

BEAR CREEK MINING CORPORATION

(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2009 AND 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 June	As at 31 December
		2009	2008
ASSETS			
Current	Cash and cash equivalents	\$ 8,102,159	\$ 12,774,486
	Short-term investments (Note 5)	2,729,252	35,464
	Prepaid expenses and advances	235,233	597,215
		<hr/> 11,066,644	<hr/> 13,407,165
	Equipment (Note 6)	228,130	258,535
	Resource Property Costs (Note 7)	<hr/> 86,751,889	<hr/> 85,109,111
		<hr/> \$ 98,046,663	<hr/> \$ 98,774,811
LIABILITIES			
Current	Accounts payable and accrued liabilities	\$ 260,838	\$ 346,715
	Due to related party (Note 11)	32,606	45,870
	Due to Rio Tinto Mining and Exploration Limited (Note 8)	5,000,000	5,000,000
		<hr/> 5,293,444	<hr/> 5,392,585
	Due to Rio Tinto Mining and Exporation Limited (Note 8)	32,149,969	32,100,024
	Asset Retirement Obligation (Note 9)	300,000	300,000
	Future Income Tax	19,765,534	18,598,319
		<hr/> 57,508,947	<hr/> 56,390,928
SHAREHOLDERS' EQUITY			
Share Capital	Authorized: (Note 10a)		
	Unlimited common shares without par value		
	Issued and fully paid:		
	56,588,289 (2008 - 55,457,023) common shares	90,317,117	89,105,173
	Contributed surplus (Note 10b)	14,133,281	13,516,211
		<hr/> 104,450,398	<hr/> 102,621,384
	Deficit - Statement 2	<hr/> (63,912,682)	<hr/> (60,237,501)
		<hr/> 40,537,716	<hr/> 42,383,883
		<hr/> \$ 98,046,663	<hr/> \$ 98,774,811

Nature of Business and Going Concern (Note 1)
Commitments (Note 13)

ON BEHALF OF THE BOARD:

Signed: "Catherine McLeod-Seltzer", Director

Signed: "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 June 2009	For the Three Months Ended 30 June 2008	For the Six Months Ended 30 June 2009	For the Six Months Ended 30 June 2008
Operating Expenses				
Exploration costs - (Exploration Costs Schedule 1)	\$ 1,180,947	\$ 4,008,535	\$ 1,941,652	\$ 6,980,346
Stock-based compensation expense (Note 10b)	103,465	407,282	667,083	841,855
Professional fees	92,157	147,950	164,582	288,589
Wages and management salaries	54,514	82,572	121,874	284,525
General administrative expenses	59,554	63,914	94,398	124,854
Shareholder information and filing fees	30,149	88,941	78,888	223,667
Travel	29,766	44,768	62,713	93,462
Amortization	665	1,025	1,289	1,935
Loss before the following	1,551,217	4,844,987	3,132,479	8,839,233
Foreign exchange (gain) loss	500,929	(36,904)	739,857	243,963
Interest income	(8,166)	(36,214)	(44,819)	(190,224)
Gain on investments (Note 5)	(5,131)	(13,140)	(9,458)	(10,121)
Loss before income tax	2,038,849	4,758,729	3,818,059	8,882,851
Future income tax recovery	(98,131)	-	(142,878)	-
Loss and Comprehensive Loss for the Period	1,940,718	4,758,729	3,675,181	8,882,851
Deficit - Beginning of period	61,971,964	46,306,005	60,237,501	42,181,883
Deficit - End of Period	\$ 63,912,682	\$ 51,064,734	\$ 63,912,682	\$ 51,064,734
Loss per Share - Basic and Diluted	\$ 0.03	\$ 0.10	\$ 0.07	\$ 0.19
Weighted Average Number of Shares Outstanding	56,584,333	46,611,023	56,139,954	46,401,594

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

Statement 3

U.S. Funds
 Unaudited

	For the Three Months Ended 30 June 2009		For the Three Months Ended 30 June 2008		For the Six Months Ended 30 June 2009		For the Six Months Ended 30 June 2008	
Operating Activities								
Loss and comprehensive loss for the period	\$	(1,940,718)	\$	(4,758,729)	\$	(3,675,181)	\$	(8,882,851)
Items not affecting cash:								
Stock-based compensation		103,465		407,282		667,083		841,855
Unrealized foreign exchange on marketable securities		(1,735)		-		(1,251)		-
Increase in fair value of marketable securities		(5,131)		(13,140)		(9,458)		(10,121)
Accrued interest income		(1,642)		-		(1,642)		-
Amortization included in exploration costs		16,502		17,184		32,978		36,168
Future income tax recovery		(98,131)		-		(142,878)		-
Foreign exchange loss on future income tax		945,711		-		817,260		-
Amortization		665		1,025		1,289		1,935
Shares received on options payments		-		-		-		(28,271)
		(981,014)		(4,346,378)		(2,311,800)		(8,041,285)
Changes in non-cash working capital:								
Prepaid expenses and advances		(36,910)		(29,897)		363,595		(28,472)
Accounts payable and accrued liabilities		136,697		(13,870)		(85,877)		(135,235)
Due to related party		(3,483)		-		(13,264)		-
Cash used in operating activities		(884,710)		(4,390,145)		(2,047,346)		(8,204,992)
Investing Activities								
Purchase of equipment		(2,855)		(10,522)		(3,862)		(19,084)
Resource property acquisition costs		-		-		-		(3,000,000)
Short-term investments		(2,683,050)		(321)		(2,683,050)		5,101,457
Cash used in investing activities		(2,685,905)		(10,843)		(2,686,912)		2,082,373
Financing Activities								
Share capital issued - net		5,000		-		61,931		706,906
Deferred share issuance cost		-		(5,778)		-		(5,778)
Cash provided by financing activities		5,000		(5,778)		61,931		701,128
Net Decrease in Cash and Cash Equivalents								
Cash and cash equivalents - Beginning of period		(3,565,615)		(4,406,766)		(4,672,327)		(5,421,492)
		11,667,774		9,833,346		12,774,486		10,848,072
Cash and Cash Equivalents - End of Period	\$	8,102,159	\$	5,426,580	\$	8,102,159	\$	5,426,580
Cash and cash equivalents consists of:								
Cash	\$	1,621,063	\$	939,426	\$	1,621,063	\$	939,426
Term deposit		6,481,096		4,487,154		6,481,096		4,487,154
	\$	8,102,159	\$	5,426,580	\$	8,102,159	\$	5,426,580
Supplemental Schedule of Non-Cash Investing and Financing Transactions:								
Fair value of options exercised <i>(Note 10a)</i>	\$	2,434	\$	-	\$	50,013	\$	8,327
Shares issued for debt <i>(Note 8)</i>	\$	-	\$	-	\$	1,100,000	\$	-
Accretion costs related to resource property <i>(Note 7)</i>	\$	473,753	\$	-	\$	1,149,945	\$	-
Supplemental Disclosure of Cash Flow information:								
Interest received	\$	8,166	\$	36,214	\$	44,819	\$	190,224

