

**BEAR CREEK MINING CORPORATION**

**(An Exploration Stage Company)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**31 MARCH 2006**

**EXPRESSED IN US FUNDS**

**(Unaudited)**

**Bear Creek Mining Corporation**  
 (An Exploration Stage Company)  
**Interim Consolidated Balance Sheets**  
 U.S. Funds  
 Unaudited

Statement 1

<b>ASSETS</b>		As at 31 March 2006	As at 31 December 2005
<b>Current</b>	Cash and cash equivalents	\$ 12,152,606	\$ 12,122,688
	Prepaid expenses and advances	87,705	92,643
		<u>12,240,311</u>	<u>12,215,331</u>
<b>Equipment (Note 4)</b>		109,335	108,675
		<u>\$ 12,349,646</u>	<u>\$ 12,324,006</u>

**LIABILITIES**

<b>Current</b>	Accounts payable and accrued liabilities	\$ 159,692	\$ 99,333
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**SHAREHOLDERS' EQUITY**

<b>Share Capital</b>	Authorized: (Note 6a) Unlimited common shares without par value		
	Issued and fully paid:		
	38,887,958 (2005 - 37,618,609) common shares	25,266,500	22,448,748
	Contributed surplus (Note 6b)	2,751,918	2,698,537
		<u>28,018,418</u>	<u>25,147,285</u>
<b>Deficit - Statement 2</b>		<u>(15,828,464)</u>	<u>(12,922,612)</u>
		<u>12,189,954</u>	<u>12,224,673</u>
		<u>\$ 12,349,646</u>	<u>\$ 12,324,006</u>

ON BEHALF OF THE BOARD:

"Catherine McLeod-Seltzer" \_\_\_\_\_, Director

"Andrew Swarthout" \_\_\_\_\_, Director

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*  
**Interim Consolidated Statements of Operations and Deficit**  
**For the Periods Ended 31 March**

Statement 2

U.S. Funds  
Unaudited

	2006	2005
<b>Operating Expenses</b>		
Exploration costs - schedule	\$ 2,402,864	\$ 856,512
Stock compensation expense	305,375	82,539
Wages and management salary	83,658	37,663
Professional fees	71,126	40,489
Shareholder information and filing fees	60,179	20,848
Travel	21,455	11,070
Office	17,702	7,080
Amortization	421	189
	<u>(2,962,780)</u>	<u>(1,056,390)</u>
<b>Other Items</b>		
Foreign exchange (loss)	(30,924)	(3,336)
Interest and bank charges - net	87,852	4,616
	<u>56,928</u>	<u>1,280</u>
<b>Loss for the Period</b>	(2,905,852)	(1,055,110)
Deficit - Beginning of period	<u>(12,922,612)</u>	<u>(8,166,370)</u>
<b>Deficit - End of Period</b>	<u>\$ (15,828,464)</u>	<u>\$ (9,221,480)</u>
<b>Loss per Share - Basic and Diluted</b>	<u>\$ (0.08)</u>	<u>\$ (0.04)</u>
<b>Weighted Average Number of Shares Outstanding</b>	<u>37,983,718</u>	<u>27,507,322</u>

See Accompanying Notes

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*  
**Interim Consolidated Statements of Cash Flow**  
**For the Periods Ended 31 March**

Statement 3

U.S. Funds  
Unaudited

	2006	2005
<b>Operating Activities</b>		
Loss for the period	\$ (2,905,852)	\$ (1,055,110)
Items not affecting cash:		
Stock compensation	305,375	82,539
Share capital issued in exploration costs	-	548,625
Amortization included in exploration costs	2,562	5,622
Amortization	421	189
	<u>(2,597,494)</u>	<u>(418,135)</u>
Changes in:		
Prepays and advances	4,938	5,335
Accounts payable	60,359	33,885
Cash used in operating activities	<u>(2,532,197)</u>	<u>(378,915)</u>
<b>Investing Activities</b>		
Purchase of equipment	(3,643)	(23,664)
Cash used in investing activities	<u>(3,643)</u>	<u>(23,664)</u>
<b>Financing Activities</b>		
Share capital issued - net	2,565,758	300,285
Cash received from financing activities	<u>2,565,758</u>	<u>300,285</u>
<b>Net Decrease in Cash Position</b>		
Cash position - Beginning of period	29,918	(102,294)
	<u>12,122,688</u>	<u>1,265,552</u>
<b>Cash Position - End of Period</b>	<u>\$ 12,152,606</u>	<u>\$ 1,163,258</u>

**Non-cash Investing and Financing Activities**

Fair value of options and warrants exercised	\$ 251,994	\$ -
Shares issued for property acquisition costs	\$ -	\$ 548,625
Stock based compensation	\$ 305,375	\$ 82,539

See Accompanying Notes

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*  
**Interim Consolidated Schedule of Exploration Costs**  
**For the Periods Ended 31 March**

*Schedule*

*U.S. Funds*  
*Unaudited*

		2006	2005
Corani	Drilling	\$ 1,089,036	\$ -
	Acquisitions/claim fees	302,707	25,000
	Travel	203,573	-
	Salary	158,011	18,461
	Geophysics	82,274	-
	Assaying and sampling	57,853	6,054
	Supplies and general	11,416	12,965
		<u>1,904,870</u>	<u>62,480</u>
Santa Ana	Supplies and general	2,561	439
	Travel	947	5,057
	Salary	270	31,463
	Geophysics	16	15,000
	Assaying and sampling	-	1,171
		<u>3,794</u>	<u>53,130</u>
Pichicani Norte	Assays and sampling	699	-
	Geophysics	648	-
	Travel	329	-
	General	256	-
		<u>1,932</u>	<u>-</u>
Condor	Salaries	31,202	-
	Assays	10,259	-
	Drilling	15,286	-
	Travel	20,079	-
	General	6,855	-
		<u>83,681</u>	<u>-</u>
AngloGold Exploration Alliance	Acquisition - shares issued	-	548,625
	Salary	33,954	10,493
	Supplies and general	3,153	8,167
		<u>37,107</u>	<u>567,285</u>
Generative exploration	Supplies, IVA and general	297,388	67,054
	Salary	28,791	64,129
	Travel	22,800	8,016
	Assays	17,853	-
	Acquisition/claims fees	900	238
	Geological	1,258	2,162
		<u>368,990</u>	<u>141,599</u>
Other properties		<u>2,490</u>	<u>32,018</u>
<b>Costs for the Period</b>		<u>\$ 2,402,864</u>	<u>\$ 856,512</u>

