# BEAR CREEK MINING CORPORATION

**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**30 September 2010 AND 2009**

**EXPRESSED IN US FUNDS**

**(Unaudited)**

**Bear Creek Mining Corporation**

*(An Exploration Stage Company)*

Statement 1

# Interim Consolidated Balance Sheets

*US Funds*

*Unaudited*

| ASSETS | | As at 30 September 2010 | | As at 31 December 2009 |
|---|---|---|---|---|
| **Current** | | | | |
| Cash and cash equivalents | **$** | **31,085,881** | $ | 36,356,216 |
| Short-term investments *(Note 5)* | | **68,520** | | 6,675,431 |
| Prepaid expenses and advances | | **585,626** | | 213,028 |
| | | **31,740,027** | | 43,244,675 |
| **Equipment** *(Note 6)* | | **258,121** | | 211,340 |
| **Resource Property Costs** *(Note 7)* | | **89,884,313** | | 88,120,343 |
| | **$** | **121,882,461** | $ | 131,576,358 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities *(Note 10)* | **$** | **222,267** | $ | 248,402 |
| Due to Rio Tinto Mining and Exploration Limited *(Note 8)* | | **21,100,000** | | 10,000,000 |
| | | **21,322,267** | | 10,248,402 |
| **Due to Rio Tinto Mining and Exploration Limited** *(Note 8)* | | **13,242,666** | | 23,107,887 |
| **Asset Retirement Obligation** | | **300,000** | | 300,000 |
| **Future Income Tax** | | **21,621,440** | | 20,707,554 |
| | | **56,486,373** | | 54,363,843 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **Share Capital** *(Note 9(a))* | | | | |
| Issued and fully paid: | | | | |
| 70,040,139 (2009 – 70,035,139 common shares) | | **131,690,254** | | 131,680,335 |
| Contributed surplus *(Note 9(b))* | | **15,240,114** | | 14,475,144 |
| | | **146,930,368** | | 146,155,479 |
| **Deficit** - *Statement 2* | | **(81,534,280)** | | (68,942,964) |
| | | **65,396,088** | | 77,212,515 |
| | **$** | **121,882,461** | $ | 131,576,358 |

Subsequent Events *(Note 14)*

ON BEHALF OF THE BOARD:

Signed "Catherine McLeod-Seltzer", Director

Signed "Nolan Watson", Director

- See Accompanying Schedule and Notes -

**Bear Creek Mining Corporation** Statement 2

*(An Exploration Stage Company)*

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

*US Funds*

*Unaudited*

| | For the Three Months Ended 30 September | | For the Nine Months Ended 30 September | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Operating Expenses** | | | | |
| Exploration costs (*Exploration Costs Schedule)* | $ **3,674,316** | $ 2,773,033 | $ **10,522,554** | $ 4,714,685 |
| Stock-based compensation *(Note 9(c))* | **134,155** | 242,873 | **769,022** | 909,956 |
| Wages and management salaries | **82,139** | 74,217 | **358,367** | 196,091 |
| Professional fees | **91,615** | 55,537 | **360,910** | 220,119 |
| Travel | **44,516** | 37,209 | **159,041** | 99,922 |
| Shareholder information and filing fees | **24,236** | 21,627 | **137,920** | 100,515 |
| General administrative expenses | **50,738** | 44,214 | **137,898** | 139,901 |
| **Loss before the following** | **4,101,715** | 3,248,710 | **12,445,712** | 6,381,189 |
| **Other Income** | | | | |
| Foreign exchange loss | **279,915** | 474,457 | **662,055** | 1,214,314 |
| Interest income, net | **(19,930)** | (4,506) | **(60,543)** | (49,325) |
| Gain on investments | **(15,968)** | (3,768) | **(13,433)** | (13,226) |
| Loss on disposal of asset | **-** | 1,216 | **-** | 1,216 |
| **Loss before income tax** | **4,345,732** | 3,716,109 | **13,033,791** | 7,534,168 |
| **Future income tax recovery** | **(163,258)** | (1,372) | **(442,475)** | (144,250) |
| **Loss and Comprehensive Loss for the Period** | **4,182,474** | 3,714,737 | **12,591,316** | 7,389,918 |
| **Deficit - Beginning of Period** | **72,222,621** | 63,912,682 | **68,942,964** | 60,237,501 |
| **Deficit - End of Period** | $ **76,405,095** | $ 67,627,419 | $ **81,534,280** | $ 67,627,419 |
| **Loss per Share – Basic and Diluted** | **$ 0.06** | $ 0.07 | $ **0.18** | $ 0.13 |
| **Weighted Average Number of Shares Outstanding** | **70,040,139** | 56,614,975 | **70,039,663** | 56,303,415 |