See Accompanying Notes

Bear Creek Mining Corporation
(An Exploration Stage Company)

Schedule 1

Interim Consolidated Schedule of Exploration Costs

U.S. Funds
 Unaudited

		For the Three Months Ended 30 June 2009	For the Three Months Ended 30 June 2008	For the Six Months Ended 30 June 2009	For the Six Months Ended 30 June 2008
Corani	Salary and consulting	\$ 287,535	\$ 417,571	\$ 430,723	\$ 890,576
	Travel	75,296	124,775	144,983	240,908
	Supplies and general	46,179	45,432	72,288	80,622
	Maintenance costs	25,452	15,540	34,946	29,536
	Geophysics	14,094	14,394	14,094	136,892
	Assaying and sampling	6,066	5,907	6,066	18,720
	Drilling	-	138,939	-	365,209
		<u>454,622</u>	<u>762,558</u>	<u>703,100</u>	<u>1,762,463</u>
Santa Ana	Salary and consulting	110,759	195,435	209,208	444,579
	Supplies and general	170,116	126,919	187,063	213,945
	Maintenance costs	56,544	93,616	97,868	149,882
	Travel	25,118	190,365	37,193	286,499
	Assaying and sampling	4,503	114,461	7,325	200,789
	Geophysics	2,369	-	2,369	4,787
	Drilling	-	1,585,685	-	2,194,968
		<u>369,409</u>	<u>2,306,481</u>	<u>541,026</u>	<u>3,495,449</u>
Antash	Expenditures	3,286	53,886	8,583	68,830
	Reimbursement of expenses	2,376	-	(53,367)	-
		<u>5,662</u>	<u>53,886</u>	<u>(44,784)</u>	<u>68,830</u>
La Yegua	Expenditures	-	153	-	17,278
	Option payments	-	-	-	(28,271)
		<u>-</u>	<u>153</u>	<u>-</u>	<u>(10,993)</u>
Generative	Salaries and consulting	160,723	165,435	366,964	347,386
	Supplies and general	70,703	73,408	168,464	157,985
	Travel	32,231	36,956	54,493	64,215
	Maintenance costs	8,896	2,400	18,927	6,239
	Assaying and sampling	9,392	12,384	18,718	20,687
	Geophysics	741	858	2,065	2,299
		<u>282,686</u>	<u>291,441</u>	<u>629,631</u>	<u>598,811</u>
Other Properties		<u>2,630</u>	<u>111,272</u>	<u>7,391</u>	<u>264,342</u>
IGV		<u>65,938</u>	<u>482,744</u>	<u>105,288</u>	<u>801,444</u>
Costs for the Period		<u>\$ 1,180,947</u>	<u>\$ 4,008,535</u>	<u>\$ 1,941,652</u>	<u>\$ 6,980,346</u>

See Accompanying Notes

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

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 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, 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 \$63,912,682 at 30 June 2009. The next \$15 million in payments, on the Corani Project agreement, (including \$5 million due in 2009 and \$10 million in 2010), due to Rio Tinto are secured by a general security agreement over all the assets of the Company (*Note 7a*). 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 favourable 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.

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 2008.

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

3. Change in Accounting Policies

a) Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The Company has evaluated the new section and determined that the adoption of these new requirements has not had an impact on the Company's consolidated financial statements.

b) Goodwill and Intangible Assets (Section 3064)

Effective 1 January 2009 the Company adopted CICA HB 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 reduces 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. The Company has evaluated the new section and determined that the adoption of these new requirements has not had an impact on the Company's consolidated financial statements.

c) Mining Exploration Costs

On 27 March 2009, the CICA approved EIC-174 "Mining Exploration Costs." This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

This standard was effective for the Company beginning on 1 January 2009. The adoption of this EIC did not have any impact on the Company's consolidated financial statements.

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
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4. Recent Accounting Pronouncements Not Yet Adopted

a) Business Combinations – Section 1582

In January 2009, the CICA issued Handbook Section 1582, “Business Combinations” (“CICA 1582”), CICA 1582 requires that all assets and liabilities of an acquired business will be recorded at fair value at acquisition. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after 1 January 2011. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

b) Consolidations and Non-Controlling Interest – Sections 1601 and 1602

In January 2009, the CICA issued Handbook Section 1601, “Consolidations” (“CICA 1601”), and Section 1602, “Non-controlling Interests” (“CICA 1602”). CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after 1 January 2011. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

c) International Financial Reporting Standards

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.

5. Short-term Investments

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

	30 June 2009	31 December 2008
Chapleau shares	\$ 22,401	\$ 12,943
Term deposits - GIC	23,801	22,521
Term deposits – Scotiabank	2,683,050	-
Total short-term investments	<u>\$ 2,729,252</u>	<u>\$ 35,464</u>

Bear Creek Mining Corporation
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Notes to Interim Consolidated Financial Statements

30 June 2009

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Term deposits included in short term investments have maturities of greater than three months but less than one year and are cashable at any time.

