

BEAR CREEK MINING CORPORATION

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009 AND 2008

EXPRESSED IN US FUNDS

Auditors' Report

To the Shareholders of Bear Creek Mining Corporation.

We have audited the consolidated balance sheets of Bear Creek Mining Corporation as at December 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

March 29, 2010

Bear Creek Mining Corporation
(An Exploration Stage Company)

Statement 1

Consolidated Balance Sheets

As at 31 December
US Funds

| ASSETS | 2009 | 2008 |
|---|-----------------------|----------------------|
| Current | | |
| Cash and cash equivalents | \$ 36,356,216 | \$ 12,774,486 |
| Short-term investments (Note 6) | 6,675,431 | 35,464 |
| Prepaid expenses and advances | 213,028 | 597,215 |
| | 43,244,675 | 13,407,165 |
| Equipment (Note 7) | 211,340 | 258,535 |
| Resource Property Costs (Note 8) | 88,120,343 | 85,109,111 |
| | \$ 131,576,358 | \$ 98,774,811 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 200,984 | \$ 346,715 |
| Due to related parties (Note 12) | 47,418 | 45,870 |
| Due to Rio Tinto Mining and Exploration Limited (Note 9) | 10,000,000 | 5,000,000 |
| | 10,248,402 | 5,392,585 |
| Due to Rio Tinto Mining and Exploration Limited (note 9) | 23,107,887 | 32,100,024 |
| Asset Retirement Obligation (Note 10) | 300,000 | 300,000 |
| Future Income Tax (Note 16) | 20,707,554 | 18,598,319 |
| | 54,363,843 | 56,390,928 |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (Note 11(a)) | | |
| Authorized: | | |
| Unlimited common shares without par value | | |
| Issued and fully paid: | | |
| 70,035,139 (2008 – 55,457,023 common shares) | 131,680,335 | 89,105,173 |
| Contributed surplus (Note 11(b)) | 14,475,144 | 13,516,211 |
| | 146,155,479 | 102,621,384 |
| Deficit - Statement 2 | (68,942,964) | (60,237,501) |
| | 77,212,515 | 42,383,883 |
| | \$ 131,576,358 | \$ 98,774,811 |

Commitments (Note 14)

Subsequent Events (Note 17)

ON BEHALF OF THE BOARD:

Signed "Catherine McLeod-Seltzer", Director

Signed "Andrew Swarthout", Director

- See Accompanying Schedule and Notes -

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the Years Ended 31 December
US Funds

| | 2009 | 2008 |
|---|----------------------|----------------------|
| Operating Expenses | | |
| Exploration costs (<i>Exploration Costs Schedule</i>) | \$ 6,059,502 | \$ 13,367,281 |
| Stock-based compensation (<i>Note 11(b)</i>) | 1,622,437 | 1,622,430 |
| Professional fees | 332,151 | 404,142 |
| Wages and management salaries | 282,055 | 421,864 |
| General administrative expenses | 180,497 | 235,871 |
| Travel | 138,112 | 180,385 |
| Shareholder information and filing fees | 125,499 | 262,989 |
| Amortization | 1,727 | 3,738 |
| Loss before the following | 8,741,980 | 16,498,700 |
| Other Income | | |
| Foreign exchange loss | 259,458 | 1,993,041 |
| Loss on disposal of asset | 1,492 | - |
| Interest income, net | (58,006) | (471,214) |
| (Gain) loss on investments (<i>Note 6</i>) | (14,869) | 35,091 |
| Loss before income tax | 8,930,055 | 18,055,618 |
| Future income tax recovery (<i>Note 16a</i>) | (224,592) | - |
| Loss and Comprehensive Loss for the Year | 8,705,463 | 18,055,618 |
| Deficit - Beginning of year | 60,237,501 | 42,181,883 |
| Deficit - End of Year | \$ 68,942,964 | \$ 60,237,501 |
| Loss per Share – Basic and Diluted | \$ 0.15 | \$ 0.36 |
| Weighted Average Number of Shares Outstanding | 58,449,887 | 50,557,763 |

Consolidated Statements of Cash Flow

For the Years Ended 31 December
US Funds

| Cash Resources Provided By (Used In) | 2009 | 2008 |
|--|----------------------|----------------------|
| Operating Activities | | |
| Loss and comprehensive loss for the year | \$ (8,705,463) | \$ (18,055,618) |
| Items not affecting cash | | |
| Stock-based compensation (Note 9(b)) | 1,622,437 | 1,622,430 |
| Non cash loss on disposal of asset | 1,492 | - |
| Accrued interest income | (8,025) | - |
| Amortization included in exploration costs | 67,813 | 68,529 |
| Future income tax recovery | (224,592) | - |
| Amortization | 1,727 | 3,738 |
| Non-cash foreign exchange | 1,430,458 | (1,933,961) |
| | (5,814,153) | (18,294,882) |
| Changes in current assets and liabilities | | |
| Prepaid expenses and advances | 392,212 | (393,628) |
| Accounts payable and accrued liabilities | (145,731) | (289,905) |
| Due to related parties | 1,548 | 25,282 |
| Cash used in operating activities | (5,566,124) | (18,953,133) |
| Investing Activities | | |
| Purchase of equipment | (23,837) | (40,935) |
| Resource acquisition costs | (5,000,000) | (8,082,811) |
| Short-term investments | (6,639,967) | 5,113,013 |
| Cash used in investing activities | (11,663,804) | (3,010,733) |
| Financing Activities | | |
| Share capital issued – net | 40,811,658 | 23,890,280 |
| Cash provided by financing activities | 40,811,658 | 23,890,280 |
| Net Increase in Cash and Cash Equivalents | 23,581,730 | 1,926,414 |
| Cash and cash equivalents – Beginning of year | 12,774,486 | 10,848,072 |
| Cash and Cash Equivalents – End of Year | \$ 36,356,216 | \$ 12,774,486 |
| Cash and cash equivalents consists of: | | |
| Cash | \$ 13,580,456 | \$ 753,058 |
| Term Deposit | 22,775,760 | 12,021,428 |
| | \$ 36,356,216 | \$ 12,774,486 |

Supplemental cash flow information (Note 15)

- See Accompanying Schedule and Notes -

Notes to Consolidated Financial Statements

31 December 2009

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1. Nature of Business

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.

To obtain funding for the Company's business of mining and exploration, the Company completed a \$40 million share issuance on 4 November 2009 (*note 11a*).

2. Significant Accounting Policies

a) Consolidation

These consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries BCMC Corani Holdings Ltd., Bear Creek (BVI) Limited, Corani Mining Limited, Corani S.A.C., and Bear Creek Exploration Company Ltd. (formerly Bear Creek Mining Company) which carries on its operation in Peru through its branch, Bear Creek Mining Company Sucursal del Peru. All significant inter-company transactions and balances have been eliminated.

b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

c) Short-term Investments

All short term investments are classified as held-for-trading financial instruments as the Company intends to use these investments in its normal course of financing its exploration activities with revaluation gains and losses recognized in ordinary income. The held-for-trading classification is applied by estimating the fair value of short term investments using the quoted market bid prices at the close of business on the balance sheet date.

d) Equipment

Equipment is recorded at cost. The Company provides for amortization on exploration equipment using the straight-line method over their useful lives of five to ten years and office equipment using the 30% declining balance method, with half of this rate used in the year of acquisition.

Notes to Consolidated Financial Statements

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e) Income Taxes

The Company accounts for income taxes using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years on differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future taxes for a change in tax rates is recognized in income during the period that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

f) Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing income (or loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents are reflected in diluted earnings per share by application of the treasury stock method. Since the Company has losses, the exercise of outstanding stock options and warrants has not been included in this calculation as it would be anti-dilutive.

g) Management's Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Actual results could differ from those estimates.

h) Stock-Based Compensation

The Company accounts for all stock-based awards made to employees and non-employees using the fair value based method. The fair value of stock-based awards is recognized over their vesting period.

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of options is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Notes to Consolidated Financial Statements

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i) Foreign Currency Translation

The accounts of the Company's foreign operations have been translated into US dollars as follows:

- i. Monetary assets and liabilities at year-end rates,
- ii. All other assets and liabilities at historical rates, and
- iii. Revenue and expense and exploration and development items at the average rate of exchange prevailing during the year.
- iv. Amortization of assets translated at historical rates is translated at the same rates as the asset to which it relates.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year.

j) Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the Balance Sheet when the Company becomes a party to contractual provisions of the financial instrument or a derivative contract. All financial instruments are measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with gains and losses recognized in the Company's loss for the period. Financial assets held-to-maturity, loans and receivables and financial liabilities, other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in other comprehensive income ("OCI") upon adoption.

Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in the Company's loss for the period.

