



## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Registered Number: 10669766 (England and Wales)

*For the three months and nine months ended 30 September 2019*

*(Expressed in Canadian dollars)*

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## **NOTICE OF NO REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

# Silver Bear Resources Plc

## Consolidated Statement of Financial Position

(Canadian dollars)

|  | Note | 30 September<br>2019 | 31 December<br>2018 |
|--|------|----------------------|---------------------|
| <b>ASSETS</b>                            |      |                      |                     |
| <b>Non-current assets</b>                |      |                      |                     |
| Property, plant and equipment            | 10   | 100,845,334          | 96,924,301          |
| Mineral property                         | 9    | 12,005,015           | 12,027,009          |
| Intangible assets                        | 8    | 160,935              | 172,495             |
| Prepaid non-current assets               | 6    | 352,397              | 634,005             |
| Other non-current assets                 | 7    | 3,939,162            | 3,404,404           |
| <b>Total non-current assets</b>          |      | <b>117,302,844</b>   | <b>113,162,214</b>  |
| <b>Current assets</b>                    |      |                      |                     |
| Inventories                              | 5    | 22,438,650           | 19,134,628          |
| Receivables                              | 4    | 3,230,227            | 4,166,445           |
| Cash and cash equivalents                |      | 1,781,616            | 1,141,663           |
| Prepaid expenses                         | 6    | 1,506,815            | 2,049,093           |
| <b>Total current assets</b>              |      | <b>28,957,308</b>    | <b>26,491,829</b>   |
| <b>TOTAL ASSETS</b>                      |      | <b>146,260,151</b>   | <b>139,654,043</b>  |
| <b>EQUITY AND LIABILITIES</b>            |      |                      |                     |
| <b>Non-current liabilities</b>           |      |                      |                     |
| Long-term loans                          | 13   | 166,717,499          | 163,102,592         |
| Asset retirement obligation              | 14   | 1,230,159            | 1,109,391           |
| Lease obligation                         | 12   | 310,578              | 690,681             |
| <b>Total non-current liabilities</b>     |      | <b>168,258,236</b>   | <b>164,902,664</b>  |
| <b>Current liabilities</b>               |      |                      |                     |
| Short-term loans                         | 13   | -                    | -                   |
| Account payable and accrued liabilities  | 11   | 4,416,138            | 3,148,788           |
| Lease obligation                         | 12   | 827,096              | 1,655,056           |
| <b>Total current liabilities</b>         |      | <b>5,243,234</b>     | <b>4,803,844</b>    |
| <b>Total liabilities</b>                 |      | <b>173,501,470</b>   | <b>169,706,508</b>  |
| <b>Equity</b>                            |      |                      |                     |
| Share Capital                            | 15   | 99,559,337           | 99,559,086          |
| Share Premium                            |      | 22,410,052           | 22,383,855          |
| Shareholders Contribution                |      | 1,807,077            | 1,807,077           |
| Contributed surplus                      | 15   | 17,514,304           | 17,178,582          |
| Cumulative translation adjustment        |      | (831,914)            | 1,513,902           |
| Retained earnings/ (Accumulated deficit) |      | (167,700,175)        | (172,494,967)       |
| <b>Total equity</b>                      |      | <b>(27,241,319)</b>  | <b>(30,052,465)</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>      |      | <b>146,260,151</b>   | <b>139,654,043</b>  |

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

The financial statements on pages 3 to 32 were approved by the Board of Directors on 14 November 2019, and signed on its behalf by:

“Vadim Ilchuk”

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**Vadim Ilchuk**  
Director, President, CEO

“Maxim Matveev”

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**Maxim Matveev**  
Director

# Silver Bear Resources Plc

## Consolidated Statement of Comprehensive Profit/(Loss)

For the three months and nine months ended 30 September 2019 and 2018

(Canadian dollars)

|   | Note | Three months ended   |                      | Nine months ended    |                      |
|---|------|----------------------|----------------------|----------------------|----------------------|
|   |      | 30 September<br>2019 | 30 September<br>2018 | 30 September<br>2019 | 30 September<br>2018 |
| <b>Revenue:</b>   |      |                      |                      |                      |                      |
| Metal Sales   |      | 9,013,130            | -                    | 9,013,130            | -                    |
| <b>Cost of Sales:</b>   |      |                      |                      |                      |                      |
| Production cost   | 18   | (3,988,037)          | -                    | (3,988,037)          | -                    |
| Depreciation and amortization                                   |      | (1,078,364)          | -                    | (1,078,364)          | -                    |
| <b>Gross profit / (loss)</b>                                    |      | <b>3,946,728</b>     | <b>-</b>             | <b>3,946,728</b>     | <b>-</b>             |
| Exploration and evaluation expenses                             |      | -                    | (25,425)             | -                    | (187,595)            |
| General and administrative expenses                             | 18   | (1,145,508)          | (655,371)            | (2,108,076)          | (2,737,978)          |
| Selling expenses  |      | (51,879)             | -                    | (51,879)             | -                    |
| Depreciation charged during pre-production stage                |      | -                    | (488,794)            | (1,003,351)          | (1,453,306)          |
| Amortization charged during pre-production stage                |      | -                    | (12,929)             | -                    | (27,645)             |
| Accretion expenses  |      | (24,996)             | (25,147)             | (75,015)             | (79,474)             |
| Other income/(expenses), net                                    | 17   | 34,088               | 26,281               | 973,568              | 358,043              |
| <b>Operating profit / (loss)</b>                                |      | <b>2,758,433</b>     | <b>(1,181,385)</b>   | <b>1,681,974</b>     | <b>(4,127,955)</b>   |
| Finance income  |      | -                    | -                    | -                    | 7,309                |
| Finance expenses  |      | (3,048,316)          | (16)                 | (9,096,615)          | (20)                 |
| Foreign exchange (loss) /gain                                   |      | (3,287,929)          | (5,840,127)          | 13,444,981           | (17,298,724)         |
| <b>Profit / (loss) before tax</b>                               |      | <b>(3,577,813)</b>   | <b>(7,021,528)</b>   | <b>6,030,340</b>     | <b>(21,419,390)</b>  |
| Tax charge  |      | 117,670              | (9,777)              | (1,235,549)          | (11,753)             |
| <b>Profit / (loss) for the year</b>                             |      | <b>(3,460,143)</b>   | <b>(7,031,305)</b>   | <b>4,794,792</b>     | <b>(21,431,143)</b>  |
| <b>Other comprehensive loss</b>                                 |      |                      |                      |                      |                      |
| Items, that may be reclassified subsequently to profit or loss: |      |                      |                      |                      |                      |
| Exchange differences on translating foreign operations          |      | 601,972              | 3,053,144            | (2,345,816)          | 4,572,307            |
| <b>Total comprehensive profit / (loss) for the year</b>         |      | <b>(2,858,171)</b>   | <b>(3,978,161)</b>   | <b>2,448,976</b>     | <b>(16,858,836)</b>  |
| <b>Weighted average number of common shares outstanding</b>     |      | 672,082,407          | 670,378,513          | 672,017,997          | 670,038,955          |
| <b>Based and diluted profit (loss) per share</b>                | 15   | <b>(0.01)</b>        | <b>(0.01)</b>        | <b>0.01</b>          | <b>(0.03)</b>        |

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

# Silver Bear Resources Plc

## Consolidated Statement of Changes in Equity

For the nine months ended 30 September 2019 and 2018  
(Canadian dollars)

|  | Share capital     | Share premium     | Shareholders contribution | Contributed surplus | Cumulative translation adjustment | Accumulated Deficit  | Total equity        |
|--|-------------------|-------------------|---------------------------|---------------------|-----------------------------------|----------------------|---------------------|
| <b>Balance - 31 December 2017</b>          | 99,552,335        | 21,960,054        | -                         | 16,696,454          | (1,918,641)                       | (135,931,891)        | 358,311             |
| Net loss for the period                    | -                 | -                 | -                         | -                   | -                                 | (21,431,143)         | (21,431,143)        |
| Other comprehensive profit/(loss):         |                   |                   |                           |                     |                                   |                      |                     |
| Cumulative translation adjustment          | -                 | -                 | -                         | -                   | 4,572,307                         | -                    | 4,572,307           |
| Comprehensive profit/(loss) for the period | -                 | -                 | -                         | -                   | 4,572,307                         | (21,431,143)         | (16,858,836)        |
| Shares issued under bonus plan             | 2,737             | -                 | -                         | -                   | -                                 | -                    | 2,737               |
| Shares issued under stock option plan      | 1,558             | 152,893           | -                         | -                   | -                                 | -                    | 154,451             |
| Share-based payments                       | -                 | -                 | -                         | 319,352             | -                                 | -                    | 319,352             |
| <b>Balance - 30 September 2018</b>         | <b>99,556,630</b> | <b>22,112,947</b> | <b>-</b>                  | <b>17,015,806</b>   | <b>2,653,666</b>                  | <b>(157,363,034)</b> | <b>(16,023,985)</b> |
| <b>Balance - 31 December 2018</b>          | <b>99,559,086</b> | <b>22,383,855</b> | <b>1,807,077</b>          | <b>17,178,582</b>   | <b>1,513,902</b>                  | <b>(172,494,967)</b> | <b>(30,052,465)</b> |
| Net profit for the period                  | -                 | -                 | -                         | -                   | -                                 | 4,794,792            | 4,794,792           |
| Other comprehensive profit/(loss):         |                   |                   |                           |                     |                                   |                      |                     |
| Cumulative translation adjustment          | -                 | -                 | -                         | -                   | (2,345,816)                       | -                    | (2,345,816)         |
| Comprehensive profit/(loss) for the period | -                 | -                 | -                         | -                   | (2,345,816)                       | 4,794,792            | 2,448,976           |
| Shares issued under bonus plan             | 8                 | -                 | -                         | -                   | -                                 | -                    | 8                   |
| Shares issued under stock option plan      | 242               | 26,198            | -                         | (8,773)             | -                                 | -                    | 17,667              |
| Share-based payments                       | -                 | -                 | -                         | 344,496             | -                                 | -                    | 344,496             |
| <b>Balance - 30 September 2019</b>         | <b>99,559,329</b> | <b>22,410,052</b> | <b>1,807,077</b>          | <b>17,514,304</b>   | <b>(831,914)</b>                  | <b>(167,700,175)</b> | <b>(27,241,319)</b> |