At 30 June 2009 the Company holds 143,792 (31 December 2008 – 143,792) shares of Chapleau Resources Ltd. (“Chapleau”) (Note 7d). During the period ended 30 June 2009, the fair value of the Chapleau shares increased by \$9,458. The fair value and the cost are as follows:

	30 June 2009	31 December 2008
Fair value	\$ 22,401	\$ 12,943
Cost	48,034	48,034
Unrealized loss (cumulative)	\$ (25,633)	\$ (35,091)

6. Equipment

Details are as follows:

	30 June 2009			31 December 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 31,326	\$ 21,761	\$ 9,565	\$ 31,326	\$ 20,472	\$ 10,854
Exploration equipment	481,428	262,863	218,565	477,566	229,885	247,681
	\$ 512,754	\$ 284,624	\$ 228,130	\$ 508,892	\$ 250,357	\$ 258,535

7. Resource Property Costs

Cumulative resource expenditures, per project under active exploration as at 30 June 2009, are as follows:

Capitalized acquisition costs

	Corani Project	Santa Ana Project	Total
Balance at 31 December 2007	\$ 2,200,000	\$ 75,000	\$ 2,275,000
Option payment (Note 7a)	\$ 3,000,000	-	\$ 3,000,000
Acquisition – cash payments (Note 7a)	5,000,000	-	5,000,000
Shares issued for property (Notes 7a and 10a)	17,093,996	-	17,093,996
Asset retirement obligations	-	25,000	25,000
Present value of future payments, incl. accretion (Note 8)	37,100,024	-	37,100,024
Future income taxes	20,532,280	-	20,532,280
Legal and finance	82,811	-	82,811
Balance at 31 December 2008	\$ 85,009,111	\$ 100,000	\$ 85,109,111
Adjustment for future income tax	492,833	-	492,833
Accretion of purchase liability (Note 8)	1,149,945	-	1,149,945
Balance at 30 June 2009	\$ 86,651,889	\$ 100,000	\$ 86,751,889

Bear Creek Mining Corporation
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Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

Exploration and maintenance costs

Balance at 31 December 2007	14,549,132	3,838,938	18,388,070
Exploration costs – Exploration Costs Schedule	3,415,529	6,237,650	9,653,179
Balance at 31 December 2008	\$ 17,964,661	\$ 10,076,588	\$ 28,041,249
Exploration costs – Exploration Costs Schedule	703,100	541,026	1,244,126
Balance at 30 June 2009	\$ 18,667,761	\$ 10,617,614	\$ 29,285,375
Combined Balance at 30 June 2009 – capitalized and expensed project costs	\$ 105,319,650	\$ 10,717,614	\$ 116,037,264

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 were 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 had a participatory 30% interest.

On 6 March 2008 and subsequently amended, 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 agreed to pay Rio Tinto \$45 million and to issue Rio Tinto 3,991,000 common shares 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 (paid 19 December 2008); (iii) \$15 million in cash payable on the earlier of: 30 September 2009 (amended from original terms of 31 December 2008 for consideration of Bear Creek issuing 120,000 common shares to Rio Tinto on 17 July 2008) 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 5). 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 claim for the transaction fee is without merit.

On 17 July 2008, the Company completed the 6 March 2008 agreement and 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 fair 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

Notes to Interim Consolidated Financial Statements

30 June 2009

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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) at the acquisition date, of \$18,714,917 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.

On 27 February 2009 the Company entered into an amendment agreement (the "Amendment Agreement") with Rio Tinto in respect of its purchase of Rio Tinto's remaining 30% interest in the Corani silver and base-metals deposit (*Note 8*). Under the Amendment Agreement, Rio Tinto has agreed to restructure the final two cash payments of US\$15 million previously due 30 September 2009 and \$25 million previously due 31 December 2009. In consideration for deferring the majority of these payments out several years, the purchase price is increased by \$2.2 million to \$77.2 million, of which \$36.1 million has been paid in shares or cash. The restructured remaining payments are described below:

- \$5 million due 31 December 2009
- \$10 million due 31 December 2010
- \$10 million due 30 September 2011
- \$15 million due 30 June 2012

Bear Creek has agreed to make the following additional payments (2.2 million payable in cash or in shares (issuable at a 15% discount from then current market prices) at the option of Bear Creek) in consideration for the restructuring:

- \$1.1 million upon signing of the amended agreement or as soon thereafter as stock exchange acceptance is received (paid by the issuance of 1,021,266 (*Note 10*) million shares of Bear Creek on 11 March 2009).
- \$1.1 million due on 10 January 2011.

In addition, the Amendment Agreement removes the accelerated payment condition upon change of control of Bear Creek and terminates the General Security Agreement ("GSA") once Bear Creek completes the next two payments totalling \$15 million (*Note 8*).

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 31 December 2008. The Company exercised its option in January 2008 and now holds a 100% interest in the Santa Ana project.

c) 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.

During the period ended 31 March 2009, management decided to terminate its agreements on Fe y Esperanza and Colcabamba mineral properties based upon the results of initial drilling performed during late 2008.

Bear Creek Mining Corporation
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Notes to Interim Consolidated Financial Statements

30 June 2009

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d) La Yegua

In February 2007, Bear Creek signed a Letter of Intent with Chapleau, which was formalized by an option agreement dated 29 January 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 \$20,412, and in March 2008 the Company received 88,236 shares fair valued at \$27,622. (Note 5)

e) Other Properties

On 16 April 2009, the Company acquired a 100% interest in three new gold and silver exploration targets located in southern Peru.

8. Due to Rio Tinto

Fair value – 31 December 2007	\$	-
Debt owing to Rio Tinto (Note 7a)		45,000,000
Less: adjustment to fair value at inception		(4,565,012)
Fair value of debt at inception		40,434,988
Less: payment made to Rio Tinto (Note 7a)		(5,000,000)
Accretion of the liability		1,665,036
Due to Rio Tinto - 31 December 2008	\$	37,100,024
Accretion on obligation to Rio Tinto		1,149,945
Less: share payment for debt made to Rio Tinto (Note 7a)		(1,100,000)
Due to Rio Tinto – 30 June 2009	\$	37,149,969

On 17 July 2008 and amended subsequent to 31 December 2008, the Company purchased Rio Tinto's remaining interest in the Corani Project and as part of the agreement \$5 million in cash was payable on the earlier of: 31 December 2008 or 15 business days following a change of control of Bear Creek (paid 19 December 2008); \$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 7a).

On 27 February 2009, the agreement with Rio Tinto was amended (Note 7a). Under EIC 122, the Company has recorded its amount owing to Rio Tinto on the balance sheet as a current and long term liability as at 30 June 2009 based upon the amended agreement. The Company has recorded the fair value effects of its revaluation of this debt at the date of the amendment.

