of FrontDeal. In September 2016 Aterra reassigned C\$1,164,663 of this new convertible loan note, plus interest of C\$138,625, to Inflection.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 10. SHORT-TERM LOANS (Continued)

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

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

In December 2015, Inflection also paid C\$3,300,000 as partial consideration for the Company issuing a contingent convertible loan note bearing interest at 15% and maturing on December 31, 2016; the loan note was issued on January 11, 2016. This loan was repaid on September 19, 2016 along with all interest incurred up to that date and replaced by new loans, the detail of which is in Note 12.

In March 2016, Aterra and Inflection provided additional loans to the Company 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 December 31, 2016. These loans were repaid on September 19, 2016 along with all interest incurred up to that date and replaced by new loans, the detail of which is set out in Note 12.

### 11. FINANCE LEASE

The Company entered into a long-term lease agreement, extended in 2014, with Caterpillar Financial Ltd. for the purchase of certain exploration equipment payable in monthly installments of US\$11,300. The lease payments were discounted at a rate of 12.7%. The Company made a down-payment for 50% of the cost of equipment.

During the period the Company entered into new long term lease agreements with Caterpillar Financial Ltd, for the purchase of equipment in relation to the development of the Mangazeisky project payable in monthly instalments of circa US\$28,000. The lease payments have been discounted at rates 12.4% and 21.8%. The Company made down payments for 30% of the cost of the equipment.

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

	September 30, 2016	December 31, 2015
Within one year	494,116	187,682
Within two to five years	1,263,128	15,640
	1,757,244	203,322
Future finance charges on finance lease	(379,813)	(14,340)
Present value of the net lease payments	1,377,432	188,982
Current portion	424,873	175,348
Long-term portion	952,559	13,634
Total obligations under finance lease	\$ 1,377,432	\$ 188,982



## Silver Bear Resources Inc.

### Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

## 12. LONG-TERM LOANS

Lender	September 30, 2016		
	Principal	Interest	Total
A.B. Aterra	16,373,814	71,533	16,445,347
Inflection Management Corp.	39,963,429	172,335	40,135,764
	\$ 56,337,243	\$ 243,867	\$ 56,581,110

Lender	December 31, 2015		
	Principal	Interest	Total
A.B. Aterra	-	-	-
Inflection Management Corp.	-	-	-
	\$ -	\$ -	\$ -

On September 5, 2016 the Company entered into a Facilities Agreement (the "Facilities Agreement") and certain related security documents with the Lenders, to provide Silver Bear and its indirect wholly-owned Russian subsidiary, Closed Joint Stock Company "Prognoz" ("Prognoz") with financing for the final development, construction and commissioning of the Company's Mangazeisky Silver Project (the "Project").

Pursuant to the Facilities Agreement, the Lenders will make available to Silver Bear and Prognoz secured loans in the aggregate principal amount of US\$55.2 million comprising three tranches ("Secured Loan Funding"). Tranche A consisted of a term loan facility of US\$43.2 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\$43.2 million total Tranche A commitment, US\$33.2 million has been made available to Silver Bear with the remaining US\$10.0 million being made available to Prognoz (collectively "Tranche A"). The Lenders will also make available to Prognoz, subject to the terms and conditions of the Facilities Agreement, a Tranche B working capital facility of US\$10.0 million (the "Working Capital Facility") and a 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 Company to repay the principal and accrued interest for all outstanding non-convertible notes previously issued by the Company to the Lenders described above.

The Secured Loan Funding accrues interest at a rate of 15% per annum, calculated and accrued quarterly, and is payable on January 1, April 1, July 1 and October 1 in each calendar year and on the maturity date, being the date that is forty-eight months following the date on which the Term Loan Facility has been drawn in full. Pursuant to the terms of the Facilities Agreement, all interest accrued before July 1, 2017 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 October 1, 2017.

