

**BEAR CREEK MINING CORPORATION**

**(An Exploration Stage Company)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**30 JUNE 2006**

**EXPRESSED IN US FUNDS**

**RESTATED**

**(Unaudited)**

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

Statement 1

		As at 30 June 2006 Restated	As at 31 December 2005
<b>ASSETS</b>			
<b>Current</b>	Cash and cash equivalents	\$ 11,065,998	\$ 12,122,688
	Prepaid expenses and advances	135,320	92,643
		<u>11,201,318</u>	<u>12,215,331</u>
<b>Equipment</b> (Note 5)		<u>182,979</u>	<u>108,675</u>
		<u>\$ 11,384,297</u>	<u>\$ 12,324,006</u>

**LIABILITIES**

<b>Current</b>	Accounts payable and accrued liabilities	\$ 512,157	\$ 99,333
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**SHAREHOLDERS' EQUITY**

<b>Share Capital</b>	Authorized: (Note 7a) Unlimited common shares without par value Issued and fully paid: 39,670,311 (2005 - 37,618,609) common shares	26,696,028	22,448,748
	Contributed surplus (Note 7b)	<u>3,631,476</u>	<u>2,698,537</u>
		<u>30,327,504</u>	<u>25,147,285</u>
<b>Deficit</b> - Statement 2		<u>(19,455,364)</u>	<u>(12,922,612)</u>
		<u>10,872,140</u>	<u>12,224,673</u>
		<u>\$ 11,384,297</u>	<u>\$ 12,324,006</u>

ON BEHALF OF THE BOARD:

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

"Andrew Swarhout" \_\_\_\_\_, Director

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*  
**Interim Consolidated Statements of Operations and Deficit**

Statement 2

U.S. Funds  
 Unaudited

	For the Three Months Ended 30 June 2006 Restated	For the Three Months Ended 30 June 2005	For the Six Months Ended 30 June 2006 Restated	For the Six Months Ended 30 June 2005
<b>Operating Expenses</b>				
Exploration costs - schedule	\$ 2,895,772	\$ 574,121	5,298,636	\$ 1,430,633
Stock compensation expense	969,834	82,539	1,275,209	165,078
Wages and management salary	89,469	74,646	173,127	112,309
Professional fees	81,864	15,423	152,990	55,912
Shareholder information and filing fees	58,951	27,278	119,130	48,126
Travel	41,465	12,412	62,920	19,492
General administrative expenses <i>(note 2)</i>	100,083	7,380	117,785	18,450
Amortization	280	189	701	378
	<u>(4,237,718)</u>	<u>(793,988)</u>	<u>(7,200,498)</u>	<u>(1,850,378)</u>
<b>Other Items</b>				
Foreign exchange (loss)	502,598	13,233	471,674	9,897
Interest and bank charges - net	108,220	5,663	196,072	10,279
	<u>610,818</u>	<u>18,896</u>	<u>667,746</u>	<u>20,176</u>
<b>Loss for the Period</b>	<u>(3,626,900)</u>	<u>(775,092)</u>	<u>(6,532,752)</u>	<u>(1,830,202)</u>
Deficit - Beginning of period	(15,828,464)	(9,221,480)	(12,922,612)	(8,166,370)
<b>Deficit - End of Period</b>	<u>\$ (19,455,364)</u>	<u>\$ (9,996,572)</u>	<u>\$ (19,455,364)</u>	<u>\$ (9,996,572)</u>
<b>Loss per Share - Basic and Diluted</b>	<u>\$ (0.09)</u>	<u>\$ (0.02)</u>	<u>\$ (0.17)</u>	<u>\$ (0.06)</u>
<b>Weighted Average Number of Shares Outstanding</b>	<u>39,454,234</u>	<u>31,740,644</u>	<u>38,716,025</u>	<u>29,620,594</u>

See Accompanying Notes

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*  
**Interim Consolidated Statements of Cash Flow**

