

**BEAR CREEK MINING CORPORATION**

**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 December 2010 AND 2009**

**EXPRESSED IN US FUNDS**

## **Independent Auditor's Report**

### **To the Shareholders of Bear Creek Mining Corporation**

We have audited the accompanying consolidated financial statements of Bear Creek Mining Corporation which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss and comprehensive loss, cash flows and shareholders' equity for the years then ended, and the related notes including a summary of significant accounting policies.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

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 comply with ethical requirements and plan and perform our audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bear Creek Mining Corporation as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

***(Signed) "PricewaterhouseCoopers LLP"***

#### **Chartered Accountants**

March 18, 2011  
Vancouver, Canada

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

As at 31 December  
 US Funds

| <b>ASSETS</b>  | <b>2010</b>           | <b>2009</b>           |
|--|-----------------------|-----------------------|
| <b>Current</b>   |                       |                       |
| Cash and cash equivalents  | \$ 143,764,488        | \$ 36,356,216         |
| Short-term investments <i>(Note 5)</i>                                 | 59,117                | 6,675,431             |
| Prepaid expenses and advances  | 293,072               | 213,028               |
|  | <u>144,116,677</u>    | <u>43,244,675</u>     |
| <b>Equipment</b> <i>(Note 6)</i>                                       | 244,720               | 211,340               |
| <b>Resource Property Costs</b> <i>(Note 7)</i>                         | 92,542,726            | 88,120,343            |
|  | <u>\$ 236,904,123</u> | <u>\$ 131,576,358</u> |
| <b>LIABILITIES</b>   |                       |                       |
| <b>Current</b>   |                       |                       |
| Accounts payable and accrued liabilities                               | \$ 1,265,916          | \$ 248,402            |
| Due to Rio Tinto Mining and Exploration Limited <i>(Note 8)</i>        | 11,100,000            | 10,000,000            |
|  | <u>12,365,916</u>     | <u>10,248,402</u>     |
| <b>Due to Rio Tinto Mining and Exploration Limited</b> <i>(Note 8)</i> | 13,658,783            | 23,107,887            |
| <b>Asset Retirement Obligation</b>                                     | 300,000               | 300,000               |
| <b>Future Income Tax</b> <i>(Note 14)</i>                              | 22,035,330            | 20,707,554            |
|  | <u>48,360,029</u>     | <u>54,363,843</u>     |
| <b>SHAREHOLDERS' EQUITY</b>  |                       |                       |
| <b>Share Capital</b> <i>(Note 9)</i>                                   | 262,557,806           | 131,680,335           |
| <b>Contributed surplus</b>   | 12,210,489            | 14,475,144            |
|  | <u>274,768,295</u>    | <u>146,155,479</u>    |
| <b>Deficit</b>   | (86,224,201)          | (68,942,964)          |
|  | <u>188,544,094</u>    | <u>77,212,515</u>     |
|  | <u>\$ 236,904,123</u> | <u>\$ 131,576,358</u> |

Commitments *(Note 12)*

Subsequent Events *(Notes 7,8,15)*

ON BEHALF OF THE BOARD:

Signed "Catherine McLeod-Seltzer", Director

Signed "Nolan Watson", Director

- See Accompanying Schedule and Notes -

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

**Consolidated Statements of Loss and Comprehensive Loss**

For the Years Ended 31 December

US Funds

|   | 2010              | 2009              |
|---|-------------------|-------------------|
| <b>Operating Expenses</b>                               |                   |                   |
| Exploration costs ( <i>Exploration Costs Schedule</i> ) | \$ 14,137,497     | \$ 6,059,502      |
| Stock-based compensation ( <i>Note 9</i> )              | 1,201,186         | 1,622,437         |
| Wages and management salaries                           | 581,063           | 282,055           |
| Professional fees                                       | 515,249           | 332,151           |
| Shareholder information and filing fees                 | 285,800           | 125,499           |
| Travel  | 233,986           | 138,112           |
| General administrative expenses                         | 215,002           | 182,224           |
| <b>Loss before the following</b>                        | <b>17,169,783</b> | 8,741,980         |
| <b>Other Income</b>                                     |                   |                   |
| Foreign exchange loss                                   | 790,929           | 259,458           |
| Interest income, net                                    | (135,071)         | (58,006)          |
| Gain on investments                                     | (28,649)          | (14,869)          |
| (Gain)/loss on disposal of asset                        | (14,394)          | 1,492             |
| <b>Loss before income tax</b>                           | <b>17,782,598</b> | 8,930,055         |
| <b>Future income tax recovery</b> ( <i>Note 14</i> )    | <b>(501,361)</b>  | (224,592)         |
| <b>Loss and Comprehensive Loss for the Year</b>         | <b>17,281,237</b> | <b>8,705,463</b>  |
| <b>Loss per Share – Basic and Diluted</b>               | <b>\$ 0.24</b>    | <b>\$ 0.15</b>    |
| <b>Weighted Average Number of Shares Outstanding</b>    | <b>73,383,772</b> | <b>58,449,887</b> |

- See Accompanying Schedule and Notes -

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

For the Years Ended 31 December  
 US Funds

|  | 2010                  | 2009                 |
|--|-----------------------|----------------------|
| <b>Operating Activities</b>                      |                       |                      |
| Loss and comprehensive loss for the year         | \$ (17,281,237)       | \$ (8,705,463)       |
| Items not affecting cash                         |                       |                      |
| Stock-based compensation <i>(Note 9)</i>         | 1,201,186             | 1,622,437            |
| Amortization included in exploration costs       | 66,983                | 67,813               |
| Future income tax recovery                       | (501,361)             | (224,592)            |
| Gain on investments                              | (28,649)              | -                    |
| Amortization                                     | 1,954                 | 1,727                |
| Non-cash (gain) loss on disposal of asset        | (14,394)              | 1,492                |
| Unrealized foreign exchange loss                 | 1,009,412             | 1,430,458            |
|  | <u>(15,546,106)</u>   | <u>(5,806,128)</u>   |
| Changes in current assets and liabilities        |                       |                      |
| Accrued interest income                          | 7,507                 | (8,025)              |
| Prepaid expenses and advances                    | (87,551)              | 392,212              |
| Accounts payable and accrued liabilities         | 1,017,514             | (144,183)            |
| Cash used in operating activities                | <u>(14,608,636)</u>   | <u>(5,566,124)</u>   |
| <b>Investing Activities</b>                      |                       |                      |
| Purchase of equipment                            | (106,523)             | (23,837)             |
| Resource acquisition costs                       | (12,063,961)          | (5,000,000)          |
| Short-term investments redeemed (purchased)      | 6,732,313             | (6,639,967)          |
| Proceeds on disposition of equipment             | 18,600                | -                    |
| Proceeds from sale of short term investments     | 24,849                | -                    |
| Cash used in investing activities                | <u>(5,394,722)</u>    | <u>(11,663,804)</u>  |
| <b>Financing Activities</b>                      |                       |                      |
| Share capital issued – net                       | 127,411,630           | 40,811,658           |
| Cash provided by financing activities            | <u>127,411,630</u>    | <u>40,811,658</u>    |
| <b>Net Decrease in Cash and Cash Equivalents</b> | <b>107,408,272</b>    | <b>23,581,730</b>    |
| Cash and cash equivalents – Beginning of Year    | <u>36,356,216</u>     | <u>12,774,486</u>    |
| <b>Cash and Cash Equivalents – End of Year</b>   | <b>\$ 143,764,488</b> | <b>\$ 36,356,216</b> |
| <b>Cash and Cash Equivalents consists of:</b>    |                       |                      |
| Cash   | \$ 19,215,491         | \$ 13,580,456        |
| Term Deposits                                    | <u>124,548,997</u>    | <u>22,775,760</u>    |
|  | <u>\$ 143,764,488</u> | <u>\$ 36,356,216</u> |

Supplemental cash flow information *(Note 12)*

- See Accompanying Schedule and Notes -

**Bear Creek Mining Corporation***(An Exploration Stage Company)***Consolidated Statements of Shareholders' Equity***US Funds*

|                                    | Share Capital<br>(Number of<br>Shares) | Share Capital<br>(Amount) | Contributed<br>Surplus | Deficit                | Total                 |
|------------------------------------|--|---------------------------|------------------------|------------------------|-----------------------|
| <b>31 December 2008</b>            | <b>55,457,023</b>                      | <b>\$ 89,105,173</b>      | <b>\$ 13,516,211</b>   | <b>\$ (60,237,501)</b> | <b>\$ 42,383,883</b>  |
| Shares issued in private placement | 12,604,000                             | 42,769,477                | -                      | -                      | 42,769,477            |
| Share issuance costs               | -                                      | (2,867,410)               | -                      | -                      | (2,867,410)           |
| Options exercised                  | 952,850                                | 909,591                   | -                      | -                      | 909,591               |
| Fair value of options exercised    | -                                      | 663,504                   | (663,504)              | -                      | -                     |
| Shares issued for debt             | 1,021,266                              | 1,100,000                 | -                      | -                      | 1,100,000             |
| Stock based compensation           | -                                      | -                         | 1,622,437              | -                      | 1,622,437             |
| Net loss for the year              | -                                      | -                         | -                      | (8,705,463)            | (8,705,463)           |
| <b>31 December 2009</b>            | <b>70,035,139</b>                      | <b>131,680,335</b>        | <b>14,475,144</b>      | <b>(68,942,964)</b>    | <b>77,212,515</b>     |
| Shares issued in private placement | 20,297,500                             | 129,419,969               | -                      | -                      | 129,419,969           |
| Share issuance costs               | -                                      | (6,709,519)               | -                      | -                      | (6,709,519)           |
| Options exercised                  | 1,628,500                              | 4,701,180                 | -                      | -                      | 4,701,180             |
| Fair value of options exercised    | -                                      | 3,465,841                 | (3,465,841)            | -                      | -                     |
| Stock-based compensation           | -                                      | -                         | 1,201,186              | -                      | 1,201,186             |
| Net loss for the year              | -                                      | -                         | -                      | (17,281,237)           | (17,281,237)          |
| <b>31 December 2010</b>            | <b>91,961,139</b>                      | <b>\$ 262,557,806</b>     | <b>\$ 12,210,489</b>   | <b>\$ (86,224,201)</b> | <b>\$ 188,544,094</b> |

- See Accompanying Schedule and Notes -

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

**31 December 2010**  
US Funds

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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 completion of the development of these properties, and future profitable production or proceeds from disposition of mineral properties.

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### **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, Bear Creek Mining S.A.C. (formerly 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 fair value of short term investments is estimated 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.

#### **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 of 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.

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**  
US Funds

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**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 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 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**

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.

**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 each quarter in 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 are recognized when the Company becomes a party to contractual provisions of the financial instrument. All financial instruments are measured at fair value on initial recognition. 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 year. 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.

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**

US Funds

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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 year.

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 |

Amounts due from related parties are carried at cost. Fair value adjustments, if any, are not reasonably determinable by management as comparable interest rate and risk profiles are not available.

**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.

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 recognizes a legal liability for obligations relating to retirement of property and equipment, and those 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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## **Notes to Interim Consolidated Financial Statements**

**31 December 2010**  
US Funds

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### **3. Change in Accounting Policies**

#### **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 are also to 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.

