

BEAR CREEK MINING CORPORATION

(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30 SEPTEMBER 2006

EXPRESSED IN US FUNDS

(Unaudited)

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

Statement 1

ASSETS		As at 30 September 2006	As at 31 December 2005 (Audited)
Current	Cash and cash equivalents	\$ 9,119,081	\$ 12,122,688
	Prepaid expenses and advances	152,929	92,643
		<u>9,272,010</u>	<u>12,215,331</u>
Equipment (Note 4)		<u>246,037</u>	<u>108,675</u>
		<u>\$ 9,518,047</u>	<u>\$ 12,324,006</u>

LIABILITIES

Current	Accounts payable and accrued liabilities	\$ 1,084,829	\$ 99,333
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SHAREHOLDERS' EQUITY

Share Capital	Authorized: (Note 6a) Unlimited common shares without par value Issued and fully paid: 40,310,155 (2005 - 37,618,609) common shares	28,058,183	22,448,748
	Contributed surplus (Note 6b)	<u>3,842,556</u>	<u>2,698,537</u>
		<u>31,900,739</u>	<u>25,147,285</u>
Deficit - Statement 2		<u>(23,467,521)</u>	<u>(12,922,612)</u>
		<u>8,433,218</u>	<u>12,224,673</u>
		<u>\$ 9,518,047</u>	<u>\$ 12,324,006</u>

ON BEHALF OF THE BOARD:

signed "Catherine McLeod-Seltzer" _____, Director

signed "Andrew Swarthout" _____, 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 September 2006	For the Three Months Ended 30 September 2005	For the Nine Months Ended 30 September 2006	For the Nine Months Ended 30 September 2005
Operating Expenses				
Exploration costs - schedule	\$ 3,127,126	\$ 839,843	\$ 8,425,762	\$ 2,270,476
Stock compensation expense	703,399	220,967	1,978,608	386,045
Wages and management salary	107,352	58,193	280,479	170,502
Professional fees	55,324	32,716	208,314	88,628
Shareholder information and filing fees	22,620	40,506	141,750	88,632
Travel	35,651	6,573	98,571	25,023
General administrative expenses <i>(note 10)</i>	106,852	14,009	224,637	33,501
Amortization	2,513	192	3,214	570
	<u>(4,160,837)</u>	<u>(1,212,999)</u>	<u>(11,361,335)</u>	<u>(3,063,377)</u>
Other Items				
Foreign exchange gain	69,288	29,207	540,962	39,104
Interest and bank charges - net	79,392	18,629	275,464	28,908
	<u>148,680</u>	<u>47,836</u>	<u>816,426</u>	<u>68,012</u>
Loss for the Period	<u>(4,012,157)</u>	<u>(1,165,163)</u>	<u>(10,544,909)</u>	<u>(2,995,365)</u>
Deficit - Beginning of period	(19,455,364)	(9,996,572)	(12,922,612)	(8,166,370)
Deficit - End of Period	<u>\$ (23,467,521)</u>	<u>\$ (11,161,735)</u>	<u>\$ (23,467,521)</u>	<u>\$ (11,161,735)</u>
Loss per Share - Basic and Diluted	<u>\$ (0.10)</u>	<u>\$ (0.03)</u>	<u>\$ (0.27)</u>	<u>\$ (0.10)</u>
Weighted Average Number of Shares Outstanding	<u>40,140,373</u>	<u>36,002,498</u>	<u>39,196,025</u>	<u>29,956,982</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 September 2006	For the Three Months Ended 30 September 2005	For the Nine Months Ended 30 September 2006	For the Nine Months Ended 30 September 2005
Operating Activities				
Loss for the period	\$ (4,012,157)	\$ (1,165,163)	\$ (10,544,909)	\$ (2,995,365)
Items not affecting cash:				
Stock compensation	703,399	220,967	1,978,608	386,045
Share capital issued in exploration costs	-	-	-	548,625
Amortization included in exploration costs	1,441	6,892	6,566	19,304
Amortization	2,513	192	3,214	570
	<u>(3,304,804)</u>	<u>(937,112)</u>	<u>(8,556,521)</u>	<u>(2,040,821)</u>
Changes in:				
Prepaid expenses and advances	(17,609)	(47,506)	(60,286)	(73,441)
Accounts payable and accrued liabilities	572,672	(17,413)	985,496	124,125
Cash used in operating activities	<u>(2,749,741)</u>	<u>(1,002,031)</u>	<u>(7,631,311)</u>	<u>(1,990,137)</u>
Investing Activities				
Purchase of equipment	(67,012)	(7,990)	(147,142)	(55,461)
Cash used in investing activities	<u>(67,012)</u>	<u>(7,990)</u>	<u>(147,142)</u>	<u>(55,461)</u>
Financing Activities				
Share capital issued - net	869,836	10,592,195	4,774,846	13,527,423
Cash received from financing activities	<u>869,836</u>	<u>10,592,195</u>	<u>4,774,846</u>	<u>13,527,423</u>
Net Decrease in Cash Position	<u>(1,946,917)</u>	<u>9,582,174</u>	<u>(3,003,607)</u>	<u>11,481,825</u>
Cash position - Beginning of period	11,065,998	3,165,200	12,122,688	1,265,552
Cash Position - End of Period	<u>\$ 9,119,081</u>	<u>\$ 12,747,374</u>	<u>\$ 9,119,081</u>	<u>\$ 12,747,377</u>

