Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

# Silver Bear Resources Inc.

## For the three months ended March 31, 2015

## NOTICE OF NO REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

# Silver Bear Resources Inc.

## Consolidated Statement of Financial Position

(Canadian dollars)

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 5,819,236 | 1,593,133 |
| Receivable (note 4) | 521,129 | 349,942 |
| Inventories (note 5) | 1,479,242 | 518,604 |
| Prepaid expenses (note 6) | 500,327 | 355,855 |
| Total current assets | 8,319,934 | 2,817,534 |
| **Non-current assets** | | |
| Prepaid long-term assets (note 6) | 1,817,892 | - |
| Mineral property (note 7) | 1,749,300 | 1,607,824 |
| Property, plant and equipment (note 8) | 1,525,708 | 1,017,864 |
| **Total assets** | **13,412,834** | **5,443,222** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 9) | 658,780 | 463,886 |
| Short-term loans (note 10) | 8,878,100 | - |
| Finance lease (note 11) | 160,689 | 146,981 |
| Total current liabilities | 9,697,569 | 610,867 |
| **Non-current liabilities** | | |
| Asset retirement obligation (note 18) | 925,355 | 826,758 |
| Finance lease (note 11) | 119,198 | 139,555 |
| Total liabilities | 10,742,122 | 1,577,180 |
| **EQUITY** | | |
| Equity attributable to owners of Silver Bear Resources Inc. | | |
| Share capital (note 12) | 98,277,254 | 98,265,379 |
| Contributed surplus (note 12) | 14,053,228 | 14,009,495 |
| Accumulated other comprehensive loss | (1,409,890) | (1,880,025) |
| Deficit | (108,249,880) | (106,528,807) |
| Total equity | 2,670,712 | 3,866,042 |
| **Total liabilities and shareholders' equity** | **13,412,834** | **5,443,222** |

**Going concern (note 1)**
**Commitments and contingencies (note 16)**

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

**Approved by the Board of Directors on May 14, 2015**

**"Graham Hill"**

**Graham Hill**
Director

**"Trevor Eyton"**

**Trevor Eyton**
Director

# Silver Bear Resources Inc.

## Consolidated Statement of Comprehensive Loss

For the three months ended March 31, 2015 and 2014

(Canadian dollars)

| | Three months ended | |
|---|---|---|
| | **March 31, 2015** | **March 31, 2014** |
| **Income** | | |
| Interest income | 1,548 | 1,878 |
| | 1,548 | 1,878 |
| **Expenses** (Note 14) | | |
| Exploration costs | 645,856 | 315,928 |
| General and administrative | 762,481 | 398,892 |
| Depreciation | 50,106 | 66,715 |
| Share-based payments | 55,608 | 346,693 |
| Accretion expense | 16,171 | 25,761 |
| Interest expense | 67,751 | 19,873 |
| Foreign exchange loss | 124,648 | 40,720 |
| Expenses from operations | 1,722,621 | 1,214,582 |
| **Net loss for the period** | (1,721,073) | (1,212,704) |
| **Other comprehensive loss** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translating foreign operations | 470,135 | (98,326) |
| **Comprehensive loss for the period** | (1,250,938) | (1,311,030) |
| **Weighted average number of common shares outstanding** | 161,324,378 | 94,977,852 |
| **Basic and diluted loss per share** | (0.01) | (0.01) |

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

# Silver Bear Resources Inc.

## Consolidated Statement of Changes in Equity

For the three months ended March 31, 2015 and 2014

(Canadian dollars)