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

# Silver Bear Resources Plc

## Consolidated Statement of Cash Flow

For the nine months ended 30 September 2019 and 2018

(Canadian dollars)

|  | 30 September<br>2019 | 30 September<br>2018 |
|--|----------------------|----------------------|
| <b>Cash provided by (used in)</b>  |                      |                      |
| <b>Operating activities</b>  |                      |                      |
| <b>Total gain/(loss) for the year</b>  | 4,794,792            | (21,431,143)         |
| <i>Adjustments for items not affecting cash:</i>   |                      |                      |
| Depreciation   | 2,075,835            | 1,453,306            |
| Amortization   | 11,542               | 27,645               |
| Share-based payments   | 344,496              | 319,352              |
| Accretion expenses   | 75,015               | 79,474               |
| Unrealized FX movement   | (13,444,981)         | 18,103,850           |
| Interest expense   | 9,096,615            | 20                   |
| Net change in non-cash working capital (Note 19)   | 70,675               | (8,140,694)          |
| <b>Net cash generated/ (used in) operations</b>  | <b>3,023,989</b>     | <b>(9,588,190)</b>   |
| Purchases of property, plant and equipment   | (2,345,436)          | (17,531,584)         |
| <b>Net cash used in investing activities</b>   | <b>(2,345,436)</b>   | <b>(17,531,584)</b>  |
| Proceeds from share issue  | -                    | 2,737                |
| Proceeds from share options exercised  | 190                  | 154,450              |
| Finance lease repayment  | (1,374,638)          | (287,461)            |
| Short-term and long-term loans drawn   | 2,648,600            | 3,236,250            |
| Short-term and long-term loans repayment   | (1,836,412)          | -                    |
| <b>Net cash (used in)/generated from financing activities</b>                            | <b>(562,260)</b>     | <b>3,105,976</b>     |
| Effect of exchange rate changes on cash and cash equivalents and translation differences | 523,660              | 737,899              |
| <b>Increase/(Decrease) in cash and cash equivalents during the year</b>                  | <b>639,953</b>       | <b>(23,275,899)</b>  |
| <b>Cash and cash equivalents - beginning of the year</b>                                 | <b>1,141,663</b>     | <b>24,314,402</b>    |
| <b>Cash and cash equivalents - end of the year</b>                                       | <b>1,781,616</b>     | <b>1,038,503</b>     |
| <b>Cash and cash equivalents consist of:</b>   |                      |                      |
| Cash   | 1,781,616            | 1,038,503            |

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



# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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### 1. NATURE OF OPERATIONS

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

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

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

These unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern which contemplates that the Group will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future. As at 30 September 2019, the Group has reported a net profit for the nine months of \$4,794,792 and a cumulative deficit of \$167,700,175. In order to fund development operations and maintain rights under licenses and agreements, the Group has secured funding in the form of long-term loans of \$166,717,499 and the Group may be dependent on securing additional financing until such time that it generates sufficient operating cash flow to meet its liabilities.

### 2. BASIS OF PREPARATION

Following Silver Bear Resources Plc becoming the parent company of the Group (as detailed in note 1), this transaction was not treated as a business combination under IFRS 3 "Business combinations" but was considered as a capital reorganization, as these entities are under common control.

These unaudited condensed consolidated interim financial statements of Silver Bear Resources Plc are presented using the values from the consolidated financial statements of Silver Bear Resources Inc. The equity structure (that is, the issued share capital) reflects that of Silver Bear Resources Plc, with other amounts in equity being those from the consolidated financial statements of the previous group holding entity, Silver Bear Resources Inc. The resulting difference that will arise was recognized as a component of equity.

These unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), in accordance with International Standards (IAS) 34 – Interim Financial Reporting and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The Group has consistently applied the accounting policies used in the preparation of its IFRS financial statements throughout all periods presented, as if these policies had always been in effect.

These unaudited condensed consolidated financial statements comprise the financial statements of Silver Bear Resources Plc and its 100% owned subsidiaries: Silver Bear Resources Inc. (a Canadian corporation), Silver Bear Resources B.V. (a Netherlands corporation) and AO Prognoz (a Russian Federation corporation). All significant inter-company accounts and transactions have been eliminated on consolidation.

These unaudited condensed consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on 13 November 2019.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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### 2. BASIS OF PREPARATION (Continued)

#### Going Concern

These unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern which contemplates that the Group will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future.

Starting from 1 July 2019 the commissioning activities was completed with the successful installation and implementation of equipment to implement Merrill–Crowe process. This allow the Group to achieve sustainable commercial production in line with the life of mine plans.

The Group has reported \$1,781,616 cash and cash equivalents, total operating cash inflow of \$3,023,989. The Group has reported a total net profit for the period of \$4,794,792 and net liability position of \$27,241,319.

Management have prepared cash flow forecasts for the period to 30 September 2020, which are based on the Group's principal asset, the Mangazeisky silver asset in Russia, achieving sustainable production levels to generate sufficient cash flows to fund its operations and repay debt obligations and other liabilities as they fall due.

The Directors are confident that production in 2019-2020 will be in line with budget. Accordingly, the Directors continue to adopt the going concern basis for the preparation of these financial statements.

#### 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 the functional currency of Silver Bear Resources Inc, and Silver Bear Resources B.V. Silver Bear Resources Plc has changed its functional currency as of 1 January 2018 from Canadian dollars to Russian roubles when it was deemed that the majority of underlying transactions now took place in roubles. Silver Bear Resources Plc functional currency is different to presentation currency, because the group is listed on TSX and presentation of financial statements in Canadian dollars is considered to be beneficial for potential and current shareholders in Canada. The financial statements of AO Prognoz have the Russian rouble as their functional currency. The results of both Silver Bear Resources Plc and AO Prognoz are translated into the Canadian dollar presentation currency for consolidation purposes as follows: assets and liabilities – at the closing rate at the date of the statements of financial position, and income and expenses at the average rate for each quarter (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

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

##### Mineral properties

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

##### Intangible assets

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

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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### 2. BASIS OF PREPARATION (Continued)

#### Significant Accounting Policies (Continued)

##### Property, plant and equipment

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

Leasehold improvements are amortized over the remaining life of the lease. Significant components of property, plant and equipment are recorded and depreciated separately. Residual values, the method of depreciation and the useful lives of assets are revised annually and adjusted prospectively, if appropriate, if there is an indicator of a significant change since the last reporting date. Depreciation of underlying property, plant and equipment which directly contributed the developing the mining properties are capitalized as additions in mineral properties.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

In order to determine whether the project is ready to operate as intended by management, judgement was applied taking into account commercial production indicators such as pre-production output has reached a nominated percentage, the internal project management team has transferred the mine to the operational team, the majority of the assets necessary for the mining project are substantially complete and ready for use and the project's ability to sustain commercial levels of production. These indicators provided guidance to recognize that the mine development phase was ceased and the production phase is commence starting from 1 July 2019.

During the mine development phase from 1 July 2015 to 1 July 2019, all costs that was directly attributable to developing the mine was capitalized and the incidental revenue generated was credited against the capital cost up to the date when the commercial production indicators are met.

##### Revenue recognition

Pre-commercial production silver sales that were generated from 1 April 2018 to 1 July 2019 was excluded from operating activities and was reflected within non-current assets on the consolidated statement of financial position. Timing of recognition is governed by IFRS 15. Entity recognizes revenues when a performance obligation is satisfied, which is when "control" of the goods has transferred to the customer. Control of goods is transferred at the point of time, when silver is passed to the buyer at the refinery site. Payments terms allows 80% prepayment in advance and the remaining payment based on the final Price, dependent on silver weight per Act of Acceptance and London price on London Market of metals, adjusted for the prepaid amount under provisional price.

##### Exploration costs

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

##### Impairment of non-financial assets

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

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

##### 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.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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## 2. BASIS OF PREPARATION (Continued)

### Significant Accounting Policies (Continued)

The expected future cash flows exclude the effect of inflation. The unwinding of the discount in subsequent periods is presented as interest expense. The asset associated with retirement obligations represents the part of the cost of acquiring the future economic benefits of the operation and is capitalized to mineral properties as part of the carrying amount of the long-lived asset and amortized over the expected economic life of the operation to which it relates. The Group re-measures the liability at each reporting date. Changes in estimates are recorded using current discount rate assumptions. Adjustments are also accounted for as a change in the corresponding value of the related assets.

### Financial instruments

Financial assets:

Financial assets within the scope of IFRS 9 are initially recognized at fair value and are classified financial assets at amortised cost. The Group determines the classification of its financial assets at initial recognition.