Non-cash Investing and Financing Activities

Fair value of options and warrants exercised	\$ 492,319	\$ -	\$ 834,589	\$ -
Stock based compensation	<u>\$ 703,399</u>	<u>\$ 298,371</u>	<u>\$ 1,978,608</u>	<u>\$ 295,371</u>

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 September 2006	For the Three Months Ended 30 September 2005	For the Nine Months Ended 30 September 2006	For the Nine Months Ended 30 September 2005
Corani	Drilling	\$ 1,481,027	\$ 188,606	\$ 3,775,312	\$ 298,606
	Salary	328,880	71,510	746,976	112,713
	Geophysics	140,811	-	403,706	-
	Acquisitions/claim fees	29,121	66,865	372,859	106,865
	Assaying and sampling	90,474	47,147	319,591	85,444
	Travel	73,345	-	201,819	-
	Supplies and general	46,267	54,410	113,338	136,378
	Legal	-	-	-	-
		<u>2,189,925</u>	<u>428,538</u>	<u>5,933,601</u>	<u>740,006</u>
Santa Ana	Drilling	135,917	-	135,917	-
	Salary	32,580	3,419	45,112	51,209
	Acquisitions/claim fees	-	-	29,690	-
	Supplies and general	12,364	2,666	20,422	18,379
	Travel	7,628	1,275	16,369	10,323
	Assaying and sampling	13,495	-	13,495	1,270
	Geophysics	1,256	3,560	1,743	29,123
		<u>203,240</u>	<u>10,920</u>	<u>262,748</u>	<u>110,304</u>
Condor	Drilling	-	-	75,862	-
	Salaries	8,448	-	73,364	-
	Option payments	-	-	50,000	-
	Travel	738	-	33,501	-
	Geological	31	-	21,635	-
	Assays	655	-	11,998	-
	Supplies and General	387	-	10,343	-
	Acquisitions/claim fees	-	-	8,775	-
		<u>10,259</u>	<u>-</u>	<u>285,478</u>	<u>-</u>
AngloGold Exploration Alliance	Salary	34,784	7,043	91,822	63,524
	Travel	2,476	-	9,540	-
	Supplies and general	1,552	4,821	4,602	19,681
	Acquisition - shares issued	-	-	-	548,625
	Geological	-	18,000	-	18,000
		<u>38,812</u>	<u>29,864</u>	<u>105,964</u>	<u>649,830</u>
Generative exploration	Supplies, IVA and general	616,664	130,998	1,488,572	234,192
	Salary	43,217	95,770	245,952	209,532
	Travel	11,695	22,343	39,276	53,432
	Geological	942	-	13,227	-
	Assays	4,439	1,264	11,933	7,855
	Acquisition/claims fees	-	1,659	9,935	19,078
		<u>676,957</u>	<u>252,034</u>	<u>1,808,895</u>	<u>524,089</u>
Other properties		<u>7,933</u>	<u>118,487</u>	<u>29,076</u>	<u>246,247</u>
Costs for the Period		<u>\$ 3,127,126</u>	<u>\$ 839,843</u>	<u>\$ 8,425,762</u>	<u>\$ 2,270,476</u>

See Accompanying Notes

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

30 September 2006

US Funds
(Unaudited)

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. 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 consolidated 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.

3. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, advances and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, price or credit risks arising from its 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 fluctuations in the exchange rate between the Canadian Dollar and the U.S. Dollar, resulting in currency gains or losses for the Company.

4. Equipment

Details are as follows:

	30 September 2006			31 December 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 14,669	\$ 9,756	\$ 4,913	\$ 14,449	\$ 5,948	\$ 8,501
Exploration equipment	292,806	51,682	241,124	180,571	80,397	100,174
	<u>\$ 307,475</u>	<u>\$ 61,438</u>	<u>\$ 246,037</u>	<u>\$ 195,020</u>	<u>\$ 86,345</u>	<u>\$ 108,675</u>

Bear Creek Mining Corporation
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Notes to Interim Consolidated Financial Statements

30 September 2006

US Funds
(Unaudited)

5. Resource Property Costs

Cumulative resource expenditures, per project under active exploration, are as follows:

	Acquisition Costs	Exploration Costs	Incurred to 30 September 2006
Corani Project, Peru	\$ 495,922	\$ 6,872,060	\$ 7,367,982
Santa Ana Project, Peru	49,473	378,489	427,962
	<u>\$ 560,817</u>	<u>\$ 7,235,127</u>	<u>\$ 7,795,944</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.

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 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 greater than the recoverable reserves defined by the feasibility study, the Company will then adjust the Success Payments and pay Rio Tinto the balance.

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Notes to Interim Consolidated Financial Statements

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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 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 acquired a 100% interest in the Santa Ana property in southeastern Peru. The property is subject to payments totalling 3% of direct exploration expenditures to a maximum lifetime payment of \$280,000.

c) AngloGold Exploration Alliance

By letter agreement dated 12 January 2005, which was 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 in 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 costs within two years of signing the contract.

d) 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 Company's interest would then be a 20% participating interest. In November 2006, Bear Creek was notified that the Supreme Decree had been approved and that the agreement will be finalized. AAEP is expected to commence drilling in the first quarter of 2007. To date, the Company has received \$34,260 as reimbursement of expenditures.

e) 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 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.

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Notes to Interim Consolidated Financial Statements

30 September 2006

US Funds
(Unaudited)

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

6. 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	717,150		446,213
Shares issued for warrants	974,396		2,422,881
Shares issued for exploration alliance warrants	1,000,000		1,905,752
Fair value of options and warrants exercised	-		834,589
Balance – 30 September 2006	40,310,155	\$	28,058,183

b) **Details of contributed surplus:**

		2006
Balance – Beginning of Period	\$	2,698,537
Fair value of stock-based compensation		1,978,608
Fair value of stock options exercised		(593,728)
Fair value of exploration alliance warrants exercised		(240,861)
Balance – End of Period	\$	3,842,556

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

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

30 September 2006

US Funds
(Unaudited)

the closing price on the Toronto Stock 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.

	Number of options	Weighted average exercise price (in CDN\$)
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
	<hr/>	
Options outstanding at 31 December 2005	5,130,000	1.49
	<hr/>	
Granted	235,000	6.38
Exercised	(717,150)	0.70
Cancelled	(245,000)	1.99
	<hr/>	
Options outstanding at 30 September 2006	4,402,850	1.85
	<hr/>	

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

	Number	Price per Share	Expiry Date
Options	1,232,500	US\$0.50	21 April 2008
	260,000	US\$0.50	5 June 2008
	20,000	US\$0.50	2 July 2009
	1,000,350	Cdn\$0.70	24 November 2009
	730,000	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
	110,000	Cdn\$8.08	22 August 2011
	<hr/>		
	4,402,850		
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3,374,100 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.

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Notes to Interim Consolidated Financial Statements

30 September 2006

US Funds
(Unaudited)

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.

On 22 August 2006, the Company granted employees of the Company options to purchase up to 120,000 common shares of the Company at an exercise price of CDN\$8.08 per share. These options have a \$706,119 estimated value on the grant date.

