

Consolidated Financial Statements

(Expressed in Canadian dollars)

Silver Bear Resources Inc.

For the year ended December 31, 2014

Management’s Responsibility for Financial Reporting

The consolidated financial statements of Silver Bear Resources Inc. have been prepared by, and are the responsibility of the Company’s management.

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

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

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

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

“Graham Hill”

Graham Hill

Director, President and
Chief Executive Officer

“Deborah Battiston”

Deborah Battiston

Chief Financial Officer

**Toronto, Ontario, Canada
March 26, 2015**



March 26, 2015

Independent auditor's report

To the Shareholders of Silver Bear Resources Inc.

We have audited the accompanying consolidated financial statements of Silver Bear Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of loss and comprehensive loss, the consolidated statements of changes in equity, and the consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Silver Bear Resources Inc. and its subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with IFRS.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

Silver Bear Resources Inc.

Consolidated Statement of Financial Position

(Canadian dollars)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	1,593,133	276,909
Receivable (note 4)	349,942	409,905
Inventories (note 5)	518,604	1,133,556
Prepaid expenses (note 6)	355,855	60,602
Total current assets	2,817,534	1,880,972
Non-current assets		
Mineral property (note 7)	1,607,824	2,519,401
Property, plant and equipment (note 8)	1,017,864	1,770,284
Total assets	5,443,222	6,170,657
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	463,886	1,534,232
Finance lease (note 11)	146,981	303,683
Total current liabilities	610,867	1,837,915
Non-current liabilities		
Asset retirement obligation (note 18)	826,758	1,241,223
Finance lease (note 11)	139,555	50,685
Total liabilities	1,577,180	3,129,823
EQUITY		
Equity attributable to owners of Silver Bear Resources Inc.		
Share capital (note 12)	98,265,379	87,542,402
Contributed surplus (note 12)	14,009,495	13,499,050
Accumulated other comprehensive loss	(1,880,025)	(554,144)
Deficit	(106,528,807)	(97,446,474)
Total equity	3,866,042	3,040,834
Total liabilities and shareholders' equity	5,443,222	6,170,657

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 March 26, 2015

“Graham Hill”

Graham Hill
Director

“Trevor Eyton”

Trevor Eyton
Director

Silver Bear Resources Inc.

Consolidated Statement of Comprehensive Loss

For the years ended December 31, 2014 and 2013

(Canadian dollars)

	2014	2013
Income		
Interest income	12,608	440
	<u>12,608</u>	<u>440</u>
Expenses (Note 14)		
Exploration costs	4,994,803	3,243,003
General and administrative	2,451,467	1,915,563
Depreciation	254,071	282,448
Share-based payments	738,320	312,236
Accretion expense	95,566	105,873
Interest expense	133,957	269,453
Foreign exchange loss	426,757	50,647
Expenses from operations	<u>9,094,941</u>	<u>6,179,223</u>
Net loss for the year	<u>(9,082,333)</u>	<u>(6,178,783)</u>
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(1,325,881)	(37,090)
Comprehensive loss for the year	<u>(10,408,214)</u>	<u>(6,215,873)</u>
Weighted average number of common shares outstanding	126,128,878	61,161,041
Basic and diluted loss per share	<u>(0.07)</u>	<u>(0.10)</u>

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

Silver Bear Resources Inc.

Consolidated Statement of Changes in Equity For the years ended December 31, 2014 and 2013