The Company has designated each of its significant categories of financial instruments as follows:

| | |
|--|-------------------|
| Cash and cash equivalents | Held-for-trading |
| Marketable securities | Held-for-trading |
| Accounts payable and accrued liabilities | Other liabilities |
| Due to related parties | Other liabilities |
| Due to Rio Tinto | Other liabilities |

Notes to Consolidated Financial Statements

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US Funds

k) Comparative Figures

Certain of the comparative figures in the exploration schedule were reclassified, where applicable, to be consistent with the presentation used in the current year.

l) Mineral Acquisition and Exploration Costs

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

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

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

Ownership in mineral properties involves certain 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.

m) Asset Retirement Obligations

The Company follows the recommendations of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, Asset Retirement Obligations. This section requires recognition of a legal liability for obligations relating to retirement of property and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

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3. Change in Accounting Policies

a) Financial Instruments - Disclosure (Section 3862)

In June 2009, Handbook Section 3862 was further amended to include disclosures about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The additional fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

These amendments are required to be adopted for the fiscal years ending after September 20, 2009. The Company has adopted these amendments for the fiscal year ended December 31, 2009 and the additional required disclosures are included in Note 5.

b) 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.

c) 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 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.

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d) Mining Exploration

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.

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. Early adoption is permitted. The Company has elected to early adopt this standard effective on 1 January 2010. The adoption of this standard did not have any impact on the Company's 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. Early adoption is permitted. The Company has elected to early adopt these standards effective on 1 January 2010. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

5. Financial Instruments

a) Fair value

The Company's financial instruments consist of cash and cash equivalents, short term investments, due to related parties, accounts payable and accrued liabilities and due to Rio Tinto. Cash and cash equivalents is carried at fair value using a level 1 fair value measurement and short term investments are carried at fair value using a level 1 fair value measurement. The carrying value of the due to related parties and accounts payable and accrued liabilities approximate their fair value because of the short term nature of these instruments. Amounts due

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to Rio Tinto are carried at its amortized cost using the effective interest method of amortization using a level 2 fair value measurement. 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.

b) 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 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

c) 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.

i. 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 31 December 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

| | 31 December 2009 | |
|--|------------------|----------------|
| | Canadian Dollars | Peruvian Soles |
| Cash and cash equivalents and short term investments | 16,148,333 | 130,045 |
| Accounts receivable and other | 8,419 | 21,471 |
| Accounts payable and accrued liabilities | (141,154) | (223,867) |

Based on the above net exposures as at 31 December 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 \$1.5 million in the Company's net

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earnings. Likewise, a 10% depreciation or appreciation of the US dollar against the Peruvian Soles would result in a decrease/increase of \$2,505 in the Company's net earnings.

ii. 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 maximum credit risk the Company is exposed to is 100% of cash, short term investments and other assets.

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.

iii. 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 (Notes 1, 9 and 14c). 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 December 31, 2009:

| | (000s) | | | | | |
|------------------------------|--------|--------|--------|------|------|--------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Accounts payable | 201 | - | - | - | - | 201 |
| Due to related party | 47 | - | - | - | - | 47 |
| Asset retirement obligations | - | - | - | - | 300 | 300 |
| Rio Tinto debt | 10,000 | 11,100 | 15,000 | - | - | 36,100 |
| Operating leases | 101 | 101 | - | - | - | 202 |
| Totals | 10,349 | 11,201 | 15,000 | - | 300 | 36,850 |

iv. 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. Based on the amount of cash and cash equivalents invested as at 31 December 2009 and assuming that all other variables remain constant, a 0.5% change in the applicable interest rate would result in an increase/decrease of \$215,000 in the interest earned by the company per annum.

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v. Price risk

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

6. Short-term Investments

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

| | 31 December 2009 | 31 December 2008 |
|--------------------------------|-----------------------------|---------------------|
| Chapleau Resources Ltd. shares | \$ - | \$ 12,943 |
| Magellan Minerals Ltd. shares | 27,812 | - |
| Term deposits – Scotiabank | 6,621,404 | - |
| Term deposits – (GIC Visa) | 26,215 | 22,521 |
| Total short-term investments | \$ 6,675,431 | \$ 35,464 |

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. These earn interest based on current market interest rates which range from 0.40% to 0.65%.

At 31 December 2009 the Company held 38,392 shares of Magellan Minerals Ltd. ("Magellan") (31 December 2008 – 143,792 shares of Chapleau Resources Ltd.) (Note 8c).

During the year ended 31 December 2009, Chapleau, under a plan of arrangement, was acquired by Magellan Minerals Ltd. ("Magellan") resulting in each Chapleau shareholder receiving 0.267 Magellan shares for each Chapleau common share held. As a result of the plan of arrangement, the Company's shares now held in Magellan at 31 December 2009 total 38,392. The current period fair value has been adjusted to reflect this changed share structure.

As at 31 December 2009, the fair value of the Magellan shares increased by \$14,869. The fair value and the cost are as follows:

| | 31 December 2009 | 31 December 2008 |
|------------------------------|-----------------------------|---------------------|
| Cost | \$ 48,034 | \$ 48,034 |
| Fair value | 27,812 | 12,943 |
| Unrealized loss (cumulative) | \$ (20,222) | \$ (35,091) |

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7. Equipment

Details are as follows:

| | 31 December 2009 | | | 31 December 2008 | | |
|-----------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Office equipment | \$ 29,162 | \$ 22,133 | \$ 7,029 | \$ 31,326 | \$ 20,472 | \$ 10,854 |
| Exploration equipment | 501,403 | 297,092 | 204,311 | 477,566 | 229,885 | 247,681 |
| | \$ 530,565 | \$ 319,225 | \$ 211,340 | \$ 508,892 | \$ 250,357 | \$ 258,535 |

8. Resource Property Costs

Cumulative resource expenditures, per project under active exploration as at 31 December 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 8a) | \$ 3,000,000 | - | \$ 3,000,000 |
| Acquisition – cash payments (Note 8a) | 5,000,000 | - | 5,000,000 |
| Shares issued for property (Notes 8a and 10a) | 17,093,996 | - | 17,093,996 |
| Asset retirement obligations | - | 25,000 | 25,000 |
| Present value of future payments, incl. accretion (Note 9) | 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 | 903,369 | - | 903,369 |
| Accretion of purchase liability (Note 9) | 2,107,863 | - | 2,107,863 |
| Balance at 31 December 2009 | \$ 88,020,343 | \$ 100,000 | \$ 88,120,343 |

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 | 2,586,872 | 1,832,383 | 4,419,255 |
| Balance at 31 December 2009 | \$ 20,551,533 | \$ 11,908,971 | \$ 32,460,504 |
| Combined Balance at 31 December 2009 – capitalized and expensed project costs | \$ 108,571,876 | \$ 12,008,971 | \$ 120,580,847 |

Notes to Consolidated Financial Statements

31 December 2009

US Funds

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 by 31 December 2008 (paid 19 December 2008); (iii) \$15 million in cash was payable by 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. 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 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.

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 9*). 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 increased from \$75 million to \$77.2 million, an increase of \$2.2 million, of which \$36.1 million has been already paid in shares or cash. The restructured remaining payments are described below:

- \$5 million due 31 December 2009 (paid)
- \$10 million due 31 December 2010
- \$10 million due 30 September 2011

Notes to Consolidated Financial Statements

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US Funds

- \$15 million due 30 June 2012

Bear Creek has agreed to make the following additional payments in consideration for the restructuring payable in either cash or shares, at the option of Bear Creek:

- \$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 11(a)) million shares of Bear Creek on 11 March 2009).
- \$1.1 million due on 10 January 2011.

In addition, the Amendment Agreement terminates the General Security Agreement ("GSA") once Bear Creek completes the payments of \$10 million due on 31 December 2010 (Note 9).

b) Santa Ana Project

During 2004, the Company acquired an option to earn a 100% interest in the Santa Ana property in south eastern 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 2009. The Company exercised its option in January 2008 and now holds a 100% interest in the Santa Ana project.

c) 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.

During the year ended 31 December 2009, Chapleau, under a plan of arrangement, was acquired by Magellan Minerals Ltd. ("Magellan") resulting in each Chapleau shareholder receiving 0.267 Magellan shares for each Chapleau common share held. As a result of the plan of arrangement, the Company's shares now held in Magellan at 31 December 2009 total 38,392. The current period fair value has been adjusted to reflect this changed share structure.

During the year ended 31 December 2009, Magellan notified the Company of its intent to terminate its option agreement with the Company, citing that the new merged company, Magellan, was ceasing exploration in Peru to focus on its Brazilian assets. It is of the opinion of the Company's management and legal counsel that Magellan has not satisfied its obligations under the Chapleau agreement, as amended and extended. While the Company seeks to resolve the matter with Magellan, another suitable joint-venture partner is being sought to advance the project.

