



ANNUAL REPORT AND ACCOUNTS

Registered Number: 10669766 (England and Wales)

For the year ended 31 December 2018

(Expressed in Canadian dollars)

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Mangazeisky Silver Project
PATH TO PRODUCTION

Silver Bear Resources Plc

Directors' Responsibility for Financial Reporting

For the Year Ended 31 December 2018

The consolidated financial statements of Silver Bear Resources Plc and its wholly-owned subsidiaries, Silver Bear Resources Inc., Silver Bear Resources B.V. and ZAO Prognoz are collectively referred to as the "Group" have been prepared by, and are the responsibility of the Group's management.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. In the opinion of management the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results of operations of the Group within reasonable limits of materiality.

Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Group's assets are safeguarded, transactions are authorized, and financial information is reliable. All internal control systems have inherent limitations, including the possibility of circumvention and overriding controls, and, therefore, can provide only reasonable assurance as to financial statement preparation and safeguarding of assets.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee meets with the Group's management and external auditors to discuss the results of the audit and to review the annual consolidated financial statements prior to the Audit Committee's submission to the Board of Directors for approval. The Audit Committee also reviews the quarterly financial statements and recommends them for approval to the Board of Directors, reviews with management the systems of internal control and security, approves the scope of the external auditors audit and non-audit work. The Audit Committee is composed entirely of directors not involved in the daily operations of the Group and thus is considered to be free from any relationship that could interfere with the exercise of independent judgment as a Committee member.

The consolidated financial statements have been audited by BDO LLP UK, Chartered Accountants and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

"Vadim Ilchuk"

Vadim Ilchuk

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

"Maxim Matveev"

Maxim Matveev

Director

Toronto, Ontario, Canada

01 April 2019

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of Silver Bear Resources Plc and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Financial Position, Consolidated statement of Comprehensive Loss, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as promulgated by the IASB.

In our opinion:

- the financial statements present fairly, in all material aspects, the financial position of Silver Bear Resources PLC as at 31 December 2018 and its financial performance and its cash flows for the year then ended; and
- the consolidated financial statements have been properly prepared in accordance with IFRSs.

Basis for opinion

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

Material uncertainty relating to going concern

We draw attention to Note 1, to the financial statements, which indicates that the Group requires its principal asset, the Mangazeisky silver project, to successfully achieve sustainable production levels and generate cash inflows in line with budget. There is continued uncertainty regarding the mine's future performance as it remains in the pre-commercial stage of production. As stated in Note 1, these events or conditions, along with other matters as set out in Note 1 indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter and the financial statements do not include the adjustment that would result if the Group were unable to continue as a going concern.

We considered going concern to be a Key Audit Matter based on our assessment of risk and the effect on our audit. We performed the following work on response to this Key Audit Matter:

- We critically challenged the Directors' forecasts to assess the group's ability to meet their obligations within the period of twelve months from the date of approval of the financial statements by reviewing the assumptions and inputs in the cash flow forecast to ensure these were in line with our understanding of the group's operations and other information obtained during the course of the audit;
- We corroborated the opening cash position by reference to bank statements;
- We compared the forecast production data for the next 12 months to actual results achieved in 2018;
- We reviewed the shareholder's loan facility and considered the conditions attached to future repayments and their inclusion within the cash flow forecasts;

- We discussed the progress of operations and timing of ramp up to sustainable commercial production with management;
- We sensitised the information available to changes in contractual commitments and discretionary expenditures, and
- We evaluated the adequacy of disclosures made within the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section we have determined the matters described below to be the key audit matters to be communicated in our report.

KEY AUDIT MATTER
<p>Carrying value of mineral properties and plant and equipment</p> <p>The Group's project mining assets, including capitalised mineral property, intangible assets, property, plant and equipment and inventory represent the Group's most significant asset.</p> <p>The Mangazeisky silver mine is in the pre-commercial stage of production and there is a continued risk that indicators of impairment are present. As at year end Management are required to assess whether there are any indicators that the asset may be impaired in accordance with the requirements of IFRSs.</p> <p>Given the value attributed to the asset and the significant management judgement involved in this assessment there is considered to be an increase in risk of material misstatement. This judgement is disclosed in note 2 to the financial statements.</p>
OUR RESPONSE
<p>We reviewed Management's assessment of the impairment indicators for the Group's asset. In doing so we performed the following:</p> <ul style="list-style-type: none"> • We reviewed the existence license to confirm that the group holds a valid right to commence exploration and exploration activities on Mangazeiski project. We reviewed the underlying license terms and checked the official state register. We confirmed that the Group's exploration and production license is valid until 2033. • We reviewed correspondence with mining authorities, RNS announcements, Board minutes and made enquiries with Management and noted no evidence of any change in license terms or non-compliance with licence terms. • We reviewed the commitments and obligations associated with the license. • We visited the mine site and physically verified the new mining equipment acquired in 2018 and confirmed that the asset were operating in line with expectations. • We reviewed in detail the key assumptions and judgements exercised in Management's assessment of the indicators of impairment, challenged Management's judgements by reference to the results from the operations and those that would be expected given the stage of development. We compared the actual performance to date with the life of mine economic model and investigated any material deviations in order to consider whether these represented an indicator of impairment.

Other information

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

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

Other matters

The consolidated financial statements for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statement on 29 March 2018.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 2, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the Group's financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

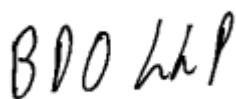
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e gives a true and fair view).
- Are required to report on consolidated financial statements, 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 the audit opinion.

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Matt Crane.

A handwritten signature in blue ink that reads "BDO LLP". The letters are in a cursive, slightly slanted font.

