CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Registered Number: 10669766 (England and Wales)

For the three months and six months ended 30 June 2018

(Expressed in Canadian dollars)

INDEX

Unaudited Condensed Interim Consolidated Financial Statements

Mangazeisky Silver Project

PATH TO PRODUCTION

NOTICE OF NO REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Silver Bear Resources Plc

Consolidated Statement of Financial Position

(Canadian dollars)

	30 June 2018	31 December 2017
ASSETS		
Current assets		
Cash and cash equivalents	907,297	24,314,402
Receivables (note 4)	4,921,995	5,264,349
Inventories (note 5)	24,503,992	9,226,581
Prepaid expenses (note 6)	470,968	4,535,619
Total current assets	30,804,252	43,340,951
Non-current assets		
Intangible assets (note 7)	239,049	19,553
Prepaid long-term assets (note 6)	7,810,058	5,474,478
Mineral property (note 8)	12,920,791	12,434,405
Property, plant and equipment (note 9)	90,837,939	74,442,027
	111,807,837	92,370,463
Total assets	**142,612,089**	**135,711,414**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	6,562,772	2,931,429
Finance leases (note 11)	1,837,217	1,429,492
Total current liabilities	8,399,989	4,360,921
Non-current liabilities		
Long-term loans (note 12)	143,577,845	128,147,211
Asset retirement obligation (note 13)	1,428,870	1,426,397
Finance leases (note 11)	1,345,979	1,334,994
Preference shares	-	83,580
	146,352,694	130,992,182
Total liabilities	154,752,683	135,353,103
EQUITY		
Share capital (note 14)	99,556,369	99,552,335
Share premium	22,086,957	21,960,054
Contributed surplus (note 14)	16,947,287	16,696,454
Cumulative translation adjustment	(399,478)	(1,918,641)
Accumulated deficit	(150,331,729)	(135,931,891)
Total (deficit)/equity	(12,140,594)	358,311
Total liabilities and shareholders' equity	**142,612,089**	**135,711,414**

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

The financial statements on pages 3 to 29 were approved by the Board of Directors on 13 August 2018, and signed on its behalf by:

"Graham Hill"

Graham Hill
Director, President & CEO

"Maxim Matveev"

Maxim Matveev
Director

Silver Bear Resources Plc

Consolidated Statement of Comprehensive Loss

For the three months and six months ended 30 June 2018 and 2017

(Canadian dollars)

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Income				
Interest income	15	377	7,309	845
Other income	94,949	105,890	331,762	105,890
	94,964	106,267	339,071	106,735
Expenses (Note 16)				
Exploration and evaluation expenses	83,435	23,029	162,170	99,920
General and administrative expenses	827,789	1,185,288	1,831,774	2,753,483
Depreciation	510,481	44,576	964,512	131,362
Amortization	12,227	-	14,716	-
Share-based payments	250,833	-	250,833	-
Accretion expense	26,263	38,090	54,327	74,669
Interest expense	-	1,510,246	4	2,854,747
Foreign exchange loss/(gain)	10,365,240	2,616,793	11,458,597	(2,924,988)
Expenses from operations	12,076,268	5,418,022	14,736,933	2,989,193
Net loss for the period before tax	**(11,981,304)**	**(5,311,755)**	**(14,397,862)**	**(2,882,458)**
Tax charge (over provision in prior period)	(564,394)	-	(1,976)	-
Net loss for the period after tax	**(12,545,698)**	**(5,311,755)**	**(14,399,838)**	**(2,882,458)**
Other comprehensive loss				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	1,111,993	(884,513)	1,519,163	(1,102,862)
Total comprehensive loss for the period	**(11,433,705)**	**(6,196,268)**	**(12,880,675)**	**(3,985,320)**
Weighted average number of common shares outstanding	670,378,513	162,930,351	670,038,955	162,930,351
Basic and diluted loss per share (Note 14)	(0.02)	(0.03)	(0.02)	(0.02)

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

Silver Bear Resources Plc

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 and 2017

(Canadian dollars)