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements

31 December 2009

US Funds

9. 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 | | 2,107,863 |
| Less: share payment for debt made to Rio Tinto (Note 7a) | | (1,100,000) |
| Less: payment made to Rio Tinto | | (5,000,000) |
| Due to Rio Tinto – 31 December 2009 | \$ | 33,107,887 |
| Less: Current amount | | (10,000,000) |
| | \$ | 23,107,887 |

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 by 31 December 2008 (paid 19 December 2008); \$15 million in cash was payable on 30 September 2009; and \$25.0 million in cash was payable on 31 December 2009 (Note 8a).

On 27 February 2009, the agreement with Rio Tinto was amended (Note 8a). 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 31 December 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.

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

| | |
|---|------------|
| | \$ |
| On signing of amendment agreement (paid by issuance of shares) (Note 8a) | 1,100,000 |
| 31 December 2009 (paid) | 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 \$10 million payment due on or before 31 December 2010. Payment obligations subsequent to 2010 are secured by the Corani Project, subordinated to future project financing.

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.

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Notes to Consolidated Financial Statements

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US Funds

10. Asset Retirement Obligation

The Company has recorded an Asset Retirement Obligation of \$300,000 as of 31 December 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:

| | 31 December 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.

11. 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 (Note 8a) | 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 (Notes 8a and 9) | 1,021,266 | | 1,100,000 |
| Shares issued for stock options exercised | 952,850 | | 909,591 |
| Shares issued in private placement | 12,604,000 | | 42,769,477 |
| Share issuance costs | - | | (2,867,410) |
| Fair value of options exercised | - | | 663,504 |
| Balance – 31 December 2009 | 70,035,139 | \$ | 131,680,335 |

Bear Creek Mining Corporation
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Notes to Consolidated Financial Statements

31 December 2009

US Funds

On 4 November 2009, the Company closed an underwritten financing through a syndicate of underwriters of 10,960,000 units at a price of C\$3.65 per unit for gross proceeds of C\$40,004,000 (\$37,165,313). On 24 November 2009 the underwriters exercised the over-allotment option they had been granted, to acquire an additional 1,644,000 units for additional gross proceeds of C\$6,000,600. The underwriting fee associated with this issuance included a 6% cash commission of the gross proceeds totalling C\$2,400,240. Share issuance costs paid for the underwriting totalled C\$3,031,410 (\$2,867,410).

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 8a and 9). 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.

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. 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.

b) Details of Contributed Surplus:

| | 30 December 2009 | 31 December 2008 |
|---|-----------------------------|---------------------|
| Balance – Beginning of Year | \$ 13,516,211 | \$ 10,980,418 |
| Fair value of private placement warrants (Note 11a) | - | 982,817 |
| Fair value of stock-based compensation | 1,622,437 | 1,622,430 |
| Fair value of stock options exercised | (663,504) | (8,327) |
| Issuance costs (Note 11a) | - | (61,127) |
| Balance – End of Year | \$ 14,475,144 | \$ 13,516,211 |

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.

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Notes to Consolidated Financial Statements

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US Funds

The Plan provides that the aggregate number of Shares reserved for issuance under the Plan which may be made subject to Options at any time and from time to time (including those issuable upon the exercise of Pre-Existing Options) shall not exceed 10% of the total number of issued and outstanding Shares, on a non-diluted basis, as constituted on the Grant Date of such Options. At 31 December 2009, a total of 5,658,829 options were reserved under the Plan with 1.6 million options available for granting.

| | 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 | 3,347,850 | 3.60 |
| Exercised | (952,850) | 1.02 |
| Forfeited | (114,000) | 7.40 |
| Granted | 1,641,000 | 1.95 |
| Options outstanding at 31 December 2009 | 3,922,000 | 3.43 |

The weighted average life of the options outstanding at 31 December 2009 is 2.5 years. A summary of the Company's options as at 31 December 2009 is as follows:

| | Number | Price per Share | Expiry Date |
|---------|------------------|-----------------|-----------------|
| Options | | | |
| | 701,000 | Cdn\$3.00 | 5 August 2010 |
| | 735,000 | Cdn\$3.00 | 5 August 2010 |
| | 100,000 | Cdn\$4.75 | 1 April 2010 |
| | 100,000 | Cdn\$4.60 | 31 May 2011 |
| | 53,000 | Cdn\$8.08 | 22 August 2011 |
| | 445,000 | Cdn\$7.99 | 16 May 2012 |
| | 40,000 | Cdn\$7.99 | 1 April 2010 |
| | 150,000 | Cdn\$4.95 | 2 July 2013 |
| | 1,068,000 | Cdn\$1.24 | 27 January 2014 |
| | 30,000 | Cdn\$1.24 | 1 April 2010 |
| | 100,000 | Cdn\$1.90 | 18 August 2014 |
| | 400,000 | Cdn\$4.00 | 14 October 2014 |
| | 3,922,000 | | |

As at 31 December 2009 2,625,100 options have vested.

During the year ended December 31, 2009, 952,850 options were exercised for total cash proceeds of \$909,591. In conjunction with these option exercises \$663,504 was transferred from contributed surplus to share capital based upon the historical fair value amount calculated.

Bear Creek Mining Corporation
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Notes to Consolidated Financial Statements

31 December 2009

US Funds

During the year ended 31 December 2009, 114,000 options were forfeited due to termination of certain employees and consultants.

During the year ended 31 December 2009, the Company granted to directors, officers, employees and consultants of the Company options to purchase up to 400,000 common shares of the Company at an exercise price of C\$4.00 per share, options to purchase up to 100,000 common shares of the Company at an exercise price of C\$1.90 per share and 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\$1,225,040, C\$142,840 and C\$1,047,275 respectively on the respective grant dates.

During the year ended 31 December 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 and 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 an estimated value of \$471,491 and \$71,178 respectively on the respective grant dates.

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 year ended 31 December 2009 were valued at C\$2,415,155 (\$2,242,238) using the Black-Scholes option pricing model, based on the following assumptions:

| | 2009 |
|---------------------------------|------------------|
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 97.96% - 102.71% |
| Risk-free interest rate | 2.03% - 2.70% |
| Expected life of options | 5 years |

The stock-based compensation recorded in the current period of \$1,622,437 relates to current and prior period grants. A total of \$922,336 remains to be recorded subsequent to 31 December 2009 on options which have yet to vest.

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 | 3,639,999 | \$7.67 |
| Expired | (3,639,999) | (\$7.67) |
| Balance – 31 December 2009 | NIL | - |

Notes to Consolidated Financial Statements

31 December 2009

US Funds

12. Related Party Transactions

The following represents the details of related party transactions paid or accrued during the year ended 31 December:

| | 2009 | | 2008 |
|--|-------------|----|---------|
| Consulting fees paid to a director of the Company | \$ 53,000 | \$ | 34,500 |
| Legal fees paid to a firm in which a director of the Company is a partner | \$ 75,564 | \$ | 46,451 |
| Legal fees paid to a firm in which an officer of the Company is a partner | \$ 117,061 | \$ | 310,480 |
| Accounting fees paid to a firm in which an officer of the Company is a partner | \$ 112,041 | \$ | 89,758 |

Amounts owing to related parties 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.

13. 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, \$88,775,356 (2008 - \$82,336,975) are located in Peru. All other assets and expenses are located in Canada.

14. 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 and this was increased to \$265,000 per annum effective 1 November 2009. The Company may terminate this agreement by providing a severance package depending on the nature of the termination.
 - b) 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.
 - c) 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 8a, and 9).
-

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Notes to Consolidated Financial Statements

31 December 2009

US Funds

15. Supplemental cash flow information

| Schedule of non-cash investing and financing transactions | 2009 | 2008 |
|---|--------------|---------------|
| Fair value of options and warrants exercised <i>(Note 9(a))</i> | \$ 663,504 | \$ 8,327 |
| Shares issued for Corani Resource property <i>(Notes 6(a) and 9(a))</i> | \$ 1,100,000 | \$ 17,093,996 |
| Fair value of warrants issued <i>(Note 9(a))</i> | \$ - | \$ 921,690 |
| Future reclamation costs <i>(Note 8)</i> | \$ - | \$ 25,000 |
| Future payments for Corani resource property <i>(Note 7)</i> | \$ 2,107,863 | \$ 37,100,024 |

| Supplementary disclosure of cash flow information: | 2009 | 2008 |
|---|-------------|-------------|
| Cash received for interest | \$ 56,891 | \$ 479,437 |
| Cash paid for income taxes | \$ Nil | \$ Nil |

16. Income Taxes

a) A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | 2009 | 2008 |
|---|----------------|-----------------|
| Loss before income taxes | \$ (8,930,055) | \$ (18,055,618) |
| Statutory tax rate | 30.0% | 31.0% |
| Expected income tax (recovery) | \$ (2,679,016) | \$ (5,597,242) |
| Non-deductible expenses | 1,098,874 | 929,193 |
| Share issue costs | (721,077) | - |
| Foreign tax rates different from statutory rates | - | 120,681 |
| Benefit of certain Peruvian future tax assets recorded on acquisition | - | 4,919,331 |
| Foreign exchange and other | 451,263 | 602,759 |
| Change in valuation allowance | 1,625,364 | (974,722) |
| Total income taxes (recovery) | \$ (224,592) | \$ - |