Statement 3

U.S. Funds  
 Unaudited

	For the Three Months Ended 30 June 2006 Restated	For the Three Months Ended 30 June 2005	For the Six Months Ended 30 June 2006 Restated	For the Six Months Ended 30 June 2005
<b>Operating Activities</b>				
Loss for the period	\$ (3,626,900)	\$ (775,092)	\$ (6,532,752)	\$ (1,830,202)
Items not affecting cash:				
Stock compensation	969,834	82,539	1,275,209	165,078
Share capital issued in exploration costs	-	-	-	548,625
Amortization included in exploration costs	2,563	6,787	5,125	12,409
Amortization	280	189	701	378
	<u>(2,654,223)</u>	<u>(685,577)</u>	<u>(5,251,717)</u>	<u>(1,103,712)</u>
Changes in:				
Prepays and advances	(47,615)	(31,270)	(42,677)	(25,935)
Accounts payable	352,465	107,653	412,824	141,538
Cash used in operating activities	<u>(2,349,373)</u>	<u>(609,194)</u>	<u>(4,881,570)</u>	<u>(988,109)</u>
<b>Investing Activities</b>				
Purchase of equipment	<u>(76,487)</u>	<u>(23,807)</u>	<u>(80,130)</u>	<u>(47,471)</u>
Cash used in investing activities	<u>(76,487)</u>	<u>(23,807)</u>	<u>(80,130)</u>	<u>(47,471)</u>
<b>Financing Activities</b>				
Share capital issued - net	1,339,252	2,635,943	3,905,010	2,935,228
Cash received from financing activities	<u>1,339,252</u>	<u>2,635,943</u>	<u>3,905,010</u>	<u>2,935,228</u>
<b>Net Decrease in Cash Position</b>	<u>(1,086,608)</u>	<u>2,001,942</u>	<u>(1,056,690)</u>	<u>1,899,648</u>
Cash position - Beginning of period	<u>12,152,606</u>	<u>1,163,258</u>	<u>12,122,688</u>	<u>1,265,552</u>
<b>Cash Position - End of Period</b>	<u>\$ 11,065,998</u>	<u>\$ 3,165,200</u>	<u>\$ 11,065,998</u>	<u>\$ 3,165,200</u>

**Non-cash Investing and Financing Activities**

Fair value of options and warrants exercised	\$ 90,276	\$ -	\$ 342,270	\$ -
Shares issued for property acquisition costs	\$ -	\$ -	\$ -	\$ 548,625
Stock based compensation	\$ 969,834	\$ 82,539	\$ 1,275,209	\$ 165,078

See Accompanying Notes

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*  
**Interim Consolidated Schedule of Exploration Costs**

Schedule

U.S. Funds  
 Unaudited

		For the Three Months Ended 30 June 2006 Restated	For the Three Months Ended 30 June 2005	For the Six Months Ended 30 June 2006 Restated	For the Six Months Ended 30 June 2005
Corani	Drilling	\$ 1,205,249	\$ 110,000	2,294,285	\$ 110,000
	Acquisitions/claim fees	41,031	-	343,738	25,000
	Salary	260,085	22,742	418,096	41,203
	Assaying and sampling	171,264	32,243	229,117	38,297
	Travel	(35,099)	-	128,474	-
	Geophysics	180,621	-	262,895	-
	Supplies and general	15,655	69,003	67,071	81,968
	Legal	-	15,000	-	15,000
		<u>1,838,806</u>	<u>248,988</u>	<u>3,743,676</u>	<u>311,468</u>
Santa Ana	Acquisitions/claim fees	29,690	-	29,690	-
	Salary	12,262	16,327	12,532	47,790
	Travel	7,794	3,991	8,741	9,048
	Supplies and general	5,497	15,274	8,058	15,713
	Geophysics	471	10,563	487	25,563
	Assaying and sampling	-	99	-	1,270
		<u>55,714</u>	<u>46,254</u>	<u>59,508</u>	<u>99,384</u>
Condor	Drilling	60,576	-	75,862	-
	Option payments	50,000	-	50,000	-
	Travel	12,684	-	32,763	-
	Acquisitions/claim fees	8,775	-	8,775	-
	Salaries	33,714	-	64,916	-
	Supplies and General	3,101	-	9,956	-
	Assays	1,084	-	11,343	-
	Geological	21,604	-	21,604	-
		<u>191,538</u>	<u>-</u>	<u>275,219</u>	<u>-</u>
Pichicani Norte	Assays and sampling	-	-	699	-
	Geophysics	(648)	33,548	-	33,548
	Travel	(329)	-	-	-
	General	(256)	989	-	989
	Acquisitions/claim fees	-	13,205	-	13,205
		<u>(1,233)</u>	<u>47,742</u>	<u>699</u>	<u>47,742</u>
AngloGold Exploration Alliance	Salary	23,084	45,988	57,038	56,481
	Travel	7,064	-	7,064	-
	Supplies and general	(103)	6,693	3,050	14,860
	Acquisition - shares issued	-	-	-	548,625
		<u>30,045</u>	<u>52,681</u>	<u>67,152</u>	<u>619,966</u>
Generative exploration	Supplies, IVA and general	574,520	36,140	871,908	103,194
	Salary	173,944	49,633	202,735	113,762
	Geological	1,027	-	12,285	-
	Travel	4,781	23,073	27,581	31,089
	Assays	(359)	4,429	7,494	6,591
	Acquisition/claims fees	9,035	17,181	9,935	17,419
		<u>762,948</u>	<u>130,456</u>	<u>1,131,938</u>	<u>272,055</u>
Other properties		<u>17,954</u>	<u>48,000</u>	<u>20,444</u>	<u>80,018</u>
<b>Costs for the Period</b>		<u>\$ 2,895,772</u>	<u>\$ 574,121</u>	<u>\$ 5,298,636</u>	<u>\$ 1,430,633</u>

See Accompanying Notes

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

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

**30 June 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.

### **2. Restatement of Consolidated Financial Statements June 2006**

The Company has restated its previously reported consolidated financial statements as at and for the six months ended 30 June 2006 and all related disclosures. These unaudited financial statements reflect the restatement of the unaudited consolidated financial statement for the six months ended 30 June 2006. The restatement of the Company's interim consolidated financial statements followed an internal review of the Company's accounting records in its Peruvian exploration office after the Company discovered fraudulent activity being conducted by one of its employees. As a result of the review, it identified an overstatement of the consolidated net assets and an understatement of the consolidated liabilities of the Company as at 30, June 2006.

