Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

Silver Bear Resources Inc.

For the three and nine months ended September 30, 2011

(Unaudited)

Silver Bear Resources Inc.

Condensed Consolidated Interim Statement of Financial Position

(Canadian dollars)
(Unaudited)

	September 30, 2011	December 31, 2010
		(Note 4)
ASSETS		
Current assets		
Cash and cash equivalents	8,314,576	11,114,277
Receivable (note 5)	656,535	24,117
Inventories (note 6)	919,810	1,097,946
Prepaid expenses (note 7)	1,187,047	37,697
Total current assets	11,077,968	12,274,037
Non-current assets		
Mineral property (note 8)	1,074,619	1,085,277
Property, plant and equipment (note 9)	615,851	900,072
Total assets	12,768,438	14,259,386
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	457,085	301,535
Non-current liabilities		
Asset retirement obligation (note 17)	589,254	588,609
Total liabilities	1,046,339	890,144
SHAREHOLDERS' EQUITY		
Capital Stock (note 11)	78,730,574	73,771,289
Contributed surplus (note 11)	9,784,065	9,166,433
Accumulated other comprehensive loss	(424,650)	(211,508)
Deficit	(76,367,890)	(69,356,972)
Total shareholders' equity	11,722,099	13,369,242
Total liabilities and shareholders' equity	12,768,438	14,259,386

Going concern (note 1)
Commitments and contingency (note 15)

See accompanying notes to the condensed consolidated interim financial statements

Silver Bear Resources Inc.

Condensed Consolidated Interim Statement of Comprehensive Loss

For the three and nine months ended September 30, 2011 and 2010

(Canadian dollars)
(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Income				
Interest income	39,424	17,449	96,547	44,851
Other income	-	839,724	-	1,352,664
	39,424	857,173	96,547	1,397,515
Expenses (Note 13)				
Exploration costs	3,792,524	271,359	4,573,847	1,148,919
General and administrative	897,726	357,556	1,645,227	1,234,182
Amortization	28,959	165,240	296,974	492,388
Share-based payment	357,845	12,779	622,558	44,771
Gain on disposal of property, plant and equipment	-	4,803	-	2,881
Interest expense (note 17)	2,230	2,223	6,766	6,721
Foreign exchange loss (gain)	(42,201)	2,201	(37,907)	(1,116)
Expenses from operations	5,037,083	816,161	7,107,465	2,928,746
Total Loss for the period	(4,997,659)	41,012	(7,010,918)	(1,531,231)
Other comprehensive income (loss)				
Exchange differences on translating foreign operations	(348,512)	43,307	(213,142)	90,400
Total Comprehensive Loss for the period	(5,346,171)	84,319	(7,224,060)	(1,440,831)
Deficit - Beginning of the period	(71,370,231)	(68,636,676)	(69,356,972)	(67,064,433)
Deficit - End of the period	(76,367,890)	(68,595,664)	(76,367,890)	(68,595,664)
Weighted average number of common shares outstanding	44,203,214	37,935,569	40,552,736	37,935,569
Basic and diluted loss per share	(0.11)	0.00	(0.17)	(0.04)

Going concern (note 1)

See accompanying notes to the condensed consolidated interim financial statements

Silver Bear Resources Inc.

Condensed Consolidated Interim Statement of Changes in Equity

For the nine months ended September 30, 2011 and 2010

(Canadian dollars)
(Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity
Balance - January 1, 2011	73,771,289	9,166,433	(211,508)	(69,356,972)	13,369,242
Net loss for the period	-	-	-	(7,010,918)	(7,010,918)
Other comprehensive income (net of tax):					
Cumulative translation adjustment	-	-	(213,142)	-	(213,142)
Other comprehensive income (loss) for the period	-	-	(213,142)	(7,010,918)	(7,224,060)
Share based payment	-	622,558	-	-	622,558
Options exercised	10,060	(4,926)			5,134
Net proceeds from issuance shares in private placement	4,949,225				4,949,225
Balance - September 30, 2011	78,730,574	9,784,065	(424,650)	(76,367,890)	11,722,099
Balance - January 1, 2010	73,771,289	9,089,843	-	(67,064,433)	15,796,699
Net loss for the period	-	-	-	(1,531,231)	(1,531,231)
Other comprehensive income (net of tax):					
Cumulative translation adjustment	-	-	(90,400)	-	(90,400)
Comprehensive income (loss) for the period	-	-	(90,400)	(1,531,231)	(1,621,631)
Share-based payment	-	44,771	-	-	44,771
Balance - September 30, 2010	73,771,289	9,134,614	(90,400)	(68,595,664)	14,219,839

See accompanying notes to the condensed consolidated interim financial statements

Silver Bear Resources Inc.

