

**BEAR CREEK MINING CORPORATION**

**(An Exploration Stage Company)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**30 September 2008**

**EXPRESSED IN US FUNDS**

**(Unaudited)**

**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*  
**Interim Consolidated Balance Sheets**

Statement 1

U.S. Funds  
 Unaudited

		As at 30 September 2008	As at 31 December 2007
<b>ASSETS</b>			
<b>Current</b>	Cash and cash equivalents	\$ 23,701,261	\$ 10,848,072
	Short-term investments <i>(Note 4)</i>	71,315	5,148,477
	Prepaid expenses and advances	221,597	203,587
		<hr/>	<hr/>
		23,994,173	16,200,136
	<b>Equipment</b> <i>(Note 5)</i>	275,500	289,867
	<b>Resource Property Costs</b> <i>(Note 6)</i>	82,613,999	2,275,000
		<hr/>	<hr/>
		\$ 106,883,672	\$ 18,765,003
		<hr/>	<hr/>
<b>LIABILITIES</b>			
<b>Current</b>	Accounts payable and accrued liabilities	\$ 571,281	\$ 657,208
	Due to related party <i>(Note 10)</i>	196,213	-
	Current portion of long-term debt <i>(Note 7)</i>	18,673,191	-
		<hr/>	<hr/>
		19,440,685	657,208
	<b>Asset Retirement Obligation</b> <i>(Note 8)</i>	275,000	275,000
	<b>Future Income Tax</b> <i>(Note 6(a))</i>	18,986,912	-
	<b>Long-term debt</b> <i>(Note 7)</i>	22,509,567	-
		<hr/>	<hr/>
		61,212,164	932,208
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share Capital</b>	Authorized: <i>(Note 9a)</i>		
	Unlimited common shares without par value		
	Issued and fully paid:		
	55,457,023 (2007 - 45,217,023) common shares	89,105,173	49,034,260
	Contributed surplus <i>(Note 9b)</i>	13,248,169	10,980,418
		<hr/>	<hr/>
		102,353,342	60,014,678
	<b>Deficit - Statement 2</b>	(56,681,834)	(42,181,883)
		<hr/>	<hr/>
		45,671,508	17,832,795
		<hr/>	<hr/>
		\$ 106,883,672	\$ 18,765,003
		<hr/>	<hr/>

Nature of Business and Going Concern *(Note 1)*  
 Commitments *(Note 12)*

ON BEHALF OF THE BOARD:

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

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

See Accompanying Notes

**Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit**

U.S. Funds  
 Unaudited

	For the Three Months Ended 30 September 2008	For the Three Months Ended 30 September 2007	For the Nine Months Ended 30 September 2008	For the Nine Months Ended 30 September 2007
<b>Operating Expenses</b>				
Exploration costs - schedule	\$ 4,218,102	\$ 2,513,647	\$ 11,198,448	\$ 6,634,233
Stock-based compensation expense <i>(Note 9b)</i>	512,533	778,663	1,354,388	2,599,043
Wages and management salaries	83,915	91,878	368,440	266,209
Professional fees	12,244	121,411	300,833	235,497
Shareholder information and filing fees	43,772	57,868	267,439	213,461
General administrative expenses	63,137	62,825	187,991	190,903
Travel	65,741	42,042	159,203	147,713
Amortization	914	780	2,849	2,531
<b>Loss before the undernoted income (expenses)</b>	<b>(5,000,358)</b>	<b>(3,669,114)</b>	<b>(13,839,591)</b>	<b>(10,289,590)</b>
Foreign exchange gain (loss)	(859,475)	585,961	(1,103,438)	886,135
Interest income	256,103	140,218	446,327	252,167
Gain (loss) on investments <i>(Note 4)</i>	(13,370)	2,401	(3,249)	2,401
	(616,742)	728,580	(660,360)	1,140,703
<b>Loss and Comprehensive Loss for the Period</b>	<b>(5,617,100)</b>	<b>(2,940,534)</b>	<b>(14,499,951)</b>	<b>(9,148,887)</b>
Deficit - Beginning of period	(51,064,734)	(34,389,797)	(42,181,883)	(28,181,444)
<b>Deficit - End of Period</b>	<b>\$ (56,681,834)</b>	<b>\$ (37,330,331)</b>	<b>\$ (56,681,834)</b>	<b>\$ (37,330,331)</b>
<b>Loss per Share - Basic and Diluted</b>	<b>\$ (0.10)</b>	<b>\$ (0.07)</b>	<b>\$ (0.30)</b>	<b>\$ (0.21)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>53,822,436</b>	<b>44,398,534</b>	<b>48,893,264</b>	<b>43,099,625</b>

**Interim Consolidated Statements of Cash Flow**

U.S. Funds  
Unaudited

	For the Three Months Ended 30 September 2008	For the Three Months Ended 30 September 2007	For the Nine Months Ended 30 September 2008	For the Nine Months Ended 30 September 2007
<b>Operating Activities</b>				
Loss and comprehensive loss for the period	\$ (5,617,100)	\$ (2,940,533)	\$ (14,499,951)	\$ (9,148,887)
Items not affecting cash:				
Stock-based compensation	512,533	778,663	1,354,388	2,599,043
Amortization included in exploration costs	16,286	18,207	52,454	36,802
Amortization	914	780	2,849	2,531
Shares received on options payments	-	(2,401)	(28,271)	(25,179)
	(5,087,367)	(2,145,284)	(13,118,531)	(6,535,690)
Changes in non-cash working capital:				
Prepaid expenses and advances	10,462	6,381	(18,010)	(74,826)
Accounts payable and accrued liabilities	245,520	(333,720)	110,286	(516,351)
Cash used in operating activities	(4,831,385)	(2,472,623)	(13,026,255)	(7,126,867)
<b>Investing Activities</b>				
Purchase of equipment	(21,852)	(99,239)	(40,936)	(103,823)
Resource Property Acquisition costs	(75,333)	-	(3,075,333)	(2,000,000)
Short-term investments	14,098	(27,697)	5,105,433	(27,697)
Cash used in investing activities	(83,087)	(126,936)	1,989,164	(2,131,520)
<b>Financing Activities</b>				
Share capital and warrants issued - net	23,189,153	17,819,916	23,890,281	23,946,375
Cash received from financing activities	23,189,153	17,819,916	23,890,281	23,946,375
<b>Net Increase (Decrease) in Cash Position</b>				
Cash position - Beginning of period	5,426,580	4,492,280	10,848,072	5,024,649
<b>Cash Position - End of Period</b>	\$ 23,701,261	\$ 19,712,637	\$ 23,701,261	\$ 19,712,637
<b>Non-cash Investing and Financing Activities</b>				
Fair value of options and warrants exercised	\$ -	\$ -	\$ 8,327	\$ 154,798