| | Share capital | Contributed surplus | Accumulated other comprehensive loss | Deficit | Total equity |
|---|---|---|---|---|---|
| **Balance - December 31, 2013** | 87,542,402 | 13,499,050 | (554,144) | (97,446,474) | 3,040,834 |
| Net loss for the period | - | - | - | (1,212,704) | (1,212,704) |
| Other comprehensive loss: | | | | | |
| Cumulative translation adjustment | - | - | (98,326) | - | (98,326) |
| Comprehensive loss for the period | - | - | (98,326) | (1,212,704) | (1,311,030) |
| Shares issued for debt | 28,682 | - | - | - | 28,682 |
| Shares issued under share bonus plan | 22,000 | - | - | - | 22,000 |
| Share-based payments | - | 346,693 | - | - | 346,693 |
| **Balance -March 31, 2014** | **87,593,084** | **13,845,743** | **(652,470)** | **(98,659,178)** | **2,127,179** |
| **Balance -December 31, 2014** | 98,265,379 | 14,009,495 | (1,880,025) | (106,528,807) | 3,866,042 |
| Net loss for the period | - | - | - | (1,721,073) | (1,721,073) |
| Other comprehensive loss: | | | | | |
| Cumulative translation adjustment | - | - | 470,135 | - | 470,135 |
| Comprehensive loss for the period | - | - | 470,135 | (1,721,073) | (1,250,938) |
| Shares issued under share bonus plan | 11,875 | - | - | - | 11,875 |
| Share-based payments | - | 43,733 | - | - | 43,733 |
| **Balance -March 31, 2015** | **98,277,254** | **14,053,228** | **(1,409,890)** | **(108,249,880)** | **2,670,712** |

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

# Silver Bear Resources Inc.

## Consolidated Statement of Cash Flow

For the three months ended March 31, 2015 and 2014

(Canadian dollars)

| | Three months ended March 31, 2015 | Three months ended March 31, 2014 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Total loss for the period | (1,721,073) | (1,212,704) |
| Adjustments for items not affecting cash: | | |
| Depreciation | 50,106 | 66,715 |
| Share-based payments | 55,608 | 346,693 |
| Accretion expense | 16,171 | 25,761 |
| Interest expense | 58,377 | 5,308 |
| Net change in non-cash working capital (note 15) | (2,634,400) | 300,410 |
| Net cash used in operations | (4,175,211) | (467,817) |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | (420,384) | (2,684) |
| Net cash used in investing activities | (420,384) | (2,684) |
| **Financing activities** | | |
| Finance lease repayment | (32,660) | (56,259) |
| Short-term loans drawn | 8,878,100 | 750,000 |
| Net cash generated from financing activities | 8,845,440 | 693,741 |
| **Effect of exchange rate changes on cash and cash equivalents** | (23,742) | 2,831 |
| **Increase (decrease) in cash and cash equivalents during the period** | 4,226,103 | 226,071 |
| **Cash and cash equivalents - beginning of the period** | 1,593,133 | 276,909 |
| **Cash and cash equivalents - end of the period** | 5,819,236 | 502,980 |
| **Cash and cash equivalents consist of:** | | |
| Cash | 5,819,236 | 467,980 |
| Cash equivalents | - | 35,000 |
| | 5,819,236 | 502,980 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Silver Bear Resources Inc. ("Silver Bear") was incorporated under the Business Corporations Act of the Province of Ontario, Canada, on April 8, 2004 and continued under Articles of Continuance dated August 30, 2004 under the Business Corporations Act (Yukon) and February 1, 2005 under the Business Corporations Act (Ontario). The primary business of Silver Bear and its subsidiaries ('the Company") is the evaluation, acquisition, exploration and development of precious metal properties. The head office of the Company is located in Toronto, Canada. The principal asset of the Company is the project described in Note 7. The exploration strategy of the Company is to focus on the discovery of precious metal deposits. To date, Silver Bear has not earned revenue from operations and is considered to be in the exploration stage.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future. As at March 31, 2015, the Company had no source of operating cash flows and reported a net loss for the period of $1,721,073 and a deficit of $108,249,880. In order to fund operations and maintain rights under licenses and agreements, the Company must secure sufficient future funding. In these circumstances, there exists significant doubt as to the ability of the Company to continue to meet its obligations as they come due and, hence the ultimate appropriateness of the use of accounting principles applicable to a going concern. The Company has a need for additional capital and while it has been successful in obtaining short term bridge financing in order to meet its funding requirements to date (see Note 10), there can be no assurance that it will be able to do so in the future.