Condensed Consolidated Interim Statement of Cash Flow

For the nine months ended September 30, 2011 and 2010

(Canadian dollars)
(Unaudited)

	September 30, 2011	September 30, 2010
Cash provided by (used in)		
Operating activities		
Total Loss for the period	(7,010,918)	(1,531,231)
Adjustments for items not affecting cash:		
Amortization	296,974	492,388
Share-based payment	622,558	44,771
Gain on disposal of property, plant and equipment	-	2,881
Interest expense	6,766	6,721
Net change in non-cash working capital (note 14)	(1,516,926)	(607,112)
Net cash used in operations	(7,601,546)	(1,591,582)
Investing activities		
Acquisition of property, plant and equipment	(6,905)	(393)
Proceeds from sale of property, plant and equipment	-	(2,881)
Net cash (used in) provided from investing activities	(6,905)	(3,274)
Financing activities		
Net proceeds from issuance shares in private placement	4,949,225	-
Proceeds from exercised options	5,134	-
Net cash provided from financing activities	4,954,359	-
Effect of exchange rate changes on cash and cash equivalents	(145,609)	25,764
Increase (decrease) in cash and cash equivalents during the period	(2,799,701)	(1,569,092)
Cash and cash equivalents - beginning of the period	11,114,277	12,320,095
Cash and cash equivalents - end of the period	8,314,576	10,751,003

See accompanying notes to the condensed consolidated interim financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Silver Bear Resources Inc. (the "Company" or "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 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 8. 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.

As at September 30, 2011, the Company has no source of operating cash flows. The Company's ability to meet its obligations and continue as a going concern is dependent on the ability to identify and complete future funding.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future. As at September 30, 2011, the Company had no source of operating cash flows and reported a loss for the period then ended of $7,010,918 and an accumulated deficit of $76,367,890. In order to fund future operations, maintain rights under licenses and agreements and to advance the project, the Company must secure sufficient future funding. In these circumstances, there exists significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, as to the appropriateness of the use of accounting principles applicable to a going concern. The Company secured funding through an initial public offering of its common shares in December 2007, and an over-allotment option that was completed on January 18, 2008 for aggregate gross proceeds of $32,091,239. On July 16, 2008, the Company also completed a private placement of 1,500,000 common shares for aggregate gross proceeds of $4,500,000; the funds were used to meet the Company's exploration requirements and contractual obligations and to continue as a going concern. On May 11, 2011 the Company closed a $5 million non-brokered private placement ("Private Placement") of common shares at a price $0.80 per common share. With the proceeds of this financing and Silver Bear's current treasury, the Company is sufficiently financed to proceed with the analysis and further exploration of the Mangazeisky Project and to review other value-enhancing opportunities. While the Company has been successful in raising financing to date, there can be no assurance that it will be able to do so in the future. The Company is in the process of converting its exploration license, which expires December 31, 2011, to a mining license.

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

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

These condensed consolidated interim financial statements have been prepared in accordance with the Handbook of the Canadian Institute of Charted Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revisited to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements the term "Canadian GAAP" (CGAAP), refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated interim financial statements have been prepared in accordance with IFRS, as issued by International Accounting Standards Board (IASB), applicable to the preparation of interim financial statements, including IAS 34 – Interim Financial Reporting and IFRS1 - First-time Adoption of International Financial Reporting Standards. Subject to certain transition elections disclosed in Note 3(i), the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as these policies had always been in effect. Note 3(ii) discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of November 9, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS could result in restatement of these interim condensed consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These condensed consolidated interim financial statements include the accounts 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.

The condensed consolidated interim financial statements should be read in conjunction with the Company's CGAAP annual financial statements for the year ended December 31, 2010 and the condensed consolidated interim financial statements for the periods ended March 31, 2011 and June 30, 2011.

3. TRANSITION TO IFRS

The effect of the Company's transition to IFRS is summarized in this note as follows:

(i) Transition elections
(ii) Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS
(iii) Adjustments to the statement of cash flows.