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

Schedule

**Interim Consolidated Schedule of Exploration Costs**

U.S. Funds  
 Unaudited

		For the Three Months Ended 30 September 2008	For the Three Months Ended 30 September 2007	For the Nine Months Ended 30 September 2008	For the Nine Months Ended 30 September 2007
Corani	Salary and consulting	\$ 556,192	\$ 369,479	\$ 1,446,768	\$ 870,772
	Drilling	34,033	445,961	399,242	1,828,996
	Travel	141,843	122,286	382,751	346,678
	Geophysics	2,745	1,467	139,637	19,905
	Supplies and general	82,893	78,465	163,515	135,616
	Maintenance costs	-	2,540	29,536	26,688
	Assaying and sampling	-	57,870	18,720	188,309
		<u>817,706</u>	<u>1,078,068</u>	<u>2,580,169</u>	<u>3,416,964</u>
Santa Ana	Drilling	1,547,399	483,732	3,742,367	780,057
	Salary and consulting	221,485	58,307	666,064	146,953
	Travel	175,875	104,000	462,374	125,702
	Assaying and sampling	107,122	52,515	307,911	101,269
	Supplies and general	58,548	41,520	272,493	70,758
	Maintenance costs	-	11,492	149,882	46,610
	Geophysics	700	3,800	5,487	6,572
		<u>2,111,129</u>	<u>755,366</u>	<u>5,606,578</u>	<u>1,277,921</u>
Piedra Sagrada	Maintenance costs	110,423	-	224,023	-
	Salary and consulting	86,153	-	102,908	-
	Drilling	70,000	-	70,000	-
	Supplies and general	17,912	-	32,199	-
	Travel	25,826	-	30,149	-
	Assaying and sampling	16,651	-	16,882	-
		<u>326,966</u>	<u>-</u>	<u>476,162</u>	<u>-</u>
Antash	Expenditures	109,457	-	178,287	-
La Yegua	Expenditures	(141)	-	17,137	-
	Option payments	-	-	(28,271)	-
		<u>(141)</u>	<u>-</u>	<u>(11,134)</u>	<u>-</u>
Generative	Salaries and consulting	167,614	115,293	515,000	312,522
	Supplies and general	79,661	2,663	237,646	147,098
	Travel	30,962	24,914	95,177	51,746
	Assaying and sampling	8,746	13,178	29,433	22,582
	Maintenance costs	-	(8,338)	6,239	5,618
	Geophysics	2,222	1,466	4,521	5,051
		<u>289,205</u>	<u>149,176</u>	<u>888,016</u>	<u>544,617</u>
Other Properties		79,097	235,961	194,243	617,989
IGV		484,683	295,076	1,286,127	776,742
<b>Costs for the Period</b>		<u>\$ 4,218,102</u>	<u>\$ 2,513,647</u>	<u>\$ 11,198,448</u>	<u>\$ 6,634,233</u>

See Accompanying Notes

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

**30 September 2008**

US Funds  
Unaudited

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### **1. Nature of Business and Going Concern**

Bear Creek Mining Corporation's ("Bear Creek" or the "Company") business is acquiring and exploring mineral properties principally located in Peru with the objective of creating value for shareholders by identifying economic mineralized deposits which can be sold or developed.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its exploration commitments, administrative overhead and maintain its mineral interests. The recoverability of amounts shown for resource properties is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to make the scheduled payments under the purchase agreement with Rio Tinto, complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties.

While these unaudited interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are events and conditions that cast significant doubt on the validity of that assumption. The Company has incurred losses since inception and has an accumulated deficit of \$56,681,834 at 30 September 2008. The Company has a payment obligation to Rio Tinto of \$5 million due on or before 31 December 2008, \$15 million due on or before 30 September 2009 and \$25 million due on or before 31 December 2009, which are secured by a general security agreement over all the assets of the Company (*note 6a*). The Company will need to raise sufficient funds to meet these obligations as well as fund ongoing exploration and administration expenses. The Company has no assurance that such financing will be available or be available on favorable terms. Factors that could affect the availability of financing include Bear Creek's performance (as measured by various factors including the progress and results of the Corani and Santa Ana projects, the state of international debt and equity markets, investor perceptions and expectations and the global financial and metals markets). If successful, the Company would obtain additional financing through but not limited to, the issuance of additional equity.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

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### **2. Significant Accounting Policies**

The unaudited 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 except as noted below. 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 annual audited consolidated financial statements for the year ended 31 December 2007.

#### Change in Accounting Policies

The Company adopted the provisions of CICA Sections 1535 Capital Disclosures; Section 3862 – Financial Instruments – Disclosures; and Section 3863 Financial Instruments – Presentation on 1 January 2008 which addresses the Company's objectives, classification, policies and processes for

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

**30 September 2008**

US Funds  
Unaudited

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managing capital, and disclosure about the nature and extent of risk arising from financial instruments and how the Company manages those risks (Note 3).

The Company also adopted the provisions of CICA Section 1400, General Standards of Financial Statement Presentation, which was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2008. The adoption of this statement did not have an impact on the interim consolidated financial statements.

### *Recent Accounting Pronouncements Not Yet Adopted*

#### Goodwill and Intangible Assets (Section 3064)

In February 2008, the CICA issued section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets," and CICA Section 3450, "Research and Development Costs," and amendments to Accounting Guideline (AcG) 11, "Enterprises in the Development Stage," and EIC-27, "Revenues and Expenditures During the Pre-operating Period" and CICA Section 1000, "Financial Statement Concepts." The standard intends to reduce the differences with International Financial Reporting Standards ("IFRS") in the accounting for intangible assets and results in closer alignment with U.S. GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or U.S. GAAP. The objectives of CICA Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that do not meet the definition and recognition criteria are eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. This standard will be effective for fiscal years beginning on or after 1 October 2008. We are currently evaluating the impact of adopting this standard in 2009.

#### International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011. The transition date of 1 January 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended 31 December 2010. In July 2008 the AcSB announced that early adoption will be allowed in 2009 subject to seeking and obtaining exemptive relief. The Company is currently assessing the financial reporting impact of the transition to IFRS and the changeover date.

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### **3. Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, short term investments 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 and Peruvian Soles. These balances are subject to fluctuations in the exchange rate between the Canadian Dollar, Peruvian Soles and the U.S. Dollar, resulting in currency gains or losses for the Company.

## Notes to Interim Consolidated Financial Statements

30 September 2008

US Funds  
Unaudited

### *Management of capital risk*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

### *Management of financial risk*

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and price risk.

#### (a) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Peru and a portion of its expenses are incurred in Canadian dollars and Peruvian Soles. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar and the Peruvian Soles to the US dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. At 30 September 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

	30 September 2008	
	Canadian Dollars	Peruvian Soles
Cash and cash equivalents	19,591,296	68,309
Accounts receivable	-	61,960
Accounts payable and accrued liabilities	(293,707)	(536,212)

Based on the above net exposures as at 30 September 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of \$1,859,516 in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the US dollar against the Peruvian Soles would result in a decrease/increase of \$13,733 in the Company's net earnings.

## Notes to Interim Consolidated Financial Statements

30 September 2008

US Funds  
Unaudited

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(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash equivalents and short-term investments are held through large Canadian financial institutions. Short-term and long-term investments (including those presented as part of cash and cash equivalents) are composed of financial instruments issued by Canadian banks. These investments mature at various dates over the current operating period. The Company's GST and other receivables consist of general sales tax due from the Federal Government of Canada.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (*Note 1*). The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above. At present, the Company does have positive working capital. However, the Company believes it is subject to material liquidity risk though its obligation to Rio Tinto (*Note 1*). In general, the Company attempts to avoid exposure to liquidity risk by obtaining corporate financing from sales of common shares.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is limited because these investments are generally held to maturity.