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### **4. Financial Instruments**

#### **a) Fair value**

Inputs used in making fair value measurements are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;  
and

Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash and cash equivalents, short-term investments, advances, accounts payable and accrued liabilities and amounts due to Rio Tinto. Cash and cash equivalents is carried at fair value using a level 2 fair value measurement and short term investments are carried at fair value using a level 1 fair value measurement. The carrying value of the amounts due to Rio Tinto Mining 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.

#### **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.

## Notes to Interim Consolidated Financial Statements

31 December 2010

US Funds

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 Sol 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 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

|  | 31 December 2010 |                |
|--|------------------|----------------|
|  | Canadian Dollars | Peruvian Soles |
| Cash and cash equivalents and short term investments | 21,357,958       | 555,656        |
| Advances   | 1,154            | 942,607        |
| Accounts payable and accrued liabilities             | (138,622)        | (659,167)      |

Based on the above net exposures as at 31 December 2010, 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 \$2.1 million in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the US dollar against the Peruvian Sol would have an insignificant impact on 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 and cash equivalents, 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 HST receivable from the government of Canada and other receivables.

#### 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 and short-term investments 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. In general, the Company attempts to avoid exposure to liquidity risk by obtaining corporate financing from sales of common shares.

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

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**

*US Funds*

The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and capital commitments at 31 December 2010:

|                              | (000s)        |               |          |          |                    |               |
|------------------------------|---------------|---------------|----------|----------|--------------------|---------------|
|                              | 2011          | 2012          | 2013     | 2014     | 2015 and<br>beyond | Total         |
|                              | \$            | \$            | \$       | \$       | \$                 | \$            |
| Accounts payable             | 1,266         | -             | -        | -        | -                  | 1,266         |
| Asset retirement obligations | -             | -             | -        | -        | 300                | 300           |
| Rio Tinto debt               | 11,100        | 15,000        | -        | -        | -                  | 26,100        |
| Operating leases             | 106           | -             | -        | -        | -                  | 106           |
| <b>Totals</b>                | <b>12,472</b> | <b>15,000</b> | <b>-</b> | <b>-</b> | <b>300</b>         | <b>27,772</b> |

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 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 2010 and assuming that all other variables remain constant, a 0.5% change in the applicable interest rate would result in an increase/decrease of \$0.7 million in the interest earned by the Company per annum.

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.

**5. Short-term Investments**

Short term investments are as follows:

|                                     | 31 December<br>2010 | 31 December<br>2009 |
|-------------------------------------|---------------------|---------------------|
| Shares – Magellan Minerals Ltd.     | \$ 31,612           | \$ 27,812           |
| Term deposits                       | 27,505              | 6,647,619           |
| <b>Total short-term investments</b> | <b>\$ 59,117</b>    | <b>\$ 6,675,431</b> |

The Company currently holds 19,392 shares (2009 – 38,392 shares) in Magellan Minerals Ltd. with a fair market value of \$31,612. During the year 19,000 shares with a book value of \$13,764 were sold for proceeds of \$24,849. In 2010 there was a total gain of \$28,649 (2009 - \$14,869) in the value of the shares

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.

**Notes to Interim Consolidated Financial Statements**

31 December 2010

US Funds

**6. Equipment**

Details are as follows:

|                       | 31 December 2010  |                          |                   | 31 December 2009  |                          |                   |
|-----------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------|
|                       | Cost              | Accumulated Amortization | Net Book Value    | Cost              | Accumulated Amortization | Net Book Value    |
| Office equipment      | \$ 29,162         | \$ 23,954                | \$ 5,208          | \$ 29,162         | \$ 22,133                | \$ 7,029          |
| Exploration equipment | 584,985           | 345,473                  | 239,512           | 501,403           | 297,092                  | 204,311           |
|                       | <b>\$ 614,147</b> | <b>\$ 369,427</b>        | <b>\$ 244,720</b> | <b>\$ 530,565</b> | <b>\$ 319,225</b>        | <b>\$ 211,340</b> |

**7. Resource Property Costs**

Cumulative capitalized costs for the Corani and Santa Ana projects as at 31 December 2010 are as follows:

**Cumulative capitalized acquisition costs**

|  | Corani Project |                   | Santa Ana Project | Total                |
|--|----------------|-------------------|-------------------|----------------------|
|  |                |                   |                   |                      |
| <b>Balance at 31 December 2008</b>       | <b>\$</b>      | <b>85,009,111</b> | <b>\$ 100,000</b> | <b>\$ 85,109,111</b> |
| Adjustment for future income tax         |                | 903,369           | -                 | 903,369              |
| Accretion of purchase liability (Note 8) |                | 2,107,863         | -                 | 2,107,863            |
| <b>Balance at 31 December 2009</b>       | <b>\$</b>      | <b>88,020,343</b> | <b>\$ 100,000</b> | <b>\$ 88,120,343</b> |
| Land acquisition costs                   |                | 1,411,547         | 652,414           | 2,063,961            |
| Adjustment for future income tax         |                | 707,526           | -                 | 707,526              |
| Accretion of purchase liability (Note 8) |                | 1,650,896         | -                 | 1,650,896            |
| <b>Balance at 31 December 2010</b>       | <b>\$</b>      | <b>91,790,312</b> | <b>\$ 752,414</b> | <b>\$ 92,542,726</b> |

**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 (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.

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**  
US Funds

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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 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 8). Under the Amendment Agreement, Rio Tinto 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. The restructured remaining payments are described below:

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

Bear Creek 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 was received (paid by the issuance of 1,021,266 (Note 9) shares of Bear Creek on 11 March 2009).
- \$1.1 million due on 10 January 2011 (paid in cash on 10 January 2011)

The balance of the purchase price was secured by a General Security Agreement ("GSA"), which covered 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 Amendment Agreement states that Rio Tinto agrees to discharge the GSA upon receipt of the \$1.1 million due upon signing the amended agreement (paid), receipt of the \$5 million due 31 December 2009 (paid) and receipt of the \$10 million due 31 December 2010 (paid). As of 31 December 2010 the Company has completed all the requirements for a discharge of the GSA by Rio Tinto.

On 3 February 2011, the Company entered into an amendment agreement (the "2011 Amendment Agreement") whereby Rio Tinto agreed to accept a payment of US\$23 million on 4 February 2011 (paid) in lieu of and in full satisfaction of the final two cash payments of US\$10 million due 30 September 2011 and \$15 million due 30 June 2012.

**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 \$257,666 has been expensed to 31 December 2010. The Company exercised its option in January 2008 and now holds a 100% interest in the Santa Ana project.

**c) Tassa Project**

The Tassa prospect is located southeast of Arequipa, and was acquired in 2007 by staking of mineral rights. The Company has a 100% interest.

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**Notes to Interim Consolidated Financial Statements**

**31 December 2010**

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**8. Due to Rio Tinto**

|   |    |                          |
|---|----|--------------------------|
| 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 9) |    | (1,100,000)              |
| Less: payment made to Rio Tinto                         |    | (5,000,000)              |
| Due to Rio Tinto – 31 December 2009                     | \$ | <u>33,107,887</u>        |
| Accretion on obligation to Rio Tinto                    |    | 1,650,896                |
| Less: payment made to Rio Tinto                         |    | (10,000,000)             |
| Due to Rio Tinto – 31 December 2010                     | \$ | <u>24,758,783</u>        |
| Less: Current amount                                    |    | (11,100,000)             |
|   | \$ | <u><b>13,658,783</b></u> |

According to amended agreement, the remaining principal payments as at 31 December 2010 are as follows:

|   |    |                   |
|---|----|-------------------|
| 10 January 2011 (payable in cash or shares) | \$ | 1,100,000         |
| 30 September 2011                           |    | 10,000,000        |
| 30 June 2012                                |    | 15,000,000        |
|   | \$ | <u>26,100,000</u> |

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 terminated in the current year upon the Company making payment of the \$10 million in December 2010. Payment obligations subsequent to 31 December 2010 are secured by the Corani Project, subordinated to future project financing.

Subsequent to the year end, on January 10, 2011, the Company paid Rio Tinto \$1.1 million in cash in compliance with the agreement. On 4 February 2011, the Company paid Rio Tinto \$23 million (Notes 7 and 15) in lieu of the payments of \$10 million due on 30 September 2011 and \$15 million due on 30 June 2012. This extinguishes all remaining security for the balance of the purchase price held by Rio Tinto including pledges of shares of certain subsidiary companies, remaining security under a general security agreement and mortgages over the Corani project.

**9. Share Capital**

**Authorized share capital**

Unlimited number of common shares without par value

**Shares issued**

On 5 November 2010, the Company closed a bought deal through a syndicate of underwriters of 17,650,000 common shares at a price of C\$6.40 per share for gross proceeds of C\$112,960,000 (\$112,539,104). The underwriters also exercised their over-allotment option to acquire an additional 2,647,500 shares for additional gross proceeds of C\$16,944,000 (\$16,880,866). The underwriters received a cash fee equal to 5% of the gross proceeds of the offering or C\$6,495,200.

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

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**

US Funds

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 7a and 8*). These shares were valued based upon a volume weighted average trading price of the Company's stock for the fifteen trading days preceding the date of the execution of the amended agreement less 15% converted from US dollars to Canadian dollars using the average noon spot rate quoted by the Bank of Canada for each of the said fifteen trading days.

**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.

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 2010, a total of 6,860,114 options were reserved under the Plan with 4,500,000 options available for granting.

|   | <b>Number of<br/>options</b> | <b>Weighted average<br/>exercise price<br/>(in CDN\$)</b> |
|---|------------------------------|---|
| 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  |
| Exercised                               | (1,628,500)                  | 2.90  |
| Forfeited                               | (362,500)                    | 4.38  |
| Granted                                 | 405,000                      | 6.24  |
| Options outstanding at 31 December 2010 | <b>2,336,000</b>             | <b>4.14</b>   |

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

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**

*US Funds*

The weighted average life of the options outstanding at 31 December 2010 is 2.9 years. A summary of the Company's options outstanding as at 31 December 2010 is as follows:

|         | <b>Number</b>    | <b>Price per Share</b> | <b>Expiry Date</b> |
|---------|------------------|------------------------|--------------------|
| Options |                  |                        |                    |
|         | 100,000          | Cdn\$4.60              | 31 May 2011        |
|         | 53,000           | Cdn\$8.08              | 22 August 2011     |
|         | 445,000          | Cdn\$7.99              | 16 May 2012        |
|         | 150,000          | Cdn\$4.95              | 2 July 2013        |
|         | 933,000          | Cdn\$1.24              | 27 January 2014    |
|         | 100,000          | Cdn\$1.90              | 18 August 2014     |
|         | 150,000          | Cdn\$4.00              | 14 October 2014    |
|         | 240,000          | Cdn\$4.12              | 8 March 2015       |
|         | 90,000           | Cdn\$8.80              | 23 November 2015   |
|         | 75,000           | Cdn\$9.95              | 6 December 2015    |
|         | <b>2,336,000</b> |                        |                    |

As at 31 December 2010 2,029,750 options have vested and are exercisable.

During the year ended 31 December 2010, the Company granted options to employees to purchase up to 405,000 common shares of the Company at a weighted average exercise price of C\$6.24 per share. The estimated fair value of the stock options granted during the year ended 31 December 2010 was valued at C\$1,585,950 using the Black-Scholes option pricing model, based on the following weighted average assumptions:

|                                 | <b>2010</b> | <b>2009</b> |
|---------------------------------|-------------|-------------|
| Expected dividend yield         | 0.00%       | 0.00%       |
| Expected stock price volatility | 78.8%       | 99.2%       |
| Risk-free interest rate         | 2.16%       | 2.23%       |
| Expected life of options        | 5 years     | 5 years     |

Option pricing models require the input of subjective assumptions including the expected price volatility and the expected option life. Changes in these assumptions can materially affect the estimated fair value of the stock options granted.