- See Accompanying Schedule and Notes -

**Bear Creek Mining Corporation**

*(An Exploration Stage Company)*

<u>Statement 3</u>

## Interim Consolidated Statements of Cash Flow

*US Funds*

*Unaudited*

| | For the Three Months Ended 30 September | | For the Nine Months Ended 30 September | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Operating Activities** | | | | |
| Loss for the period | **$ (4,182,474)** | $ (3,714,737) | **$ (12,591,316)** | $ (7,389,918) |
| Items not affecting cash | | | | |
| Stock-based compensation *(Note 9(c))* | **134,155** | 242,873 | **769,022** | 909,956 |
| Accrued interest income | **(3,344)** | (2,794) | **(14,797)** | (4,436) |
| Amortization included in exploration costs | **17,420** | 17,311 | **49,456** | 50,289 |
| Future income tax recovery | **(163,258)** | (1,372) | **(442,475)** | (144,250) |
| Increase in fair value of marketable securities | **(15,997)** | (3,768) | **(13,433)** | (13,226) |
| Amortization | **486** | (23) | **1,463** | 1266 |
| Unrealized foreign exchange | **93,910** | 741,565 | **635,614** | 1,458,949 |
| | **(4,119,102)** | (2,720,945) | **(11,606,466)** | (5,131,370) |
| Changes in current assets and liabilities | | | | |
| Prepaid expenses and advances | **(235,117)** | 37,063 | **(357,801)** | 400,658 |
| Accounts payable and accrued liabilities | **(483,469)** | 757,957 | **(26,135)** | 658,816 |
| Cash used in operating activities | **(4,837,688)** | (1,925,925) | **(11,990,402)** | (4,071,896) |
| **Investing Activities** | | | | |
| Purchase of equipment | **(38,662)** | (17,811) | **(97,700)** | (21,673) |
| Short-term investments redeemed (purchased) | **4,101,004** | 308,915 | **6,732,313** | (2,374,135) |
| Cash provided by (used in) investing activities | **4,062,342** | 291,104 | **6,634,613** | (2,395,808) |
| **Financing Activities** | | | | |
| Share capital issued – net | **-** | 327,570 | **5,867** | 389,501 |
| Cash provided by financing activities | **-** | 327,570 | **5,867** | 389,501 |
| **Effect of exchange rate change on cash and cash equivalents** | **76,461** | (55,588) | **79,587** | 43,037 |
| **Net Decrease in Cash and Cash Equivalents** | **(698,885)** | (1,362,839) | **(5,270,335)** | (6,035,166) |
| Cash and cash equivalents – Beginning of Period | **31,784,766** | 8,102,159 | **36,356,216** | 12,774,486 |
| **Cash and Cash Equivalents – End of Period** | **$ 31,085,881** | $ 6,739,320 | **$ 31,085,881** | $ 6,739,320 |
| | | | | |
| **Cash and Cash Equivalents consists of:** | | | | |
| Cash | **$ 3,205,845** | $ 1,363,292 | **$ 3,205,845** | $ 1,363,292 |
| Term Deposit | **27,880,036** | 5,376,028 | **27,880,036** | 5,376,028 |
| | **$ 31,085,881** | $ 6,739,320 | **$ 31,085,881** | $ 6,739,320 |

Supplemental cash flow information *(Note 12)*

- See Accompanying Schedule and Notes -

## 1. Nature of Business

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

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

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and follow the same accounting policies and methods consistent with those used in the preparation of the most recent annual audited consolidated financial statements except as noted below. The interim consolidated financial statements do not include all information and note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended 31 December 2009.

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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.

### c) Recent Accounting Pronouncements Not Yet Adopted

***International Financial Reporting Standards***

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

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## 4. Financial Instruments

### *a) Fair value*

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.

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

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

### c) *Management of financial risk*

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

i. Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Peru and a portion of its expenses are incurred in Canadian dollars and Peruvian Soles. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar and the Peruvian Soles to the US dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. At 30 September 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

| | 30 September 2010 | |
|---|---|---|
| | Canadian Dollars | Peruvian Soles |
| Cash and cash equivalents and short term investments | 4,283,539 | 792,264 |
| Prepaid expenses and advances | 23,482 | 15,680 |
| Accounts payable and accrued liabilities | (53,617) | (369,674) |
| Future income tax | - | (59,793,805) |

Based on the above net exposures as at 30 September 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 $0.4 million in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the US dollar against the Peruvian Soles would result in a decrease/increase of $2.1 million in the Company's net earnings.

ii. Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit risk the Company is exposed to is 100% of cash, short term investments and other assets.

The Company's cash equivalents and short-term investments are held through large Canadian financial institutions. Short-term and long-term investments (including those presented as part of cash and cash equivalents) are composed of financial instruments issued by Canadian banks. These investments mature at various dates over the current operating period. Other assets consist of HST receivable from the government of Canada and other receivables and prepaid expenses.

iii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its operating commitments. The Company manages liquidity by maintaining adequate cash and cash equivalent 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. The Company believes it is subject to material liquidity risk though its obligation to Rio Tinto *(Notes 1, 8 and 13(c)).* In general, the Company attempts to avoid exposure to liquidity risk by obtaining corporate financing from sales of common shares.

The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and capital commitments at 30 September 2010:

| (000s) | 2010 $ | 2011 $ | 2012 $ | 2013 $ | 2014 and beyond $ | Total $ |
|---|---|---|---|---|---|---|
| Accounts payable | 222 | - | - | - | - | 222 |
| Asset retirement obligations | - | - | - | - | 300 | 300 |
| Rio Tinto debt | 10,000 | 11,100 | 15,000 | - | - | 36,100 |
| Operating leases | 26 | 103 | - | - | - | 129 |
| Totals | 10,248 | 11,203 | 15,000 | - | 300 | 36,751 |

iv. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is limited because these investments are generally held to maturity. Based on the amount of cash and cash equivalents invested as at 30 September 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 $156,000 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

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

| | | **30 September 2010** | | 31 December 2009 |
|---|---|---|---|---|
| Shares | **$** | **41,791** | $ | 27,812 |
| Term deposits | | **26,729** | | 6,647,619 |
| Total short-term investments | **$** | **68,520** | $ | 6,675,431 |

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.

