

SILVER BEAR RESOURCES

SILVER BEAR - WAKING FROM HIBERNATION

RAPIDLY ADVANCING TO PRODUCTION

Silver Bear Resources is a TSX listed silver company focused on the development of the Mangazeisky Silver Project, located in Far East Russia. Mangazeisky is currently in construction, with first production expected in Q2 2017.

EXCEPTIONALLY HIGH GRADES

Mangazeisky is one of the highest grade silver projects in the world in development phase with a resource grade of 730 g/t and a reserve grade of 852 g/t.

STRONG CASH FLOW FROM HIGH MARGIN PRODUCTION

We forecast silver production of around 2.5 Moz in 2017 rising to 3.5 Moz in 2018 and 4.5 Moz in 2019 on the back of increased throughput and silver grades. The high grade nature of the project, together with simple mining and processing ensures a highly profitable operation in the early years and a quick capital payback. We forecast an average project level free cash flow of US\$38m over the initial 4 year period.

NPV UPLIFT THROUGH MINE LIFE EXTENSIONS

The key to increasing the Mangazeisky NPV lies in successful discovery of open pit oxide ounces at the project and subsequent inclusion of these ounces into the mine plan. In our view, this is very likely with the Mangazeisky North area hosting a high grade (over 600 g/t) silver oxide resource sufficient for an additional 3-4 years of mill feed. A 3 year extension in the oxide open pit mine life adds around US\$35m to our project NPV.

WE INITIATE WITH A C\$0.64 TARGET PRICE

Using a 1.0x NPV multiple and consensus silver prices, we arrive at an NPV valuation for Silver Bear at US\$74m, or C\$0.61 per share. This implies a c. 134% upside to the current stock price.

PLENTY OF CATALYSTS FOR RE-RATING

We expect Silver Bear shares to rerate following the PEA release for the Mangazeisky North zone in Q1 as well as plant commissioning and subsequent first production at Mangazeisky, expected in early Q2 2017.

GICS sector	Materials
Ticker	TSX:SBR
Target price (12 month)	C\$0.61
Price (as of 4 January 2017)	C\$0.27
Market capitalisation (as of 4 January 2017)	US\$32.8m



Forecasts, valuation metrics and assumptions

(US\$m)	2016E	2017E	2018E	2019E
Current forecast				
EBITDA	(2.5)	29.3	35.4	68.2
Net profit	(4.4)	29.2	34.0	29.8
EPS	(0.03)	0.18	0.21	0.37
FCF/sh	(0.22)	0.10	0.22	0.40
EV/EBITDA	NM	2.4x	1.0x	NM
PE	NM	1.5x	1.3x	0.7x
FCF yield	(81.4%)	38.2%	81.5%	146.5%
Silver production (Moz)	-	2.5	3.1	4.5
Silver price (US\$/oz)	-	19.5	19.6	19.8
Cash costs (US\$/oz)	-	6.7	7.2	4.0
AISC (US\$/oz)	-	8.5	8.7	6.2

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INVESTMENT SUMMARY

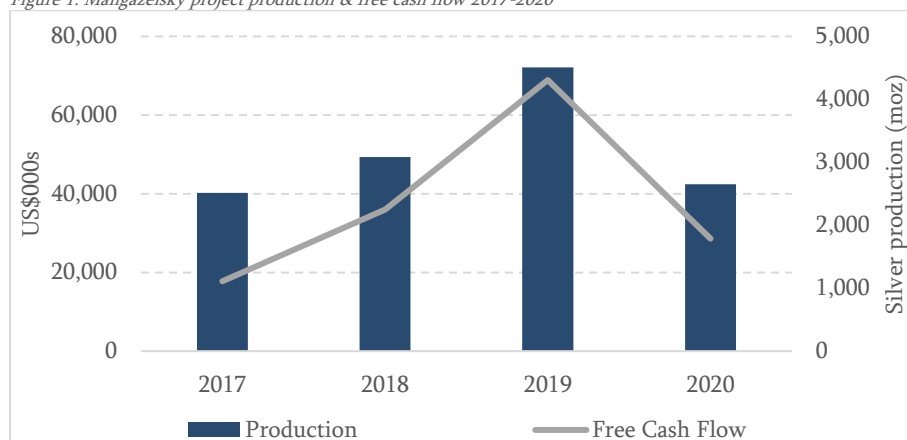
EXCEPTIONAL HIGH GRADE SILVER PROJECT NEARING PRODUCTION

Silver Bear's only asset is the Mangazeisky silver project in Far East Russia, which is fully financed to first production in Q2 2017 with construction currently over 65% complete. Mangazeisky is the highest grade silver development project globally with a total reserve of 22.5 Moz of silver at of 852 g/t and a total resource of 58.1 Moz of silver at 730 g/t.

HIGH MARGINS DRIVING STRONG OPERATING CASH FLOW

We envisage a 7 year mining operation at Mangazeisky, with the first 4 years consisting of a small scale 110 ktpa open pit operation, providing high grade oxide ore feed to a simple, crush/grind/cyanide leach processing plant. We forecast silver production of just over 2.5 Moz in 2017 rising to 3.5 Moz in 2018 and 4.5 Moz in 2019 on the back of increased throughput and improved silver grades. The high grade nature of the project, together with simple mining and processing ensures a highly profitable operation in early years and a quick capital payback. This is further helped by strong tax incentives provided for the Company to operate in the Far East of Russia. We forecast average project level free cash flow of US\$38m over the initial 4 year period.

Figure 1: Mangazeisky project production & free cash flow 2017-2020



Source: Hannam & Partners valuation

NEWS FLOW FROM MANGAZEISKY PROVIDES RE-RATING OPPORTUNITIES

Momentum has been building in the stock in 2016 as the Company has delivered a positive feasibility study for the Mangazeisky project. This has been further boosted by announcing the project finance package, an increase in resources and commencement of construction at the project. We expect the following catalysts to add further momentum:

Table 1: Re-Rating Catalysts

Mangazeisky North PEA Study 1Q 2017	We expect the study to show the potential for the addition of higher grade open pitable oxide ounces into the mine plan, therefore showing the market the path to high margin production beyond year 4 of the operation.
Resource Update on additional prospects 1Q 2011	We anticipate further additions to the resource beyond the main Vertikalny and Mangazeisky North deposits will showcase to the market the significant resource expansion potential at the entire licence area.
Plant commissioning/first production 1H 2017	Developers typically re-rate following successful commissioning of their project/s and the subsequent move to a producer status

SIGNIFICANT EXPLORATION POTENTIAL

Silver Bear control a full 35 km mineralised corridor in the Mangazeisky licence area, where more than 100 occurrences of high grade silver mineralisation have been identified with almost no follow up work undertaken to date. There are numerous outcropping drill ready targets on the licence with significant potential for addition of feeder pits to the processing plant.