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements

31 December 2009

US Funds

- b) The significant components of the Company's future income tax assets and liabilities are as follows:

| | 2009 | 2008 |
|---|--------------|--------------|
| Future income tax assets | | |
| Non-capital losses | \$ 4,932,747 | \$ 4,193,857 |
| Unamortized share issue costs | 1,316,473 | 508,484 |
| Tax value of resource properties and plant and equipment costs in excess of net book value of resource properties and plant and equipment | 3,467,423 | 3,388,938 |
| | 9,716,643 | 8,091,279 |
| Valuation allowance | (9,716,643) | (8,091,279) |
| Net future income tax assets | - | - |
| Future income tax liabilities | | |
| Resource property costs | 20,707,554 | 18,598,319 |
| Future income tax liabilities | 20,707,554 | 18,598,319 |
| Future income tax liability, net | 20,707,554 | 18,598,319 |

The Company has non-capital loss carry-forwards of approximately \$18,595,121 that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian and Peruvian operations and expire as follows:

| | |
|-----------|----------------------|
| 2010 | 1,076,643 |
| 2014 | 640,480 |
| 2015 | 689,480 |
| 2026 | 920,584 |
| 2027 | 2,475,993 |
| 2028 | 1,851,688 |
| 2029 | 2,425,728 |
| Unlimited | 8,514,525 |
| | <u>\$ 18,595,121</u> |

A full valuation allowance has been recorded against the net potential future income tax assets associated with the Canadian and Peruvian loss carry-forwards and certain other deductible temporary differences as their utilization is not considered more likely than not at this time.

Future income tax assets are not recorded for the above tax loss carry-forwards due to uncertainty of their recovery. The tax losses may be subject to audit and adjustment by local tax authorities as well as other local regulations.

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements

31 December 2009

US Funds

17. Subsequent Events

On January 7, 2010 the Company announced the option to acquire the Campanario prospect. A 100% interest in the prospect may be acquired following back-end loaded payments totaling \$2.73M over three years subject to a 3% NSR royalty which is purchasable following completion of a positive feasibility study.

Consolidated Schedules of Exploration Costs

For the Years Ended 31 December
US Funds

| | 2009 | 2008 |
|----------------------------|---------------------|----------------------|
| Corani | | |
| Engineering and consulting | \$ 1,750,916 | \$ 558,059 |
| Travel | 337,933 | 543,241 |
| Supplies and general | 306,213 | 261,053 |
| Salaries and consulting | 125,552 | 1,293,265 |
| Maintenance costs | 41,864 | 39,239 |
| Geophysics | 16,784 | 160,042 |
| Assaying and sampling | 7,610 | 36,867 |
| Drilling | - | 523,763 |
| | 2,586,872 | 3,415,529 |
| Santa Ana | | |
| Engineering and consulting | 595,027 | 450,742 |
| Supplies and general | 533,444 | 307,323 |
| Travel | 218,453 | 533,367 |
| Salaries and consulting | 212,550 | 353,316 |
| Drilling | 140,560 | 4,049,764 |
| Maintenance costs | 93,894 | 191,737 |
| Assaying and sampling | 26,717 | 345,914 |
| Geophysics | 11,738 | 5,487 |
| | 1,832,383 | 6,237,650 |
| Generative | | |
| Salaries and consulting | 650,134 | 768,052 |
| Supplies and general | 336,242 | 339,956 |
| Travel | 131,317 | 123,887 |
| Assaying and sampling | 42,421 | 36,477 |
| Maintenance costs | 62,318 | 10,380 |
| Geophysics | 13,081 | 5,129 |
| | 1,235,513 | 1,283,881 |
| Other Properties | | |
| | 43,301 | 889,780 |
| IGV | | |
| | 361,433 | 1,540,441 |
| Costs for the Year | \$ 6,059,502 | \$ 13,367,281 |

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

Our Management's Discussion and Analysis

Introduction

Prepared 27 March 2010 for the year ended 31 December 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 audited annual consolidated financial statements for the year ended 31 December 2009 and the Company's audited annual consolidated financial statements for the year ended 31 December 2009, 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

The information contained herein contains "forward-looking statements" within the meaning of applicable Canadian securities legislation. Forward-looking statements relate to information that is based on assumptions of management, forecasts of future results, and estimates of amounts not yet determinable. Any statements that express predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be "forward-looking statements." Statements concerning reserves and mineral resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the property is developed, and in the case of mineral reserves, such statements reflect the conclusion based on certain assumptions that the mineral deposit can be economically exploited.

Forward-looking statements are subject to a variety of risks and uncertainties, which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation: risks related to failure to obtain adequate financing on a timely basis and on acceptable terms; political and regulatory risks associated with mining and exploration; risks related to environmental regulation and liability; the potential for delays in exploration or development activities or the completion of feasibility studies; the uncertainty of profitability based upon the Company's history of losses; risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits; risks related to the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses; results of prefeasibility and feasibility studies, and the possibility that future exploration, development or mining results will not be consistent with the Company's

expectations; risks related to gold price and other commodity price fluctuations; mining and development risks, including risks related to accidents, equipment breakdowns, labour disputes or other unanticipated difficulties with or interruptions in production; and other risks and uncertainties related to the Company's prospects, properties and business detailed elsewhere in this MD&A. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Investors are cautioned against attributing undue certainty to forward-looking statements. The Company does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

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.

On March 15, 2010 the Company announced an update on Santa Ana and Corani, as well as plans to commence drill programs on its Tassa and Campanario projects. On Santa Ana, two drills are being deployed to complete step-out drilling, resource in-fill drilling, geotechnical drilling for completion of the feasibility study and leach pad condemnation drilling. On the Corani project, ten metallurgical core drill holes have been completed which were designed to provide final test sample composites specifically targeted at the first 5 years of mine production.

On March 12, 2010 the Company announced the appointment of Mr. Elsiario Antunez as General Manager of its Peruvian operations. Mr. Antunez was previously the Director of Operations for Southern Copper Corporation's ("SCC") Cuajone mine and concentrator complex, one of the largest mines in Peru. The Company also announced the appointment of Tony Balestrini as Manager of Corporate Affairs. Mr. Balestrini provides extensive experience in the fields of community and government relations, land acquisition, and permitting as a result of his successful involvement in building Barrick's Pierina and Lagunas Norte mines and the advancement of Peru Copper's Toromocho Project.

On January 7, 2010 the Company announced the option to acquire the Campanario prospect and announced its exploration program for its Tassa prospect. Campanario is an untested mesothermal gold-silver prospect located within the prolific belt containing the Alto Chicama/Lagunas Norte, Santa Rosa, and La Arena gold deposits southeast of Trujillo, Peru. A 100% interest in the prospect may be acquired following back-end loaded payments totaling \$2.73M over three years subject to a 3% NSR royalty which is purchasable following completion of a positive feasibility study. The Tassa prospect, located southeast of Arequipa, was previously acquired by staking of mineral rights. Subsequent work has shown Tassa to be similar in size (approximately 300m by 1 km by 200m vertical), geochemistry, silver leaching amenability and geologic setting to the Company's Santa Ana deposit. Exploration program for Tassa will consist of IP /resistivity surveys and further geologic mapping and sampling will be initiated in the first quarter of 2010 with drilling of an estimated 2,000 meter Phase I drilling program to commence in the second quarter of 2010.

On November 4, 2009, the Company closed an equity financing with a syndicate of underwriters led by Canaccord Capital Corp. and including Haywood Securities Inc., Paradigm Capital Inc., BMO Nesbitt Burns Inc., Scotia Capital Inc. and Cormark Securities Inc. (collectively, the "Underwriters") to sell 10,960,000 common shares of the Company at a price of \$3.65 per share ("Common Shares") to raise gross proceeds of \$40,004,000 pursuant to a short form prospectus. In addition, the Company has granted the Underwriters an over-allotment option to

purchase up to that number of additional Common Shares equal to 15% of the Common Shares sold pursuant to the Offering, exercisable at any time up to 30 days from the closing of the Offering. On November 24, 2009, the Underwriters exercised the over-allotment option and acquired an additional 1,644,000 Common Shares for gross proceeds to the Company of \$6,000,600, bringing the aggregate gross proceeds of the equity financing to \$46,004,600. The Underwriters received a cash fee equal to 6% of the gross proceeds of the financing.

Activities on Mineral Projects

Current efforts are focused primarily on the advancement of the Corani and Santa Ana silver (lead-zinc) projects, both of which have progressed to feasibility studies. The Company continues to explore for additional gold and silver prospects in Peru. Base metals exploration prospects of potential are also considered, although the Company tends to seek partners for prospects that do not have a significant precious metals component. 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 feasibility study, 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 from third parties, and many in preliminary evaluation to decide if property ownership is possible or desired. Due to the generative nature of Bear Creek's business, a portion 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 (www.sedar.com).