(e) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

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#### 4. Short-term Investments

All short term investments have been classified as held-for-trading. Details are as follows:

	30 September 2008	31 December 2007
Chapleau Shares	\$ 44,785	\$ 20,411
Term Deposits	26,530	5,128,066
Total Short-term Investments	<u>\$ 71,315</u>	<u>\$ 5,148,477</u>

At 30 September 2008 the Company holds 143,792 (31 December 2007 – 55,556) shares of Chapleau Resources Ltd. ("Chapleau") (*Note 6f*). The fair value and the cost are as follows:

	30 September 2008	31 December 2007
Fair value	\$ 44,785	\$ 20,411
Cost	48,034	20,411
Unrealized loss (cumulative)	<u>\$ (3,249)</u>	<u>\$ -</u>

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

**Notes to Interim Consolidated Financial Statements**

**30 September 2008**

US Funds  
Unaudited

**5. Equipment**

Details are as follows:

	30 September 2008			31 December 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 31,326	\$ 19,583	\$ 11,743	\$ 29,162	\$ 16,734	\$ 12,428
Exploration equipment	477,566	213,809	263,757	438,794	161,355	277,439
	<b>\$ 508,892</b>	<b>\$ 233,392</b>	<b>\$ 275,500</b>	<b>\$ 467,956</b>	<b>\$ 178,089</b>	<b>\$ 289,867</b>

**6. Resource Property Costs**

Cumulative resource expenditures, per project under active exploration as at 30 September 2008, are as follows:

	Capitalized Acquisition Costs	Future Reclamation Costs	Maintenance Costs	Exploration Costs	Total Incurred to 30 September 2008
Corani Project, Peru	\$ 82,338,999	\$ 200,000	\$ 56,224	\$ 17,073,077	\$ 99,668,300
Santa Ana Project, Peru	-	75,000	214,367	9,231,149	9,520,516
	<b>\$ 82,338,999</b>	<b>\$ 275,000</b>	<b>\$ 270,591</b>	<b>\$ 26,304,226</b>	<b>\$ 109,188,816</b>

	Corani Project	Santa Ana Project	Total
Balance at 31 December 2006	\$ 9,586,357	\$ 852,826	\$ 10,439,183
Acquisition costs	2,000,000	-	2,000,000
Reclamation costs	200,000	75,000	275,000
Maintenance costs	26,688	64,485	91,173
Exploration expenditures	4,936,087	2,921,627	7,857,714
Balance at 31 December 2007	<b>\$ 16,749,132</b>	<b>\$ 3,913,938</b>	<b>\$ 20,663,070</b>
Acquisition costs – payments	\$ 3,000,000	\$ -	\$ 3,000,000
Shares issued for property	17,093,996	-	17,093,996
Present value of future payments (Note 7)	40,434,988	-	40,434,988
Financing charges (Note 7)	747,770	-	747,770
Future income taxes	18,986,912	-	18,986,912
Legal and finance	75,333	-	75,333
Total capitalized costs 2008	<b>80,338,999</b>	<b>-</b>	<b>80,338,999</b>
Maintenance costs	29,536	149,882	179,418
Exploration expenditures	2,550,633	5,456,696	8,007,329
	<b>\$ 82,919,168</b>	<b>\$ 5,606,578</b>	<b>\$ 88,525,746</b>
Balance at 30 September 2008	<b>\$ 99,668,300</b>	<b>\$ 9,520,516</b>	<b>\$ 109,188,816</b>

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

**30 September 2008**

*US Funds*  
*Unaudited*

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### **a) Corani Project**

By letter of understanding dated 19 January 2005 and subsequently formalized by an option agreement dated 15 March 2007, the Company entered into an agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), whereby the Company had the right to earn a 70% interest in the Corani property located in southeastern Peru, subject to Rio Tinto's claw-back right, for total payments of \$5.4 million. By 31 December 2007, the Company had incurred payments of \$2.4 million of which \$2 million have been capitalized as acquisition costs. The final option payment of \$3 million was paid in January 2008 upon which the Company earned a 70% interest and the agreement converted to a joint venture in which Rio Tinto has a participatory 30% interest.

On 6 March 2008, Bear Creek entered into an agreement and subsequently amended (the "Purchase And Sale Agreement") with Rio Tinto to purchase Rio Tinto's remaining 30% interest in the Corani Project and extinguish all of Bear Creek's future payment obligations, royalties and Rio Tinto's back-in rights under the existing option agreement. Bear Creek has agreed to pay Rio Tinto as follows: (i) 3,871,000 Bear Creek common shares (issued on 17 July 2008); (ii) \$5 million in cash payable on the earlier of: 31 December 2008 or 15 business days following a change of control of Bear Creek; (iii) \$15 million in cash payable on the earlier of: 30 September 2009 (amended from original terms of 31 December 2008, (as consideration for this extension Bear Creek issued 120,000 common shares to Rio Tinto on 17 July 2008) or 90 days following a change of control of Bear Creek and (iv) \$25.0 million in cash payable on the earlier of 31 December 2009 or 180 days following a change of control of Bear Creek (Note 7). In addition to the above, the Company may be required to make an additional payment of up to \$1.5 million as a transaction fee to a third party related to this acquisition. The Company has disputed this transaction fee and believes that the transaction fee is without merit.

On 17 July 2008, the Company purchased Rio Tinto's remaining 30% interest in the Corani Project resulting in Bear Creek owning a consolidated 100% interest in the property. At this time, the Company issued to Rio Tinto 3,991,000 shares valued at \$17.1 million. The balance of the purchase price is secured by a General Security Agreement, which covers all of the assets of the Company, in favour of Rio Tinto in addition to a mortgage on the Corani property, subordinated to future project financing. The value of the resource property acquired is calculated as the present value of the future cash flows of the \$5 million, \$15 million, and \$25 million, which have been discounted at a credit adjusted risk free rate of 9.0%. The present value is being accreted with the accretion expense being capitalized to the resource property cost as the property is not yet ready for commercial production. In addition, the legal and finance charges associated with the acquisition have been capitalized to the cost of the project. The future income tax liability (FIT), of 18,986,912 has been calculated using the effective tax rate in Peru of 30% and is based on the difference between the book value and the tax basis of the asset.

### **b) Santa Ana Project**

During 2004, the Company acquired an option to earn 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, of which \$99,649 has been expensed to 30 September 2008. The Company exercised its option in January 2008 and now holds a 100% interest in the Santa Ana project.

### **c) Don Marcelo Project**

On 6 December 2006, the Company entered into an option agreement, whereby the Company had the right to earn a 75% interest in the Don Marcelo property located in Peru.

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

**30 September 2008**

US Funds  
Unaudited

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In January 2008, after evaluating drill results, management of the Company decided to terminate the option agreement relating to the Don Marcelo Project.

### **d) AngloGold Exploration Alliance**

The Company acquired certain data from AngloGold Ashanti Exploraciones del Peru S.A. ("AGA") 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). 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. None of the active projects of the Company are subject to this back-in.

### **e) Antash Project**

Antash represents the following properties: Fe y Esperanza 1, Antash 1 and Colcabamba. Bear Creek owns 100% of the Antash 1 concession and has the option to acquire 100% of Fe y Esperanza 1 and Colcabamba.

Bear Creek has an option to acquire 100% of the Fe y Esperanza 1 prospect through escalating cash payments totalling \$765,000 by October 2009, of which \$90,000 has been paid. Once the prospect is transferred to Bear Creek, a 2% net smelter royalty (NSR) will be granted to the optionor. The NSR payments are capped to a maximum of \$700,000.

Bear Creek has the option to acquire 100% of the Colcabamba prospect through escalating cash payments totalling \$1,000,000 by September 2011. Once the prospect is transferred to Bear Creek, a 2.3% NSR will be granted to the optionor. The NSR payments are capped to a maximum of \$2,000,000. In order to keep the option agreement in good standing, Bear Creek must incur \$325,000 exploration expenditure during the four years of the option.