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

According to amended agreement, the minimum principal payments are as follows:

	\$
On signing of amendment agreement (paid by issuance of shares – (Note 7a)	1,100,000
31 December 2009	5,000,000
31 December 2010	10,000,000
10 January 2011	1,100,000
30 September 2011	10,000,000
30 June 2012	15,000,000

These payments are non-interest bearing. The Company has provided a GSA, 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 GSA terminates upon the Company paying the next \$15 million of payments due as to \$5 million on or before 31 December 2009 and \$10 million on or before 31 December 2010. Payments obligations subsequent to 2010 are secured by the Corani Project, subordinated to future project financing.

The current portion at 30 June 2009 is represented by the \$5,000,000 cash payment due on 31 December 2009.

The Company has applied the debt extinguishment tests prescribed under EIC 88 (“Debtors Accounting for a Modification or Exchange of Debt Instruments”) to the revised and original cash flows arising from the amended and original debt agreement cash flows and has concluded that the debt agreement amendments did not result in the recognition of a new debt instrument at either amendment date but were renegotiations of the original debt agreement.

9. Asset Retirement Obligation

The Company has recorded an Asset Retirement Obligation of \$300,000 as of 30 June 2009. 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 June 2009	31 December 2008
Corani Project, Peru	\$ 200,000	\$ 200,000
Santa Ana Project, Peru	100,000	100,000
	\$ 300,000	\$ 300,000

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.

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

10. 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 2007	45,217,023	\$	49,034,260
Shares issued for stock options exercised	1,394,000		706,905
Shares issued for property <i>(Note 7a)</i>	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	-		(921,690)
Balance – 31 December 2008	55,457,023	\$	89,105,173
Shares issued for debt <i>(Notes 7a and 8)</i>	1,021,266		1,100,000
Shares issued for stock options exercised	110,000		61,931
Fair value of options exercised	-		50,013
Balance – 30 June 2009	56,588,289	\$	90,317,117

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 C\$21,547,500 (\$21,513,024). 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 15 September 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 C\$3,213,000 (\$3,207,859). Including the proceeds from the exercise of the over-allotment, the total gross proceeds of the offering were C\$24,760,500 (\$24,720,883). The underwriting fee associated with this issuance included a cash commission of C\$1,359,400 (\$0.28 per unit). The total share issuance costs relating to this transaction amounted to C\$1,601,671 (\$1,537,508).

The value of the warrants was estimated at C\$920,727 (\$982,817) using the Black-Scholes option pricing model *(Note 10d)*. The share issuance costs were allocated between shares and warrants on a pro rata basis such that C\$63,665 (\$61,127) of this amount was allocated to the share purchase warrants issued as part of the units.

On 27 February 2009, the Company issued 1,021,266 common shares to Rio Tinto as part of the amended agreement related to the 30% acquisition of the Corani project *(Notes 7a and 8)*. These shares were valued based upon a volume weighted average trading price of the Company's stock for the fifteen trading days preceding the date of the execution of the amended agreement less 15% converted from US dollars to Canadian dollars using the average noon spot rate quoted by the Bank of Canada for each of the said fifteen trading days.

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

b) Details of Contributed Surplus:

	30 June 2009	31 December 2008
Balance – Beginning of Period	\$ 13,516,211	\$ 10,980,418
Fair value of private placement warrants <i>(Note 10a)</i>	-	982,817
Fair value of stock-based compensation <i>(Note 10c)</i>	667,083	1,622,430
Fair value of stock options exercised	(50,013)	(8,327)
Issuance costs <i>(Note 10a)</i>	-	(61,127)
Balance – End of Period	<u>\$ 14,133,281</u>	<u>\$ 13,516,211</u>

c) Share Purchase Options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the 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 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 31 December 2008	<u>3,347,850</u>	<u>3.60</u>
Exercised	(110,000)	0.64
Forfeited	(66,000)	7.79
Granted	1,141,000	1.24
Options outstanding at 30 June 2009	<u>4,312,850</u>	<u>2.99</u>

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

A summary of the Company's options as at 30 June 2009 is as follows:

	Number	Price per Share	Expiry Date
Options	682,850	Cdn\$0.70	24 November 2009
	726,000	Cdn\$3.00	5 August 2010
	835,000	Cdn\$3.00	5 August 2010
	100,000	Cdn\$4.75	6 December 2010
	100,000	Cdn\$4.60	31 May 2011
	53,000	Cdn\$8.08	22 August 2011
	525,000	Cdn\$7.99	16 May 2012
	150,000	Cdn\$4.95	2 July 2013
	1,141,000	Cdn\$1.24	28 Jul 2014
	4,312,850		

As at 30 June 2009, 3,382,100 options have vested.

During the current period, 110,000 options were exercised for total cash proceeds of \$61,931. In conjunction with these option exercises \$50,013 was transferred from contributed surplus to share capital based upon the historical fair value amount calculated.

During the current period, 66,000 options were forfeited due to termination of certain employees and consultants.

On 28 January 2009, the Company granted directors, officers, employees and consultants of the Company options to purchase up to 1,141,000 common shares of the Company at an exercise price of C\$1.24 per share. These options had an estimated value of C\$1,047,275 on the grant date.

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.

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.

Option pricing models require the input of highly subjective assumptions including the expected 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. The estimated fair value of the stock options granted during the period ended 30 June 2009 were valued at \$1,047,275 using the Black-Scholes option pricing model, based on the following assumptions:

	2009
Expected dividend yield	0.00%
Expected stock price volatility	97.96%
Risk-free interest rate	2.03%
Expected life of options	5 years

The stock-based compensation recorded in the current period of \$667,083 relates to current and prior period grants. A total of C\$403,106 and US\$176,809 remains to be recorded subsequent to 30 June 2009 on options which have yet to vest.

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

d) **Share Purchase Warrants**

A summary of the Company's share purchase warrants is as follows:

	Warrants outstanding	Weighted average exercise price
Balance – 31 December 2008 and 30 June 2009	3,639,999	\$7.67

As at 30 June 2009, the following warrants were outstanding:

	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		

* Subsequent to 30 June 2009, these warrants expired.

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:

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

11. Related Party Transactions

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

	2009	2008
Consulting fees paid to a director of the Company	\$ 24,000	\$ 20,000
Legal fees paid to a firm in which a director of the Company is a partner	\$ 1,599	\$ -
Legal fees paid to a firm in which an officer of the Company is a partner	\$ 59,494	\$ 141,601
Accounting fees paid to a firm in which an officer of the Company is a partner	\$ 61,757	\$ 47,987

Included in accounts payable are \$32,606 (2008 - \$51,860) 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.