See Accompanying Notes

**Bear Creek Mining Corporation**  
(An Exploration Stage Company)

## Notes to Interim Consolidated Financial Statements

31 March 2006

US Funds  
(Unaudited)

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### 1. Nature of Business

Bear Creek Mining Corporation's ("Bear Creek" or the "Company") main business is acquiring and exploring mineral properties principally located in Peru with the objective of identifying mineralized deposits economically worthy of sale or development for the creation of value for shareholders.

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### 2. Significant Accounting Policies

These interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements as at 31 December 2005.

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### 3. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, advances and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

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### 4. Equipment

Details are as follows:

	31 March 2006			31 December 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 14,449	\$ 6,369	\$ 8,080	\$ 14,449	\$ 5,948	\$ 8,501
Exploration equipment	184,214	82,959	101,255	180,571	80,397	100,174
	<u>\$ 198,663</u>	<u>\$ 89,328</u>	<u>\$ 109,335</u>	<u>\$ 195,020</u>	<u>\$ 86,345</u>	<u>\$ 108,675</u>

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**Bear Creek Mining Corporation**  
(An Exploration Stage Company)

**Notes to Interim Consolidated Financial Statements**

**31 March 2006**

US Funds  
(Unaudited)

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**5. Resource Property Costs**

Cumulative resource expenditures per project under active exploration:

	Acquisition Costs	Exploration Costs	Balance as at 31 March 2006
Corani Project, Peru	\$ 425,770	\$ 2,913,481	\$ 3,339,251
Santa Ana Project, Peru	19,783	149,225	169,008
Pichicani Norte Project, Peru	13,205	185,812	199,017
Condor Project, Peru	10,000	122,582	132,582
Niñobamba Project, Peru	17,403	163,071	180,474
	<u>\$ 486,161</u>	<u>\$ 3,534,171</u>	<u>\$ 4,020,332</u>

a) Corani Project

By letter of understanding dated 19 January 2005 the Company entered into an agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), whereby the company has the right to earn a 70% interest in the Corani property located in southeastern Peru, subject to Rio Tinto's claw-back right. In order to earn its 70% interest, the Company, at its option, must make payments of \$5,400,000 over 3 years as follows:

On signing of letter of understanding – paid	\$ 25,000
On or before 19 July 2005 – paid	75,000
On or before 19 January 2006 – paid	300,000
On or before 19 January 2007	2,000,000
On or before 19 January 2008	3,000,000
	<u>\$ 5,400,000</u>

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*

## **Notes to Interim Consolidated Financial Statements**

**31 March 2006**

*US Funds*  
*(Unaudited)*

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Once the 70% interest is earned, Rio Tinto shall have 90 days from the date of receipt, to elect at its sole discretion either to offer its remaining 30% interest in the Property to Bear Creek for \$5,000,000 and additional Success Payments as described below; or can elect to enter into a joint venture agreement with Bear Creek. The joint venture agreement would have standard dilution clauses.

In addition to the payments listed above, the Company will also pay, pro rata "Success Payments" of \$1.10 per ounce of gold, \$0.015 per ounce of silver, and \$0.005 per pound of copper based upon recoverable metal defined in a feasibility study. The Company will pay additional cash Success Payments of \$5,000,000 for each event that the recoverable reserves exceeds 1 million ounces gold or 100 million ounces silver, subject to a maximum amount of \$10,000,000. To date the Company has not completed a feasibility study to determine the recoverable reserves. The Success Payments will be payable within thirty days following acceptance of the feasibility study by Rio Tinto. Should the recoverable reserves as defined at commencement of commercial production be 20% or more greater than the recoverable reserves defined by the feasibility study, the Company will then adjust the Success Payments and pay Rio Tinto the balance.

### Rio Tinto's Claw-Back Right

Rio Tinto has the claw-back right to acquire a 60% interest in the project by reimbursing the Company three times its pro-rated total direct exploration expenditures should the economic resources exceed 5.5 million tonnes of copper, or if the economic resources exceed 10 million ounces of gold-equivalent precious metal mineralization. In addition, if the claw-back right is exercised, Rio Tinto will provide Bear Creek financing on its 40% interest, on a deferred carried basis, on which interest shall accrue at an annual rate equal to the rate of LIBOR plus 4% per annum, to be repaid monthly after the commencement of commercial production.

### b) Santa Ana Project

During 2004, the Company agreed to acquire a 100% interest in the Santa Ana property in southeastern Peru. In order to earn the 100% interest, the Company must make payments of \$15,000 upon receipt of title, which is subject to government approval, \$15,000 on initiation of drilling, and 3% of direct exploration expenditures to a maximum lifetime payment of \$280,000.

### c) Pichicani Norte Project

On 26 October 2004, Bear Creek entered into a letter agreement with AngloGold Ashanti ("AGA") to acquire a 60% interest in its Pichicani Norte Project with exploration expenditures totalling \$2.5 million over a three-year period. The original commitment included current year expenditures in fieldwork and drilling totalling \$100,000, which has been met. Upon completion of the \$2.5 million expenditure, Bear Creek and AGA will enter into a joint venture agreement with standard dilution clauses. If either party's interest falls below 10%, then their participating interest will convert to a 2% Net Smelter Return ("NSR") Royalty for silver, and a 4% NSR Royalty for gold. If at anytime a feasibility or prefeasibility study indicates that greater than 50% of the project's cash flow will be derived from gold production and the measured, indicated and inferred resource exceeds 2.5 million ounces of gold equivalent ounces, AGA has a back-in right to acquire a 70% interest by funding a feasibility study. .