Current Developments at Corani

On 14 September 2009, the Company announced the results of its Prefeasibility Study ("PFS"), as defined by NI-43-101 for its 100% owned Corani silver-lead-zinc deposit located in southern Peru. Highlights of this study include:

- The net present value is estimated at \$348 million at a 5% discount rate and the after tax internal rate of return for the project is 25%
- Proven and Probable Mineral Reserves containing 258 million ounces of silver, plus 2.9 billion pounds of lead and 1.4 billion pounds of zinc.
- Average annual saleable silver production estimated at 10 million ounces per year for first 6 years, 6.4 million ounces per year (opy) for the life of the mine (LOM). On a silver equivalent ounce basis, 17.1 million opy for the first six years and 12 million opy for the life of the project
- Project produces two highly-marketable concentrates

- Cash costs per ounce of silver are estimated to be \$1.06 per for the first 10 years and \$2.87 per ounce over the life of the mine (net of base metal credits)
- Metals price assumptions; \$13/oz Ag, \$0.70 Pb, and \$0.65 Zn
- Capital costs estimated at \$339 million with Capital Payback in less than three years
- Life of Mine 27 years
- Mill capacity 15,000 tonne per day
- Stripping ratio of 1.56:1 (Waste:Ore)
- Feasibility Study to be initiated

Project summary - The project has an after-tax internal rate of return (IRR) of 25%, net present value of \$348 million at a 5% discount rate and an EBITDA of \$1.8 billion based upon metals prices of \$13 per ounce silver, and \$0.70 and \$0.65 per pound of lead and zinc, respectively.

Recovered silver production in the first six years averages 10 million ounces/year and the project will produce an average of 6.4 million payable ounces of silver, 73 million pounds of lead and 32 million pounds of zinc annually over a 27 year mine-life. Life of mine cash cost per ounce of silver is \$2.87, net of base metals credits and \$1.06 per ounce silver for the first 10 years. Pre-production capital investment in the project is estimated to be \$339M and sustaining capital expenditures are estimated at an average \$13.1 million per year over the 27-year life of the mine. Based upon the aforementioned metals prices, the project achieves payback of capital in 2.9 years. The Prefeasibility Study has been prepared using cost bids and estimates and production forecasts provided by qualified engineering consulting groups and the economic analysis was done in conjunction with Bear Creek's financial advisor. The study describes the project as buildable using conventional mining and processing technology.

PREFEASIBILITY STUDY

The reserve and resource estimates were updated for the PFS by Independent Mining Consultants (IMC), Tucson, AZ. Samuel Engineering, Denver, Colorado and Vector Engineering, Lima ("Vector"), Peru co-lead the study with support from Resource Development Inc.(RDI) (Metallurgy), and SGS Vancouver (Metallurgical Testing). All are independent preeminent engineering and metallurgical testing firms with recent mine development and operating experience in Peru.

The PFS, which is dated effective Monday 14 September 2009, is based upon mining assumptions derived from mine planning sequences completed by IMC and metallurgical test work performed by SGS Laboratories and G&T Metallurgical. The mining sequence primarily derives ore from the higher-grade starter pits in the early years and moves to lower-grade areas in the later years of production. Operations are anticipated to be 27 years based on current reserves. Only measured and indicated resources were used when defining the operations plan when converting resource to reserves. Note that in the mine sequence, only 258 million ounces contained within 139.6M tonnes have been used as reserve in this plan. An additional 110.4M additional tonnes of measured and indicated resource (containing 71.8 million ounces of silver) and 34.2 million tonnes of inferred resource (containing 35.6 million ounces of silver) remain that could be included in later plans of operations should metals prices and/or operating parameters (recoveries) improve.

| Key Assumptions for the Corani Project – Base Case | |
|--|---------------|
| Item | |
| Annual ore production – years 1 to end of life (tonnes) | 5,250,000 |
| Overall Process Recovery – Silver – Into both Lead and Zinc Cons | 74.5% |
| Overall Process Recovery – Lead – Into Lead Cons | 71.7% |
| Overall Process Recovery – Zinc – Into Zinc Cons | 71.3% |
| Total Processed Tonnes | 139,623,000 |
| Average Silver Grade (g/t) | 57.5 g/t |
| Average Lead Grade (%) | 0.94% |
| Average Zinc Grade (%) | 0.46% |
| Payable ounces of silver net of Smelter payment terms (total) | 173.9 million |
| Payable pounds of lead net of Smelter payment terms (total) | 1.97 billion |
| Payable pounds of zinc net of Smelter payment terms (total) | 856 million |
| Overall stripping ratio | 1.56 to 1 |
| Life of mine (mining only) years | 24 |
| Life of mine (processing) years | 27 |

Resource prices determined in the resource model of August 2009 utilizing three-year backward and two-year forward metals prices weighted 60:40 were maintained for the PFS as is consistent with the Company's policy and industry standards.

The PSS recommends proceeding to a bankable feasibility study based upon:

- Positive economics with exposure to side silver and base metals prices
- Well-defined resources open to expansion and conversion to reserves
- Favorable infrastructure; tailings storage, power and access
- Available local water supply
- Well-defined permitting path
- Local community acceptance

PROJECT ECONOMICS

Sensitivities to various parameters are summarized below:

| Case | IRR | NPV @ 5% | NPV @ 0% |
|---------------------------|-----|----------|-----------|
| Base Case | 25% | \$348 M | \$683 M |
| Recovery +10% | 30% | \$466 M | \$909 M |
| Recovery -10% | 19% | \$229 M | \$457 M |
| Metal Price +10% | 30% | \$479 M | \$936 M |
| Metal Price -10% | 19% | \$210 M | \$420 M |
| Initial Capital Cost +10% | 22% | \$316 M | \$636 M |
| Initial Capital Cost -10% | 29% | \$379 M | \$731 M |
| Operating Cost +10% | 23% | \$294 M | \$570 M |
| Operating Cost -10% | 27% | \$401 M | \$797 M |
| Metal Prices Sep 11, 2009 | 41% | \$757 M | \$1,468 M |

Note: Base case prices are \$13.00/oz Silver, \$0.70/lb Lead, \$0.65/lb Zinc; Spot prices are from September 11, 2009 and were \$16.85/oz Ag, \$0.97/lb. Pb and \$0.86/lb. Zn

RESERVE and RESOURCE ESTIMATE

Bear Creek Mining, Corani Project Silver Zone Mineral Reserves and Resources 22 August 2009

| Mineral Reserves, \$9.10 NSR cut-off | | | | | | | | | |
|---|---------|-----------------|-----------|-----------|--------------------------|------------------------|------------------------|------------------------------|--------------------|
| Category | Ktonnes | Contained Metal | | | Equivalent Ounces | | | | |
| | | Silver Gm/t | Lead % | Zinc % | Silver Million Ozs | Lead Million Lbs | Zinc Million Lbs | Eq. Silver Million Ozs | Eq. Silver Gm/t |
| Proven | 27,957 | 70.2 | 1.08 | 0.59 | 63.1 | 665.7 | 363.6 | 115.0 | 127.9 |
| Probable | 111,666 | 54.3 | 0.90 | 0.43 | 194.9 | 2,215.6 | 1,058.6 | 360.3 | 100.4 |
| Proven + Probable | 139,623 | 57.5 | 0.94 | 0.46 | 258.0 | 2,881.3 | 1,422.2 | 475.3 | 105.9 |

| Mineral Resources in Addition to Reserves, \$7.85 NSR cut-off | | | | | | | | | |
|--|---------|-----------------|-----------|-----------|--------------------------|------------------------|------------------------|------------------------------|--------------------|
| Category | Ktonnes | Contained Metal | | | Equivalent Ounces | | | | |
| | | Silver Gm/t | Lead % | Zinc % | Silver Million Ozs | Lead Million Lbs | Zinc Million Lbs | Eq. Silver Million Ozs | Eq. Silver Gm/t |
| Measured | 10,791 | 16.7 | 0.43 | 0.45 | 5.8 | 102.3 | 107.1 | 16.2 | 46.8 |
| Indicated | 99,626 | 20.6 | 0.45 | 0.39 | 66.0 | 988.4 | 856.6 | 158.2 | 49.4 |
| Measured + Indicated | 110,417 | 20.2 | 0.45 | 0.40 | 71.8 | 1,090.7 | 963.7 | 174.4 | 49.1 |
| Inferred | 34,215 | 32.4 | 0.54 | 0.34 | 35.6 | 407.3 | 256.5 | 69.0 | 62.7 |

Note: Silver Equivalency calculation represents the contained equivalent silver ounces sent to concentrate and is based on the resource metal prices assumptions of \$13.00/oz Ag, 0.70/lb Pb and 0.65/lb Zn and recoveries to concentrate of 74.5% for silver and 71.7% for lead and 71.3% for zinc. The calculation does not take into account the net smelter payment terms for the different metals in the two separate concentrates. The resulting equivalency is 1 oz Ag = 19.3 lb Pb and 1 oz Ag = 20.9 lb Zn.