### **f) La Yegua**

In February 2007, Bear Creek signed a Letter of Intent with Chapleau, which was formalized by an option agreement dated January 29, 2008, in which Chapleau may acquire up to a 75% interest in the La Yegua project. La Yegua is a porphyry copper-molybdenum project, which is 100% owned by the Company and is located in the Apurimac region of Southern Peru. Chapleau can earn a 51% interest in the property by spending a total amount of \$2.8 million in exploration over a four year period and issuing the equivalent of \$350,000 in Chapleau shares, which is based on the market price of Chapleau shares at the time of issuance, during the four years. With the issuance of an additional 1.25 million shares, Chapleau may increase the vested interest from 51% to 75%. In April 2007, the Company received 55,556 shares of Chapleau fair valued at \$20,411, and in March 2008 the Company received 88,236 shares fair valued at \$27,622. (Note 4)

### **g) Piedra Sagrada Project**

In December 2007, the Company signed a Letter of Intent, which was formalized by an option agreement dated 22 January 2008. The Company entered into an option agreement in which Bear Creek can earn 100% of the two properties that comprises Piedra Sagrada by making escalating payments totalling \$10.1 million over 4 years. Once the prospect is transferred to Bear Creek, a \$2.0 NSR will be granted to the optionor. NSR payments are capped to a maximum of \$18,000,000. In order to keep the option agreement in good standing, Bear Creek must incur \$350,000 exploration expenditures during the four years of the option term.

## Notes to Interim Consolidated Financial Statements

**30 September 2008**

*US Funds*  
*Unaudited*

### 7. Long-term Debt

	September 30, 2008	December 31, 2007
Debt owing to Rio Tinto	\$ 45,000,000	\$ -
Less: adjustment to fair value at July 17	(4,565,012)	-
Fair value of debt at inception <i>(Note 6)</i>	40,434,988	
Accretion to period end <i>(Note 6)</i>	747,770	
Fair value at period end	41,182,758	-
Less: current portion of long-term debt	(18,673,191)	-
	<u>\$ 22,509,567</u>	<u>\$ -</u>

On 17 July 2008, the Company purchased Rio Tinto's remaining interest in the Corani Project and as part of the agreement \$5 million in cash is payable on the earlier of: 31 December 2008 or 15 business days following a change of control of Bear Creek; \$15 million in cash is payable on the earlier of: 30 September 2009 or 90 days following a change of control of Bear Creek; and \$25.0 million in cash is payable on the earlier of 31 December 2009 or 180 days following a change of control of Bear Creek (Note 6). These payments are non-interest bearing and they are secured by a General Security Agreement, which covers all of the assets of the Company, in favour of Rio Tinto in addition to a mortgage on the Corani property, subordinated to future project financing. All debt relating to the acquisition of the mineral resource property has been recognized as at 30 September 2008. Principal minimum repayment terms will be:

	\$
31 December 2008	5,000,000
30 September 2009	15,000,000
31 December 2009	25,000,000

### 8. Asset Retirement Obligation

The Company has recorded an Asset Retirement Obligation of \$275,000 as of 30 September 2008. The amount was based on an estimate prepared by management to remove drill platforms, to plant grass, and to level out the areas of trenching and drilling.

Cumulative future reclamation costs, per project under active exploration, are as follows:

	30 September 2008	31 December 2007
Corani Project, Peru	\$ 200,000	\$ 200,000
Santa Ana Project, Peru	75,000	75,000
	<u>\$ 275,000</u>	<u>\$ 275,000</u>

In view of the uncertainties concerning environmental reclamation, the ultimate cost of reclamation activities could differ materially from the estimated amount recorded. The estimate of the Company's asset retirement obligations are subject to change based on amendments to laws and regulations and as new information regarding the Company's operations becomes available.

Future changes, if any, to the estimated liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate. Any such change would result in an increase or decrease to the liability and a corresponding increase or decrease to the mineral property.

## Notes to Interim Consolidated Financial Statements

**30 September 2008**

*US Funds*  
*Unaudited*

### 9. Share Capital

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

	Shares		Amount
Authorized:			
Unlimited common shares without par value			
Issued and fully paid:			
Balance – 31 December 2006	40,423,485	\$	28,330,924
Shares issued for stock options exercised	297,500		229,905
Shares issued for warrants exercised	2,071,038		5,942,877
Fair value of broker options exercised	-		16,845
Fair value of options and warrants exercised	-		171,137
Shares issued for private placement	2,425,000		15,222,139
Share issuance costs – private placement	-		(879,567)
Balance – 31 December 2007	45,217,023	\$	49,034,260
Shares issued for stock options exercised	1,394,000		706,906
Shares issued for property	3,991,000		17,093,996
Shares issued for private placement	4,855,000		24,720,883
Share issuance costs – private placement	-		(1,537,508)
Fair value of options exercised	-		8,327
Fair value of warrants issued	-		(921,691)
Balance – 30 September 2008	55,457,023	\$	89,105,173

On 17 July 2008, the Company closed its underwritten financing through a syndicate of underwriters of 4,225,000 units at a price of C\$5.10 per unit for gross proceeds of \$21,547,500. Each Unit is comprised of one common share and one-half of one common share purchase. Each whole warrant is exercisable into one common share of the Company until September 15, 2009 at a price of C\$6.25. The underwriters exercised their over-allotment option to acquire an additional 630,000 Units for additional gross proceeds of \$3,213,000. Including the proceeds from the exercise of the over-allotment, the total gross proceeds of the offering were \$24,760,500. The underwriting fee associated with this issuance included a cash commission of \$1,359,400 (\$0.28 per unit). The value of the warrants is \$982,817.

Share issuance costs relating to this transaction amounted to \$1,537,508, including a cash commission of 5.5% paid to the Underwriters. The share issuance costs were allocated between shares and warrants on a pro rata basis such that \$61,126 of this amount was allocated to the share purchase warrants issued as part of the units.

b) **Details of Contributed Surplus:**

		For the Nine Months Ended 30 September 2008
Balance – 31 December 2007	\$	10,980,418
Stock-based compensation recognized		1,354,388
Fair value of stock options exercised		(8,327)
Fair value of warrants issued		921,691
Balance – 30 September 2008	\$	13,248,170

## Notes to Interim Consolidated Financial Statements

**30 September 2008**

*US Funds*  
*Unaudited*

**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 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.

	<b>Number of options</b>	<b>Weighted average exercise price (in CDN\$)</b>
Options outstanding at 31 December 2006	4,355,350	1.87
Exercised	(297,500)	0.86
Granted	525,000	7.99
Options outstanding at 31 December 2007	4,582,850	2.65
Exercised	(1,394,000)	0.57
Forfeited	(6,000)	8.08
Granted	165,000	5.12
Options outstanding at 30 September 2008	<b>3,347,850</b>	<b>2.25</b>

A summary of the Company's options as at 30 September 2008 is as follows:

	Number	Price per Share	Expiry Date
Options	10,000	US\$0.50	2 July 2009
	782,850	Cdn\$0.70	24 November 2009
	730,000	Cdn\$3.00	5 August 2010
	831,000	Cdn\$3.00	5 August 2010
	100,000	Cdn\$4.75	6 December 2010
	100,000	Cdn\$4.60	31 May 2011
	104,000	Cdn\$8.08	22 August 2011
	525,000	Cdn\$7.99	16 May 2012
	15,000	Cdn\$6.80	1 May 2013
	150,000	Cdn\$4.95	2 July 2013
	<b>3,347,850</b>		

As at 30 September 2008, 3,092,850 options have vested.

On 1 May 2008, the Company granted an employee of the Company options to purchase up to 15,000 common shares of the Company at an exercise price of C\$6.80 per share. These options had a \$71,178 estimated value on the grant date.

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

**Notes to Interim Consolidated Financial Statements**

**30 September 2008**

US Funds  
Unaudited

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On 2 July 2008, the Company granted employees, consultants and officers of the Company options to purchase up to 150,000 common shares of the Company at an exercise price of C\$4.95 per share. These options had a \$471,491 estimated value on the grant date.