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

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

Financial liabilities:

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

The Group's current financial liabilities include accounts payable, accrued liabilities, finance leases and short-term loans. Initially they are recognized at fair value, and subsequently measured at amortized cost using the effective interest method. Amortized cost approximates fair value due to the short-term maturity of these liabilities. The Group's non-current financial liabilities include long-term loans and non-current finance leases shown at their carrying values as any differences are not material.

Financial instruments are initially recorded at fair value. The fair values of cash and cash equivalents, miscellaneous receivables, short-term loans, finance lease and accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature. The fair value of long-term loans and non-current finance leases is shown at their carrying values as any differences are not material.

### Cash and cash equivalents

Cash represents cash on hand and demand deposits. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Such short-term investments include treasury bills with original maturities of less than 90 days. Treasury bills with original maturities in excess of 90 days are classified under short-term investments. Monies held within foreign exchange trading accounts are also recognized as cash equivalent. Equity investments are excluded from cash equivalents.

### Income Taxes

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

### Earnings per share

Basic earnings per share is computed by dividing the profit/(loss) for the period by the weighted average number of common shares outstanding.

### Share-based payments

The fair value of any stock options granted to directors, officers, consultants and employees is recognized as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of share-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 15. 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 is recorded as an increase to share capital.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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## 2. BASIS OF PREPARATION (Continued)

### Significant Accounting Policies (Continued)

#### Borrowing costs

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

#### 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

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials: purchase price plus transportation cost plus any applicable customs duties and taxes;

The cost of silver for sale comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs

Inventories are accounted for using weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### Leases

Accounting for leases within the scope of IFRS 16 eliminates the classification of leases as either operating or finance as is required by IAS 17 and, instead, introduces a single lessee accounting model requiring a lessee to recognize assets and liabilities for all leases unless the underlying asset has a low value or the lease term is twelve months or less

### Accounting estimates and management judgments

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

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

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

#### *Critical judgements in applying accounting policies:*

- Determination of functional currency

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

Effects of changes in foreign exchange rates on the consolidation of the financial statements are recorded in other comprehensive income and carried in the form of a cumulative translation adjustment in the accumulated other comprehensive income section of the Statement of financial position of the Group.

The functional currency of Silver Bear Resources Plc changed from Canadian dollars to Russian rouble in 2018 as it is now deemed that the majority of underlying transactions for this entity are undertaken in roubles and therefore it is appropriate for this to be its functional currency.

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

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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### 2. BASIS OF PREPARATION (Continued)

#### Significant Accounting Policies (Continued)

- Capitalization of development costs

Management has determined that development costs incurred from 1 July 2015 to 1 July 2019 have future economic benefits and are economically recoverable. In making this judgement, management assessed various sources of information including the geological and metallurgical information, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. In order to determine whether the project is ready to operate as intended by management, judgement was applied taking into account commercial production indicators such as pre-production output has reached a nominated percentage, the internal project management team has transferred the mine to the operational team, the majority of the assets necessary for the mining project are substantially complete and ready for use and the project's ability to sustain commercial levels of production. These indicators have provided guidance to recognize that the mine development phase was ceased and the production phase was commenced starting from 1 July 2019.

#### Key sources of estimation uncertainty:

- Depreciation rates

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

- Rehabilitation provisions and asset retirement obligations

The carrying value of the asset retirement obligation is \$1,230,159, as disclosed in Note 14. Exploration and development activities carried out by the Group give rise to obligations for environmental rehabilitation. Significant uncertainty exists as to the amount and timing of associated cash flows and regulatory requirements. A Russian Central Bank borrowing rate for a 10-year zero coupon year bond is used in discounting future cash flows as a pre-tax discount rate.

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

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

- Share-based payment transactions

The Group records share-based compensation at fair value. The 2019 charge is \$344,496 as disclosed in Note 15. 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.

- Impairment of mineral properties and property, plant and equipment

The carrying value of mineral properties and property, plant and equipment is \$12,005,015 and \$100,845,334 respectively, as disclosed in Note 9 and note 10. While assessing whether any indications of impairment exist for mineral properties, consideration is given to both external and internal sources of information. Information that management considers includes, changes in the market, and changes in the economic and legal environment in which the Group operates that are not within its control that could affect the recoverable amount of mineral properties. Internal sources of information include the manner in which mineral properties are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Group's mineral properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, reductions in the amount of recoverable mineral reserves and mineral resources, and/or adverse current economics can result in a write-down of the carrying amounts of the Group's mineral properties.

Management has reviewed and evaluated the existence of impairment triggers and concluded that no impairment triggers existed as at 30 September 2019. Management have assessed the recoverable amount of its mineral properties and property, plant and equipment by performing a value in use calculation, expected future economic benefits and cash flow from the are exceed carrying value of mineral properties and property, plant and equipment.

Mineral properties and property, plant and equipment relate to a sole cash generating unit, the Vertikalny silver mine development. The Vertikalny silver mine development is part of the Mangazeisky combined mine plan for Vertikalny and Mangazeisky North deposits. The Group currently holds an exploration license for a number of deposits within the Mangazeisky license area which expires in 2023 and a mining license for the Vertikalny deposit expiring in 2033.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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### 2. BASIS OF PREPARATION (Continued)

#### Significant Accounting Policies (Continued)

- Assets' carrying values (Note 6, 9)  
Subsequent to the identification of an impairment trigger, in the determination of carrying values and impairment charges, management looks at the recoverable amount of the asset, which is the higher of value in use or fair value less costs to sell in the case of assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

#### New standards and interpretations adopted by the Group

The following new accounting standards and amendments to existing standards and interpretations that have been issued by the IASB are not yet effective and have not been adopted early by the Group in preparing these financial statements.

##### *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

The amendment permits more assets to be measured at amortised cost, in particular some prepayable financial assets. The amendment also confirms that most modifications to a financial liability will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39. The amendment is effective for annual periods beginning on or after 1 January 2019. The Group does not have any financial instruments accounted through change in fair value price.

##### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatments*

Issued on 7 June 2017 this IFRIC clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019. The IFRIC does not have a material impact on the Group's results.

##### *IFRS 16 – Leases (“IFRS 16”)*

On 13 January 2016, IFRS 16 was issued. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 is effective from 1 January 2019.

The new standard was issued in January 2016 replacing the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases for the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating or finance as is required by IAS 17 and, instead, introduces a single lessee accounting model requiring a lessee to recognize assets and liabilities for all leases unless the underlying asset has a low value or the lease term is twelve months or less. This new standard applies to annual reporting periods beginning on or after 1 January 2019.

The Group has reviewed its arrangements in place and has concluded that the adoption of this standard does not have a material impact on the financial results of the Group as all leases of the Group are already accounted as financial leases.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 3. CAPITAL MANAGEMENT AND FINANCIAL RISK FACTORS

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

The Group considers excess cash balances, all the components of shareholders' equity and loans as capital. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain the future development of the business.

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

In order to fund the ongoing development activities, the Group will spend existing working capital and plans to raise additional amounts as needed through equity and/or debt. The Group will continue to assess new properties and seek to acquire an interest in additional properties where sufficient geologic or economic potential are noted and if financial resources exist to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Group, is reasonable.

There were no changes in the Group's approach to capital management during the period ended 30 September 2019 compared to the year ended 31 December 2018. The Group is not subject to externally imposed capital requirements.

#### FINANCIAL RISK FACTORS

The Group is exposed to credit and liquidity risks and market risk. The risk management policies employed by the Group to manage these risks are discussed below

##### Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

##### Credit risk

The Group has no significant concentration of credit risk arising from operations. Cash equivalents consist of interest earning bank accounts held in banks in the United Kingdom, Canada and Russia which in the presentational currency total \$1,781, \$23,551 and \$1,756,283 respectively. The Group's United Kingdom bank has a credit rating of at least baa3 (Moody's), Canadian chartered banks have a credit rating of at least A2 (Moody's) and the Group's Russian banks have a credit rating of at least ba1 (Moody's).

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

##### Liquidity risk

The Group's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due by continual review of budgets and forecasts and discussions with shareholders and other providers of finance as appropriate. The Group's current assets and current liabilities are show in the table below:

|                           | 30 September<br>2019 | 31 December<br>2018 |
|---------------------------|----------------------|---------------------|
| Total current assets      | 28,957,308           | 26,491,829          |
| Total current liabilities | 5,243,234            | 5,243,234           |

As at 30 September 2019 the Group had total current assets of \$28,957,308 (31 December 2018 – \$26,491,829) to settle total current liabilities of \$5,243,234 (31 December 2018 – \$4,803,844), as well as its commitments outlined in Note 20. Total liabilities of \$173,501,470 include long-term loans totaling \$128,656,498 accrued interest of \$39,868,077 and fair value gain on modification of loans of (\$1,807,077).

As at 30 September 2019, the Group had cash balances of \$1,781,616 (31 December 2018 – \$1,141,663).



# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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

#### Liquidity risk (Continued)

The Group had total obligations of \$1,137,674 at 30 September 2019 (31 December 2018 – \$2,345,737) under a combination of three and five-year leases for equipment in relation to the development of Mangazeisky, as outlined in Note 12.

