Consolidated Financial Statements

(Expressed in Canadian dollars)

Silver Bear Resources Inc.

For the year ended December 31, 2013

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.

"Mark Trevisiol"

Mark Trevisiol
Director, President and
Chief Executive Officer

"Deborah Battiston"

Deborah Battiston
Chief Financial Officer

Toronto, Ontario, Canada
March 31, 2014

March 31, 2014

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, 2013 and December 31, 2012 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, 2013 and December 31, 2012 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

Silver Bear Resources Inc.

Consolidated Statement of Financial Position

(Canadian dollars)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	276,909	141,669
Receivable (note 4)	409,905	354,677
Inventories (note 5)	1,133,556	1,781,914
Prepaid expenses (note 6)	60,602	86,181
Total current assets	1,880,972	2,364,441
Non-current assets		
Mineral property (note 7)	2,519,401	1,791,068
Property, plant and equipment (note 8)	1,770,284	2,065,814
Total assets	**6,170,657**	**6,221,323**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	1,534,232	1,294,795
Short-term loans (note 10)	-	50,000
Finance lease (note 11)	303,683	221,212
Total current liabilities	1,837,915	1,566,007
Non-current liabilities		
Decommissioning and restoration obligations (note 18)	1,241,223	1,143,383
Finance lease (note 11)	50,685	243,182
Total liabilities	3,129,823	2,952,572
EQUITY		
Equity attributable to owners of Silver Bear Resources Inc.		
Share capital (note 12)	87,542,402	83,580,384
Contributed surplus (note 12)	13,499,050	11,473,112
Accumulated other comprehensive loss	(554,144)	(517,054)
Deficit	(97,446,474)	(91,267,691)
Total equity	3,040,834	3,268,751
Total liabilities and shareholders' equity	**6,170,657**	**6,221,323**

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 31, 2014

“Mark Trevisiol”
Mark Trevisiol
Director

“Trevor Eyton”
Trevor Eyton
Director

Silver Bear Resources Inc.

Consolidated Statement of Comprehensive Loss

For the years ended December 31, 2013 and 2012

(Canadian dollars)

	2013	2012
Income		
Interest income	440	11,128
	440	11,128
Expenses (Note 14)		
Exploration costs	3,243,003	5,869,428
General and administrative	1,915,563	2,242,888
Depreciation	282,448	230,369
Share-based payments	312,236	998,421
Accretion expense	105,873	-
Gain on disposal of property, plant and equipment	-	(2,702)
Interest expense	269,453	52,652
Foreign exchange loss	50,647	6,464
Expenses from operations	6,179,223	9,397,520
Net loss for the year	(6,178,783)	(9,386,392)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(37,090)	(19,747)
Comprehensive loss for the year	(6,215,873)	(9,406,139)
Weighted average number of common shares outstanding	61,161,041	50,487,994
Basic and diluted loss per share	(0.10)	(0.19)

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, 2013 and 2012

(Canadian dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance - December 31, 2011	78,730,574	10,081,156	(497,307)	(81,881,299)	6,433,124
Net loss for the period	-	-	-	(9,386,392)	(9,386,392)
Other comprehensive loss:					
Cumulative translation adjustment	-	-	(19,747)	-	(19,747)
Comprehensive loss for the year	-	-	(19,747)	(9,386,392)	(9,406,139)
Share based payments	-	998,421	-	-	998,421
Net proceeds from issuance shares in private placement	4,849,810	-	-	-	4,849,810
Warrants		393,535			393,535
Balance -December 31, 2012	**83,580,384**	**11,473,112**	**(517,054)**	**(91,267,691)**	**3,268,751**
Net loss for the period	-	-	-	(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**

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, 2013 and 2012

(Canadian dollars)