(i) Transition elections

The company has elected the following exemptions to full retrospective application of IFRS:

3. Transition to IFRS (continued)

- Decommissioning liabilities (reclamation and closure cost obligations) (as described in Note 3(ii) (a,f)
- Cumulative translation adjustment (as described in Note 3(ii) (d))
- Share-based payment transactions (Note 3(ii)(c))

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS.

		September 30, 2010		
	Note 3(ii)	**CGAAP**	**Adj**	**IFRS**
ASSETS				
Current assets				
Cash and cash equivalents		10,751,003	-	10,751,003
Receivable		849,768	-	849,768
Inventories		1,158,620	-	1,158,620
Prepaid expenses		60,478	-	60,478
Total current assets		12,819,869	-	12,819,869
Non-current assets				
Mineral property	a, b	1,265,117	(144,864)	1,120,253
Property, plant and equipment	b	1,371,929	(279,988)	1,091,941
Total assets		15,456,915	(424,852)	15,032,063
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		206,846	-	206,846
Non-current liabilities				
Asset retirement obligation	a, b	637,237	(31,859)	605,378
Total liabilities		844,083	(31,859)	812,224
SHAREHOLDERS' EQUITY				
Capital Stock		73,771,289	-	73,771,289
Contributed surplus	c	9,053,448	81,166	9,134,614
Accumulated other comprehensive loss	d	-	(90,400)	(90,400)
Deficit	a - f	(68,211,905)	(383,759)	(68,595,664)
Total shareholders' equity		14,612,832	(392,993)	14,219,839
Total liabilities and shareholders' equity		15,456,915	(424,852)	15,032,063

3. Transition to IFRS (continued)

	Note 3(ii)	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		CGAAP	Adj	IFRS	CGAAP	Adj	IFRS
Income							
Interest income	e	17,449	-	17,449	45,016	(165)	44,851
Other Income	e	829,233	10,491	839,724	1,331,686	20,978	1,352,664
		846,682	10,491	857,173	1,376,702	20,813	1,397,515
Expenses							
Exploration costs	e	271,365	(6)	271,359	1,150,571	(1,652)	1,148,919
General and administrative	e	357,550	6	357,556	1,234,137	45	1,234,182
Stock based compensation	c	12,288	491	12,779	77,761	(32,990)	44,771
Amortization	b	201,915	(36,675)	165,240	592,448	(100,060)	492,388
Accretion expense	f	9,504	(9,504)	-	28,512	(28,512)	-
Loss on disposal of property, plant and equipment		4,804	(1)	4,803	2,882	(1)	2,881
Interest expense	f	-	2,223	2,223	-	6,721	6,721
Foreign exchange loss	b,e	17,521	(15,320)	2,201	21,000	(22,116)	(1,116)
Expenses from operations		874,947	(58,786)	816,161	3,107,311	(178,565)	2,928,746
Total Loss for the period		**(28,265)**	**69,277**	**41,012**	**(1,730,609)**	**199,378**	**(1,531,231)**
Other comprehensive income (loss)							
Exchange differences on translating foreign operations	d	-	43,307	43,307	-	90,400	90,400
Total Comprehensive Loss for the period		**(28,265)**	**112,584**	**84,319**	**(1,730,609)**	**289,778**	**(1,440,831)**

(a) The Company has elected the Exemption for decommissioning liabilities that allows the Company not to apply requirements of IFRIC 1 to changes in such liabilities that occurred before the date of transition to IFRS. The transition adjustments at January 1, 2010 of $6,076 and $20,843 have been recorded for asset retirement obligation and related asset respectively at the date of transition to IFRS with an offset to accumulated deficit.

(b) Under CGAAP the functional currency of ZAO Prognoz was Canadian dollar. Capital assets were translated at historical exchange rates. Under IFRS the functional currency of ZAO Prognoz has been determined to be the Russian rouble. Under IFRS all assets and liabilities including capital assets are translated at the closing rate at the date of the statement of financial position. Translation differences on mineral properties of $165,707 and on property, plant and equipment of $279,988 at September 30, 2010 were recognized under IFRS with an offset to the Accumulated other comprehensive loss. Translation adjustment to asset retirement obligation was $37,935 for the nine months ended September 30, 2010. Under IFRS depreciation expense is translated at average rate for the period as opposed Canadian GAAP where it is translated at historical rates.