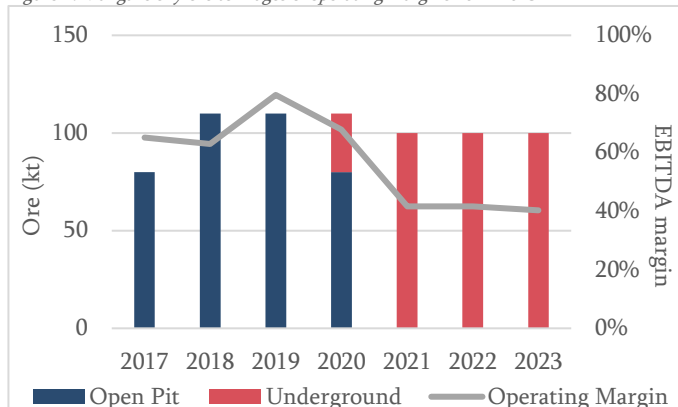
SIGNIFICANT UPSIDE TO OUR VALUATION

Using a 1.0x NPV multiple and consensus silver prices, we arrive at an NPV valuation for Silver Bear at US\$74m, or C\$0.61 per share. This implies a c. 134% upside to the current stock price without taking account of the exploration potential.

LONG TERM VALUE LIES IN EXTENSION OF OPEN PIT OXIDE OPERATION

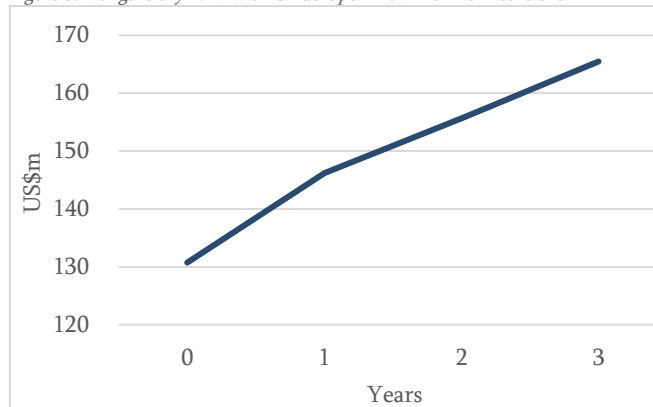
Open Pit oxide production is significantly more profitable for the Company versus both production from underground and primary ore processing, which carry significantly higher operating costs and technical risks as well as much lower operating margins (see figure 2). The key to increasing the Mangazeisky NPV lies in the successful discovery of open pit oxide ounces at the project and subsequent inclusion of these ounces into the mine plan. In our view, this is very likely with Mangazeisky North area hosting a high grade (over 600 g/t) silver oxide resource sufficient for an additional 3-4 years of mill feed. As figure 3 below shows, a 3 year extension in the oxide open pit mine life adds over US\$35m to our project NPV.

Figure 2: Mangazeisky ore tonnages & operating margins 2017-2023



Source: H&P valuation

Figure 3: Mangazeisky NPV with Oxide Open Pit Mine Life Extensions



INVESTMENT RISKS

Silver Bear faces risks common to most mining companies moving its project into full production, such as resource, construction, production, metal price and cost risks. In our view, open pit oxide production at Mangazeisky is relatively simple from a technical standpoint, which negates many of the above mentioned risks. We view underground mining and primary ore processing at Mangazeisky as key technical risks for the Company, however these will not materialise until significantly later in the mine life, and in our view are likely to be pushed further back by an increase in open pit oxide mine life. Finally, operating in Russia comes with risks, particularly with respect to meeting onerous state requirements on permitting and licensing. These risks are well understood by the company and we believe Silver Bear management has managed these risks very well to date.

VALUATION

Our valuation is based on our DCF model of the Mangazeisky project, taking into account the head office G&A costs and the Company's working capital position. A key summary of our valuation is as follows:

- Our DCF-based NPV valuation for Silver Bear using our NPV multiples is US\$74m or C\$0.61 per share
- We use a 10% discount rate to account for Russia country risk
- We initiate with a Target Price of C\$0.64 per share
- Our Company valuation is most sensitive to the silver price forecast, followed by the operating costs and rouble exchange rate. It is least sensitive to our capital cost estimates.
- We expect Silver Bear shares to rerate following PEA release for Mangazeisky North zone in Q1 as well as plant commissioning and subsequent first production at Mangazeisky, expected in early Q2 2017

Gold and Silver producers normally trade on a multiple of its NPV, as a result of the NPV generally not accounting for the potential for reserve increases through the conversion of resources into reserves. Explorers/developers frequently trade a discount to NPV to compensate for the risks associated with pre-production projects. On this basis, we establish a matrix of multiples which we applied to our DCF valuations.

Table 2: Valuation matrix

Stage	Standard
Higher risk - early stage and /or unpermitted	0.5
Moderate risk – pre-production	0.8
Standard risk – operating mine (ramping up and/or limited life operation)	1.0
Premium – high quality operating mine or world class development project	1.5

We apply a 1.0x multiple to the Mangazeisky operation. In our view, this is justified by the construction at the project nearing completion and limited technical risk on the first 4 years of open pit oxide production.

Table 3: Silver Bear Valuation

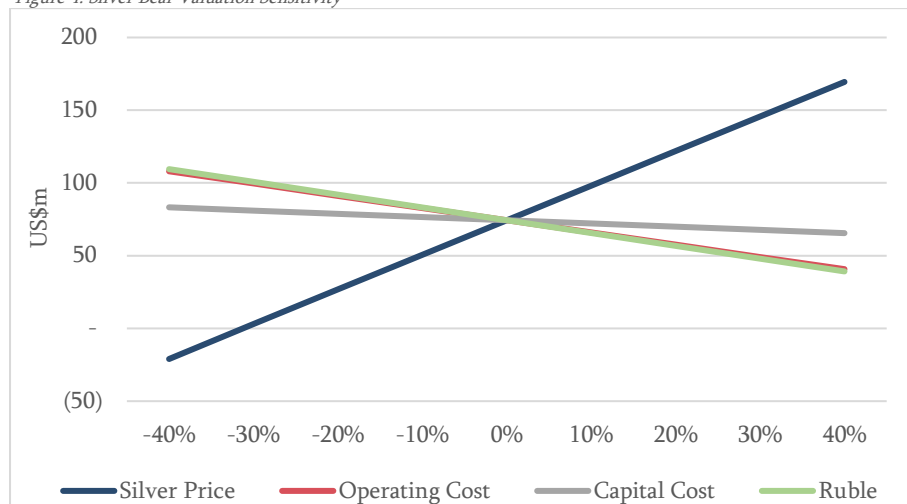
	US\$m	P/NPV	US\$m	US\$/sh	C\$/sh
Mangazeisky	130.7	1.0x	130.7	0.81	1.08
Total NPV (10%)	130.7		130.7	0.81	1.08
Working capital	9.0	1.0x	9.0	0.06	0.07
Total Debt	(55.8)	1.0x	(55.8)	(0.35)	(0.46)
Corporate G&A (after-tax)	(9.5)	1.0x	(9.5)	(0.06)	(0.08)
Total NPV (10%)	74.4		74.4	0.46	0.61

Source: Hannam & Partners valuation

Our sum of the parts valuation of Silver Bear's assets is US\$74.4m. Applying standard NPV multiples to the Company's operations we generate a valuation of C\$0.61 per share. Silver Bear currently trades at a c.57% discount to this value.