The options granted during the nine months ended 30 September 2006 were valued at \$1,105,133 using the Black-Scholes option pricing model, based on the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	118 - 121%
Risk-free interest rate	4.19%
Expected life of options	5 years

The weighted average fair value of the options granted was \$4.70

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 September 2006, the following share purchase warrants were outstanding:

	Number	Price per Share	Expiry Date
Series D Warrants	621,800	Cdn\$1.25	7 April 2007
Series E and Broker Option Warrants	1,482,702	Cdn\$4.25	30 August 2007
Broker Warrants*	21,578	Cdn\$3.25	30 August 2007
	2,126,080		

* 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.

Series E warrants are subject to a forced 30 days exercise provision if the Company's shares trade at or above Cdn\$5.24 for over a period of 10 consecutive days. To date the Company has not enforced the 30 day exercise provision.

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Notes to Interim Consolidated Financial Statements

30 September 2006

US Funds
(Unaudited)

7. Related Party Transactions and Balances

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

	30 September, 2006	30 September, 2005
Consulting fees paid to a director of the Company	31,000	57,500
Legal fees paid to a firm in which a director of the Company is a partner	28,465	53,333
Legal fees paid to a firm in which an officer of the Company is a partner	133,890	117,446
Accounting fees paid to an officer of the Company	39,810	18,595
Rent paid to a company with a common director and officer of the Company	17,027	15,125

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.

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 \$915,461 of assets, which are located in Peru.

9. Commitments

- a) By an 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 per the amended agreement 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 an 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 per the amended agreement 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.
 - c) 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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Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

30 September 2006

US Funds
(Unaudited)

10. 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 reported 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.

11. Subsequent Events

From 1 October 2006 to 22 November 2006, a total of 83,580 share purchase warrants and options were exercised for cash of \$0.1 Million.

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

Our Management's Discussion and Analysis

Introduction

Prepared as at 22 November 2006 for the period ended 30 September 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 creating value for shareholders by identifying economic mineral deposits which can be sold or developed. 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 that are based on the beliefs and assumptions of its management 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. Base metals prospects of exceptional potential are also considered and acquired for exploration. From time to time, precious or base metal exploration opportunities in other Latin American countries are considered; an activity which is compatible with management's history and expertise. 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 September 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 million 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 million. 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 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 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.

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 Gm/t	Lead %	Zinc %	Silver Million Ozs	Lead Million Lbs	Zinc Million Lbs
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).

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 Gm/t	Lead %	Zinc %	Silver Million Ozs	Lead Million Lbs	Zinc Million Lbs
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 contain a resource of 71.3 million tonnes at a silver grade of 82 g/t Ag, 1.17% Pb and 0.62% Zn, containing 188 million ounces of silver, 1.84 billion pounds of lead and 0.97 billion pounds of zinc in the Measured and Indicated categories. Additionally, inferred resources are 10.2 million tonnes at a silver grade of 71 g/t Ag, 0.84% Pb, and 0.34% Zn, containing 23 million ounces silver, 0.19 billion pounds lead, and 0.08 billion pounds zinc. These cores lie within a computer generated pit shape able to be mined with a stripping ratio of 2:1.

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.

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 as well as to the north of both limbs where potential to increase resources exists. New outcrops located 400m southwest of Minas Corani between Main Corani and Minas Corani have been identified and sampled. Surface sampling has defined a 700m x 300m zone of quartz and stock work veining in pre-mineral tuff with grades up to 100 g/t Ag with up to 0.5 g/t Au. Drilling in this newly discovered area is to begin in the fourth quarter of 2006. Therefore, the deposit now remains open to the north, east, west and southwest. 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. Trenching is underway to evaluate the resource expansion potential with additional drilling anticipated in the first quarter of 2007.

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 Au and 40.4 g/t Ag. 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 the fourth quarter of 2006 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.

Metallurgical testing- Bear Creek has successfully completed the initial phase of metallurgical test work, which provides a conceptual flow sheet for the processing of the Corani material. Testing indicates that the probable recovery method will involve grinding, flotation and leaching to produce a silver rich lead concentrate, a zinc concentrate and silver dore. Highlights of the test work indicate that an average combined silver recovery of approximately 76% has been obtained in high-sulfide material. In addition, a lead recovery of 60% is indicated to be achievable producing silver rich lead concentrates and an overall recovery of zinc of approximately 60% is feasible with additional test work. Over the coming months the Company will focus on optimizing recoveries through advancing the understanding of the metallurgical response of the different zones of the deposit. The drilling of four HQ diameter drill holes has begun in mid-November to provide metallurgical samples for shipment to North America for advanced metallurgical testing. A preliminary mining plan has been completed with Independent Mining Consultants, which provides guidance for the location of metallurgical drill holes, as well as further in-fill and step-out drilling requirements. The metallurgical drilling will focus on areas identified in the preliminary mine plan as areas within the deposit which are likely to produce high-grade feed during the first years of production. The samples will be collected and preserved for shipment under the supervision of Transmin Metallurgical Consultants. Test work will be designed to build upon the positive results in previous testing to further improve recoveries in silver, lead, and zinc for the purposes of a pre-feasibility study, which is expected to be initiated in the first quarter of 2007.