For and on behalf of BDO LLP, Statutory Auditor
London
1 April 2019

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

Silver Bear Resources Plc

Consolidated Statement of Financial Position

(Canadian dollars)

	31 December 2018	31 December 2017
ASSETS		
Current assets		
Cash and cash equivalents	1,141,663	24,314,402
Receivables (note 4)	4,166,445	5,264,349
Inventories (note 5)	19,134,628	9,226,581
Prepaid expenses (note 6)	2,049,093	4,535,619
Total current assets	26,491,829	43,340,951
Non-current assets		
Intangible assets (note 8)	172,495	19,553
Prepaid non-current assets (note 6)	634,005	5,474,478
Other non-current assets (note 7)	3,404,404	-
Mineral property (note 9)	12,027,009	12,434,405
Property, plant and equipment (note 10)	96,924,301	74,442,027
	113,162,214	92,370,463
Total assets	139,654,043	135,711,414
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	3,148,788	2,931,429
Finance leases (note 12)	1,655,056	1,429,492
Total current liabilities	4,803,844	4,360,921
Non-current liabilities		
Long-term loans (note 13)	163,102,592	128,147,211
Asset retirement obligation (note 14)	1,109,391	1,426,397
Finance leases (note 12)	690,681	1,334,994
Preference shares	-	83,580
	164,902,664	130,992,182
Total liabilities	169,706,508	135,353,103
EQUITY		
Share capital (note 15)	99,559,086	99,552,335
Share premium	22,383,855	21,960,054
Shareholders contribution	1,807,077	-
Contributed surplus (note 15)	17,178,582	16,696,454
Cumulative translation adjustment	1,513,902	(1,918,641)
Accumulated deficit	(172,494,967)	(135,931,891)
Total (deficit)/equity	(30,052,465)	358,311
Total liabilities and shareholders' equity	139,654,043	135,711,414

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

The financial statements on pages 7 to 35 were approved by the Board of Directors on 01 April 2019, and signed on its behalf by:

“Vadim Ilchuk”

Vadim Ilchuk
Director, President, CEO and Interim CFO

“Maxim Matveev”

Maxim Matveev
Director

Silver Bear Resources Plc

Consolidated Statement of Comprehensive Loss

For the years ended 31 December 2018 and 2017

(Canadian dollars)

	2018	2017
Income		
Interest income	854	73,239
Other income (Note 17)	1,361,853	541,689
	1,362,707	614,928
Expenses (Note 18)		
Exploration and evaluation expenses	188,111	334,366
General and administrative expenses	4,057,473	5,396,315
Depreciation	1,920,182	589,434
Amortization	40,528	7,985
Share-based payments	535,798	2,169,972
Accretion expense	104,519	144,435
Interest expense	3,451,581	5,988,647
Impairment of inventory	1,050,146	-
Amounts written off	-	439,650
Foreign exchange loss/(gain)	26,616,552	(5,631,136)
Expenses from operations	37,964,890	9,439,668
Net loss for the year before tax	(36,602,183)	(8,824,740)
Tax charge (Note 23)	(14,563)	(2,338)
Net loss for the year after tax	(36,616,746)	(8,827,078)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	3,432,543	(1,845,220)
Total comprehensive loss for the year	(33,184,203)	(10,672,298)
Weighted average number of common shares outstanding	670,472,459	331,796,154
Basic and diluted loss per share (Note 15)	(0.05)	(0.03)

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 2018 and 2017

(Canadian dollars)

	Share capital	Share premium	Shareholders contribution	Contributed surplus	Cumulative translation adjustment	Accumulated Deficit	Total equity
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
Balance - 31 December 2017	99,552,335	21,960,054	-	16,696,454	(1,918,641)	(135,931,891)	358,311
Net loss for the year	-	-	-	-	-	(36,616,746)	(36,616,746)
Other comprehensive loss:							
Cumulative translation adjustment	-	-	-	-	3,432,543	-	3,432,543
Comprehensive loss for the year	-	-	-	-	3,432,543	(36,616,746)	(33,184,203)
Shares issued under bonus plan	2,737	-	-	-	-	-	2,737
Shares issued under stock option plan	1,557	152,893	-	(53,670)	-	53,670	154,450
Share-based payments	-	-	-	535,798	-	-	535,798
Shares issued in the year	2,457	270,908	-	-	-	-	273,365
Fair value gain on modification of loans	-	-	1,807,077	-	-	-	1,807,077
Balance - 31 December 2018	99,559,086	22,383,855	1,807,077	17,178,582	1,513,902	(172,494,967)	(30,052,465)

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

Silver Bear Resources Plc

Consolidated Statement of Cash Flow

For the years ended 31 December 2018 and 2017

(Canadian dollars)

	2018	2017
Cash provided by (used in)		
Operating activities		
Total loss for the year	(36,616,746)	(8,827,078)
Adjustments for items not affecting cash:		
Depreciation	1,920,182	589,434
Amortization	40,528	7,985
Share-based payments	535,798	2,169,972
Accretion expense	104,519	144,435
Unrealised FX movement	26,616,552	(5,674,870)
Inventory	1,050,146	-
Interest expense	3,451,581	5,988,647
Net change in non-cash working capital (note 19)	(7,969,922)	(3,465,623)
Net cash used in operations	(10,867,362)	(9,067,098)
Investing activities		
Purchases of property, plant and equipment	(22,091,060)	(24,651,898)
Net cash used in investing activities	(22,091,060)	(24,651,898)
Financing activities		
Proceeds from share options exercised	154,450	60,420
Finance lease repayment	(1,694,727)	(1,666,751)
Short-term and long-term loans drawn	8,185,200	44,992,000
Net cash generated from financing activities	6,644,923	43,385,669
Effect of exchange rate changes on cash and cash equivalents	3,140,760	(1,111,394)
Decrease in cash and cash equivalents during the year	(23,172,739)	8,555,279
Cash and cash equivalents - beginning of the year	24,314,402	15,759,123
Cash and cash equivalents - end of the year	1,141,663	24,314,402
Cash and cash equivalents consist of:		
Cash	1,141,663	24,314,402
	1,141,663	24,314,402

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.

No interest was repaid during the year.

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

Silver Bear Resources Plc

Notes to Consolidated Financial Statements

For the years ended 31 December 2018 and 2017

1. NATURE OF OPERATIONS

Silver Bear Resources Plc 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 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 (Yakutia), in the Russian Federation. On June 22, 2018, the Group announced that it had achieved first silver production in April 2018 as a result of its commissioning activities.

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

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

2. BASIS OF PREPARATION

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

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

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The Group has consistently applied the accounting policies used in the preparation of its IFRS financial statements throughout all periods presented, as if these policies had always been in effect.