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*

**Notes to Interim Consolidated Financial Statements**

**31 March 2006**

*US Funds*  
*(Unaudited)*

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d) AngloGold Exploration Alliance

By letter agreement dated 12 January 2005, the Company acquired certain data from AngloGold Ashanti Exploraciones del Peru S.A. in exchange for the issuance of 200,000 common shares of the Company's stock, 1 million warrants priced at CDN\$1.50 (exercised in 2005), and 1 million warrants priced at CDN\$2.20 to expire 12 January 2007 (exercised on March 2006). The 200,000 shares issued had a value of \$131,200 and the 2 million warrants had a value of \$417,425. In addition, the Company is required to spend \$250,000 in exploration within one year of signing.

e) Niñobamba Project

On 30 July 2003, the Company entered into an agreement with AngloGold Exploracion Peru S.A.C. whereby the Company can earn at least a 60% interest in the Niñobamba property located in Peru. In order to earn the 60% interest, the Company, completed 1,000 meters of drilling by March 2004 and, at its option, must make exploration expenditures of \$2,500,000 by 30 July 2006. The property is subject to net smelter return royalties of 4% on gold and 2% on silver.

f) Ataspaca Project

The Company entered into a term sheet dated 29 May 2002 and earned a 50% interest and management control of a 600 hectare mineral claim named "Brisa 1" in the department of Tacna, Southern Peru, known as the Ataspaca Project, from Southwestern Resources Corp. ("SW").

On 17 November 2004, the Company and SW entered into an agreement with Anglo American Exploration Peru ("AAEP"), whereby AAEP will continue exploration. Under the terms of the agreement, AAEP must incur exploration expenditures of \$2,750,000 over a four-year period and make payments totalling \$150,000 over a two-year period in order to earn a 60% interest in the project. The agreement takes effect once AAEP acquires a federal decree allowing for a foreign company to acquire title of mineral rights within the 50km border zone of Peru. The application is being processed and approval is expected in the middle of 2006. The Company's interest would then be a 20% participating interest. To date, the Company has received \$34,260 as reimbursement of expenditures.

g) Condor Project

On 30 November 2005, Bear Creek entered into an option agreement, whereby the Company has the right to acquire a 100% interest in the Condor Property, which comprises of 2,444 hectares, by making a total payment of \$1,766,962 over a three year period. As at 31 March 2006, Bear Creek has made total payments of \$16,962. To fulfill the requirements to option 100% of the property Bear Creek shall make additional payments of \$50,000 by 1 May 2006(paid); \$200,000 by 1 November 2006; \$500,000 by 1 November 2007; and \$1 million by 1 November 2008. Once the option is exercised the optionor will retain the right to a 2% NPI up to a maximum limit of \$ 3.5 million.

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**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*

**Notes to Interim Consolidated Financial Statements**

**31 March 2006**

*US Funds*  
*(Unaudited)*

**6. Share Capital**

a) **Details of share issued are as follows:**

	Shares		Amount
Authorized:			
Unlimited common shares without par value			
Issued and allotted and fully paid:			
Balance - 31 December 2003	27,128,457	\$	8,191,297
Exercise of share purchase warrants	1,200		600
Exercise of stock options	150,000		75,000
Fair value of options exercised	-		61,500
Balance - 31 December 2004	27,279,657		8,328,397
Shares issued for exploration alliance	200,000		131,200
Shares issued for warrants	5,803,952		4,709,951
Shares issued for stock options	735,000		300,940
Shares issued in private placement	3,600,000		9,720,837
Fair value of options and warrants exercised	-		331,814
Share issuance costs	-		(1,074,391)
Balance - 31 December 2005	37,618,609		22,448,748
Shares issued for stock options	23,400		14,189
Shares issued for warrants	245,949		645,818
Shares issued for exploration alliance warrants	1,000,000		1,905,751
Fair value of options and warrants exercised	-		251,994
Balance – 31 March 2006	38,887,958	\$	25,266,500

On 30 August 2005, the Company issued a total of 3,600,000 Units at Cdn \$3.25 per Unit for gross proceeds of Cdn \$11.7 million. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share at Cdn \$4.25 over a two-year period expiring on 30 August 2007. The underwriting fees associated with this issuance are 6% for a total of Cdn \$702,000 and 180,000 Broker warrants which entitles the broker to acquire one common share and one-half of a Broker Option Warrant at Cdn \$3.25 and expiring on 30 August 2007. Each whole Broker Option Warrant entitles the broker to acquire one common share of the Company at Cdn. \$4.25. The broker warrants were valued at \$298,721 using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	121%
Risk-free interest rate	2.97%
Expected life of warrants	2 years

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*

**Notes to Interim Consolidated Financial Statements**

**31 March 2006**

*US Funds*  
*(Unaudited)*

b) **Details of contributed surplus:**

	2006
Balance – Beginning of Period	\$ 2,698,537
Fair value of stock-based compensation	305,375
Fair value of stock options exercised	(11,133)
Fair value of exploration alliance warrants exercised	(240,861)
Balance – End of Period	<u>\$ 2,751,918</u>

c) **Share Purchase Options**

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant date. Options begin vesting on the grant date based on a schedule outlined in the share purchase option plan.