Resource Estimation/ Scoping Study- 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 early 2007. This scoping study will provide Bear Creek with a project description which is expected to justify the Company's decision to commence a preliminary feasibility study..

Three drills continue to explore the Corani district focusing on the silver-rich target area performing in-fill drilling, exploration, and metallurgical test-work drilling. Approximately 2,500 meters of drilling are planned for the remainder 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.

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.

During the nine months ended 30 September 2006, the Company incurred expenditures of \$5.9 million on the Corani project. Included in this total are drilling of \$3.8 million, acquisition costs of \$0.4 million, travel of \$0.2 million, salaries of \$0.7 million, supplies and general of \$0.1 million, geophysics of \$0.4 million and assaying and sampling of \$0.3 million. The Company has now completed 146 drill holes since the August 23, 2006 resource update, and has now completed 59,797 meters of drilling.

Santa Ana Project

The Company has the option to acquire a 100% interest in the Santa Ana silver project. 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 property is subject to a payment of 3% of direct exploration expenditures to a maximum lifetime payment of \$280,000.

The mineral titles are currently held on behalf of the Company in the name by a third party.. 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. Upon transfer of title, the Company will make a total payment of \$7,000 to the third party. 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 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 indicated significant silver mineralization is contained in low-angle structures and broad, vertical structural zones outcropping at surface. The Company commenced an additional 1,000 meters of drilling (Phase II) to follow up the early positive results of the first phase drilling. Results are expected in early December, 2006.

In the current period, the Company incurred expenditures of \$0.3 million directed towards drilling, community relations and surface access agreements on the Santa Ana project.

Ataspaca Project

In 2002 Bear Creek signed a letter agreement allowing it to earn a 50 percent interest in the Ataspaca project, located in the southern Peru copper belt. Work in 2003 included mapping, and sampling to prepare the project for its first drill program, that was completed in the second quarter of 2004 with 616.6 meters of core in 4 holes that tested multiple targets. Ataspaca project spending for the year ended December 2004 was \$0.1 million, and the Company received \$0.03 million from Southwestern Resources for their 50% share of the costs incurred from the joint venture. Completion of the drilling earned the Company a 50% property interest from Southwestern Resources. In December 2004, Bear Creek and Southwestern Resources signed a "Heads of Agreement" with Anglo American Exploration to earn a 60% interest in Ataspaca in return for \$2.75M in work commitments over a four-year period and payments totaling \$150,000 over a two-year period. Anglo American will be the operator during its earn-in period so long as it maintains a majority interest under the resulting joint venture agreement. Anglo American must spend \$250,000 during the first year. The final agreement is contingent upon Anglo American Exploration receiving approval in the form of a Supreme Decree issued by the Peruvian government allowing foreign ownership of mineral rights within the 50 kilometer border region of Peru. On November 9, 2006, Bear Creek was informed that the Supreme decree had been approved and that the agreement is being finalized. Anglo American plans to begin its drilling commitment in the first quarter of 2007.

AngloGold Ashanti ("AGA") 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 March 8, 2006. Under the terms of the agreement, Bear Creek must spend a minimum of \$250,000 on direct exploration before March 23, 2007. 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 \$0.1 million and consisted primarily of salaries.

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. Results of the current year 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 management has decided to abandon this project and has terminated the option agreement. Total costs incurred in the nine months ended are \$0.3 million, which consisted primarily of drilling, salaries and option payments.

Generative Exploration and IVA

Generative exploration is a crucial part of the business in identifying and acquiring new opportunities. Generative exploration costs 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 \$1.8 million for the nine months ended 30 September 2006, up from \$0.3 million in 2005. Expenses for the nine month period consisted primarily of \$1.1 million of IVA, \$0.4 million of supplies and general expense, and salaries of \$0.2 million.