These audited consolidated financial statements comprise the financial statements of Silver Bear Resources Plc and its 100% owned subsidiaries: Silver Bear Resources Inc. (a Canadian corporation), Silver Bear Resources B.V. (a Netherlands corporation) and AO Prognoz (a Russian Federation corporation). All significant inter-company accounts and transactions have been eliminated on consolidation.

These audited consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on 1 April 2019.

Going Concern

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which contemplates that the Group will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future.

As at 31 December 2018, the Group continues to be in the pre-commercial production. The Group has reported a \$1,141,663 cash and cash equivalents, total operating cash outflow for the year of \$10,867,362 and the working capital of \$7,969,922. The Group has reported a total comprehensive loss for the year of \$33,184,203 and net liability position of \$30,052,465.

Silver Bear Resources Plc

Notes to Consolidated Financial Statements

For the years ended 31 December 2018 and 2017

2. BASIS OF PREPARATION (Continued)

Management have prepared cash flow forecasts for the period to 31 March 2020, which are based on the Group's principal asset, the Mangazeisky silver asset in Russia, achieving sustainable production levels to generate sufficient cash flows to fund its operations and repay debt obligations and other liabilities as they fall due. Management's expectation is the remaining commissioning activities will be completed with the successful installation and implementation of equipment to implement Merrill-Crowe process. This will allow the Group to achieve sustainable commercial production in line with the life of mine plans.

Should sustainable commercial production not be achieved within a reasonable timescale and budgeted production levels are not met, additional funds will be needed within twelve months from the date of the approval of these financial statements to fund both working capital and meet the Group's liabilities as and when they fall due.

The Directors are confident that production in 2019-2020 will be in line with budget. Accordingly, the Directors continue to adopt the going concern basis for the preparation of these financial statements.

At the date of the approval there is a significant uncertainty that production results in 2019-2020 achieve required levels within the forecasted timescale. This indicates the existence of a material uncertainty, which may cast significant doubt over the Group's ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The financial information for the year ended 31 December 2018 and the year ended 31 December 2017 does not constitute the company's statutory accounts for those years. Statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 December 2018 will be delivered to the Registrar of Companies in due course. The auditors' reports on the accounts for 31 December 2017 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. The auditors' reports on the accounts for 31 December 2018 was unqualified, but draw attention to matters by way of emphasis in relation to going concern, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Significant Accounting Policies

Foreign currency translation

Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which it operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars which is the functional currency of Silver Bear Resources Inc, and Silver Bear Resources B.V. Silver Bear Resources Plc has changed its functional currency as of 1 January 2018 from Canadian dollars to Russian roubles when it was deemed that the majority of underlying transactions now took place in roubles. Silver Bear Resources Plc functional currency is different to presentation currency, because the group is listed on TSX and presentation of financial statements in Canadian dollars is considered to be beneficial for potential and current shareholders in Canada. The financial statements of AO Prognoz have the Russian rouble as their functional currency. The results of both Silver Bear Resources Plc and AO Prognoz are translated into the Canadian dollar presentation currency for consolidation purposes as follows: assets and liabilities – at the closing rate at the date of the statements of financial position, and income and expenses at the average rate for each quarter (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

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

Silver Bear Resources Plc

Notes to Consolidated Financial Statements

For the years ended 31 December 2018 and 2017

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

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

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. In order to determine whether the project is ready to operate as intended by management, judgement will be applied taking into account commercial production indicators such as the level of expenditure incurred compared to the total capital cost to completion, pre-production output has reached a nominated percentage, the internal project management team has transferred the mine to the operational team, the majority of the assets necessary for the mining project are substantially complete and ready for use and the project's ability to sustain commercial levels of production. These indicators will provide guidance to recognise when the mine development phase will cease and the production phase will commence.

During the mine development phase, all costs that are directly attributable to developing the mine will be capitalised and the incidental revenue generated will be credited against the capital cost up to the date when the commercial production indicators are met.

Revenue recognition

Pre-commercial production silver sales generate are excluded from operating activities and are reflected within non-current assets on the consolidated statement of financial position. Timing of recognition is governed by IFRS 15. Entity recognises revenues when a performance obligation is satisfied, which is when "control" of the goods has transferred to the customer. Control of goods is transferred at the point of time, when silver is passed to the buyer at the refinery site. Payments terms require 86% prepayment in advance and the remaining payment based on the final Price, dependent on silver weight per Act of Acceptance and London price on London Market of metals, adjusted for the prepaid amount under provisional price.

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.

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.

Silver Bear Resources Plc

Notes to Consolidated Financial Statements

For the years ended 31 December 2018 and 2017

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

The expected future cash flows exclude the effect of inflation. The unwinding of the discount in subsequent periods is presented as interest expense. The asset associated with retirement obligations represents the part of the cost of acquiring the future economic benefits of the operation and is capitalized to mineral properties as part of the carrying amount of the long-lived asset and amortized over the expected economic life of the operation to which it relates. The Group re-measures the liability at each reporting date. Changes in estimates are recorded using current discount rate assumptions. Adjustments are also accounted for as a change in the corresponding value of the related assets.

Financial instruments

Financial assets:

Financial assets within the scope of IFRS 9 are initially recognised at fair value and are classified financial assets at amortised cost. The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets include cash and cash equivalents. 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 short-term loans. Initially they are recognized at fair value, and subsequently measured at amortized cost using the effective interest method. Amortized cost approximates fair value due to the short-term maturity of these liabilities. The Group's non-current financial liabilities include long-term loans 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.

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 is recorded as an increase to share capital.

Silver Bear Resources Plc

Notes to Consolidated Financial Statements

For the years ended 31 December 2018 and 2017

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

Borrowing costs

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

Prepaid expenses

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

Inventories

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

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

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

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

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.

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.

Silver Bear Resources Plc

Notes to Consolidated Financial Statements

For the years ended 31 December 2018 and 2017

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

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

Critical judgements in applying accounting policies:

- Determination of functional currency

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

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 has changed from Canadian dollars to Russian rouble in the year. It is now deemed that the majority of underlying transactions for this entity are undertaken in roubles and therefore it is appropriate for this to be its functional currency.