(c) CGAAP allows both an accelerated method of amortization for the fair value of stock options under graded vesting as well as a straight line method, while IFRS allows only the accelerated method. Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under CGAAP forfeitures can be recognized as they occur. The effect of estimated forfeiture rate and the changeover to graded amortization from straight line amortization in the amount of $114,156 has been recognized in the IFRS opening balance at January 1, 2010 with an offset to the accumulated deficit balance.

3. Transition to IFRS (continued)

An additional adjustment of $32,990 was recognized in the nine months ended September 30, 2010 ($491 in the three months ended September 30, 2010) with an offset to an accumulated deficit for the period.

(d) Cumulative translation adjustment in Other comprehensive income (loss) represents an unrealized loss on translation of accounts of ZAO Prognoz from its functional currency (Notes (b), (c) and (e)), Russian rouble into the presentation currency, Canadian dollar. Using the IFRS 1 election Cumulative translation adjustment the Company has reset to zero translation differences of $483,748 existed at the date of transition to IFRS, January 1, 2010. Cumulative translation adjustment was $90,400 at September 30, 2010.

(e) For the purpose of translation of income and expense accounts quarter average exchange rates were used to restate the 2010 financial statements as an approximation of actual rate.

(f) Under IFRS the unwinding of the discount in subsequent periods is presented as interest expense, while under Canadian GAAP it is accretion expense. Transitional adjustments of $28,512, and $9,504 were recognized in the nine-month and three-month periods ended March 31, 2010 with offset to the loss for the respective periods. The interest expense of $6,721 and $2,223 was recognized in the nine- and three-month period ended September 30, 2010.

4. ADDITIONAL IFRS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2010

The following IFRS disclosures relating to the year ended December 31, 2010 are material to an understanding of the interim financial statements:

(i) Property, plant and equipment

Reconciliation of the carrying amount at the beginning and end of the period ended December 31, 2010.

	Mangazeisky site equipment	Yakutsk equipment	Office equipment	Total
Carrying amount at January 1, 2010	$ 1,508,825	$ 44,941	$ 67,393	$ 1,621,159
Additions	-	-	393	393
Disposals	-	1,922	(4,804)	(2,882)
Depreciation	(591,998)	(24,674)	(36,205)	(652,877)
Exchange differences	(62,219)	(3,502)	-	(65,721)
Carrying amount at December 31, 2010	$ 854,608	$ 18,687	$ 26,777	$ 900,072

(ii) Compensation of key management

Compensation awarded to key management included:

	Year ended December 31, 2010
Salaries and short-term employee benefits	$ 524,333
Share-based payments	50,303
	$ 574,636

4. Additional IFRS information for the year ended December 31, 2010 (continued)

(iii) Employee benefits

Employee benefits expense for the year ended December 31, 2010 consisted of the following:

		Year ended December 31, 2010
Salaries and short-term employee benefits	$	1,726,302
Share-based payments		76,590
	$	1,802,892

(iv) Loss per share

Basic and dilutive 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, 2010
Net loss	$	(2,292,539)
Weighted average number of common shares outstanding		37,935,569
		(0.06)

5. RECEIVABLE

		September 30, 2011		December 31, 2010
Russian Value Added Tax	$	567,467	$	10,456
Canadian Harmonized Sales Tax		47,531		10,829
Other		41,537		2,832
	$	656,535	$	24,117

6. INVENTORIES

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

		September 30, 2011		December 31, 2010
Fuel and lubricants	$	288,020	$	480,164
Parts and Supplies		631,789		617,782
	$	919,810	$	1,097,946

7. PREPAID EXPENSES

Prepaid expenses consist of the following:

	September 30, 2011	December 31, 2010
Insurance	$ 46,479	$ 30,284
Contract drilling	928,998	-
Exploration services	148,295	1,922
Other	63,275	5,491
	$ 1,187,047	$ 37,697

8. MINERAL PROPERTY

Mineral property includes the cost of acquiring exploration and mining licenses.

Mineral property consists of the following:

	September 30, 2011	December 31, 2010
Mangazeisky - exploration license	$ 1,074,619	$ 1,085,277

The change in value of the asset is due to a foreign exchange difference on translation.