The PFS is based upon an updated resource estimation and mine sequencing performed in August 2009 by IMC based upon 93,577 meters of drilling and sampling in 544 diamond drill holes and trenches completed through August 2009. The Company employs a Net Smelter Return (NSR) method to determine the break between ore and waste, with the cutoff NSR being \$9.10 per tonne. Measured and Indicated Resources contained within the pre-feasibility study design pit were used to determine final pit limits and thus converted respectively into Proven and Probable Reserves.

Metallurgical testing - The Company has completed metallurgical optimization tests on two master composites in order to define recoveries for the purposes of the PFS reserve calculation.

The specific grade and recovery parameters used for the flotation ores, the life-of-mine overall recoveries and concentrate grades are tabulated below.

**Bear Creek Mining, Corani Project Silver Zone
Average Recoveries and Concentrate Grades of the Life of the Project**

| Average Recovery And Con Grades LOM | | | | | | |
|-------------------------------------|----------|------|----------|----------|-------|----------|
| | Lead Con | | | Zinc Con | | |
| | Pb | Zn | Ag | Pb | Zn | Ag |
| Recovery | 71.7% | 8.7% | 60.8% | 5.0% | 71.3% | 13.7% |
| Average Con Grades | 56.8% | 3.4% | 2.9 kg/t | 6.9% | 52.3% | 1.3 kg/t |

MINING AND MILLING

Mining will be performed using conventional open pit methods using 90t trucks and 12m³ wheel loaders mining on 8 meter high benches. The mine requires minimal pre-production waste stripping of 10.8 million tonnes.

Processing of the ore will be by conventional flotation recovery methods. The ore will be crushed close to the mine and the material conveyed to the processing plant where it will be ground to 80% passing 106 microns in a SAG/Ball mill circuit. The material will then be floated with the rougher concentrates being reground to 80% passing 35 microns prior to cleaning to produce high-value separate lead-silver and zinc concentrates. Concentrates will be trucked to the Port of Maturani for ocean shipment to smelters.

CAPITAL COSTS

The project capital cost estimate has been prepared by three independent engineering companies. The mining cost were prepared by Independent Mining Consultants of Tucson, Arizona, the Process and part of the infrastructure capital cost has been prepared by Samuel Engineering of Denver, Colorado and the Tailings and remaining infrastructure costs have been prepared by Vector Peru. The initial startup capital is estimated to be \$339 million and the total life of mine capital cost is estimated to be \$693 million. The capital costs include detailed long-term plans for tailing dam expansions as well ongoing capital and mine closure.

OPERATING COSTS

Mining costs were prepared on a year by year basis with costs varying mostly due to changing haulage distances. The life-of-mine average mining costs are estimated to be \$1.50 per tonne of the total material moved. The process costs are estimated to be \$7.30 per tonne of process ore and the general and administrative costs is estimated to be \$1.20 per process tonne or \$6.3 million per year.

INFRASTRUCTURE

The project has favorable infrastructure. Access will be via a new 63 km road to be built over flat topography resulting in low construction costs. The new road will connect to the Intercoceanic Highway; a two-lane, paved highway connecting to the port of Matarani. The mine is 30 km from a new high-voltage power line with abundant capacity to meet the project needs. The project has an excellent site for tailings storage resulting in a very low capital and operating

cost as the plant will be located immediately adjacent to the tailings pond. The site is also located in the upper part of the Atlantic drainage and as such there are several surface and underground water source alternatives.

ENVIRONMENTAL AND SOCIAL

The project has been designed to meet international standards of environmental compliance. The tailing storage facility has been designed to the highest standards of containment and stability. The waste rock storage facilities are designed to capture and manage any flows that may originate from the waste rock. Finally an initial closure plan has been developed that will provide covers for both the tailing storage and waste rock facilities that will result in safe and environmentally compliant closure of the mine. The Company has maintained good working relationships with the local communities.

The foregoing disclosure regarding the Corani project contains forward-looking statements that are based on a number of assumptions which may prove to be incorrect, including but not limited to: the availability of financing of the Company's Corani project; the Company's ability to attract and retain skilled staff; the estimated timeline for the development of the Corani project; the supply and demand for, and the level and volatility of the price of silver, lead and zinc; the timing of the receipt of regulatory and governmental approvals, the supply and availability of consumables and services; the accuracy of the Company's resource and reserves estimates and the geological and metallurgical assumptions (including the size, grade and recoverability of mineral resources and reserves) and operational and price assumptions on which the resource estimates are based; market competition; the Company's ongoing relations with its employees and local communities; and general business and economic conditions. There is also no certainty that the results of the pre-feasibility study will ever be realized. Should one or more of the risks or uncertainties involved in forward-looking statements relating to the pre-feasibility study materialize, or should the assumptions underlying the pre-feasibility study prove incorrect, actual results of the pre-feasibility study may vary materially from those anticipated, believed, estimate or expected.)

OPPORTUNITIES

The PFS has identified areas of opportunities that will be analyzed in later engineering studies and test work:

- Increase throughput while maintaining much of the same low start-up cost infrastructure.
- Investigate the use of contract mining to reduce the start-up and sustaining capital
- As the sensitivity analysis shows, the project is very sensitive to metallurgical recoveries. The Company and its consultants will continue metallurgical optimization test work, which may further improve the metal recoveries and concentrate grades.

The PFS has been filed and is available for viewing on SEDAR.

During the year ended 31 December 2009, the Company incurred exploration expenditures of \$2.6 million on the Corani project. Included in this total are salaries and consulting costs related to the Feasibility Study of \$1.8 million, travel costs of \$0.3 million and supplies and general costs of \$0.3 million.

As at 31 December 2009, the Company had \$88.0 million of capitalized acquisition costs related to the Corani project (31 December 2008 \$85.0 million).

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 estimated at \$55 million at a 7% discount rate and an internal rate of return for the project of 29%.
- The undiscounted after tax NPV is estimated at \$115 million.
- Over the 11.8 year mine life the average annual production of silver will be 4.6 million ounces. With an average of 5 million ounce of silver production per year for the first 6 years of the 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.
- 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 Environmental and Social Impact Assessment (“ESIA”) 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
2 April 2009**

| Deposit | Category | Ktonnes | Contained Metal | | | | | |
|--------------|------------------|---------------|-----------------|-------------|-------------|--------------------------|------------------------|------------------------|
| | | | Silver Gm/t | Lead % | Zinc % | Silver Million Ozs | Lead Million Lbs | Zinc Million Lbs |
| 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 g/t Silver Cutoff
20 April 2009**

| Deposit | Category | Ktonnes | Contained Metal | | | | | |
|--------------|------------------|---------------|-----------------|-------------|-------------|--------------------------|------------------------|------------------------|
| | | | Silver Gm/t | Lead % | Zinc % | Silver Million Ozs | Lead Million Lbs | Zinc Million Lbs |
| 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. The Company has recently completed 300 meters of large-diameter diamond core holes in 3 drill holes for the purposes of in-fill drilling and providing samples for heap leach simulated test work, as described below. A more extensive in-fill drilling program is planned for the first part of 2010. 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 feasibility study metallurgical test program was started in the fourth quarter of 2009 that involves the testing of 3 recently drilled large diameter drill holes located in different areas of the deposit. The large-diameter drill core is currently being column leached tested at an independent test lab. 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 current ongoing program of metallurgical 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.

(The foregoing disclosure regarding the Santa Ana project contains forward-looking statements that are based on a number of assumptions which may prove to be incorrect, including but not limited to: the availability of financing of the Company's Santa Ana project; the Company's ability to attract and retain skilled staff; the estimated timeline for the development of the Santa Ana project; the supply and demand for, and the level and volatility of the price of silver and zinc; the timing of the receipt of regulatory and governmental approvals, the supply and availability of consumables and services; the accuracy of the Company's resource estimates and the geological and metallurgical assumptions (including the size, grade and recoverability of mineral resources and reserves) and operational and price assumptions on which the resource estimates are based; market competition; the Company's ongoing relations with its employees and local communities; and general business and economic conditions. There is also no certainty that the results of the PEA will ever be realized. Should one or more of the risks or uncertainties involved in forward-looking statements relating to the PEA materialize, or should the assumptions underlying the PEA prove incorrect, actual results of the PEA may vary materially from those anticipated, believed, estimate or expected.)