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

- 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. In order to determine whether the project is ready to operate as intended by management, judgement will be applied taking into account commercial production indicators such as the level of expenditure incurred compared to the total capital cost to completion, pre-production output has reached a nominated percentage, the internal project management team has transferred the mine to the operational team, the majority of the assets necessary for the mining project are substantially complete and ready for use and the project's ability to sustain commercial levels of production. These indicators will provide guidance to recognise when the mine development phase will cease and the production phase will commence.

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 Group 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

The carrying value of the asset retirement obligation is \$1,109,391, as disclosed in Note 14. Exploration and development activities carried out by the Group give rise to obligations for environmental rehabilitation. Significant uncertainty exists as to the amount and timing of associated cash flows and regulatory requirements. A Russian Central Bank borrowing rate for 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.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

- Share-based payment transactions

The Group records share-based compensation at fair value. The 2018 charge is \$535,798, as disclosed in Note 15. 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 and property, plant and equipment

The carrying value of mineral properties and property, plant and equipment is \$12,027,009 and \$96,924,301 respectively, as disclosed in Note 9 and note 10. While assessing whether any indications of impairment exist for mineral properties, consideration is given to both external and internal sources of information. Information that management considers includes, changes in the market, and changes in the economic and legal environment in which the Group operates that are not within its control that could affect the recoverable amount of mineral properties. Internal sources of information include the manner in which mineral properties are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Group's mineral properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, reductions in the amount of recoverable mineral reserves and mineral resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Group's mineral properties.

Management has reviewed and evaluated the existence of impairment triggers and concluded that no impairment triggers existed as at 31 December 2018. Management have assessed the recoverable amount of its mineral properties and property, plant and equipment by performing a value in use calculation, expected future economic benefits and cash flow from the are exceed carrying value of mineral properties and property, plant and equipment.

Mineral properties and property, plant and equipment relate to a sole cash generating unit, the Vertikalny silver mine development. The Vertikalny silver mine development is part of the Mangazeisky combined mine plan for Vertikalny and Mangazeisky North deposits. The Group currently holds an exploration 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.

- Assets' carrying values (Note 6, 9)

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. 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.

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 interpretation has not had any effect on the Group's consolidated financial statements as this is the same as the policy previously applied.

IFRS 9 – Financial Instruments (“IFRS 9”)

IFRS 9 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 addresses requirements for financial liabilities; these were largely carried forward from 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. There are no material receivables, contract assets or other financial assets within scope of the new expected credit loss impairment approach. The adoption of IFRS 9 has not had any material impact on the Group's results, financial position or disclosures.

2. BASIS OF PREPARATION (Continued)

New standards and interpretations adopted by the Group (Continued)

Revenue for the year to date has been recognised on a net basis against cost of sales as net current assets. The Group's first revenue was recognised in the second half of 2018 and all receivables were paid on time. There are no material receivables, contract assets or other financial assets within scope of the new expected credit loss impairment approach.

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

IFRS 15 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. Specifically, IFRS 15 introduces a five-step approach to revenue recognition with an entity recognising revenues when a performance obligation is satisfied, which is when “control” of the goods has transferred to the customer. The Group currently only has one base contract with a single customer, for which sales are made based on spot prices. Revenues are recognised when the control is transferred. Control of goods is transferred at the point of time, when silver is passed to the buyer at the refinery site. Payments terms allows 86% prepayment in advance and the remaining payment based on the final Price, dependent on silver weight per Act of Acceptance and London price on London Market of metals, adjusted for the prepaid amount under provisional price. As of year-end there are no outstanding performance obligations under the current contract in place.

The Group has no long term or complicated contracts which would involve recognizing revenue based on stage of completion.

The Group will closely monitor all future contracts and assess the treatment in accordance with the five-step model prescribed.

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

Amendments to IFRS 2 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 have not had any impact on the financial statements.

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.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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 have any financial instruments accounted through change in fair value price.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

IFRS 16 – Leases (“IFRS 16”)

On 13 January 2016, IFRS 16 was issued. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 is effective from 1 January 2019.

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

Group finance leases accounting will not change. Group operating leases will require recognition of right-to-use asset and lease liability. The Group has reviewed its arrangements in place and has concluded that the adoption of this standard is not expected to have a material impact in the future periods. The Group has not identified any transition adjustments.

Silver Bear Resources Plc

Notes to Consolidated Financial Statements

For the years ended 31 December 2018 and 2017

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 2018 compared to the year ended 31 December 2017. The Group is not subject to externally imposed capital requirements.

FINANCIAL RISK FACTORS

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

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Credit risk

The Group has no significant concentration of credit risk arising from operations. Cash equivalents consist of interest earning bank accounts held in banks in the United Kingdom, Canada and Russia which in the presentational currency total \$2,281, \$23,943 and \$1,115,439 respectively. The Group's United Kingdom bank has a credit rating of at least baaa3 (Moody's), Canadian chartered banks have a credit rating of at least A2 (Moody's) and the Group's Russian banks have a credit rating of at least ba1 (Moody's).

Miscellaneous receivables and prepaid expenses other than tax refunds due from the Canadian and Russian tax authorities are insignificant. Management believes that the credit risk concentration with respect to accounts receivable is not higher than the country credit risk.

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 2018	31 December 2017
Total current assets	26,491,829	43,340,951
Total current liabilities	4,803,844	4,360,921

At 31 December 2018 the Group had total current assets of \$26,491,829 (31 December 2017 – \$43,340,951) to settle total current liabilities of \$4,803,844 (31 December 2017 – \$4,360,921), as well as its commitments outlined in Note 20. Total liabilities of \$169,706,508 include long-term loans totalling \$132,732,390, accrued interest of \$32,177,279 and fair value gain on modification of loans of (\$1,807,077).

As at 31 December 2018, the Group had cash balances of \$1,141,663 (31 December 2017 – \$24,314,402).

The Group had total obligations of \$2,345,737 at 31 December 2018 (31 December 2017 – \$2,764,486) under a combination of three and five-year leases for equipment in relation to the development of Mangazeisky, as outlined in Note 12.