In September 2006 the Company uncovered a scheme in which funds of one of the Company's subsidiaries were misappropriated by one its Peruvian employees. The total losses arising from the fraudulent transactions committed against the Company by this employee, amounted to \$0.1 million over an approximate eight-month period ending September 2006. For the period ended June 30, 2006, the losses resulting from the misappropriation of funds have been reported as part of general administrative expenses. Following the discovery, the employee was dismissed. The Company has filed criminal charges against the former employee to recover the amounts misappropriated, and has cancelled all options that have been granted to the former employee.

In addition to the above, the former employee also falsified reporting documents that were used in preparing the Company's consolidated balance sheet and consolidated income statement for the period ended June 30, 2006. This resulted in incorrect accounting for certain transactions, resulting in financial statement errors.

During the investigation into the above fraud, it was discovered that the Peruvian accounting firm contracted to perform supervisory accounting support for the Company's subsidiary did not perform all of the procedures agreed to in their engagement contract. As a result, the Company has subsequently cancelled their engagement contract with the Peruvian accounting firm. The Company is currently determining whether to press civil charges against the Peruvian accounting firm for gross negligence as a result of their non-compliance with the agreed engagement terms.

As a result of the losses incurred resulting from the misappropriation of funds, as well as the financial statement errors noted above, the Company has restated its unaudited second quarter consolidated financial statements for the period ended June 30, 2006. The effects of the restatement are as follows:

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

**Notes to Interim Consolidated Financial Statements**

**30 June 2006**

US Funds  
(Unaudited)

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	As Restated	As Originally filed	Difference Increase/(Decrease)
<b>Consolidated Balance Sheet</b>			
Current assets	11,201,318	11,637,425	(436,107)
Total assets	11,384,297	11,798,285	(413,988)
Current and total liabilities	512,157	283,816	228,341
<b>Consolidated Income Statement</b>			
Exploration costs for the three months ended June 30, 2006	2,895,772	2,180,593	715,179
Exploration costs for the six months ended June 30, 2006	5,298,636	4,583,457	715,179
Total amount misappropriated in the three and six months ended June 30, 2006	67,780	-	67,780
Loss for the three months ended June 30, 2006	3,626,900	2,984,571	642,329
Loss for the six months ended June 30, 2006	6,532,752	5,890,423	642,349

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**3. Significant Accounting Policies**

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and follow the same accounting policies and methods consistent with those used in the preparation of the most recent annual audited financial statements. The interim consolidated financial statements do not include all information and note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2005.

**4. 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, 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.

The Company holds cash balances and incurs payables that are denominated in Canadian Dollars. These balances are subject to changes in the exchange rate between the Canadian Dollar and the U.S. Dollar, which would result in a currency gain or loss to the Company.

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

**Notes to Interim Consolidated Financial Statements**

**30 June 2006**

*US Funds*  
*(Unaudited)*

**5. Equipment**

Details are as follows:

	30 June 2006			31 December 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 14,449	\$ 6,649	\$ 7,800	\$ 14,449	\$ 5,948	\$ 8,501
Exploration equipment	260,701	85,522	175,179	180,571	80,397	100,174
	<u>\$ 275,150</u>	<u>\$ 92,171</u>	<u>\$ 182,979</u>	<u>\$ 195,020</u>	<u>\$ 86,345</u>	<u>\$ 108,675</u>

**6. Resource Property Costs**

Cumulative resource expenditures per project under active exploration:

	Acquisition Costs	Exploration Costs	Balance as at 31 June 2006
Corani Project, Peru	\$ 466,801	\$ 4,711,256	\$ 5,178,057
Santa Ana Project, Peru	49,473	175,249	224,722
	<u>\$ 516,274</u>	<u>\$ 4,886,505</u>	<u>\$ 5,402,779</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>

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.

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

**Notes to Interim Consolidated Financial Statements**

**30 June 2006**

*US Funds*  
*(Unaudited)*

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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 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 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 re-acquire a 30% interest in the project from Bear Creek (bringing its percentage up to 60%) 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.

During the current period, management has decided to abandon the Pichicani Norte Project and has terminated this option agreement.

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

**Notes to Interim Consolidated Financial Statements**

**30 June 2006**

*US Funds*  
*(Unaudited)*

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d) AngloGold Exploration Alliance

By letter agreement dated 12 January 2005 and subsequently amended, 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 two years 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.

During the current period, management has decided to abandon the Niñobamba Project and has terminated the option agreement.

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 \$66,962.

During the current period, management has decided to abandon the Condor Project and has terminated this option agreement.