## 6. Equipment

Details are as follows:

| | 30 September 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** | Cost | Accumulated Amortization | Net Book Value |
| Office equipment | **$ 29,162** | **$ 23,491** | **$ 5,671** | $ 29,162 | $ 22,133 | $ 7,029 |
| Exploration equipment | **599,103** | **346,653** | **252,450** | 501,403 | 297,092 | 204,311 |
| | **$ 628,265** | **$ 370,144** | **$ 258,121** | $ 530,565 | $ 319,225 | $ 211,340 |

## 7. Resource Property Costs

Cumulative capitalized costs for the Corani and Santa Ana projects as at 30 September 2010 are as follows:

| **Cumulative capitalized acquisition costs** | Corani Project | Santa Ana Project | Total |
|---|---|---|---|
| Balance at 31 December 2008 | $ 85,009,111 | $ 100,000 | $ 85,109,111 |
| Adjustment for future income tax | 903,369 | - | 903,369 |
| Accretion of purchase liability *(Note 8)* | 2,107,863 | - | 2,107,863 |
| Balance at 31 December 2009 | $ 88,020,343 | $ 100,000 | $ 88,120,343 |
| Adjustment for future income tax | 529,191 | - | 529,191 |
| Accretion of purchase liability *(Note 8)* | 1,234,779 | - | 1,234,779 |
| **Balance at 30 September 2010** | **$ 89,784,313** | **$ 100,000** | **$ 89,884,313** |

### 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 $47.2 million and to issue Rio Tinto 3,991,000 common shares as follows: (i) 3,991,000 Bear Creek common shares (issued on 17 July 2008); (ii) $5 million in cash payable by 31 December 2008 (paid); (iii) $1.1 million in March 2009 (paid) (iv) $5 million in cash payable by 31 December 2009 (paid); (v) $10.0 million in cash payable by 31 December 2010; (vi) $1.1 million in January 2011; (vii) $10.0 million in cash payable by 30 September 2011; (viii) $15.0 million in cash payable by 30 June 2012. 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.

The balance of the purchase price is secured by a General Security Agreement ("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. Upon the Company making its next payment of $10 million by December 31, 2010, the GSA will be terminated. The value of the resource property acquired is calculated as the present value of the future cash flows. 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 directly associated with the acquisition have been capitalized to the cost of the project.

**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 30 September 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.

**d) New projects**

On January 7, 2010 the Company announced the option to acquire the Campanario prospect. A 100% interest in the prospect may be acquired following back-end loaded payments totalling $2.7 million over three years subject to a 3% NSR royalty which is purchasable following completion of a positive feasibility study.

## 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 | $ | 33,107,887 |
| Accretion on obligation to Rio Tinto | | 1,234,779 |
| Due to Rio Tinto – 30 September 2010 | $ | 34,342,666 |
| Less: Current amount | | (21,100,000) |
| | **$** | **13,242,666** |

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

| | | |
|---|---|---|
| 31 December 2010 | $ | 10,000,000 |
| 10 January 2011 | | 1,100,000 |
| 30 September 2011 | | 10,000,000 |
| 30 June 2012 | | 15,000,000 |
| | $ | 36,100,000 |

These payments are non-interest bearing. The Company has provided a GSA, which covers all of the assets of the Company, in favour of Rio Tinto in addition to a mortgage on the Corani property, subordinated to future project financing. The GSA terminates upon the Company paying the $10 million payment due on or before 31 December 2010. Payment obligations subsequent to 2010 are secured by the Corani Project, subordinated to future project financing.

## 9. Share Capital

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

| | Shares | | Amount |
|---|---|---|---|
| Authorized: | | | |
| Unlimited common shares without par value | | | |
| Issued and fully paid: | | | |
| Balance – 31 December 2008 | 55,457,023 | $ | 89,105,173 |
| Shares issued for debt *(Notes 8)* | 1,021,266 | | 1,100,000 |
| Shares issued for stock options exercised | 952,850 | | 909,591 |
| Shares issued in private placement | 12,604,000 | | 42,769,477 |
| Share issuance costs | - | | (2,867,410) |
| Fair value of options exercised | - | | 663,504 |
| Balance – 31 December 2009 | 70,035,139 | $ | 131,680,335 |
| Shares issued for stock options exercised | 5,000 | | 5,867 |
| Fair value of options exercised | - | | 4,052 |
| **Balance – 30 September 2010** | **70,040,139** | **$** | **131,690,254** |

### b) Details of Contributed Surplus

| | | **30 September 2010** | | 31 December 2009 |
|---|---|---|---|---|
| Balance – Beginning of Period | **$** | **14,475,144** | $ | 13,516,211 |
| Fair value of stock-based compensation | | **1,079,245** | | 1,622,437 |
| Fair value of forfeited options | | **(310,223)** | | - |
| Fair value of stock options exercised | | **(4,052)** | | (663,504) |
| Balance – End of Period | **$** | **15,240,114** | $ | 14,475,144 |