The stock-based compensation recorded during the year ended 31 December 2010 for regular vested options was \$1,201,186 which was reduced due to the cancellation of 222,500 stock options before vesting; these had a value of \$350,265. A total of C\$677,899 remains to be recorded subsequent to 31 December 2010 on options which have yet to vest.

**10. Related Party Transactions**

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

|  | <b>2010</b> |                | <b>2009</b> |         |
|--|-------------|----------------|-------------|---------|
| Consulting fees paid to a director of the Company                              | \$          | <b>99,000</b>  | \$          | 53,000  |
| Legal fees paid to a firm in which a director of the Company is a partner      | \$          | <b>169,086</b> | \$          | 75,564  |
| Legal fees paid to a firm in which an officer of the Company is a partner      | \$          | <b>200,200</b> | \$          | 117,061 |
| Accounting fees paid to a firm in which an officer of the Company is a partner | \$          | <b>128,825</b> | \$          | 112,041 |

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**

US Funds

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Amounts owing to related parties are unsecured, non-interest bearing and payable on demand. Included in accounts payable and accrued liabilities at 31 December 2010 there was \$175,162 (2009 - \$47,418) owing to related parties.

Related party transactions are in the normal course of business and occur on terms similar to transactions with non-related parties, and therefore are measured at the exchange amount. Any consulting fees are included in wages and management salaries, and any legal or accounting costs are included in professional fees.

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**11. Segmented Information**

The Company has one operating segment, which is mineral exploration. All of the Company's exploration expenses are incurred in Peru and of the Company's assets, \$93,394,956 (2009 - \$88,775,356) are located in Peru. All other assets and expenses are located in Canada.

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**12. Supplemental cash flow information**

**Schedule of non-cash investing and financing transactions**

|  | 2010 |                  | 2009 |           |
|--|------|------------------|------|-----------|
| Shares issued for Corani Resource property (Notes 8 and 9) | \$   | -                | \$   | 1,100,000 |
| Fair value of options exercised                            |      | <b>3,465,841</b> |      | 663,504   |

**Supplementary disclosure of cash flow information:**

|                            | 2010 |                | 2009 |        |
|----------------------------|------|----------------|------|--------|
| Cash received for interest | \$   | <b>149,691</b> | \$   | 56,891 |

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**13. Commitments**

- a) 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.
  - b) On 17 July 2008 and subsequently amended on 27 February 2009, Bear Creek entered into an agreement with Rio Tinto to purchase Rio Tinto's remaining 30% interest in the Corani Project. Subsequent to the year end, on 3 February 2011, the Company entered into the 2011 Amendment. Agreement whereby Rio Tinto agreed to accept a payment of US\$23 million on 4 February 2011 (paid) in lieu of and in full satisfaction of the final two cash payments of US\$10 million due 30 September 2011 and \$15 million due 30 June 2012 (Notes 7a, and 8).
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**Bear Creek Mining Corporation**  
*(An Exploration Stage Company)*

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**

*US Funds*

**14. Income Taxes**

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

|                                | 2010            |    | 2009        |
|--------------------------------|-----------------|----|-------------|
| Loss before income taxes       | \$ (17,782,598) | \$ | (8,930,055) |
| Statutory tax rate             | 28.5%           |    | 30.0%       |
| Expected income tax (recovery) | \$ (5,068,040)  | \$ | (2,679,016) |
| Non-deductible expenses        | 547,989         |    | 1,098,874   |
| Share issue costs              | (1,684,187)     |    | (721,077)   |
| Foreign exchange and other     | 52,542          |    | 451,263     |
| Change in valuation allowance  | 5,650,335       |    | 1,625,364   |
| Total income taxes recovery    | \$ (501,361)    | \$ | (224,592)   |

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

|   | 2010          |    | 2009        |
|---|---------------|----|-------------|
| Future income tax assets  |               |    |             |
| Non-capital losses  | \$ 5,030,267  | \$ | 4,932,747   |
| Unamortized share issue costs   | 4,270,566     |    | 1,316,473   |
| Tax value of resource properties and plant and equipment costs in excess of net book value of resource properties and plant and equipment | 6,066,145     |    | 3,467,423   |
|   | 15,366,978    |    | 9,716,643   |
| Valuation allowance   | (15,366,978)  |    | (9,716,643) |
| Net future income tax assets  | -             |    | -           |
| Future income tax liabilities   |               |    |             |
| Resource property costs   | 22,035,330    |    | 20,707,554  |
| Future income tax liability   | \$ 22,035,330 | \$ | 20,707,554  |

The Company has non-capital loss carry-forwards of approximately \$19,664,657 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      | 1,131,620            |
| 2014      | 673,185              |
| 2015      | 724,687              |
| 2026      | 967,592              |
| 2027      | 2,602,425            |
| 2028      | 1,946,241            |
| 2029      | 2,455,336            |
| 2030      | 4,168,562            |
| Unlimited | 4,995,009            |
|           | <u>\$ 19,664,657</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.

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

**Notes to Interim Consolidated Financial Statements**

**31 December 2010**

*US Funds*

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**15. Subsequent events**

On January 10, 2011, the Company paid Rio Tinto \$1,100,000 in cash in compliance with its agreement (*Note 8*).

On February 4, 2011, the Company paid Rio Tinto \$23 million (*Note 8*) in lieu of the payments of \$10 million due on September 30, 2011 and \$15 million due on June 30, 2012 which is at a discount of 8%. This extinguishes all remaining security for the balance of the purchase price held by Rio Tinto including pledges of shares of certain subsidiary companies, remaining security under a general security agreement and mortgages over the Corani project.

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

Schedule

**Consolidated Schedules of Exploration Costs**

US Funds  
Unaudited

For the Year  
Ended 31 December

|                             | 2010                 | 2009                |
|-----------------------------|----------------------|---------------------|
| <b>Corani</b>               |                      |                     |
| Engineering and consulting  | \$ 835,463           | \$ 1,750,916        |
| Travel                      | 376,109              | 337,933             |
| Salaries and consulting     | 262,640              | 125,552             |
| Supplies and general        | 256,267              | 260,904             |
| Drilling                    | 226,619              | -                   |
| Community relations         | 202,999              | 45,309              |
| Assaying and sampling       | 51,663               | 7,610               |
| Maintenance costs           | 45,488               | 41,864              |
| Geophysics                  | 13,072               | 16,784              |
|                             | <u>2,270,320</u>     | <u>2,586,872</u>    |
| <b>Santa Ana</b>            |                      |                     |
| Engineering and consulting  | 2,744,953            | 595,027             |
| Drilling                    | 1,357,257            | 140,560             |
| Travel                      | 702,741              | 218,453             |
| Salaries and consulting     | 603,832              | 212,550             |
| Supplies and general        | 521,242              | 486,488             |
| Community relations         | 293,175              | 46,956              |
| Maintenance costs           | 100,650              | 93,894              |
| Assaying and sampling       | 93,691               | 26,717              |
| Geophysics                  | 7,761                | 11,738              |
|                             | <u>6,425,302</u>     | <u>1,832,383</u>    |
| <b>Tassa</b>                |                      |                     |
| Drilling                    | 686,258              | -                   |
| Travel                      | 247,982              | 3,648               |
| Salaries and consulting     | 234,340              | 2,113               |
| Supplies and general        | 109,889              | 508                 |
| Assaying and sampling       | 101,554              | -                   |
| Geophysics                  | 35,355               | -                   |
| Community relations         | 10,596               | -                   |
| Maintenance costs           | 9,925                | 2,400               |
|                             | <u>1,435,899</u>     | <u>8,669</u>        |
| <b>Generative</b>           |                      |                     |
| Salaries and consulting     | 1,177,716            | 650,134             |
| Supplies and general        | 405,779              | 336,242             |
| Travel                      | 226,235              | 131,317             |
| Maintenance costs           | 52,852               | 62,318              |
| Assaying and sampling       | 44,617               | 42,421              |
| Geophysics                  | 9,813                | 13,081              |
|                             | <u>1,917,012</u>     | <u>1,235,513</u>    |
| <b>Other Properties</b>     | <u>417,388</u>       | <u>34,632</u>       |
| <b>IGV</b>                  | <u>1,671,576</u>     | <u>361,433</u>      |
| <b>Costs for the Period</b> | <u>\$ 14,137,497</u> | <u>\$ 6,059,502</u> |

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

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

***Introduction***

Prepared 11 March 2011 for the year ended 31 December 2010. 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 audited annual consolidated financial statements for the year ended 31 December 2010. 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, exploring, and developing 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 currently advancing two mining projects towards development 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 as a 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 include, but are not limited to, statements with respect to the future price of gold, silver and other metals, the estimation of mineral resources and reserves, the realization of mineral resource and reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, timing of completion of studies and reports, success of exploration and development activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of exploration operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, completion of acquisitions and their potential impact on the Company and its operations, limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected",

"budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to the completion and integration of acquisitions and actual effects of the acquisitions; risks related to joint venture operations; actual results of current exploration activities; actual results of current reclamation activities; conclusions of future economic evaluations; changes in project parameters as plans continue to be refined; future prices of precious and base metals; possible variations in ore resources, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed elsewhere in this MD&A. Forward-looking statements are based on certain assumptions that management believes are reasonable at the time they are made. In making the forward-looking statements in this MD&A, the Company has applied several material assumptions, including, but not limited to, the assumption that: (1) market fundamentals will result in sustained silver, lead and zinc demand and prices; (2) the proposed development of its mineral projects will be viable operationally and economically and proceed as expected; and (3) any additional financing needed will be available on reasonable terms. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. 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 28 February 2011, the Company announced the awarding of the Engineering, Procurement and Construction Management contract for the Santa Ana project to GMI S.A., a major Peruvian-based engineering and construction firm. In addition, the company also announced the successful completion of the public hearing for the Environmental and Social Impact Assessment for the Santa Ana project.

On 4 February 2011, the Company prepaid its remaining obligation, to earn its 100% interest in the Corani project, to Rio Tinto for \$23 million. The \$23 million liability represents an 8% discount to the \$25 million principal amount of the liability that was originally due on 30 September 2011 (\$10 million) and 30 June 2011 (\$15 million). The \$23 million payment extinguished all remaining security interests and encumbrances held by Rio Tinto over the Company and the Corani project.

On 1 February 2011, the Company announced the appointment of Brad Blacketor as Chief Financial Officer. Mr. Blacketor is a Certified Public Accountant with over 19 years experience in the mining industry. Previously, he was Vice-President and Chief Financial Officer of

Metallica Resources Inc. during its transition from a junior exploration company to a gold and silver producer. The Company is also pleased to announce the promotions of Marc Leduc to the position of President and Mr. Elsiario Antunez de Mayolo to the position of Vice President of Operations. Mr. Leduc will take on the new role of President and Chief Operating Officer where he will continue to head the project development team for the Company's Santa Ana silver deposit, scheduled for production in the fourth quarter of 2012 and the Company's Corani Project where a feasibility study is expected to be completed during the third quarter of 2011. Mr. Antunez de Mayolo will continue in his role as General Manager of the Peruvian Branch while assuming the role of VP Operations, the team leader on the ground in Peru.