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

**Notes to Interim Consolidated Financial Statements**

**30 June 2006**

*US Funds*  
*(Unaudited)*

**7. Share Capital**

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

	Shares		Amount
Authorized:			
Unlimited common shares without par value			
Issued 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	232,150		127,739
Shares issued for warrants	819,552		1,871,519
Shares issued for exploration alliance warrants	1,000,000		1,905,752
Fair value of options and warrants exercised	-		342,270
Balance – 30 June 2006	39,670,311	\$	26,696,028

b) **Details of contributed surplus:**

		2006
Balance – Beginning of Period	\$	2,698,537
Fair value of stock-based compensation		1,275,209
Fair value of stock options exercised		(101,409)
Fair value of exploration alliance warrants exercised		(240,861)
Balance – End of Period	\$	3,631,476

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.

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

**Notes to Interim Consolidated Financial Statements**

**30 June 2006**

*US Funds*  
*(Unaudited)*

	Number of options	Weighted average exercise price (in C\$)
Options outstanding at 31 December 2004	4,080,000	0.61
Year ended 31 December 2005		
Granted	1,800,000	3.10
Exercised	(735,000)	0.50
Cancelled	(15,000)	0.70
Options outstanding at 31 December 2005	<u>5,130,000</u>	<u>1.49</u>
Granted	115,000	4.60
Exercised	(232,150)	0.63
Cancelled	(235,000)	1.74
Options outstanding at 30 June 2006	<u>4,777,850</u>	<u>1.60</u>

A summary of the Company's options as at 30 June 2006 is as follows:

	Number	Price per Share	Expiry Date
Options	1,512,500	US\$0.50	21 April 2008
	275,000	US\$0.50	5 June 2008
	20,000	US\$0.50	2 July 2009
	1,165,350	Cdn\$0.70	24 November 2009
	755,000	Cdn\$3.00	5 August 2010
	835,000	Cdn\$3.00	5 August 2010
	100,000	Cdn\$4.75	6 December 2010
	115,000	Cdn\$4.60	31 May 2011
	<u>4,777,850</u>		

3,420,350 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. The options have a \$3,538,909 estimated value on the grant date. Of these options 835,000 were subject to shareholder approval, which was received on 25 May 2006.

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.

On 30 May 2006, the Company granted an officer and an employee of the Company options to purchase up to 115,000 common shares of the Company at an exercise price of CDN\$4.60 per share. These options have a \$399,014 estimated value on the grant date.

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

**Notes to Interim Consolidated Financial Statements**

**30 June 2006**

US Funds  
(Unaudited)

The options granted during the six months ended 30 June 2006 were valued at \$399,014 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	4.19%
Expected life of warrants	5 years

The weighted average fair value of the options granted was \$3.47

Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

d) **Warrants**

As at 30 June 2006, the following share purchase warrants were outstanding:

	Number	Price per Share	Expiry Date
Series D Warrants	632,260	Cdn\$1.25	7 April 2007
Series E and Broker Option Warrants	1,608,414	Cdn\$4.25	30 August 2007
Broker Warrants*	34,028	Cdn\$3.25	30 August 2007
	<b>2,274,702</b>		

\* 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.

**7. Related Party Transactions and Balances**

The following represents the details of related party transactions paid or accrued during the six months ended 30 June 2006:

	<b>2006</b>	2005
Consulting fees paid to a director of the Company	<b>21,000</b>	37,345
Legal fees paid to a firm in which a director of the Company is a partner	<b>28,186</b>	42,234
Legal fees paid to a firm in which an officer of the Company is a partner	<b>79,078</b>	25,379
Accounting fees paid to an officer of the Company	<b>28,195</b>	12,149
Rent paid to a company with a common director and officer of the Company	<b>10,297</b>	12,810

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

**Notes to Interim Consolidated Financial Statements**

**30 June 2006**

*US Funds*  
*(Unaudited)*

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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 \$689,600 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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**10. Subsequent Events**

From 1 July 2006 to 18 August 2006, a total of 520,078 share purchase warrants and options were exercised for cash of \$0.4 Million.

The Company has co-signed an operating lease agreement, commencing on 1 October 2006 to 31 December 2011. The total minimum lease payments are \$9,000 per month and \$108,000 per annum. The Company's proportionate share of the minimum lease payments is \$3,200 per month and \$38,400 per annum.

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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 20 August 2006, except as otherwise indicated, for the period ended 30 June 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.

**Restatement of the Interim Consolidated Financial Statements**

As disclosed in note 2 to the consolidated financial statements, the Company has restated its previously reported consolidated financial statements as at and for the period ending 30 June 2006 and all related disclosures. The restatement of the Company interim consolidated financial statements followed an internal review of the Company's accounting records in its Peruvian exploration office after the Company uncovered a scheme in which funds of one of the Company's subsidiaries were misappropriated by one of its Peruvian employees. As a result of the review, it identified an overstatement of the consolidated net assets and an understatement of the consolidated liabilities of the Company as at 30, June 2006. The effects of the restatement are reflected in the Company's interim consolidated financial statements and accompanying notes included herein. Accordingly, where appropriate the effects of the restatement, including the correction of all errors are reflected in management's discussion and analysis.