### c) Share Purchase Options

The Company has an incentive stock option plan (the “Plan”), whereby the Company may grant stock options to directors, officers, employees or consultants. Under the Plan, options are exercisable up to a maximum of 10 years as determined by the Board of Directors and are required to have an exercise price no less than the closing market price of the Company's shares on the trading day immediately proceeding the day on which the Company announces the grant of options. The Plan contains no vesting requirements, but permits the Board of Directors to specify a vesting schedule in its discretion, subject to the Exchange's minimum vesting requirements, if any. The Plan provides for the issuance of up to 10% of the Company’s issued common shares at the date of the grant.

| | Number of options | Weighted average exercise price (in CDN$) |
|---|---|---|
| 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 | (5,000) | 1.24 |
| Forfeited | (362,500) | 4.38 |
| Granted | 240,000 | 4.12 |
| Options outstanding at 30 September 2010 | **3,794,500** | **3.38** |

The weighted average life of the options outstanding at 30 September 2010 is 1.8 years. A summary of the Company's options as at 30 September 2010 is as follows:

| | Number | Price per Share | Expiry Date |
|---|---|---|---|
| Options | | | |
| | 701,000 | Cdn$3.00 | *5 August 2010 |
| | 735,000 | Cdn$3.00 | *5 August 2010 |
| | 100,000 | Cdn$4.60 | 31 May 2011 |
| | 53,000 | Cdn$8.08 | 22 August 2011 |
| | 405,000 | Cdn$7.99 | 16 May 2012 |
| | 40,000 | Cdn$7.99 | 1 April 2010 |
| | 150,000 | Cdn$4.95 | 2 July 2013 |
| | 1,058,000 | Cdn$1.24 | 27 January 2014 |
| | 100,000 | Cdn$1.90 | 18 August 2014 |
| | 212,500 | Cdn$4.00 | 14 October 2014 |
| | 240,000 | Cdn$4.12 | 8 March 2015 |
| | 3,794,500 | | |

* These options were set to expire on August 5, 2010, however, the Company has been under trading restrictions and these options are extended under the provision of the Company stock option plan. The expiry date of these options occurred during a trading black-out period imposed by the Company and, therefore, the expiry date of the options are automatically extended to the date that is ten trading days following the end of such black-out period.

As at 30 September 2010 3,514,500 options have vested.

During the nine months ended 30 September 2010, the Company granted to employees of the Company options to purchase up to 240,000 common shares of the Company at an exercise price of C$4.12 per share. The estimated fair value of the stock options granted during the nine months ended 30 September 2010 were valued at C$644,160 ($626,381) using the Black-Scholes option pricing model, based on the following assumptions:

| | 2010 |
|---|---|
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 82.15% |
| Risk-free interest rate | 2.26% |
| Expected life of options | 5 years |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The stock-based compensation recorded during the nine months ended 30 September 2010 for regular vested options was $1,079,245 which was reduced due to the cancellation of 187,500 stock options before vesting; these had a value of $310,223. A total of $164,923 remains to be recorded subsequent to 30 September 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 nine months ended 30 September:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Consulting fees paid to a director of the Company | $ | **40,945** | $ | 35,500 |
| Legal fees paid to a firm in which a director of the Company is a partner | $ | **129,288** | $ | 30,806 |
| Legal fees paid to a firm in which an officer of the Company is a partner | $ | **83,702** | $ | 82,754 |
| Accounting fees paid to a firm in which an officer of the Company is a partner | $ | **77,902** | $ | 86,585 |

Amounts owing to related parties are unsecured, non-interest bearing and payable on demand. Included in accounts payable and accrued liabilities at 30 September 2010 there was $13,697 (2009 - $29,578) 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.

## 11. Segmented Information

The Company has one operating segment, which is mineral exploration. All of the Company's exploration expenses as disclosed on the exploration cost schedule are incurred in Peru and of the Company's assets, $91,603,610 (2009 - $87,844,192) are located in Peru. All other assets and expenses are located in Canada.

## 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(a))* | $ | **-** | $ | 1,100,000 |

| **Supplementary disclosure of cash flow information:** | | 2010 | | 2009 |
|---|---|---|---|---|
| Cash received for interest | $ | **60,543** | $ | 49,325 |

## 13. Comparative figures

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

## 14. Subsequent events

On November 5, 2010, the Company closed its previously announced public offering of 17,650,000 common shares at a price of C$6.40. In addition, the Underwriters have 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 was $122,880,803 (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.