On 19 January 2011, the Company announced an update to the silver recovery for its 100% owned Santa Ana deposit. Highlights of this update include:

- Recently completed column tests on a representative composite of the Santa Ana ore crushed to 80% passing 3/8-inch returned results that show the long-term recovery of silver is expected to be 75%. This is an improvement from 70% recovery for the 3/4-inch crushed ore.
- The rate of the recovery is significantly improved over the previous coarsely ground ore with the ultimate 75% recovery being reached in 180 days rather than the 365 day recovery cycle of the 3/4-inch crushed sample.
- Using the same metal price of \$14.50 per ounce for economic analysis the economic results for the Santa Ana Project improve to a pre-tax NPV of \$107 million at a 5% discount rate and 30% IRR. After tax NPV increases to \$80 million and 25% IRR.
- Cash costs per ounce of silver produced decreases from \$9.02 to \$8.72 per ounce for the life of mine.
- Applying \$28.19 per ounce (London closing silver price as of January 17) to the finer crushing scenario, the NPV at 5% is \$554 million and the IRR increases to 103%.
- The details of this modification to the crushing circuit are discussed in detail in the 21 October 2010 43-101 technical report, which can be viewed on SEDAR.
- The Company filed the project Environmental and Social Impact Assessment ("ESIA") to the Ministry of Energy and Mines on 23 December 2010; maintaining the timeline for approval during the third quarter of 2011.

On 6 December 2010, the Company announced that Frank Tweddle joined the Board of Directors of the Company. Mr. Tweddle is a Peruvian citizen and is currently the Deputy CEO of Mitsui del Peru S.A. in charge of trading and new business development in the areas of natural resources, energy and infrastructure in Peru.

On 6 December 2010, the Company announced the results from its fifteen hole Phase I drill program on its Tassa Silver-Gold Project in Peru. Highlights of this news release are:

- Drill hole T-4 returns 60 meters averaging 224.2 g/t Ag from 24 to 84 meters depth
- Drill hole T-2 returns 40 meters averaging 110.70 g/t Ag from 2 to 42 meters depth
- Drill hole T-6 returns 10 meters averaging 202 g/t Ag from 168 to 178 meters depth
- Drill hole T-11 returns 12 meters averaging 146.5 g/t Ag from 16 to 28 meters depth

- The wide space initial drilling only partially tests the large, mineralized diatreme breccia complex which measures 1.5 km by 800 meters
- Every drill hole to date has encountered elevated silver with occasional gold values up to 1.24 g/t over two-meters and various intervals with >0.1 g/t Au
- Numerous untested geochemical targets remain within the diatreme complex and sedimentary host rocks adjacent to the complex which are now being targeted by geologic mapping

On 5 November 2010, the Company announced that it closed a public offering of 17,650,000 common shares at a price of C\$6.40. In addition, the Underwriters exercised their over-allotment option for an additional 2,647,500 common shares at a price of \$6.40 per share. The total gross proceeds of the offering including the over-allotment option were C\$129,904,000. The Company intends to use the net proceeds from the Offering to fund the exploration and development of the Company's Corani and Santa Ana silver projects in Peru and for general working capital purposes.

On 1 November 2010, the Company announced that its shares have been listed for trading on the Bolsa de Valores de Lima. Trading will be conducted under the ticker symbol BCM.

On 7 October 2010, the Company announced the results of a positive feasibility study ("FS"), as defined by National Instrument 43-101 ("NI 43-101"), for its 100% owned Santa Ana silver deposit located in southern Peru. Highlights of this study include:

- The planned development of Santa Ana by 2012 is an important step towards Bear Creek becoming a 20 million ounce a year silver producer with the addition of production from the planned Corani deposit in 2014.
- Proven and Probable Mineral Reserves containing 63.2 million ounces of silver at Santa Ana bringing the Company's total reserves to over 321 million ounces.
- Santa Ana Project pre-tax NPV of \$85.3 million at a 5% discount rate and IRR of 25.3% at \$14.50 per ounce silver. After tax net present value of \$66.5 million and IRR 21.8%.
- 11 year mine life producing 44.2 million ounces of silver.
- Average annual saleable silver production of 4.6 million ounces per year for the first 6 years.
- Cash cost of \$9.02 per ounce silver for the 11 years LOM.
- Capital costs of \$68.8 million with Capital Payback in 3.4 years at \$14.50/ oz Ag.
- At \$22.92 per ounce silver (London Silver spot price fix from October 6, 2010) the project would have a pre-tax IRR of 70.2% and an NPV at 5% of \$341 million. On an after tax basis the IRR would be 52.6% and NPV \$232 million.
- At a silver price of \$22.92 per ounce, free cash flow estimated at \$46 million per year for the first 6 years with a 1.4 year pay back.
- Numerous upside opportunities being explored including increase of silver recovery, reductions in cash costs, and an extended mine life plan to include an additional 35.7 million ounces silver.
- The Santa Ana deposit remains open, mainly at depth and to the north where the northernmost holes contain up to 22 meters @ 124 g/t Ag from surface.

The Santa Ana Feasibility Study established the following reserves and resources for the Project:

**RESERVE and RESOURCE ESTIMATE**  
**Bear Creek Mining, Santa Ana Project Silver Zone**  
**Mineral Reserves and Resources**

7 October 2010

| <b>Mineral Reserves<br/>(Cut-off Grade variable 27 to 24 g/t silver by year)</b>     |           |                         |                     |                     |   |
|--|-----------|-------------------------|---------------------|---------------------|---|
| <b>Category</b>  | <b>Kt</b> | <b>Silver<br/>(g/t)</b> | <b>Lead<br/>(%)</b> | <b>Zinc<br/>(%)</b> | <b>Contained<br/>Silver<br/>(million oz.)</b> |
| Proven   | 8,951     | 57.6                    | 0.37                | 0.66                | 16.6  |
| Probable   | 28,126    | 51.5                    | 0.33                | 0.55                | 46.6  |
| Proven+Probable  | 37,077    | 53.0                    | 0.34                | 0.58                | 63.2  |
| <b>Mineral Resources in Addition to Reserves<br/>(Cut-off Grade = 15 g/t Silver)</b> |           |                         |                     |                     |   |
| Measured   | 13,386    | 34.6                    | 0.30                | 0.51                | 14.9  |
| Indicated  | 51,337    | 35.1                    | 0.30                | 0.50                | 57.9  |
| Measured+Indicated   | 64,723    | 35.0                    | 0.30                | 0.50                | 72.8  |
| Inferred   | 21,632    | 40.6                    | 0.32                | 0.49                | 28.2  |

Note: no lead and zinc will be recovered.

See Santa Ana project description for further details in the Feasibility Study filed and available for viewing on SEDAR.

#### Current Activities on Mineral Projects

Current efforts are focused primarily on the advancement of the Corani and Santa Ana silver (lead-zinc) projects. At Santa Ana, the Company is focused on advancing the Environmental and Social Impact Assessment and obtaining the needed permits to build and operate the mine. At Corani, the Company is advancing the test work and engineering designs for a feasibility study. 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. Several 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 100% owned 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.

## Current Developments at Corani

Based upon the positive Prefeasibility Study (“PFS”) for the Corani silver-lead-zinc deposit located in southern Peru (see PFS summary below), the Company has initiated Feasibility-level work engaging M3 Engineering, Tucson, Arizona. The Company has selected an environmental consultant that commenced the detailed baseline environmental studies in August 2010, which is required to complete an Environmental and Social Impact Assessment (“ESIA”) Study. Detailed feasibility metallurgical test work is proceeding on the project with grinding characterization and further flotation optimization on samples that were recently drilled in the projected pits that will produce ore for the first 5 years of operation. Additionally, land occupation agreements have been completed for all land needed for operations. One-half of the title has been acquired with the remaining half of the land title acquisitions progressing well. In Peru, it should be noted, that when purchasing land in the rural mountains both the possessors/occupiers of the land and the titled owners must be compensated. At Corani (as well as Santa Ana) the titled land owners are the local communities and the occupants are generally a subset of local community. The acquisition of the remaining surface rights is scheduled for closure in the second quarter of 2011.

**PFS Summary** - On 14 September 2009, the Company announced the results of its PFS, as defined by NI-43-101, for the Corani silver-lead-zinc deposit. 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 will produce two highly-marketable concentrates
- Cash costs per ounce of silver are estimated to be \$1.06 per ounce 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. If 11 March 2011 spot metal prices (\$35.90 Silver, \$1.12 Lead and \$1.02 Zinc) were used in the economic model contained in the feasibility study, without adjusting any of the other inputs, the net present value of the project would calculate to \$1.97 billion at a 5% discount rate and an

internal rate of return of 83%. Readers are cautioned that this information is supplementary only and although the feasibility study does contain some sensitivity analysis, this information should not be considered in isolation or as a substitute for the net present values and internal rates of return contained in the feasibility study which are prepared in accordance with prescribed and standardized methods.

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 \$339 million 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 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 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.

| <b>Key Assumptions for the Corani Project – Base Case</b>        |               |
|--|---------------|
| 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 PFS recommends proceeding to a bankable feasibility study based upon:

- Positive economics with exposure to upside 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 11 September 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<br>Gm/t  | Lead<br>% | Zinc<br>% | Silver<br>Million<br>Ozs | Lead<br>Million<br>Lbs | Zinc<br>Million<br>Lbs | Eq. Silver<br>Million<br>Ozs | Eq. Silver<br>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<br>Gm/t  | Lead<br>% | Zinc<br>% | Silver<br>Million<br>Ozs | Lead<br>Million<br>Lbs | Zinc<br>Million<br>Lbs | Eq. Silver<br>Million<br>Ozs | Eq. Silver<br>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 12m<sup>3</sup> 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 general and administrative costs are 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 Inter-oceanic Highway; a two-lane, paved highway connecting to the port of Maturani. 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 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 2010, the Company incurred expenditures of \$2.3 million on the Corani project. Included in this total are engineering and consulting costs of \$0.8 million, travel costs of \$0.4 million, salaries and consulting \$0.3 million, supplies and general costs of \$0.3 million, drilling costs of \$0.2 million, and community relation costs of \$0.2 million.

As at 31 December 2010, the Company had \$91.8 million of capitalized acquisition costs related to the Corani project (31 December 2009 \$88.0 million). During the current year, the Company incurred expenses related to surface rights acquisitions of \$1.4 million. As at 10 March 2011, the Company has acquired 50% of the land surface titles and 100% of the possession/occupation rights needed at Corani.

### **Santa Ana Project**

The following description of a Feasibility Study ("FS") for the Santa Ana silver property located in southern Peru is the summary contained within the FS entitled "Feasibility Study, Santa Ana Project, Puno, Peru, NI 43-101 Technical Report", dated October 21, 2010 and updated on January 19, 2011 to include the finer crushing of ore identified as an opportunity within the FS. The Report and update were both prepared by Scott Elfen, PE, Sean Currie, P.Eng., and Thomas Wohlford, CPG, of Ausenco Vector, John Marek, PE, of Independent Mining Consultants, Inc. ("IMC"), and Deepak Malhotra, Ph.D., of Resource Development, Inc., which Summary has been updated and conformed to be consistent with other disclosure within this MD&A.