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

As at September 30, 2016 this Secured loan funding has accrued interest of C\$243,867.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 13. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY

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

The Company's provision for decommissioning and restoration liability consist of management's best estimate of reclamation and closure costs for Mangazeisky 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:

	September 30, 2016	December 31, 2015
Balance at the beginning of the period	918,910	826,758
Accretion expense	58,317	68,839
Impact of rates adjustment	-	69,363
Translation adjustment	96,555	(46,050)
Balance at the end of the period	\$ 1,073,782	\$ 918,910

The estimated value of the obligation to rehabilitate the site expressed in Canadian dollars is \$1,094,564. A Russian Central bank borrowing rate of 8.25% has been used in discounting of future cash flows.

### 14. SHAREHOLDERS' EQUITY

#### Common shares

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

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the period ended September 30, 2016 and the year ended December 31, 2015:

	September 30, 2016		December 31, 2015	
	Number of common shares	\$	Number of common shares	\$
Balance - Beginning of the period	161,327,017	98,277,254	161,089,517	98,265,379
Issued under stock option plan	1,293,334	323,020	-	-
Issued under share bonus plan	-	-	237,500	11,875
Balance - End of the period	162,620,351	98,600,274	161,327,017	98,277,254

#### Share Bonus Plan

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

On June 8, 2016 the board of directors resolved, and the Company 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.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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### 14. SHAREHOLDERS' EQUITY (Continued)

#### Share Bonus Plan (Continued)

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

October 1, 2013	-	275,000	common shares
January 1, 2014	-	275,000	common shares
April 1, 2014	-	618,750	common shares
July 1, 2014	-	618,750	common shares
October 1, 2014	-	293,750	common shares
January 1, 2015	-	237,500	common shares
Total		<u>2,318,750</u>	

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 can be issued under the share bonus plan as at 30 September, 2016

#### Stock options and warrants

The Company has a stock option plan which is intended to provide an incentive to officers, employees, directors and consultants of the Company. Stock options are granted from time to time and the option price is determined by the Compensation Committee of the Board of Directors at its sole discretion but shall not be less than the closing price of the Company's common stock on the Toronto Stock Exchange ("TSX") on the last trading date preceding the date of the grant. The term of each option is granted for a period not exceeding five years from the date of the grant. Except as expressly provided for in the option holder's employment, consulting or termination contract, the option holder may exercise the option to the extent exercisable on the date of such termination at any time within twelve months after the date of termination.

The maximum aggregate number of Shares reserved by the Company for issuance and which may be purchased upon the exercise of all options granted under its option plan together 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 May 18, 2016, 2,900,000 options were granted to directors, officers and consultants of the Company. The exercise price of the options is \$0.19 per option. Granted stock options vest immediately on the day of grant and expire on May 18, 2021.

As at September 30, 2016 the total number of options available for issue was 16,262,035. A total of 4,411,619 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 September 30, 2016) are available for future issue as at September 30, 2016.

During the nine months ended September 30, 2016, options generated a share based payments expense of \$519,022 (September 30, 2015: \$144,332). The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option). Expected volatility is based on the historical share price volatility over the past 4 years. The expected life of the option was calculated based on the history of option exercises.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 14. SHAREHOLDERS' EQUITY (Continued)

#### Stock Options and Warrants (Continued)

Reconciliation of the number of options at the beginning and end of the nine months ended September 30, 2016 and the year ended December 31, 2015 follows:

	September 30, 2016		December 31, 2015	
	Number	Weighted average exercise price, \$	Number	Weighted average exercise price, \$
Balance - Beginning of the period	10,140,000	0.33	12,572,500	0.37
Granted	2,900,000	0.19	-	-
Exercised	(1,293,334)	0.18	-	-
Expired / Cancelled / Forfeited	(2,215,000)	0.64	(2,432,500)	0.52
Balance - End of the period	9,531,666	0.24	10,140,000	0.33

As at September 30, 2016, the Company had share options outstanding and exercisable as follows:

Expiry year	Outstanding		Exercisable	
	Number	Weighted average exercise price, \$	Number	Weighted average exercise price, \$
2017	325,000	0.57	325,000	0.57
2018	300,000	0.24	300,000	0.24
2019	6,006,666	0.24	3,840,000	0.24
2021	2,900,000	0.19	2,900,000	0.19
	9,531,666	0.23	7,365,000	0.23

Contributed surplus consists of the following:

	September 30, 2016	December 31, 2015
Balance-Beginning of year	14,173,136	14,009,495
Share-based payments	424,586	163,641
Balance- End of year	\$ 14,597,722	\$ 14,173,136

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 14. SHAREHOLDERS' EQUITY (Continued)

#### Stock Options and Warrants (Continued)

Share purchase warrant transactions are summarized as follows:

	September 30, 2016		December 31, 2015	
	Number of share purchase warrants	Weighted average exercise price, \$	Number of share purchase warrants	Weighted average exercise price, \$
Balance - Beginning of the period	3,522,498	0.33	38,383,422	0.26
Expired / Cancelled / Forfeited	(3,522,498)	-	(34,860,924)	0.27
Balance - End of the period	-	-	3,522,498	0.33

At September 30, 2016, 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

Basic and diluted loss per share is calculated by dividing the net loss by the weighted average number of shares in issue during the year. As a result of net losses in each of the periods, the potential effect of exercising stock options and warrants has not been included in the calculation of loss per share because to do so would be anti-dilutive.

	Nine months ended	
	September 30, 2016	September 30, 2015
Net loss	(4,891,945)	(7,182,135)
Weighted average number of common shares outstanding	161,491,689	161,326,147
Basic and diluted loss per share	\$ (0.03)	\$ (0.04)

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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### 15. RELATED PARTY DISCLOSURES

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

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

The Company has appointed TechnoNICOL Corporation ("TechnoNICOL"), a company controlled by the same beneficial owner of Inflection, a major shareholder of the Company, to provide services specific to the Mangazeisky Project. The total contract value entered into as at September 30, 2016, including VAT, is RUB 20,935,257 (C\$423,201). As at September 30, 2016 TechnoNICOL had provided services to the value of RUB 15,631,583 (C\$315,989) including VAT.

On March 2, 2015, the Company entered into unsecured non-convertible promissory notes with FrontDeal Limited ("FrontDeal") and with Inflection Management Corporation ("Inflection"), pursuant to which FrontDeal and Inflection have each agreed to lend the Company US\$3,500,000 respectively for a total of US\$7,000,000. The promissory notes bear interest at a rate of 15% per year and the principal and accrued interest are payable on the maturity date. These loans were repaid on September 19, 2016 along with all interest incurred up to that date.

In October 2015, A.B. Aterra Resources Ltd. ("Aterra") and Inflection provided additional loans to the Company 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 December 31, 2015 and were contingently convertible into Common Shares of the Company at a price of C\$0.075 per Common Share. In November 2015, Inflection advanced a further C\$5,610,000 under convertible promissory note with a maturity date of December 31, 2015 and which was convertible into Common Shares at a price of C\$0.045 per Common Share. This note also bore interest at 15% per year.

In December 2015 loan notes from Aterra and accrued interest thereon were consolidated into a new convertible loan note for C\$5,669,807 in favour of FrontDeal. 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 loan notes from Inflection and accrued interest thereon were also consolidated into a new convertible loan note with a value of C\$12,350,770.

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

In December 2015, Inflection also paid C\$3,300,000 as partial consideration for the Company issuing a contingent convertible loan note bearing interest at 15% and maturing on December 31, 2016; the loan note was issued on January 11, 2016. This loan was repaid on September 19, 2016 along with all interest incurred up to that date.

In March 2016, Aterra and Inflection provided additional loans to the Company 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 December 31, 2016. These loans were repaid on September 19, 2016 along with all interest incurred up to that date.

On September 5, 2016 the Company entered into a Facilities Agreement (the "Facilities Agreement") and certain related security documents with the Lenders, to provide Silver Bear and its indirect wholly-owned Russian subsidiary, Closed Joint Stock Company "Prognoz" ("Prognoz") with financing for the final development, construction and commissioning of the Company's Mangazeisky Silver Project (the "Project").