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

<u>Schedule</u>

# Consolidated Schedules of Exploration Costs

*US Funds*

*Unaudited*

| | For the Three Months Ended 30 September | | For the Nine Months Ended 30 September | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Corani** | | | | |
| Engineering and consulting | **$ 165,187** | $ - | **$ 441,250** | $ - |
| Supplies and general | **185,822** | 138,091 | **391,139** | 210,379 |
| Maintenance costs | **126,246** | - | **292,082** | 34,946 |
| Travel | **102,648** | 91,889 | **289,655** | 236,872 |
| Salaries and consulting | **155,606** | 1,371,710 | **261,698** | 1,802,433 |
| Drilling | **-** | - | **226,619** | - |
| Assaying and sampling | **1,077** | 1,545 | **51,663** | 7,611 |
| Geophysics | **2,588** | (6,510) | **13,072** | 7,584 |
| | **739,174** | 1,596,725 | **1,967,178** | 2,299,825 |
| **Santa Ana** | | | | |
| Engineering and consulting | **625,091** | - | **1,613,046** | - |
| Drilling | **26,055** | - | **1,357,257** | - |
| Supplies and general | **328,810** | 243,624 | **1,018,194** | 430,687 |
| Travel | **138,901** | 101,437 | **532,647** | 138,630 |
| Salaries and consulting | **215,849** | 342,194 | **527,764** | 551,402 |
| Maintenance costs | **223,354** | 18,129 | **521,080** | 115,997 |
| Assaying and sampling | **6,735** | 9,995 | **81,690** | 17,320 |
| Geophysics | **818** | 8,684 | **7,761** | 11,053 |
| | **1,565,613** | 724,063 | **5,659,439** | 1,265,089 |
| **Tassa** | | | | |
| Drilling | **363,542** | - | **363,542** | - |
| Supplies and general | **109,365** | 769 | **171,054** | 769 |
| Salaries and consulting | **85,700** | 1,059 | **163,403** | 1,059 |
| Travel | **81,411** | 1,517 | **124,995** | 1,517 |
| Assaying and sampling | **61,097** | - | **78,743** | - |
| Geophysics | **-** | - | **35,355** | - |
| Maintenance costs | **-** | - | **9,925** | 2,400 |
| | **701,115** | 3,345 | **947,017** | 5,745 |
| **Generative** | | | | |
| Salaries and consulting | **69,233** | 133,668 | **279,114** | 500,632 |
| Supplies and general | **48,545** | 116,591 | **133,085** | 285,055 |
| Travel | **23,813** | 36,921 | **77,880** | 91,414 |
| Maintenance costs | **5,715** | 7,336 | **41,234** | 26,263 |
| Assaying and sampling | **8,176** | 13,842 | **35,787** | 32,560 |
| Geophysics | **1,835** | 2,603 | **9,217** | 4,668 |
| | **157,317** | 310,961 | **576,317** | 940,592 |
| **Other Properties** | **109,465** | 3,609 | **174,503** | (36,184) |
| **IGV** | **401,632** | 134,330 | **1,198,100** | 239,618 |
| **Costs for the Period** | **$ 3,674,316** | $ 2,773,033 | **$ 10,522,554** | $ 4,714,685 |

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

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

***Introduction***

Prepared 5 November 2010 for the three and nine months ended 30 September 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 2009. 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 without any mineral producing properties, and thus, has no revenues from any mineral properties.

***Forward-Looking Information***

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

Forward-looking statements 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 gold and other 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 November 5, 2010, the Company announced that it has closed its previously announced public offering of 17,650,000 common shares at a price of C$6.40. In addition, the Underwriters have 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 was 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 November 1, 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 October 7, 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 (all figures in this news release are in US dollars):

- 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**
October 7, 2010

| **Mineral Reserves (Cut-off Grade variable 27 to 24 g/t silver by year)** | | | | | |
|---|---|---|---|---|---|
| **Category** | **Kt** | **Silver (g/t)** | **Lead (%)** | **Zinc (%)** | **Contained Silver (million oz.)** |
| 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 |
| **Mineral Resources in Addition to Reserves (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+Indictated | 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 and the Feasibility Study has been filed and available for viewing on SEDAR.

On September 16, 2010, the Company provided an update on its Corani and Santa Ana feasibility studies. Final bids from engineering firms for the Corani Feasibility Study are currently being reviewed and the Company anticipates awarding the contract in early November. The Company has identified significant opportunities being considered for the Corani Feasibility Study, including:

- 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.

Feasibility-level metallurgical testing continues towards further process optimization focusing on the first five years of commercial production. Test results are in line with the Pre-feasibility Study completed on October 14, 2009.

On July 12, 2010 the Company announced results from the fourth resource estimate at the Company's 100% owned Santa Ana leachable silver deposit. These resource estimates were used to derive the mineable reserves and mine planning for the Santa Ana Feasibility Study which was completed in October 2010. Highlights of the resource estimate included: measured and indicated resources of 101.8 million tonnes grading 41.5 g/t Ag containing 136 million ounces silver, inferred resource of 21.6 million tonnes grading 40.6 g/t Ag containing 28.2 million ounces silver. The mineral deposit remains open to the north, northwest, and at depth. The latest resource estimate represents a 39% increase in the measured and indicated category from the previous estimate.

***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 testwork 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. 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 pits that will produce ore for the first 5 years of operation. Additionally, 1,133 hectares of surface land have been acquired in October 2010. This land purchase comprises over 50% of the project infrastructure needs and importantly, the acquired surface rights cover approximately 30% of the ore deposit and are pivotal to the acquisition of remaining surface rights. The acquisition of the remaining surface rights is scheduled for closure later this year.

***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 produces 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. Based on the spot metal prices of October 26, 2010 ($23.80 Silver, $1.16 Lead and $1.17 Zinc) the project has a net present value of $1.31 billion at a 5% discount rate and an internal rate of return of 61%.

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.

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

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

The 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 September 11, 2009 and were $16.85/oz Ag, $0.97/lb. Pb and $0.86/lb. Zn

## RESERVE and RESOURCE ESTIMATE

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

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

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

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

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

***Metallurgical testing*** - The Company has completed metallurgical optimization tests on two master composites in order to define recoveries for the purposes of the PFS reserve calculation. The specific grade and recovery parameters used for the flotation ores, the life-of-mine overall recoveries and concentrate grades are tabulated below.