	2013	2012
Cash provided by (used in)		
Operating activities		
Total loss for the year	(6,178,783)	(9,386,392)
Adjustments for items not affecting cash:		
Depreciation	282,448	230,369
Share-based payments	312,236	998,421
Accretion expense	105,873	-
Interest expense	35,818	-
Gain on disposal of property, plant and equipment	-	(2,702)
Net change in non-cash working capital (note 15)	803,712	(7,875)
Net cash used in operations	(4,638,696)	(8,168,179)
Investing activities		
Acquisition of property, plant and equipment	-	(1,138,891)
Acquisition of mineral property	(738,854)	-
Proceeds from sale of property, plant and equipment	-	2,702
Net cash used in investing activities	(738,854)	(1,136,189)
Financing activities		
Net proceeds from issuance units in private placement	5,675,720	5,243,345
Finance lease repayment	(147,854)	(130,575)
Short-term loans drawn	2,679,400	50,000
Short-term loans repaid	(2,729,400)	-
Net cash generated from financing activities	5,477,866	5,162,770
Effect of exchange rate changes on cash and cash equivalents	34,924	384
Increase/(decrease) in cash and cash equivalents during the year	135,240	(4,141,214)
Cash and cash equivalents - beginning of the year	141,669	4,282,883
Cash and cash equivalents - end of the year	276,909	141,669
Cash and cash equivalents consist of:		
Cash	241,909	106,669
Cash equivalents	35,000	35,000
	276,909	141,669

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

These 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, 2013, the Company had no source of operating cash flows and reported a net loss for the year of $6,178,783 and a deficit of $97,446,474. 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 Charted Accountants, in accordance with IFRS, as issued by International Accounting Standards Board (“IASB”), applicable to the preparation of consolidated financial statements and in accordance with accounting policies based on IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations. 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 31, 2014.

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 functional currency of Silver Bear Holdings. The financial statements of ZAO Prognoz have a Russian rouble as its functional currency and are translated into presentation currency of Canadian dollars 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 cost of an asset 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 the property, plant and equipment are recorded and depreciated separately. Residual values, 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 a 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 value in use (being the present value of the expected future cash flows of the relevant asset). Any resulting write-down of the excess of carrying value over the recoverable amount is charged to the consolidated statement of operations.

2. BASIS OF PREPARATION (Continued)

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 approximate 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 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 Companies financial liabilities include accounts payable, accrued liabilities and short-term loans. Initially they are recognized at fair value, subsequently measured at amortized cost using the effective interest method. Amortized cost approximate fair value due to the short-term maturity of these liabilities.

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 stock 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.

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 proceeding 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 judgement in applying accounting policies:

- Determination of functional currency

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

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 that does not yet generate any revenue. Effects of changes in foreign exchange rates at the consolidation of financial statements are recorded in the other comprehensive income and carried in the form of cumulative translation adjustment in the accumulated other comprehensive income section of the Statement of financial position of the Company.

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

- Assets' carrying values and impairment charges

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

- Impairment of mineral properties

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

- Contingencies

  Refer to Note 16.

Key sources of estimation uncertainty:

- Depreciation rates

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

- Rehabilitation provisions and asset retirement obligations

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

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

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 that the management estimates, the carrying amount of the provision would have been lower as would be interest expense.

- Share-based payment transactions

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

New accounting standards

The Company has adopted the following new and revised accounting standards, along with any consequential amendments, effective January 1, 2013. 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 thereof.

IAS 1 – Financial Statements Presentation ("IAS 1").

On 16 June 2011 the IASB issued amendments to IAS 1*Financial Statement Presentation*. These amendments improve presentation of components of other comprehensive income require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future.

Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012. There is no significant impact of the amendments to IAS 1 on the Company's financial statements.

IFRS 10 – Consolidated Financial Statements ("IFRS 10")

IFRS 10 (issued in May 2011) provides a single consolidation model that identifies control as the basis for consolidation for all types of entities and establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*. The Company adopted IFRS 10 in its financial statements for the annual period beginning January 1, 2013 and determined that there were no changes to the consolidated status of any of its subsidiaries.

The Company's subsidiary is 100% owned and the Company is in compliance with IFRS 10. There is no change to the presentation of the Company's financial statement as a result of adoption IFRS 10.