	<b>Number of options</b>	<b>Weighted average exercise price (in C\$)</b>
Options outstanding at December 31, 2004	4,080,000	0.65
Year ended December 31, 2005		
Granted	1,800,000	3.33
Exercised	(735,000)	0.52
Cancelled	(15,000)	0.70
Options outstanding at December 31, 2005	<u>5,130,000</u>	<u>1.61</u>
Exercised	(23,400)	0.70
Options outstanding at March 31, 2006	<u>5,106,600</u>	<u>1.61</u>

**Bear Creek Mining Corporation**  
(An Exploration Stage Company)

**Notes to Interim Consolidated Financial Statements**

**31 March 2006**

US Funds  
(Unaudited)

A summary of the Company's options as at 31 March 2006 is as follows:

	Number	Price per Share	Expiry Date
Options	1,690,000	US\$0.50	21 April 2008
	310,000	US\$0.50	5 June 2008
	20,000	US\$0.50	2 July 2009
	1,286,600	Cdn\$0.70	24 November 2009
	865,000	Cdn\$3.00	5 August 2010
	835,000*	Cdn\$3.00	5 August 2010
	100,000*	Cdn\$4.75	6 December 2010
	5,106,600		

\* Subject to shareholder approval

3,405,350 options have vested at the period end.

On 5 August 2005, the Company granted directors, officers, consultants and employees of the Company options to purchase up to 1,700,000 common shares of the Company at an exercise price of CDN\$3.00 per share. Of the options granted, 835,000 are subject to shareholder approval. The remaining 865,000 have a \$1,800,681 estimated value on the grant date. Since the options were granted under a graded vesting schedule, \$1,038,768 of the fair value has been recorded in the Company accounts. The offsetting entry is to contributed surplus.

On 6 December 2005, the Company granted an officer of the Company options to purchase up to 100,000 common shares of the Company at an exercise price of CDN\$4.75 per share. These options have a \$343,785 estimated value on the grant date. These options are subject to shareholder approval.

d) **Warrants**

As at 31 March 2006, the following share purchase warrants were outstanding:

	Number	Price per Share	Expiry Date
Series D Warrants	989,016	Cdn\$1.25	7 April 2007
Series E and Broker Option Warrants	1,820,803	Cdn\$4.25	30 August 2007
Broker Warrants*	36,998	Cdn\$3.25	30 August 2007
	2,846,817		

\* Each Broker Warrant when exercised includes one-half of a Broker Option Warrant which entitles the holder to acquire one common share for each whole Broker Option Warrant at \$4.25 per common share.

Series D warrants are subject to a forced 30-days exercise provision if the Company's shares trade at or above Cdn\$1.90 for over a period of 20 consecutive days. To date the Company has not enforced the 30 day exercise provision.

**Bear Creek Mining Corporation**  
(An Exploration Stage Company)

**Notes to Interim Consolidated Financial Statements**

**31 March 2006**

US Funds  
(Unaudited)

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**7. Related Party Transactions and Balances**

The following represents the details of related party transactions paid or accrued during the period ended 31 March 2006:

	<b>2006</b>	2005
Consulting fees paid to a director of the Company	<b>12,500</b>	-
Legal fees paid to a firm in which a director of the Company is a partner	<b>10,500</b>	15,000
Legal fees paid to a firm in which an officer of the Company is a partner	<b>28,713</b>	14,445
Accounting fees paid to an officer of the Company	<b>6,496</b>	6,161
Rent paid to a company with a common director and officer of the Company	<b>5,603</b>	3,990

Related party transactions are in the normal course of business and occur on terms similar to transactions with non-related parties, and therefore are measured at the exchange amount.

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**8. Segmented Information**

The Company has one operating segment, which is mineral exploration. All of the Company's exploration expenses as disclosed on the exploration cost schedule are incurred in South America. All of the Company's assets and other expenses are in Canada, except for \$560,067 of assets, which are located in Peru.

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**9. Commitments**

- a) By agreement dated 27 September 2003 and amended in April 2006, the Company entered into a consulting agreement with a director and officer of the Company to act as the President and C.E.O. of the Company. Compensation is \$13,750 per month. The amended agreement is effective from 22 April 2006 and will continue for a term of two years. The Company may terminate this agreement by providing a severance package depending on the nature of the termination.
  - b) By agreement dated 30 September 2003 and amended in April 2006, the Company entered into a consulting agreement with an officer of the Company to act as the Vice President of Explorations of the Company. Compensation is \$10,300 per month. The amended agreement is effective from 22 April 2006 and will continue for a term of two years. The Company may terminate this agreement by providing a severance package depending on the nature of termination.
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**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*

**Notes to Interim Consolidated Financial Statements**

**31 March 2006**

*US Funds*  
*(Unaudited)*

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**10. Income Taxes**

The Company has incurred non-capital losses for tax purposes of approximately \$2,386,000, which may be carried forward to reduce future taxable income. These losses expire as follows:

2006	\$	24,000
2007		69,000
2008		86,000
2009		40,000
2010		969,000
2014		577,000
2015		621,000
	\$	<u>2,386,000</u>

The potential future tax benefits of these losses amounting to approximately \$849,000 have been reduced to \$nil by a valuation allowance.

The Company's Peruvian subsidiary also has certain losses and related resource property expenditures that may be used to reduce future taxable income in Peru. These losses have not been subject to examination by the Peruvian tax authorities.

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**11. Subsequent Events**

From 1 April 2006 to 17 May 2006, a total of 710,153 share purchase warrants and options were exercised for cash of \$1.3 Million.

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**FORM 51-102F1  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR BEAR CREEK MINING CORPORATION**

***Our Management's Discussion and Analysis***

***Introduction***

Prepared as at 17 May 2006 for the period ended 31 March 2006.

Bear Creek Mining Corporation's ("Bear Creek" or the "Company") main business is acquiring and exploring mineral properties, principally located in Peru, with the objective of identifying mineralized deposits economically worthy of sale or development for the creation of value for shareholders. We are a publicly traded Canadian exploration company without any mineral producing properties, and thus, have no revenues from any mineral properties.