(Canadian dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance - December 31, 2012	83,580,384	11,473,112.00	(517,054)	(91,267,691)	3,268,751
Net loss for the year	-	-	-	(6,178,783)	(6,178,783)
Other comprehensive loss:					
Cumulative translation adjustment	-	-	(37,090)	-	(37,090)
Comprehensive loss for the year	-	-	(37,090)	(6,178,783)	(6,215,873)
Net proceeds from issuance shares in private placement	3,962,018	-	-	-	3,962,018
Share-based payments	-	312,236	-	-	312,236
Warrants	-	1,713,702	-	-	1,713,702
Balance -December 31, 2013	87,542,402	13,499,050	(554,144)	(97,446,474)	3,040,834
Balance - December 31, 2013	87,542,402	13,499,050	(554,144)	(97,446,474)	3,040,834
Net loss for the year	-	-	-	(9,082,333)	(9,082,333)
Other comprehensive loss:					
Cumulative translation adjustment	-	-	(1,325,881)	-	(1,325,881)
Comprehensive loss for the year	-	-	(1,325,881)	(9,082,333)	(10,408,214)
Net proceeds from issuance shares in private placement	10,466,420	-	-	-	10,466,420
Shares issued for debt	28,682	-	-	-	28,682
Shares issued under share bonus plan	227,875	-	-	-	227,875
Share-based payments	-	510,445	-	-	510,445
Balance -December 31, 2014	98,265,379	14,009,495	(1,880,025)	(106,528,807)	3,866,042

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

Silver Bear Resources Inc.

Consolidated Statement of Cash Flow

For the years ended December 31, 2014 and 2013

(Canadian dollars)

	2014	2013
Cash provided by (used in)		
Operating activities		
Total loss for the year	(9,082,333)	(6,178,783)
Adjustments for items not affecting cash:		
Depreciation	254,071	282,448
Share-based payments	738,320	312,236
Accretion expense	95,566	105,873
Interest expense	(35,818)	35,818
Net change in non-cash working capital (note 15)	(867,839)	803,712
Net cash used in operations	(8,898,033)	(4,638,696)
Investing activities		
Acquisition of property, plant and equipment	(146,818)	(738,854)
Net cash used in investing activities	(146,818)	(738,854)
Financing activities		
Net proceeds from issuance shares in private placement	10,466,420	5,675,720
Finance lease repayment	(142,075)	(147,854)
Short-term loans drawn	1,250,000	2,679,400
Short-term loans repaid	(1,250,000)	(2,729,400)
Net cash generated from financing activities	10,324,345	5,477,866
Effect of exchange rate changes on cash and cash equivalents	36,730	34,924
Increase (decrease) in cash and cash equivalents during the year	1,316,224	135,240
Cash and cash equivalents - beginning of the year	276,909	141,669
Cash and cash equivalents - end of the year	1,593,133	276,909
Cash and cash equivalents consist of:		
Cash	1,593,133	241,909
Cash equivalents	-	35,000
	1,593,133	276,909

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

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

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 audited consolidated 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 December 31, 2014, the Company had no source of operating cash flows and reported a net loss for the year of \$9,082,333 and a deficit of \$106,528,807. 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 Notes 10 and 21), there can be no assurance that it will be able to do so in the future.

These consolidated financial statements do not include adjustments or disclosures that may result should the Company not be able to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be 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 consolidated financial statements have been prepared in accordance with the Handbook of the Canadian Institute of Chartered Accountants, in accordance with IFRS, as issued by International Accounting Standards Board (“IASB”), applicable to the preparation of consolidated financial statements and in accordance with accounting policies based on IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations. 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 audited consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on March 26, 2015.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

2. BASIS OF PREPARATION (Continued)

Significant Accounting Policies

Foreign currency translation

Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which it operates (“functional currency”). The consolidated financial statements are presented in Canadian dollars which is Silver Bear’s functional currency, as well as the functional currency of Silver Bear Holdings. The financial statements of ZAO Prognoz have the Russian rouble as its 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. Licenses are valued at cost at the date of acquisition less impairment.

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 three to five years.

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 Company has a reasonable expectation that the property is capable of commercial production, supported by a positive economic analysis and approved by the Board of Directors.

Impairment of non-financial assets

The Company 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 to sell 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.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

2. BASIS OF PREPARATION (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 Company 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 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 Company determines the classification of its financial assets at initial recognition.

The Company's financial assets include cash and amounts receivable. Initially they are recognized at fair value, 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 Company commits to purchase or sell assets.