Silver Bear Resources Plc
Notes to Consolidated Financial Statements
For the years ended 31 December 2018 and 2017

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

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

Group 31 December 2018	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	12 to 36 months	36 to 72 months
Current liabilities						
Accounts payable & accrued liabilities	3,148,788	3,148,788	3,148,788	-	-	-
Finance leases	1,655,056	1,740,401	938,379	802,022	-	-
Non-current liabilities						
Long-term loans principal	130,925,313	135,752,052	-	-	-	135,752,052
Long-term loans interest	32,177,279	46,121,760	-	3,122,297	12,421,313	30,578,150
Finance leases	690,681	824,087	-	-	824,087	-
	\$ 168,597,117	\$ 187,587,088	\$ 4,087,167	\$ 3,924,319	\$ 13,245,400	\$ 166,330,202

Group 31 December 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 & 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	\$ 162,108,862

Interest rate risk

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

Foreign currency risk

The Group has funded certain exploration, project construction and administrative expenses on a transaction by transaction basis using U.S. dollar and Russian rouble currency converted from its Canadian dollar bank accounts held in Canada. USD funding has been provided directly to AO Prognoz in Russia and converted to Russian rouble. Recently a GBP bank account has been set up for Silver Bear Resources Plc. This exposes the Group to changes in foreign exchange rates for Great British pound, U.S. dollar and Russian rouble.

	31 December 2018				31 December 2017	
	GBP	USD	RUB	EUR	USD	RUB
Current assets:						
Cash and cash equivalents	2,281	5,815	1,111,980	-	21,610,586	2,593,561
Receivables	-	-	296,849	-	-	5,174,654
Total current assets	2,281	5,815	1,408,829	-	21,610,586	7,768,215
Current liabilities:						
Accounts payable and accrued liabilities:	143,824	646,833	1,889,871	16,947	-	2,513,384
Finance leases	-	969,793	685,263	-	1,022,360	407,132
Total current liabilities	143,824	1,616,626	2,575,134	16,947	1,022,360	2,920,516
Non-current liabilities:						
Long-term loans	-	163,102,592	-	-	128,147,211	-
Total non-current liabilities	-	163,102,592	-	-	128,147,211	-

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

Silver Bear Resources Plc
Notes to Consolidated Financial Statements
For the years ended 31 December 2018 and 2017

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

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

	31 December 2018	31 December 2017
	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20% (2017: strengthening by [20]%)	(34,772,437)	(21,723,772)
US Dollar weakening by 20% (2017: weakening by [20]%)	34,772,437	21,723,772
CAD strengthening by 20% (2017: strengthening by [20]%)	(11,046)	-
CAD weakening by 20% (2017: weakening by [20]%)	11,046	-
GBP strengthening by 20% (2017: strengthening by [20]%)	(36,403)	(26,836)
GBP weakening by 20% (2017: weakening by [20]%)	36,403	26,836
EUR weakening by 20% (2017: weakening by [20]%)	(904)	(3,145)
EUR weakening by 20% (2017: weakening by [20]%)	904	3,145

4. RECEIVABLES

	31 December 2018	31 December 2017
Russian Value Added Tax	3,090,346	1,744,711
Deferred Russian Value Added Tax	782,079	3,058,715
Canadian Harmonized Sales Tax	-	6,113
Other	294,020	454,810
	\$ 4,166,445	\$ 5,264,349

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

The amount of VAT recovered in cash during the year was RUB 284,930,234 (CAD: \$5,581,778). All VAT is expected to be received.

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 2018	31 December 2017
Fuel and lubricants	5,285,668	3,561,799
Parts and supplies	5,991,749	5,664,782
Reagents	4,899,019	-
Silver for sale	2,958,192	-
	\$ 19,134,628	\$ 9,226,581

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6. PREPAID EXPENSES AND NON-CURRENT ASSETS

Prepaid expenses consist of the following:

	31 December 2018	31 December 2017
Insurance	24,302	16,223
Exploration and construction services and goods	2,006,917	4,480,277
Rent and administrative costs	17,874	39,119
	\$ 2,049,093	\$ 4,535,619

Prepaid non-current assets consist of the following:

	31 December 2018	31 December 2017
Prepayments for property, plant and equipment	634,005	5,474,478
	\$ 634,005	\$ 5,474,478

Non-current prepayments consist of prepayments that will be converted to non-current assets – property, plant and equipment. The equipment will be delivered and transferred to construction in progress in 2019 financial year.

7. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Construction supplies	2,584,850	-
Non-current inventory	819,554	-
	\$ 3,404,404	\$ -

Other non-current inventory consists of low-grade silver ore which will be processed to production in the future periods, estimate period for beginning of using this ore is 2028.

8. INTANGIBLE ASSETS

	31 December 2018	31 December 2017
Software		
Balance at the beginning of the year	19,553	-
Additions	219,327	27,538
Amortization	(40,528)	(7,985)
Translation adjustment	(25,857)	-
Balance at the end of the year	\$ 172,495	\$ 19,553

9. MINERAL PROPERTY

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

Mineral property consists of the following:

	31 December 2018		31 December 2017	
	Licenses and Development	Asset Retirement Obligation	2018 Total	2017 Total
Mangazeisky				
Balance at the beginning of the year	11,577,744	856,661	12,434,405	11,586,996
Development costs capitalised	46,391	-	46,391	746,327
Impact of adjustment to ARO	-	(274,272)	(274,272)	137,933
Translation adjustment	(179,515)	-	(179,515)	(36,851)
Balance at the end of the year	\$ 11,444,620	\$ 582,389	\$ 12,027,009	\$ 12,434,405

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9. MINERAL PROPERTY (Continued)

Mineral property is made up of the following classes of assets; licenses \$930,948 (2017: \$1,016,007), asset retirement obligation \$582,389 (2017: \$951,118) and development costs of \$10,513,671 (2017: \$10,467,280).