	Share capital	Share premium	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 profit for the period	-	-	-	-	(2,882,458)	(2,882,458)
Other comprehensive profit:						
Cumulative translation adjustment	-	-	-	(1,102,862)	-	(1,102,862)
Balance - 30 June 2017	**98,684,330**	**-**	**14,578,157**	**(1,176,283)**	**(129,987,271)**	**(17,901,067)**
Balance - 31 December 2017	99,552,335	21,960,054	16,696,454	(1,918,641)	(135,931,891)	358,311
Net loss for the period	-	-	-	-	(14,399,838)	(14,399,838)
Other comprehensive loss:						
Cumulative translation adjustment	-	-	-	1,519,163	-	1,519,163
Comprehensive loss for the period	-	-	-	1,519,163	(14,399,838)	(12,880,675)
Shares issued under bonus plan	2,737	-	-	-	-	2,737
Shares issued under stock option plan	1,297	126,903	-	-	-	128,200
Share-based payments	-	-	250,833	-	-	250,833
Balance - 30 June 2018	**99,556,369**	**22,086,957**	**16,947,287**	**(399,478)**	**(150,331,729)**	**(12,140,594)**

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

Silver Bear Resources Plc

Consolidated Statement of Cash Flow

For the six months ended 30 June 2018 and 2017
(Canadian dollars)

	30 June 2018	30 June 2017
Cash provided by (used in)		
Operating activities		
Total (loss) for the period	(14,399,838)	(2,882,458)
Adjustments for items not affecting cash:		
Depreciation	964,512	131,362
Amortization	14,716	-
Share-based payments	250,833	-
Accretion expense	54,327	74,669
Unrealised FX movement	11,968,972	(2,924,988)
Interest expense	4	2,854,747
Net change in non-cash working capital (note 17)	(8,748,796)	(3,208,477)
Net cash used in operations	(9,895,270)	(5,955,145)
Investing activities		
Purchases of property, plant and equipment	(13,885,748)	(14,553,595)
Net cash used in investing activities	(13,885,748)	(14,553,595)
Financing activities		
Proceeds from share issued under bonus scheme	2,737	-
Proceeds from share options exercised	128,200	-
Finance lease repayment	(829,886)	(983,329)
Short-term and long-term loans drawn	-	13,662,000
Net cash generated from financing activities	(698,949)	12,678,671
Effect of exchange rate changes on cash and cash equivalents	1,072,862	1,015,213
Decrease in cash and cash equivalents during the period	(23,407,105)	(6,814,856)
Cash and cash equivalents - beginning of the period	24,314,402	15,759,123
Cash and cash equivalents - end of the period	907,297	8,944,267
Cash and cash equivalents consist of:		
Cash	907,297	8,944,267
	907,297	8,944,267

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

These unaudited condensed 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 30 June 2018, the Group had no material cash inflows from operating activities and has reported a net loss for the six months of $14,397,838 and a cumulative deficit of $150,331,729. In order to fund development operations and maintain rights under licenses and agreements, the Group has secured funding in the form of long-term loans of $120,219,718 and the Group may be dependent on securing additional financing until such time that it generates sufficient operating cash flow to meet its liabilities.

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim 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 unaudited condensed 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 unaudited condensed 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 unaudited consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on 13 August 2018.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies

Foreign currency translation

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

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

Mineral properties

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

Intangible assets

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

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. All property, plant and equipment, with the exception of leasehold improvements, are depreciated on a straight line basis over eleven years which is considered to be the life of the mine.

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

Exploration costs

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

Impairment of non-financial assets

The Group reviews and evaluates the recoverable amount of its mineral properties, property, plant and equipment annually and when events or changes in circumstances indicate that the carrying amounts of related assets or groups of assets might not be recoverable.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset). Any resulting write-down of the excess of carrying value over the recoverable amount is charged to the consolidated statement of operations.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

Provision for decommissioning and restoration liability

Mining and exploration activities normally give rise to obligations for environmental rehabilitation. Rehabilitation work may include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation, including compliance with and monitoring of environmental regulations; security and other site-related costs required to perform the rehabilitation work; and operation of equipment designed to reduce or eliminate environmental effects. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and our environmental policies. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or exploration process, are not included in the provision. The timing of the actual rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the license conditions and the operating environment. Expenditures may occur before and after the site closure and can continue for an extended period of time depending on rehabilitation requirements. Rehabilitation provisions are measured at the expected value of future cash flows associated with the settlement of the obligation and discounted to their present value using a pre-tax discount rate which reflects current assessments of the time value of money. The expected future cash flows exclude the effect of inflation. The unwinding of the discount in subsequent periods is presented as interest expense. The asset associated with retirement obligations represents the part of the cost of acquiring the future economic benefits of the operation and is capitalized to mineral properties as part of the carrying amount of the long-lived asset and amortized over the expected economic life of the operation to which it relates. The Group re-measures the liability at each reporting date. Changes in estimates are recorded using current discount rate assumptions. Adjustments are also accounted for as a change in the corresponding value of the related assets.