SENSITIVITY

Figure 4: Silver Bear Valuation Sensitivity



Source: Hannam & Partners valuation

Silver Bear is most sensitive to the silver price, as is the case with the vast majority of silver producers. Silver Bear valuation is of similar sensitivity to operating costs and the Ruble exchange rate. This is due to the fact that the operating costs are almost entirely Ruble denominated, whilst capital costs are mostly US Dollar denominated. It is least sensitive to capital costs due to most of the construction capital being already spent.

SILVER PRICE FORECASTS

We use consensus silver price forecasts in our valuation, which are summarised in the table below:

Figure 5: Silver price forecasts

Year	2017	2018	2019	2020	Long Term
Silver price (US\$/oz)	19.5	19.6	19.8	19.9	19.9

Source: Hannam & Partners valuation

COMPANY OVERVIEW

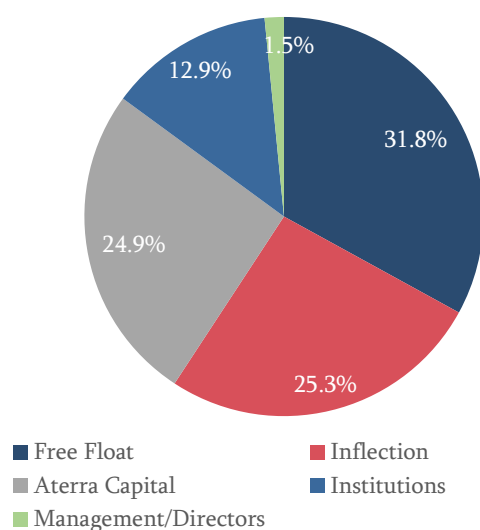
COMPANY DESCRIPTION

Silver Bear is a Russia-focused silver junior listed on the Toronto Stock Exchange engaged in the development of the Mangazeisky Silver Project, located approximately 400 km north of Yakutsk in the Republic of Sakha (Yakutia), Russian Federation. Mangazeisky is currently in construction, with first production expected in Q2 2017. The very high grade nature of Mangazeisky ore, together with simple open pit mining and processing for the first 4 years of operation bodes well for Silver Bear's ability to generate significant cash flows in early life of the operation and deliver strong shareholder returns in our view.

CAPITAL STRUCTURE

Silver Bear's main two shareholders are Russian investors; (1) **Aterra Capital**, - a global mining fund owned by Alexey Mordashev, who is a Russian Metals and Mining magnate and the main shareholder in the steel company Severstal and (2) **Inflection Management Corporation** - an investment company owned by Sergey Kolesnikov with a number of investments across several industrial sectors mainly construction materials. Both shareholders combine to own just over 50% of Silver Bear.

Figure 6: Silver Bear Shareholders



Source: Silver Bear

The Company also has US\$42.8m worth of secure long term debt, via a project debt funding package with Aterra and Inflection. In our view, Mangazeisky project can easily sustain this level of debt due to strong cash flow generation in the project with our model indicating a total project EBITDA of US\$212.6m over the project 7 year mine life.

CONVERTIBLE DEBT

In December 2015, Silver Bear completed a restructuring of their outstanding debt in which the Company agreed to issue a consolidated C\$18mm convertible note to its two debtors Aterra and Inflection. When the

convertible note was issued, the Company's share price was at 2.5 cents per share and, as a consequence, the exercise price for the instrument was fixed at 4.5 cents or 150% premium. Since then the Company's share price increased around tenfold, as Mangazeisky construction got financed and the project construction commenced.

The possible conversion of the notes would result in the issue of 400.5mm additional shares to the existing 162.6mm outstanding. Aterra and Inflection's combined ownership would consequently increase to 85.6% and therefore reduce the free float of the stock as well as significantly dilute the minority shareholders. On the 23rd of November 2016, the Company announced they have entered into negotiations with Aterra and Inflection to mitigate this dilution through a restructuring and refinancing of the outstanding convertible note.

At the time of writing, the outcome of this refinancing is not known, however we were assured in our conversations with the main shareholders that it would be significantly less dilutive and that both Aterra and Inflection have no interest in such a large stake in Silver Bear. We have elected to disregard the dilution from a possible conversion for the purposes of this note and will update our forecasts as soon as more information is available.

CORPORATE HISTORY

Silver Bear was incorporated in 2004 with the purpose of exploiting precious mineral deposits in the Russian Federation. The company had its IPO on the Toronto stock exchange in 2007 with two projects in its portfolio, Mangazeisky and the Avlayakan gold-silver project located in the Khabarovsk Region of Russia. Avlayakan was sold for US\$8.5m to a private Russian group in 2008, with the focus exclusively shifting into Mangazeisky.

Following the global financial crisis of 2008 and subsequent decrease in interest in Russia as an investment destination for Western capital, Silver Bear struggled to attract capital as a publically listed TSX company. This changed in 2012, as Aterra Capital became an investor in the company, ensuring the company is well financed to move Mangazeisky forward towards construction and beyond. The key milestones in the Company history over the last 3 years are summarised below:

- **September 2013:** Silver Bear is granted 20-year Mining Licence for the Vertikalny deposit.
- **November 2013:** Announcement of discovery of three high grade silver zones averaging greater than 1000 g/t silver near surface at Vertikalny.
- **February 2014:** Announcement of the positive Preliminary Economic Assessment ("PEA") results showing an IRR of 63% at US\$20/oz silver.
- **April 2014:** A private placement to Inflection Management Corporation, with Inflection becoming a second significant shareholder in Silver Bear.
- **November 2014:** Appointment of Graham Hill as President, CEO and director
- **June 2015:** First orders placed for some of the key long lead items for the Mangazeisky processing plant.
- **April 2016:** Announcement of a total funding package of US\$48.4m with Aterra and Inflection for construction of Mangazeisky.
- **June 2016:** Announcement of a completion of a positive feasibility study showing an IRR of 40.2% at an average life-of-mine (LoM) price of US\$17.7/oz silver.

- **October 2016:** Announcement of an update for Mangazeisky feasibility study, with IRR increasing to 81.3% using LoM price of US\$19.8/oz silver.

CORPORATE STRATEGY

The strategy of Silver Bear is simple – to bring into production a high grade and high margin Mangazeisky project in 2017, and subsequently create value for shareholders either through dividends and/or expansion of production within the highly prospective Mangazeisky licence area. The Company is also open to further silver and gold opportunities in the Yakutia region, however delivering a profitable operation at Mangazeisky is the prime focus.

DIRECTORS AND MANAGEMENT

Silver Bear board and management has a good mix of Russian and Western mining professionals. During our site visit, we observed a highly driven and motivated workforce, both at Mangazeisky and in the regional Yakutsk office.