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 2018	31 December 2017
Mangazeisky	\$ 66,711,691	\$ 66,523,580

10. PROPERTY, PLANT AND EQUIPMENT

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

	31 December 2018			31 December 2017		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property, plant and equipment:						
Mangazeisky site	105,258,756	8,334,455	96,924,301	79,510,067	5,068,040	74,442,027
Yakutsk office	83,336	83,336	-	83,336	83,336	-
Other office furniture, equipment and leasehold improvements	59,620	59,620	-	59,620	59,620	-
	\$ 105,401,712	\$ 8,477,411	\$ 96,924,301	\$ 79,653,023	\$ 5,210,996	\$ 74,442,027

Reconciliation of the carrying amount at the beginning and end of the years ended 31 December 2018 and 2017:

	Mangazeisky site		
	Property, plant and equipment	Assets under construction	Total
Carrying amount at 1 January 2017	10,811,660	31,219,527	42,031,187
Additions	-	34,632,224	34,632,224
Transfers	5,238,377	(5,238,377)	-
Disposals	(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
Additions	-	33,852,228	33,852,228
Transfers	5,830,539	(5,830,539)	-
Disposal at cost	(1,018,671)	-	(1,018,671)
Depreciation	(3,326,852)	-	(3,326,852)
Depreciation eliminated on disposal	60,437	-	60,437
Exchange differences	(1,384,512)	(5,700,356)	(7,084,868)
Carrying amount at 31 December 2018	\$ 14,871,877	\$ 82,052,424	\$ 96,924,301

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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying value of equipment held under finance leases as at 31 December 2018 was \$3,692,085 (31 December 2017 - \$5,070,908). The Group capital asset additions were \$33,852,228 during the year ended 31 December 2018. Capitalised borrowing costs of \$13,406,024 (31 December 2017 - \$9,542,210), capitalised costs of \$14,540,873 (31 December 2017 - \$nil), capitalised pre-production revenue of \$8,349,634 (31 December 2017 - \$nil) and acquisition of new assets of \$14,254,965 (31 December 2017 - \$21,695,317) were part of additions during the year.

The property, plant and equipment as of the year ended 31 December 2018 include \$82,052,424 of assets that are not yet ready for use and as such no depreciation has been charged on them. During the year ended 31 December 2018, \$5,830,539 of these assets became available for use, they were transferred into property, plant and equipment and depreciation was charged on them. Leased assets are pledged as security for the related finance lease obligations.

Group acquires property, plant and equipment on prepayment terms. Cash paid to suppliers of property, plant and equipment and capitalized expenses paid by cash during the year was \$22,091,060 (31 December 2017 - \$24,651,898).

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

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	31 December 2018	31 December 2017
Trade and other payables	2,082,357	1,849,916
Accrued liabilities	733,895	414,239
Tax and other liabilities	332,536	667,274
	\$ 3,148,788	\$ 2,931,429

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 2018	31 December 2017
Within one year	1,740,401	1,425,999
Within two to five years	824,087	1,740,711
	2,564,488	3,166,710
Future finance charges on finance leases	(218,751)	(402,224)
Present value of the net lease payments	2,345,737	2,764,486
Current portion	1,655,056	1,429,492
Long-term portion	690,681	1,334,994
Total obligations under finance leases	\$ 2,345,737	\$ 2,764,486

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13. LONG-TERM LOANS

31 December 2018			
Lender	Principal	Interest	Total
Unifirm Ltd (formerly A.B. Aterra Resources Ltd)	26,740,014	7,514,149	34,254,163
Inflection Management Corp.	105,992,376	24,663,130	130,655,506
Fair value gain on modification of loans	(1,807,077)	-	\$ (1,807,077)
	\$ 130,925,313	\$ 32,177,279	\$ 163,102,592

31 December 2017			
Lender	Principal	Interest	Total
Unifirm Ltd (formerly A.B. Aterra Resources Ltd)	24,589,758	3,504,807	28,094,565
Inflection Management Corp.	89,942,165	10,110,481	100,052,646
	\$ 114,531,923	\$ 13,615,288	\$ 128,147,211

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

	Unifirm (formerly Aterra)		Inflection		Total
	<i>Principal</i> <i>USD</i>	<i>Interest</i> <i>USD</i>	<i>Principal</i> <i>USD</i>	<i>Interest</i> <i>USD</i>	
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 31 December 2017 (USD)	19,601,242	2,793,788	71,695,628	8,059,371	102,150,029
As at 31 December 2017 (CAD)	\$ 24,589,758	\$ 3,504,807	\$ 89,942,165	\$ 10,110,481	\$ 128,147,211
Principal amounts received	-	-	6,000,000	-	6,000,000
Interest accrued to 31 December 2018	-	2,714,311	-	10,019,452	12,733,763
Fair value gain on modification of loans	-	-	-	-	(1,324,642)
As at 31 December 2018 (USD)	19,601,242	5,508,099	77,695,628	18,078,823	119,559,150
As at 31 December 2018 (CAD)	\$ 26,740,014	\$ 7,514,149	\$ 105,992,376	\$ 24,663,130	\$ 163,102,592

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

	Unifirm (formerly Aterra)		Inflection		Total
	<i>Principal</i> <i>CAD</i>	<i>Interest</i> <i>CAD</i>	<i>Principal</i> <i>CAD</i>	<i>Interest</i> <i>CAD</i>	
As at 31 December 2017	24,589,758	3,504,807	89,942,165	10,110,481	128,147,211
Principal amounts received	-	-	8,185,200	-	8,185,200
Interest accrued to 31 December 2018	-	3,702,864	-	13,668,536	17,371,400
Fair value gain on modification of loans	-	-	-	-	(1,807,077)
Foreign exchange loss	4,592,300	654,546	16,797,294	1,888,199	23,932,339
Translation adjustment	(2,442,044)	(348,067)	(8,932,283)	(1,004,086)	(12,726,481)
As at 31 December 2018	\$ 26,740,014	\$ 7,514,149	\$ 105,992,376	\$ 24,663,130	\$ 163,102,592

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13. LONG-TERM LOANS (Continued)

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.

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.

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

The Secured Loan Funding accrued interest at a rate of 15% per annum to the 17 September 2018 and 28 September 2018.

On the 18 September 2018 and 29 September 2018, the Secured Loan Funding accrues interest at a rate of 10% per annum, calculated and accrued quarterly, and is payable on 1 January, 1 April, 1 July and 1 October in each calendar year starting from 1 July 2019 and on the maturity date, being 20 March 2023. The modification of the loan interest from 15% to 10% in 2018 was considered to be substantive and resulted in a de-recognition of the loan carrying value, recognition of the loan at fair value as of modification date and recognition of shareholders contribution reserve of \$1,807,077.

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 2018 this Secured Loan Funding has accrued interest of C\$32,177,279.