Financial instruments

Financial assets:

Financial assets within the scope of IAS 39 are initially recognised at fair value and are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Group determines the classification of its financial assets at initial recognition.

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

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

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

Financial liabilities:

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

The Group's current financial liabilities include accounts payable, accrued liabilities, finance leases and 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.

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies (Continued)

Income Taxes

The Group uses the asset and liability method of accounting for income taxes, under which deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates or laws is recognized as part of the provision for income tax in the year the changes are considered substantively enacted. Deferred tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is more likely than not.

Loss per share

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

Share-based payments

The fair value of any stock options granted to directors, officers, consultants and employees is recognized as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of share-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 14. An estimate for forfeitures is made when determining the number of equity instruments expected to vest. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Borrowing costs

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

Prepaid expenses

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

Inventories

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

Leases

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

Finance leases

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

Operating leases

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

2. BASIS OF PREPARATION (Continued)

Accounting estimates and management judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

Critical judgements in applying accounting policies:

- Going concern

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

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

- Determination of functional currency

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

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

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

- Contingencies

  Refer to Note 18.

- Capitalization of development costs

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

2. BASIS OF PREPARATION (Continued)

Accounting estimates and management judgments (Continued)

- Impairment of mineral properties and property, plant and equipment

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

  Management has reviewed and evaluated the existence of impairment triggers and concluded that no impairment triggers existed as at 30 June 2018. Management have nevertheless assessed the recoverable amount of its mineral properties and property, plant and equipment by performing a value in use calculation. Mineral properties and property, plant and equipment relate to a sole cash generating unit, the Vertikalny silver mine development. The Vertikalny silver mine development is part of the Mangaseizky combined mine plan for Vertikalny and Mangazeisky North deposits. The Group currently holds an exploration licence for a number of deposits within the Mangazeisky licence area which expires in 2023 and a mining licence for the Vertikalny deposit expiring in 2033. The key assumptions used to determine the value in use are as follows:

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

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

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

2. BASIS OF PREPARATION (Continued)

Accounting estimates and management judgments (Continued)

Key sources of estimation uncertainty:

- Depreciation rates

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

  Exploration and development activities carried out by the Group give rise to obligations for environmental rehabilitation. Significant uncertainty exists as to the amount and timing of associated cash flows and regulatory requirements. A Russian Central Bank borrowing rate for an 11 year zero coupon year bond is used in discounting future cash flows as a pre-tax discount rate.

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

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

- Share-based payment transactions

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

- Assets' carrying values and impairment charges

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

New and amended standards adopted by the Group

The Group has adopted the following annual improvements to IFRS.

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 replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. 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. 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 not yet adopted (Continued)

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. New disclosures about revenue are also introduced. The Group does not currently have any contracts with customers so there has been no initial impact upon adopting this standard.

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.

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 expect the amendment to have any material impact on the financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Issued on 7 June 2017 this IFRIC clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The 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 Group has completed its preliminary assessment of the impact and has not identified any material impact. However when the Group completes its assessments, it may identify other matters in advance of adoption of the standard.

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 period ended 30 June 2018 compared to the period ended 31 December 2017. The Group is not subject to externally imposed capital requirements.

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

FINANCIAL RISK FACTORS

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

Credit risk

The Group has no significant concentration of credit risk arising from operations. Cash equivalents consist of interest earning bank accounts held in banks in Canada and Russia which in the presentational currency total $12,986 and $894,311 respectively. The Group's Canadian chartered banks have a credit rating of at least A1 (Moody's) and the Group's Russian banks have a credit rating of at least Ba2 (Moody's).

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

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:

	30 June 2018	31 December 2017
Total current assets	30,804,252	43,340,951
Total current liabilities	8,399,989	4,360,921

At 30 June 2018 the Group had total current assets of $30,804,252 (31 December 2017 – $43,340,951) to settle total current liabilities of $8,399,989 (31 December 2017 – $4,360,921), as well as its commitments outlined in Note 18. Total liabilities of $154,752,683 include long-term loans totalling $120,219,718 and accrued interest of $23,358,127.