***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 periods ended June 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 six months ended 30 June 2006, the Company incurred expenditures of \$3,743,676. Included in this total are drilling of \$2,294,285, acquisition costs of \$343,738, travel of \$128,474, salaries of \$418,096, supplies and general of \$67,071, geophysics of \$262,895 and assaying and sampling of \$229,117. In June, 2005, the Company 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 expanded the exploration program and has drilled 269 drill holes to date totaling 45,159 meters of diamond core drilling. This brings the total holes drilled following the first resource estimation to 142.

In July, 2006, the Company contracted Independent Mining Consultants (“IMC”) of Tucson, Arizona to perform the second resource estimation. The following block model estimate was prepared by John Merak, PE, of IMC, an independent qualified person as defined by Canada’s National Instrument 43-101. The methods used in determining and reporting the resources are consistent with the CIM Best Practices Guidelines for the estimation of mineral resources and mineral reserves.

Resource Based on 16 g/t Ag Cut-off and Prudent Open Pit Constraints

Deposit	Category	Ktonnes	Silver	Lead	Zinc	Silver Million Ozs	Lead Million Lbs	Zinc Million Lbs
			Gm/t	%	%			
Main	Measured	7,899	52.5	0.93	0.29	13.3	162.0	50.5
	<u>Indicated</u>	<u>44,196</u>	<u>40.7</u>	<u>0.70</u>	<u>0.39</u>	<u>57.8</u>	<u>682.0</u>	<u>380.0</u>
	Meas+Ind	52,095	42.5	0.73	0.37	71.1	844.0	430.5
	Inferred	11,898	49.7	0.64	0.26	19.0	167.9	68.2
Minas	Measured	2,487	77.1	1.41	0.53	6.2	77.3	29.1
	<u>Indicated</u>	<u>39,405</u>	<u>52.2</u>	<u>1.03</u>	<u>0.40</u>	<u>66.1</u>	<u>894.8</u>	<u>347.5</u>
	Meas+Ind	41,892	53.7	1.05	0.41	72.3	972.1	376.6
	Inferred	20,713	47.3	0.74	0.30	31.5	337.9	137.0
Este	Measured	14,558	82.7	1.07	0.76	38.7	343.4	243.9
	<u>Indicated</u>	<u>31,856</u>	<u>72.6</u>	<u>0.91</u>	<u>0.75</u>	<u>74.4</u>	<u>639.1</u>	<u>526.7</u>
	Meas+Ind	46,414	75.8	0.96	0.75	113.2	982.5	770.6
	Inferred	5,326	55.9	0.41	0.25	9.6	48.1	29.4
Total All Deposits	Measured	24,944	72.6	1.06	0.59	58.2	582.7	323.5
	<u>Indicated</u>	<u>115,457</u>	<u>53.4</u>	<u>0.87</u>	<u>0.49</u>	<u>198.3</u>	<u>2,215.9</u>	<u>1,254.2</u>
	Meas+Ind	140,401	56.9	0.90	0.51	256.5	2,798.6	1,577.7
	Inferred	37,937	49.3	0.66	0.28	60.1	553.9	234.6

The resource is based on 236 diamond drilled core holes and 25 surface trenches; all the data in the possession of Bear Creek as of July 14, 2006. A complete list of drill holes used in this resource estimate can be found at Bear Creek’s website ([www.bearcreekmining.com](http://www.bearcreekmining.com)).

Since the Corani project is a poly-metallic silver-lead-zinc project a cut-off grade of 16 g/t Ag has been used in the reporting of the resource. The 16 g/t Ag cut-off was chosen as it reflects what is considered to be a prudent cut-off level to take into account the additional metal values.

Assumptions used in Resource model by IMC are: Silver Price= \$9.35/oz; Zinc Price= \$0.82/lb; Lead Price= \$0.44/lb; Silver Recovery= 85%; Zinc Recovery= 65%; Lead Recovery= 65%; Smelter charges: Silver= \$0.40 per ounce; Zinc= \$0.135 per pound; Lead= \$0.113 per pound; Mining Costs per tonne= \$1.10; Process cost per tonne= \$8.50; G&A per processed tonne=

\$0.85; Pit Slopes= 42 degrees. Actual results will vary based upon completion of metallurgical testing.