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

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

## MINING AND MILLING

Mining will be performed using conventional open pit methods using 90t trucks and 12m$^3$ wheel loaders mining on 8 meter high benches.  The mine requires minimal pre-production waste stripping of 10.8 million tonnes.

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

## CAPITAL COSTS

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

## OPERATING COSTS

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

## INFRASTRUCTURE

The project has favorable infrastructure.  Access will be via a new 63 km road to be built over flat topography resulting in low construction costs.  The new road will connect to the Interoceanic 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 nine months ended 30 September 2010, the Company incurred exploration expenditures of $2.0 million on the Corani project. Included in this total are engineering and consulting costs of $0.4 million, supplies and general of $0.4 million, maintenance costs of $0.3 million, travel costs of $0.3 million and drilling costs of $0.2 million.

As at 30 September 2010, the Company had $89.8 million of capitalized acquisition costs related to the Corani project (31 December 2009 $88.0 million).

**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 in the FS entitled "Feasibility Study, Santa Ana

Project, Puno, Peru, NI 43-101 Technical Report", dated October 21, 2010 and 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 FS 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 $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 US$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 silver prices 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 are 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 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.

<u>Property Description</u>

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. The FS 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 km 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 5400 hectares of mineral concessions that encompass the Santa Ana 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 volcanic rocks 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 total thickness of the volcanic package is unknown.

Earlier descriptions of the mineralization described a northern Anomaly A and a southerly Anomaly B. Drilling has connected these zones so that they represent major structural orientations that contain continuous mineralization.

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 of the Company dated October 7, 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 FS 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 FS pit. The table below presents the reserves and resources of the Santa Ana project.

**Reserve and Resource Estimate**

| **Mineral Reserves (Cut-off Grade variable 27 to 24 g/t silver by year)** | | | | | |
|---|---|---|---|---|---|
| **Category** | **kt** | **Silver (g/t)** | **Lead (%)** | **Zinc (%)** | **Contained Silver (million oz.)** |
| 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 |
| **Mineral Resources in Addition to Reserves (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+Indictated | 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 US$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 $m^3$ 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 be 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 US$1.68 per tonne of material mined (ore and waste) and US$0.71 per tonne for the rehandling 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.
The table below indicates key assumptions used in the development of the FS.

**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 |
| Average Silver Grade | 53.0 g/t |
| Recovered Silver | 44.2 million oz. |
| Overall stripping ratio | 1.96:1 |
| Life of mine (mining only) | 9.5 years |
| Life of mine (processing) | 11.2 years |

The table below presents annual tonnes and grade of the ore fed to the crusher and placed on the heap leach.

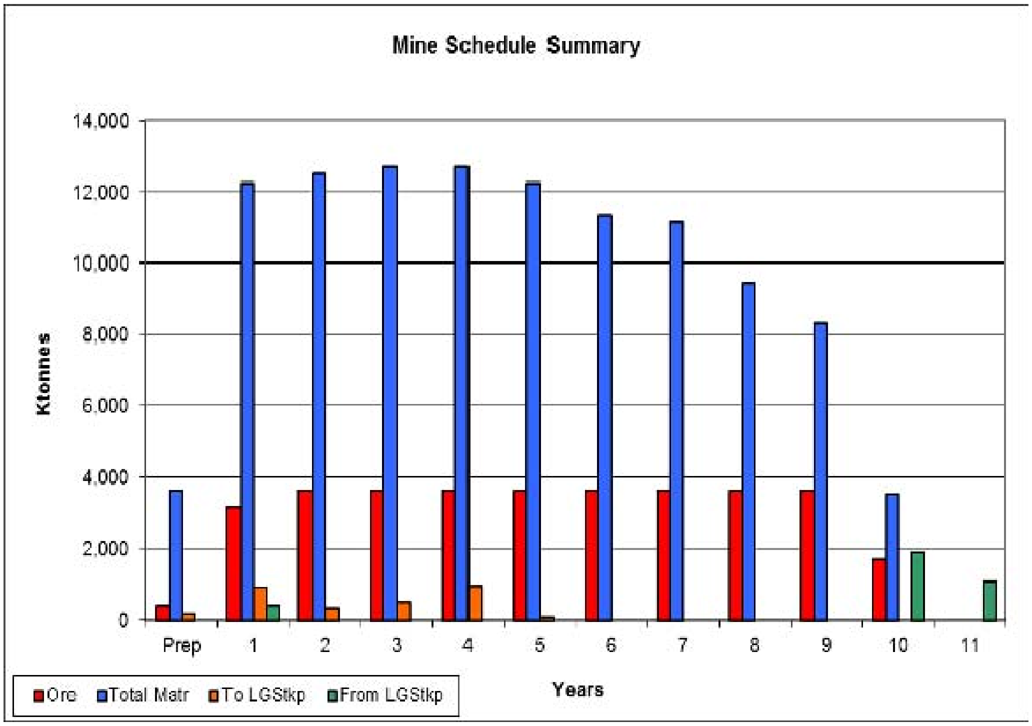
**Annual Crusher Feed (tonnes and grade)**

| 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 |

The figure below illustrates the variation in the tonnes of the different material moved by year.