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 initiated in August and September of 2009 and continued through out the fourth quarter of 2009. Additionally, the Company restarted drilling activities in October and November, with the drilling of three holes for metallurgical samples. The focus of the most recent drilling was to obtain a representative, heap-leach metallurgical composite samples with three, large-diameter core holes over the length of the deposit. The Company restarted drilling in early March 2010 with an in-fill drilling program that will accomplish the following; 1) convert known areas of Inferred resource into Measured and Indicated resource; 2) explore for resource expansion; and 3) perform engineering drilling for geotechnical and hydrological studies associated with the Feasibility Study.

During the year ended 31 December 2009, the Company incurred expenditures of \$1.8 million on the Santa Ana project. Included in this total are engineering and consulting expenditures of \$0.6 million, supplies and general of \$0.5, and various other costs, including travel costs of \$0.2 million, salaries and consulting of \$0.2 million and drilling and maintenance costs of \$0.2 million.

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

The Company is currently compiling all of the data on La Yegua and is actively engaged in discussions with other potential joint venture partners in order to advance exploration on the property.

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

Campanario Gold (Silver) Prospect

In January 2010, the Company announced the option to acquire Campanario; an untested mesothermal gold-silver prospect located within the prolific belt containing the Alto Chicama/Lagunas Norte, Santa Rosa, and La Arena gold deposits southeast of Trujillo, Peru. The Company can acquire a 100% interest in the prospect by making payments totaling US\$2.73M over three years subject to a 3% NSR royalty which is purchasable following completion of a positive feasibility study. The initial payment was US\$60,000 which provides full access to the property for one year. The options to buy-out the royalties commence from the completion of a positive feasibility study.

The Campanario prospect focuses on a Mesozoic sedimentary sequence intruded by strongly altered Tertiary quartz porphyry sills, dikes and small stocks. Sub-horizontal and sub-vertical quartz-sulfide veins and veinlets are ubiquitous especially in the sediments – intrusive contact zones. Nineteen rock chip samples average 3.1 g/t gold, 101.0 g/t silver, and range from <0.005 to 9.7 g/t gold and from <0.2 to 313 g/t silver within veins several meters thick. Fifty-one rock chip samples within the surrounding host rocks ranged from <0.005 to 0.82 g/t gold and from <0.2 to 7.5 g/t silver. Strongly anomalous zinc and lead are associated with the entire outcrop area. Outcrops are sparse within the 1,100 hectare claim area; however, several short shafts and tunnels have encountered hidden mineralized veins beneath shallow soil cover. Potential exists for a near-surface, disseminated gold-silver deposit and high-grade manto-type replacements. The target area occupies a hill top indicating low stripping ratios and is surrounded by suitable areas for heap leaching and other processing infrastructure.

An IP/resistivity survey and additional mapping and trenching are planned for the first quarter of 2010 with Phase I drilling program to target depths of at least 200-300 meters to follow in the middle of 2010. Approximately 2,000 meters of drilling is estimated depending on results of further exploration work.

Tassa Silver (Gold) Prospect

The Tassa prospect, located southeast of Arequipa, was acquired in 2007 by staking of mineral rights in which the Company controls a 100% interest. Subsequent work has shown Tassa to be similar in size (approximately 300m by 1 km by 200m vertical), geochemistry, silver leaching amenability and geologic setting to the Company's Santa Ana deposit. Eighty-seven rock chip and trench samples average 61 g/t silver which is similar to the resource grade at Santa Ana, in addition, Tassa exhibits gold values up to 0.49 g/t with a tendency for higher gold zoning with depth. Bottle roll tests performed on six samples (low, moderate and high silver value material) resulted in recoveries of up to 85% silver and 95% gold. Continuity of mineralization is demonstrated by the longest trench sampling at Tassa of 466 meters averaging 65.4 g/t silver; however, no gold values were identified in this trench located higher in the system.

Additionally, Tassa is located approximately 15 kms from Chucapaca, currently under exploration by the Goldfields - Buenaventura joint venture where drilling has intercepted up to 170 meters averaging 3.3 g/t gold in a similar geologic setting and mineralization reportedly remains open. Tassa, located in mineralized pyroclastics adjacent to a volcanic dome, shows zoning patterns in copper, antimony, arsenic and mercury indicating that a source intrusive and center of mineralization is present at shallow depths. IP/resistivity surveys and further geologic mapping and sampling will be initiated in the first quarter of 2010 with drilling of an estimated 2,000 meter Phase I drilling program to commence in the second quarter of 2010. Drill depths will be determined based upon further work; however, the potential for a near-surface, open pit silver (gold) leaching deposit will be the first priority.

Generative Exploration

Generative exploration is a crucial part 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. In addition, one copper-gold skarn property located in the department of Ayacucho and three gold targets located in the department of La Libertad are being evaluated for acquisition under option agreements from third parties. Acquisition and holding costs are approximately \$20,000 per year on generative prospects and there currently are no underlying agreements with any third parties.

IGV

IGV (Impuesto General a las Ventas - Peruvian value added tax) expense of \$0.4 million represents the amount of IGV that has been paid to the Peruvian government during the period

ended 31 December 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 31 December 2009, the total value of the IGV receivable in Peru was \$5.7 million (16.5 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 Year Ended 31 December 2009 as compared to the Year Ended 31 December 2008

Net Loss and Operating Expenses

In the current year, the Company experienced a net loss of \$8.7 million compared to a net loss of \$18.1 million for 2008, a decrease in net loss of \$9.4 million. In the current year, the Company had a loss per share of \$0.15 compared to \$0.36 for 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 and general and administrative expenses including a reduction in the foreign exchange loss of \$1.7 million. As a result of the reduction of activity, the Company decreased its expenditures on exploration from \$13.4 million to \$6.1 million, a decrease of \$7.3 million. In addition, the administration expenses have been reduced to conserve cash reserves.

Total operating expenses for the current year were \$8.7 million compared to operating expenses of \$16.5 million for 2008. In addition, the Company had a small foreign exchange loss of \$0.3 million. Of the foreign exchange loss, \$1.4 million related to the translation of the 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 but this was offset by a \$1.1 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 31 December 2009 as compared to the Three Months Ended 31 December 2008

Net Loss and Operating Expenses

In the current period, the Company experienced a net loss of \$1.4 million compared to a net loss of \$3.6 million for the same period in 2008. The reduction in exploration costs of \$0.8 million and decrease in foreign exchange loss of \$1.8 million was slightly offset by an increase in stock-based compensation of \$0.4 million. In the current period, the Company had a loss per share of \$0.02 compared to \$0.07 for the same period in 2008. Total operating expenses for the three months were \$2.4 million compared to \$2.7 million in 2008. The decrease in operating

expenses is 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. The \$0.8 million reduction in exploration costs included \$0.6 million related to curtailed spending on the Corani and Santa Ana projects. The Company also had a reduction of costs associated with generative exploration costs, and vesting of stock options granted.

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 |
|------------------------------|----------|--|--|
| 4th Quarter 2009 | Nil | (1.4) | (0.02) |
| 3rd Quarter 2009 | Nil | (3.7) | (0.07) |
| 2 nd Quarter 2009 | Nil | (1.9) | (0.03) |
| 1 st Quarter 2009 | Nil | (1.7) | (0.03) |
| 4th 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) |

The increase in loss for the third quarter from the previous quarter resulted primarily from an increase in exploration activities on the Company's Corani and Santa Projects, specifically relating to the pre-feasibility studies work on the Corani project.

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.

Selected Annual Information

The following table sets out selected annual financial information of the Company and is derived from the Company's audited consolidated financial statements for the periods ended 31 December 2009, 2008 and 2007.

| | 2009 | | 2008 | | 2007 | |
|------------------------------------|------|--------|------|--------|------|--------|
| Sales | \$ | - | \$ | - | \$ | - |
| Loss for the Period – In Millions | \$ | (8.7) | \$ | (18.1) | \$ | (14.0) |
| Loss per Share - Basic and Diluted | \$ | (0.15) | \$ | (0.36) | \$ | (0.32) |
| Total Assets – In Millions | \$ | 131.6 | \$ | 98.8 | \$ | 18.8 |
| Total Liabilities – In Millions | \$ | 54.4 | \$ | 56.4 | \$ | 0.6 |
| Dividends Declared | \$ | Nil | \$ | Nil | \$ | Nil |

Liquidity and Capital Resources

Of the \$43.0 million in cash and cash equivalents and short term investments as at 31 December 2009, approximately \$15.5 million (CDN\$16.2 million) was 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 short term maturities.

On 31 December 2009, the Company had 70,035,139 issued shares. As at 31 December 2009, the Company's net working capital was \$33.0 million compared to a net working capital of \$8.0 million as at 31 December 2008. The cash balance at 31 December 2009 was \$36.3 million compared to \$12.8 million as at 31 December 2008. As at 31 December 2009 current liabilities were \$10.2 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 2010 of \$10 million.