The options granted during the nine months ended 30 September 2008 were valued at \$542,669 using the Black-Scholes option pricing model, based on the following assumptions:

	Nine Months Ended 30 September 2008
Expected dividend yield	0.00%
Expected stock price volatility	77 – 89%
Risk-free interest rate	3.04 – 3.45%
Expected life of options	5 years

The weighted average fair value of the options granted was C\$5.12.

The stock-based compensation recorded in the current period of \$1,354,388 relates to prior period grants. \$598,313 remains to be recorded subsequent to 30 September 2008 on options which have yet to vest.

d) **Share Purchase Warrants**

	Number	Price per Share	Expiry Date
Warrants outstanding	1,212,499	C\$10.50	1 August 2009
	2,427,500	C\$6.25	15 September 2009
	3,639,999		

The warrants granted in the private placement on 17 July 2008, were valued at \$982,817 using the Black-Scholes option pricing model, based on the following assumptions:

	<b>17 July 2008</b>
Expected dividend yield	0.00%
Expected stock price volatility	55.6%
Risk-free interest rate	3.11%
Expected life of warrants	14 months

The weighted average fair value of the warrants granted was Cdn\$0.42.

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

**Notes to Interim Consolidated Financial Statements**

**30 September 2008**

US Funds  
Unaudited

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**10. Related Party Transactions**

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

	2008	2007
Consulting fees paid to a director of the Company	\$ 34,500	\$ 34,900
Legal fees paid to a firm in which a director of the Company is a partner	\$ 46,451	\$ 35,243
Legal fees paid to a firm in which an officer of the Company is a partner	\$ 310,480	\$ 126,886
Accounting fees paid to a firm in which an officer of the Company is a partner	\$ 89,758	\$ 48,275

Included in accounts payable are \$196,213 of amounts due to related parties, which are unsecured, non-interest bearing and payable on demand.

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. Any consulting fees are included in wages and management salaries, and any legal or accounting costs are included in professional fees.

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**11. 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 Peru and of the Company's assets, \$72,053,484 (2007 - \$2,577,678) are located in Peru. All other assets and expenses are located in Canada.

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**12. Commitments**

- a) By an agreement dated 27 September 2003 (and amended in March 2007 and April 2008), 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 \$200,000 per annum. The amended agreement is effective from April 2008 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 and April 2008), the Company entered into a consulting agreement with an officer of the Company to act as the Vice President of Explorations of the Company. On 2 September 2008, the officer of the Company resigned as Vice President of Explorations, and the Company entered into a consulting agreement, to act as Consultant to the CEO at US\$800/day.
- 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 Cdn\$8,823 per month and Cdn\$105,876, per annum. The Company's proportionate share of the minimum lease payments is Cdn\$3,160 per month and Cdn\$37,920 per annum.

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

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

**30 September 2008**

*US Funds*  
*Unaudited*

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- d) On 17 July 2008, Bear Creek entered into an agreement with Rio Tinto to purchase Rio Tinto's remaining 30% interest in the Corani Project and extinguish all of Bear Creek's future payment obligations, royalties and Rio Tinto's back-in rights under the existing option agreement. (Note 6 (a)).
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**FORM 51-102F1  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR BEAR CREEK MINING CORPORATION**

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

***Introduction***

Prepared 27 October 2008 for the period ended 30 September 2008. The following discussion and analysis of the financial condition and results of operations of Bear Creek Mining Corporation (the "Company" or "Bear Creek") should be read in conjunction with the Company's unaudited interim consolidated financial statements for the nine months ended 30 September 2008, and the notes thereto. This discussion and analysis includes references to United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars. Canadian dollars are referred to as C\$.

Bear Creek Mining Corporation's ("Bear Creek" or the "Company") 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. Bear Creek is a publicly traded Canadian exploration company without any mineral producing properties, and thus, has no revenues from any mineral properties.

***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. Therefore, the reader is cautioned not to place undue reliance on forward-looking statements.

***Current Status***

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its amounts due to Rio Tinto, its exploration commitments, administrative overhead and maintain its mineral interests. The Company has incurred losses since inception and has an accumulated deficit of \$56,681,834 at 30 September 2008. The Company has a payment obligation to Rio Tinto of \$5 million due on or before 31 December 2008, \$15 million due on or before 30 September 2009 and \$25 million due on or before 31 December 2009, which are secured by a general security agreement over all the assets of the Company. The Company will need to raise sufficient funds to meet these obligations as well as fund ongoing exploration and administration expenses.

The Company has no assurance that such financing will be available or be available on favorable terms, especially considering current market conditions for issuance of capital. If successful, the Company would obtain additional financing through but not limited to, the issuance of additional equity.

The Company has recognized the current status of capital markets and the difficulty in raising additional capital and as a result has decreased its ongoing exploration expenditures in order to preserve its current cash and cash equivalents. As a result of the reduction of activity, the Company has re-evaluated its priorities in spending and has delayed certain parts of the scoping study at Santa Ana and the Prefeasibility of Corani to 2009.

### ***Activities on Mineral Projects***

Current efforts are focused primarily on the advancement of the Corani and Santa Ana projects. In addition, the Company continues to explore for gold and silver prospects in Peru. Base metals exploration prospects of potential are also considered. From time to time, precious or base metal exploration opportunities in other Latin American countries are considered when compatible with management's history and expertise. A large number of projects are under Bear Creek's review at any given time; including pre-feasibility and scoping study preparation, 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.

### **Corani Project**

On 17 July 2008, the Company completed its 100% acquisition of the Corani Project from Rio Tinto Mining and Exploration Limited ("Rio Tinto"). The Company earned a 70% interest in the Corani property located in southeastern Peru by making total option payments of \$5.4 million. For acquiring the remaining 30% Bear Creek has agreed to pay Rio Tinto as follows: (i) 3,871,000 Bear Creek common shares (issued); (ii) \$5 million in cash payable on the earlier of: 31 December 2008 or 15 business days following a change of control of Bear Creek; (iii) \$15 million in cash payable on the earlier of: 30 September 2009 (amended from original terms of 31 December 2008, (as consideration for this extension Bear Creek issued 120,000 common shares to Rio Tinto) or 90 days following a change of control of Bear Creek and (iv) \$25.0 million in cash payable on the earlier of 31 December 2009 or 180 days following a change of control of Bear Creek. In addition to the above, the Company may be required to make an additional payment of up to \$1.5 million as a transaction fee to a third party related to this acquisition. The Company has disputed this transaction fee and believes it is without merit. The balance of the purchase price is secured by a General Security Agreement over all of the assets of the Company in favor of Rio Tinto in addition to a mortgage on the Corani property, subordinated to future project financing.

Under the terms of the Purchase and Sale Agreement, should Rio Tinto wish to dispose of their Bear Creek shares, the Company has certain rights to arrange for purchasers to acquire their shares. In addition, Rio Tinto has agreed, subject to certain limitations, to vote its shares in Bear Creek in favor of matters proposed by management of Bear Creek until the earlier of twelve months from the closing date (July 17, 2008), change of control of Bear Creek or the disposition by Bear Creek of more than a 50% interest in either the Corani and/or Santa Ana projects.

The complete Purchase Agreement with Rio Tinto has been filed and can be viewed on the SEDAR website.