Graham Hill President, CEO and Director	Mr Hill has over 25 years' experience of building and operating mines internationally. He has been involved in the construction of the Yatela and Sadiola gold mines with Anglo Gold Ashanti in West Africa. He also has extensive CIS experience with Oxus Gold in Kyrgyzstan and Uzbekistan. Mr Hill is a qualified mechanical engineer and currently resides in Moscow.
Boris Granovsky Director	Mr. Granovsky is a board representative of Aterra Capital. He has extensive experience working in the resources industry, both with Aterra Capital and Severstal Resources, where he was the Head of Business Development and Strategy. He holds Bachelor of Economics from Moscow State University.
Christopher Westdal Non-Executive Chairman	Mr. Westdal is a former Canadian diplomat with 40 years of international experience. He served as the Canadian Ambassador to Russia (2003 to 2006), the United Nations in Geneva (1999 to 2003) and Ukraine (1996 to 1998) amongst many others. Mr. Westdal holds a Bachelor of Arts degree from St. Johns College and a Master of Business Administration degree from the University of Manitoba.
Yuri Petrov General Manager, ZAO Prognoz	Mr. Petrov has been the General Director ZOA Prognoz, Russian Operations since June 2008. He is spent four years in Anchorage, Alaska as a Sakha Republic (Yakutia) representative and two years as Sakha Foreign Affairs Deputy Minister. He is fluent in English and specializes in Arctic issues, business development and project management. Mr. Petrov graduated from Tomsk Polytechnic University as a power engineer.
Robin Birchall Director	Mr. Birchall has 14 years of experience in resource corporate finance, most recently with BMO Capital Markets. He served as an Executive Chairman for the Company from March 2013 to January 2016. He earned an MBA from the University of Cape Town, an M.Sc. in European and International Politics from Edinburgh University, a Première Degré en Langues Literature et Civilisation, from Stendhal University and a BA from Queens University.
Alexey Sotskov Director	Mr. Sotskov is a board representative of Inflection Management Corporation. Has more than 15 years of project management experience in the technology and business process optimization sectors. His previous experience includes leading business optimization and ERP implementation programs for TNK-BP and Kinross Gold. He holds a Master Degree in Science and Applied Mathematics from the Moscow Institute of Physics and Technology.
Derk Hartman CFO	Mr. Hartman has over 15 years of experience in the banking and mining sectors and has been a founder, officer and director of several public and private companies. Mr Hartman has also worked as a Director of Investment Banking with BMO Capital Markets in London and Investment Banker and Project Finance Advisor with ABN AMRO Bank in London. Mr. Hartman has extensive experience with the stock exchange listing process, takeover rules and corporate governance of both the Toronto and London markets. Mr. Hartman holds an MSc Mining Engineering from Delft University of Technology, The Netherlands.

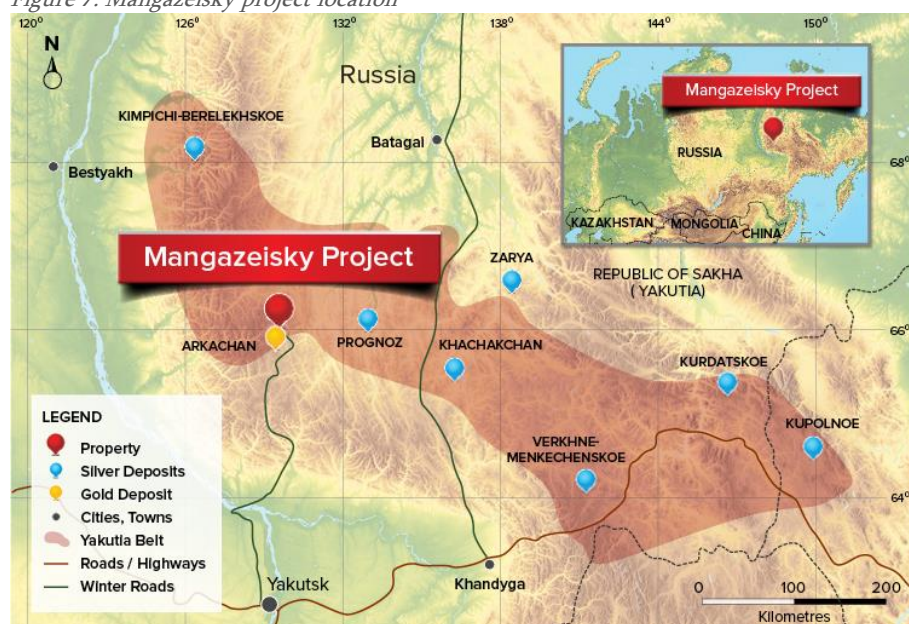
MANGAZEISKY SILVER PROJECT

The Company's only asset is the Mangazeisky Silver Project. The project is amongst the highest grade silver projects in the world, and is currently in construction with first production expected in Q2 2017.

LOCATION AND INFRASTRUCTURE

Mangazeisky is located in the north-central part of Yakutia, Russia, approximately 400 km north of the capital city of Yakutsk (population 300,000). Yakutia is located in Far East Russia and is the largest subnational governing body by area in the world at over 3 million square kilometres. The republic plays an important role in the Russian economy because of its tremendous mineral resources and a very well developed mining industry with a number of world class mining operations producing diamonds and gold.

Figure 7: Mangazeisky project location



Source: Silver Bear

As we witnessed during our site visit to Mangazeisky, the location of the project can only be described as extremely remote. The main access to Mangazeisky is via a winter road that is usable from December until mid-April, depending on the temperature and the thickness of ice. All-terrain vehicles (ATVs) are used for transporting workers and materials to site with the round trip from Yakutsk to the Property taking four days. Outside of this three-four month window, the roads are for most of the time impassable due to boggy conditions and swollen river crossings, however, a short window exists in September and early October for a "summer" road.

The nearest regional centre is the small town of Batagai, of population of 2,000 people, located 280km northeast from Mangazeisky. Batagai has a river port, along with good aviation and transportation infrastructure. The project is accessible year round by helicopter or light aircraft from Yakutsk or Batagai.

Due to the remote location, there is no access to the main power grid at the project, which will be powered exclusively by diesel generators. The winters at the project are harsh with the temperatures decreasing as low as -65°C for short periods. Snow cover is formed around the end of September and usually

melts by the second half of May. The terrain is mountainous and presents significant challenges. However, the extremely high grade nature of the silver mineralization at Mangazeisky and the overall small scale of the operation make it less reliant on infrastructure than larger scale, lower grade projects in similar remote locations.

Figure 8: Mangazeisky project in the winter



Source: Mining Journal

PROJECT HISTORY

The first discovery of the mineralisation at Mangazeisky dates all the way back to the 18th century by Russian Cossack explorers. First systematic exploration at the property took place in in the 1950s and included geological mapping, a topographic survey, trenching with systematic mapping and sampling, and the establishment of two short adits beneath the trenches. More than 160 anomalies were identified within a 20 km long north-south trend, however the work was stopped in the 1960s.