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.

For the Nine Months Ended 30 September 2006 as compared to the Nine Months Ended 30 September 2005

Net Loss and Operating Expenses

In the current period, the Company experienced a net loss of \$10.5 million compared to a net loss of \$3.0 million for the same period in 2005, an increase of \$7.5 million. The increase is primarily due to drilling and exploration costs incurred on the Corani property. Stock compensation increased to \$2.0 million in the current period, up from \$0.4 million in the same period in 2005, due to an increase of options that are vesting and the higher fair value of the options granted in the current period. The Company had a loss per share of \$0.27 compared to \$0.10 for the same period in 2005.

Total operating expenses for the nine months ended 30 September 2006 were \$11.4 million compared to operating expenses of \$3.1 million for the same period in 2005. Wages and management salary costs increased in the current period to \$0.3 million compared to \$0.2 million for the same period last year, due to additional staff hired during December 2005 and April 2006. Exploration costs were \$8.4 million in the current period, up from \$2.3 million in the same period in the prior year, largely due to the increased drilling and exploration on the Corani project.

Bear Creek's net interest income for the period ended 30 September 2006 was \$0.3 million, an increase of \$0.28 million 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.

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 increased exploration and development activities at the Company's Corani silver discovery being incurred, \$8.4 million in the nine months ended September 30, 2006 compared with \$2.2 million in the nine months ended September 30, 2005, the Company has undertaken a review of its internal controls in its Peruvian subsidiary, hired additional supervisory staff, changed its Peruvian auditor to PricewaterhouseCoopers and has implemented additional controls and procedures to mitigate the occurrence of fraud and misstatements in its subsidiary's financial statements.

For the Three Months Ended 30 September 2006 as compared to the Three Months Ended 30 September 2005

Net Loss and Operating Expenses

In the current quarter, the Company experienced a net loss of \$4.0 million compared to a net loss of \$1.2 million for the same period in 2005, an increase of \$2.8 million. The increase is primarily due to drilling and exploration costs incurred on the Corani property, along with an increase in stock compensation expense, 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 \$0.10 compared to \$0.03 for the same period in 2005.

Total operating expenses for the third quarter in 2006 were \$4.2 million compared to operating expenses of \$1.2 million for the same period in 2005. Wages and management salary costs increased in the current quarter to \$0.1 million compared to \$0.06 million for the same period last year, due to additional staff hired during December 2005 and April 2006. Exploration costs were \$3.1 million in the current quarter, up from \$0.8 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 \$0.1 million 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 September 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 (In Millions)	Basic and Fully Diluted Loss per Share from Continued Operations
3 rd Quarter 2006	Nil	(4.0)	(0.10)
2 nd Quarter 2006	Nil	(3.6)	(0.09)
1 st Quarter 2006	Nil	(2.9)	(0.08)
4 th Quarter 2005	Nil	(1.8)	(0.05)
3 rd Quarter 2005	Nil	(1.2)	(0.03)
2 nd Quarter 2005	Nil	(0.8)	(0.02)
1 st Quarter 2005	Nil	(1.1)	(0.04)
4 th Quarter 2004	Nil	(0.4)	(0.02)

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

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 September 2006, the Company had 40,310,155 issued shares. The Company's net working capital as at 30 September 2006 was \$8.2 million compared to a net working capital of \$12.1 million as at 31 December 2005. The cash balance at 30 September 2006 was \$9.1 million compared to \$12.1 million as at 31 December 2005. As at 30 September 2006 current liabilities were \$1.1 million compared to \$0.1 million as at 31 December 2005.

As at 22 November 2006, the Company had 40,393,735 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\$8.08, expiring at varying dates between 21 April 2008 and 22 August 2011.

On 22 November 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 \$4.4 million from the exercise of 974,396 Series D, and E Warrants and the exercise of 1,000,000 AGA Cdn\$2.20 warrants. In addition, a total of \$0.4 million was received during the period for the exercise of 717,150 share purchase options.

From 1 October 2006 to 22 November 2006, a total of 83,580 share purchase warrants and options were exercised for cash of \$0.1 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 \$28,465, 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 \$133,890, 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 \$39,810.

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 \$31,000.

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 September 2006 was \$17,027.

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