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

## 2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with the Handbook of the Canadian Institute of Charted Accountants, in accordance with IFRS, as issued by International Accounting Standards Board ("IASB"), applicable to the preparation of consolidated financial statements and in accordance with accounting policies based on IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, including IAS 34 – Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year December 31, 2014, which has been prepared in accordance with IFRS as issued by the IASB. The Company has consistently applied the accounting policies used in the preparation of its IFRS statement of financial position throughout all periods presented, as if these policies had always been in effect.

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

These unaudited consolidated interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on May 14, 2015.

## 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 judgement in applying accounting policies:*

- Determination of functional currency

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

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

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

- Assets' carrying values and impairment charges

  In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of 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.

- Impairment of mineral properties

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

**2. BASIS OF PREPARATION (Continued)**

- Contingencies

  Refer to Note 16.

*Key sources of estimation uncertainty:*

- Depreciation rates

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

- Rehabilitation provisions and asset retirement obligations

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

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

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

- Share-based payment transactions

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

**New accounting standards**

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

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

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

**2. BASIS OF PREPARATION (Continued)**

The effective date of the standard has been deferred by the IASB. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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

On December 18, 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

## 3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS

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

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business.

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

In order to carry out the planned exploration and pay for administrative costs, the Company will spend existing working capital and plan to raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties where sufficient geologic or economic potential are noted and if financial resources exist to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company’s approach to capital management during the three months ended March 31, 2015 compared to the year ended December 31, 2014. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

**FINANCIAL RISK FACTORS**

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

**Credit risk**

The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of interest earning bank accounts, which are invested with Canadian chartered banks and a major Russian bank with credit rating from AA for Canadian banks and BB for Russian bank and a stable future outlook.

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

**Liquidity risk**

The Company’s approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. As at March 31, 2015, the Company had a cash balance of $5,819,236 (December 31, 2014 – $1,593,133). The Company had total obligations of $279,887 at March 31, 2015 (December 31, 2014 – $286,533) under a three-year finance lease of exploration equipment.

At March 31, 2015 the Company had total current assets of $10,137,826 (December 31, 2014 - $2,817,534) to settle current liabilities of $9,697,569 (December 31, 2014 – $610,867), as well as its commitments outlined in Note 16.

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

**Interest rate risk**

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

**Foreign currency risk**

The Company has funded certain exploration 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. Management believes the foreign exchange risk derived from currency conversions is low and therefore does not hedge its foreign exchange risk.

**Sensitivity analysis**

The carrying amount of accounts receivable equals fair market value. The effect of changes in foreign exchange rates on net loss is deemed to insignificant as number and amount of foreign-currency transactions are relatively small. Had the foreign exchange rates been higher (lower) by 5%, the cumulative translation adjustment in the other comprehensive income section of the Statement of financial position would have been lower (higher) by $176,671.

### 4. RECEIVABLE

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Russian Value Added Tax | $ | 291,900 | $ | 256,676 |
| Canadian Harmonized Sales Tax | | 51,001 | $ | 31,322 |
| Other | | 178,228 | | 61,944 |
| | $ | 521,129 | $ | 349,942 |

### 5. INVENTORIES

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

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Fuel and lubricants | $ | 695,216 | $ | 76,412 |
| Parts and supplies | | 784,026 | | 442,192 |
| | $ | 1,479,242 | $ | 518,604 |

### 6. PREPAID EXPENSES

Prepaid expenses consist of the following:

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Insurance | $ | 9,922 | $ | 19,844 |
| Exploration services and goods | | 474,413 | | 326,576 |
| Rent and administrative costs | | 15,992 | | 9,435 |
| | $ | 500,327 | $ | 355,855 |

Prepaid long-term assets consist of the following:

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Construction supplies | $ | 1,564,708 | $ | - |
| Drill rig | | 253,184 | | - |
| | $ | 1,817,892 | $ | - |

## 7. MINERAL PROPERTY

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

Mineral property consists of the following:

| Mangazeisky | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Balance at the beginning of the year | $ | 1,607,824 | $ | 2,519,401 |
| Translation adjustment | | 141,476 | | (911,577) |
| Balance at the end of the year | $ | 1,749,300 | $ | 1,607,824 |

The change in the value of the asset is due to additional costs incurred in the process of obtaining mining license and foreign exchange differences on translation of the asset.