Resources of High Grade Core at 45 g/t cut-off Contained in Smaller Open Pit Shapes

Deposit	Category	Ktonnes	Silver	Lead	Zinc	Silver Million Ozs	Lead Million Lbs	Zinc Million Lbs
			Gm/t	%	%			
Main	Measured	3,764	83.5	1.36	0.17	10.1	112.9	14.1
	<u>Indicated</u>	<u>13,249</u>	<u>74.6</u>	<u>1.05</u>	<u>0.27</u>	<u>31.8</u>	<u>306.7</u>	<u>78.9</u>
	Meas+Ind	17,013	76.6	1.12	0.25	41.9	419.6	93.0
	Inferred	2,830	78.9	0.87	0.31	7.2	54.3	19.3
Minas	Measured	1,839	90.5	1.61	0.61	5.4	65.3	24.7
	<u>Indicated</u>	<u>18,659</u>	<u>70.6</u>	<u>1.32</u>	<u>0.40</u>	<u>42.4</u>	<u>543.0</u>	<u>164.5</u>
	Meas+Ind	20,498	72.4	1.35	0.42	47.8	608.3	189.2
	Inferred	5,171	64.4	1.01	0.36	10.7	115.1	41.0
Este	Measured	11,790	94.1	1.16	0.86	35.7	301.5	223.5
	<u>Indicated</u>	<u>21,975</u>	<u>89.2</u>	<u>1.06</u>	<u>0.95</u>	<u>63.0</u>	<u>513.5</u>	<u>460.2</u>
	Meas+Ind	33,765	90.9	1.09	0.92	98.7	815.0	683.7
	Inferred	2,165	76.3	0.40	0.35	5.3	19.1	16.7
Total All Deposits	Measured	17,393	91.4	1.25	0.68	51.2	479.7	262.3
	<u>Indicated</u>	<u>53,883</u>	<u>79.2</u>	<u>1.15</u>	<u>0.59</u>	<u>137.2</u>	<u>1,363.2</u>	<u>703.6</u>
	Meas+Ind	71,276	82.2	1.17	0.62	188.4	1,842.9	965.9
	Inferred	10,166	71.0	0.84	0.34	23.2	188.5	77.0

*High Grade Core*- There are high grade cores to each of the 3 deposits and these zones could be mined separately to enhance project economics. The high grade cores cumulatively contain a resource of 81.4 million tonnes of ore at a silver grade of 81 g/t Ag, 1.13% Pb and 0.59% zinc (Measured, Indicated and Inferred), containing 212 million ounces of silver, 2.03 billion pounds of lead and 1.04 billion pounds of zinc. These cores lie within a computer generated pit shape able to be mined with a stripping ratio of 2:1.

*Corani Este*- Corani Este has the highest grade and remains open to the west and northwest. The Inferred resource reported in March 2006 has been converted to a resource that contains 92% Measured and Indicated categories. One drill continues to extend the deposit to the west and northwest.

*Minas Corani*- The Minas Corani resource occurs in two separate zones; the West Limb and the East Limb. Exploration since March 2006 has demonstrated that there is economic mineralization between the two limbs where potential to increase resources exists. Additionally, the deposit remains open to the north, east and west. Two drill rigs continue to expand the resource at Minas Corani.

*Main Corani-* The resource includes additional material in both the foot wall and hanging wall of the main vein. The hanging wall of the main vein, in particular, remains open along much of its strike length.

*High Grade Zinc-* The zinc at the Corani project tends to occur in discrete high-grade zones. Applying a 1% zinc cut-off, there are 30.2 million tonnes averaging 1.89% Zn, representing 70% of the contained zinc in 17% of the mineralized material. This is important from a zinc recovery standpoint as these areas can be specifically targeted in the flotation flow-sheet to optimize recovery of the higher zinc grades.

The Company has also performed exploration in the gold-silver target zone located 1.5 kilometers to the south of the silver-rich target for which the IMC 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. In May, 2006, drilling in the gold-silver target area was temporarily suspended in order to focus on increasing resources in the silver-rich portions of the district for the IMC resource estimation. Drilling will resume in the gold-silver target area in September to both infill the mineralization and to extend mineralization along strike and laterally. None of the results for the gold-silver target have yet to be included in any resource estimations.

Four drills continue to explore the Corani district focusing on the silver-rich target area performing in-fill drilling and exploration. Approximately 10,000 meters of drilling are planned for the remainder of 2006, the drilling will be distributed throughout all of the target areas. Drill testing of the la Curva target, an untested geophysical and geochemical anomaly, began during July 2006. The Company expects to update the resource estimation before the end of 2006 to incorporate new drilling results.

With the updated resource estimate completed, the Company considers that the resources are better defined, therefore, engineering and metallurgical testing become the critical-path issues for project development decisions. Preliminary metallurgical tests for the recovery of silver from the Main Corani mineralization were performed. 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 Inc. 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.

Following this very preliminary test work, it was determined that cyanide leaching alone would not recover the significant lead and zinc components of the mineralized material, and that flotation and leaching combination tests were required. Two metallurgical test holes were completed in February 2006 and shipped to Dawson Metallurgical for further testing. In addition, two other laboratories G&T Laboratories and Hazen Research, Inc. are performing parallel test work and mineralogical studies. 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 pre-feasibility level study, possibly involving the drilling of additional drill holes for obtaining appropriate samples for further tests. Metallurgical analysis and testing are expected to be ongoing and future testing will be designed based upon the results of the current Dawson test results. The preliminary test results are expected in mid-September, 2006.