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

| 30 September 2019                       | Carrying amount    | Contractual cash flows | 6 months or less | 6 to 12 months   | 12 to 36 months   | 36 to 72 months    |
|---|--------------------|------------------------|------------------|------------------|-------------------|--------------------|
| <b>Current liabilities</b>              |                    |                        |                  |                  |                   |                    |
| Accounts payable & accrued liabilities  | 4,416,138          | 4,416,138              | 4,416,138        | -                | -                 | -                  |
| Finance leases                          | 827,096            | 880,529                | 535,446          | 345,083          | -                 | -                  |
| <b>Non-current liabilities</b>          |                    |                        |                  |                  |                   |                    |
| Long-term loans principal               | 126,849,422        | 128,656,498            | -                | -                | -                 | 128,656,498        |
| Interest to be capitalized to principal | -                  | 46,172,636             | -                | -                | -                 | 46,172,636         |
| Long-term loans interest                | 39,868,077         | 52,190,997             | -                | 8,084,052        | 36,511,489        | 7,595,456          |
| Finance leases                          | 310,578            | 318,976                | -                | -                | 318,976           | -                  |
|   | <b>172,271,311</b> | <b>232,635,775</b>     | <b>4,951,584</b> | <b>8,429,136</b> | <b>36,830,465</b> | <b>182,424,590</b> |

| 31 December 2018                        | Carrying amount    | Contractual cash flows | 6 months or less | 6 to 12 months   | 12 to 36 months   | 36 to 72 months    |
|---|--------------------|------------------------|------------------|------------------|-------------------|--------------------|
| <b>Current liabilities</b>              |                    |                        |                  |                  |                   |                    |
| Accounts payable & accrued liabilities  | 3,148,788          | 3,148,788              | 3,148,788        | -                | -                 | -                  |
| Finance leases                          | 1,655,056          | 1,740,401              | 938,379          | 802,022          | -                 | -                  |
| <b>Non-current liabilities</b>          |                    |                        |                  |                  |                   |                    |
| Long-term loans principal               | 129,118,236        | 132,732,390            | -                | -                | -                 | 132,732,390        |
| Interest to be capitalized to principal | -                  | 38,183,420             | -                | -                | -                 | 38,183,420         |
| Long-term loans interest                | 32,177,279         | 58,068,646             | -                | 3,931,064        | 31,234,864        | 22,902,719         |
| Finance leases                          | 690,681            | 824,087                | -                | -                | 824,087           | -                  |
|   | <b>166,790,040</b> | <b>234,697,733</b>     | <b>4,087,167</b> | <b>4,733,086</b> | <b>32,058,952</b> | <b>193,818,529</b> |

#### Interest rate risk

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

#### Foreign currency risk

The Group has funded certain exploration, project construction and administrative expenses on a transaction by transaction basis using U.S. dollar and Russian rouble. USD funding has been provided directly to AO Prognoz in Russia and converted to Russian rouble. This exposes the Group to changes in foreign exchange rates for Great British pound, U.S. dollar and Russian rouble.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's borrowings (when borrowing is denominated in a different currency from functional currencies of the Group companies).

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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

#### Foreign currency risk (Continued)

|  | 30 September 2019 |                    |                  |          | 31 December 2018 |                    |                  |               |
|--|-------------------|--------------------|------------------|----------|------------------|--------------------|------------------|---------------|
|  | GBP               | USD                | RUB              | EUR      | GBP              | USD                | RUB              | EUR           |
| <b>Current assets:</b>                   |                   |                    |                  |          |                  |                    |                  |               |
| Cash and cash equivalents                | 1,781             | 4,830              | 1,755,772        | -        | 2,281            | 5,815              | 1,111,980        | -             |
| Receivables                              | -                 | -                  | 1,406,179        | -        | -                | -                  | 296,849          | -             |
| <b>Total current assets</b>              | <b>1,781</b>      | <b>4,830</b>       | <b>3,161,951</b> | <b>-</b> | <b>2,281</b>     | <b>5,815</b>       | <b>1,408,829</b> | <b>-</b>      |
| <b>Current liabilities:</b>              |                   |                    |                  |          |                  |                    |                  |               |
| Accounts payable and accrued liabilities | 93,433            | 81,567             | 2,477,285        | -        | 143,824          | 646,833            | 1,889,871        | 16,947        |
| Finance leases                           | -                 | 405,032            | 422,065          | -        | -                | 969,793            | 685,263          | -             |
| <b>Total current liabilities</b>         | <b>93,433</b>     | <b>486,599</b>     | <b>2,899,350</b> | <b>-</b> | <b>143,824</b>   | <b>1,616,626</b>   | <b>2,575,134</b> | <b>16,947</b> |
| <b>Non-current liabilities:</b>          |                   |                    |                  |          |                  |                    |                  |               |
| Long-term loans                          | -                 | 166,717,498        | -                | -        | -                | 163,102,592        | -                | -             |
| Finance leases                           | -                 | 121,010            | 189,568          | -        | -                | 200,953            | 489,728          | -             |
| <b>Total non-current liabilities</b>     | <b>-</b>          | <b>166,838,508</b> | <b>189,568</b>   | <b>-</b> | <b>-</b>         | <b>163,102,592</b> | <b>-</b>         | <b>-</b>      |

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

|   | 30 September<br>2019     | 31 December<br>2018      |
|---|--------------------------|--------------------------|
|   | Impact on profit or loss | Impact on profit or loss |
| US Dollar strengthening by 20% (2018: strengthening by 20%) | (34,068,735)             | (34,772,437)             |
| US Dollar weakening by 20% (2018: weakening by 20%)         | 34,068,735               | 34,772,437               |
| CAD strengthening by 20% (2018: strengthening by 20%)       | (20,467)                 | (11,046)                 |
| CAD weakening by 20% (2018: weakening by 20%)               | 20,467                   | 11,046                   |
| GBP strengthening by 20% (2018: strengthening by 20%)       | (18,367)                 | (36,403)                 |
| GBP weakening by 20% (2018: weakening by 20%)               | 18,367                   | 36,403                   |
| EUR strengthening by 20% (2018: strengthening by 20%)       | -                        | (904)                    |
| EUR weakening by 20% (2018: weakening by 20%)               | -                        | 904                      |

### 4. RECEIVABLES

|                                  | 30 September<br>2019 | 31 December<br>2018 |
|----------------------------------|----------------------|---------------------|
| Russian Value Added Tax          | 1,274,854            | 3,090,346           |
| Deferred Russian Value Added Tax | 554,846              | 782,079             |
| Other                            | 1,400,526            | 294,020             |
|                                  | <b>3,230,227</b>     | <b>4,166,445</b>    |

Deferred Russian Value Added Tax relates to the VAT paid on the costs incurred on the construction of both building and technological equipment. This VAT can be claimed once the assets the VAT relates to are ready for use. The VAT recognized here is on assets that are expected to be available for use in 2019 and first quarter of 2020 therefore the asset has been recognized as current.

The amount of VAT recovered in cash during the period was RUB 237,385,564 (CAD: \$4,852,490). All VAT is expected to be received.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 5. INVENTORIES

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

|                     | 30 September<br>2019 | 31 December<br>2018 |
|---------------------|----------------------|---------------------|
| Fuel and lubricants | 5,597,020            | 5,285,668           |
| Parts and supplies  | 4,080,138            | 2,885,520           |
| Reagents            | 6,093,127            | 4,996,639           |
| Silver for sale     | 361,917              | 2,958,192           |
| Work in progress    | 6,306,448            | 3,008,609           |
|                     | <b>22,438,650</b>    | <b>19,134,628</b>   |

### 6. PREPAID EXPENSES AND NON-CURRENT ASSETS

Prepaid expenses consist of the following:

|                          | 30 September<br>2019 | 31 December<br>2018 |
|--------------------------|----------------------|---------------------|
| Prepayments to suppliers | 1,469,510            | 2,049,093           |
| Taxes                    | 37,305               | -                   |
|                          | <b>1,506,815</b>     | <b>2,049,093</b>    |

Prepaid non-current assets consist of the following:

|   | 30 September<br>2019 | 31 December<br>2018 |
|---|----------------------|---------------------|
| Prepayments for property, plant and equipment | 352,397              | 634,005             |
|   | <b>352,397</b>       | <b>634,005</b>      |

Non-current prepayments consist of prepayments that will be converted to non-current assets – property, plant and equipment. The equipment will be delivered and transferred to construction in progress within next twelve months.

### 7. OTHER NON-CURRENT ASSETS

|                       | 30 September<br>2019 | 31 December<br>2018 |
|-----------------------|----------------------|---------------------|
| Construction supplies | 3,085,721            | 2,584,850           |
| Non-current inventory | 853,442              | 819,554             |
|                       | <b>3,939,162</b>     | <b>3,404,404</b>    |

Other non-current inventory consists of low-grade silver ore which will be processed to production in the future periods, estimate period for beginning of using this ore is 2028.