Bear Creek's accompanying financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP"). The Company's fiscal year end is 31 December. References to a fiscal year refer to the calendar year in which such fiscal year ends. All reported amounts are in US dollars, unless otherwise stated.

***Forward-Looking Information***

This management discussion and analysis ("MD&A") contains certain forward-looking statements and information relating to Bear Creek that are based on the beliefs of its management as well as assumptions made by and information currently available to Bear Creek. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to Bear Creek or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of Bear Creek with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Aside from factors identified in the annual MD&A, additional important factors, if any, are identified here.

***Activities on Mineral Projects***

Current efforts are focused on gold and silver exploration in Peru, although opportunities in adjacent countries and other precious or base metal commodities, which are compatible with management's history and expertise, are also considered. A large number of projects are under Bear Creek's review at any given time; a few in active drill evaluation, some being prepared for drilling, others in first pass mapping and sampling following staking or acquisition, and many in preliminary evaluation to decide if property ownership is possible or desired. Due to the generative nature of Bear Creek's business, many of the expenditures consist of drilling and assay costs, salaries for professional personnel, land, legal and property payments, and travel to/from and within properties. The following section details property specific spending for the period ended March 2006 and relative to the same period in 2005.

## **Corani Project**

By letter of understanding dated 19 January 2005, the Company entered into an agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), whereby the Company has the right to earn a 70% interest in the Corani property located in southeastern Peru, subject to Rio Tinto's claw-back right. In order to earn its 70% interest, the Company, at its option, must make payments of \$5,400,000 over three years. To date, Bear Creek has made the required payments of \$400,000.

Once the 70% interest is earned, Rio Tinto shall have 90 days from the date of receipt to elect, at its sole discretion, either to offer its remaining 30% interest in the Property to Bear Creek for \$5,000,000 and additional "Success Payments" as described below or enter into a joint venture agreement with Bear Creek. The joint venture agreement would have standard dilution clauses.

In addition to the payments listed above, the Company will also pay pro rata Success Payments of \$1.10 per ounce of gold, \$0.015 per ounce of silver, and \$0.005 per pound of copper, based upon recoverable metal as defined in a feasibility study. The Company will pay additional cash Success Payments of \$5,000,000 for each event that the recoverable reserves exceed 1 million ounces of gold or 100 million ounces of silver, subject to a maximum amount of \$10,000,000. To date the Company has not completed a feasibility study to determine the recoverable reserves. The Success Payments will be payable within thirty days following acceptance of the feasibility study by Rio Tinto. Should the recoverable reserves, as defined at commencement of commercial production, be 20% or more than the recoverable reserves defined by a feasibility study, the Company will then adjust the Success Payments and pay Rio Tinto the balance.

Rio Tinto has the claw-back right to acquire a 60% interest in the project by reimbursing the Company three times its pro-rated total direct exploration expenditures should the economic resources exceed 5.5 million tonnes of copper or exceed 10 million ounces of gold-equivalent precious metal mineralization. In addition, if the claw-back right is exercised, Rio Tinto will provide Bear Creek financing on its 40% interest, on a deferred carried basis, on which interest shall accrue at an annual rate equal to the rate of LIBOR plus 4% per annum, to be repaid monthly after the commencement of commercial production.

During the current period, the Company incurred expenditures of \$1,904,870. Included in this total are drilling of \$1,089,036, acquisition costs of \$302,707, travel of \$203,573, salaries of \$158,011, supplies and general of \$11,416, geophysics of \$82,274 and assaying and sampling of \$57,853. The Company has commenced a drilling program, which was to initially include an estimated 3,000 meters in approximately 20 diamond drill holes. Based upon the positive results from the initial drill holes, the Company has drilled to date 209 drill holes from 89 drill sites for a total of 33,504 meters of diamond core drilling. The Company contracted SRK Consulting ("SRK") of Tucson, Arizona in December 2005 to perform the project's first independent 43-101 resource estimation. The effective date of this resource estimate was 13 March 2006. This resource estimate is based upon 83 diamond drill holes totaling 14,689 meters drilled and 24 surface trenches totaling 2,594 meters (completed through 22 February 2006), was reported as follows:

## Corani Resources – 13 March 2006

<b>20 g/mt Ag CUTOFF</b>	<b>MILLION TONNES</b>	<b>g/mt Ag</b>	<b>% Pb</b>	<b>% Zn</b>	<b>MILLION Oz Ag</b>	<b>MILLION Lbs Pb</b>	<b>MILLION Lbs Zn</b>
Corani Este - Inferred	42.22	88.2	1	0.73	119.7	930	676
Minas Corani - Inferred	36.87	64.3	1.19	0.46	76.3	969	370
Main Corani - Inferred	8.54	34.4	0.51	0.37	9.5	95	70
<b>TOTAL INFERRED</b>	<b>87.64</b>	<b>72.9</b>	<b>1.03</b>	<b>0.58</b>	<b>205.5</b>	<b>1,994</b>	<b>1,116</b>
<b>MAIN CORANI – MEASURED &amp; INDICATED</b>	<b>27.88</b>	<b>49.6</b>	<b>0.79</b>	<b>0.23</b>	<b>44.5</b>	<b>486</b>	<b>139</b>

<b>80 g/mt Ag CUTOFF</b>							
Corani Este - Inferred	22.37	118.5	1.19	0.97	85.2	587	478
Minas Corani - Inferred	6.9	123.2	1.77	0.74	27.4	269	113
<b>TOTAL</b>	<b>29.3</b>	<b>119.7</b>	<b>1.33</b>	<b>0.92</b>	<b>112.6</b>	<b>856</b>	<b>591</b>

The original drilling at Main Corani was relatively closely spaced, resulting in a portion of the deposit being classified by SRK as Measured and Indicated resources with the balance as Inferred resources. Subsequent drilling at Minas Corani and Corani Este was wider spaced and has been classified as Inferred resources by SRK. Current and future in-fill drilling is expected to raise the classifications of the mineralization to Indicated and Measured resources at Corani Este and Minas Corani, which is substantially higher grade than the original Main Corani, as well as to increase the tonnage of these resources. Step-out drilling is in progress to extend the mineralization and the resource estimate will be updated mid-year 2006 with new drill results.