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 February 18, 2009, the Mangazeisky License was extended by the Federal Subsoil Use Agency in the Russian Federation ("Rosnedra") through December 31, 2011.

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

	September 30, 2011	December 31, 2010
Mangazeisky	$ 38,751,177	$ 33,738,142
Russian management costs	1,563,283	1,563,283
Corporate costs related to exploration activities	477,411	477,411
	$ 40,791,871	$ 35,778,836

9. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2011			December 31, 2010		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property plant and equipment:						
Mangazeisky site	$ 3,982,764	$ 3,386,681	$ 596,083	$ 4,016,238	$ 3,161,630	$ 854,608
Yakutsk office	123,605	118,741	4,864	124,181	105,494	18,687
Other office furniture, equipment and leasehold improvements	267,583	252,679	14,904	267,583	240,806	26,777
	$ 4,373,952	$ 3,758,101	$ 615,851	$ 4,408,002	$ 3,507,930	$ 900,072

9. Property, plant and equipment (continued)

Reconciliation of the carrying amount at the beginning and end of the period ended September 30, 2011.

	Mangazeisky site equipment	Yakutsk equipment	Office equipment	Total
Carrying amount at January 1, 2011	$ 854,608	$ 18,687	$ 26,777	$ 900,072
Additions	6,239	673	-	6,912
Disposals	-	-	-	-
Depreciation	(270,040)	(15,061)	(11,873)	(296,974)
Exchange differences	5,276	565	-	5,841
Carrying amount at September 30, 2011	$ 596,083	$ 4,864	$ 14,904	$ 615,851

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	September 30, 2011	December 31, 2010
Exploration costs - Mangazeisky project	$ 285,282	$ 130,186
Corporate - accounts payable and accrued liabilities	171,803	171,349
	$ 457,085	$ 301,535

11. SHAREHOLDERS' EQUITY

Common shares

Authorized:
Unlimited number of common shares and preferred shares issued:

	September 30, 2011		December 31, 2010	
	Number of common shares	$	Number of common shares	$
Balance - Beginning of year	37,935,569	73,771,289	37,935,569	73,771,289
Issued pursuant to private placement, net	6,250,000	4,949,225	-	
Issued pursuant to options exercised	18,333	10,060		
Balance - End of year	44,203,902	78,730,574	37,935,569	73,771,289

On May 11, 2011, the Company announced the closing of Private Placement of common shares resulting in aggregate proceeds to the Company of $5 million from the issue of 6,250,000 common shares at a price of $0.80 per share. Share issued costs amounted to $50,775.

11. Shareholders' equity (continued)

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.

In May 2008, the Board of Directors approved an increase of 958,333 options to the stock option plan bringing the total options available to issue to 4,000,000.

Effective June 9, 2011 the Company changed 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 this Plan to be not greater than 10% of the outstanding Shares (on a non-diluted basis) issued and outstanding at the time of the granting of the Options. This increased the total number of options available to issue to 4,420,390.

In order for Silver Bear to make options available for future grants and for other strategic alternatives, the Company asked option holders of out-of-the-money options to voluntarily surrender their options back to Silver Bear. On January 22, 2010, option holders voluntarily surrendered 2,861,659 options back to the Company. A total of 383,723 options are available for future issue as at September 30, 2011.

On December 7, 2010, 1,245,000 stock options were granted to various directors, officers and employees of the Company. The exercise price of the options is $0.59 and the term is five years. For the purpose of valuation, the fair value of the stock options was estimated on the date of the grant using the Black-Scholes stock option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 123.8%, forfeiture rate of 6.1%, risk free rate of return of 2.4% and an average expected life of five years. Fair market value of these options at the time of grant was $619,580. Stock options granted vest as follows: one third on the first anniversary of the grant, one third on the second anniversary of the grant and the final one third vests on the third anniversary of the grant.

On February 8, 2011, 75,000 stock options from the December 2010 grant have been cancelled without vesting upon the resignation of the director, to whom they were granted.

On March 25, 2011, 75,000 stock options were granted to a new director that replaced the one that has resigned. The exercise price of the options is $0.95. Fair market value of the grant was estimated at $53,709 using the Black-Scholes stock pricing model with the following assumptions: dividend yield of 0%, expected volatility of 125.5%, forfeiture rate of 6.9%, risk free rate of return of 2.2% and an average expected life of five years. Stock options granted vest gradually over three years, one-third on every anniversary of the grant.