The results of the Feasibility Study are as follows:

- The Santa Ana project can be in production within the second half of 2012;
- Proven and Probable Mineral Reserves containing 63.2 million ounces of silver are currently defined at Santa Ana;
- Santa Ana Project pre-tax NPV of \$106.9 million at a 5% discount rate and IRR of 29.9% at \$14.50 per ounce silver. After tax net present value of \$80.3 million and IRR 24.9%;
- 11 year mine life producing 47.4 million ounces of silver;
- Average annual saleable silver production of 5.0 million ounces per year for the first 6 years;
- Cash cost of \$8.72 per ounce silver for the 11 years LOM;
- Capital costs of \$70.8 million with Capital Payback in 3.0 years at \$14.50/oz Ag;
- At \$28.19 per ounce silver (London Silver spot price fix from 17 January 2011), the project would have a pre-tax IRR of 103.4% and an NPV at 5% of \$554 million. On an after tax basis the IRR would be 74.5% and NPV \$369 million;
- At silver prices of \$28.19 per ounce, after-tax cash flow estimated at \$68 million per year for the first 6 years with a 1.1 year pay back;
- Numerous upside opportunities are being explored including reductions in cash costs, and an extended mine life plan to include an additional 35.7 million ounces of silver; and
- The Santa Ana deposit remains open, mainly at depth and to the north where the northernmost holes contain up to 22 meters @ 124 g/t Ag from surface.

### **Property Description**

The Santa Ana Project is located about 120 km south-southeast of the city of Puno, in southern Peru. The elevation in the deposit area varies from 4150 to 4300 meters. The deposit contains silver, zinc and lead mineralization. Zinc and lead mineralization is not currently considered to be economic because it is not recovered in the heap leach processing method utilized in this FS. This report focuses on the evaluation of the economic recovery of silver.

The deposit outcrops and is roughly 1.5 km long in the north-south orientation and approximately 0.75 wide in the east-west orientation. The deposit is best described as a high-level, low-temperature epithermal polymetallic silver deposit hosted within volcanic units. Bear Creek controls 5,400 hectares of mineral concessions that encompass the Santa Project through claims held 100% by Bear Creek.

### **Geology**

The Santa Ana property occupies a broad volcanic upland that lies between extensive exposures of thin-bedded grey lithic sandstones and red beds that underlie the volcanics to the north and south. The central and western portion of the upland is occupied by a sequence of fine-grained andesite flows that strike generally north and dip to the west at angles ranging from 15° to 45°. To the west, these flows are capped by coarse-grained dacitic porphyry that is, in turn, overlain unconformably by a thick sequence of dacitic volcanoclastic rocks. The andesite flows are the mineral hosts. The sandstones exposed to the north and south likely underlie the host volcanic field. Total thickness of the volcanic package is not well known.

## Resources and Reserves

The mineral resource is based on a block model developed by IMC and a floating cone pit geometry that was used to assure that the resource has reasonable expectation of economic extraction. The FS and the reserve and resources are based on an updated resource estimation described in a press release dated 7 October 2010. The mine sequencing performed as part of this FS by IMC is based upon 60,458 meters of drilling and assays in 349 diamond drill holes and trenches completed through June 2010. Measured and Indicated Resources contained within the Feasibility Study design pit were used to determine final pit limits and thus converted respectively into Proven and Probable Reserves. In addition to reserves, 72.8 million ounces of silver remain in measured and indicated resources occurring outside of the Feasibility Study pit. Table 1.1 presents the reserves and resources of the Santa Ana project.

**Table 1.1**  
**Reserve and Resource Estimate**

| <b>Mineral Reserves</b><br>(Cut-off Grade variable 27 to 24 g/t silver by year)     |           |                     |                 |                 |                                       |
|---|-----------|---------------------|-----------------|-----------------|---------------------------------------|
| <b>Category</b>   | <b>kt</b> | <b>Silver (g/t)</b> | <b>Lead (%)</b> | <b>Zinc (%)</b> | <b>Contained Silver (million oz.)</b> |
| Proven  | 8,951     | 57.6                | 0.37            | 0.66            | 16.6                                  |
| Probable  | 28,126    | 51.5                | 0.33            | 0.55            | 46.6                                  |
| Proven+Probable   | 37,077    | 53.0                | 0.34            | 0.58            | 63.2                                  |
| <b>Mineral Resources in Addition to Reserves</b><br>(Cut-off Grade = 15 g/t Silver) |           |                     |                 |                 |                                       |
| Measured  | 13,386    | 34.6                | 0.30            | 0.51            | 14.9                                  |
| Indicated   | 51,337    | 35.1                | 0.30            | 0.50            | 57.9                                  |
| Measured+Indicated  | 64,723    | 35.0                | 0.30            | 0.50            | 72.8                                  |
| Inferred  | 21,632    | 40.6                | 0.32            | 0.49            | 28.2                                  |

Note: no lead and zinc will be recovered.

## Mining Plan

The Santa Ana deposit lends itself to development by conventional open pit hard rock mining techniques. Consequently, a floating cone computer algorithm was applied to the block model to establish the mineral resource component of the block model. Economic value was applied to silver only with a metal sales price of \$13.00/troy oz. resulting in a variable cut-off grade of between 24 and 27 g/t silver. No economic consideration has been applied to lead or zinc; however, a slight benefit is realized through by-product gold recovery.

The mining plan was developed by IMC. The mine plan was developed using conventional open pit methods using 63t trucks and 8.6 m<sup>3</sup> wheel loaders mining on 5 m high benches. The mine requires minimal pre-production waste stripping of 2.97 million tonnes. During the life of the project the overall stripping ratio will 1.96:1 (Waste:Ore). For the first nine and a half years of the operation, ore will be directly shipped from the pit to the crusher where the trucks will dump the ore directly into the crushing system. After crushing the ore will be loaded using an automated conveyor loading system and then be hauled to the heap leach where the ore will be placed in cells and leached using weak cyanide solution. In addition to the direct dump ore, the mining plan calls for a low-grade stockpile to be built up in the first 5 years of the mining. The low-grade stockpile

will contain 2,964 kt of ore having an average grade of 29.9 g/t. The low-grade stockpile will be fed through the crusher once the main mining activity has ceased. Waste will be hauled to a single waste storage facility located approximately 1 km southwest of the pit.

The plan for the operation of the mine is to use a contract miner. IMC developed mining costs of \$1.68 per tonne of material mined (ore and waste) and \$0.71 per tonne for the re-handling of the crushed ore onto the heap leach. Separate budgetary quotes were received from local mining contractors and closely matched the detailed estimate prepared by IMC.

Table 1.2 indicates key assumptions used in the development of the FS.

**Table 1.2  
Key Project Assumptions**

| Item Description                                   | Value            |
|--|------------------|
| Annual Ore Production (Year 1 to end of mine life) | 3,600,000 tonnes |
| Overall Process Recovery – Silver                  | 70 percent       |
| Total Processed Material                           | 37,077,000 t     |
| Average Silver Grade                               | 53.0 g/t         |
| Recovered Silver                                   | 47.4 million oz. |
| Overall stripping ratio                            | 1.96:1           |
| Life of mine (mining only)                         | 9.5 years        |
| Life of mine (processing)                          | 11.2 years       |

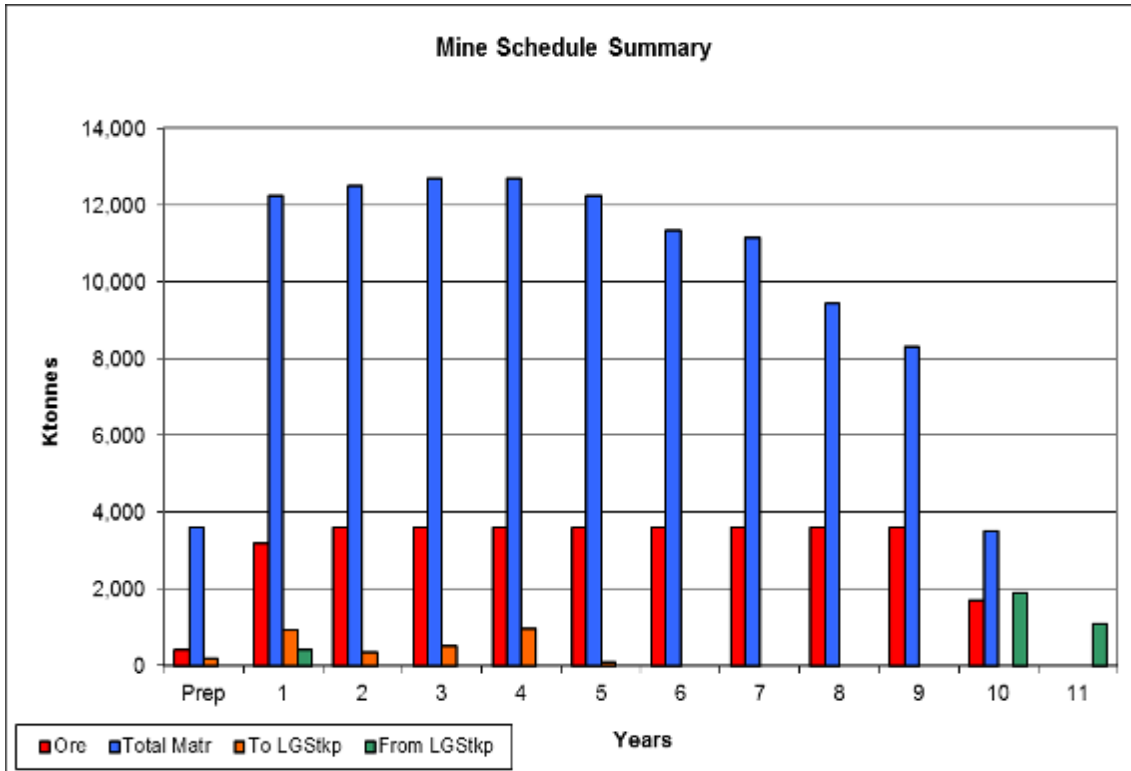
Table 1.3 presents annual tonnes and grade of the ore fed to the crusher and placed on the heap leach.

**Table 1.3  
Annual Crusher Feed (tonnes and grade)**

| Time    | kt     | Silver Grade (g/t) |
|---------|--------|--------------------|
| Year 1  | 3,600  | 58.4               |
| Year 2  | 3,600  | 60.5               |
| Year 3  | 3,600  | 59.1               |
| Year 4  | 3,600  | 57.6               |
| Year 5  | 3,600  | 59.0               |
| Year 6  | 3,600  | 55.6               |
| Year 7  | 3,600  | 53.1               |
| Year 8  | 3,600  | 49.7               |
| Year 9  | 3,600  | 47.0               |
| Year 10 | 3,600  | 37.0               |
| Year 11 | 1,077  | 29.9               |
| Total   | 37,077 | 53.0               |

Figure 1.1 illustrates the variation in the tonnes of the different material moved by year.

**Figure 1.1  
Mine Schedule Summary**



**Metallurgy**

Seven column leach test have been completed at McClelland Labs and over one-hundred leach amenability tests. The results have consistently demonstrated that the Santa Ana ore responds well to conventional heap leaching techniques. The overall recovery is expected to be 75% silver for minus 3/8-inch crushed material. At the end of 2011, McClelland Laboratories completed a column test on minus 3/8-inch crushed material the results indicated an improvement in recovery and acceleration of the silver leaching over the previous base case of 3/4-inch crushing of the ore.

**Processing**

Santa Ana is an epithermal polymetallic deposit hosted within volcanic rocks with significant quantities of primary silver. Considering its proximity to the surface, the ore will be mined in an open pit operation.