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

Financial liabilities:

Financial liabilities within the scope of IAS 39 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 Company's financial liabilities include accounts payable, accrued liabilities 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.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

2. BASIS OF PREPARATION (Continued)

Financial instruments are initially recorded at fair value. The fair values of cash and cash equivalents, receivable from related party (Note 13), miscellaneous receivables and accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature.

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. Equity investments are excluded from cash equivalents.

Income Taxes

The Company 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. In the event of the Company reporting net profit, the diluted loss per share will be similar to basic earnings per share, except that the denominator will be increased to include the number of additional shares that would have been outstanding if the dilutive potential common shares in connection with the issued share options had been issued using the treasury stock method.

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 12. 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.

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.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

2. BASIS OF PREPARATION (Continued)

Contingencies

In assessing loss contingencies related to legal proceedings that are pending against us or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims of the amount of relief sought or expected to be sought.

If the assessment of a contingency suggests that a loss is probable, the amount can be reliably estimated, and there is a present obligation as a result of a past event, then a loss is recorded. The details of a contingent loss are disclosed unless the possibility of any outflow in settlement is remote. Legal fees incurred with pending legal proceedings are expensed as incurred.

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 Company as a lessee are capitalized at the inception 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 Company 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 Company as a lessee are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of earnings on a straight-line basis over the lease term.

Accounting estimates and management judgments

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

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

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

Critical judgements in applying accounting policies:

- Determination of functional currency

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

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

2. BASIS OF PREPARATION (Continued)

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

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

- Assets' carrying values and impairment charges

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.

- 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.

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

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

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

2. BASIS OF PREPARATION (Continued)

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

- Share-based payment transactions

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

New accounting standards

The Company has adopted the following new and revised accounting standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions. Updates that are not applicable or are not consequential to the Company have been excluded therein.

IAS 32 - Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

At January 1, 2014, the Company adopted this pronouncement and there was no material impact on the Company's consolidated financial statements.

IFRIC 21, Levies - In May 2013, the IASB issued IFRIC 21, Levies. This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The IFRIC provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. At January 1, 2014, the Company adopted this pronouncement and there was no material impact on the Company's consolidated financial statements.

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

IFRS 9 – Financial Instruments (“IFRS 9”)

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

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

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

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 (shareholders’ equity) 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 through equity and/or debt. The Company will continue to assess new properties and seek to acquire an interest in additional properties where sufficient geologic or economic potential are noted and if financial resources exist to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company’s approach to capital management during the year ended December 31, 2014 compared to the year ended December 31, 2013. 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 balances consist of interest earning bank accounts, which are invested with Canadian chartered banks and a major Russian bank with credit rating of AA for the Canadian banks and BB for the 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 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 December 31, 2014, the Company had a cash balance of \$1,593,133 (December 31, 2013 – \$276,909).

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

Liquidity risk (continued)

The Company had total obligations of \$286,536 at December 31, 2014 (December 31, 2013 – \$354,368) under a three-year finance lease of exploration equipment.

At December 31, 2014 the Company had total current assets of \$2,817,534 (December 31, 2013 - \$1,880,972) to settle current liabilities of \$610,867 (December 31, 2013 – \$1,837,915), as well as its commitments outlined in Note 16.

Interest rate risk

The Company has cash balances and no 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 currencies 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. The Company doesn't keep substantial balances in Russian rubles for a long period of time to minimize impact of volatile exchange rates.

Sensitivity analysis

The effect of changes in foreign exchange rates on net loss is medium due to a number and amount of foreign-currency transactions. The Company minimizes impact of changes in foreign exchange rates by converting into Russian rubles only amounts required for immediate use. 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 \$107,774.