Notes to Interim Consolidated Financial Statements

30 June 2009

US Funds
(Unaudited)

12. 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, \$87,224,915 (2008 - \$5,950,111) are located in Peru. All other assets and expenses are located in Canada.

13. 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 CEO 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 as needed 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.
 - d) On 17 July 2008 and subsequently amended on February 27, 2009, Bear Creek entered into an agreement with Rio Tinto to purchase Rio Tinto's remaining 30% interest in the Corani Project (Notes 7a, and 8).
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**FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
FOR BEAR CREEK MINING CORPORATION**

Our Management's Discussion and Analysis

Introduction

Prepared 18 August 2009 for the period ended 30 June 2009. 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 accompanying interim consolidated financial statements for the six months ended 30 June 2009 and the Company's audited annual consolidated financial statements for the year ended 31 December 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.

While the accompanying 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 \$63,912,682 at 30 June 2009.

The Company has provided a general security agreement, covering all assets of the Company, for the next \$15 million in payments, due to Rio Tinto, on the Corani Project agreement, (including \$5 million due in 2009 and \$10 million in 2010); the remaining \$25 million of debt owing to Rio Tinto is secured by the Corani Project. 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.

The accompanying interim consolidated 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.

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. In order to preserve cash and cash equivalents, the Company has reduced its staffing levels, postponed completion of its prefeasibility study on Corani to September 2009, reduced exploration costs and has significantly curtailed drilling activity.

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

The Corani Project is approximately 160 kilometers in a direct line southeast of Cusco, Peru. The Corani Project consists of twelve mineral claims or mineral concessions that form a contiguous block of ground covering a total of 5,700 hectares.

On 17 July 2008, the Company completed its 100% acquisition of the Corani Project from Rio Tinto Mining and Exploration Limited ("Rio Tinto"). 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 continues to advance the metallurgical test program with its current focus on two master composites that represent the mixed sulfide ores (approximately 85% of the ore tonnes contained within the resource block model) and the transitional ores (approximately 15% of the ore tonnes). The latest testing examines the effect of blending the transitional ores with mixed sulfide ores at the expected concentrator feed-rates. The indicated recoveries are approximately 75% silver, 70% lead and 75% zinc on blended ore-feed over the mine-life. This represents an increase of 10% for the lead and a reduction of 5% for the silver from previous guidance; however the variance is expected to have a neutral economic effect on the project economics. The Corani deposit contains 4.4 billion pounds of lead. Therefore, the increase in lead recovery, as well as the improvement in concentrate quality associated with increased lead recoveries, is expected to have a positive impact on the economic viability of Corani. High-quality, commercial-grade lead-silver and zinc concentrates are being produced in the testing. As is common with polymetallic silver deposits, optimization of metallurgical performance will continue through the feasibility study stages and further improvements can be expected. The Company anticipates completion of the Prefeasibility Study in September 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 first 14 years of the project
- Schedule higher-grade pits yielding silver production of approximately 10 million ounces per year
- Focus on the 90 to 100 million tonnes of the resource that contains 210 million ounces of silver 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 model will depend on detailed mine planning, selection of metal prices and updated capital expenditure requirements and operating cost estimates produced during the final stages 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 period ended 30 June 2009, the Company incurred exploration expenditures of \$0.7 million on the Corani project. Included in this total are salaries and consulting costs of \$0.4 million and travel costs of \$0.1 million.

As at 30 June 2009 and 31 December 2008, the Company had \$86.7 million of capitalized acquisition costs related to the Corani project.

Santa Ana Project

Santa Ana is located 140 kilometers south of the city of Puno, 7 kilometers south of the paved highway connecting to the port of Ilo, Peru. Bear Creek holds a 100% interest in 5,400 hectares covering the mineral deposits, all surrounding exploration potential, and necessary project infrastructure.

In April 2009, the Company completed its scoping study, incorporating a preliminary economic assessment ("PEA") as defined by NI-43-101 based on the latest resource estimate for the Santa Ana silver deposit. The study concluded:

- The net present value of 100% of the Santa Ana project is \$55 million at a 7% discount rate and an internal rate of return for the project of 29%.
- The undiscounted after tax NPV is \$115 million.
- Recovered silver production for the first six years is projected to produce 4.6 million ounces per year over 11.8 years in a heap leach operation and 5 million for the first 6 years of operation.
- The total Measured and Indicated resources have increased 19% to 66.8 million tonnes at 45.5 g/t silver containing 97.7 million ounces of silver.
- Cash cost is estimated at \$7.47 per ounce silver, net of base metal credits.
- Capital cost is estimated at \$51 million with a 2.6 year payback
- PEA focuses on only 42.4MT grading 56.7 g/t silver (includes 25% inferred resources), leaving upside for expansion and high leverage to silver prices.

The PEA assumes a 10,000 tonnes per day mining rate utilizing contract mining, two-stage mobile crushers, cyanide leaching, and Merrill-Crowe recovery to produce a high-grade silver dore product. Recovered silver production in the first six years is 5.0 million ounces per year and the project will produce an average of 4.6 million ounces of silver annually over an 11.8 year mine-life based upon the current resource estimate. The resource remains open in three directions laterally and at depth. Cash cost per ounce of silver is \$7.47. Capital investment in the project is estimated to be \$51M including feasibility study, engineering, permitting and EIS costs. Based upon \$13 per ounce silver, the project achieves payback of capital in 2.6 years. The PEA has been prepared using cost estimates and production forecasts provided by independent qualified engineering consulting groups, led by Independent Mining Consultants, Tucson, AZ. Heap leach and infrastructure costs were provided by Vector Engineering, Lima, Peru and process costs were provided by Resource Development Inc., Denver, CO.

The PEA is based upon mining assumptions derived from mine planning sequences completed by IMC and metallurgical test work performed by McClelland labs and reviewed by Resource Development Inc. The mining sequence derives ore from the higher-grade near surface parts of the deposit throughout the mine life and leaves 33.7 tonnes of measured and indicated tonnes

of ore and 16.3 tonnes of inferred ore behind that could be produced by reduction of cutoff and extension to mine life should metal prices increase. The site infrastructure can easily be expanded to accommodate the inclusion of all the resources should economic conditions warrant the expansion of the project above what is shown in the PEA plan. All resource categories were used, including Inferred resources. Note that in the mine sequence, only 42.3M tonnes of the 92.3M contained in the global resource tonnes are processed.