The Company also began exploration in the gold target zone located 1.5 kilometers to the south of the silver-rich target for which the SRK resource estimation was done. Thirty eight diamond drill holes tested 1,000 meters of strike length. Thirty three drill holes yielded intersections averaging 17.4 meters grading 2.0 g/t gold and 40.4 g/t silver. Drilling will continue in July to both infill the mineralization and to extend mineralization along strike and laterally. None of the results for the gold target have yet to be included in the resource estimation. Several historic mine workings located 500 meters south along strike are currently being sampled and indicate potential to further extend the gold (+silver) target zone.

Four drills continue to explore the Corani district focusing on the silver-rich target area performing in-fill drilling and exploration. Drilling in the gold-silver target area has been temporarily suspended in order to focus on increasing resources in the silver-rich portions of the district for the next resource estimation. Drilling will resume on the gold-rich target once the previous results have been included in the resource estimation expected mid-year 2006. An additional 20,000 meters are planned for the remainder of 2006. Drilling will continue with the resource estimation to be updated periodically. Mapping and sampling of additional target areas, such as La Curva, are in progress and will be followed by drill testing.

Preliminary metallurgical tests for the recovery of silver from the Main Corani mineralization have been completed. Cyanide bottle roll leach tests were carried out at Plenge Laboratories in Lima in October 2005 on samples of oxide, mixed oxide-sulphide and sulphide drill core samples and yielded silver recovery values initially in the 75% to 90% range. Subsequent bottle

roll cyanide extraction tests performed by Dawson Metallurgical Laboratories in Salt Lake City, Utah yielded recoveries on similar material and averaged approximately 70% recovery of silver. The Dawson results are considered more typical for cyanide recoveries in an epithermal silver deposit. Two metallurgical test holes were completed in February 2006 and have been received by Dawson for further testing. The additional testing will include leaching, flotation, selective flotation, and flotation/leach combinations. This preliminary testing is designed to begin identifying process alternatives for a scoping study. The project will likely require additional metallurgical test work for the preparation of a scoping-level study, possibly involving the drilling of additional drill holes for obtaining appropriate samples for further tests. Metallurgical analysis and testing are ongoing. Future testing will be designed based upon the results of the current Dawson test results.

An initial scoping study, which considers the resource, ore processing and treatment, scale of production, and basic engineering, has been started and is expected to be completed in the third quarter of 2006. The Company anticipates spending approximately \$5 million in the next six months on the Corani Project in order to continue drilling, perform extensive metallurgical testing, assemble a scoping study, and secure surface rights and other exploration expenses to continue the project.

### **Santa Ana Project**

Bear Creek agreed to acquire a 100% interest in the Santa Ana silver project located in the Department of Puno, within 50 kilometers of the Peruvian border, of southern Peru. The acquisition will be covered by concessions over 3,600 hectares, the titles of which are currently being processed by the Ministry of Energy and Mines. The claims are subject to payments to a Peruvian individual; totaling \$15,000 upon receipt of title, \$15,000 upon initiation of drilling, and 3% of direct exploration expenditure to a maximum lifetime payment of \$280,000. By a Supreme Decree issued by the Ministry of Agriculture in January 2006, based on INRENA's (Peruvian Department of Natural Resources) official report, the last step prior to the issuance of title by the Ministry of Energy and Mines was initiated. On April 28, 2006, the mineral rights were approved by resolutions issued by the Ministry of Energy and Mines. The titles are now being published in the federal registry in order for the titles to be officially recorded, the final step in the titling process. The process is anticipated to be finalized in June. Once this process has been finalized and Bear Creek has obtained government approval to possess title to this property, the transfer of title will be completed upon an additional payment of \$7,000 to a Peruvian individual. Presently, the required environmental permits are being prepared for the initial drilling program anticipated to begin in July 2006. In the current period, the Company incurred expenditures of \$3,794 directed towards community relations and surface access agreements required to initiate drilling. Included in this total are salaries of \$270, geophysics of \$16, supplies and general of \$2,561, and travel of \$947. Rock chip sampling and geophysical survey (IP/magnetics) were completed over the southern anomaly, which have aided in selecting several high quality drill targets for testing. The average for all 446 rock chip samples collected from the project is 82.8 g/t silver, 0.37% lead, and 0.32% zinc over an area measuring 2.8 kilometers by 600 meters wide.

### **Pichicani Norte Project**

On 26 October 2004, Bear Creek entered into a letter agreement with AngloGold Ashanti ("AGA") to acquire a 60% interest in its Pichicani Norte Project with exploration expenditures totaling \$2.5 million over a three-year period. The original commitment included current year expenditures in fieldwork and drilling totaling \$100,000, which has been met. Upon completion of the \$2.5 million expenditure, Bear Creek and AGA will enter into a joint venture agreement with standard dilution clauses. If either party's interest falls below 10%, then their participating interest will convert to a 2% Net Smelter Return ("NSR") Royalty for silver, and a 4% NSR Royalty for gold. If at anytime a feasibility or prefeasibility study indicates that greater than 50%

of the project's cash flow will be derived from gold production and the measured, indicated and inferred resource exceeds 2.5 million ounces of gold equivalent ounces, AGA has a back-in right to acquire a 70% interest by funding a feasibility study. The property has potential for near-surface gold and silver mineralization, and Bear Creek has completed fieldwork, including an IP and resistivity geophysical survey to define drill targets. During the fourth quarter of 2005, the Company completed 771 meters of core drilling in four drill holes. The results included strongly anomalous lead, zinc, silver mineralization (up to 1 opt AG) and Gold (up to 0.5 g/t Au) over a broad area. The results are being reviewed, in the context of the large area explored, and a decision on whether to proceed under the agreement is anticipated by mid-year 2006. In the current period, the Company incurred expenditures of \$1,932. Included in this total are travel costs of \$329, geophysics of \$648, assaying and sampling of \$699 and supplies and general of \$256.