As at 30 June 2018, the Group had cash balances of $907,297 (31 December 2017 – $24,314,402).

The Group had total obligations of $3,183,196 at 30 June 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 11.

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

Group 30 June 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	6,562,772	6,562,772	6,562,772	-	-	-
Finance leases	1,837,217	1,901,173	955,905	945,268	-	-
Non-current liabilities						
Long-term loans principal	120,219,718	143,577,844	-	-	-	143,577,844
Long-term loans interest	23,358,127	81,300,955	11,007,635	10,828,162	43,731,419	15,733,739
Finance leases	1,345,979	1,655,274	-	-	1,655,274	-
	$ 153,323,813	$ 234,998,018	$ 18,526,312	$ 11,773,430	$ 45,386,692	$ 159,311,583

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

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

Interest rate risk

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

Foreign currency risk

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

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

	30 June 2018		31 December 2017	
	USD	**RUB**	**USD**	**RUB**
Current assets:				
Cash and cash equivalents	128,655	775,529	21,610,586	2,593,561
Receivables	-	4,917,491	-	5,174,654
Inventories	-	24,503,992	-	9,226,581
Prepaid expenses	-	391,056	32,613	4,456,907
Total current assets	128,655	30,588,068	21,643,199	21,451,703
Current liabilities:				
Accounts payable and accrued liabilities	-	5,763,177	-	2,513,384
Finance leases	1,073,131	764,086	1,022,360	407,132
Total current liabilities	1,073,131	6,527,263	1,022,360	2,920,516

As the Group's construction work for the project is still ongoing, management believes it is not appropriate to hedge its foreign exchange risk at this stage. As the Group's proportion of project expenditure that is denominated in Russian rouble is increasing, the effect of changes in foreign exchange rates, in particular the Russian rouble, on the net loss is deemed to be significant as the number and amount of foreign currency transactions are relatively large. Had the Russian rouble foreign exchange rates been higher by 5%, the cumulative translation adjustment in the other comprehensive income section of the Statement of Financial Position would have been higher by $1,195,481.

4. RECEIVABLES

		30 June 2018		31 December 2017
Russian Value Added Tax		1,540,498		1,744,711
Deferred Russian Value Added Tax		2,941,614		3,058,715
Canadian Harmonized Sales Tax		4,506		6,113
Other		435,377		454,810
	$	4,921,995	$	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 2018 and therefore the asset has been recognised as current.

5. INVENTORIES

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

	30 June 2018	31 December 2017
Fuel and lubricants	9,210,943	3,561,799
Parts and supplies	15,293,049	5,664,782
	$ 24,503,992	$ 9,226,581

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses consist of the following:

	30 June 2018	31 December 2017
Insurance	57,332	16,223
Exploration and construction services and goods	394,844	4,480,277
Rent and administrative costs	18,792	39,119
	$ 470,968	$ 4,535,619

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

	30 June 2018	31 December 2017
Construction supplies	7,810,058	5,474,478
	$ 7,810,058	$ 5,474,478

7. INTANGIBLE ASSETS

Software	30 June 2018	31 December 2017
Balance at the beginning of the period	19,553	-
Additions	234,889	27,538
Amortization	(14,716)	(7,985)
Translation adjustment	(677)	-
Balance at the end of the period	$ 239,049	$ 19,553

8. MINERAL PROPERTY

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

Mineral property consists of the following:

Mangazeisky	**30 June 2018**	**31 December 2017**
Balance at the beginning of the period	12,434,405	11,586,996
Development costs capitalised	550,381	746,327
Impact of adjustment to ARO	-	137,933
Translation adjustment	(63,995)	(36,851)
Balance at the end of the period	$ 12,920,791	$ 12,434,405

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:

	30 June 2018	**31 December 2017**
Mangazeisky	$ 66,685,750	$ 66,523,580

9. PROPERTY, PLANT AND EQUIPMENT

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

	30 June 2018			**31 December 2017**		
	Cost	**Accumulated depreciation**	**Net book value**	**Cost**	**Accumulated depreciation**	**Net book value**
Property, plant and equipment:						
Mangazeisky site	97,536,657	6,698,718	90,837,939	79,510,067	5,068,040	74,442,027
Yakutsk office	80,385	80,385	-	83,336	83,336	-
Other office furniture, equipment and leasehold improvements	59,620	59,620	-	59,620	59,620	-
	$ 97,676,662	$ 6,838,723	$ 90,837,939	$ 79,653,023	$ 5,210,996	$ 74,442,027

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

Reconciliation of the carrying amount at the beginning and end of the six months ended 30 June 2018 and the year ended 31 December 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	-	20,845,278	20,845,278
Transfers	880,484	(880,484)	-
Disposal at cost	(143,015)	-	(143,015)
Depreciation	(1,723,708)	-	(1,723,708)
Depreciation eliminated on disposal	93,030	-	93,030
Exchange differences	(471,126)	(2,204,547)	(2,675,673)
Carrying amount at 30 June 2018	$ 13,346,601	$ 77,491,338	$ 90,837,939

The carrying value of equipment held under finance leases as at 30 June 2018 was $4,983,657 (31 December 2017 - $5,070,908). The Group acquired capital assets of $20,845,278 during the six months ended 30 June 2018.

The additions in the six months ended 30 June 2018 include $20,845,278 of assets that are not yet ready for use and as such no depreciation has been charged on them. In the year ended 31 December 2017 additions included $34,632,224 of assets that were not yet ready for use, during the six months ended 30 June 2018, $880,484 of these assets became available for use and depreciation was charged on them. Leased assets are pledged as security for the related finance lease obligations.

The additions in the six months ended 30 June 2018 include capitalised borrowing costs of $8,889,637 (31 December 2017 - $9,542,210)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	30 June 2018	31 December 2017
Trade and other payables	5,831,889	1,849,916
Accrued liabilities	479,906	414,239
Tax and other liabilities	250,977	667,274
	$ 6,562,772	$ 2,931,429

11. 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:

	30 June 2018	31 December 2017
Within one year	1,901,173	1,425,999
Within two to five years	1,655,274	1,740,711
	3,556,447	3,166,710
Future finance charges on finance leases	(373,251)	(402,224)
Present value of the net lease payments	3,183,196	2,764,486
Current portion	1,837,217	1,429,492
Long-term portion	1,345,979	1,334,994
Total obligations under finance leases	$ 3,183,196	$ 2,764,486

12. LONG-TERM LOANS

			30 June 2018
Lender	**Principal**	**Interest**	**Total**
Unifirm Ltd (formerly A.B. Aterra Resources Ltd)	25,810,915	5,625,433	31,436,348
Inflection Management Corp.	94,408,803	17,732,694	112,141,497
	$ 120,219,718	$ 23,358,127	$ 143,577,845

			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:

	Unifirm (formerly Aterra)		Inflection		Total
	Principal USD	*Interest USD*	*Principal USD*	*Interest USD*	*USD*
Principal amounts received	9,000,000	-	20,502,085	-	29,502,085
Interest accrued in period	-	1,177,192	-	2,245,718	3,422,910
Consolidation of individual loans into Facilities Agreement	1,177,192	(1,177,192)	2,245,718	(2,245,718)	-
Initial principal amount of Facilities Agreement	10,177,192	-	22,747,803	-	32,924,995
Interest accrued	-	424,050	-	947,825	1,371,875
Reassignment of loan to subsidiary	424,050	(424,050)	947,825	(947,825)	-
Additional principal received	9,000,000	-	48,000,000	-	57,000,000
Interest accrued	-	2,793,788	-	8,059,371	10,853,159
As at 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
Interest accrued	-	1,478,260	-	5,407,134	6,885,394
As at 30 June 2018 (USD)	19,601,242	4,272,048	71,695,628	13,466,505	109,035,423
As at 30 June 2018 (CAD)	$ 25,810,915	$ 5,625,433	$ 94,408,803	$ 17,732,694	$ 143,577,845

12. 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 (Note 11 (a), Note 11 (e), Note 11 (f)).

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

On 19 April 2017, the Group received US$10 million of this additional working capital. On 8 August 2017, the Group received the remaining US$5 million of the additional working capital.

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

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

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

As at 30 June this Secured Loan Funding has accrued interest of C$23,358,127.

13. 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.

13. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY (Continued)

Asset retirement obligation consists of the following:

	30 June 2018	31 December 2017
Balance at the beginning of the period	1,426,397	1,172,643
Accretion expense	54,327	144,435
Impact of change to underlying cost estimate	-	610,998
Impact of rates adjustment	-	(473,066)
Translation adjustment	(51,854)	(28,613)
Balance at the end of the period/year	$ 1,428,870	$ 1,426,397

At 30 June 2018, the expected life of the Mangazeisky project has been assessed to be 11 years. The projected cost for reclamation and closure of the Mangazeisky project in 2028 has been estimated to be $3,226,000. A Russian Government 11 year zero coupon year bond of 7.70% (2017: 7.70%) has been used in discounting of future cash flows.

14. SHAREHOLDERS' EQUITY

Common shares

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

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the six months ended 30 June 2018 and the year ended 31 December 2017:

	30 June 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	730,000	1,297	318,000	52,198
Issued under share bonus plan	1,600,000	2,737	-	-
Shares issued on incorporation	-	-	1,000	1
Balance - End of the period/year	670,378,513	99,556,369	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 668,048,513 common shares outstanding. Of these, Aterra holds 166,611,092 common shares, representing 24.9 % of the total issued and outstanding common shares and Inflection holds 419,833,120, representing 62.8% of the total issued and outstanding common shares.

Share Bonus Plan

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

On 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 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.

14. SHAREHOLDERS' EQUITY (Continued)

Share Bonus Plan (Continued)

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		3,918,750	

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

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

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

On 21 March 2018, 18,000,000 options were grated to directors of the Group. 6,000,000 of these options have an exercise price of these options is $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 these options is $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.

As at 30 June 2018, the total number of options authorised for issue was 67,037,851. A total of 35,020,435 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 30 June 2018) are available for future issue as at 30 June 2018.

14. SHAREHOLDERS' EQUITY (Continued)

Stock options (Continued)

During the six months ended 30 June 2018, options generated a share based payments expense of $250,833 (30 June 2017: $Nil). 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 six months ended 30 June 2018 and the year ended 31 December 2017 follows:

	30 June 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	2,600,000	0.29	18,000,000	0.24
Exercised	(730,000)	0.18	(318,000)	0.19
Expired / Cancelled / Forfeited	(300,000)	0.24	(375,000)	0.65
Balance - End of the period/year	28,098,666	0.25	26,528,666	0.24

As at 30 June 2018, the Group had share options outstanding and exercisable as follows:

	Outstanding		Exercisable	
Expiry year	Number	Weighted average exercise price, $	Number	Weighted average exercise price, $
2019	5,046,666	0.25	5,046,666	0.25
2021	2,452,000	0.19	2,452,000	0.19
2022	18,000,000	0.24	18,000,000	0.24
2023	2,600,000	0.29	866,667	0.29
	28,098,666	0.24	26,365,333	0.24

Contributed surplus consists of the following:

	30 June 2018	31 December 2017
Balance - Beginning of the year	16,696,454	14,578,157
Share-based payments	250,833	2,169,972
Exercised options	-	(51,675)
Balance - End of the period/year	$ 16,947,287	$ 16,696,454

14. SHAREHOLDERS' EQUITY (Continued)

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.

	Six months ended	
	30 June 2018	**30 June 2017**
Net loss	(14,399,838)	(2,882,458)
Weighted average number of common shares outstanding	670,038,955	162,930,351
Basic and diluted loss per share	$ (0.02)	$ (0.02)

15. RELATED PARTY DISCLOSURES

(a) Goods and services

During the six months ended 30 June 2018 and 30 June 2017 the Group entered into transactions for goods and services with the following related parties:

	Goods and services received	
Goods and services received from (provided to):	**30 June 2018**	**30 June 2017**
TechnoNICOL Corporation	3,433	127,057
	$ 3,433	$ 127,057

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$382 (30 June 2017: C$Nil) for services provided. There were no other balances outstanding at the end of the reporting period related to goods and services received from related parties.

(b) Financing transactions

The Group has entered into a series of financing transactions with major shareholders. As set out in note 12.

The Group was required to reimburse Aterra for legal fees incurred in relation to the lending agreements in the six month period to 30 June 2018 of C$19,349 (30 June 2017: C$110,248).