**Mine Schedule Summary**




Metallurgy

Six column leach test have been completed at McClelland Labs. Additionally, over one-hundred leach amenability tests have been completed at various testing laboratories. The results have consistently demonstrated that the Santa Ana ore responds well to conventional heap leaching techniques laterally and vertically throughout the deposit. The overall recovery is expected to be 70% silver for minus ¾-inch crushed material. More recent column tests indicate that further improvements in recovery to 75% silver can be achieved by crushing the ore to minus 3/8-inch. McClelland Laboratories is currently completing a column leach test on minus 3/8-inch crushed material and the Company will release the results when this long-term test is finished. Initial results strongly indicate an improvement in recovery and acceleration of the silver leaching. Assuming positive test results, the 3/8" crushing plan will be incorporated into an amendment to the FS in early 2011 and brought forward into the detailed project engineering design.

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 two crushing stages and one classification stage, heap leaching and recovery by Merrill-Crowe extraction.

The crushed ore, 80 percent passing 19mm (¾-inch) will be conveyed to the coarse ore stockpile with a live capacity of approximately 6hrs. 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. A sodium cyanide solution will be irrigated on the heap 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 70% with a 360 day leach recovery cycle. The leach cycle is divided into a 120 day primary leach and a 240 day secondary leach occurring in the lower levels of the heap.

The Merrill-Crowe plant was designed to treat 571 $m^3$/hr of pregnant solution in order to assure the production mentioned above. The design includes an effluent detoxification plant to treat 120 $m^3$/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 $m^3$ 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 $12,359,000 million and the indirect cost is $2,740,000 million. The total cost of the investment (Capex) is $15,009,000 million. The details of the capital cost estimate are presented in the FS. The estimated operating cost of the process is 2.644 dollars per tonne of ore processed or 1.186 dollars per ounce of silver. The details of the operating cost estimate are presented in the FS.

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 for 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 be developed into a mine over the next 24 months. 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 are 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$^{nd}$ 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.

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 will be $1.68 per tonne of the total material moved. The cost for hauling and placing ore on the pad will be $0.71 per tonne. The process costs are estimated to be $3.19 per tonne of processed ore 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 will be $8.35. Including refining charges, doré transport and Peruvian production royalties, the average cash cost per ounce will be $9.02.

Capital Cost Estimate

The project capital cost estimate has been prepared by two independent engineering companies. The mining costs were prepared by IMC 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 $68.8 million and the total life of mine capital cost is estimated to be $83.8 million. The initial capital equates to $1.56 per ounce of silver recovered. The life of mine capital costs used in the financial model include 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.

**Initial Capital Costs**

| 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 | $4,763,000 |
| Preproduction Mine Development & Equipment | $9,909,000 |
| Owners Costs | $4,226,000 |
| Total Initial Capital | $68,781,000 |

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 25.3%, a net present value of $85.3 million at a 5% discount rate and earnings before interest, taxes, depreciation and amortization (EBITDA) of $144 million over the 11-year life based upon $14.50 per ounce silver. Recovered silver production in the first six years averages 4.6 million ounces per year and the project is expected to produce an average of 4.0 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 3.4 years. The FS 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 $9.02 per ounce of silver, the project is also sensitive to variations in operating costs. The project is least sensitive to capital cost variations as illustrated by the relatively low cost of $1.56 per produced ounce for the initial capital.
Sensitivities to various parameters are summarized below:

**Case Sensitivities**

| Case | IRR | NPV @ 5% | NPV @ 0% |
|---|---|---|---|
| Base Case | 25% | $85.3M | $143.6M |
| Recovery +10% | 34% | $127.4M | $203.5M |
| Recovery -10% | 16% | $43.1M | $83.5M |
| Metal Price +10% | 34% | $129.4M | $206.5M |
| Metal Price -10% | 16% | $41.0M | $80.5M |
| Initial Capital Cost +10% | 23% | $79.0M | $136.7M |
| Initial Capital Cost -10% | 28% | $91.6M | $150.5M |
| Operating Cost +10% | 20% | $59.1M | $106.6M |
| Operating Cost -10% | 31% | $111.5M | $180.5M |
| Metal Prices Oct. 6, 2010 - $22.92/oz Ag | 70% | $341.1M | $508.0M |

Note: Base case price is $14.50/oz Silver; London Silver spot price fix from October 6, 2010 = $22.92/oz Ag. All values are pre-tax.

Opportunities

The FS has identified areas of opportunities that will be analyzed immediately in detailed engineering, column leach test work and future exploration:

***Organic Growth***

The FS 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 (see the FS).

***Exploration Upside***

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

***Enhanced Silver Recovery***

Analysis of the recently completed column leach studies indicates that higher recoveries are likely with a slightly finer crush size. At 80% passing 3/8 inch crush size the anticipated recovery is 75% of the silver and initial results from test work indicate the speed of silver recovery is greatly improved.

***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 FS will be reduced with a beneficial effect on the operating costs. Additionally, assuming that a finer crush size is chosen, there is potential to reduce the cash costs by $0.30 to $0.40 per ounce resulting from accelerated silver leaching rates and increased recoveries. Details of the finer crushing potentials are provided in the FS.

Conclusions & Recommendations

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

- Reduce the crush size to minus 3/8" to improve silver recovery and leaching rate;
- 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: the availability of financing and capital costs 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 nine months ended 30 September 2010, the Company incurred expenditures of $5.7 million on the Santa Ana project. Included in this total are engineering and consulting expenditures of $1.6 million, supplies and general of $1.0, drilling costs of $1.4 million, and various other costs, including travel costs of $0.5 million, salaries and consulting of $0.5 million and maintenance costs of $0.5 million.