IFRS 12 – Disclosure of Interest in Other Entities ("IFRS 12")

IFRS 12 (issued in May 2011) sets the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, special purpose and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Adoption of IFRS 12 has no impact on the Company's financial statements.

IFRS 13 – Fair Value Measurement ("IFRS 13")

IFRS 13 converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. There is no impact of the standard on the Company's 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.

2. BASIS OF PREPARATION (Continued)

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. 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.

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS

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

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

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2013 compared to the year ended December 31, 2012. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

FINANCIAL RISK FACTORS

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

Credit risk

The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of interest earning bank accounts, which are invested with Canadian chartered banks and a major Russian bank with credit rating from AA for Canadian banks and BB for Russian bank and a stable future outlook.
Miscellaneous receivables and prepaid expenses other than taxes due from the Federal Government of Canada and Russian Value Added Tax refunds from the Russian tax authorities are insignificant. Management believes that the credit risk concentration with respect to accounts receivable is low.

3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS (Continued)

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, 2013, the Company had a cash balance of $276,909 (December 31, 2012 – $141,669). The Company had total obligations of $354,368 at December 31, 2013 (December 31, 2012 – $464,394) under a three-year finance lease of exploration equipment.

At December 31, 2013 the Company had total current assets of $1,880,972 (December 31, 2012 - $2,364,441) to settle current liabilities of $1,837,915 (December 31, 2012 – $1,566,007), as well as its commitments outlined in Note 16.

Interest rate risk

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

Foreign currency risk

The Company has funded certain exploration and administrative expenses on a transaction by transaction basis using U.S. dollar and Russian rouble currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is low and therefore does not hedge its foreign exchange risk.

Sensitivity analysis

The carrying amount of accounts receivable equals fair market value. The effect of changes in foreign exchange rates on net loss is deemed to insignificant as number and amount of foreign-currency transactions are relatively small. Had the foreign exchange rates been higher (lower) by 5%, the cumulative translation adjustment in the other comprehensive income section of the Statement of financial position would have been lower (higher) by $186,161.

4. RECEIVABLE

		December 31, 2013		December 31, 2012
Russian Value Added Tax	$	143,821	$	121,370
Canadian Harmonized Sales Tax		46,463	$	50,754
Other		219,620		182,553
	$	409,905	$	354,677

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, 2013		December 31, 2012
Fuel and lubricants	$	259,937	$	588,486
Parts and supplies		873,619		1,193,428
	$	1,133,556	$	1,781,914

6. PREPAID EXPENSES

Prepaid expenses consist of the following:

	December 31, 2013	December 31, 2012
Insurance	$ 16,207	$ 25,880
Exploration services and goods	31,104	3,109
Consulting services	-	52,500
Employee advances	-	345
Rent and administrative costs	13,291	4,347
	$ 60,602	$ 86,181

7. MINERAL PROPERTY

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

Mineral property consists of the following:

Mangazeisky	December 31, 2013	December 31, 2012
Balance at the beginning of the period	$ 1,791,068	$ 1,212,964
Additions	739,842	545,940
Translation adjustment	(11,509)	32,164
Balance at the end of the period	$ 2,519,401	$ 1,791,068

The change in value of the asset is due to additional cost incurred in the process of obtaining mining license, and 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 that is valid for a period of 20 years.

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

	December 31, 2013	December 31, 2012
Mangazeisky	$ 53,920,703	$ 50,677,700

8. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2013			December 31, 2012		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property plant and equipment:						
Mangazeisky site	$ 5,667,799	$ 3,897,515	$ 1,770,284	$ 5,728,711	$ 3,662,897	$ 2,065,814
Yakutsk office	123,988	123,988	-	124,869	124,869	-
Other office furniture, equipment and leasehold improvements	59,620	59,620	-	59,620	59,620	-
	$ 5,851,407	$ 4,081,123	$ 1,770,284	$ 5,913,200	$ 3,847,386	$ 2,065,814

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

Reconciliation of the carrying amount at the beginning and end of the years ended December 31, 2013 and 2012:

	Mangazeisky site equipment	Yakutsk equipment	Office equipment	Total
Carrying amount at January 1, 2012	$ 622,930	$ 3,142	$ 9,936	$ 636,008
Additions	1,687,304	-	-	1,687,304
Disposals	-	-	-	-
Depreciation	(217,240)	(3,193)	(9,936)	(230,369)
Exchange differences	(27,180)	51	-	(27,129)
Carrying amount at December 31, 2012	$ 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

The carrying value of equipment held under finance leases as at December 31, 2013 was $662,023 (December 31, 2012 - $866,748). There were no addtions or disposals of capital assets during the year ended December 31, 2013. 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, 2013	December 31, 2012
Exploration costs - Mangazeisky project	$ 271,736	$ 432,170
Corporate - accounts payable and accrued liabilities	$ 1,262,496	862,625
	$ 1,534,232	$ 1,294,795

10. SHORT-TERM LOANS

On January 30, 2013, amended March 12, 2013, the Company entered into a loan agreement with Forbes & Manhattan Inc. Forbes & Manhattan Inc. agreed to provide an unsecured bridge loan in the amount of $350,000 in three tranches originally repayable in cash on the earlier of (a) July 30, 2013 and (b) the date on which the Company completed an equity financing. Mr. Stan Bharti, the Executive Chairman of Forbes & Manhattan Inc., is a director of the Company. Interest was calculated at rate of 8% per annum and was payable on maturity of the loan. On June 28, 2013 Forbes & Manhattan Inc. advanced the Company $25,000 and a further $150,000 in July 2013. The loan and all accrued interest were repaid on December 18, 2013.

On September 18, 2013 the Company entered into another loan agreement with Forbes & Manhattan Inc. Forbes & Manhattan Inc. agreed to provide an unsecured loan in the amount of $500,000 due on December 9, 2013. Interest was calculated at rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on December 18, 2013.

On March 25, 2013, the Company entered into a loan agreement with Aberdeen International Inc. Aberdeen International Inc. agreed to provide an unsecured loan in the amount of $400,000 repayable on the earlier of (a) October 2, 2013 and (b) the date on which the Company completed an equity financing. Interest was calculated at a rate of 30% per annum and was prepaid at the time the loan was advanced. Mr. Bharti, a director of the Company, is the Chairman of the Board of Aberdeen International Inc. The first tranche of $50,000 was received on March 25, 2013, the second tranche of $350,000 was received on April 4, 2013. The loan was partially repaid on June 4, 2013, with the balance of $31,000 repaid on December 18, 2013.

10. SHORT-TERM LOANS (Continued)

On April 24, 2013, the Company entered into a loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of $400,000. Interest was calculated at a rate of 30% per annum and was prepaid at the time the loan was advanced. The loan was repaid on December 18, 2013.

On August 7, 2013, the Company entered into a loan agreement with Aterra Investments Ltd., who agreed to provide an unsecured loan in the amount of $30,000 repayable on or before February 7, 2014. Interest on the loan was calculated at a rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on December 18, 2013.

On September 18, 2013 the Company entered into a loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of $500,000 due on December 9, 2013. Interest was calculated at rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on December 18, 2013.

On October 8, 2013, the Company entered into a loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of $200,000 repayable on or before February 7, 2014. Interest was calculated at rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on October 21, 2013.

On December 12, 2013, the Company entered into a loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of $150,000. Interest was calculated at rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on December 18, 2013.

Mr. Boris Granovsky, a director of the Company, is a managing partner of Aterra Capital, a management company for Aterra Investments Ltd.