4. RECEIVABLE

	December 31, 2014	December 31, 2013
Russian Value Added Tax	\$ 256,676	\$ 143,821
Canadian Harmonized Sales Tax	31,322	\$ 46,463
Other	61,944	219,621
	<u>\$ 349,942</u>	<u>\$ 409,905</u>

5. INVENTORIES

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

	December 31, 2014	December 31, 2013
Fuel and lubricants	\$ 76,412	\$ 259,937
Parts and supplies	442,192	873,619
	<u>\$ 518,604</u>	<u>\$ 1,133,556</u>

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

6. PREPAID EXPENSES

Prepaid expenses consist of the following:

	December 31, 2014	December 31, 2013
Insurance	\$ 19,844	\$ 16,207
Exploration services and goods	326,576	31,104
Rent and administrative costs	9,435	13,291
	<u>\$ 355,855</u>	<u>\$ 60,602</u>

7. MINERAL PROPERTY

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

Mineral property consists of the following:

	December 31, 2014	December 31, 2013
Balance at the beginning of the year	\$ 1,241,223	\$ 1,143,383
Accretion expense	95,566	105,873
Translation adjustment	(510,031)	(8,033)
Balance at the end of the year	<u>\$ 826,758</u>	<u>\$ 1,241,223</u>

The change in value of the asset is due to foreign exchange difference 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 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:

	December 31, 2014	December 31, 2013
Mangazeisky	<u>\$ 58,915,506</u>	<u>\$ 53,920,703</u>

8. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2014			December 31, 2013		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property plant and equipment:						
Mangazeisky site	\$ 3,515,540	\$ 2,497,676	\$ 1,017,864	\$ 5,667,799	\$ 3,897,515	\$ 1,770,284
Yakutsk office	76,094	76,094	-	123,988	123,988	-
Other office furniture, equipment and leasehold improvements	59,620	59,620	-	59,620	59,620	-
	<u>\$ 3,651,254</u>	<u>\$ 2,633,390</u>	<u>\$ 1,017,864</u>	<u>\$ 5,851,407</u>	<u>\$ 4,081,123</u>	<u>\$ 1,770,284</u>

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

Reconciliation of the carrying amount at the beginning and end of the years ended December 31, 2014 and 2013:

	Mangazeisky site equipment		Total
Carrying amount at January 1, 2013	\$ 2,065,814		\$ 2,065,814
Additions	-		-
Disposals	-		-
Depreciation	(282,448)		(282,448)
Exchange differences	(13,082)		(13,082)
Carrying amount at December 31, 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

The carrying value of equipment held under finance leases as at December 31, 2014 was \$284,409 (December 31, 2013 - \$662,023). The Company acquired capital assets for \$146,818 during the year ended December 31, 2014 and disposed of a number of fully depreciated capital assets. 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:

	December 31, 2014	December 31, 2013
Exploration costs - Mangazeisky project	\$ 99,859	\$ 271,736
Corporate - accounts payable and accrued liabilities	364,027	1,262,496
	\$ 463,886	\$ 1,534,232

10. SHORT-TERM LOANS

On March 10, 2014, the Company entered into a loan agreement with 1039593 Ontario Ltd., who agreed to provide an unsecured loan in the amount of \$250,000. Interest on the loan was calculated at a rate of 25% per annum and was payable monthly. 1039593 Ontario Ltd. is 100% owned by Mr. Mark Trevisiol, a former president and CEO of the Company. The principal of the loan and accrued interest of \$12,500 were repaid on May 23, 2014.

On March 14, 2014, the Company entered into a loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of \$250,000. Interest was calculated at rate of 25% per annum and was payable monthly. On April 17, 2014, the Company entered into another loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of \$250,000. Interest was calculated at rate of 25% per annum and was payable monthly. Mr. Boris Granovsky, a director of the Company, is a managing partner of Aterra Capital, a management company for Aterra Investments Ltd. Ms Anastasia Gracheva, a former director of the Company, was an officer of Aterra Capital, a management company for Aterra Investments Ltd. The principal of both loans and accrued interest of \$38,897 were repaid on August 18, 2014.

On March 20, 2014, the Company entered into a loan agreement with Forbes & Manhattan Inc. Forbes & Manhattan Inc. agreed to provide an unsecured loan in the amount of \$250,000 repayable on June 18, 2014. Interest was calculated at rate of 25% per annum and was payable monthly. Mr. Stan Bharti, a former director of the Company, is the Executive Chairman of Forbes & Manhattan Inc. The principal of the loan and accrued interest of \$25,685 were repaid on August 18, 2014.