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 15. RELATED PARTY DISCLOSURES (Continued)

Pursuant to the Facilities Agreement, the Lenders will make available to Silver Bear and Prognoz secured loans in the aggregate principal amount of US\$55.2 million comprising three tranches ("Secured Loan Funding"). Tranche A consisted of a term loan facility of US\$43.2 million, of which Inflection has provided US\$30.4 million and Aterra has provide US\$12.5 million (the "Term Loan Facility"). Of the US\$43.2 million total Tranche A commitment, US\$33.2 million has been made available to Silver Bear with the remaining US\$10.0 million being made available to Prognoz (collectively "Tranche A"). The Lenders will also make available to Prognoz, subject to the terms and conditions of the Facilities Agreement, a Tranche B working capital facility of US\$10.0 million (the "Working Capital Facility") and a 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 Company to repay the principal and accrued interest on all outstanding non-convertible notes previously issued by the Company to the Lenders described above.

The Secured Loan Funding accrues interest at a rate of 15% per annum, calculated and accrued quarterly, and is payable on January 1, April 1, July 1 and October 1 in each calendar year and on the maturity date, being the date that is forty-eight months following the date on which the Term Loan Facility has been drawn in full. Pursuant to the terms of the Facilities Agreement, all interest accrued before July 1, 2017 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 October 1, 2017.

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

As at September 30, 2016 all of these loans have accrued interest of C\$2,465,743.

During the nine months ended September 30, 2016 and 2015 the Company entered into transactions for goods and services with the following related parties:

	Goods and services received	
	September 30, 2016	September 30, 2015
Goods and services received from (provided to):		
2227929 Ontario Inc.	-	170,952
Forbes & Manhattan Inc.	-	150,000
TechnoNICOL Corporation	267,787	-
	\$ 267,787	\$ 320,952

There were no balances related to goods and services received from related parties outstanding at the end of the reporting period.

### Compensation of key management

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Salaries, fees and short-term employee benefits	237,940	155,317	787,842	692,483
Termination payments	-	-	30,000	91,800
Share-based payments	16,637	-	519,022	10,625
	\$ 254,577	\$ 155,317	\$ 1,336,864	\$ 794,908

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 16. EXPENSES BY NATURE

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Employee compensation	51,681	366,578	1,392,082	1,943,054
Drilling and trenching	680,164	180,708	1,276,198	552,894
Depreciation	(107,711)	42,563	236,137	169,611
Professional fees	353,775	40,340	794,437	517,286
Geological & environmental studies	161,124	-	161,124	1,408,819
Transportation	-	-	-	131,218
Camp maintenance	-	26,715	-	257,530
Taxes	-	-	-	6,313
Office expenses	13,045	11,103	40,037	209,876
Travel expenses	87,491	-	137,617	68,404
Air transportation	-	-	-	133,818
Accretion expense	20,249	68,179	58,317	35,910
Interest expense	617,408	372,269	2,210,712	765,594
Foreign exchange	(1,391,409)	635,779	(1,955,306)	742,047
Loss on disposal of fixed assets	-	-	26,152	-
Other expenses	354,145	113,708	515,797	241,745
	\$ 839,962	\$ 1,857,942	\$ 4,893,304	\$ 7,184,119

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

Depreciation in the three months ended September 30, 2016 appears as a negative in the table above as a result of taking the decision to capitalise the charge of \$201,775 recognised in the first six months of the year. As at September 30, 2016 depreciation of property, plant and equipment totalling \$420,527 has been capitalised on the basis that the equipment being depreciated is being used in the construction of the Mangazeisky project.