Key Assumptions for the Santa Ana Project – Base Case	
Item	
Annual ore production – years 1 to end of life (tonnes)	3,600,000
Overall Process Recovery – Silver	70%
Total Processed Tonnes	42,350,000
Average Silver Grade (g/t)	56.7 g/t
Recovered ounces of silver (total)	54.0 million
Overall stripping ratio	2.0 to 1
Life of mine (processing) years	11.8

Sensitivity to silver prices- The following represents plus/minus 10% silver price variance from the \$13 per ounce study assumption:

Silver Price	IRR	NPV (7%)
\$13	29%	\$55M
\$14.30	39%	\$83M
\$11.70	19%	\$28M

Note: in accordance with NI43-101, mineral resources that are not mineral reserves do not have demonstrated economic viability. The preliminary assessment includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized.

The Scoping Study/PEA is based upon an updated resource estimation and mine sequencing performed in April 2009 by IMC based upon 55,575 meters of drilling in 306 diamond drill holes completed through December 2009. For the global resource, a metal price of \$13 per ounce was used for silver and the resource is contained within a pit that was defined using prudent operating assumptions. No recovery of lead and zinc is assumed in the definition of the resource or PEA pits as lead and zinc are not recovered using cyanide extraction. To determine the final pit limits for the production schedule for the scoping study \$10 per ounce for silver was used. This results in a production plan that generates higher grades and less tonnes than the global resource. The mine sequencing assumptions used in the PEA are considered to be conservative according to current engineering standards; therefore, significant silver contained in the global resource may represent up-side potential if process recoveries are improved and/or metals prices warrant.

The current resource estimates are:

**Bear Creek Mining, Santa Ana Project
Mineral Resource Based on 20 g/t Ag cut-off and Prudent Open Pit Constraints
April 2, 2009**

						Contained Metal		
Deposit	Category	Ktonnes	Silver	Lead	Zinc	Silver Million Ozs	Lead Million Lbs	Zinc Million Lbs
			Gm/t	%	%			
Santa Ana	Measured	14,240	48.8	0.35	0.64	22.3	109.9	200.9
	<u>Indicated</u>	<u>52,597</u>	<u>44.6</u>	<u>0.32</u>	<u>0.55</u>	<u>75.4</u>	<u>371.1</u>	<u>637.8</u>
	Meas+Ind	66,837	45.5	0.33	0.57	97.7	481.0	838.7
	Inferred	25,454	50.6	0.36	0.52	41.4	202.0	291.8

**Bear Creek Mining, Santa Ana Project
High Grade Core Contained in Smaller Open Pit Shapes
Resource Component Used in PEA Mine Plan
28 gm/t Silver Cutoff
20 April 2007**

						Contained Metal		
Deposit	Category	Ktonnes	Silver	Lead	Zinc	Silver Million Ozs	Lead Million Lbs	Zinc Million Lbs
			Gm/t	%	%			
Santa Ana	Measured	7,871	59.8	0.39	0.73	15.1	67.7	126.7
	<u>Indicated</u>	<u>25,307</u>	<u>52.6</u>	<u>0.34</u>	<u>0.58</u>	<u>42.8</u>	<u>189.7</u>	<u>323.6</u>
	Meas+Ind	33,178	54.3	0.35	0.62	57.9	257.4	450.3
	Inferred	<u>9,175</u>	<u>65.5</u>	<u>0.36</u>	<u>0.55</u>	<u>19.3</u>	<u>72.8</u>	<u>111.3</u>

Note: The cutoff grade was varied over the mine life with the first 10 years using 28 gm/t cutoffs to the stockpile. The last 1.8 years of the mine plan applied a 22 gm/t cutoff. For the purposes of a PEA, inferred resources are included in the study. The resource for the PEA totals 42,353 Ktonnes grading 56.7 g/mt, or 77.2 million contained ounces silver, of which 25% is represented by inferred resources.

Mineralization

Mineralization appears to remain open at depth and laterally in three 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, no drilling is being performed on the property. The Company anticipates that drilling will again commence in the third quarter 2009 with large-diameter diamond core holes for the purposes of in-fill drilling and providing samples for heap leach simulated test work, as described below. The Company expects that in-fill drilling will convert a significant 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 second half of 2009 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 silver 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. 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.

Feasibility Study

During the second quarter of 2009 Bear Creek awarded both the Environmental and Social Impact Assessment ("ESIA") and Feasibility Study ("FS") work to Vector Engineering. Work has started on both the ESIA and the FS with considerable work intended to start in August and September of 2009 with the collection of dry season baseline environmental data. Additionally, the Company will restart drilling activities in late August or early September. The focus of drilling will be 1) to obtain representative, heap-leach metallurgical composite samples with three, large-diameter core holes over the length of the deposit; 2) convert known areas of Inferred resource into Measured and Indicated resource; 3) explore for resource expansion; and 4) perform engineering drilling for geotechnical and hydrological studies associated with the Feasibility Study.

During the period ended 30 June 2009, the Company incurred expenditures of \$0.5 million on the Santa Ana project. Included in this total are salaries and consulting expenditures of \$0.2 million and various other costs of \$0.3 million.

As at 30 June 2009, and 31 December 2008 the Company had \$0.1 of capitalized acquisition costs related to the Santa Ana project.

Antash

Antash represents a porphyry copper (molybdenum-gold) target covered by the following properties: Fe y Esperanza 1, Antash 1 and Colcabamba. The Company owns 100% of the 1,000 hectares Antash concession and held option agreements to acquire 100% of Fe y Esperanza 1 and Colcabamba, containing both with 100 hectares each

The Company continues to hold title to the Antash claim; however, management has decided to terminate its agreements on Fe y Esperanza and Colcabamba based upon the results of initial drilling performed during late 2008. The Company is seeking a joint venture partner to perform further exploration.

As at 30 June 2009 and 31 December 2008, the Company had no capitalized acquisition costs related to the Antash project.