The Company acquired the exploration licence in respect of the Mangazeisky property when it acquired all the shares of ZAO Prognoz on October 21, 2004. On December 27, 2012, the Mangazeisky License was extended by the Federal Subsoil Use Agency in the Russian Federation (“Rosnedra”) through December 31, 2016.

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

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

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Mangazeisky | $ | 59,561,362 | $ | 58,915,506 |

## 8. PROPERTY, PLANT AND EQUIPMENT

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

| | March 31, 2015 | | | | | | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Cost | | Accumulated depreciation | | Net book value | | Cost | | Accumulated depreciation | | Net book value |
| Property plant and equipment: | | | | | | | | | | | | |
| Mangazeisky site | $ | 4,322,613 | $ | 2,796,905 | $ | 1,525,708 | $ | 3,515,541 | $ | 2,497,677 | $ | 1,017,864 |
| Yakutsk office | | 83,527 | | 83,527 | | - | | 76,094 | | 76,094 | | - |
| Other office furniture, equipment and leasehold improvements | | 59,620 | | 59,620 | | - | | 59,620 | | 59,620 | | - |
| | $ | 4,465,760 | $ | 2,940,052 | $ | 1,525,708 | $ | 3,651,255 | $ | 2,633,391 | $ | 1,017,864 |

Reconciliation of the carrying amount at the beginning and end of the years ended December 31, 2014 and three months ended March 31, 2015:

| | | Mangazeisky site equipment | | Total |
|---|---|---|---|---|
| Carrying amount at January 1, 2013 | $ | 1,770,284 | $ | 1,770,284 |
| Additions | | 146,818 | | 146,818 |
| Disposals | | - | | - |
| Depreciation | | (254,071) | | (254,071) |
| Exchange differences | | (645,167) | | (645,167) |
| Carrying amount at December 31, 2014 | $ | 1,017,864 | $ | 1,017,864 |
| Additions | | 420,384 | | 420,384 |
| Disposals | | - | | - |
| Depreciation | | (50,106) | | (50,106) |
| Exchange differences | | 137,566 | | 137,566 |
| Carrying amount at March 31, 2015 | $ | 1,525,708 | $ | 1,525,708 |

## 8. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying value of equipment held under finance leases as at March 31, 2015 was $278,742 (December 31, 2014 - $284,409). A piece of exploration equipment was acquired during the three months ended March 31, 2015. Leased assets are pledged as security for the related finance lease obligations.

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Exploration costs - Mangazeisky project | $ | 240,786 | $ | 99,859 |
| Corporate - accounts payable and accrued liabilities | | 417,994 | | 364,027 |
| | $ | 658,780 | $ | 463,886 |

## 10. SHORT-TERM LOANS

On March 2, 2015, the Company entered into unsecured non-convertible promissory notes with FrontDeal Limited ("FrontDeal") and with Inflection, pursuant to which FrontDeal and Inflection have each agreed to lend the Company US$3,500,000 respectively for a total of US$7,000,000. Amounts outstanding under the promissory notes will incur interest at a rate of 15% per year and the principal and interest payable thereon will mature on June 27, 2015. FrontDeal is indirectly wholly-owned by Alexey Mordashov, who is also the owner of Aterra Investments Limited, an insider and related party to the Company. Mr. Boris Granovsky, a director of the Company, is a managing partner of Aterra Capital, a management company for Aterra Investments Ltd. Inflection is an insider and related party of Silver Bear. Mr. Alexey Sotskov, a director of the Company, is also a director of Inflection.