Employee benefits relating to the construction of the Mangazeisky development and construction are capitalised within mineral properties. Employee benefits expensed for the three and nine months ended September 30, 2016 and 2015 consisted of the following:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Salaries, fees and short-term employee benefits	449,180	321,246	1,257,196	1,583,695
Employee compensation costs capitalised	(414,136)	-	(414,136)	-
Termination payments	-	-	30,000	215,027
Share-based payments	16,637	45,332	519,022	144,332
	\$ 51,681	\$ 366,578	\$ 1,392,082	\$ 1,943,054



# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 17. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	September 30, 2016	December 31, 2015
Receivables	(4,021,177)	(85,563)
Inventories	(3,622,396)	(1,074,066)
Prepaid expenses	(1,216,162)	(2,967,248)
Accounts payable and accrued liabilities	(403,676)	1,215,214
	<u>\$ (9,263,411)</u>	<u>\$ (2,911,663)</u>

### 18. COMMITMENTS AND CONTINGENCIES

The Company entered into a long-term lease agreement with Caterpillar Financial Ltd. for the purchase of certain exploration equipment payable in monthly installments of US\$11,300 over a three-year period until December 2016. The Company has also entered into additional long-term lease agreements with Caterpillar Financial Ltd for the purchase of necessary equipment. These leases require monthly installments of circa US\$28,000 over three to five years.

The Company is party to certain management contracts and severance obligations. These contracts contain clauses requiring that additional payments of up to \$515,000 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.

In 2015, the Company paid an amount of RUR 17,884,000 (C\$338,365) to Toms Engineering, an entity that had been contracted to provide exploration work. The payment for the work is now in dispute. After obtaining advice from external legal counsel it is considered probable that RUR 8 million of this disputed amount is potentially recoverable. However, the contingent asset has not been recognized as a receivable as at September 30, 2016 as receipt of the amount is dependent on the outcome of legal proceedings.

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect Silver Bear's financial position, results of operations or cash flows. There were no material outstanding legal proceedings as of September 30, 2016.

# Silver Bear Resources Inc.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

### 19. SEGMENTED INFORMATION

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

Country/Property	As at September 30, 2016								
	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Net loss for the period
Russia - Mangazeisky	12,102,718	4,680,690	8,920,748	4,848,315	13,542,416	25,420,490	236,137	126,874	1,551,604
Canada - corporate	723,133	-	151,754	34,155	-	-	-	2,083,838	3,340,341
	\$ 12,825,851	\$ 4,680,690	\$ 9,072,502	\$ 4,882,470	\$ 13,542,416	\$ 25,420,490	\$ 236,137	\$ 2,210,713	\$ 4,891,945

Country/Property	As at December 31, 2015								
	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Net loss for the period
Russia - Mangazeisky	1,450,741	734,745	4,952,550	539,475	5,891,369	4,992,398	256,465	30,291	5,992,369
Canada - corporate	8,515,363	-	86,518	33,054	-	-	-	1,201,379	4,690,708
	\$ 9,966,104	\$ 734,745	\$ 5,039,068	\$ 572,529	\$ 5,891,369	\$ 4,992,398	\$ 256,465	\$ 1,231,670	\$ 10,683,077

### 20. FINANCIAL INSTRUMENTS

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments. Financial assets and financial liabilities as at September 30, 2016 and December 31, 2015 were as follows:

As at September 30, 2016	Loans and receivables	Other liabilities	TOTAL
Cash and cash equivalents	12,825,851	-	12,825,851
Accounts Receivable	4,882,470	-	4,882,470
Short-term loans	-	18,020,577	18,020,577
Long-term loans	-	56,337,243	56,337,243
Accounts payables and accrued liabilities	-	3,872,636	3,872,636
Finance lease	-	1,377,432	1,377,432

## Silver Bear Resources Inc.

### Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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#### 20. FINANCIAL INSTRUMENTS (Continued)

<b>As at December 31, 2015</b>	<b>Loans and receivables</b>	<b>Other liabilities</b>	<b>TOTAL</b>
Cash and cash equivalents	9,966,104	-	9,966,104
Accounts Receivables	910,893	-	910,893
Short-term loans	-	31,008,577	31,008,577
Long-term loans	-	-	-
Accounts payables and accrued liabilities	-	2,995,207	2,995,207
Finance lease	-	188,982	188,982

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