### **Current Developments at Corani**

Bear Creek commenced its Prefeasibility Study in July 2008 and as part of the Study, preliminary design criteria have been defined and field engineering test work has been initiated. The Company also reported during the quarter, lock-cycle flotation tests on six mixed sulfide composites representing approximately 70% of the mineralization in the resource model. These latest testwork results show average silver recovery in the separate lead and zinc concentrates of 80.6%, lead recovery of 75.3% and zinc recovery of 68.4% into separate silver-lead and zinc concentrates. These results vary from previous guidance as testing continues to be optimized and the final overall recoveries are expected to remain at 80% silver, 60% lead and 75% zinc. As the Corani deposit contains 2.5 billion pounds of zinc, the increase in zinc recovery is expected to have a positive impact on the economic viability of Corani. Upon reviewing the capital markets, market conditions and commodity prices, the Company has decided to delay certain elements of the Prefeasibility Study in order to conserve cash until conditions better warrant the study's completion. Metallurgical testing continues, as well as components requiring long lead time, such as the collection of weather and water related data. The study is planned to be completed during the first half of 2009.

For the purposes of the Prefeasibility Study, the current commodities and capital markets have been considered in selection of design criteria. Corani presents different development alternatives which address changes in market conditions since the January 2008 completion of the Company's Preliminary Economic Assessment ("PEA"). The design criteria selected for the prefeasibility study, described below, are aimed at maintaining an optimal project size that represents value beyond the Company's current market capitalization.

The throughput selected for the Prefeasibility Study is 15,000 tonnes per day, focusing on the higher-grade starter pits having low stripping ratios and containing ores demonstrated to yield the highest metallurgical recoveries based upon extensive testing to date. Management believes that capital expenditures can be reduced by as much as 30% of the \$428 million originally proposed in the Company's PEA, thereby significantly reducing the upfront investment required as proposed and minimizing exposure to capital overruns on large mining projects.

The grade-tonnage curves, mine sequencing, and metallurgical mapping have been analyzed within the context of the latest resource and financial models. Through a series of exercises in conjunction with our prefeasibility engineering group, Samuel Engineering, Independent Mining Consultants and RDI, a preliminary mining sequence and processing plan have been formulated which optimize the IRR and capital requirements at various throughput ranges. The resulting design criteria for the Prefeasibility Study are expected to:

- Adopt a 15,000 tonnes per day flotation process plant focusing on processing the higher grade and high recovery sulfide ores early in the mine life
- Target the average head grade at 70g/t Ag, 1.1% Pb and 0.6% Zn , equivalent to 127 g/t Ag, for life of the project
- Schedule higher-grade pits yielding silver production of 10-14 million ounces per year during the first 7 years
- Focus on the 90 to 100 million tonnes of the resource that contains 210 million higher grade ounces within mining pits having a low strip ratio (1.4:1)

- Identify an additional 150 million ounces of silver in resources as upside potential for increased silver production in future years or for mine expansion depending on silver pricing.

The financial results will depend on detailed mine planning, metals prices and updated capital expenditure requirements and operating cost estimates produced during the course of the Prefeasibility Study. The selected approach, namely focusing on Corani's flexibility in development plan alternatives and initial higher silver production, is expected to confirm positive financial performance.

During the nine months ended 30 September 2008, the Company incurred acquisition and exploration expenditures of \$5.7 million on the Corani project. Included in this total are option payments of \$3 million, legal and accounting costs relating to the acquisition of \$0.07, drilling costs of \$0.4 million, salaries and consulting of \$1.4 million, travel costs of \$0.4 million, geophysics of \$0.1 million and other costs of \$0.3 million.

### **Santa Ana Project**

The Company controls a 100% interest in the Santa Ana silver project. The property, comprised of 6,300 hectares, is located in the Puno region in southern Peru.

In September 2008, the Company completed its second resource estimate based on 47,436 meters of drilling in 260 drill holes completed through July 2008. The estimate was prepared by Independent Mining Consultants, Tucson, Arizona. The Independent Qualified 43-101 report is available on SEDAR. The current resource estimates using a \$12/ounce silver resource price are:

**Bear Creek Mining, Santa Ana Deposit  
Mineral Resource Based on 20 g/t Cutoff and Prudent Open Pit Constraints  
2 September 2008**

Category	Ktonnes	Contained Metal					
		Silver	Lead	Zinc	Silver	Lead	Zinc
		Gm/t	%	%	Million Ozs	Million Lbs	Million Lbs
Measured	10,385	48.1	0.36	0.64	16.1	82.4	146.5
Indicated	<u>45,592</u>	<u>45.1</u>	<u>0.33</u>	<u>0.56</u>	<u>66.1</u>	<u>331.7</u>	<u>562.9</u>
Measured + Indicated	55,977	45.7	0.34	0.57	82.2	414.1	709.4
Inferred	23,333	50.3	0.32	0.51	37.7	164.6	262.3

The stripping ratio is approximately 1.8:1; however, the block model considers blocks with no nearby drill holes as waste and additional drilling is expected to convert many of these blocks to resource, reducing the stripping ratio. Lead and zinc are not recovered in a heap leach; however, flotation testing will examine this as higher-grade base metals are seen in several drill holes.

Included in the Measured and Indicated resources are 14.1 million tonnes of Measured and Indicated resources averaging 63 g/t silver (approximately 26M ounces of silver). These higher-grade resources are expected to provide starter pits at grades 50% higher than the average

resource grade for sequencing into the early years of mining. The additional mining sequencing studies are expected to have a positive effect on project economics as a result of early higher grade silver pits. The Scoping Study and Preliminary Economic Assessment (“PEA”) are awaiting further detailed mine planning utilizing a resource model which will include the additional drill data and mine sequencing studies.

### ***Drilling***

The Company has completed 50,612 meters of drilling in 279 drill holes. Silver mineralization is contained in low-angle structures and broad, vertical structural zones outcropping at surface and extending to depths of at least 150 vertical meters. Typical mineralized drill intercepts average 50 to 75 meters thick, with grades between 20 to 90 grams per tonne silver. These drill intercepts include higher-grade intervals ranging from a thickness of a few meters to tens of meters, with average grades between 100 to 2,000 grams per tonne silver. The target concept is to define an open-pittable, low grade silver deposit amenable to low cost heap-leaching. Mineralization appears to remain open at depth and laterally in two directions. Drill results beneath soil anomalies to the north and southwest confirm that the silver anomalies in soil over covered areas on three sides of the previously drill-tested deposit indicate potential for the expansion of the mineralized areas. Currently, drilling has been temporarily suspended in order to change equipment to a drill rig capable of drilling large-diameter diamond core holes for the purposes of confirming in-fill drilling and providing samples for heap leach simulated test work, as described below. The Company expects that the completed in-fill drilling will convert internal waste to mineralization contained within the current resource model when the resource model is updated for the PEA. The in-fill drilling is also expected to convert a certain amount of inferred resources to the indicated and measured resource categories in future resource updates.

### ***Metallurgical Testing***

Ongoing leach testing continues to support recoveries in heap leach conditions in all areas explored to date and across all silver grade ranges. A test program is planned for the 4th quarter of 2008 that will involve the drilling of at least three large diameter drill holes in different areas of the deposit. The large drill core will then be shipped to an independent test lab where large diameter leach column tests will be performed. The purpose of this test program will be to evaluate the recovery of silver at coarser crush sizes and thus potentially significantly reducing the operating costs while maintaining high metal recoveries.

The future test work is based upon results of the second phase test program completed earlier in 2008 involving three column leach tests performed at McClelland Laboratories in Sparks Nevada. Results show that the Santa Ana material is well suited for heap leach recovery methods. In the test program, average silver recovery of 64.6% was achieved for the conventional tests, and overall long-term silver recovery is expected to exceed 70%, according to McClelland Laboratories.

The company also continues to periodically select samples for diagnostic leach amenability or “Shaker Tests” where the samples are leached for a 24-hour period. Recently the Company completed a 55 sample program that showed an over all recovery of 69% of the silver. These samples were chosen from the recently discovered new areas of the deposit and the results are in line with similar programs which have been performed during the development of the project. These results show that the deposit has a very consistent response to leaching.