The principal of the loans and accrued interest of $58,277 were outstanding at March 31, 2015.

## 11. FINANCE LEASE

The Company entered into a long-term lease agreement with Caterpillar Financial Ltd. for the purchase of certain exploration equipment payable in monthly installments over a three-year period. The lease payments were discounted at a rate of 11.5%. The Company made a down-payment for the 50% of the cost of equipment. In January 2014 the lease was extended until December 2016.

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

| Payments due by period | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Within one year | $ | 171,992 | $ | 157,319 |
| With two to five years | | 143,327 | | 170,430 |
| | | 315,319 | | 327,749 |
| Future finance charges on finance lease | | (35,432) | | (41,213) |
| Present value of the net lease payments | | 279,887 | | 286,536 |
| Current portion | | 160,689 | | 146,981 |
| Long-term portion | | 119,198 | | 139,555 |
| Total obligations under finance lease | $ | 279,887 | $ | 286,536 |

## 12. SHAREHOLDERS' EQUITY

### Common shares

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

### 12. SHAREHOLDERS' EQUITY (Continued)

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the period ended March 31, 2015 and year ended December 31, 2014:

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Number of common shares | $ | Number of common shares | $ |
| Balance - Beginning of the period | 161,089,517 | 98,265,379 | 94,642,170 | 87,542,402 |
| Issued pursuant to private placement, net | - | - | 64,420,467 | 10,466,420 |
| Issued for debt | - | - | 220,630 | 28,682 |
| Issued under share bonus plan | 237,500 | 11,875 | 1,806,250 | 227,875 |
| Balance - End of the period | 161,327,017 | 98,277,254 | 161,089,517 | 98,265,379 |

### Share Bonus Plan

In June 2013, the shareholders of the Company approved a share bonus plan whereby an aggregate of up to 2.5 million common shares of the Company have been reserved for issuance to officers, directors and employees of the Company.

On August 22, 2013 the board approved the issuance of up to 1,100,000 common shares and on February 21, 2014 the allocation issuance of up to 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 prior to issuance on or about the following dates:

| | | |
|---|---|---|
| October 1, 2013 | - | 275,000 common shares |
| January 1, 2014 | - | 275,000 common shares |
| April 1, 2014 | - | 618,750 common shares |
| July 1, 2014 | - | 618,750 common shares |
| October 1, 2014 | - | 343,750 common shares |
| January 1, 2015 | - | 343,750 common shares |

On January 2, 2015, 237,500 common shares under the share bonus plan were issued to certain officers, directors and consultants of the Company valued at $0.05 per share.

### Stock Options

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

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

As at March 31, 2015 the total number of options available for issue was 15,951,452. A total of 3,578,952 options are available for future issue as at March 31, 2015.

During the three months ended March 31, 2015 options generated a share based payments expense of $43,733 (March 31, 2013: $346,693). The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model.

## 12. SHAREHOLDERS' EQUITY (Continued)

Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option. Expected volatility is based on the historical share price volatility over the past 5 years. The expected life of the option was calculated based on the history of option exercises.

Reconciliation of the number of options at the beginning and end of the year ended December 31, 2014 and three month period ended March 31, 2015 follows:

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price, $ | Number | Weighted average exercise price, $ |
| Balance - Beginning of the period | 12,572,500 | 0.35 | 4,522,500 | 0.68 |
| Granted | - | 0.22 | 8,740,000 | 0.22 |
| Expired / Cancelled / Forfeited | - | 0.56 | (690,000) | 0.56 |
| Balance - End of the period | 12,572,500 | 0.36 | 12,572,500 | 0.35 |