La Yegua

La Yegua is a porphyry copper-molybdenum-gold project in the Apurimac region of Southern Peru located 20 km northeast of Southern Peru Copper Corporation's Los Chancas. The La Yegua project includes 4,100 hectares of mineral claims located approximately 250 km from the Atlantic 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 by an option agreement dated 28 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 US\$2.65 million in exploration over a four year period and the issuance of the equivalent of US\$0.55 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 they have currently completed 900 meters of drilling and are planning to further drill the property during 2009, dependent upon Chapleau obtaining community agreements and exploration permits. Results from the initial Chapleau drilling program announced on 18 December 2007 and 20 February 2008, states that hole #1, was drilled to a depth of 180.0 m ending in copper mineralization, returned an average copper and gold grade from 0.0 to 180.0 m of 0.21% Cu and 0.05 g/t Au. Included in Hole #1 was a 2.0 m enrichment zone of 2.25 % Cu and 0.57 g/t Au from 63.0 to 65.0 m with 1.0 m of 4.04 % Cu and 1.00 g/t Au from 64.0 to 65.0 m. According to Chapleau, the first four holes were drilled vertically and drill cores were taken at a minimum of 1.0 m and maximum of 2.0 m intervals.

During the second Quarter of 2009 Bear Creek has assisted Chapleau in obtaining agreements with the communities to proceed with the exploration work. Chapleau is planning to proceed with a second drill program during the second half of 2009.

As at 30 June 2009 and 31 December 2008, the Company had no capitalized acquisition costs related to the La Yegua project.

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.

On 16 April 2009, the Company announced the acquisition of 100% interests in three new gold/silver exploration targets located in southern Peru. The newly acquired mineral properties are the *Umayo gold prospect* (400 hectares), located 24 kilometers southeast of the city of Puno, the *Tassa prospect* (1200 hectares), located 160 kilometers southeast of the city of

Arequipa, and the third prospect where land consolidation is being completed, located north of the city of Moquegua. The three prospects have been acquired by acquisition of available mineral rights under Peruvian law. Acquisition and holding costs are approximately \$20,000 per year and there currently are no underlying agreements with any third parties.

IGV

IGV (Impuesto General a las Ventas - Peruvian value added tax) expense of \$0.1 million represents the amount of IGV that has been paid to the Peruvian government during the period ended 30 June 2009. 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 June 2009, the total value of the IGV receivable in Peru was \$5.2 million (15.7 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 Six Months Ended 30 June 2009 as compared to the Six Months Ended 30 June 2008

Net Loss and Operating Expenses

In the current period, the Company experienced a net loss of \$3.7 million compared to a net loss of \$8.9 million for the same period in 2008, a decrease in net loss of \$5.2 million. In the current period, the Company had a loss per share of \$0.07 compared to \$0.19 for the same period in 2008. The decrease in net loss and operating expenses are primarily due to a significant reduction in exploration activity at the Company's advanced stage projects as well as a reduction in generative exploration activities. As a result of the reduction of activity, the Company decreased its expenditures on exploration from \$6.9 million to \$1.9 million, a decrease of \$5.0 million. In addition, the administration expenses have been reduced to conserve cash reserves.

Total operating expenses for the current period were \$3.1 million compared to operating expenses of \$8.8 million for the same period in 2008. In addition, the Company had a foreign exchange loss as a result primarily from revaluing its future income tax payable, which is denominated in Peruvian soles and converted the payable to US dollars at the period end using current exchange rates. Of the foreign exchange loss, \$0.9 million related to the translation of the future income tax payable, which was offset by a \$0.2 million gain on foreign exchange relating to the Company maintaining a portion of its cash in Canadian funds, and the strengthening of the Canadian dollar in relation to the US dollar.

For the Three Months Ended 30 June 2009 as compared to the Three Months Ended 30 June 2008

Net Loss and Operating Expenses

In the current period, the Company experienced a net loss of \$1.9 million compared to a net loss of \$4.8 million for the same period in 2008, a decrease in net loss of \$2.9 million. In the current period, the Company had a loss per share of \$0.03 compared to \$0.10 for the same period in 2008. Total operating expenses for the three months were \$1.6 million compared to \$4.8 million in 2008. The decrease in net loss and operating expenses are primarily due to a significant reduction in exploration activity at the Company's advanced stage projects as well as a reduction in generative exploration activities. As a result of the reduction of activity, the Company decreased its expenditures on exploration from \$4.0 million to \$1.2 million, a decrease of \$2.8 million. Of the total decrease, \$2.1million related to curtailed spending on the Corani and Santa Ana projects. The Company also had a reduction of costs associated with the vesting of stock options granted, and a reduction of general administration costs to conserve cash reserves. The Company also experienced a foreign exchange loss of \$0.5 million, as a result of the Company having its future income tax liability denominated in Peruvian soles and the Company maintaining a portion of its cash in Canadian dollars and Peruvian Soles and reporting its results in US; foreign exchange loss related to the future income tax liability was \$0.9 million, which was offset by a foreign exchange gain of \$0.4 million related to its Canadian cash reserves.

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
2 nd Quarter 2009	Nil	(1.9)	(0.03)
1 st Quarter 2009	Nil	(1.7)	(0.03)
4 th Quarter 2008	Nil	(3.6)	(0.07)
3 rd Quarter 2008	Nil	(5.6)	(0.10)
2 nd Quarter 2008	Nil	(4.8)	(0.10)
1 st Quarter 2008	Nil	(4.1)	(0.09)
4 th Quarter 2007	Nil	(4.9)	(0.11)
3 rd Quarter 2007	Nil	(2.9)	(0.07)

The decrease in loss for the first quarter of 2009 resulted primarily from a decrease in exploration activities on the Company's Corani and Santa Ana projects.

The loss for the fourth quarter of 2008 decreased which resulted primarily from decreased exploration activity on the Company's Santa Ana project, and from a foreign exchange loss related to the Company's Canadian dollar holdings.

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.

Liquidity and Capital Resources

Of the \$10.8 million in cash and cash equivalents and short term investments as at 30 June 2009, approximately \$4.6 million (CDN\$5.3 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 June 2009, the Company had 56,588,289 issued shares. As at 30 June 2009, the Company's net working capital was \$5.7 million compared to a net working capital of \$8.0 million as at 31 December 2008. The cash balance at 30 June 2009 was \$8.1 million compared to \$12.8 million as at 31 December 2008. As at 31 June 2009 current liabilities were \$5.3 million compared to \$5.4 million as at 31 December 2008. Included in current liabilities is the amount owing to Rio Tinto to be paid on or before 31 December 2009 of \$5 million.