11. FINANCE LEASE

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

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, 2013	December 31, 2012
Within one year	$ 314,344	$ 235,232
With two to five years	62,869	294,040
	377,213	529,272
Future finance charges on finance lease	(22,845)	(64,878)
Present value of the net lease payments	354,368	464,394
Current portion	303,683	221,212
Long-term portion	50,685	243,182
Total obligations under finance lease	$ 354,368	$ 464,394

12. SHAREHOLDERS' EQUITY

Common shares

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

12. SHAREHOLDERS' EQUITY (Continued)

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the year ended December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Number of common shares	$	Number of common shares	$
Balance - Beginning of year	53,866,307	83,580,384	44,203,902	78,730,574
Issued pursuant to private placement, net	40,775,863	3,962,018	9,662,405	4,849,810
Balance - End of year	94,642,170	87,542,402	53,866,307	83,580,384

On June 4, 2013 the Company closed a private placement financing through the sale of 7,044,998 units (the "Units") at a price of $0.18 per Unit for gross proceeds of $1,268,100. Each Unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will entitle the holder thereof to acquire a Common Share at the exercise price of $0.33 per share until June 4, 2016. The Common Shares, the Warrants, and the shares issuable upon the exercise of the Warrants, were subject to statutory resale restrictions for a period until October 5, 2013. The Company used the gross proceeds of the Offering to finance its exploration program and Feasibility Study for the Mangazeisky Silver Project, to repay debt and supplement general working capital.

On June 25, 2013 the Company issued 1,238,644 common shares of the Company at a deemed price of $0.187 per common share to settle outstanding debt in relation to past services provided by Landdrill International Inc.

On October 17, 2013, the Company closed the first tranche of a private placement financing through the sale of 3,892,308 units at a price of $0.13 per Unit for gross proceeds of approximately $506,000. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share of the Company at the exercise price of $0.245 per share until October 17, 2015.

On October 21, 2013, the Company closed a further tranche of its previously announced private placement financing through the sale of 3,846,153 units to Aterra Investments Limited at a price of $0.13 per unit for gross proceeds of approximately $500,000. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share of the Company at the exercise price of $0.245 per share until October 21, 2015.

On December 18, 2013, the Company closed a final tranche of its previously announced private placement financing through the sale of 24,478,760 units at a price of $0.13 per unit for gross proceeds of approximately $3,182,239. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to acquire a common share of the Company at the exercise price of $0.245 per share until December 18, 2015.

See Note 21 for the events after the reporting period.

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 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	-	275,000 common shares
July 1, 2014	-	275,000 common shares

12. SHAREHOLDERS' EQUITY (Continued)

On October 1, 2013, 275,000 common shares under the share bonus plan were issued to certain officers, directors and consultants of the Company valued at $0.125 per share.

Subsequent to December 31, 2013, 275,000 common shares under the share bonus plan were issued to certain officers, directors and consultants of the Company valued at $0.08 per share.

See Note 21 for the events after reporting period.

Stock Options

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

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

As at December 31, 2013 the total number of options available for issue was 8,364,217. A total of 3,841,717 options are available for future issue as at December 31, 2013.

During the year ended December 31, 2013 options generated a share based payments expense of $312,236 (year ended December 31, 2012: $998,421). 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 5 years. The expected life of the option was calculated based on the history of option exercises.

On April 9, 2013 350,000 options were granted to a director and executive officer of the Company at an exercise price of $0.24. Options vest in three equal installments: 1/3 on the day of the grant, 1/3 on the first and second anniversary of the grant. The fair value of these options was estimated to be $57,172 with the following assumptions: expected volatility of 107%, dividend yield of 0%, risk-free interest rate of 1.11% and expected life of 3.4 years.

On November 12, 2013, 125,000 options were granted to consultants of the Company at an exercise price of $0.10 per option. The granted stock options vested immediately on the day of the grant and expire on November 12, 2018. The fair value of these options was estimated to be $9,580 with the following assumptions: expected volatility of 112%, dividend yield of 0%, risk-free interest rate of 1.19% and expected life of 3.5 years.

See Note 21 for events after the reporting period.