11. Shareholders' equity (continued)

On May 11, 2011 1,841,000 options were granted to directors, officers and consultants of the Company. The exercise price of the options is $0.89. Fair market value of the grant was estimated at $1,237,229 using the Black-Sholes stock pricing model with the following assumptions: dividend yield of 0%, expected volatility of 125.7%, forfeiture rate of 6.6%, risk free rate of return of 2.1% and an average expected life of five years. Granted stock options vest gradually over three years, one-third on every anniversary of the grant.

On August 2, 2011 125,000 options were granted to a new officer of the company. The exercise price of the option is $1.07. Fair market value of the grant was estimated at $101,107 using the Black-Scholes stock pricing model with the following assumptions: dividend yield of 0%, expected volatility of 126.4%, forfeiture rate of 7.3%, risk free rate of 1.5% and expected life of 3.3 years. Grated stock options vest gradually over three years, one-third on every anniversary of the grant.

On August 11, 2011 290,000 options were granted to various officers and consultants of the Company. The exercise price of the options is $1.01. Fair value market value of the grant was estimated at $221,204 using the Black-Scholes stock pricing model with the following assumptions: dividend yield of 0%, expected volatility of 127%, forfeiture rate of 7.3%, risk free rate of 1.13% and expected life of 3.3 years. Granted stock options vest gradually over two years, one-third immediately, and one-third on every anniversary of the grant.

	Period ended September 30, 2011		Year ended December 31, 2010	
	Number	Exercise price $	Number	Exercise Price $
Balance - Beginning of the period	1,903,333	0.48	3,561,659	2.86
Granted	2,331,000	0.91	1,245,000	0.59
Surrendered	-	-	(2,861,659)	3.16
Exercised	(18,333)	0.28	-	-
Expired / Cancelled / Forfeited	(179,333)	0.59	(41,667)	0.28
Balance - End of the period	4,036,667	0.73	1,903,333	0.48

As at September 30, 2011, the Company had share options outstanding and exercisable as follows:

	Outstanding		Exercisable	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
2013	636,667	0.28	423,332	0.28
2015	1,070,000	0.59	-	0.00
2016	2,330,000	0.91	96,667	1.01
	4,036,667	0.73	519,999	0.42

11. Shareholders' equity (continued)

Contributed surplus consists of the following:

	September 30, 2011	December 31, 2010
Balance-Beginning of year	$ 9,166,433	$ 9,089,843
Stock option compensation	622,558	76,590
Exercised options	(4,926)	-
Balance- End of year	$ 9,784,065	$ 9,166,433

Loss per share

As a result of net losses in each of the periods, the potential effect of exercising stock options has not been included in the calculation of loss per share because to do so would be anti-dilutive.

12. RELATED PARTY TRANSACTION

Silver Bear shared premises and senior management with New Gold Inc. (NGD) and as a result a cost sharing agreement existed between Silver Bear and NGD for our proportional share of office costs. This agreement was terminated on June 15, 2011. NGD billed the Company for items paid by NGD in the amount of $48,194 and $76,760 in the three and nine months ended September 30, 2011 ($38,201 and $109,091 three and nine months ended September 30, 2010). The Company billed NGD $342 and $1,798 in the three and nine months ended September 30, 2011 ($2,603 and 16,788 in the three and nine months ended September 30, 2010).

At September 30, 2011, $nil (2010 – $1,266) was receivable from NGD for items paid by Silver Bear and billed to NGD. At September 30, 2011, $nil (2010 – $12,084) was payable to NGD for items paid by NGD and billed to Silver Bear.

Effective June 15, 2011 the Company shares premises and senior management with the Forbes & Manhattan group (F&M) of companies. At September 30, 2011 $60,316 was prepaid to F&M for the shared services and $nil was payable to the group.