During the period ended 30 June 2009, the Company issued 1,021,266 shares, valued at \$1,100,000, to Rio Tinto as part of the agreement amended on 27 February 2009 (*see note 9a to the 31 March 2009 financial statements*) and recorded the amount as a reduction of the financial liability to Rio Tinto.

As at 18 August 2009, the Company had 56,588,289 outstanding common shares. The Company has 4,312,850 share purchase options and 2,427,500 share purchase warrants outstanding. The weighted average exercise price of the share purchase options is C\$2.98, and the share purchase warrants weighted average exercise price is \$6.25.

Expenditures under consideration for the remainder of the 2009 fiscal year include the completion of the pre-feasibility study at Corani, in-fill drilling at Santa Ana as well as the commencement of the feasibility study and environmental studies at 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 on or before 31 December 2009. The Company expects to have the funds available to make the \$5 million payment and fund minimum exploration expenditures in 2009. This estimate is based on current information, as the Company's expenditures and cash requirements may change over time. The Company has significant future payments required in 2010 and beyond, upon which the Company has

provided a general security agreement covering all of the assets of the Company to Rio Tinto. These payments will require the Company to raise sufficient funds in either 2009 or 2010 to meet these obligations as well as fund ongoing exploration and development expenses. 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.

Future Principal minimum repayment terms due to Rio Tinto are as follows:

	\$
31 December 2009	5,000,000
31 December 2010	10,000,000
10 January 2011	1,100,000
30 September 2011	10,000,000
30 June 2012	15,000,000

Financing Activities

During the period ended 30 June 2009, the Company received cash proceeds of \$0.06 million from the exercise of 110,000 options.

Investing Activities

During the period ended 30 June 2009, the Company purchased a minor amount of equipment for \$3,862.

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 six month ended 30 June 2009.

The Company received legal services, totaling \$59,494, from a law firm in which an Officer of Bear Creek is a partner. Legal fees related primarily to the 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 \$61,757.

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 period were \$24,000.

The Company received legal services, totaling \$1,599, from a law firm in which a Director of Bear Creek is a partner.

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*

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 property for impairment when events or changes in circumstances indicate that the carrying amount of the related asset may not be recoverable. Management has determined that no impairment is required on its capitalized mineral property as its projected future undiscounted cash flow of its Corani project is greater than its carrying value.

This analysis was performed using both current metal prices of silver, lead and zinc as well as using standardized prices of silver, lead and zinc according to industry standards. 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 inherent 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 and could result in a material change in the carrying value of the Company's capitalized resource property costs.

c) Changes in Accounting Policies including Initial Adoption

Effective January 1, 2009, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

i. Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The Company has evaluated the new section and determined that the adoption of these new requirements has not had an impact on the Company's consolidated financial statements.

ii. Goodwill and Intangible Assets (Section 3064)

Effective 1 January 2009 the Company adopted CICA HB 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 reduces 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.

The Company has evaluated the new section and determined that the adoption of these new requirements has not had an impact on the Company's consolidated financial statements.

iii. Mining Exploration Costs

On 27 March 2009, the CICA approved EIC-174 "Mining Exploration Costs." This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

This standard will be effective for the Company beginning on 1 January 2009. The Company has evaluated the new section and determined that the adoption of these new requirements has not had an impact on the Company's consolidated financial statements.

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, 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.

The Company has appointed a project manager to lead the conversion to IFRS. The project manager is working with other members of the finance group to develop and execute an implementation plan. An initial diagnostic review of significant IFRS differences is currently underway to identify the key areas which are likely to be impacted by accounting policy changes. After which, the Company will perform a more detailed review of the impact of IFRS on the Company’s consolidated financial statements and other areas of the Company. Any changes required to systems and controls will be identified as the project progresses.

Draft financial statements and disclosure information will be prepared for each quarter in 2010 and reporting under IFRS will commence in the first quarter of 2011. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, short term investments, accounts payable and accrued liabilities, due to related parties and due to Rio Tinto. 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. Except for Rio Tinto, the fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. Amounts due to Rio Tinto are carried at its amortized costs using the effective interest method of amortization.

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.

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 and amounts due to Rio Tinto.

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 or obtain debt financing. 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 greater or less than 90 days from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations, and varying interest rates.

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.

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 June 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

	30 June 2009	
	Canadian Dollars	Peruvian Soles
Cash and cash equivalents	5,217,012	83,351
Accounts receivable	-	76,932
Accounts payable and accrued liabilities	(102,381)	(167,948)

Based on the above net exposures as at 30 June 2009, 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 \$0.4 million 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 \$0.02 million in the Company's net earnings.

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. Other

assets consist of GST receivable from the government of Canada and other receivables and prepaid expenses. The Company's maximum exposure to credit risk at 30 June is as follows:

	30 June 2009 \$	31 December 2008 \$
Cash and cash equivalents	8,102,159	12,774,486
Short-term investments	2,729,252	35,464
Other assets	235,233	597,215

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its operating commitments. The Company manages liquidity by maintaining adequate cash and cash equivalent balances to meet its short term commitments and by raising equity or debt financing as required to meet long term commitments. The Company has no assurance that such financing will be available or be available on favourable terms. The Company believes it is subject to material liquidity risk though its obligation to Rio Tinto. In general, the Company attempts to avoid exposure to liquidity risk by obtaining corporate financing from sales of common shares.

The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and capital commitments at 30 June 2009:

	(000s)					
	2009 \$	2010 \$	2011 \$	2012 \$	2013 and later \$	Total \$
Accounts payable	261	-	-	-	-	261
Due to related party	33	-	-	-	-	33
Asset retirement obligations	-	-	-	-	300	300
Rio Tinto debt	5,000	10,000	11,100	15,000	-	41,100
Employment agreements	200	67	-	-	-	267
Operating leases	106	106	106	-	-	318
Totals	5,600	10,173	11,206	15,000	300	42,279

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.

Commodity Price risk

The Company's ability to raise capital to fund exploration activities is subject to price risk from fluctuations in the market price of gold, silver, zinc and lead, which in turn is affected by numerous factors including central bank policies, producer hedging activities, the value of the US dollar relative to other major currencies, global demand and supply and global political and economic conditions. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The carrying value of the Company

mineral property costs could be adversely affected by any reductions in the long term prices of silver, lead and zinc.

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