As at March 31, 2015, the Company had share options outstanding and exercisable as follows:

| | Outstanding | | Exercisable | |
|---|---|---|---|---|
| Expiry year | Number | Weighted average exercise price, $ | Number | Weighted average exercise price, $ |
| 2015 | 895,000 | 0.59 | 895,000 | 0.59 |
| 2016 | 1,830,000 | 0.91 | 1,830,000 | 0.91 |
| 2017 | 892,500 | 0.54 | 892,500 | 0.54 |
| 2018 | 475,000 | 0.20 | 358,333 | 0.20 |
| 2019 | 8,480,000 | 0.22 | 4,146,666 | 0.23 |
| | 12,572,500 | 0.37 | 8,122,499 | 0.46 |

Contributed surplus consists of the following:

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Balance-Beginning of year | $ 14,009,495 | $ 13,499,050 |
| Share-based payments | 43,733 | 510,445 |
| Warrants | - | - |
| Balance- End of year | $ 14,053,228 | $ 14,009,495 |

Share purchase warrant transactions are summarized as follows:

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Number of share purchase warrants | Weighted average exercise price, $ | Number of share purchase warrants | Weighted average exercise price, $ |
| Balance - Beginning of the period | 38,383,422 | 0.26 | 38,383,422 | 0.26 |
| Balance - End of the period | 38,383,422 | 0.26 | 38,383,422 | 0.26 |

At March 31, 2015, the following warrants were outstanding:

| Expiry | Exercise price, $ | Number of warrants | Grant date fair value recorded, $ |
|---|---|---|---|
| June 7, 2015 | 0.58 | 1,753,703 | 264,254 |
| July 16, 2015 | 0.58 | 890,000 | 129,281 |
| October 17, 2015 | 0.245 | 3,892,308 | 168,667 |
| October 21, 2015 | 0.245 | 3,846,153 | 187,500 |
| December 18, 2015 | 0.245 | 24,478,760 | 1,060,746 |
| June 4, 2016 | 0.33 | 3,522,498 | 296,789 |
| | | 38,383,422 | 2,107,237 |

## 12. SHAREHOLDERS' EQUITY (Continued)

The fair value of warrants is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: risk free rate of return 1.11%-1.20%, volatility of 116%-133% and expected life of 2-3 years.

### Loss per share

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

| | Three months ended | |
|---|---|---|
| | **March 31, 2015** | **March 31, 2014** |
| Net loss | $ (1,721,073) | $ (1,212,704) |
| Weighted average number of common shares outstanding | 161,324,378 | 94,977,852 |
| Basic and dilutes loss per share | $ (0.01) | $ (0.01) |

## 13. RELATED PARTY DISCLOSURES

The Company shares office space with companies that have officers or directors in common with the Company. The costs associated with this space and certain other services are administered by 2227929 Ontario Inc.

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

On March 2, 2015, the Company entered into unsecured non-convertible promissory notes with FrontDeal Limited ("FrontDeal") and with Inflection, pursuant to which FrontDeal and Inflection have each agreed to lend the Company US$3,500,000 respectively for a total of US$7,000,000. Amounts outstanding under the promissory notes will incur interest at a rate of 15% per year and the principal and interest payable thereon will mature on June 27, 2015. FrontDeal is indirectly wholly-owned by Alexey Mordashov, who is also the owner of Aterra Investments Limited, an insider and related party to the Company. Mr. Boris Granovsky, a director of the Company, is a managing partner of Aterra Capital, a management company for Aterra Investments Ltd. Inflection is an insider and related party of Silver Bear. Mr. Alexey Sotskov, a director of the Company, is also a director of Inflection.

The principal of the loans and accrued interest of $58,277 were outstanding at March 31, 2015.