15. RELATED PARTY DISCLOSURES (Continued)

(c) Compensation of key management

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

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Salaries, fees and short-term employee benefits	241,594	247,364	470,578	497,109
Termination payments	-	126,252	-	126,252
Share-based payments	250,833	-	250,833	-
	$ 492,427	$ 373,616	$ 721,411	$ 623,361

As at 30 June 2018 the Group owed key management $265,776 (30 June 2018: $109,709) 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 $260,487 (30 June 2018: $nil) and remuneration in respect of the highest paid director as shown in the table below:

Highest paid director	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Emoluments	96,970	77,736	170,214	155,591
Share options exercised	-	-	122,500	-
	$ 96,970	$ 77,736	$ 292,714	$ 155,591

(d) Interest in other entities

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

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

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

16. EXPENSES BY NATURE

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

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Employee compensation	502,847	557,388	947,414	888,959
Exploration & evaluation	83,435	23,029	162,170	99,920
Depreciation	510,481	44,576	964,512	131,362
Amortisation	12,227	-	14,716	-
Professional fees	217,660	283,668	508,886	868,370
Auditors' remuneration - Audit fees	37,679	60,370	67,396	103,196
Auditors' remuneration - Non-audit fees	13,753	118,578	27,684	145,026
Office expenses	181,079	21,872	252,489	71,148
Travel expenses	5,215	95,448	30,228	158,460
Accretion expense	26,263	38,090	54,327	74,669
Interest expense	-	1,510,246	4	2,854,747
Foreign exchange	10,365,239	2,616,793	11,458,597	(2,924,988)
Loss on disposal of fixed assets	-	-	(13,234)	2,840
Investor relations expenses	40,742	-	134,328	-
Other expenses	79,648	47,964	127,416	515,484
	$ 12,076,268	$ 5,418,022	$ 14,736,933	$ 2,989,193

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

As at 30 June 2018 depreciation of property, plant and equipment totalling $675,947 has been capitalised on the basis that the equipment being depreciated is being used in the construction of the Mangazeisky Project.

Employee benefits relating to the construction of the Mangazeisky Project are capitalised within mineral properties. Employee benefits expensed for the six months ended 30 June 2018 and 2017 consisted of the following:

	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Salaries, fees and short-term employee benefits	283,743	435,467	758,311	892,705
Employee compensation costs capitalised	(31,729)	(4,331)	(61,730)	(129,998)
Termination payments	-	126,252	-	126,252
Share-based payments	250,833	-	250,833	-
	$ 502,847	$ 557,388	$ 947,414	$ 888,959

17. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	30 June 2018	30 June 2017
Receivables	78,320	(1,324,093)
Inventories	(15,604,055)	(4,850,432)
Prepaid expenses	3,388,904	3,900,700
Accounts payable and accrued liabilities	3,388,035	(934,652)
	$ (8,748,796)	$ (3,208,477)

18. 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 $430,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements.

The Group may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect the Group's financial position, results of operations or cash flows. There were no material outstanding legal proceedings as of 30 June 2018.

19. 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 30 June 2018

Country/Property	Cash	Inventories	Prepaid	Receivables	Mineral Properties	Property plant and equipment	Depreciation	Interest expense	Net loss for the period
Russia - Mangazeisky	894,311	24,503,992	8,201,114	4,917,489	12,920,791	90,837,939	964,512	4	12,641,880
Corporate	12,986	-	79,912	4,506	-	-	-	-	1,755,982
	$ 907,297	$ 24,503,992	$ 8,281,026	$ 4,921,995	$ 12,920,791	$ 90,837,939	$ 964,512	$ 4	$ 14,397,862

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

20. FINANCIAL INSTRUMENTS

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

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

The 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 30 June 2018 and 31 December 2017 were as follows:

As at 30 June 2018	Loans and receivables	Other liabilities	TOTAL
Cash and cash equivalents	907,297	-	907,297
Accounts receivable	435,377	-	435,377
Long-term loans	-	143,577,845	143,577,845
Accounts payables and accrued liabilities	-	6,562,772	6,562,772
Finance leases	-	3,183,196	3,183,196

As at 31 December 2017	Loans and receivables	Other liabilities	TOTAL
Cash and cash equivalents	24,314,402	-	24,314,402
Accounts receivable	454,810	-	454,810
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.