Reconciliation of the number of options at the beginning and end of the year ended December 31, 2013 and 2012 follows:

	December 31, 2013		December 31, 2012	
	Number	Weighted average exercise price, $	Number	Weighted average exercise price, $
Balance - Beginning of the year	4,844,167	0.69	4,036,667	0.73
Granted	475,000	0.20	932,500	0.55
Expired / Cancelled / Forfeited	(796,667)	0.39	(125,000)	1.07
Balance - End of the year	4,522,500	0.68	4,844,167	0.69

12. SHAREHOLDERS' EQUITY (Continued)

As at December 31, 2013, the Company had share options outstanding and exercisable as follows:

	Outstanding		Exercisable	
Expiry year	Number	Weighted average exercise price, $	Number	Weighted average exercise price, $
2015	1,070,000	0.59	1,070,000	0.59
2016	2,055,000	0.91	1,491,665	0.91
2017	922,500	0.55	786,667	0.54
2018	475,000	0.20	241,667	0.17
	4,522,500	0.68	3,589,999	0.68

Contributed surplus consists of the following:

	December 31, 2013	December 31, 2012
Balance-Beginning of period	$ 11,473,112	$ 10,081,156
Share-based payments	312,236	998,421
Warrants	1,713,702	393,535
Balance- End of period	$ 13,499,050	$ 11,473,112

Share purchase warrant transactions are summarized as follows:

	December 31, 2013		December 31, 2012	
	Number of share purchase warrants	Weighted average exercise price, $	Number of share purchase warrants	Weighted average exercise price $
Balance - Beginning of the year	2,643,703	0.58	-	-
Granted	35,739,719	0.25	2,643,703	0.58
Balance - End of the year	38,383,422	0.26	2,643,703	0.58

At December 31, 2013, 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
June 4, 2016	0.33	3,522,498	296,789
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
		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.

	December 31, 2013	December 31, 2012
Net loss	(6,178,783)	(9,386,392)
Weighted average number of common shares outstanding	61,161,041	50,487,994
Basic and dilutes loss per share	$ (0.10)	$ (0.19)

13. RELATED PARTY DISCLOSURES

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

In addition, effective May 11, 2011, an administration fee of $25,000 per month is charged by Forbes & Manhattan Inc. pursuant to a consulting agreement entered into between the companies. Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan Inc.

On January 30, 2013, amended March 12, 2013, the Company entered into a loan agreement with Forbes & Manhattan Inc. Forbes & Manhattan Inc. agreed to provide an unsecured bridge loan in the amount of $350,000 in three tranches repayable in cash on the earlier of (a) July 30, 2013 and (b) the date on which the Company completes an equity financing. Mr. Stan Bharti, the Executive Chairman of Forbes & Manhattan Inc., is a director of the Company. Interest was calculated at rate of 8% per annum and was payable on maturity of the loan. On June 28, 2013 Forbes & Manhattan Inc. advanced the Company $25,000 and another $150,000 in July 2013.The loan was repaid on December 18, 2013.

On September 18, 2013 the Company entered into another loan agreement with Forbes & Manhattan Inc. Forbes & Manhattan Inc. agreed to provide an unsecured loan in the amount of $500,000 due on December 9, 2013. Interest was calculated at rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on December 18, 2013.

On March 25, 2013, the Company entered into a loan agreement with Aberdeen International Inc. Aberdeen International Inc. agreed to provide an unsecured loan in the amount of $400,000 repayable on the earlier of (a) October 2, 2013 and (b) the date on which the Company completes an equity financing. Interest was calculated at a rate of 30% per annum and was prepaid at the time the loan was advanced. Mr. Bharti, a director of the Company, is the Chairman of the Board of Aberdeen International Inc. The first tranche of $50,000 was received on March 25, 2013, the second tranche of $350,000 was received on April 4, 2013. The loan was partially repaid on June 4, 2013, with a balance of $31,000 repaid on December 18, 2013.

On April 24, 2013, the Company entered into a loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of $400,000. Interest was calculated at a rate of 30% per annum and was prepaid at the time the loan was advanced. The loan was repaid on December 18, 2013.

On August 7, 2013, the Company entered into a loan agreement with Aterra Investments Ltd., who agreed to provide an unsecured loan in the amount of $30,000 repayable on or before February 7, 2014. Interest on the loan was calculated at a rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on December 18, 2013.

On September 18, 2013 the Company entered into another loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of $500,000 due on December 9, 2013. Interest was calculated at rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on December 18, 2013.