An initial scoping study, which considers the resource, ore processing and treatment, scale of production, and basic engineering has begun and is expected to be completed in the third quarter of 2006. The Company anticipates spending approximately \$4 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**

On 17 November 2004, Bear Creek entered into an option agreement, whereby the Company has the right to acquire a 100% interest in the Santa Ana silver project by making total payments of \$7,000 once the titles are transferred to the Company or at any time at its discretion over a period of five years. The property, which comprises 3,600 hectares, is located in the Department of Puno in southern Peru. The claims are subject to payments under a finder's fee agreement to a Peruvian individual of which \$15,000 was paid upon receipt of title and \$15,000 was paid upon initiation of drilling. The finder's fee also includes a payment of 3% of direct exploration expenditure to a maximum lifetime payment of \$280,000.

The Company has initiated a process to transfer the titles to its name under a Supreme Decree, whereby a foreign controlled entity such as Bear Creek Mining Corp. can hold title to mineral rights located within the 50 kilometer border zone of Peru. The Company and its counsel believe that the achievement of this transfer will be completed before mid-year 2007, based upon similar precedent applications, and the Company has decided to initiate exploration drilling in the interim.

The required drilling and environmental permits were granted and an initial drilling program began in July 2006. The first phase, involving approximately 1,120 meters of core drilling in eleven drill holes, was completed on 27 July 2006. The drill holes are distributed throughout the southern silver anomaly measuring 2,800 meters by 600 meters, where approximately 450 rock chip samples averaged 83 g/t Ag, 0.4% Pb and 0.3% Zn. Results of the first phase drilling are expected in late August.

In the current period, the Company incurred expenditures of \$59,508 directed towards community relations and surface access agreements required to initiate drilling. Included in this total are acquisition costs of \$29,690, salaries of \$12,532, geophysics of \$487, supplies and general of \$8,058, and travel of \$8,741.

### **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. 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 were reviewed, in the context of the large area explored, and management has decided to abandon the Pichicani Norte Project and has terminated this option agreement.

### **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 is providing 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 exercised by AGA in August 2005 and an additional one million warrants priced at CDN \$ 2.20 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 \$67,152. Included in the total are salaries of \$57,038, travel costs of \$7,064 and supplies and general of \$3,050.

### **Condor Project**

On 30 November 2005, Bear Creek entered into an option agreement, whereby the Company had the right to acquire a 100% interest in the Condor Property, which comprised 2,444 hectares, by making total payments of \$1,766,962 over a three year period. As at 30 June 2006, Bear Creek has made total payments of \$50,000. In the current period, the Company incurred expenditures of \$275,219. Included in this total are salaries of \$64,916, assaying and sampling of \$11,343, drilling costs of \$75,862, supplies and general of \$9,956, geological costs of \$21,604, and travel of \$32,763.

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. Testing of the anomalies with approximately 1,000 meters of diamond core drilling on the property was completed in mid June. Results of this drill program indicated that the gold values diminish with depth in the quartz-hosted targets, likely due to surface enrichment. No further drilling is planned as results are being evaluated. Management has decided to abandon this project and termination notices are in process.

### **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 \$1,131,938 for the period ended 30 June 2006, up from \$272,055 in 2005. Expenses in the current quarter consisted of \$202,735 in salaries, \$27,581 in travel, \$871,908 in supplies, IVA and general expenses, assaying and sampling of \$7,494, and \$12,285 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.

All of Bear Creek's exploration programs and pertinent disclosure of a technical or scientific nature are prepared by or prepared under the direct supervision of David Volkert, P.Geo., Bear Creek's Vice President of Exploration and the President and CEO, Andrew Swarthout, P.Geo., who serve as the Qualified Persons under the definitions of NI 43-101. All diamond drilling has

been performed using HQ diameter core with recoveries averaging greater than 95%. Core is logged and split on site under the supervision of Bear Creek geologists. Sampling is done on two-meter intervals and samples are transported by Company staff to Cusco, Peru for direct shipping to ALS Chemex, Laboratories in Lima, Peru. ALS Chemex is an ISO 9001:2000-registered laboratory and is preparing for ISO 17025 certification. Silver, lead, and zinc assays utilize a multi-acid digestion with atomic absorption ("ore-grade assay method"). The QC/QA program includes the insertion every 20th sample of known standards prepared by SGS Laboratories, Lima. A section in Bear Creek's website is dedicated to sampling, assay and quality control procedures.

### ***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.

### ***For the Six Months Ended 30 June 2006 as compared to the Six Months Ended 30 June 2005***

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

In the current period, the Company experienced a net loss of \$6,532,752 compared to a net loss of \$1,830,202 for the same period in 2005, an increase of \$4,702,550. The increase is primarily due to drilling and exploration costs incurred on the Corani property. Stock compensation increased to \$1,275,209 in the current quarter, up from \$165,078 in the same period 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 \$0.17 compared to \$0.06 for the same period in 2005.