Systematic exploration re-commenced in 1989, with the state company Yangeologia completing over 150 km³ of trenching and 1.3km of drilling over the next 15 years. The exploration was primarily located within the Vasilievsky, Sterznhevoy, and Nizhne-Endybalsky mineralised zones and showed great potential for a high grade silver deposit.

Silver Bear acquired the property in 2004, the work over the next 3 years was focused upon the narrow, strata-bound silver mineralisation of the Vasilievsky and Mikhailovsky veins at Mangazeisky North. However from 2007, the focus shifted the development of the Vertikalny deposit with a total of 61km drilling undertaken by Silver Bear up till now. Initial 43-101 mineral resource was published in 2009 with the initial PEA focusing on high grade near surface oxide silver material released in late 2013. Subsequently the Company's efforts to take Mangazeisky to production intensified, with the completion of full feasibility study in Q2 2016 and subsequent commencement of construction, which is set to be completed in Q2 2017.

PROJECT GEOLOGY

The Property is located within the Verkhoyansk mobile belt of north-eastern Yakutia. The fold-and-thrust belt forms part of a major orogenic system, which hosts numerous gold and silver deposits. Mangazeisky contains several explored areas with the mineral occurrences concentrated within a 35 km long corridor.

Figure 9: Mangazeisky licence area and known targets



Source: Silver Bear Resources

To date four types of mineralization have been discovered at the property:

- **Vertikalny** - Narrow, steep dipping veins that cross-cut stratigraphy and feature ultra-high grades in excess of 1,000 g/t silver over widths ranging from several centimetres to several metres.
- **Mangazeisky North and South** - Strata-bound silver-bearing, quartz-carbonate-sulphide structures with average grades greater than 900 g/t silver, with lead and zinc by-products.
- **Nizhny Endybal and Strezhnevoy**- Thicker linear-type stock work areas with carbonate-silver sulphosalt mineralisation.
- **Porfirovy** - A porphyry area associated with quartz, quartz-carbonate and quartzsulphide veins and veinlets, hosted by extrusive rhyolite porphyry.

High grade, near surface nature of Vertikalny mineralisation has made it the focus of exploration work to date. Vertikalny resource has formed the basis behind the feasibility study and the mine plan for the Mangazeisky project. Mangazeisky North and Strezhnevoy mineralisation is also high grade and is likely to be added to the overall mine plan in the future. Oxidation of near surface material is a feature of Vertikalny and Mangazeisky North mineralization. This has significant impact on the overall project economics, which we expand on later.

Figure 10: Vertikalny surface outcrop



Source: Silver Bear Resources

HIGH GRADE RESERVE AND RESOURCES

Silver Bear total proven and probable reserves at Mangazeisky stand at 22.5 Moz of silver at a grade of 852 g/t. Total resource (including inferred) is 56.3Moz of silver at a grade of 746 g/t. The reserve and reserve grade at the project is superior to most global silver deposits currently in development. Tables below show the breakdown of Mangazeisky reserves and resources by zone.

Figure 11: Mangazeisky 43-101 Mineral Reserves

Category	Cut-off Grade (g/t Ag)	Tonnes	Ag Grade (g/t)	Contained Ag (koz)
Probable – Open Pit	250	364,000	1,209	14,144
Probable – Underground	450	458,000	569	8,375
Total Mineral Reserves	-	822,000	852	22,519

Source: Silver Bear Resources

Figure 12: Mangazeisky 43-101 Mineral Resources

Zone	Indicated Resource			Inferred Resource			Total Resource		
	Tonnes (t)	Grade Ag (g/t)	Contained Ag (oz)	Tonnes (t)	Grade Ag (g/t)	Contained Ag (oz)	Tonnes (t)	Grade Ag (g/t)	Contained Ag (oz)
Vertikalny Central	700,000	1,227	27,700,000	350,000	786	8,900,000	1,050,000	1,084	36,600,000
Vertikalny Northwest				200,000	476	3,100,000	200,000	482	3,100,000
Nizhny Endybal				710,000	316	7,200,000	710,000	315	7,200,000
Mangazeisky North	304,000	626	6,100,000	98,000	671	2,100,000	402,000	634	8,200,000
Mangazeisky South				60,000	246	500,000	60,000	259	500,000
Sterzhnevoy				48,000	1,530	2,360,000	48,000	1,529	2,360,000
Silver Total	1,004,000	1,045	33,800,000	1,466,000	511	24,160,000	2,470,000	730	57,960,000

Porphirovy deposit 43-101 Mineral Resources

Zone	Inferred Resource						
	Tonnes (t)	Grade Au (g/t)	Grade Ag (g/t)	Grade Cu (%)	Contained Au (Troy oz)	Contained Ag (Troy oz)	Contained Metal Cu (t)
Porphirovy	80,000	1.7	46	0.6	4,000	115,000	480

Source: Silver Bear Resources

EXCITING EXPLORATION POTENTIAL

Potential for further discoveries and expansion of the resource base at Mangazeisky is very significant. Remote location of the project and the lack of exploration juniors in the region has prevented the detailed exploration of targets in and around the licence area. Work to date has identified more than 100 occurrences of silver mineralisation and with a number of interesting drill ready targets, we are very confident that further high grade discoveries will be made at Mangazeisky. We expect Silver Bear to step up its exploration efforts once commercial production is reached at the project.

FEASIBILITY STUDY PARAMETERS

The Company has released its updated Tetra Tech feasibility study in October 2016. The update included recently added resources from Vertikalny and has outlined the following key project parameters.

- **Throughput** – 110 ktpa of ore
- **Life of Mine** – 7.3 years
- **Production** - 18.88 Moz of silver averaging 2.5 Moz per annum
- **Head grade** – 853 g/t LOM average
- **Recovery** - 84% silver LOM average
- **Initial capital costs** - US\$49.9m
- **All-in Cash Costs (including capital costs)** - US\$10.98/oz

We expand on the technical aspects of the operation below.

MINING METHODS

OPEN PIT

The feasibility study envisages a small drill and blast open pit operation, producing 110 ktpa of ore from two pits, with last mining taking place in 2020. The open pittable ore body ranges in widths between 0.5 and 8 metres averaging around 1.5 m. The life of mine strip ratio is high at just under 30 to 1. In our view the 30% dilution target outlined in the feasibility study is quite conservative. We have previously seen similar width orebodies mined with 10-15% dilution through an application selective mining and high quality grade control. The ore at Vertikalny can be clearly differentiated visually from the waste, which will greatly aid this process so we see potential upside on that front.

Poor mining practices leading to high dilution can be an issue in Russia, however during our site visit we gained confidence that employees at the operation understand that this is of uttermost importance at a narrow vein high grade mine such as Mangazeisky. In our view, the risk of open pit underperformance at the operation is relatively low.