On October 8, 2013, the Company entered into another loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of $200,000 repayable on or before February 7, 2014. Interest was calculated at rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on October 21, 2013.

On December 12, 2013, the Company entered into another loan agreement with Aterra Investments Ltd. Aterra Investments Ltd. agreed to provide an unsecured loan in the amount of $150,000. Interest was calculated at rate of 20% per annum and was payable on maturity of the loan. The loan was repaid on December 18, 2013.

Mr. Boris Granovsky, a director of the Company, is a managing partner of Aterra Capital, a management company for Aterra Investments Ltd.

13. RELATED PARTY DISCLOSURES (Continued)

The Company entered into an agreement with Aterra Investments Ltd. (formerly Tabac Ventures Limited) ("Aterra") whereby Aterra provided certain consulting services related to government relations in Russia. The services included guidance with respect to exploration and mining license processes, as well as guidance with respect to correspondence, government submittals, approvals and permits.

During the years ended December 31, 2013 and 2012 the Company entered into transactions for goods and services with the following related parties:

	Goods and services received	
Goods and services received from (provided to):	**December 31, 2013**	**December 31, 2012**
2227929 Ontario Inc.	218,004	292,635
Forbes & Manhattan Inc.	300,000	300,000
Aterra Investments Ltd.	52,500	157,500
	$ 570,504	$ 750,135

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

	Amounts owed to related parties	
Outstanding balances	**December 31, 2013**	**December 31, 2012**
2227929 Ontario Inc.	247,835	19,760
Forbes & Manhattan Inc.	-	226,000
Aterra Investments Ltd.	-	210,000
Other entities of F&M Group	10,700	-
	$ 258,535	$ 455,760

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:

	2013	**2012**
Salaries, fees and short-term employee benefits	$ 1,209,597	$ 789,800
Share-based payments	277,403	607,442
	$ 1,487,000	$ 1,397,242

14. EXPENSES BY NATURE

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

	2013	**2012**
Employee compensation	$ 2,733,159	$ 3,631,390
Drilling and trenching	637,843	2,000,444
Depreciation	281,057	232,640
Professional fees	323,063	711,389
Geological & environmental studies	188,349	342,799
Transportation	89,905	750,208
Camp maintenance	589,836	479,318
Taxes	13,676	56,877
Office expenses	326,343	384,871
Travel expenses	293,843	410,485
Accretion expense	105,764	-
Interest expense	269,324	52,031
Foreign exchange	50,766	6,461
Other expenses	276,296	338,607
	$ 6,179,223	$ 9,397,520

14. EXPENSES BY NATURE (Continued)

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

Employee benefits expense for the years ended December 31, 2013 and 2012 consisted of the following:

	2013	2012
Salaries, fees and short-term employee benefits	$ 2,420,923	$ 2,632,969
Share-based payments	312,236	998,421
	$ 2,733,159	$ 3,631,390

15. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	2013	2012
Receivable	$ (57,424)	$ 377,943
Inventories	634,937	(1,185,085)
Prepaid expenses	25,602	127,344
Accounts payable and accrued liabilities	200,597	671,923
	$ 803,712	$ (7,875)

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 2013.

Minimum requirements under the exploration license for 2014 are the same as for 2013, namely 3,000 metres of drilling and 5,000 cubic metres of trenching that will require funds of approximately $4.5 million.

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

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$19,703 over a three-year period.

The Company is party to certain management contracts and severance obligations. These contracts contain clauses requiring additional payments of up to $1,073,200 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 $582,998, 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, 2013.

17. SEGMENTED INFORMATION

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

As at December 31, 2012

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	$ 11,015	$ 1,781,914	$ 6,035	$ 303,923	$ 1,791,068	$ 2,065,814	$ 220,433	$ 52,016	$ 5,551,091
Canada - corporate	130,654	-	80,146	50,754	-	-	9,936	636	3,835,301
	$ 141,669	$ 1,781,914	$ 86,181	$ 354,677	$ 1,791,068	$ 2,065,814	$ 230,369	$ 52,652	$ 9,386,392

17. SEGMENTED INFORMATION (Continued)

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.