### 8. INTANGIBLE ASSETS

|   | 30 September<br>2019 | 31 December<br>2018 |
|---|----------------------|---------------------|
| <b>Software</b>                             |                      |                     |
| <b>Balance at the beginning of the year</b> | <b>172,495</b>       | <b>19,553</b>       |
| Additions                                   | 15,245               | 219,327             |
| Disposal                                    | -                    | -                   |
| Amortization                                | (34,638)             | (40,528)            |
| Translation adjustment                      | 7,833                | (25,857)            |
| <b>Balance at the end of the period</b>     | <b>160,935</b>       | <b>172,495</b>      |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 9. MINERAL PROPERTY

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

| Mineral property consists of the following: |                                      |                                   | 30 September<br>2019 | 31 December<br>2018 |
|---|--------------------------------------|-----------------------------------|----------------------|---------------------|
|   | Licenses and<br>Development<br>costs | Asset<br>Retirement<br>Obligation | 2019 Total           | 2018 Total          |
| <b>Mangazeisky</b>                          |                                      |                                   |                      |                     |
| <b>Balance at the beginning of the year</b> | <b>11,444,620</b>                    | <b>582,389</b>                    | <b>12,027,009</b>    | <b>12,434,405</b>   |
| Development costs capitalized               | -                                    | -                                 | -                    | 46,391              |
| Depreciation of license                     | (18,660)                             | -                                 | (18,660)             | -                   |
| Impact of adjustment to ARO                 | (177,388)                            | 117,934                           | (59,454)             | (274,272)           |
| Translation adjustment                      | 24,584                               | 31,536                            | 56,120               | (179,515)           |
| <b>Balance at the end of the year</b>       | <b>11,273,156</b>                    | <b>731,859</b>                    | <b>12,005,015</b>    | <b>12,027,009</b>   |

Mineral property is made up of the following classes of assets; licenses \$805,307 (2018: \$930,948), asset retirement obligation \$731,859 (2018: \$582,389) and development costs of \$10,467,848 (2018: \$10,513,671).

The Group acquired the exploration license in respect of the Mangazeisky property when it acquired all the shares of AO Prognoz on 21 October 2004. In September 2016, the Mangazeisky exploration license was extended by the Federal Subsoil Use Agency in the Russian Federation ("Rosnedra") through to 31 December 2023.

In September 2013, the Group acquired the mining license in respect of the Mangazeisky property which is valid for a period of 20 years from the grant date. The cumulative exploration costs incurred and expensed from inception to date are as follows:

|             | 30 September<br>2019 | 31 December<br>2018 |
|-------------|----------------------|---------------------|
| Mangazeisky | 66,523,580           | 66,523,580          |

### 10. PROPERTY, PLANT AND EQUIPMENT

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

|   | 30 September 2019  |                             |                    | 31 December 2018   |                             |                   |
|---|--------------------|-----------------------------|--------------------|--------------------|-----------------------------|-------------------|
|   | Cost               | Accumulated<br>depreciation | Net book<br>value  | Cost               | Accumulated<br>depreciation | Net book<br>value |
| Property, plant and equipment:                                  |                    |                             |                    |                    |                             |                   |
| Mangazeisky site  | 111,843,475        | 10,998,141                  | 100,845,334        | 105,258,756        | 8,334,455                   | 96,924,301        |
| Yakutsk office  | 83,336             | 83,336                      | -                  | 83,336             | 83,336                      | -                 |
| Other office furniture, equipment<br>and leasehold improvements | 59,620             | 59,620                      | -                  | 59,620             | 59,620                      | -                 |
|   | <b>111,986,431</b> | <b>11,141,097</b>           | <b>100,845,334</b> | <b>105,401,712</b> | <b>8,477,411</b>            | <b>96,924,301</b> |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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

Reconciliation of the carrying amount at the beginning and end of the periods ended 30 September 2019 and 31 December 2018:

|   | Property, plant<br>and equipment | Assets under<br>construction | Total              |
|---|----------------------------------|------------------------------|--------------------|
| <b>Carrying amount at 1 January 2018</b>    | <b>14,710,936</b>                | <b>59,731,091</b>            | <b>74,442,027</b>  |
| Additions                                   | -                                | 33,852,228                   | 33,852,228         |
| Transfers                                   | 5,830,539                        | (5,830,539)                  | -                  |
| Disposals at cost                           | (1,018,671)                      | -                            | (1,018,671)        |
| Depreciation                                | (3,326,852)                      | -                            | (3,326,852)        |
| Depreciation eliminated on disposal         | 60,437                           | -                            | 60,437             |
| Translations adjustment                     | (1,384,512)                      | (5,700,356)                  | (7,084,868)        |
| <b>Carrying amount at 31 December 2018</b>  | <b>14,871,877</b>                | <b>82,052,424</b>            | <b>96,924,301</b>  |
| Additions                                   | -                                | 3,203,823                    | 3,203,823          |
| Transfers                                   | 456,818                          | (456,818)                    | -                  |
| Disposal at cost                            | (130,966)                        | -                            | (130,966)          |
| Depreciation                                | (2,794,652)                      | -                            | (2,794,652)        |
| Depreciation eliminated on disposal         | 130,966                          | -                            | 130,966            |
| Translation adjustment                      | 619,348                          | 2,892,515                    | 3,511,863          |
| <b>Carrying amount at 30 September 2019</b> | <b>13,153,391</b>                | <b>87,691,943</b>            | <b>100,845,334</b> |

The carrying value of equipment held under finance leases as at 30 September 2019 was \$2,343,046 (31 December 2018 - \$3,692,085). The Group capital asset additions were \$3,203,742 during the period ended 30 June 2019. Capitalised borrowing costs of \$nil (31 December 2018 - \$13,406,024), capitalised costs of \$14,281,920 (31 December 2018 - \$14,540,873), capitalised pre-production revenue of \$12,733,035 (31 December 2018 - \$8,349,634) and acquisition of new assets of \$1,654,857 (31 December 2018 - \$14,254,965) were part of additions during the period.

The property, plant and equipments of the period ended 30 September 2019 include \$87,691,943 of assets that are not yet ready for use and as such no depreciation has been charged on them. During the period ended 30 September 2019, \$456,818 of these assets became available for use, they were transferred into property, plant and equipment and depreciation was charged on them. Leased assets are pledged as security for the related finance lease obligations.

Group acquires property, plant and equipment on prepayment terms. Cash paid to suppliers of property, plant and equipment and capitalized expenses paid by cash during the period was \$2,345,436 (31 December 2018 - \$22,091,060).

All the property plant and equipment of the Group is pledged to shareholders under borrowings agreements.

### 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

|                           | 30 September<br>2019 | 31 December<br>2018 |
|---------------------------|----------------------|---------------------|
| Trade and other payables  | 2,481,550            | 2,082,357           |
| Accrued liabilities       | 325,823              | 733,895             |
| Tax and other liabilities | 1,608,765            | 332,536             |
|                           | <b>4,416,138</b>     | <b>3,148,788</b>    |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 12. FINANCE LEASES

In 2016, the Group entered into long term lease agreements for the purchase of equipment in relation to the development of the Mangazeisky project payable in monthly instalments of circa US\$85,000. The lease payments have been discounted at rates of between 9.5% and 21.9%. The Group made down payments of between 0.4% and 33.6% of the cost of the equipment.

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

|  | 30 September<br>2019 | 31 December<br>2018 |
|--|----------------------|---------------------|
| Within one year                                | 880,529              | 1,740,401           |
| Within two to five years                       | 318,976              | 824,087             |
| Over 5 years                                   | -                    | -                   |
|  | <b>1,199,505</b>     | <b>2,564,488</b>    |
| Future finance charges on finance leases       | (61,831)             | (218,751)           |
| <b>Present value of the net lease payments</b> | <b>1,137,674</b>     | <b>2,345,737</b>    |
| Current portion                                | 827,096              | 1,655,056           |
| Long-term portion                              | 310,578              | 690,681             |
| <b>Total obligations under finance leases</b>  | <b>1,137,674</b>     | <b>2,345,737</b>    |

### 13. LONG-TERM LOANS

| Lender  | 30 September 2019  |                   |                    | 31 December 2018   |                   |                    |
|---|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
|   | Principal          | Interest          | Total              | Principal          | Interest          | Total              |
| Unifirm Ltd<br>(formerly A.B. Aterra Resources Ltd) | 25,757,569         | 9,062,100         | 34,819,669         | 26,740,014         | 7,514,149         | 34,254,163         |
| Inflection Management Corp.                         | 102,898,929        | 30,805,977        | 133,704,906        | 105,992,376        | 24,663,130        | 130,655,506        |
| Fair value gain on modification of loans            | (1,807,077)        | -                 | (1,807,077)        | (1,807,077)        | -                 | (1,807,077)        |
|   | <b>126,849,421</b> | <b>39,868,077</b> | <b>166,717,498</b> | <b>130,925,313</b> | <b>32,177,279</b> | <b>163,102,592</b> |

Movement in long term loans is analyzed as follows in USD:

|  | Unifirm (formerly Aterra) |                  | Inflection         |                   | FV gain            | Total              |
|--|---------------------------|------------------|--------------------|-------------------|--------------------|--------------------|
|  | Principal                 | Interest         | Principal          | Interest          |                    |                    |
|  | USD                       | USD              | USD                | USD               | USD                | USD                |
| <b>As at 31 December 2017 (CAD)</b>      | <b>24,589,758</b>         | <b>3,504,807</b> | <b>89,942,165</b>  | <b>10,110,481</b> |                    | <b>128,147,211</b> |
| Principal amounts received               | -                         | -                | 6,000,000          | -                 | -                  | 6,000,000          |
| Interest accrued to 31 December 2018     | -                         | 2,714,311        | -                  | 10,019,452        | -                  | 12,733,763         |
| Fair value gain on modification of loans | -                         | -                | -                  | -                 | (1,324,642)        | (1,324,642)        |
| <b>As at 31 December 2018 (USD)</b>      | <b>19,601,242</b>         | <b>5,508,099</b> | <b>77,695,628</b>  | <b>18,078,823</b> | <b>(1,324,642)</b> | <b>119,559,150</b> |
| <b>As at 31 December 2018 (CAD)</b>      | <b>26,740,014</b>         | <b>7,514,149</b> | <b>105,992,376</b> | <b>24,663,130</b> | <b>(1,807,077)</b> | <b>163,102,592</b> |
| Principal amounts received               | -                         | -                | 2,000,000          | -                 | -                  | 2,000,000          |
| Interest accrued to 30 September 2019    | -                         | 1,337,785        | -                  | 5,419,329         | -                  | 6,757,114          |
| Principal and interest repayment         | -                         | -                | (1,390,616)        | -                 | -                  | (1,390,616)        |
| <b>As at 30 September 2019 (USD)</b>     | <b>19,601,242</b>         | <b>6,845,884</b> | <b>78,305,012</b>  | <b>23,498,152</b> | <b>(1,324,642)</b> | <b>126,925,648</b> |
| <b>As at 30 September 2019 (CAD)</b>     | <b>25,757,569</b>         | <b>9,062,100</b> | <b>102,898,929</b> | <b>30,805,977</b> | <b>(1,807,077)</b> | <b>166,717,498</b> |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 13. LONG-TERM LOANS (Continued)