The first phase of metallurgical testing, which involved cyanide leach tests of 10 samples selected from areas of known silver mineralization (including both low and high grade ranges), has shown that silver recovery can be expected to be 85% with crush sizes of 50% passing 200 mesh and 71% at 70% passing 2mm. The initial results from the early bottle-roll test work show that the silver mineralization leaches well at ¾ inch crush sizes. Bottle roll tests continue in new areas of mineralization encountered in drilling, verifying that cyanide extraction continues to be favorable. This test work indicates that separation and treatment of higher-grade silver mineralization during mining may be appropriate for inclusion as an alternative processing approach in the PEA.

Flotation test work has been initiated to evaluate the recovery of lead and zinc into concentrates. Significant intercepts (100 meters) containing greater than 1% lead and zinc contained in galena and sphalerite have been defined in the drilling. Base metals recovery has not been considered previously in the Company's approach to exploration at Santa Ana. As test results are received, the Company will report its views on the potential economic significance of the lead and zinc mineralization contained within the deposit.

### ***Santa Ana Resource and Engineering:***

The Company will review capital markets, market conditions and commodity prices and may delay certain elements of the PEA in order to conserve cash until conditions better warrant the study's completion. Currently, the PEA is to be completed in early 2009. The PEA will include additional drilling updating the resource modeling as drilling continues to intersect near surface high grade structures not yet incorporated into the latest resource model. Metallurgical testing utilizing diagnostic shaker leach tests continues to confirm that new mineralization added to the resource is responding similarly to cyanide extraction as the materials reported in the column leach tests.

During the nine months ended 30 September 2008, the Company incurred expenditures of \$5.6 million on the Santa Ana project. Included in this total are: \$3.7 million of drilling costs, salaries and consulting of \$0.7 million, travel costs of \$0.5 million, assays and sampling of \$0.3 million and various other costs of \$0.4 million.

### **La Yegua**

La Yegua is a porphyry copper-molybdenum-gold project in the Apurimac region of Southern Peru is located 20 km northeast of Southern Peru Copper Corporation's Los Chancas. The La Yegua project includes 4,100 ha of mineral claims located approximately 250 km from the Pacific coast and 100 km southwest of the city of Cusco.

In February 2007, Bear Creek signed a Letter of Intent with Chapleau Resources Ltd. ("Chapleau") and subsequently formalized it by means of an option agreement dated 29 January 2008 where Chapleau has an option to acquire up to a 75% interest in the project. Chapleau has an opportunity to earn a 51% interest in the property by spending a total amount of \$2.8 million in exploration over a four year period and the issuance of the equivalent of \$0.35 million in Chapleau shares, which is based on the market price of Chapleau shares at the time of issuance, during the four years. With the issuance of an additional 1.25 million shares Chapleau may increase the vested interest from 51% to 75%.

Chapleau has informed the Company that all required exploration permits are in place, and that Chapleau has currently completed 900 meters of drilling. Currently, surface agreements are being renewed in order to begin a second drill program in the 4<sup>th</sup> quarter 2008. Results from the

initial Chapleau drilling program were announced in December 2007 and May 2008. Chapleau announced that drilling indicates that potential exists in the under-explored district for a disseminated copper-molybdenum-gold deposit and intends to follow up its drill results with additional exploration work.

### **Piedra Sagrada Project**

Piedra Sagrada is located approximately 13 km east of Southern Copper's Los Chancas copper porphyry deposit and is comprised of highly fractured quartzites and intrusive rocks. Gold mineralization occurs in sub-vertical structures aggregating to highly fractured zones as much as 200m wide. Shallowly-dipping mantos (bedding replacement deposits) parallel to the quartzite bedding are also present. The north-south structural corridor along which mineralization is found measures approximately 9 kilometers long by up to 1.5 kilometers wide. To date, 218 surface rock-chip samples have been collected with 75 assaying greater than 100ppb gold and, of those, 40 assaying greater than 1g/t gold (highs of 25.8 and 29.5g/t gold). Two initial gold targets have been selected for first-pass drilling, each approximately 400 meters by 200 meters in size.

In addition, quartz monzonite intrusives with disseminated copper and molybdenum underlie the gold mineralization exposed in a valley approximately 500 meters below the outcropping gold mineralization. Sparse outcrop samples contain 0.33% copper and 0.01% molybdenum.

Field crews continue mapping and sampling to generate additional drill targets within the Company's 5,600 hectare land position. Initial drilling has commenced and will be comprised of 1,000 meters in seven drill holes. Additional drilling will be designed pending initial drill results, further field results and availability of funds.

Bear Creek can earn 100% of the two properties that comprises Piedra Sagrada by making escalating payments totaling \$10.1M over 4 years. There is a commitment for investing a minimum of \$350K in an exploration program during the 4 years of the option term. Once one of the properties is transferred to Bear Creek, a 2.0% NSR will be granted to the optionor. The NSR payments are capped to a maximum of \$18M.

### **Generative Exploration**

Generative exploration is a crucial part in of the business of 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.

### **IGV**

IGV expense of \$1.3 million represents the amount of IGV that has been paid to the Peruvian government during the nine months ended 30 September 2008. This amount is recoverable when there are future revenues generated by the Company in Peru. As the Company is an exploration stage company there can be no reasonable assurance that future revenue can be generated, and as a result the IGV receivable has been expensed. The IGV expense is

denominated in Peruvian soles and as at 30 September 2008, the total value of the IGV receivable in Peru was \$4.9 million (14.6 million soles).

### **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 with no mineral producing properties, and thus, does not have revenues from any mineral properties.

### ***For the Nine Months Ended 30 September 2008 as compared to the Nine Months Ended 30 September 2007***

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

In the current period, the Company experienced a net loss of \$14.5 million compared to a net loss of \$9.1 million for the same period in 2007, an increase in net loss of \$5.4 million. In the current period, the Company had a loss per share of \$0.30 compared to \$0.21 for the same period in 2007. The increase in net loss is primarily due to \$4.3 million of additional exploration costs being incurred in the current period, primarily as a result of the advancement of both the Corani and Santa Ana projects. This increase was offset by a decrease in stock based compensation due to fewer stock options vesting within the period. The increase in exploration expenditures in the current period primarily related to drilling and exploration activities on Santa Ana. In addition the Company experienced a foreign exchange loss of \$1.1 million as a result of the Company maintaining a portion of its cash in Canadian dollars and Peruvian Soles and reporting its results in US dollars.

Total operating expenses for the current period were \$13.8 million compared to operating expenses of \$10.3 million for the same period in 2007.

### ***For the Three Months Ended 30 September 2008 as compared to the Three Months Ended 30 September 2007***

In the current quarter, the Company experienced a net loss of \$5.6 million compared to a net loss of \$2.9 million for the same period in 2007, an increase in net loss of \$2.7 million. The increase in net loss is primarily due to \$1.7 million of additional exploration costs being incurred in the current quarter, primarily as a result of increased drilling on the Santa Ana project. In the current quarter the Company had a loss per share of \$0.10 compared to \$0.07 for the same period in 2007.

Total operating expenses for the third quarter in 2008 were \$5.0 million compared to operating expenses of \$3.7 million for the same period in 2007. Exploration costs were \$4.2 million in the current quarter, up from \$2.5 million in the same period in the 2007 fiscal year, due to the increased exploration expenditures on the Company's Santa Ana and Piedra Sagrada projects. The Company had a foreign exchange loss of \$0.9 million due to the Company maintaining the majority of its cash reserves in Canadian dollars, and the Company reporting its results in US dollars.