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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 2018	31 December 2017
Balance at the beginning of the year	1,426,397	1,172,643
Accretion expense	104,519	144,435
Impact of change to underlying cost estimate	-	610,998
Impact of rates adjustment	(277,858)	(473,066)
Translation adjustment	(143,667)	(28,613)
Balance at the end of the year	\$ 1,109,391	\$ 1,426,397

At 31 December 2018, the expected life of the Mangazeisky project has been assessed to be 10 years. The projected cost for reclamation and closure of the Mangazeisky project in 2028 has been estimated to be \$2,642,504. A Russian Government 11 year zero coupon year bond of 8.64% (2017: 7.70%) has been used in discounting of future cash flows.

15. SHAREHOLDERS' EQUITY

Common shares

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

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the year ended 31 December 2018 and 2017:

	31 December 2018		31 December 2017	
	Number of common shares	\$	Number of common shares	\$
Balance - Beginning of the year	668,048,513	99,552,335	162,930,351	98,684,330
Issued upon conversion of loan note	-	-	504,799,162	815,806
Issued under stock option plan	880,000	1,557	318,000	52,198
Issued under share bonus plan	1,600,000	2,737	-	-
Shares issued during the year	1,456,389	2,457	-	-
Shares issued on incorporation	-	-	1,000	2
Balance - End of the year	671,984,902	99,559,086	668,048,513	99,552,335

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 671,984,902 common shares outstanding. Of these, Aterra holds 166,611,092 common shares, representing 24.8% of the total issued and outstanding common shares and Inflection holds 419,833,120, representing 62.5% of the total issued and outstanding common shares.

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15. SHAREHOLDERS' EQUITY (Continued)

Share Bonus Plan

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

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

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

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

1 October 2013	-	275,000	common shares
1 January 2014	-	275,000	common shares
1 April, 2014	-	618,750	common shares
1 July 2014	-	618,750	common shares
1 October 2014	-	293,750	common shares
1 January 2015	-	237,500	common shares
16 January 2018	-	1,600,000	common shares
Total		<u>3,918,750</u>	

The total number of bonus shares that are currently issued under the share bonus plan is 3,918,750. As shareholders approved an aggregate of up to 5,400,000 common shares for issuance, a further 1,481,250 common shares may be issued under the share bonus plan as at 31 December 2018.

Stock options

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

The maximum aggregate number of Shares reserved by the Group for issuance and which may be purchased upon the exercise of all options granted under its option plan together will all shares reserved for issuance under the share bonus plan must not exceed 10% of the outstanding Shares (on a non-diluted basis) issued and outstanding at the time of the granting of the options.

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

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

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

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

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15. SHAREHOLDERS' EQUITY (Continued)

Stock options (Continued)

As at 31 December 2018, the total number of options authorised for issue was 67,198,490. A total of 32,331,074 options or shares for issuance under the share bonus plan (subject to a maximum of 1,481,250 common shares that can be issued under the share bonus plan as at 31 December 2018) are available for future issue as at 31 December 2018.

During the year ended 31 December 2018, options generated a share-based payments expense of \$535,798 (31 December 2017: \$2,169,972). 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 years ended 31 December 2018 and 2017 follows:

	31 December 2018		31 December 2017	
	Number	Weighted average exercise price, \$	Number	Weighted average exercise price, \$
Balance - Beginning of the year	26,528,666	0.24	9,221,666	0.24
Granted	5,600,000	0.26	18,000,000	0.24
Exercised	(880,000)	0.18	(318,000)	0.19
Expired / Cancelled / Forfeited	(300,000)	0.24	(375,000)	0.65
Balance - End of the year	30,948,666	0.25	26,528,666	0.24

As at 31 December 2018, the Group had share options outstanding and exercisable as follows:

Expiry year	Outstanding		Exercisable	
	Number	Weighted average exercise price, \$	Number	Weighted average exercise price, \$
2019	6,396,666	0.26	6,396,666	0.26
2021	2,452,000	0.19	2,452,000	0.19
2022	18,000,000	0.24	18,000,000	0.24
2023	4,100,000	0.26	366,666	0.29
	30,948,666	0.24	27,215,332	0.24

Contributed surplus consists of the following:

	31 December 2018	31 December 2017
Balance - Beginning of the year	16,696,454	14,578,157
Share-based payments	535,798	2,169,972
Exercised options	(53,670)	(51,675)
Balance - End of the year	\$ 17,178,582	\$ 16,696,454

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 has not been included in the calculation of loss per share because to do so would be anti-dilutive.

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15. SHAREHOLDERS' EQUITY (Continued)

Loss per share (Continued)

	31 December 2018	31 December 2017
Net loss	(36,616,746)	(8,824,740)
Weighted average number of common shares outstanding	670,472,459	331,796,154
Basic and diluted loss per share	\$ (0.05)	\$ (0.03)

16. RELATED PARTY DISCLOSURES

(a) Goods and services

During the years ended 31 December 2018 and 2017 the Group entered into transactions for goods and services with the following related parties:

	Goods and services received	
	31 December 2018	31 December 2017
Goods and services received from:		
TechnoNICOL Corporation	116,000	287,960
	\$ 116,000	\$ 287,960

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.

At the end of the reporting period, the Group was owed from TechnoNICOL C\$357 (31 December 2017: C\$2,146) 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) Financing transactions

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

The Group was required to reimburse Aterra for legal fees incurred in relation to the lending agreements in the year of C\$19,349 (31 December 2017: C\$142,259).