The main operations are blasting, ore transportation to the crushing plant which will comprise three crushing stages and two classification stages, heap leaching and recovery by Merrill-Crowe extraction. The crushed ore, 80 percent passing 9.5mm (3/8-inch) will be conveyed to the coarse ore stockpile with a live capacity of approximately 6 hrs. The reclaim system will consist of one fixed conveyor stockpile to withdraw material from the stockpile and deliver onto trucks. Trucks will be used to transport the ore from the crushed ore stockpile to the heap leach pad. The heap leach will be irrigated with a sodium cyanide solution to dissolve silver minerals and the pregnant solution will be sent

to the Merrill-Crowe plant to produce a silver-zinc precipitate, which will be smelted to produce a Dore bar containing mainly silver.

The operation will treat 10,000 tpd and the estimated life of mine is 11.3 years. The design considers a heap leaching process and the average silver content is 53 g/t. The metallurgical recovery of silver by the leaching process is 75% with a 180 day leach recovery cycle. The leach cycle is divided into a 120 day primary leach and a 60 day secondary leach occurring in the lower levels of the heap.

The estimated monthly production is 328,000 ounces of silver.

The Merrill-Crowe plant was designed to treat 571 m<sup>3</sup>/hr of pregnant solution in order to assure the production mentioned above. The design includes an effluent detoxification plant to treat 120 m<sup>3</sup>/hr of solution with low cyanide content. This detoxification plant will only operate under special circumstances such as excess of barren solution produced during the rainy season.

The estimated installed power is 3,547 kW, the maximum draw power is 1,683 kW and the estimated critical consumption is 1,445 kW. The estimated power consumption is 1,132,027 kW-hr per month. Emergency backup will be provided by diesel generators of 1,500 kW of continuous service at 4,000 meters above sea level. This equipment will assure the operation of equipment critical to the metallurgical process.

The requirement of water for the operation is approximately 3.86 litres per second during the first year of operation. If the leaching operation starts in the dry season (May to September), the requirement of water will be higher. The opposite will occur during the wet season (November to April). At the start of operations, the storm water pond should contain no less than 42,000 m<sup>3</sup> of water. When the rainy season starts, it will be important to collect the rain water through the leach pad.

The estimated direct cost of the investment for processing is US\$ 12,359,000 million and the indirect cost is US\$ 2,740,000 million. The total cost of the investment (Capex) is US\$ 15,009,000 million. The details of the capital cost estimate are presented in Section 23.9. The estimated operating cost of the process is 2.644 dollars per tonne of ore processed or 1.186 dollars per ounce of silver.

### **Infrastructure**

The project has favourable infrastructure. Access will be via a good 8 km gravel road that will be a combination of a new and improved roads requiring mostly upgrading. The new road will connect to the existing paved highway connecting the Bolivian border to the port of Ilo, Peru. The mine is 42 km from an electrical substation at Pomata and the project includes building a transmission line to the mine. The project has an excellent site for the heap leach pad resulting in a low capital and operating cost as the plant will be located immediately adjacent to the heap leach pad and ponds. The site is close to a very large alluvial aquifer that is replenished by a flowing river in the valley; wells have been drilled in the aquifer and sufficient water is available to provide water for the mine's needs. Steps are being taken to acquire the necessary permits for water use. A 12 km pipeline from the wells to the mine will be built to transport the water.

## Environmental, Permitting and Closure

The project has been designed to meet industry standards of environmental compliance. The heap leach and solution ponds have been designed industry 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 the both the heap leach and waste rock facilities that will result in safe and environmentally compliant closure of the mine. The lab tests on spent ore and waste rock have shown that the site has a very low potential to produce acid rock drainage (ARD).

The Company is currently advancing the permitting process and expects to submit the Environmental and Social Impact Assessment (ESIA) to the Peruvian authorities before the end of 2010. All additional necessary permitting will be processed once the ESIA has been approved by the national government.

The Company has maintained good working relationships with the local communities.

## Project Execution

The project is expected to be developed into a mine over the next 21 months. The figure below illustrates the major parts of the development plan. First the company expects to present the ESIA to the Peruvian authorities prior to the end of 2010. There will then be a period of review by the government that is expected to last 6 to 9 months. In late 2010 and early 2011, the detailed project engineering is expected to commence and is estimated to be completed in approximately 9 months. Following ESIA approval the Company is expected to advance the permitting process by obtaining the necessary construction and operating permits. In late 2011, once the proper permits are obtained, the principal off-site project infrastructure is expected to be developed. This will include the power line, the upgrading of the access road, the construction of the water supply pipeline and drilling of any additional production water wells. Any temporary construction housing will be installed in preparation for the on-site construction. Finally, the onsite construction is expected to start in the 2<sup>nd</sup> quarter of 2012, or earlier depending on the end of the rainy season and continue through the dry season. Commercial production is expected to start in early part of the fourth quarter of 2012, or earlier if the rainy season permits liner installation sooner.

| Item / Period                        | Q4<br>2010 | Q1<br>2011 | Q2<br>2011 | Q3<br>2011 | Q4<br>2011 | Q1<br>2012 | Q2<br>2012 | Q3<br>2012 | Q4<br>2012 |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| ESIA Review                          |            |            |            |            |            |            |            |            |            |
| Detailed Engineering                 |            |            |            |            |            |            |            |            |            |
| Permitting                           |            |            |            |            |            |            |            |            |            |
| Off-site Infrastructure Construction |            |            |            |            |            |            |            |            |            |
| Site Development                     |            |            |            |            |            |            |            |            |            |
| Production                           |            |            |            |            |            |            |            |            |            |

## Operating Cost Estimate

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 \$1.68 per tonne of the total material moved. The cost for hauling and placing ore on the pad is estimated at \$0.71 per tonne. The process costs are estimated to be \$3.49 per

tonne of processed ore (\$0.30 has been added from the original cost estimate to allow for the additional costs for moving from two stage crushing to three stage crushing) and the G&A is estimated to be \$1.17 per processed tonne or \$4.2 million per year. The average life-of-mine, on site operating cost per ounce of silver is estimated at \$8.03. Including refining charges, doré transport and Peruvian production royalties, the average cash cost per ounce is estimated at \$8.72.

### Capital Cost Estimate

The project capital cost estimate has been prepared by two independent engineering companies. The mining costs were prepared by Independent Mining Consultants of Tucson, Arizona, and the process heap leach and infrastructure costs have been prepared by Ausenco Vector of Peru. The initial startup capital is estimated to be \$70.8 million and the total life of mine capital cost is estimated to be \$85.8 million. The initial capital equates to \$1.49 per ounce of silver recovered. The life of mine capital costs used in the financial model includes detailed long-term plans for heap leach expansions as well as ongoing mine closure and monitoring. Sustaining capital expenditures are estimated at an average \$1.4 million per year over the 11-year life of the mine.

Tabulated below are the Capital costs for each of the principal areas.

### Capital Cost Summary

| Item                                       | Cost         |
|--|--------------|
| Civil Works                                | \$13,598,000 |
| Water Supply                               | \$3,215,000  |
| Process Plant                              | \$15,099,000 |
| Auxiliary Facilities                       | \$5,859,000  |
| Water Distribution                         | \$2,403,000  |
| Electrical (LT & Distribution)             | \$9,709,000  |
| Crusher System *                           | \$6,763,000  |
| Preproduction Mine Development & Equipment | \$9,909,000  |
| Owners Costs                               | \$4,226,000  |
| Total Initial Capital                      | \$70,781,000 |

\*Note: \$2 million has been added to the crushing capital to cover the costs of an additional crushing stage over the original base case

The estimates of the Capital Costs have been prepared to a feasibility level with a 15% contingency applied to the estimates. An additional 15% has been added for Engineering Procurement and Construction Management (EPCM).

### Economic Analysis

The project has a pre-tax internal rate of return (IRR) of 29.9%, a net present value of \$106.9 million at a 5% discount rate and earnings before interest, taxes, depreciation and amortization (EBITDA) of \$173 million over the 11-year life based upon \$14.50 per ounce silver. Recovered silver production in the first six years averages 5.0 million ounces per year and the project is expected to produce an average of 4.3 million payable ounces of silver per year over the 11-year mine-life. Based upon a \$14.50 silver price, the project achieves payback of capital in approximately 3.0 years. The Feasibility Study has been prepared using cost bids and estimates and production forecasts provided by qualified engineering consulting groups who have recent bids and cost structure experience relating to various Peruvian mining projects under development.

The project is sensitive to metal price and recovery. Additionally, given that the cash costs per ounce are \$8.72 per ounce of silver, the project is also sensitive to variations in operating costs. The project is least sensitive to capital cost variations as demonstrated by the relatively low cost of \$1.49 per produced ounce for the initial capital.

Sensitivities to various parameters are summarized below:

### Cost Sensitivities

| Case                                       | IRR  | NPV @ 5% | NPV @ 0% |
|--|------|----------|----------|
| Base Case                                  | 30%  | \$106.9M | \$173.3M |
| Recovery +10%                              | 39%  | \$152.1M | \$237.5M |
| Recovery -10%                              | 21%  | \$61.71M | \$109.1M |
| Metal Price +10%                           | 39%  | \$154.3M | \$240.6M |
| Metal Price -10%                           | 20%  | \$59.5M  | \$105.9M |
| Initial Capital Cost +10%                  | 27%  | \$79.0M  | \$136.7M |
| Initial Capital Cost -10%                  | 35%  | \$113.4M | \$180.4M |
| Operating Cost +10%                        | 24%  | \$79.9M  | \$135.3M |
| Operating Cost -10%                        | 35%  | \$133.9M | \$211.4M |
| Metal Prices Jan. 17, 2011 - \$28.19/oz Ag | 103% | \$553.6M | \$807.8M |

Note:

Base case price is \$14.50/oz Silver; London Silver spot price fix from 17 January 2011 = \$28.19/oz Ag .All values are pre-tax.

### Opportunities

The study has identified areas of opportunities that are currently being analysed in detailed engineering, column leach test work and future exploration:

#### Organic Growth

The Feasibility Study leaves 36 million ounces of measured and indicated silver resources in either stockpiles or pit walls that can lead to expanded mine life on the order of 50%. Relatively minor additional capital will be required in order to increase the size of the heap leach pad and waste dump sites for which there is ample area for expansions.

#### Exploration Upside

The deposit is still open at depth, to the north and northwest, and the “North” anomaly is under-explored.

#### Operating Cost Reductions

The project is sensitive to operating costs. The Company and its consultants believe that, once the project is in operation, many of the reagent consumption levels used in the Feasibility Study will be reduced with a beneficial effect on the operating costs.

### Conclusions & Recommendations

This Report recommends proceeding with detailed engineering and permitting based on:

- Positive economics with excellent exposure to up-side silver prices;
- Well-defined resources open to expansion and potential conversion to reserves;

- Favourable infrastructure; heap leach, power and access;
- Available local water supply;
- Well-defined permitting path; and
- Local community acceptance.

The study has identified areas of opportunities that will be analysed in ongoing engineering studies and test work:

- Investigate reducing the process plant footprint to reduce capital costs; and
- As the sensitivity analysis shows, the project is sensitive to operating costs. BCM and its consultants will explore opportunities for reducing operating costs mainly through reducing reagent consumption both in ongoing leaching tests and after operations start-up.