On April 17, 2014, the Company entered into a loan agreement with Inflection Management Corp. ("Inflection"). Inflection agreed to provide an unsecured loan in the amount of \$250,000 repayable on July 17, 2014.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

10. SHORT-TERM LOANS (Continued)

Interest was calculated at rate of 25% per annum and was payable monthly. The principal of the loan and accrued interest of \$4,966 was repaid on May 20, 2014. Mr. Alexey Sotskov, a director of the Company, is a board representative of Inflection - a significant shareholder of Silver Bear resources Inc.

11. FINANCE LEASE

The Company entered into a long-term lease agreement, extended in 2014, with Caterpillar Financial Ltd. for the purchase of certain exploration equipment payable in monthly installments of USD 11,300 until December 2016. The lease payments were discounted at a rate of 11.5%. The Company made a down-payment for 50% of the cost of equipment.

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	December 31, 2014	December 31, 2013
Within one year	\$ 157,319	\$ 314,344
With two to five years	170,430	62,869
	327,749	377,213
Future finance charges on finance lease	(41,213)	(22,845)
Present value of the net lease payments	286,536	354,368
Current portion	146,981	303,683
Long-term portion	139,555	50,685
Total obligations under finance lease	\$ 286,536	\$ 354,368

12. 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 year ended December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Number of common shares	\$	Number of common shares	\$
Balance - Beginning of year	94,642,170	87,542,402	53,866,307	83,580,384
Issued pursuant to private placement, net	64,420,467	10,466,420	40,500,863	3,927,643
Issued for debt	220,630	28,682	-	-
Issued under share bonus plan	1,806,250	227,875	275,000	34,375
Balance - End of year	161,089,517	98,265,379	94,642,170	87,542,402

On March 6, 2014 the Company issued 220,630 common shares of the Company at a price of \$0.13 per common share, which is the market price on the date preceding the date of the agreement between parties, to settle outstanding amount payable in relation to past services provided by Exploration Services UK Ltd.

On May 20, 2014 the Company completed the first tranche of private placement financing through the issuance of 23,700,000 common shares of the Company at a price of \$0.17 per common share for gross proceeds in the amount of \$4,029,000. A finder's fee of \$184,817 was paid in connection with the first tranche of private placement financing. Cost of issue also includes TSX listing fees.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

12. SHAREHOLDERS' EQUITY (Continued)

On August 15, 2014 the Company completed the second tranche of private placement financing through the issuance of 40,720,467 common shares of the Company at a price of \$0.17 per share for gross proceeds in the amount of \$6,922,479. A finder's fee of \$254,713 was paid in connection with the second tranche of private placement financing. Cost of issues also includes TSX listing fees.

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 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 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, 2014, April 1, 2014, July 1, 2014, and October 1, 2014, 275,000, 618,750, 618,750 and 297,750 common shares respectively under the share bonus plan were issued to certain officers, directors and consultants of the Company priced at \$0.08, \$0.135, \$0.155 and \$0.09 per share respectively which is TSX closing price on the date preceding the date of the grant. A share bonus of \$227,875 was included under the share-based payments in the Statement of comprehensive loss.

Subsequent to December 31, 2014, 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.

See Note 21 for the events after reporting period.

Stock options and warrants

The Company has a stock option plan which is intended to provide an incentive to officers, employees, directors and consultants of the Company. Stock options are granted from time to time and the option price is determined by the Compensation Committee of the Board of Directors at its sole discretion but shall not be less than the closing price of the Company's common stock on the Toronto Stock Exchange 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 December 31, 2014 the total number of options available for issue was 15,690,202. A total of 3,117,702 options are available for future issue as at December 31, 2014.

On February 28, 2014, 2,240,000 options were granted to directors, officers and consultants of the Company. The exercise price of the options is \$0.17 per option. Granted stock options vest immediately on the day of the grant and expire on February 28, 2019.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

12. SHAREHOLDERS' EQUITY (Continued)

Stock Options and Warrants (continued)

The fair value of these options was estimated to be \$295,402 with the following assumptions: expected volatility of 132%, dividend yield of 0%, risk-free interest rate of 1.25% and expected life of 3.3 years.