### **AngloGold Ashanti Exploration Alliance**

In January 2005, Bear Creek and AGA entered into a letter agreement allowing Bear Creek to acquire an extensive exploration database covering 180,000 square kilometers in southern Peru, for Bear Creek's exploration purposes. This data package will provide the Company with crucial information to aggressively generate additional targets in this new precious metals belt. During the first quarter of 2005, Bear Creek accepted delivery of the data package and issued 200,000 shares of its common stock to AGA plus one million warrants priced at CDN \$1.50 to expire on 12 January 2006 (exercised by AGA in August 2005) and an additional one million warrants priced at CDN \$ 2.20 to expire on 12 January 2007 (exercised by AGA on 8 March, 2006). Under the terms of the original agreement, Bear Creek must spend a minimum of \$250,000 on direct exploration during the first year; however, the agreement was amended on March 23, 2006 for the minimum expenditure period to be extended for one additional year with all other terms remaining unchanged. Bear Creek will have a 100% interest in any project acquired in the defined area. Any properties acquired will be subject to certain back-in rights in favor of AGA; namely, AGA has a "back-in" right to acquire a 65% interest in any prospect, acquired through the use of this data package, by funding a feasibility study and providing Bear Creek a full carried interest to production. The majority of the Company's Generative costs were incurred in this category in 2005. Exploration expenditures during the current period totaled \$37,107. Included in the total are salaries of \$33,954 and supplies and general of \$3,153.

### **Condor Project**

On 30 November 2005, Bear Creek entered into an option agreement, whereby the Company has the right to acquire a 100% interest in the Condor Property, which comprises 2,444 hectares, by making total payments of \$1,766,962 over a three year period. As at 31 March 2006, Bear Creek has made total payments of \$16,962. Additional payments of \$50,000 by 1 May 2006(paid); \$200,000 by 1 November 2006; \$500,000 by 1 November 2007; and \$1 million by 1 November 2008 are required to earn a 100% interest in the property. Once the option is exercised the optionor will retain the right to a 2% NPI up to a maximum limit of \$ 3.5 million. In the current period, the Company incurred expenditures of \$83,681. Included in this total are salaries of \$31,202, assaying and sampling of \$10,259, drilling costs of \$15,286, supplies and general of \$6,855, and travel of \$20,079.

The Condor gold project is located in the Nazca area of southern Peru and is an epithermal gold system hosted in Yura-group quartzites (Cretaceous) cut by stockwork quartz veins. Some mineralization extends into overlying, younger Tertiary volcanics. The corridor of mineralization discovered to date measures 1,200 meters long x 60-150 meters wide and is open both along and perpendicular to the general NW strike. Sampling performed by Bear Creek includes a total of 469 outcrop and trench rock-chip samples that average 700ppb gold. Of the total samples collected to date 52 assay >1.0g/t, 22 assay >2.0g/t and the ten highest values range from 4.5

to 81.0g/t gold. Initial testing of the anomalies with approximately 500 meters of diamond core drilling on the property will begin in mid May.

### **Generative Exploration**

Generative exploration is a crucial part of the business in identifying and acquiring new opportunities. Generative exploration are those costs not attributable to a specific Bear Creek project. Bear Creek maintains at least two field teams and a system of field prospectors who focus on generating new exploration targets with the emphasis on gold and silver. Typically, dozens of prospects are submitted to or are generated by Bear Creek during any given quarter. At any given time, several targets may be under consideration for possible acquisition through staking or entering into third party option to purchase agreements. When Bear Creek defines a project as a distinct exploration target, it is then accounted for as a separate project. Generative exploration costs totalled \$368,990 for the first quarter of 2006, up from \$141,599 in 2005. Expenses in the first quarter of 2006 consisted of \$28,791 in salaries, \$22,800 in travel, \$297,388 in supplies, IVA and general expenses, assaying and sampling of \$17,853, \$900 in mineral rights acquisition costs, and \$1,258 in Geological.

### **Other Properties**

Other properties are exploration properties which management has decided are not a priority or which management has chosen not to pursue and, therefore, has terminated option agreements.

### ***Bear Creek's Results of Operations***

Bear Creek is a publicly traded Canadian exploration company without any mineral producing properties, and thus, does not have revenues from any mineral properties.

### ***Summary of Quarterly Results***

The following table sets out selected unaudited quarterly financial information of Bear Creek and is derived from unaudited quarterly consolidated financial statements prepared by management. Bear Creek's interim consolidated financial statements are prepared in accordance with Canadian GAAP and expressed in US dollars.

Period	Revenues	Loss from Continued Operations	Basic and Fully Diluted Loss per Share from Continued Operations
1 <sup>st</sup> Quarter 2006	Nil	(2,905,852)	(0.08)
4 <sup>th</sup> Quarter 2005	Nil	(1,760,877)	(0.05)
3 <sup>rd</sup> Quarter 2005	Nil	(1,165,163)	(0.03)
2 <sup>nd</sup> Quarter 2005	Nil	(775,092)	(0.02)
1 <sup>st</sup> Quarter 2005	Nil	(1,055,110)	(0.04)
4 <sup>th</sup> Quarter 2004	Nil	(443,829)	(0.02)
3 <sup>rd</sup> Quarter 2004	Nil	(455,088)	(0.02)
2 <sup>nd</sup> Quarter 2004	Nil	(559,297)	(0.02)

The increase in the loss for the first quarter of 2006 resulted primarily from increased drilling and other exploration costs incurred on the Corani project.