During the year ended 31 December 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 and recorded the amount as a reduction of the financial liability to Rio Tinto. In addition the Company made a payment of \$5 million to Rio Tinto as part of its amended agreement

On 4 November 2009 the Company closed a C\$40 million equity financing in which Bear Creek sold 10,960,000 common shares at a price of \$3.65 per share for gross proceeds of C\$40,004,000 (the "Offering"). The transaction was completed by a syndicate of underwriters. The underwriters received a cash fee equal to 6% of the gross proceeds of the Offering. The underwriters also exercised over-allotment option to purchase up to an additional 1,644,000 common shares at a price of \$3.65 per share for gross proceeds of C\$6,000,600.

As at 19 March 2010, the Company had 70,040,139 outstanding common shares and cash and short term investments of \$43 million. The Company has 4,122,000 share purchase options outstanding. The weighted average exercise price of the share purchase options is C\$3.49.

Expenditures under consideration for 2010 fiscal year include in-fill drilling at Santa Ana as well as the continuation of the feasibility study and environmental studies at Santa Ana and Corani; the total costs estimated to be spent on Santa Ana and Corani through to the end of 2010 is \$10 million. The Company will also continue exploration programs on other projects and spending will vary dependent on success of the exploration programs. In addition to these expenditures, the Company has to make the \$10 million payment due to Rio Tinto on or before 31 December 2010.

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

| | \$ |
|---|------------|
| 31 December 2010 | 10,000,000 |
| 10 January 2011 (payable in cash or shares) | 1,100,000 |
| 30 September 2011 | 10,000,000 |
| 30 June 2012 | 15,000,000 |

Financing Activities

During the period ended 31 December 2009, the Company received cash proceeds of \$0.9 million from the exercise of 952,850 options.

Investing Activities

During the period ended 31 December 2009, the Company purchased a minor amount of equipment for \$23,837.

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 nine month ended 31 December 2009.

The Company received legal services, totaling \$117,061, 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 \$112,041.

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 \$53,000.

The Company received legal services, totaling \$75,564, 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 audited 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. Instruments - Disclosure (Section 3862)

In June 2009, Handbook Section 3862 was further amended to include disclosures about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The additional fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

These amendments are required to be adopted for the fiscal years ending after September 20, 2009. The Company has adopted these amendments for the fiscal year ended December 31, 2009 and the additional required disclosures are included in Note 5 or the annual audited consolidated financial statements.

ii. 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.

iii. 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.

International Financial Reporting Standards ("IFRS") Changeover Plan Disclosure

The Canadian Accounting Standards Board (AcSB) has announced its decision to replace Canadian generally accepted accounting principles ("GAAP") with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises (PAEs). The effective changeover date is January 1, 2011, at which time Canadian GAAP will cease to apply for Bear Creek and will be replaced by IFRS. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011 including comparative IFRS financial results and an opening balance sheet as at January 1, 2010. The first annual IFRS consolidated financial statements will be prepared for the year ended December 31, 2011 with restated comparatives for the year ended December 31, 2010.

Management has developed a project plan for the conversion to IFRS based on the current nature of operations. The conversion plan is comprised of three phases: 1) Scoping phase which will assess the overall impact and effort required by the Company in order to transition to IFRS, 2) Planning phase which will include a detailed analysis of the conversion process and implementation plan required for disclosure for the Company's first quarter 3) Transition phase which will include the preparation of an IFRS compliant opening balance sheet as at January 1, 2010, any necessary conversion adjustments and reconciliations, preparation of a fully compliant pro forma financial statements including all note disclosures and disclosures required for the MD&A.

Management has completed phase one, IFRS Scoping phase, and is now advancing through phase two, the Planning stage. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. Many of the differences identified are not expected to have a material impact on the reported results and financial position.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. During the second quarter of 2010, management will conduct an IFRS educational session for the Audit Committee and the Board of Directors which will focus on the key issues and transitional choices under IFRS 1 applicable to the Company.

Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company's consolidated financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to

review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

Impairment Assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

Currently the Company has significant assets, which based on initial assessment of these significant assets, no impairment charge is expected on transition to IFRS .

Share Based Payments

IFRS and Canadian GAAP largely converge on the accounting treatment for share – based transactions with only a few differences.

Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. Currently, the Company is using the accelerated amortization method and therefore the adoption of IFRS 2 is not expected to have an impact on the Company's financial statements.

Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur. The Company will begin using the estimate of forfeitures starting 1 January 2011 when determining the number of equity instruments expected to vest.

Upon adoption of IFRS 2, the Company will be fully compliant with the new standard and the adoption is not expected to have an impact on the financial statements.

Exploration and Evaluation Assets

Under the Company's current accounting policy, only the acquisition costs of mineral properties are capitalized.

Upon adoption of IFRS, the Company has to determine the accounting policy for exploration and evaluation assets. The Company is currently in compliance with the International Accounting Standards Board ("IASB") Framework which requires exploration expenditures to be expensed and capitalization of expenditures only after the completion of a feasibility study.

Upon adoption of IFRS 6, "Exploration and Evaluation of Mineral Properties", the Company will be fully compliant with the new standard and the adoption is not expected to have an impact on the financial statements.

Property, Plant and Equipment

Under IFRS, Property, Plant and Equipment (“PP&E”) can be measured at fair value or at cost while under Canadian GAAP, the Company has to carry PP&E on a cost basis and the revaluation is prohibited.

Upon adoption of IFRS, the Company has to determine whether to elect a cost model or revaluation model. Management has yet to decide on which model to adopt. Currently, the Company only has equipment capitalized as property, plant and equipment and as a result there will be not significant impact on the adoption of either IFRS model on the Company’s financial statements.

In accordance with IAS 16 “Property, Plant and Equipment”, upon acquisition of significant assets, the Company will need to allocate an amount initially recognized in respect of an asset to its component parts and accounts for each component separately when the components have different useful lives or the components provide benefits to the entity in a different pattern.

Foreign Currency

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with IAS 21 and the entity’s financial results and position should be measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). Currently the functional currency of the consolidated entity is the United States dollar (“USD”) which is also the presentation currency of the Company’s financial statements.

As events and conditions relevant to the Company change, it will re-consider the primary and secondary indicators, as described in IAS 21, in determining the functional currency for each entity. Going forward under IFRS, management will assess the appropriate functional currency based on existing circumstances which may have a significant impact on the Company’s consolidated financial statements prepared under IFRS.

Future Income Taxes

Like Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are in equity are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity.

IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings.

When the Company adopts IAS 12, “Income Taxes”, the future income tax liability will no longer be recorded as Corani was not acquired through a business combination.

As the Company elects and approves the IFRS accounting policy for each of the areas above, management will determine and disclose impact of the IFRS adoption at the transition date on our financial statements. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact

of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable accounting standards at the conversion date are known.

Based on management assessment of the information system currently used by the Company, all information required to be reported under IFRS will be available with minimal system changes.

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosures required. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references. The Company is continuing to assess the level of presentation and disclosures required to its consolidated financial statements.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short term investments, due to related parties, accounts payable and accrued liabilities and due to Rio Tinto. Cash and cash equivalents is carried at fair value using a level 1 fair value measurement and short term investments are carried at fair value using a level 1 fair value measurement. The carrying value of the due to related parties and accounts payable and accrued liabilities approximate their fair value because of the short term nature of these instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, price or credit risks arising from its financial instruments.

The 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 31 December 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

| | 31 December 2009 | |
|--|------------------|----------------|
| | Canadian Dollars | Peruvian Soles |
| Cash and cash equivalents and short term investments | 16,148,333 | 130,045 |
| Accounts receivable | 8,419 | 21,471 |
| Accounts payable and accrued liabilities | (141,154) | (223,867) |

Based on the above net exposures as at 30 September 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 \$1.5 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 \$0.003 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 31 December is as follows:

| | 31 December 2009 | 31 December 2008 |
|---------------------------|---------------------|---------------------|
| | \$ | \$ |
| Cash and cash equivalents | 36,356,216 | 12,774,486 |
| Short-term investments | 6,675,431 | 35,464 |
| Other assets | 213,028 | 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 through 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 31 December 2009:

| | (000s) | | | | | |
|------------------------------|--------|--------|--------|------|----------------|--------|
| | 2010 | 2011 | 2012 | 2013 | 2014 and later | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Accounts payable | 201 | - | - | - | - | 201 |
| Due to related party | 47 | - | - | - | - | 47 |
| Asset retirement obligations | - | - | - | - | 300 | 300 |
| Rio Tinto debt | 10,000 | 11,100 | 15,000 | - | - | 36,100 |
| Operating leases | 101 | 101 | - | - | - | 202 |
| Totals | 10,349 | 11,201 | 15,000 | - | 300 | 36,850 |

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. Based on the amount of cash and cash equivalents invested as at 31 December 2009 and assuming that all other variables remain constant, a 0.5% change in the applicable interest rate would result in an increase/decrease of \$215,000 in the interest earned by the company per annum.

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 gold, 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