Asset retirement obligation consists of the following:

	December 31, 2013	December 31, 2012
Balance at the beginning of the year	$ 1,143,383	$ 579,478
Increase in liability	-	545,940
Accretion expense	105,873	-
Translation adjustment	(8,033)	17,965
Balance at the end of the year	$ 1,241,223	$ 1,143,383

The estimated value of the obligation to rehabilitate the site expressed in Canadian dollars is $1,570,014. A Russian Central bank borrowing rate of 8.25% has been used in discounting of future cash flows.

19. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at December 31, 2013 and 2012 were as follows:

At December 31, 2012	Loans and receivables	Assets/liabilities at fair value through profit and loss	Other liabilities	TOTAL
Cash and cash equivalents	141,669	-	-	141,669
Accounts Receivables	354,677	-	-	354,677
Short-term loans	50,000	-	-	50,000
Accounts payables and accrued liabilities	-	-	1,294,795	1,294,795
Finance lease			464,394	464,394

19. FINANCIAL INSTRUMENTS (Continued)

At December 31, 2013	Loans and receivables	Assets/liabilities at fair value through profit and loss	Other liabilities	TOTAL
Cash and cash equivalents	276,909	-	-	276,909
Accounts Receivables	409,905	-	-	409,905
Short-term loans	-	-	-	-
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.

20. INCOME TAXES

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

	2013	2012
Statutory tax rate	26.50%	26.50%
Tax benefit of statutory rate	$ (1,637,378)	$ (2,487,394)
Expenses not deductible for income tax purposes	223,387	418,212
Tax effect of unrecognized temporary difference	1,180,650	1,727,044
Foreign tax rate differential	233,341	342,138
Total tax expense	**$** -	**$** -

The 2013 statutory tax rate of 26.50% consistent with the 2012 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:

Deductible Temporary Differences	December 31, 2013	December 31, 2012
Tax loss carry-forwards	$ 24,736,283	$ 22,342,145
Exploration and Development	42,336,637	39,456,005
Share issue costs	105,786	95,101
Asset Retirement Obligation	1,241,223	1,143,383
Property plant and equipment	5,956,313	5,895,806
	$ 74,376,242	$ 68,932,440

At December 31, 2013, the Company has the unclaimed non-capital losses that expire as follows:

Expiry Date	Amount
2014	$ 77,604
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	2,334,425
	$ 24,474,304

20. INCOME TAXES (Continued)

In addition, ZAO Prognoz has approximately $261,979 (2012 – $79,424) of non-capital losses for Russian income tax purposes that expire at the end of the years 2017 through 2023 (2012 – 2017 through 2022).

21. EVENTS AFTER THE REPORTING PERIOD

On January 1, 2014, 275,000 common shares under the share bonus plan were issued to certain officers, directors and consultants of the Company valued at $0.08 per share.

On February 21, 2014 the board approved the allocation issuance of up to further 1,375,000 common shares pursuant to the share bonus plan, subject to the terms of the share bonus plan and final approval by the President prior to issuance on or about the following dates:

April 1, 2014	-	343,750 common shares
July 1, 2014	-	343,750 common shares
October 1, 2014	-	343,750 common shares
January 1, 2015	-	343,750 common shares

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.

On March 6, 2014, the Company issued 220,630 common shares of the Company at a deemed price of $0.13 per common share to settle outstanding debt in relation to past services provided by Exploration Services UK Limited.

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 repayable on June 9, 2014. Interest on the loan is calculated at a rate of 25% per annum and is payable monthly. 1039593 Ontario Ltd. is 100% owned by Mr. Mark Trevisiol, a president and CEO of the Company.

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 repayable on June 13, 2014. Interest is calculated at rate of 25% per annum and is 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 director of the Company is an officer of Aterra Capital, a management company for Aterra Investments Ltd.

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 is calculated at rate of 25% per annum and is payable monthly. Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan Inc.