The increase in the loss for the fourth quarter of 2005 resulted primarily from additional stock compensation expenses as a result of the vesting of stock options granted in the second half of 2005 and increased drilling expenses on Corani.

### ***Period Ended 31 March 2006 as compared to the Period Ended 31 March 2005***

#### **Net Loss and Operating Expenses**

In the current period, the Company experienced a net loss of \$2,905,852 compared to a net loss of \$1,055,110 for the same period in 2005, an increase of \$1,850,742. The increase is primarily due to drilling and exploration costs incurred on the Corani property, stock compensation increased to \$305,375 in the current quarter, up from \$82,539 in the same quarter in 2005, due to an increase of options that are vesting and the higher fair value of these options. The Company had a loss per share of \$0.08 compared to \$0.04 for the same period in 2005.

Total operating expenses for the current period in 2006 were \$2,962,780 compared to operating expenses of \$1,056,390 for the same period in 2005. Wages and management salary costs increased in the first quarter to \$83,658 compared to \$37,663 for the same period last year, due to additional staff hired during December 2005. Exploration costs were \$2,402,864 in the current quarter, up from \$856,512 in the same period year, largely due to the increased drilling and exploration on the Corani project.

Bear Creek's net interest income for the period ended 31 March 2006 was \$87,852, an increase of \$83,236 from 2005. The increase in interest income was attributable to a higher cash balance for the period due to the issuance of common shares, as compared to the same period last year as well as the Company earning a higher yield on its short term deposits. The Company maintains its cash and short-term low risk investments in institutions with high credit worthiness.

#### **Liquidity and Capital Resources**

On 31 March 2006, the Company had 38,887,958 issued shares. The Company's net working capital as at 31 March 2006 was \$12,080,619 compared to a net working capital of \$12,115,998 as at 31 December 2005. The cash balance at 31 March 2006 was \$12,152,606 compared to \$12,122,688 as at 31 December 2005. As at 31 March 2006 current liabilities were \$159,692 compared to \$99,333 as at 31 December 2005.

As at 17 May 2006, the Company had 39,598,111 issued shares. The Company has 4,970,050 options which have been granted to directors, officers, employees and consultants to purchase an aggregate of 4,970,050 shares at prices ranging from US\$0.50 to Cdn\$4.75, expiring at varying dates between 22 April 2008 and 6 December 2010. Of these options outstanding, 935,000 options are subject to shareholder approval.

On 17 May 2006, the Company had 2,279,154 warrants outstanding at prices ranging from Cdn\$1.25 to Cdn\$4.25, expiring at varying dates between 7 April 2007 and 30 August 2007.

Management's opinion regarding liquidity and the ability to be a going concern is based on currently available information. To the extent that this information changes, future availability of financing may be adversely affected. Factors that could affect the availability of financing include the performance by various factors, including the progress and results of exploration work, the state of equity markets, investor perceptions, and expectations of past and future performance. Cash on hand and additional financing is sufficient to fund the Company's overhead costs and exploration objectives for the immediate future.

## **Financing Activity**

During the period, the Company received cash proceeds of \$2,551,569 from the exercise of 245,949 Series D, and E Warrants and the exercise of 1,000,000 AGA Cdn\$2.20 warrants. In addition, a total of \$14,189 was received during the period for the exercise of 23,400 share purchase options.

From 1 April 2006 to 17 May 2006, a total of 710,153 share purchase warrants and options were exercised for cash of \$1.3 Million.

## **Transactions with Related Parties**

In connection with the approval of related party transactions, the Company has a policy that requires that the terms of all such transactions must be comparable to terms available in arms-length transactions. Each of the transactions described below meet those requirements.

The Company accrued legal services, totaling \$10,500, from a law firm in which Miguel Grau, a Director of Bear Creek, is a partner. Legal services were rendered in association with the Company's subsidiary in Peru and its interest in various mineral projects.

The Company received legal services, totaling \$28,713, during the period from a law firm in which Corey Dean, an Officer of Bear Creek, is a partner. Legal fees related primarily to the amendment of the Company warrants and ongoing other administrative items and costs related to the private placement.

The Company received accounting services from an accounting firm in which Steven Krause, an Officer of the Company, is a partner. The total accounting fees paid were \$6,496.

The Company received consulting services from a Director of the Company, Catherine McLeod-Seltzer, during the period. The fees were incurred in relation to management consulting services. Total fees paid during the current quarter were \$12,500.

Pursuant to an Agreement, the Company is provided with office space from Pacific Rim Mining Corporation ("Pacific Rim"), a company with directors in common, in consideration of a fee, fixed annually and paid monthly. Pacific Rim recovers miscellaneous charges, such as postage, based upon Bear Creek's actual usage. Rent and miscellaneous charges paid to Pacific Rim for the period ended 31 March 2006 was \$5,603.

## **Critical Accounting Policies and Estimates**

The details of Bear Creek's accounting policies are presented in note 2 of the annual consolidated financial statements. The following policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Company's financial statements and the uncertainties that could have a bearing on its financial results.

### **a) *Resource Properties***

Resource properties are stated at estimated fair value as at the date of acquisition, less accumulated write-downs. Reviews are undertaken annually to evaluate the carrying values of exploration and development properties. Bear Creek capitalizes costs incurred on mineral properties only after it has been established that the property contains mineral reserves. Expenditures on exploration properties, including those with mineral resources, are expensed as incurred.

**b) *Stock-based Compensation***

In the year ended December 2003, the Company adopted CICA standard 3870 "Stock-based Compensation and Other Stock-based Payments", which requires fair value accounting for all stock options issued during the year.

**c) *Estimates***

Financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Approval**

The Audit Committee of Bear Creek has approved the disclosure contained in this MD&A.

**Additional Information**

Additional information relating to Bear Creek is on SEDAR at [www.sedar.com](http://www.sedar.com)