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

Compensation of key management

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

	Three months ended		Nine months ended	
	September 30, 2011	September 31, 2010	September 30, 2011	September 31, 2010
Salaries, fees and short-term employee benefits	$ 217,811	$ 135,250	$ 379,576	$ 405,750
Share-based payments	171,874	10,812	364,118	24,689
	$ 389,685	$ 146,062	$ 743,694	$ 430,439

13. EXPENSES BY NATURE

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

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Employee Benefits	$ 962,396	$ 386,729	$ 1,900,503	$ 1,351,590
Drilling and trenching	944,619	-	944,619	-
Amortization	28,959	165,240	296,974	492,388
Professional fees	500,531	46,172	782,243	272,376
Geological & environmental studies	250,804	(72,046)	531,414	(67,610)
Transportation	1,948,610	4,828	2,047,691	197,312
Camp maintenance	47,862	-	78,493	18,298
Taxes	2,313	13,588	23,630	39,322
Office expenses	403,307	(31,910)	555,081	158,299
VAT expense (refund)	(435,238)	125,571	(602,342)	125,571
Other expenses	382,919	177,989	549,158	341,200
	$ 5,037,083	$ 816,161	$ 7,107,465	$ 2,928,746

Employee benefits expense for the three and nine-month periods ended September 30, 2011 and 2010 consisted of the following:

	Three months ended		Nine months ended	
	September 30, 2011	September 31, 2010	September 30, 2011	September 31, 2010
Salaries and short-term employee benefits	$ 604,551	$ 373,950	$ 1,277,946	$ 1,306,819
Share-based payments	357,845	12,779	622,558	44,771
	$ 962,396	$ 386,729	$ 1,900,503	$ 1,351,590

14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Receivable	$ (469,886)	$ (79,465)	$ (656,914)	$ (516,583)
Inventories	163,083	28,349	174,765	37,545
Prepaid expenses	(581,152)	(16,870)	(1,196,918)	29,869
Accounts payable and accrued liabilities	237,413	(154,939)	162,141	(157,943)
	$ (650,542)	$ (222,925)	$ (1,516,926)	$ (607,112)

15. 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 do 5,000 metres of trenching to satisfy license agreement requirements. To convert its exploration license, which expires December 31, 2011, to a mining license, Silver Bear is required to complete a Russian Feasibility Study ("RFS") and register this report, along with a Russian reserve estimate, with the Russian government.

15. Commitments and contingencies (continued)

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect Silver Bear's financial position, results of operations or cash flows. There were no material outstanding legal proceedings as of September 30, 2011.

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, and the amount can be reliably estimated, then a loss is recorded. When a contingent loss is not probable but is reasonably possible, or it is probable but the amount cannot be reliably estimated, then details of the contingent loss are disclosed. Legal fees incurred with pending legal proceeding are expensed as incurred.

16. SEGMENTED INFORMATION

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

As at September 30, 2011

Country / Property	Cash and cash equivalents	Inventories	Prepaid expenses	Receivables	Mineral Properties	Property, plant and equipment	September 30, 2011 Net Loss
Russia - Mangazeisky	$ 402,517	$ 919,810	$ 1,077,293	$ 569,118	$ 1,074,619	$ 131,647	$ 4,239,068
Canada - corporate	7,912,058	-	109,754	87,417	-	14,904	2,771,850
	$ 8,314,576	$ 919,810	$ 1,187,047	$ 656,535	$ 1,074,619	$ 146,551	$ 7,010,918

As at December 31, 2010

Country / Property	Cash and cash equivalents	Inventories	Prepaid expenses	Receivables	Mineral Properties	Property, plant and equipment	September 30, 2010 Net Loss (income)
Russia - Mangazeisky	$ 1,208,168	$ 1,097,946	$ 7,413	$ 12,123	$ 1,085,277	$ 873,295	$ (136,672)
Canada - corporate	9,906,109	-	30,284	11,994	-	26,777	1,667,903
	$ 11,114,277	$ 1,097,946	$ 37,697	$ 24,117	$ 1,085,277	$ 900,072	$ 1,531,231

17. ASSET RETIREMENT OBLIGATION

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.

17. Asset retirement obligation (continued)

The Company's asset retirement obligations consist 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, on-going care and maintenance and other costs.

Asset retirement obligation consists of the following:

		September 30, 2011		**December 31, 2010**
Balance at the beginning of the period	$	588,609	$	614,801
Interest expense		6,766		8,876
Translation adjustment		(6,121)		(35,068)
Balance at the end of the period	$	589,254	$	588,609

The estimated value of the obligation to rehabilitate the site expressed in Canadian dollars is $591,396. The present value of the gross payments is $589,254. A Canadian government bond yield of 1.47% has been used in discounting of future cash flows.