(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: capital cost estimates 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 FS 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 FS will ever be realized. Should one or more of the risks or uncertainties involved in forward-looking statements relating to the FS materialize, or should the assumptions underlying the FS prove incorrect, actual results of the FS may vary materially from those anticipated, believed, estimate or expected.)

During the year ended 31 December 2010, the Company incurred expenditures of \$6.4 million on the Santa Ana project. Included in this total are engineering and consulting expenditures of \$2.7 million, drilling costs of \$1.4 million, travel costs of \$0.7 million, salaries and consulting of \$0.6 million, supplies and general of \$0.5 million, community relation costs of \$0.3 million, maintenance costs of \$0.1 million, and assays and sampling costs of \$0.1 million.

As at 31 December 2010, the Company had \$0.8 million of capitalized acquisition costs related to the Santa Ana project (31 December 2009 \$0.1 million). During the current year, the Company incurred expenses related to surface rights acquisitions of \$0.6 million. As of 11 March 2011, the Company has completed 8% of the total surface occupation/possession rights agreements and none of the surface land title agreements required at the Santa Ana project.

### **Campanario Gold (Silver) Prospect**

In January 2010, the Company announced the option to acquire a 100% interest in the 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 results from a four-hole reconnaissance drilling program in the fourth quarter of 2010 did not meet management's expectations and the option to acquire the project was dropped in early 2011.

## **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. Tassa is located approximately 160 kilometers northwest and 230 kilometers south of the Company's Santa Ana and Corani silver deposits respectively. Initial field work included eighty-seven rock chip and trench samples averaging 61 g/t silver which is similar to the resource grade at Santa Ana. Significantly, however, while the average gold value in all sampling is <0.005 g/t, Tassa locally exhibits gold values up to 0.49 g/t with a tendency for higher gold zoning with depth indicating that unlike Santa Ana, Tassa has potential for a gold credit under heap leach conditions. Bottle roll tests performed at ALS Chemex labs 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.

Beginning in 2009, focus shifted from exploring Tassa for a near surface, silver heap leach deposit towards defining more gold-rich portions of the mineralized system as well as near-surface, bulk-tonnage, disseminated silver mineralization. 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. Mineralization at Chucupaca reportedly remains open and current resources are 83.7 MT averaging 1.9 g/t Au and 8.2 g/t Ag. Similarly to Chucapaca, mineralization at Tassa is contained within multiple phases of phreatic, hydrothermal, tectonic and phreatomagmatic breccias, strongly fractured rhyolitic volcanics, and brecciated sediments. The target at Tassa was increased in size to 1.5 km by 800 meters defined by a silver anomaly where 852 rock chip samples (including trenches) average 30.71 g/t silver and up to plus 1 g/t gold in more scattered anomalies. An Induced Polarization survey completed in 2010 defined several high chargeability anomalies, which are related to increased fine black sulfides containing elevated levels of silver and gold.

From June through November 2010, fifteen (15) diamond drill holes totaling 3677.4 meters were completed in a Phase I drill program. Significant drill results include:

- Drill hole T-4 containing 60 meters averaging 224.2 g/t Ag from 24 to 84 meters depth
- Drill hole T-2 containing 40 meters averaging 110.70 g/t Ag from 2 to 42 meters depth
- Drill hole T-6 containing 10 meters averaging 202 g/t Ag from 168 to 178 meters depth
- Drill hole T-11 containing 12 meters averaging 146.5 g/t Ag from 16 to 28 meters depth
- The wide space initial drilling only partially tests the large, mineralized diatreme breccia complex which measures 1.5 km by 800 meters
- Every drill hole to date has encountered elevated silver with occasional gold values up to 1.24 g/t over two-meters and various intervals with >0.1 g/t Au
- Numerous untested geochemical targets remain within the diatreme complex and sedimentary host rocks adjacent to the complex which are now being targeted by geologic mapping

Additional geologic mapping is in progress and further geophysical work is planned prior to Phase II drilling which will test deeper in the system (up to 400 meters depth) where favorable sedimentary formations which host the nearby Chucapaca mineralization are

believed to exist in contact with the diatremes. Drilling will also focus on new targets adjacent to the breccias complexes located over the northernmost three kms of the concessions. Phase II drilling, consisting of an estimated 4,000 meters of drilling in 15 drill holes is scheduled to commence in June 2011.

### **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.

### **IGV**

IGV (Impuesto General a las Ventas - Peruvian value added tax) expense of \$1.7 million represents the amount of IGV that has been paid to the Peruvian government during the year ended 31 December 2010. This amount is recoverable when there are future revenues generated by the Company in Peru.

Bear Creek is an exploration stage company and there can be no reasonable assurance that future revenue will be generated. As a result of this, the IGV receivable has been expensed. The IGV expense is denominated in Peruvian soles and as at 31 December 2010, the total value of the IGV paid to date by Bear Creek was \$7.5 million (21.1 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***

***For the Year Ended 31 December 2010 as compared to the Year Ended 31 December 2009***

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

In the current year, the Company recorded a net loss of \$17.3 million compared to a net loss of \$8.7 million for 2009, an increase in net loss of \$8.6 million. In the current year, the Company incurred a loss per share of \$0.24 compared to \$0.15 for 2009. The increase in net loss and operating expenses are primarily due to a significant increase in exploration and development activity at the Company's advanced stage projects, including the advancement of the FS for the Santa Ana project, an increase in wages and management salaries and an increase in professional fees. As a result of the increase in activity, the Company's exploration costs increased from \$6.1 million to \$14.1 million, an increase of \$8.0 million.

Total operating expenses for the current year were \$17.2 million compared to operating expenses of \$8.7 million for 2009. In addition, the Company had a foreign exchange loss of \$0.8 million. Of the foreign exchange loss, \$1.1 million relates to the translation of the future income tax liability. The future income tax liability is denominated in Peruvian Soles and had a value as at 31 December 2010 of 61.1 million Soles and is valued into USD at the period end using current exchange rates. The increase in value of the Peruvian Soles compared to the USD during the year ended was 3.2%. However, the increase was offset by a \$0.4 million gain on foreign exchange relating to the Company's Canadian dollar cash balances and the strengthening of the Canadian dollar in relation to the US dollar during the period. The Company had \$21.4 million of funds denominated in Canadian funds at 31 December 2010.

***For the Three Months Ended 31 December 2010 as compared to the Three Months Ended 31 December 2009***

**Net Loss and Operating Expenses**

In the current period, the Company experienced a net loss of \$4.7 million compared to a net loss of \$1.3 million for 2009, an increase in net loss of \$3.4 million. In the current period, the Company had a loss per share of \$0.06 compared to \$0.02 for 2009. The increase in net loss and operating expenses are primarily due to an increase in exploration and development activity at the Company's advanced stage projects and an increase in professional fees. As a result of the increase in activity, the Company's exploration costs increased from \$1.3 million to \$3.6 million, an increase of \$2.3 million.

Total operating expenses for the current period were \$4.7 million compared to operating expenses of \$2.4 million for 2009. In addition, the Company had a small foreign exchange loss of \$0.1 million. Of the foreign exchange loss, \$0.3 million related to the translation of the future income tax liability, which was offset by a \$0.2 million gain on foreign exchange relating to the Company's Canadian dollar cash balances and the strengthening of the Canadian dollar in relation to the US dollar.

***Summary of Quarterly Results***

The following table sets out selected unaudited quarterly financial information of Bear Creek and is derived from unaudited quarterly consolidated financial statements prepared by management. Bear Creek's interim consolidated financial statements are prepared in accordance with Canadian GAAP and expressed in US dollars.

| Period                       | Revenues | Loss for the period from Continuing Operations (In Millions) | Basic and Fully Diluted Loss per Share from Continuing Operations |
|------------------------------|----------|--|---|
| 4 <sup>th</sup> Quarter 2010 | Nil      | 4.7  | 0.06  |
| 3 <sup>rd</sup> Quarter 2010 | Nil      | 4.2  | 0.06  |
| 2 <sup>nd</sup> Quarter 2010 | Nil      | 5.1  | 0.07  |
| 1 <sup>st</sup> Quarter 2010 | Nil      | 3.3  | 0.05  |
| 4 <sup>th</sup> Quarter 2009 | Nil      | 1.4  | 0.02  |
| 3 <sup>rd</sup> Quarter 2009 | Nil      | 3.7  | 0.07  |
| 2 <sup>nd</sup> Quarter 2009 | Nil      | 1.9  | 0.03  |

|                              |     |       |        |
|------------------------------|-----|-------|--------|
| 1 <sup>st</sup> Quarter 2009 | Nil | (1.7) | (0.03) |
|------------------------------|-----|-------|--------|

The reduction of loss for the third quarter of 2010 resulted primarily from a reduction in drilling costs on the Santa Ana project.

The increase in loss for the second quarter of 2010 resulted primarily from an increase in exploration and development activities on the Company's Corani and Santa Ana Projects, specifically relating to the feasibility study costs on Corani and Santa Ana Projects and drilling costs on the Santa Ana project.

The increase in loss for the first quarter of 2010 resulted primarily from an increase in exploration activities on the Company's Corani and Santa Ana Projects, specifically relating to the feasibility study costs on Corani and Santa Ana Projects.

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 Ana 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.

### **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 2010, 2009 and 2008.

|                                    | 2010 |       | 2009 |       | 2008 |      |
|------------------------------------|------|-------|------|-------|------|------|
| Sales                              | \$   | -     | \$   | -     | \$   | -    |
| Loss for the Period – In Millions  | \$   | 17.3  | \$   | 8.7   | \$   | 18.1 |
| Loss per Share - Basic and Diluted | \$   | 0.24  | \$   | 0.15  | \$   | 0.36 |
| Total Assets – In Millions         | \$   | 236.9 | \$   | 131.6 | \$   | 98.8 |
| Total Liabilities – In Millions    | \$   | 48.4  | \$   | 54.4  | \$   | 56.4 |
| Dividends Declared                 | \$   | Nil   | \$   | Nil   | \$   | Nil  |

### **Review of 2010 Prospectus Financing Use of Proceeds**

In November 2010, the Company closed its previously announced public offering of 20,297,500 common shares at a price of C\$6.40. The total gross proceeds of the offering including the over-allotment option were C\$129.9 million (\$129.4 million). Net proceeds from the 2010 Prospectus financing before share issuance costs was C\$123.2 million (\$122.7 million).