During the three months ended March 31, 2015 and 2014 the Company entered into transactions for goods and services with the following related parties:

| | Goods and services received | |
|---|---|---|
| Goods and services received from (provided to): | **March 31, 2015** | **March 31, 2014** |
| 2227929 Ontario Inc. | $ 42,000 | $ 29,824 |
| Forbes & Manhattan Inc. | 150,000 | 75,000 |
| | $ 192,000 | $ 104,824 |

The following balances related to goods and services were outstanding at the end of the reporting period:

| | Amounts owed to related parties | |
|---|---|---|
| Outstanding balances | **March 31, 2015** | **March 31, 2014** |
| 2227929 Ontario Inc. | $ 401 | $ 306,961 |
| Forbes & Manhattan Inc. | - | 84,750 |
| Other entities of F&M Group | - | 21,557 |
| | $ 401 | $ 413,268 |

## 13. RELATED PARTY DISCLOSURES (Continued)

These amounts are unsecured, non-interest bearing with no fixed terms of repayment. The related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

See Note 20 for events after the reporting period.

### Compensation of key management

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

| | Three months ended | |
|---|---|---|
| | **March 31, 2015** | **March 31, 2014** |
| Salaries, fees and short-term employee benefits | $ 294,680 | $ 274,189 |
| Share-based payments | 54,358 | 249,360 |
| | $ 349,038 | $ 523,549 |

## 14. EXPENSES BY NATURE

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

| | Three months ended | |
|---|---|---|
| | **March 31, 2015** | **March 31, 2014** |
| Employee compensation | $ 613,383 | $ 746,993 |
| Drilling and trenching | 22,548 | - |
| Depreciation | 50,106 | 66,715 |
| Professional fees | 297,003 | 71,030 |
| Geological & environmental studies | 242,847 | 78,802 |
| Transportation | 40,865 | (255) |
| Camp maintenance | 46,733 | 16,230 |
| Taxes | 2,464 | 3,582 |
| Office expenses | 70,791 | 57,823 |
| Travel expenses | 33,289 | 22,733 |
| Accretion expense | 16,171 | 25,761 |
| Interest expense | 67,751 | 19,873 |
| Foreign exchange | 124,648 | 27,418 |
| Other expenses | 94,022 | 77,877 |
| | $ 1,722,621 | $ 1,214,582 |

Certain comparative figures have been reclassified to conform to the current period's presentation.

Employee benefits expense for the years ended March 31, 2015 and 2014 consisted of the following:

| | Three months ended | |
|---|---|---|
| | **March 31, 2015** | **March 31, 2014** |
| Salaries, fees and short-term employee benefits | $ 557,775 | $ 400,300 |
| Share-based payments | 55,608 | 346,693 |
| | $ 613,383 | $ 746,993 |

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

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

| | **March 31, 2015** | **March 31, 2014** |
|---|---|---|
| Receivable | $ (128,827) | $ 109,635 |
| Inventories | (825,041) | (47,783) |
| Prepaid expenses | (1,758,099) | (70,048) |
| Accounts payable and accrued liabilities | 77,567 | 308,606 |
| | $ (2,634,400) | $ 300,410 |

## 16. COMMITMENTS AND CONTINGENCIES

In order to maintain the exploration license at the Mangazeisky Project in good standing, Silver Bear is required to conduct certain minimum levels of exploration activity. The Company is required to undertake 5,000 cubic metres of trenching and 3,000 metres of drilling to satisfy license agreement requirements in 2015.

Minimum requirement under the mining license for the 2015-2017 period is 15,000 metres of drilling and 15,000 cubic metres of trenching.

The Company entered into a long-term lease agreement with Caterpillar Financial Ltd. for the purchase of certain exploration equipment payable in monthly installments of US$11,300 over a three-year period until December 2016.

The Company is party to certain management contracts and severance obligations. These contracts contain clauses requiring additional payments of up to $717,300 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. Additional minimum management contractual commitments remaining under the agreements are approximately $430,000, all due within one year.

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect Silver Bear's financial position, results of operations or cash flows. There were no material outstanding legal proceedings as of March 31, 2015.

Subsequent to March 31, 2015, the Company terminated agreements with certain officers and consultants and incurred termination fees related to the contracts totaling $152,581.