On November 17, 2014, 6,500,000 options were granted to the Chief Executive Officer of the Company, as follows: 2,500,000 stock options at an exercise price of \$0.175 per option, 2,500,000 stock options at an exercise price of \$0.25 per option and 1,500,000 stock options at an exercise price of \$0.30 per option. Granted stock options vest in three equal tranches from the date of grant over a two-year period and expire on November 17, 2019. The fair value of these options was estimated to be \$355,802 with the following assumptions: expected volatility of 140%, dividend yield of 0%, risk-free interest rate of 1.19% and expected life of 3.3 years.

During the year ended December 31, 2014, options generated a share based payments expense of \$510,445 (year ended December 31, 2013: \$312,236). The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option). Expected volatility is based on the historical share price volatility over the past 4 years. The expected life of the option was calculated based on the history of option exercises.

Reconciliation of the number of options at the beginning and end of the year ended December 31, 2014 and 2013 follows:

	December 31, 2014		December 31, 2013	
	Number	Weighted average exercise price, \$	Number	Weighted average exercise price, \$
Balance - Beginning of the year	4,522,500	0.68	4,844,167	0.69
Granted	8,740,000	0.22	475,000	0.20
Expired / Cancelled / Forfeited	(690,000)	0.56	(796,667)	0.39
Balance - End of the year	12,572,500	0.37	4,522,500	0.68

As at December 31, 2014, the Company had share options outstanding and exercisable as follows:

Expiry year	Outstanding		Exercisable	
	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:

	December 31, 2014	December 31, 2013
Balance-Beginning of year	\$ 13,499,050	\$ 11,473,112
Share-based payments	510,445	312,236
Warrants	-	1,713,702
Balance- End of year	\$ 14,009,495	\$ 13,499,050

Share purchase warrant transactions are summarized as follows:

	December 31, 2014		December 31, 2013	
	Number of share purchase warrants	Weighted average exercise price, \$	Number of share purchase warrants	Weighted average exercise price, \$
Balance - Beginning of the year	38,383,422	0.26	2,643,703	0.58
Granted	-	-	35,739,719	0.25
Balance - End of the year	38,383,422	0.26	38,383,422	0.26

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

12. SHAREHOLDERS' EQUITY (Continued)

Stock Options and Warrants (continued)

At December 31, 2014, 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

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.

	Year ended	
	December 31, 2014	December 31, 2013
Net loss	(9,082,333)	(6,178,783)
Weighted average number of common shares outstanding	126,128,878	61,161,041
Basic and diluted loss per share	\$ (0.07)	\$ (0.10)

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 was charged by Forbes & Manhattan Inc. pursuant to a management agreement entered into between the companies. Subsequent to December 31, 2014, an agreement to terminate the management agreement between the companies was reached. Mr. Stan Bharti, a former director of the Company, is the Executive Chairman of Forbes & Manhattan Inc.

On March 10, 2014, the Company entered into a loan agreement with 1039593 Ontario Ltd., who agreed to provide an unsecured loan in the amount of \$250,000. Interest on the loan was calculated at a rate of 25% per annum and was payable monthly. 1039593 Ontario Ltd. is 100% owned by Mr. Mark Trevisiol, a former president and CEO of the Company. The principal of the loan and accrued interest of \$12,500 were repaid on May 23, 2014.