Total operating expenses for the six months ended 30 June 2006 were \$7,200,498 compared to operating expenses of \$1,850,378 for the same period in 2005. Wages and management salary costs increased in the current period to \$173,127 compared to \$112,309 for the same period last year, due to additional staff hired during December 2005 and April 2006. Exploration costs were \$5,298,636 in the current period, up from \$1,430,633 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 30 June 2006 was \$196,072, an increase of \$185,793 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.

### ***For the Three Months Ended 30 June 2006 as compared to the Three Months Ended 30 June 2005***

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

In the current quarter, the Company experienced a net loss of \$3,626,900 compared to a net loss of \$775,092 for the same period in 2005, an increase of \$2,851,808. The increase is primarily due to drilling and exploration costs incurred on the Corani property, along with an increase in Stock compensation, due to an increase of options that are vesting and the higher fair value of these options. In the current quarter the Company had a loss per share of \$0.09 compared to \$0.02 for the same period in 2005.

Total operating expenses for the second quarter in 2006 were \$4,237,718 compared to operating expenses of \$793,988 for the same period in 2005. Wages and management salary

costs increased in the current quarter to \$89,469 compared to \$74,646 for the same period last year, due to additional staff hired during December 2005 and April 2006. Exploration costs were \$2,895,772 in the current quarter, up from \$574,121 in the same period year, largely due to the increased drilling and exploration on the Corani project. The Company had a foreign exchange gain of \$502,598 due to the Company maintaining the majority of its cash reserves in Canadian dollars, and the Company reporting its results in US dollars. During the three months ended 30 June 2006, the Canadian dollar strengthened against the US dollar.

### **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
2 <sup>nd</sup> Quarter 2006	Nil	(3,626,900)	(0.09)
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)

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.

### **Liquidity and Capital Resources**

On 30 June 2006, the Company had 39,670,311 issued shares. The Company's net working capital as at 30 June 2006 was \$10,689,161 compared to a net working capital of \$12,115,998 as at 31 December 2005. The cash balance at 30 June 2006 was \$11,065,998 compared to \$12,122,688 as at 31 December 2005. As at 30 June 2006 current liabilities were \$512,157 compared to \$99,333 as at 31 December 2005.

As at 20 August 2006, the Company had 40,190,389 issued shares. The Company has 4,392,850 options which have been granted to directors, officers, employees and consultants to purchase an aggregate of 4,392,850 shares at prices ranging from US\$0.50 to Cdn\$4.75, expiring at varying dates between 21 April 2008 and 31 May 2011.

On 20 August 2006, the Company had 2,246,995 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 \$3,777,271 from the exercise of 819,552 Series D, and E Warrants and the exercise of 1,000,000 AGA Cdn\$2.20 warrants. In addition, a total of \$127,739 was received during the period for the exercise of 232,150 share purchase options.

From 1 July 2006 to 20 August 2006, a total of 520,078 share purchase warrants and options were exercised for cash of \$0.4 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 received legal services, totaling \$28,186, 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 \$79,078, 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 \$28,195.

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 period were \$21,000.

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 30 June 2006 was \$10,297.

### **Litigation**

During the current period the Company uncovered a scheme in which funds of one of the Company's subsidiaries were misappropriated by one of its Peruvian employees. The total losses arising from the fraudulent transactions committed against the Company by this employee amounted to \$0.1 million over an approximate eight-month period ending September 2006, and have been disclosed as part of general administrative expenses. Following the discovery, the employee was dismissed for cause. The Company has filed criminal charges against the former employee to recover the amounts misappropriated, and has cancelled all options that had been granted to the former employee.

In addition to the above, the former employee also falsified reporting documents that were used in preparing the Company's consolidated balance sheet and consolidated income statement for the period ended 30 June 2006. This resulted in incorrect accounting for certain transactions.

During the investigation into the above fraud, it was discovered that the Peruvian accounting firm contracted to perform supervisory accounting support for the Company's subsidiary did not perform all of the procedures agreed to in their engagement contract. As a result, the Company has cancelled their engagement contract with the Peruvian accounting firm. The Company is currently determining whether to press civil charges against the Peruvian accounting firm for gross negligence as a result of their non-compliance with the agreed engagement terms and for recovery of misappropriated funds plus damages.

As a result of the losses incurred resulting from the misappropriation of funds, as well as the incorrect accounting noted above, the Company restated its unaudited second quarter consolidated financial statements for the period ended June 30, 2006, as well as the Management Discussion and Analysis for the same period. The Company disclosed a restated net loss for the six months ended June 30, 2006 of \$6.5 million, compared to \$5.9 million as previously reported. The additional expenditures for the period relate to \$0.1 million for the misappropriation of funds and \$0.5 million for additional mineral property expenditures that were not properly recorded.

Due to the fraud and incorrect accounting, the Company has undertaken a review of its internal controls in its Peruvian subsidiary, hired additional supervisory staff, changed its Peruvian auditor to Pricewaterhouse Coopers and has implemented additional controls and procedures to mitigate the risk of occurrence of fraud and misstatements in its subsidiary's financial statements.

### **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)