## 17. SEGMENTED INFORMATION

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

**As at March 31, 2015**

| Country / Property | Cash and cash equivalents | Inventories | Prepaid expenses | Receivables | Mineral Properties | Property, plant and equipment | Depreciation | Interest expense | Net Loss for the period |
|---|---|---|---|---|---|---|---|---|---|
| Russia - Mangazeisky | $ 1,291,042 | $ 1,479,242 | $ 2,198,628 | $ 470,128 | $ 1,749,300 | $ 1,525,708 | $ 50,106 | $ 9,374 | $ 663,906 |
| Canada - corporate | 4,528,194 | - | 119,591 | 51,001 | - | - | - | 58,377 | 1,033,046 |
| | $ 5,819,236 | $ 1,479,242 | $ 2,318,219 | $ 521,129 | $ 1,749,300 | $ 1,525,708 | $ 50,106 | $ 67,751 | $ 1,696,952 |

**As at December 31, 2014**

| Country / Property | Cash and cash equivalents | Inventories | Prepaid expenses | Receivables | Mineral Properties | Property, plant and equipment | Depreciation | Interest expense | Net Loss for the period |
|---|---|---|---|---|---|---|---|---|---|
| Russia - Mangazeisky | $ 58,357 | $ 518,604 | $ 200,298 | $ 318,620 | $ 1,607,824 | $ 1,017,864 | $ 254,071 | $ 42,605 | $ 5,024,978 |
| Canada - corporate | 1,534,776 | - | 155,557 | 31,322 | - | - | - | 91,352 | 4,057,355 |
| | $ 1,593,133 | $ 518,604 | $ 355,855 | $ 349,942 | $ 1,607,824 | $ 1,017,864 | $ 254,071 | $133,957 | $ 9,082,333 |

## 18. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY

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

## 18. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY (Continued)

The Company's provision for decommissioning and restoration liability consist of management's best estimate of reclamation and closure costs for Mangazeisky exploration project located in the Republic of Sakha, Yakutia in the Russian Federation.

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:

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Balance at the beginning of the year | $ | 826,758 | $ | 1,241,223 |
| Accretion expense | | 16,171 | | 95,566 |
| Translation adjustment | | 82,426 | | (510,031) |
| Balance at the end of the year | $ | 925,355 | $ | 826,758 |

The estimated value of the obligation to rehabilitate the site expressed in Canadian dollars is $1,050,209. A Russian Central bank borrowing rate of 8.25% has been used in discounting of future cash flows.

## 19. FINANCIAL INSTRUMENTS

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

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

The Company's financial instruments consist of cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments. The Company has no financial instruments recorded at fair value.

Financial assets and financial liabilities as at March 31, 2015 and December 31, 2014 were as follows:

| At March 31, 2015 | | Loans and receivables | | Other liabilities | | TOTAL |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 5,819,236 | $ | - | $ | 5,819,236 |
| Accounts Receivable | | 521,129 | | - | | 521,129 |
| Short-term loans | | 8,878,100 | | - | | 8,878,100 |
| Accounts payables and accrued liabilities | | - | | 658,780 | | 658,780 |
| Finance lease | $ | - | $ | 279,887 | $ | 279,887 |

| At December 31, 2014 | | Loans and receivables | | Other liabilities | | TOTAL |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 1,593,133 | $ | - | $ | 1,593,133 |
| Accounts Receivable | | 349,942 | | - | | 349,942 |
| Accounts payables and accrued liabilities | | - | | 463,886 | | 463,886 |
| Finance lease | $ | - | $ | 286,536 | $ | 286,536 |

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

## 20. EVENTS AFTER THE REPORTING PERIOD

Subsequent to March 31, 2015, on April 2, 2015, 100,000 stock options were cancelled pursuant to the termination agreement with a consultant of the Company.

On May 14, 2015 the Company terminated agreement with 2227929 Ontario Inc. A termination fee of $94,920 is payable pursuant to the termination agreement.

Subsequent to March 31, 2015, the Company terminated agreements with certain officers and consultants and incurred termination fees related to the contracts totaling $152,581.