On March 14, 2014, the Company entered into a loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of \$250,000. Interest was calculated at rate of 25% per annum and was payable monthly. On April 17, 2014, the Company entered into another loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of \$250,000. Interest was calculated at rate of 25% per annum and was payable monthly. Mr. Boris Granovsky, a director of the Company, is a managing partner of Aterra Capital, a management company for Aterra Investments Ltd. Ms Anastasia Gracheva, a former director of the Company, was an officer of Aterra Capital, a management company for Aterra Investments Ltd. The principal of both loans and accrued interest of \$38,897 were repaid on August 18, 2014.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

13. RELATED PARTY DISCLOSURES (Continued)

On March 20, 2014, the Company entered into a loan agreement with Forbes & Manhattan Inc. Forbes & Manhattan Inc. agreed to provide an unsecured loan in the amount of \$250,000 repayable on June 18, 2014. Interest was calculated at rate of 25% per annum and was payable monthly. Mr. Stan Bharti, a former director of the Company, is the Executive Chairman of Forbes & Manhattan Inc. The principal of the loan and accrued interest of \$25,685 were repaid on August 18, 2014.

On April 17, 2014, the Company entered into a loan agreement with Inflection Management Corp. ("Inflection"). Inflection agreed to provide an unsecured loan in the amount of \$250,000 repayable on July 17, 2014. Interest was calculated at rate of 25% per annum and was payable monthly. The principal of the loan and accrued interest of \$4,966 was repaid on May 20, 2014. Mr. Alexey Sotskov, a director of the Company, is a board representative of Inflection - a significant shareholder of Silver Bear resources Inc.

During the years ended December 31, 2014 and 2013 the Company entered into transactions for goods and services with the following related parties:

Goods and services received from (provided to):	Goods and services received	
	December 31, 2014	December 31, 2013
2227929 Ontario Inc.	172,724	218,004
Forbes & Manhattan Inc.	300,000	300,000
Aterra Investments Ltd.	-	52,500
	<u>\$ 472,724</u>	<u>\$ 570,504</u>

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

Outstanding balances	Amounts owed to related parties	
	December 31, 2014	December 31, 2013
2227929 Ontario Inc.	401	247,835
Other entities of F&M Group	-	10,700
	<u>\$ 401</u>	<u>\$ 258,535</u>

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 21 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:

	2014	2013
Salaries, fees and short-term employee benefits	\$ 1,473,755	\$ 1,209,597
Share-based payments	586,851	277,403
	<u>\$ 2,060,606</u>	<u>\$ 1,487,000</u>

A one-time fee of \$499,992 has been paid to the Chief Executive Officer of the Company. The fee was paid as a result of a change of control provision in his contract. The amount has been included in the line item, general and administrative expenses in the Consolidated Statement of Comprehensive Loss.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

14. EXPENSES BY NATURE

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

	2014	2013
Employee compensation	\$ 3,523,048	\$ 2,733,159
Drilling and trenching	1,524,735	637,843
Depreciation	245,472	281,057
Professional fees	436,476	323,063
Geological & environmental studies	1,243,613	188,349
Transportation	310,934	89,905
Camp maintenance	342,844	589,836
Taxes	32,425	13,676
Office expenses	302,302	326,343
Travel expenses	157,507	293,843
Accretion expense	92,107	105,764
Interest expense	132,576	269,324
Foreign exchange	462,539	50,766
Other expenses	288,363	276,295
	\$ 9,094,941	\$ 6,179,223

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

Employee benefits expense for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Salaries, fees and short-term employee benefits	\$ 2,784,729	\$ 2,420,923
Share-based payments	738,319	312,236
	\$ 3,523,048	\$ 2,733,159

15. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	2014	2013
Receivable	\$ (107,387)	\$ (57,424)
Inventories	250,945	634,937
Prepaid expenses	(380,344)	25,602
Accounts payable and accrued liabilities	(631,053)	200,597
	\$ (867,839)	\$ 803,712

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 2014. Drilling and trenching in 2014 exceeded minimum requirement for that year.

Minimum requirements under the exploration license for 2015 are the same as for 2014, namely 3,000 metres of drilling and 5,000 cubic metres of trenching that will require funds of approximately \$4.5 million.

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 has completed a required Russian Feasibility Study ("RFS") and submitted it along with a Russian reserve estimate to the Russian government.

In 2013, 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.

Silver Bear Resources Inc.

Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

16. COMMITMENTS AND CONTINGENCIES (Continued)

The Company is party to certain management contracts and severance obligations. These contracts contain clauses requiring that 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 \$426,535, 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 December 31, 2014.