### **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 <sup>rd</sup> Quarter 2008	Nil	(5.6)	(0.10)
2 <sup>nd</sup> Quarter 2008	Nil	(4.8)	(0.10)
1 <sup>st</sup> Quarter 2008	Nil	(4.1)	(0.09)
4 <sup>th</sup> Quarter 2007	Nil	(4.9)	(0.11)
3 <sup>rd</sup> Quarter 2007	Nil	(2.9)	(0.07)
2 <sup>nd</sup> Quarter 2007	Nil	(3.9)	(0.09)
1 <sup>st</sup> Quarter 2007	Nil	(2.3)	(0.06)
4 <sup>th</sup> Quarter 2006	Nil	(4.8)	(0.12)

The increase in loss for the third quarter of 2008 resulted primarily from increased exploration activity on the Company's Santa Ana and Piedra Sagrada projects.

The increase in loss for the second quarter of 2008 resulted primarily from increased exploration activity on the Company's Santa Ana and Corani projects.

The decrease in loss for the first quarter of 2008 resulted primarily from a decrease in drilling activities on the Corani project.

The increase in loss for the fourth quarter of 2007 resulted primarily from increased exploration activity on the Company's Santa Ana project and Don Marcelo project.

The decrease in loss in the third quarter of 2007 resulted primarily from a foreign exchange gain related to the Company's Canadian dollar holdings, and to decreased drilling costs on the Company's Corani project.

The increase in loss in the second quarter of 2007 resulted primarily from an increase in stock-based compensation expense.

The decrease in loss in the first quarter of 2007 resulted primarily from a decrease in drilling activities on the Corani project.

The increase in loss in the fourth quarter of 2006 resulted primarily from increased drilling and other exploration incurred on the Corani project, in addition the Company had additional exploration costs, including drilling on its Santa Ana project.

## Liquidity and Capital Resources

Of the \$23.7 million in cash and cash equivalents and short term investments as at 30 September 2008, approximately \$18.7 million is denominated in Canadian dollars and Peruvian soles, with the remaining in US dollars. The Company's major exploration expenditures are denominated in US dollars. The Company places its cash and cash equivalents in either government backed paper or in Canadian chartered bank corporate paper with maturities of less than 90 days.

On 30 September 2008, the Company had 55,457,023 issued shares. The Company's net working capital as at 30 September 2008 was \$4.6 million compared to a net working capital of \$15.5 million as at 31 December 2007. The cash balance at 30 September 2008 was \$23.7 million compared to \$10.8 million as at 31 December 2007. As at 30 September 2008 current liabilities were \$19.4 million compared to \$0.7 million as at 31 December 2007. Included in current liabilities is the fair value of \$5 million owing to Rio Tinto on 31 December 2008 and \$15 million owing to Rio Tinto on 30 September 2009.

In addition, the Company accrued reclamation costs for its Corani and Santa Ana projects of \$275,000 during the prior year for future site remedial work.

On 17 July 2008, the Company closed an underwritten financing through a syndicate of underwriters of 4,855,000 units at a price of C\$5.10 per unit for gross proceeds of \$24.7 million. Each Unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share of the Company until 15 September 2009 at a price of C\$6.25. The underwriting fee associated with this issuance included a cash commission of \$1,359,400 (\$0.28 per unit).

As at 27 October 2008, the Company had 55,457,023 outstanding common shares. The Company has 3,347,850 share purchase options and 3,639,999 share purchase warrants outstanding. The average exercise price of the share purchase options is C\$4.93, and the share purchase warrants exercise prices are at C\$6.25 and C\$10.50.

Expenditures under consideration for the remainder of the 2008 and 2009 fiscal years include the completion of the pre-feasibility study at Corani, completing a scoping study and continue drilling on Santa Ana; the Company will also continue exploration programs on other projects. In addition to these expenditures, the Company has to make the \$5 million payment due to Rio Tinto on or before 31 December 2008, the \$15 million payment due on or before 30 September 2009, and \$25 million due 31 December 2009. The Company does not have the funds available to make these payments or to fund its exploration expenditures through the end of 2009. This estimate is based on current information, as the Company's expenditures and cash requirements may change over time. These obligations as well as exploration expenditures planned will require the Company to raise additional funds or restructure its liabilities in order to meet its financial obligations. The Company has no assurance that such financing will be available or be available on favorable terms, especially considering the current market conditions. Factors that could affect the availability of financing include Bear Creek's performance (as measured by various factors including the progress and results of the Corani and Santa Ana projects, the state of international debt and equity markets, investor perceptions and expectations and the global financial and metals markets). If successful, the Company would obtain additional financing through but not limited to, the issuance of additional equity.

## **Financing Activity**

During the nine months ended 30 September 2008, the Company received cash proceeds of \$24.7 million from the private placement issued 17 July 2008 and \$0.7 million from the exercise of 1,394,000 options.

## **Investing Activity**

During the nine months ended 30 September 2008, the Company made its final option payment of \$3.0 million related to its Corani option agreement.

## **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 met those requirements and occurred during the period ended 30 September 2008.

The Company received legal services, totaling \$310,480, from a law firm in which an Officer of Bear Creek is a partner. Legal fees related primarily to the listing of the Company's warrants, the equity financing, Rio Tinto acquisition and other ongoing administrative items.

The Company received accounting services from an accounting firm in which an Officer of the Company is a partner. The total accounting fees paid were \$89,758.

The Company received consulting services from a Director of the Company, during the period. The fees were incurred in relation to management consulting services. Total fees paid during the year were \$34,500.

## **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***

During the period, the Company clarified its accounting policy with respect to acquisition costs. This does not represent a change in accounting policy and there is no effect on prior periods. The Company's revised policy is as follows:

The Company is in the process of developing its mineral properties and has adopted the policy of capitalizing significant acquisition costs for property rights. Mineral exploration costs and maintenance payments are expensed prior to the determination that a property has economically recoverable ore reserves. Option payments are considered acquisition costs once the Company has the intention of exercising the option agreement.

Capitalized costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of ore reserves, while capitalized costs for prospects abandoned are written off.

Management reviews and evaluates the carrying value of its mineral properties for impairment when events or changes in circumstances indicate that the carrying amount of the related asset may not be recoverable. If the total estimated future operating cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value which is normally determined using the discounted value of future cash flows. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired it is written down to its estimated fair value.

Ownership in mineral properties involves certain interest risks due to the difficulties of determining and obtaining clear title to claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristics of many mineral properties. The Company has investigated ownership of its mineral properties and, to the best of its knowledge, ownership of its interests are in good standing.

#### **b) *Estimates***

Financial statements in conformity with Canadian GAAP require 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.

#### **c) *Financial Instruments***

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

- a) Section 1535 – Capital Disclosures – Disclosures. Section 1535 requires disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.
- b) Section 3863 – Financial Instruments – Presentation. Section 3862 and 3863 replaces the existing Section 3861 – Financial Instruments – Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections require disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks.

The Company's financial instruments consist of cash and cash equivalents, short term investments 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 and Peruvian Soles. These balances are subject to fluctuations in the exchange rate between the Canadian Dollar, Peruvian Soles and the U.S. Dollar, resulting in currency gains or losses for the Company.

- c) Section 1400 – General Standards of Financial Statement Presentation. Section 1400 was amended to include requirements to assess and disclose an entity’s ability to continue as a going concern.
- d) The adoption of Sections 3862, 3863, 1535, and 1400 had no impact on the opening equity and losses of the Company.

**d) *International Financial Reporting Standards (“IFRS”)***

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011. The transition date of 1 January 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended 31 December 2010. In July 2008 AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. The Company is currently assessing the financial reporting impact of the transition to IFRS and the changeover date.

**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)