Figure 13: Mangazeisky final open pit design

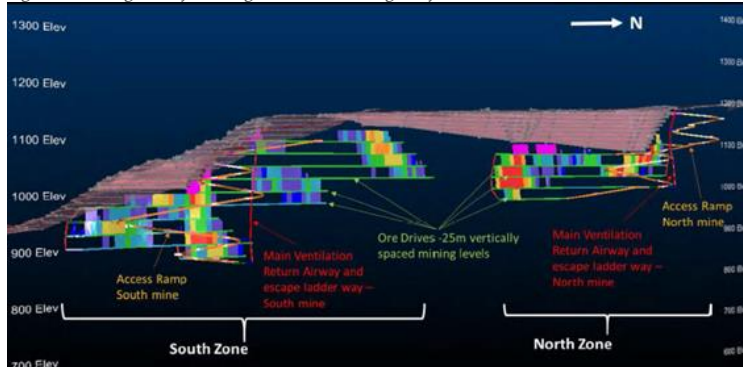


Source: Silver Bear Resources

UNDERGROUND

The feasibility study envisages a mechanised sublevel stoping operation at Mangazeisky upon the completion of open pit mining, with retreat-top-down mining remote stope loading, and pillars left in-situ to ensure rock stability. Narrow widths of the orebody presents significant challenges in dilution and cost control. In our experience, underground narrow vein operations in Russia have frequently failed, due to excessive dilution and failure to meet expected development and mining rates. This is due to a lack of focus on quality and dilution control, both amongst management and the underground miners. We see a profitable operation of an underground mine as one of the key project risks at Mangazeisky.

Figure 14: Mangazeisky Underground Mine Design Layout



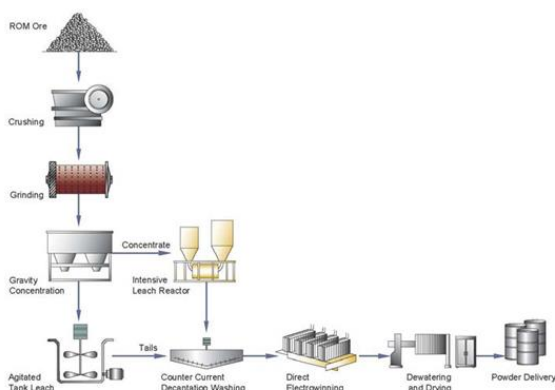
Source: Tetra Tech feasibility study

PROCESSING FLOWSHEET

The flowsheet for the processing plant at Mangazeisky is very simple and was designed with a focus on processing the oxide ores from the deposit producing silver powder as a final product. The processing plant will be 110 ktpa capacity, with the average recovery for the oxide and transition ores expected to be around 85%.

The plant is a standard crushing and milling circuit, followed by gravity concentration and agitated tank leach of the gravity tails. The gravity concentrates will be processed by intensive cyanidation. The leached slurry from the tank leach and intensive cyanidation will go through a simple counter current decantation washing system and the pregnant solution will be processed by direct electro-winning to recover the silver metal.

Figure 15: Mangazeisky processing plant flowsheet



Source: Silver Bear

OXIDE VERSUS SULPHIDE ORES

The metallurgy of the Mangazeisky oxide ores is extremely simple with the ore being free milling, amenable to gravity concentration and cyanidation. The processing of such ores carries little risk in our view.

On the other hand, the primary ore is partially refractory and requires a much finer grind (P80- 25µm versus 75µm for oxide ores), a much longer retention time (120 hrs versus 72 hrs) and a very significant increase in cyanide concentration (10 g/l versus 2 g/l) in order for primary ore recoveries to get near 70% level. Whilst the primary ore is amenable to flotation, the remote location of the project makes the export of the flotation concentrate an unviable commercial proposition. The feasibility study assumes modification to the processing plant to allow the processing the primary ores, which would carry 60% higher cost than the oxide ores.

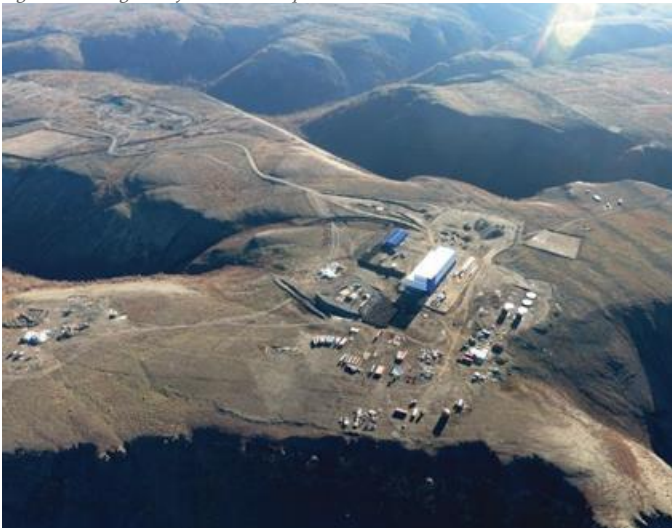
In our view, processing of primary ores carries significant risks both in terms of recoveries and costs, however we note that under 10% of the mining schedule is based on primary ores in the Feasibility Study. We foresee a likely scenario, where further oxide resources are discovered as the exploration programme at Mangazeisky ramps up, thus negating the need for processing of primary ores at the project.

CONSTRUCTION STATUS

Mine development is well advanced at the Mangazeisky deposit, with construction now over 65% complete. Project expenditure to date is approximately US\$34m of the proposed US\$49.9m budget with the project expected to come in under budget. This does not surprise us, as we were very impressed by the pace of construction at the project during our visit in August 2016. The following key construction milestones have been achieved to date:

- Construction and weather sheeting of the main processing plant has been completed; the foundation and installation of ball mill within the plant has been completed and the mechanical assembly is close to completion.
- Cyanide leaching tanks have been installed with the work now focusing on completing the piping installation across the processing facility as well as the installation of electrical cabling.
- Remaining materials and equipment required for construction and commissioning are either now on site, or being prepared for transport from Yakutsk to site via the winter road in mid-December.
- Mangazeisky mine camp is near completion.
- The diesel power station has been installed and in the process of being connected to fuel supply and power cables with commissioning works under way. The first two generators have been commissioned.
- The workshop, warehouse and reagents storage facilities are near completion and are being fitted for heating and electrical systems.
- Tailings storage facility detailed final design has being completed to allow construction work to commence.