17. SEGMENTED INFORMATION

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

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

As at December 31, 2013									
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	\$ 47,021	\$ 1,133,556	\$ 11,847	\$ 264,405	\$ 2,519,401	\$ 1,770,284	\$ 282,448	\$ 44,973	\$ 3,195,290
Canada - corporate	229,888	-	48,755	145,500	-	-	-	224,480	2,983,493
	\$ 276,909	\$ 1,133,556	\$ 60,602	\$ 409,905	\$ 2,519,401	\$ 1,770,284	\$ 282,448	\$ 269,453	\$ 6,178,783

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.

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.

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18. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY (Continued)

Asset retirement obligation consists of the following:

	December 31, 2014	December 31, 2013
Balance at the beginning of the year	\$ 1,241,223	\$ 1,143,383
Accretion expense	95,566	105,873
Translation adjustment	(510,031)	(8,033)
Balance at the end of the year	\$ 826,758	\$ 1,241,223

The estimated value of the obligation to rehabilitate the site expressed in Canadian dollars is \$956,750. 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 December 31, 2014 and 2013 were as follows:

	Loans and receivables	Other liabilities	TOTAL
At December 31, 2014			
Cash and cash equivalents	1,593,133	-	1,593,133
Accounts Receivable	349,942	-	349,942
Short-term loans	-	-	-
Accounts payables and accrued liabilities	-	463,886	463,886
Finance lease	-	286,536	286,536
At December 31, 2013			
Cash and cash equivalents	276,909	-	276,909
Accounts Receivables	409,905	-	409,905
Accounts payables and accrued liabilities	-	1,534,232	1,534,232
Finance lease	-	354,368	354,368

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.

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Notes to Consolidated Financial Statements For the years ended December 31, 2014 and 2013

20. INCOME TAXES

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

	2014	2013
Statutory tax rate	26.50%	26.50%
Tax benefit at statutory rate	\$ (2,406,818)	\$ (1,637,378)
Expenses not deductible for income tax purposes	390,575	223,387
Prior year true-up		
Tax effect of unrecognized temporary difference	1,690,728	1,180,650
Losses not previously recognized		
Foreign tax rate differential	325,515	233,341
Total tax expense	\$ -	\$ -

The 2014 statutory tax rate of 26.50% is consistent with the 2013 statutory tax rate of 26.50%.

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

The tax benefit of the following unused tax losses and deductible temporary differences has not been recognized in the financial statements due to the unpredictability of future earnings:

	December 31, 2014	December 31, 2013
Deductible Temporary Differences		
Tax loss carry-forwards	27,609,428	24,736,283
Exploration and Development	28,969,247	42,336,637
Share issue costs	458,269	105,786
Asset Retirement Obligation	826,758	1,241,223
Property plant and equipment	6,812,560	5,956,313
	64,676,262	74,376,242

At December 31, 2014, the Company has unclaimed non-capital losses that expire as follows:

Expiry Date	Amount
2015	2,260,735
2026	2,104,195
2027	2,934,330
2028	3,240,724
2029	3,527,150
2030	2,401,498
2031	3,109,109
2032	2,484,534
2033	2,076,956
2034	2,669,955
	\$ 26,809,186

In addition, ZAO Prognoz has approximately \$493,031 (2012 – \$261,979) of non-capital losses for Russian income tax purposes that expire at the end of the years 2017 through 2024 (2012 – 2017 through 2023).

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21. EVENTS AFTER THE REPORTING PERIOD

On January 1, 2015, 237,500 common shares under the share bonus plan were issued to certain officers, directors and consultants of the Company at an exercise price of \$0.05 per share which is TSX closing price on the date preceding the date of the grant.

On March 2, 2015, the Company entered into an 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 USD\$3,500,000 respectively for a total of USD\$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.

On March 17, 2015, an agreement was reached between the Company and Forbes & Manhattan Inc. to terminate the management agreement between the companies. Mr. Stan Bharti, a former director of the Company, is the Executive Chairman of Forbes & Manhattan Inc.