(c) Compensation of key management

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

	31 December 2018	31 December 2017
Salaries, fees and short-term employee benefits	754,158	785,238
Termination payments	271,995	126,252
Share-based payments	535,798	2,169,972
	\$ 1,561,951	\$ 3,081,462

As at 31 December 2018 the Group owed key management \$105,776 (31 December 2017: \$85,797) 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 \$519,964 (31 December 2017: \$112,671) and remuneration in respect of the highest paid director as shown in the table below:

	31 December 2018	31 December 2017
Emoluments	149,325	297,867
Termination payments	271,995	-
Share issue	273,364	-
Share options exercised	148,750	-
	\$ 843,434	\$ 297,867

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16. RELATED PARTY DISCLOSURES (Continued)

(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.	Stikeman Elliott LLP, 53rd Floor, 199 Bay Street, Commerce Court West, Toronto, Ontario M5L 1B9	Ordinary CAD 120,863,139 shares	100	100
Silver Bear Resources B.V.	Zekeringstraat 21 B, 1014 BM, Amsterdam	Ordinary CAD 2,833,801 shares	100	-
AO Prognoz	36/1 Ordzhonikidze Street, Yakutsk, Republic of 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 principal activities of the Group's subsidiaries are as follows:

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

17. OTHER INCOME

	31 December 2018	31 December 2017
Meals distribution	600,161	318,270
Winter road maintenance	455,313	-
Rent	119,388	21,041
Other income	186,991	202,378
	\$ 1,361,853	\$ 541,689

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18. EXPENSES BY NATURE

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

	31 December 2018	31 December 2017
Employee compensation	1,871,000	3,558,188
Exploration & evaluation	188,111	334,366
Depreciation	1,920,182	589,434
Amortisation	40,528	7,985
Professional fees	1,125,515	1,385,462
Auditors' remuneration - Audit fees	87,195	205,034
Auditors' remuneration - Non-audit fees	-	235,406
Office expenses	97,100	118,268
Travel expenses	45,024	268,201
Accretion expense	104,519	144,435
Interest expense	3,451,581	5,988,646
Foreign exchange loss/(gain)	26,616,552	(5,631,136)
Loss on disposal of fixed assets	56,299	2,840
Impairment of written off inventory	1,050,146	-
Amounts written off	-	439,650
Investor relations expenses	248,733	444,954
Other expenses	1,062,405	1,347,936
	\$ 37,964,890	\$ 9,439,668

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.

Impairment of inventory written-off was recognized as result of the year-end stock count and caused by deviation between standard inventory consumption rates and actual consumption.

The average number of employees during the year was 243.

Employee benefits relating to the construction of the Mangazeisky Project are capitalised within mineral properties totalling \$3,669,058. The following table provides the breakdown of Group's total staff costs including those that have been capitalised.

	31 December 2018	31 December 2017
Salaries, fees and short-term employee benefits	4,732,265	1,261,964
Termination payments	271,995	126,252
Share-based payments	535,798	2,169,972
	\$ 5,540,059	\$ 3,558,188

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19. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	31 December 2018	31 December 2017
Receivables	627,369	1,536,707
Inventories	(10,824,351)	(5,098,336)
Prepaid expenses	2,000,385	312,513
Accounts payable and accrued liabilities	226,675	(216,507)
	\$ (7,969,922)	\$ (3,465,623)

20. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group entered into long-term lease agreements during 2016 for the purchase of additional necessary equipment. These leases require monthly instalments of circa US\$85,000 over three to five years.

The Group is party to certain management contracts and severance obligations. These contracts contain clauses requiring that additional payments of up to \$70,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements.

The Group may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect the Group's financial position, results of operations or cash flows. There were no material outstanding legal proceedings as of 31 December 2018.

21. 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 2018

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

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

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22. 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 and finance leases. 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 2018 and 2017 were as follows:

	Loans and receivables	Other liabilities	TOTAL
As at 31 December 2018			
Cash and cash equivalents	1,141,663	-	1,141,663
Accounts receivable	294,020	-	294,020
Long-term loans	-	163,102,592	163,102,592
Accounts payables and accrued liabilities	-	2,914,448	2,914,448
Finance leases	-	2,345,737	2,345,737
As at 31 December 2017			
Cash and cash equivalents	24,314,402	-	24,314,402
Accounts receivable	454,810	-	454,810
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

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.

23. INCOME TAXES

	2018	2017
Current tax expense	14,563	2,338
Total tax expense	14,563	2,338

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

	2018	2017
Loss before taxation	(36,602,183)	(8,824,740)
Statutory tax rate	20.00%	20.00%
Tax benefit of statutory rate	(7,320,437)	(1,764,948)
Expenses not deductible for income tax purposes	3,551,074	618,164
Tax losses carried forward not recognised	6,913,757	1,158,450
Foreign tax rate differential	(3,144,395)	(11,666)
Silver Bear Holdings Ltd final tax obligation	-	2,338
Silver Bear Plc Moscow branch tax obligation	14,563	-
Total tax expense	14,563	2,338

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.

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23. INCOME TAXES (Continued)

Disclosure of reconciling items:

	2018
Expenses not deductible for income tax purposes	
Permanent differences:	
Silver Bear Resources Inc	4,057,482
Silver Bear Holdings Ltd	(506,408)
	<u>\$ 3,551,074</u>
Tax losses carried forward not recognised	
Increase in unrecognised deferred tax asset	
Silver Bear Resources Inc	115,829
AO Prognoz	6,546,250
Silver Bear Resources B.V.	5
Silver Bear Resources Plc	251,673
	<u>\$ 6,913,757</u>
Foreign tax rate differential	
Silver Bear Resources Plc	13,246
Silver Bear Resources B.V.	33
Silver Bear Holdings Ltd	(3,544,853)
Other foreign tax rate differential	387,179
	<u>\$ (3,144,395)</u>
Total reconciling items	<u>\$ 7,320,436</u>

In addition, ZAO Prognoz has approximately \$36,820,178 (2017: \$8,647,278) of non-capital losses for Russian income tax purposes. Silver Bear PLC has approximately \$1,514,368 in non-capital losses that can be carried forward indefinitely.

24. SUBSEQUENT EVENTS

In January 2019, the Group's major shareholders Aterra and Inflection agreed to further reduce the interest rate applicable to all funds drawn under the Facilities Agreement, as amended, from 10% to 9% per annum, which reduction in interest rates will become effective immediately for the remaining terms of the facilities drawn under the Facilities Agreement.

On February 28, 2019, the Group filed a Change of Auditor notice with SEDAR, from BDO Unicon AO ("BDO Russia") to BDO LLP ("BDO UK") at the request of the Group. BDO Russia resigned as auditor of the Group effective February 15, 2019 and BDO UK was appointed as the new auditor on the same date.

25. CONTROLLING AND ULTIMATE CONTROLLING PARTY

The controlling and ultimate controlling party is Kolesnikov Sergei Anatolevich.