Figure 16: Mangazeisky construction photos



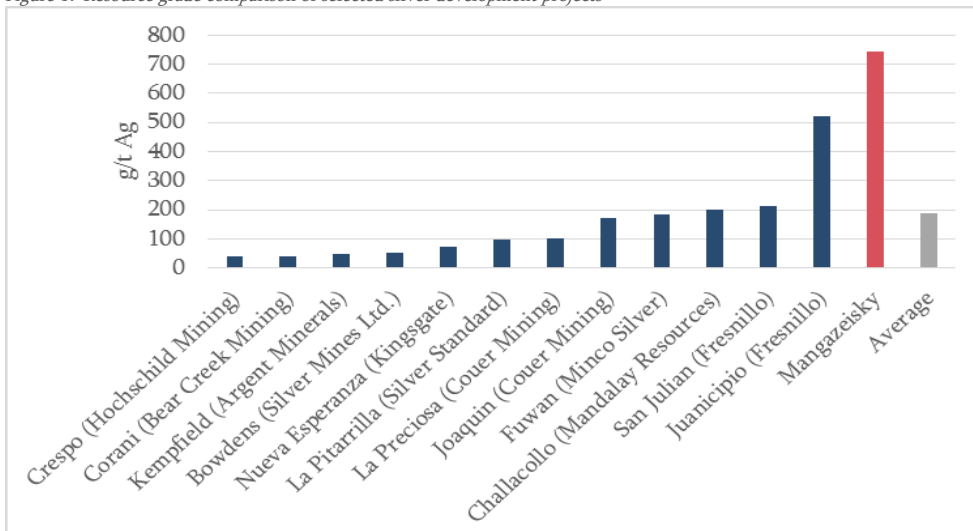
Source: Silver Bear Resources

Pre stripping is currently taking place at Vertikalny with commissioning of the processing plant is expected to commence in late March 2017.

GRADE COMPARISON

The outstanding feature of the Mangazeisky project is its grade. To illustrate this, we look at the peer group of all pre-production, post pre-feasibility study silver projects with a silver resource over 20 Moz currently in development. As figure 18 below illustrates, Mangazeisky grade of 730 g/t is the highest of the peer group, second being Fresnillo’s Juanipico and more than 3.5 times the peer group average of 194 g/t.

Figure 17 Resource grade comparison of selected silver development projects



Source: SNL Financials

VALUATION

Our Mangazeisky valuation is primarily based on the Tetra Tech updated feasibility, as well as our own assumptions. Unlike the feasibility study, our valuation assumes mining and processing of oxide ores only, as in our view, processing primary ores carries high technical and cost risks. Our key Mangazeisky parameters are summarised below:

Figure 18: Key Mangazeisky parameters

Life of Mine silver production (koz)	17,386
Mine life - open pit (years)	4
Tonnes mined - open pit (kt)	380
Open pit average grade LOM (g/t)	1,184
Mine life - underground (years)	4
Tonnes mined - underground (kt)	330
Underground average grade LOM (g/t)	565
Silver recovery oxides (%)	85.0%
Mill Throughput (Ktpa)	110
Open pit mining cost (US\$/t material)	3.0
Underground mining cost (US\$/t ore mined)	80.0
Processing cost (US\$/t milled)	48.0
G&A cost (US\$/t milled)	42.0

Source: Hannam & Partners valuation

Figure 19: Mangazeisky DCF model variables 2017-2019

Year	2017	2018	2019
Ore mined (Mt)	80,000	110,000	110,000
Silver grade processed (g/t)	1,150.0	1,025.0	1,500.0
Strip ratio (t:t)	39.4	35.0	20.0
Total silver production (oz)	2,514,191	3,081,250	4,509,146
All in sustaining cash cost (US\$/oz)	8.5	8.7	6.2
Capital expenditures (US\$ k)	12,852.5	150.0	150.0
Corporate tax (%)	0.0%	0.0%	0.0%

Source: Hannam & Partners valuation

Calculating the NPV at a 10% discount rate, we value Mangazeisky at US\$130.7m. This calculation does not into account the capital spent to date, treating it as sunk cost. Despite the challenges associated with the very remote logistics of the project, we believe that Silver Bear are well placed to successfully execute its production plan.

RUSSIA – MINING INVESTMENT CLIMATE

Over the recent years Russia as a mining destination has been largely avoided by foreign investors, particularly from the Western economies, despite the country's enormous and well known mineral potential. This has been further exacerbated by the increase in tensions between Russia and the NATO block, fuelled by the conflict in Ukraine. Perception of Russia as a dangerous place to go for a mining investor makes it a no-go for many mining investors with many of the publicly listed Russians mining stocks trading with a "Russia discount". However in our view, Russia is a place where foreign mining companies can operate successfully and profitably. Below we summarise our key observations on Russian mining industry from the point of view of a foreign investor.

LIMITED GOVERNMENT PARTICIPATION

Unlike Oil & Gas, the mining sector in Russia is largely privately owned, with the Yakutia based diamond mining group Alrosa being the exception to the rule. The gold and silver sector has almost no government participation, being dominated by two privately owned giants Polyus Gold and Polymetal. The role of the Russian state in its mining industry has been declining and we see this trend continuing.

COUNTRY RISK MISUNDERSTOOD FOR MINING

Russia is a politically stable country, however a number of highly controversial cases in the Oil & Gas industry has created perception of a lack of rule of law and licence tenure. However, the mining industry has largely avoided such controversy, with publically listed miners operating without issues in the country for the majority of the last decade. Kinross Gold has been a particular success story, operating a hugely profitable Kupol Gold mine since 2007.

INCENTIVES TO BUILD MINES IN THE FAR EAST

The Russian Government provides profits tax and mineral resources extraction tax incentives to mining investment projects in certain regions of Far Eastern Russia which includes Yakutia. The law established a zero rate for profits tax payable to the federal budget and to use lower regional tax rates. In the case of Yakutia, the regional portion of the profits tax will be 0% for the first five years and 10% for the next five years. In addition, significantly reduced rates are applicable with respect to the mineral royalties. Silver Bear qualify for these tax incentives, which are expected to significantly improve the Mangazeisky project returns.

FAVOURABLE COST STRUCTURES

Russia is a highly competitive low cost mining environment primarily driven by the weak currency. A heavy fall in the oil price from its peaks has caused a devaluation in the Rouble of over 100%. With 80-90% of operating costs in the Russian mining industry Rouble denominated, this has resulted in increasing profitability and competitiveness of Russian mining companies versus many of its global peers.

COMPLEX BUREAUCRACY AND PERMITTING

Russia has a highly complex permitting process for the mining industry. As a pre-condition to applying for a mining licence, the applicant must have their reserves calculation vetted by the State Commission for Mineral Reserves (GKZ) with the GKZ reserves not compatible with JORC or 43-101. Mine plans are required to be submitted annually to the local authority, which are checked against the original Company work plans. In effect, the system requires companies publicly listed on Western stock exchanges to run a dual process with separate work streams for Russian standard and western feasibility level work. Ignoring the requirements of the Russian permitting system has created problems for Western mining companies in the past.