Movement in long term loans is analyzed as follows in CAD:

|                                       | Unifirm (formerly Aterra) |                  | Inflection         |                   | FV gain            | Total              |
|---------------------------------------|---------------------------|------------------|--------------------|-------------------|--------------------|--------------------|
|                                       | Principal                 | Interest         | Principal          | Interest          |                    |                    |
|                                       | CAD\$                     | CAD\$            | CAD\$              | CAD\$             | CAD\$              | CAD\$              |
| <b>As at 31 December 2018</b>         | <b>26,740,014</b>         | <b>7,514,149</b> | <b>105,992,376</b> | <b>24,663,130</b> | <b>1,807,077</b>   | <b>163,102,592</b> |
| Principal amounts received            | -                         | -                | 2,742,498          | -                 | -                  | 2,742,498          |
| Interest accrued to 30 September 2019 | -                         | 1,839,838        | -                  | 7,113,818         | -                  | 8,953,656          |
| Principal and interest repayment      | -                         | -                | (1,836,412)        | -                 | -                  | (1,836,412)        |
| Foreign exchange loss                 | (2,103,385)               | (586,976)        | (8,446,088)        | (1,936,405)       | -                  | (13,072,854)       |
| Translation adjustment                | 1,120,940                 | 295,090          | 4,446,555          | 965,433           | -                  | 6,828,018          |
| <b>As at 30 September 2019</b>        | <b>25,757,569</b>         | <b>9,062,100</b> | <b>102,898,929</b> | <b>30,805,977</b> | <b>(1,807,077)</b> | <b>166,717,498</b> |

On 5 September 2016, the Group entered into a Facilities Agreement (the "Facilities Agreement") and certain related security documents with the Lenders, to provide financing for the final development, construction and commissioning of the Group's Mangazeisky Silver Project (the "Project").

Pursuant to the Facilities Agreement, the Lenders have made available to Silver Bear Resources Inc secured loans in the aggregate principal amount of US\$54.9 million comprising three tranches ("Secured Loan Funding"). Tranche A consisted of a term loan facility of US\$42.9 million, of which Inflection has provided US\$30.4 million and Aterra has provided US\$12.5 million (the "Term Loan Facility"). Of the US\$42.9 million total Tranche A commitment, US\$32.9 million was made available to Silver Bear Resources Inc with the remaining US\$10.0 million being made available to Prognoz (collectively "Tranche A"). On 28 December 2016, a set off agreement was entered into resulting in the amounts due to the Lenders by the Silver Bear Resources Inc under the Facilities Agreement, plus the accrued interest, becoming due by Prognoz instead.

The Lenders have also made available to Prognoz, the Tranche B working capital facility of US\$10.0 million (the "Working Capital Facility") and the Tranche C contingent facility of US\$2.0 million (the "Contingent Facility", and together with the Working Capital Facility, the "Additional Facilities").

A portion of the Term Loan Facility (US\$32,924,995) has been used by the Group to replace the principal and accrued interest for all outstanding non-convertible notes previously issued by the Group to the Lenders described above.

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

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

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

On 18 September 2018, the Group entered into a third amendment and restatement deed relating to the Facilities Agreement. Under this agreement, the lenders have agreed to provide an additional US\$8 million of working capital of which US\$2.5 million was drawn down in September 2018, US\$3.5 million in November 2018 and US\$2.0 million in January 2019.

The Secured Loan Funding accrued interest at a rate of 15% per annum to the 17 September 2018 and 28 September 2018 and 10% per annum between 18 September 2018 and 29 September 2018 to 31 December 2018. The modification of the loan interest from 15% to 10% in 2018 was considered to be substantive and resulted in a de-recognition of the loan carrying value, recognition of the loan at fair value as of modification date and recognition of shareholders contribution reserve of \$1,807,077.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 13. LONG-TERM LOANS (Continued)

On 1 January 2019, the Group's major shareholders Aterra and Inflection agreed to further reduce the interest rate applicable to all funds drawn under the Facilities Agreement, as amended, from 10% to 9% per annum. The accrued interest accrued quarterly, and is payable on 1 January, 1 April, 1 July and 1 October in each calendar year starting from 31 December 2019 and on the maturity date, being 20 March 2023.

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

As at 30 September 2019 this Secured Loan Funding has a principal of \$128,656,498 accrued interest of \$39,868,077 and fair value gain on modification of loans of (\$1,807,077).

### 14. PROVISION FOR DECOMMISSIONING AND RESTORATION LIABILITY

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

The Group's provision for decommissioning and restoration liability consists of management's best estimate of reclamation and closure costs for the Mangazeisky project.

Significant reclamation and closure activities include land rehabilitation, demolition of buildings and site facilities and other costs defined by the license requirements.

Asset retirement obligation consists of the following:

|  | 30 September<br>2019 | 31 December<br>2018 |
|--|----------------------|---------------------|
| <b>Balance at the beginning of the year</b>  | <b>1,109,391</b>     | <b>1,426,397</b>    |
| Accretion expense                            | 75,015               | 104,519             |
| Impact of change to underlying cost estimate | -                    | -                   |
| Impact of rates adjustment                   | -                    | (277,858)           |
| Translation adjustment                       | 45,753               | (143,667)           |
| <b>Balance at the end of the year</b>        | <b>1,230,159</b>     | <b>1,109,391</b>    |

At 30 September 2019, the expected life of the Mangazeisky project has been assessed to be 9.50 years. The projected cost for reclamation and closure of the Mangazeisky project in 2028 has been estimated to be \$2.69m. A Russian Government 10-year zero coupon year bond of 8.64% (2018: 8.64%) has been used in discounting of future cash flows.



# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 15. SHAREHOLDERS' EQUITY

#### Common shares

Authorized: Unlimited number of common shares with a par value of GBP 0.001.

All issued shares are fully paid. Reconciliation of the number and value of common shares at the beginning and end of the period ended 30 September 2019 and 31 December 2018:

| Common shares                          | 30 September<br>2019          |                   | 31 December<br>2018           |                   |
|--|-------------------------------|-------------------|-------------------------------|-------------------|
|  | Number of<br>common<br>shares | \$                | Number of<br>common<br>shares | \$                |
| <b>Balance - Beginning of the year</b> | <b>671,984,902</b>            | <b>99,559,086</b> | <b>668,048,513</b>            | <b>99,552,335</b> |
| Issued under stock option plan         | 151,000                       | 242               | 880,000                       | 1,557             |
| Issued under share bonus plan          | 5,000                         | 8                 | 1,600,000                     | 2,737             |
| Shares issued during the period        | -                             | -                 | 1,456,389                     | 2,457             |
| <b>Balance - End of the year</b>       | <b>672,140,902</b>            | <b>99,559,337</b> | <b>671,984,902</b>            | <b>99,559,086</b> |

#### Convertible loans

On 30 August 2017, the Group was notified by its major shareholders, Aterra and Inflection, of their intention to convert their respective outstanding convertible promissory notes (the "Notes"). The Aterra and Inflection Notes represented C\$4,505,144 and C\$13,515,432 principal amount respectively, in addition to their respective accrued and unpaid interest.

Prior to the conversion, Aterra held 40,468,579 common shares of the Group, representing 24.8% of the Group's then shares outstanding and Inflection held 41,176,471 common shares of the Group representing 25.2% of the Group's then shares outstanding. After the conversion of the principal amount of the Notes and accrued and unpaid interest thereon, the Group now has an aggregate of 671,984,902 common shares outstanding. Of these, Aterra holds 166,611,092 common shares, representing 24.8% of the total issued and outstanding common shares and Inflection holds 419,833,120, representing 62.5% of the total issued and outstanding common shares.

#### Share Bonus Plan

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

On 22 August 2013, the board approved the issuance of up to 1,100,000 common shares and on 21 February 2014 the allocation issuance of up to a further 1,375,000 common shares pursuant to the share bonus plan, subject to the terms of the share bonus plan and final approval by the President and Chief Executive Officer ("CEO") prior to issuance on or about the dates in the table below.

On 8 June 2016, the board of directors resolved, and the Group obtained approval from the Toronto Stock Exchange ("TSX") and the shareholders, an amendment to the Share Bonus Plan to increase the maximum number of Common Shares available for issuance under such plan from 2,500,000 to 5,400,000.