As of 31 December 2010, the Company has used the net proceeds from this prospectus as follows:

| Use of Proceeds Items as stated in the November 2010 Prospectus  | Initial Estimated<br>Cost<br>\$ | Approximate Actual<br>Cost<br>\$ |
|--|---------------------------------|----------------------------------|
| <b>Santa Ana Property</b>  |                                 |                                  |
| Infrastructure   | \$34,800,000                    | \$Nil                            |
| Process facilities   | 19,900,000                      | Nil                              |
| Mining pre-strip and development   | 9,900,000                       | Nil                              |
| Owners costs   | <u>4,200,000</u>                | <u>Nil</u>                       |
| Subtotal:  | 68,800,000                      | Nil                              |
| <b>Corani Property</b>   |                                 |                                  |
| Property payment to Rio Tinto  | <u>15,000,000</u>               | <u>Nil</u>                       |
| Subtotal:  | 15,000,000                      | Nil                              |
| <b>General</b>   |                                 |                                  |
| Estimated costs of the Offering  | 350,000                         | 239,000                          |
| Generative exploration work and new project preliminary drilling costs   | 2,000,000                       | Nil                              |
| IGV (value added taxes) 19% (expected to be received in the future)  | 13,100,000                      | Nil                              |
| Working capital (Santa Ana) for start-up   | 6,600,000                       | Nil                              |
| General working capital and administrative expenses  | <u>1,150,000</u>                | <u>Nil</u>                       |
| Subtotal:  | <u>23,200,000</u>               | <u>239,000</u>                   |
| Total (not including Over-Allotment Option)  | 107,000,000                     | 239,000                          |
| Net proceeds from the 2010 Over Allotment Option to be allocated by Management   | 15,710,450                      | Nil                              |
| Net proceeds from the 2010 Prospectus financing (including the 2010 Over Allotment Option) still held in cash and short term investments | <u>N/A</u>                      | <u>122,471,450</u>               |
| Total (including Over-Allotment Option):   | <u>\$122,710,450</u>            | <u>\$122,710,450</u>             |

## Liquidity and Capital Resources

Of the \$143.8 million in cash and cash equivalents and short term investments as at 31 December 2010, approximately \$21.4 million (C\$21.4 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 2010, the Company had 91,961,139 issued shares. As at 31 December 2010, the Company's net working capital was \$131.8 million compared to a net working capital of \$33.0 million as at 31 December 2009. The cash balance at 31 December 2010 was \$143.8 million compared to \$36.4 million as at 31 December 2009. As at 31 December 2010 current liabilities were \$12.4 million compared to \$10.2 million as at 31 December 2009. Included in current liabilities are the amounts owing to Rio Tinto of \$11.1 million, which was paid on 7 February 2011.

On 5 November 2010, the Company completed its prospectus financing for gross proceeds of C\$129.9 million from the issuance of 20,297,500 common shares. The proceeds from this financing will be used to primarily to finance the capital costs of the Santa Ana project as well as retire the RT debt obligations and to fund future working capital related to the Santa Ana project as well as ongoing generative exploration costs.

As at 11 March 2011, the Company had 92,036,139 outstanding common shares. The Company has 2,381,000 share purchase options outstanding, and the weighted average exercise price of the share purchase options is C\$4.44.

Expenditures under consideration for 2011 fiscal year include the continuation of the environmental studies and completion of the mining permits for Santa Ana and the continuation of the feasibility study on Corani; the total costs estimated to be spent on Santa Ana and Corani during calendar year 2011 is \$9.9 million. The Company will also continue exploration programs on other projects, which includes drilling and evaluation of the Tassa project and spending will vary dependent on success of the exploration programs.

The Company's business is acquiring, exploring, developing and mining 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 Company believes with the recently completed financing gross proceeds of \$129.4 million, the Company has the necessary funds to complete the development of its Santa Ana mine and to provide enough resources in order for the Company to meet its obligations through the end of 2012. The Company anticipates that commencing in 2013, the Company will generate positive cash flow from its Santa Ana project, which will be sufficient to fund its operations. However, the Company may decide to advance the Corani project towards development upon completion of the Feasibility Study in the second half of 2011 in which case the Company will have to obtain financing either by way of share issuance, debt financing and/or by other financing alternatives to complete its capital requirements on the Corani project.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations in the future. The Company, to date, has had no source of revenue, and has significant cash requirements to meet its to fund its capital projects, continue with its exploration programs, administrative overhead, maintain its mineral interests and make its loan payments to Rio Tinto.

### **Financing Activities**

During the year ended 31 December 2010, the Company received cash proceeds of \$4.7 million from the exercise of 1,628,500 options.

Financing activities provided \$127.4 million, of which \$122.7 million represents net proceeds from a public offering of 20,297,500 common shares.

### **Investing Activities**

During the period ended 31 December 2010, the Company purchased equipment for \$0.1 million.

### **Transactions with Related Parties**

In connection with the approval of related party transactions, the Company has a policy that requires that the terms of all such transactions must be comparable to terms available in arms-length transactions. Each of the transactions described below met those requirements and occurred during the year ended 31 December 2010.

The Company received legal services, totaling \$200,200, from a law firm in which an Officer of Bear Creek, Corey Dean, is a partner. Legal fees related primarily to ongoing administrative items.

The Company received accounting and tax services from an accounting firm in which a former Officer of the Company, Steven Krause, is a partner. The total accounting fees paid were \$128,825.

The Company received consulting services from a Director of the Company, Catherine McLeod-Seltzer, during the period. The fees were incurred in relation to management consulting services. Total fees paid were \$99,000.

The Company received legal services, totaling \$169,086, 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 and the appropriate mining permits are obtained. Option payments are considered acquisition costs once the Company has the intention of exercising the option agreement.

Capitalized costs for a producing prospect will be 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 values 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. Management has determined that no impairment is required on its capitalized mineral property as its projected future undiscounted cash flow of its Corani project and Santa Ana project are greater than its carrying value.

This analysis was performed using both current metal prices of silver, lead and zinc as well as using three years back prices and two years forward prices of silver, lead and zinc. 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) Adoption of International Financial Reporting Standards***

**IFRS 1, "First-Time Adoption of International Financial Reporting Standards"**

This standard sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company will be applying the following exemptions to its opening statement of financial position dated 1 January 2010:

***(a) Share-based payment transactions***

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before 7 November 2002, or equity instruments that were granted subsequent to 7 November 2002 and vested before the later of the date of transition to IFRS and 1 January 2005. The Company will be electing not to apply IFRS 2 to awards that vested prior to 1 January 2010, which have been accounted for in accordance with Canadian GAAP.

***(b) Business Combinations***

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company will apply this election and IFRS 3 will be applied only to business combinations that occur on or after 1 January 2010.

***(c) Cumulative translation differences***

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates for cumulative translation differences that existed at the date of transition to IFRS. The Company will choose to apply this election and will eliminate any cumulative translation difference and adjust retained earnings by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

***(d) IAS 27 – Consolidated and Separate Financial Statements***

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be

applied retrospectively. As the Company will be electing to apply IFRS 3 prospectively, the Company will also be electing to apply IAS 27 prospectively.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company will be applying the following guideline to its opening statement of financial position dated 1 January 2010:

*(e) Estimates*

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of 1 January 2010 are consistent with its Canadian GAAP estimates for the same date.

Set out below are the most significant areas, management has identified to date, where changes in accounting policies will 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.

**Share Based Payments (IFRS 2)**

Canadian GAAP

- The fair value of share based payments with graded vesting are calculated as one grant and the resulting fair value is recognized on an accelerated or straight line basis over the vesting period.
- Forfeitures of awards are recognized as they occur.

IFRS

- Each tranche of a grant with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

All options granted by the Company which vest in the comparative year for IFRS are being revalued with each tranche being valued separately in compliance with IFRS. A forfeiture rate of 9% will be applied in the comparative year to make the Company fully compliant with IFRS 2.

**Exploration for and Evaluation of Mineral Resources (IFRS 6)**

Exploration and Evaluation ("E&E") assets are defined to be the expenses incurred subsequent to obtaining the right to explore the property.

Upon adoption of IFRS, management has decided to continue with its current accounting policy which is to capitalize the acquisition costs of the mineral properties and expense all exploration costs. This policy is in compliance with the International Accounting Standards Board ("IASB") Framework.

The International Accounting Standards Board is currently working on a project with respect to extractive industries and a discussion paper was published by April 2010.

**Asset Impairment**

Canadian GAAP 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.

Based on the Company's assessment of its resource property costs, there will be no impairment charge on transition to IFRS

### **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 management has determined that the Company will elect a cost model. Currently, the Company only has equipment capitalized as property, plant and equipment and it has been valued in compliance with IFRS. Therefore, there will be no impact on the Company's financial statements on the adoption of IFRS.

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 The Effects of Changes in Foreign Exchange Rates 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.

Management has determined that the functional currency of the parent company, Bear Creek Mining Corporation, is the USD and that the functional currency of all of its subsidiaries is also the USD. The functional currencies were determined by an analysis of the primary and secondary indicators identified in IAS 21.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on

translation of these foreign currency transactions are included in the consolidated income statements.

The presentation currency of the Company's financial statements will continue to be the United States dollar.

### **Income Taxes**

Under Canadian GAAP, future income tax assets and liabilities are referred to as "future income tax" ("FIT") assets and liabilities while under IFRS these are referred to as "deferred tax assets and liabilities."

Similar to FIT assets and liabilities, deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

For IFRS the following temporary differences do not result in deferred tax assets or liabilities:

- a) the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit;
- b) investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

As a result of (a) above, there will be no deferred tax liability on the financial statements on the adoption of IFRS as the acquisition of the Corani resource property did not arise from a business combination. The future income tax of \$20.7 million on the balance sheet at 31 December 2009 under Canadian GAAP will be \$Nil. There will be a corresponding decrease in the resource property costs of \$21.4 million which had been recorded under Canadian GAAP and an increase to the deficit of \$0.7 million representing a reversal of the future income tax recovery of \$0.2 million and \$0.5 million foreign exchange gain previously recorded under Canadian GAAP.

### **Provision for environmental rehabilitation (asset retirement obligation)**

Canadian GAAP

- The liability is recognized when there is a legal obligation.
- A credit adjusted risk-free interest rate is used to calculate the undiscounted amount.
- The provision for environmental rehabilitation is not adjusted for changes in the discount rate.

IFRS

- The liability is recognized when there is both a legal and constructive obligation.
- The determination of the discount rate to use is not prescribed.

- The provision for environmental rehabilitation must be adjusted for changes in the discount rate.

Based on the Company's assessment of its asset retirement obligation, there will be no impact on the Company's financial statements upon adoption of IFRS.

### **Conclusion**

Currently, the Company is completing the transitional adjustments for the opening balance sheet, and the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> quarters of 2010.

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, and short term investments, are carried at fair value using a level 2 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 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

|  | 31 December 2010 |                |
|--|------------------|----------------|
|  | Canadian Dollars | Peruvian Soles |
| Cash and cash equivalents and short term investments | 21,357,958       | 555,656        |
| Advances   | 1,154            | 942,607        |
| Accounts payable and accrued liabilities             | (138,622)        | (659,167)      |

Based on the above net exposures as at 31 December 2010, 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 \$2.1 million in the Company's net earnings. A 10% depreciation or appreciation of the US dollar against the Peruvian Soles would not have a significant impact on 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 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 HST receivable from the government of Canada and other receivables and prepaid expenses.

### **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. 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 2010:

|                              | (000s)        |               |          |          |                    |               |
|------------------------------|---------------|---------------|----------|----------|--------------------|---------------|
|                              | 2011          | 2012          | 2013     | 2014     | 2015 and<br>beyond | Total         |
|                              | \$            | \$            | \$       | \$       | \$                 | \$            |
| Accounts payable             | 1,266         | -             | -        | -        | -                  | 1,266         |
| Asset retirement obligations | -             | -             | -        | -        | 300                | 300           |
| Rio Tinto debt (repaid 2011) | 11,100        | 15,000        | -        | -        | -                  | 26,100        |
| Operating leases             | 106           | -             | -        | -        | -                  | 106           |
| <b>Totals</b>                | <b>12,472</b> | <b>15,000</b> | <b>-</b> | <b>-</b> | <b>300</b>         | <b>27,772</b> |

### 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 2010 and assuming that all other variables remain constant, a 0.5% change in the applicable interest rate would result in an increase/decrease of \$0.8 million 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](http://www.sedar.com)