FINANCIAL SUMMARY

Income statement

Year end December		2015	2016E	2017E	2018E	2019E	2020E
Revenue	C\$m	-	-	64.5	79.7	117.9	69.7
COGS	C\$m	-	-	22.5	29.6	24.0	22.4
Gross profit	C\$m	-	-	42.0	50.2	93.9	47.2
Depreciation	C\$m	0.3	0.4	6.0	5.9	13.3	3.1
Net interest expense	C\$m	1.2	4.0	7.1	6.3	4.6	1.9
Admin expense	C\$m	3.9	3.0	3.0	3.0	3.0	3.0
Other	C\$m	5.3	0.4	0.0	0.0	0.0	-
Pre-tax profit	C\$m	(10.7)	(7.7)	25.9	35.0	72.9	39.2
Tax credit/(paid)	C\$m	-	-	1.2	2.0	1.8	0.9
Profit after tax	C\$m	(10.7)	(7.7)	24.7	33.0	71.1	38.3
FX gains/losses	C\$m	(1.3)	1.8	-	-	-	-
Net profit	C\$m	(12.0)	(5.9)	24.7	33.0	71.1	38.3
Total income	C\$m	(12.0)	(5.9)	24.7	33.0	71.1	38.3
EBITDA	C\$m	(9.2)	(3.4)	39.0	47.2	90.9	44.2

Ratios and per share data

Year end December		2015	2016E	2017E	2018E	2019E	2020E
Yr end shares in issued	m	-	161.8	161.8	161.8	161.8	161.8
Revenue growth	%	-	0.0%	0.0%	23.5%	47.8%	(40.9%)
EBITDA growth	%	-		NM	20.8%	92.7%	(51.3%)
EBITDA margin	%	-	0.0%	60.5%	59.2%	77.1%	63.5%
Pre-tax ROIC	%	-	0.0%	24.9%	24.4%	28.0%	12.6%
ROE	%	-	(8.8%)	26.6%	29.4%	42.5%	20.1%
EPS	C\$/sh	-	(0.04)	0.15	0.20	0.44	0.24
EPS	US\$/sh	-	(0.03)	0.11	0.15	0.33	0.18
EPS growth	%	-	0.0%	0.0%	33.5%	115.6%	(46.1%)
Free cash flow	US\$m	-	(35.6)	6.0	26.3	57.5	32.4
FCF/share	US\$/sh	-	(0.22)	0.04	0.16	0.36	0.20
FCF yield	%	-	NM	10.3%	45.2%	98.8%	55.7%
Net debt/equity	%	-	105.9%	68.3%	25.2%	(29.0%)	(48.2%)
Net debt/market cap	%	-	163.4%	145.1%	64.7%	NM	NM
P/E	x	-	NM	2.4x	1.8x	0.8x	1.5x
EV/EBITDA	x	-	NM	2.7x	1.5x	NM	NM
EV/Sales	x	-	NM	1.2x	0.7x	NM	NM
Net Debt/(Cash)	US\$m	-	53.5	47.6	21.2	(36.3)	(68.8)
EV	US\$m	-	86.3	80.3	54.0	(3.6)	(36.0)
Market Cap (Yr end)	US\$m	-	32.8	32.8	32.8	32.8	32.8
Market Cap (Yr end)	C\$m	-	43.7	43.7	43.7	43.7	43.7

Metal price assumptions		2015	2016	2017	2018	2019	2020
Silver	US\$/oz	-	-	19.5	19.6	19.8	19.9

Production volumes		2015	2016E	2017E	2018E	2019E	2020E
Silver	Moz	-	-	2.5	3.1	4.5	2.6

Cash Costs		2015	2016E	2017E	2018E	2019E	2020E
Total Cash Cost	US\$/oz	-	-	6.7	7.2	4.0	6.3
All in Sustaining Cost	US\$/oz	-	-	8.5	8.7	6.2	9.6
Cost per tonne	US\$/tonne	-	-	211.1	201.5	163.4	152.9

Source: H&P estimates

Cash flow statement

Year end December		2015	2016E	2017E	2018E	2019E	2020E
Operating profit	C\$m	(10.7)	(7.7)	24.7	33.0	71.1	38.3
Depreciation	C\$m	0.3	0.4	6.0	5.9	13.3	3.1
Working capital change	C\$m	(2.1)	(9.5)	(5.6)	(3.5)	(7.5)	10.0
Other	C\$m	1.6	2.8	-	-	-	-
CFO	C\$m	(11.0)	(14.0)	25.1	35.3	76.9	51.4
Purchase of PPE	C\$m	(4.8)	(23.8)	(17.1)	(0.2)	(0.2)	(8.2)
Other	C\$m	(7.0)	(9.6)	-	-	-	-
CFI	C\$m	(11.7)	(33.4)	(17.1)	(0.2)	(0.2)	(8.2)
Net Borrowings	C\$m	31.0	39.8	-	(15.0)	(15.0)	(15.0)
New equity issued	C\$m	-	-	-	-	-	-
Other	C\$m	(0.1)	0.2	-	-	-	-
CFE	C\$m	30.9	40.0	-	(15.0)	(15.0)	(15.0)
Net change in cash	C\$m	8.4	(6.9)	8.0	20.1	61.7	28.2
Beginning Cash	C\$m	1.6	10.0	3.1	11.1	31.2	92.9
Ending Cash	C\$m	10.0	3.1	11.1	31.2	92.9	121.1

Balance sheet

Year end December		2015	2016E	2017E	2018E	2019E	2020E
Cash	C\$m	10.0	3.1	11.1	31.2	92.9	121.1
Receivables	C\$m	0.6	4.9	13.3	16.4	24.2	14.3
Inventory	C\$m	0.7	4.7	3.1	4.0	3.3	3.1
Other	C\$m	1.8	3.2	2.8	3.6	3.0	2.8
Current Assets	C\$m	13.1	15.9	30.2	55.3	123.4	141.3
PPE	C\$m	5.0	32.1	43.3	37.6	24.5	29.6
Other	C\$m	9.2	19.4	19.4	19.4	19.4	19.4
Fixed Assets	C\$m	14.1	51.5	62.7	57.0	43.9	49.0
Payables	C\$m	3.0	3.9	4.6	6.1	4.9	4.6
Short Term Debt	C\$m	31.0	18.0	18.0	18.0	18.0	18.0
Other	C\$m	0.2	0.4	0.4	0.4	0.4	0.4
Current Liabilities	C\$m	34.2	22.3	23.1	24.5	23.4	23.1
Long term debt	C\$m	-	56.4	56.4	41.4	26.4	11.4
Other	C\$m	0.9	2.0	2.0	2.0	2.0	2.0
Non Current Liabilities	C\$m	0.9	58.5	58.5	43.5	28.5	13.5
Total Equity	C\$m	27.2	67.4	92.9	112.3	167.2	190.2

Reserves & Resources		Silver	EV metrics
Attributable Resources (M,I,I)	Moz	58.1	EV/Resources US\$/oz 1.5
Attributable Reserves (P,P)	Moz	22.5	EV/Reserves US\$/oz 3.8

Estimated Net Asset Value (NAV)/share	US\$m	US\$/sh	C\$/sh
Mangazeisky	\$130.7	\$0.81	\$1.08
Total Operating	\$130.7	\$0.81	\$1.08
Working capital	\$9.0	\$0.06	\$0.07
Total Debt	(\$55.8)	(\$0.35)	(\$0.46)
Corporate G&A (after-tax)	(\$9.5)	(\$0.06)	(\$0.08)
NAV at 10%	\$74.4	\$0.46	\$0.61
Current P/NAV	0.33x		

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