On 16 January 2018, the Group issued 1,600,000 common shares under the share bonus plan for the nominal fee of £0.001.

|                 |   |                  |               |
|-----------------|---|------------------|---------------|
| 1 October 2013  | - | 275,000          | common shares |
| 1 January 2014  | - | 275,000          | common shares |
| 1 April, 2014   | - | 618,750          | common shares |
| 1 July 2014     | - | 618,750          | common shares |
| 1 October 2014  | - | 293,750          | common shares |
| 1 January 2015  | - | 237,500          | common shares |
| 16 January 2018 | - | 1,600,000        | common shares |
| Total           |   | <u>3,918,750</u> |               |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

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### 15. SHAREHOLDERS' EQUITY (Continued)

#### Stock options

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

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

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

On 21 December 2017, 18,000,000 options were granted to directors of the Group. 6,000,000 of these options have an exercise price of \$0.17 per option, 6,000,000 have an exercise price of \$0.25 per share and the remaining 6,000,000 have an exercise price of \$0.30 per share.

On 4 April 2018, 2,600,000 options were granted to directors, officers and consultants of the Group. 866,667 of these options have an exercise price of \$0.22 per option, 866,667 have an exercise price of \$0.30 per share and the remaining 866,666 have an exercise price of \$0.35 per share.

On 14 November 2018, 3,000,000 options were granted to directors, officers and consultants of the Group. 1,000,000 of these options have an exercise price of \$0.18 per option and will fully vest on 14 November 2019, 1,000,000 have an exercise price of \$0.25 per share and will be fully vested on 14 November 2020, and the remaining 1,000,000 have an exercise price of \$0.30 per share and will be fully vested on 14 November 2021.

On 24 May 2019, 500,000 options were granted to officer of the Group. 166,667 of these options have an exercise price of \$0.11 per option and will fully vest on 24 May 2020, 166,667 have an exercise price of \$0.25 per share and will be fully vested on 24 May 2021, and the remaining 166,666 have an exercise price of \$0.30 per share and will be fully vested on 24 May 2022.

During the period ended 30 September 2019, options generated a share-based payments expense of \$344,496 (31 December 2018: \$535,798). The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability and exercise restrictions (including the probability of meeting market conditions attached to the option). Expected volatility is based on the historical share price volatility over the past 4 years. The expected life of the option was calculated based on the history of option exercises.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 15. SHAREHOLDERS' EQUITY (Continued)

#### Stock options (Continued)

Reconciliation of the number of options at the beginning and end of the periods ended 30 September 2019 and 31 December 2018 follows:

|  | 30 September<br>2019 |   | 31 December<br>2018 |   |
|--|----------------------|---|---------------------|---|
|  | Number               | Weighted<br>average<br>exercise<br>price,<br>\$ | Number              | Weighted<br>average<br>exercise price, \$ |
| <b>Balance - Beginning of the year</b> | <b>30,948,666</b>    | <b>0.25</b>                                     | <b>26,528,666</b>   | <b>0.24</b>                               |
| Granted                                | 500,000              | 0.22  | 5,600,000           | 0.26                                      |
| Exercised                              | (151,000)            | 0.18  | (880,000)           | 0.18                                      |
| Expired / Cancelled / Forfeited        | (500,000)            | 0.17  | (500,000)           | 0.24                                      |
| <b>Balance - End of the year</b>       | <b>30,797,666</b>    | <b>0.25</b>                                     | <b>30,948,666</b>   | <b>0.25</b>                               |

As at 30 September 2019, the Group had share options outstanding and exercisable as follows:

| Expiry year | Outstanding       |   | Exercisable       |  |
|-------------|-------------------|---|-------------------|--|
|             | Number            | Weighted average<br>exercise price,<br>\$ | Number            | Weighted average<br>exercise price, \$ |
| 2019        | 5,746,666         | 0.27                                      | 5,746,666         | 0.27                                   |
| 2020        | 800,000           | 0.19                                      | 800,000           | 0.19                                   |
| 2021        | 1,651,000         | 0.28                                      | 1,651,000         | 0.19                                   |
| 2022        | 18,000,000        | 0.24                                      | 18,000,000        | 0.24                                   |
| 2023        | 4,100,000         | 0.26                                      | 733,334           | 0.29                                   |
| 2024        | 500,000           | 0.22                                      | -                 | -                                      |
|             | <b>30,797,666</b> | <b>0.25</b>                               | <b>26,931,000</b> | <b>0.24</b>                            |

Contributed surplus consists of the following:

|  | 30 September<br>2019 | 31 December<br>2019 |
|--|----------------------|---------------------|
| <b>Balance - Beginning of the year</b> | <b>17,178,582</b>    | <b>16,696,454</b>   |
| Share-based payments                   | 344,496              | 535,798             |
| Exercised options                      | (8,773)              | (53,670)            |
| <b>Balance - End of the year</b>       | <b>17,514,304</b>    | <b>17,178,582</b>   |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 15. SHAREHOLDERS' EQUITY (Continued)

#### Earnings per share

The calculation of the basic and diluted profit/(loss) per share attributable to the owners of the Group is based on the following data.

|  | 30 September<br>2019 | Nine months ended<br>30 September<br>2018 |
|--|----------------------|---|
| Net profit/(loss)                                    | 4,794,792            | (21,431,143)                              |
| Weighted average number of common shares outstanding | 672,017,997          | 670,038,955                               |
| Basic and diluted loss per share                     | 0.01                 | (0.03)                                    |

### 16. RELATED PARTY DISCLOSURES

#### (a) Goods and services

During the periods ended 30 June 2019 and 2018 the Group entered into transactions for goods and services with the following related parties:

| <b>Goods and services received from:</b> | 30 September<br>2019 | 30 September<br>2018 |
|--|----------------------|----------------------|
| TechnoNICOL Corporation                  | -                    | 72                   |
|  | -                    | 72                   |

At the end of the reporting period, the Group was owed from TechnoNICOL \$380 (30 September 2019: \$72) for services provided. There were no other balances outstanding at the end of the reporting period related to goods and services received from related parties.

#### Financing transactions

The Group has entered into a series of financing transactions with major shareholders. As set out in note 13.

The Group was required to reimburse Aterra for legal fees incurred in relation to the lending agreements in the period of C\$ nil (30 September 2018: C\$19,349).

#### (b) Compensation of key management

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

|   | Three months ended   |                      | Nine months ended    |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | 30 September<br>2019 | 30 September<br>2018 | 30 September<br>2019 | 30 September<br>2018 |
| Salaries, fees and short-term employee benefits | 73,428               | 241,594              | 187,827              | 725,676              |
| Share-based payments                            | 116,261              | 68,519               | 344,496              | 319,352              |
|   | <b>189,689</b>       | <b>310,113</b>       | <b>532,322</b>       | <b>1,045,028</b>     |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 16. RELATED PARTY DISCLOSURES (Continued)

#### (c) Interest in other entities

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

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

The principal activities of the Group's subsidiaries are as follows:

- Silver Bear Resources Inc. – holding company;
- Silver Bear Resources B.V. – holding company;
- AO Prognoz - acquisition, exploration, evaluation and development of precious metal properties.

### 17. OTHER INCOME

|                              | Three months ended |                   | Nine months ended |                   |
|------------------------------|--------------------|-------------------|-------------------|-------------------|
|                              | 30 September 2019  | 30 September 2018 | 30 September 2019 | 30 September 2018 |
| Meals distribution           | 275                | -                 | 272,902           | 96,743            |
| Winter road maintenance      | 2,118              | 5,689             | 81,623            | 42,906            |
| Rent                         | 76,149             | 3,470             | 264,444           | 5,483             |
| Income from fuel sales       | 45,022             | -                 | 251,500           | 1,287             |
| Other income/(expenses), net | (89,477)           | 17,122            | 103,100           | 211,624           |
|                              | <b>34,088</b>      | <b>26,281</b>     | <b>973,568</b>    | <b>358,043</b>    |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 18. PRODUCTION COST, GENERAL AND ADMINISTRATIVE EXPENSES

| Production cost:                              | Three months ended |              | Nine months ended  |              |
|---|--------------------|--------------|--------------------|--------------|
|   | 30 September       | 30 September | 30 September       | 30 September |
|   | 2019               | 2018         | 2019               | 2018         |
| Employee compensation                         | (1,523,095)        | -            | (1,523,095)        | -            |
| Process reagents                              | (1,003,833)        | -            | (1,003,833)        | -            |
| Repair and maintenance                        | (560,845)          | -            | (560,845)          | -            |
| Fuel  | (512,404)          | -            | (512,404)          | -            |
| Mining tax                                    | (583,826)          | -            | (583,826)          | -            |
| Blasting                                      | (329,933)          | -            | (329,933)          | -            |
| Energy  | (250,584)          | -            | (250,584)          | -            |
| Refinery                                      | (97,240)           | -            | (97,240)           | -            |
| Other   | (620,593)          | -            | (620,593)          | -            |
| Change in finished goods and work in progress | 1,494,317          | -            | 1,494,317          | -            |
|   | <b>(3,988,037)</b> | <b>-</b>     | <b>(3,988,037)</b> | <b>-</b>     |

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

| General and administrative expenses:    | Three months ended |                  | Nine months ended  |                    |
|---|--------------------|------------------|--------------------|--------------------|
|   | 30 September       | 30 September     | 30 September       | 30 September       |
|   | 2019               | 2018             | 2019               | 2018               |
| Employee compensation                   | (582,611)          | (329,730)        | (1,029,777)        | (1,277,144)        |
| Professional fees                       | (48,499)           | (95,923)         | (258,940)          | (604,809)          |
| Auditors' remuneration - Audit fees     | (24,315)           | (36,071)         | (73,880)           | (103,467)          |
| Auditors' remuneration - Non-audit fees | -                  | -                | (30,543)           | (27,684)           |
| Office expenses                         | (6,244)            | (10,994)         | (36,337)           | (263,483)          |
| Travel expenses                         | (27,986)           | (2,848)          | (42,860)           | (33,076)           |
| Legal fees                              | (63,747)           | -                | (78,034)           | -                  |
| Investor relations expenses             | (3,355)            | (7,239)          | (67,930)           | (141,567)          |
| Depreciation                            | (5,661)            | -                | (5,661)            | -                  |
| Amortization                            | (1,863)            | -                | (1,863)            | -                  |
| Rent                                    | (31,785)           | -                | (37,898)           | -                  |
| IT and communications                   | (53,814)           | -                | (64,635)           | -                  |
| Other expenses                          | (295,628)          | (172,566)        | (379,718)          | (286,748)          |
|   | <b>(1,145,508)</b> | <b>(655,371)</b> | <b>(2,108,076)</b> | <b>(2,737,978)</b> |

Expenses relating to the development and construction of the Mangazeisky Project have been capitalized from 1 July 2015 to 1 July 2019. This means that certain categories of expenses were not charged to the income statement during this period.

The average number of employees during the period was 262.

The following table provides the breakdown of Group's employee compensation charged to the income statement:

|   | Three months ended |                  | Nine months ended  |                    |
|---|--------------------|------------------|--------------------|--------------------|
|   | 30 September       | 30 September     | 30 September       | 30 September       |
|   | 2019               | 2018             | 2019               | 2018               |
| Salaries, fees and short-term employee benefits | (1,989,445)        | (78,897)         | (2,208,376)        | (957,792)          |
| Share-based payments                            | (116,261)          | (250,833)        | (344,496)          | (319,352)          |
|   | <b>(2,105,706)</b> | <b>(329,730)</b> | <b>(2,552,872)</b> | <b>(1,277,144)</b> |

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 18. EXPENSES BY NATURE (Continued)

Total employee benefits relating to the construction of the Mangazeisky Project are capitalized within property, plant and equipment totaling \$3,555,469 (30 September 2018: \$4,090,184).

The following table provides the breakdown of Group's total staff costs including those that have been capitalized:

|   | Three months ended   |                      | Nine months ended    |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | 30 September<br>2019 | 30 September<br>2018 | 30 September<br>2019 | 30 September<br>2018 |
| Salaries, fees and short-term employee benefits | (1,989,445)          | (1,550,890)          | (5,763,845)          | (5,047,976)          |
| Share-based payments                            | (116,261)            | (250,833)            | (344,496)            | (319,352)            |
|   | <b>(2,105,706)</b>   | <b>(1,801,723)</b>   | <b>(6,108,341)</b>   | <b>(5,367,328)</b>   |

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

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

|  | 30 September<br>2019 | 31 September<br>2018 |
|--|----------------------|----------------------|
| Receivables                              | 739,312              | (51,629)             |
| Inventories                              | (2,651,187)          | (13,487,701)         |
| Prepaid expenses                         | 872,629              | 3,099,414            |
| Accounts payable and accrued liabilities | 1,109,921            | 2,299,222            |
|  | <b>70,675</b>        | <b>(8,140,694)</b>   |

### 20. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group entered into long-term lease agreements during 2016 for the purchase of additional necessary equipment. These leases require monthly instalments of circa US\$85,000 over three to five years.

The Group is party to certain management contracts and severance obligations. These contracts contain clauses requiring that additional payments of up to \$70,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements.

The Group may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect the Group's financial position, results of operations or cash flows. There were no material outstanding legal proceedings as of 30 September 2019.

# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 21. SEGMENTED INFORMATION

The Group has one operating segment based on geographical location being the property in the Russian Federation (Mangazeisky). The Corporate balances are provided below to allow reconciliation back to the primary statements.

As at 30 September 2019

| Country/Property     | Cash             | Inventories       | Prepaid          | Receivables      | Mineral Properties | Property plant and equipment | Depreciation       | Interest expense   | Net profit/(loss) for the period |
|----------------------|------------------|-------------------|------------------|------------------|--------------------|------------------------------|--------------------|--------------------|----------------------------------|
| Russia - Mangazeisky | 1,657,888        | 22,438,650        | 1,858,141        | 3,230,227        | 12,005,015         | 100,845,334                  | (2,075,835)        | (9,096,615)        | 6,897,817                        |
| Corporate            | 123,727          | -                 | 1,072            | -                | -                  | -                            | -                  | -                  | (867,476)                        |
|                      | <b>1,781,616</b> | <b>22,438,650</b> | <b>1,859,212</b> | <b>3,230,227</b> | <b>12,005,015</b>  | <b>100,845,334</b>           | <b>(2,075,835)</b> | <b>(9,096,615)</b> | <b>6,030,340</b>                 |

As at 31 December 2018

| Country/Property     | Cash             | Inventories       | Prepaid          | Receivables      | Mineral Properties | Property plant and equipment | Depreciation     | Interest expense | Net (loss) for the year |
|----------------------|------------------|-------------------|------------------|------------------|--------------------|------------------------------|------------------|------------------|-------------------------|
| Russia - Mangazeisky | 3,506,365        | 23,335,909        | 8,513,178        | 7,994,011        | 12,606,852         | 87,209,509                   | (454,031)        | (4)              | (511,968)               |
| Corporate            | 471,084          | -                 | 108,468          | 13,780           | -                  | -                            | -                | -                | (1,904,590)             |
|                      | <b>3,977,449</b> | <b>23,335,909</b> | <b>8,621,646</b> | <b>8,007,791</b> | <b>12,606,852</b>  | <b>87,209,509</b>            | <b>(454,031)</b> | <b>(4)</b>       | <b>(2,416,558)</b>      |

### 22. FINANCIAL INSTRUMENTS

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

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

The Group's current financial instruments consist of cash, restricted cash, accounts receivable, short-term loans, finance leases and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments. The Group's non-current financial instruments consist of long-term loans and finance leases. The fair value of these instruments approximates their carrying values as any differences are not material. Financial assets and financial liabilities as at 30 September 2019 and 31 December 2018 were as follows:

|   | Cash and receivables | Loans and other liabilities | TOTAL                |
|---|----------------------|-----------------------------|----------------------|
| <b>30 September 2019</b>                  |                      |                             |                      |
| Cash and cash equivalents                 | 1,781,616            | -                           | <b>1,781,616</b>     |
| Accounts receivable                       | 1,400,526            | -                           | <b>1,400,526</b>     |
| Long-term loans                           | -                    | (166,717,499)               | <b>(166,717,499)</b> |
| Accounts payables and accrued liabilities | -                    | (2,807,373)                 | <b>(2,807,373)</b>   |
| Finance leases                            | -                    | (1,137,674)                 | <b>(1,137,674)</b>   |
| <b>31 December 2018</b>                   |                      |                             |                      |
| Cash and cash equivalents                 | 1,141,663            | -                           | <b>1,141,663</b>     |
| Accounts receivable                       | 294,020              | -                           | <b>294,020</b>       |
| Long-term loans                           | -                    | (163,102,592)               | <b>(163,102,592)</b> |
| Accounts payables and accrued liabilities | -                    | (2,914,448)                 | <b>(2,914,448)</b>   |
| Finance leases                            | -                    | (2,345,737)                 | <b>(2,345,737)</b>   |

The carrying value of cash equivalents, amounts receivable, short-term loans, long-term loans, accounts payable and accrued liabilities and finance leases reflected in the consolidated statement of financial position approximate fair value.



# Silver Bear Resources Plc

## Notes to Consolidated Financial Statements

For the three months and nine months ended 30 September 2019 and 2018

### 23. INCOME TAXES

|                          | Three months ended   |                      | Nine months ended    |                      |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
|                          | 30 September<br>2019 | 30 September<br>2018 | 30 September<br>2019 | 30 September<br>2018 |
| Current tax expense      | 117,670              | (9,777)              | (1,235,549)          | (11,753)             |
| <b>Total tax expense</b> | <b>117,670</b>       | <b>(9,777)</b>       | <b>(1,235,549)</b>   | <b>(11,753)</b>      |

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

|  | Three months ended   |                      | Nine months ended    |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | 30 September<br>2019 | 30 September<br>2018 | 30 September<br>2019 | 30 September<br>2018 |
| <b>Profit/(Loss) before taxation</b>                     | <b>(3,577,813)</b>   | <b>(7,021,528)</b>   | <b>6,030,340</b>     | <b>(21,419,390)</b>  |
| Statutory tax rate                                       | 20.00%               | 20.00%               | 20.00%               | 20.00%               |
| Tax benefit of statutory rate                            | 715,563              | 1,404,306            | (1,206,068)          | 4,283,878            |
| Expenses not deductible for income tax purposes          | (466,910)            | 1,976                | (1,415,718)          | -                    |
| Recognition of previously written off deferred tax asset | (117,736)            | -                    | 1,234,990            | -                    |
| Deferred taxes not recognized for the period             | (13,245)             | (11,753)             | 151,247              | (11,753)             |
| Tax losses carried forward not recognized                | -                    | (1,404,306)          | -                    | (4,283,878)          |
| <b>Total tax expense</b>                                 | <b>117,671</b>       | <b>(9,777)</b>       | <b>(1,235,548)</b>   | <b>(11,753)</b>      |

The Group 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.

### 23. CONTROLLING AND ULTIMATE CONTROLLING PARTY

The controlling and ultimate controlling party is Kolesnikov Sergei Anatolievich.