As at 30 September 2010, and 31 December 2009 the Company had $0.1 million of capitalized acquisition costs related to the Santa Ana project.

**Campanario Gold (Silver) Prospect**

In January 2010, the Company announced the option to acquire Campanario; an untested mesothermal gold-silver prospect located within the prolific belt containing the Alto Chicama/Lagunas Norte, Santa Rosa, and La Arena gold deposits southeast of Trujillo, Peru. The Company can acquire a 100% interest in the prospect by making payments totaling US$2.73M over three years subject to a 3% NSR royalty which is purchasable following completion of a positive feasibility study. The initial payment was $60,000 which provides full access to the property for one year. The year two option payment if exercised will be $170,000. The options to buy-out the royalties commence from the completion of a positive feasibility study.

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

Additional mapping and trenching are in progress with a Phase I drilling program to target depths of at least 200-300 meters which commenced on October 25, 2010. Approximately 2,000 meters of drilling is estimated depending on results of further exploration work. An IP/resistivity survey was completed in September 2010 to identify and define drill targets beneath shallow soil covered areas between mineralized outcrops.

**Tassa Silver (Gold) Prospect**

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

The Tassa silver-gold prospect is currently undergoing Phase I drilling which began in late June 2010. Currently, 16 of an estimated 17 drill holes have been completed with completion of Phase I totaling 3,800 meters expected in November. Tassa is located approximately 16 kilometers from Chucapaca, currently under exploration by the Goldfields - Buenaventura joint venture where drilling has intercepted up to 127 meters averaging 8.55 g/t gold in a similar geologic setting and mineralization reportedly remains open. The Phase I drilling was preceded by geophysical surveys (IP, resistivity and magnetic surveys) for drill target definition.

**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 $0.8 million represents the amount of IGV that has been paid to the Peruvian government during the period ended 30 June 2010. This amount is recoverable when there are future revenues generated by the Company in Peru.

As the Company is an exploration stage company there can be no reasonable assurance that future revenue can be generated, and as a result the IGV receivable has been expensed. The IGV expense is denominated in Peruvian soles and as at 30 September 2010, the total value of the IGV in Peru was $7.1 million (19.8 million soles).

**Other Properties**

Other properties are exploration properties which management has decided are not a priority or which management has chosen not to pursue and, therefore, has terminated option agreements.

***Bear Creek's Results of Operations***

Bear Creek is a publicly traded Canadian exploration company with no mineral producing properties, and thus, does not have revenues from any mineral properties.

***For the Nine Months Ended 30 September 2010 as compared to the Nine Months Ended 30 September 2009***

**Net Loss and Operating Expenses**

In the current period, the Company experienced a net loss of $12.6 million compared to a net loss of $7.4 million for 2009, an increase in net loss of $5.2 million. In the current period, the Company had a loss per share of $0.18 compared to $0.13 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. These increased expenses were offset by a decrease in foreign exchange loss of $0.5 million. As a result of the increase in activity, the Company's exploration costs increased from $4.7 million to $10.5 million, an increase of $5.8 million.

Total operating expenses for the current period were $12.4 million compared to operating expenses of $6.4 million for 2009. In addition, the Company had a foreign exchange loss of

$0.6 million. Of the foreign exchange loss, $0.8 million related 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 September 30, 2010 of 60.7 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 nine months ended was 2.9%. However, the increase was offset by a $0.3 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. As at September 30, 2010, the Company had $4.3 million of funds denominated in Canadian funds.

***For the Three Months Ended 30 September 2010 as compared to the Three Months Ended 30 September 2009***

**Net Loss and Operating Expenses**

In the current period, the Company experienced a net loss of $4.2 million compared to a net loss of $3.7 million for 2009, an increase in net loss of $0.5 million. In the current period, the Company had a loss per share of $0.06 compared to $0.07 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. These increased expenses were offset by a decrease in foreign exchange loss of $0.2 million. As a result of the increase in activity, the Company's exploration costs increased from $2.8 million to $3.7 million, an increase of $0.9 million.

Total operating expenses for the current period were $4.1 million compared to operating expenses of $3.2 million for 2009. In addition, the Company had a small foreign exchange loss of $0.3 million. Of the foreign exchange loss, $0.4 million related to the translation of the future income tax liability. This was offset by a $0.1 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 |
|---|---|---|---|
| 3rd Quarter 2010 | Nil | (4.2) | (0.06) |
| 2nd Quarter 2010 | Nil | (5.1) | (0.07) |
| 1st Quarter 2010 | Nil | (3.3) | (0.05) |
| 4th Quarter 2009 | Nil | (1.4) | (0.02) |
| 3rd Quarter 2009 | Nil | (3.7) | (0.07) |
| 2nd Quarter 2009 | Nil | (1.9) | (0.03) |
| 1st Quarter 2009 | Nil | (1.7) | (0.03) |
| 4th Quarter 2008 | Nil | (3.6) | (0.07) |

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.

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

**Review of 2009 Prospectus Financing Use of Proceeds**

In November 2009, as qualified by a prospectus dated October 28, 2009 (the "**2009 Prospectus**"), the Company sold 12,604,000 common shares at a price of $3.65 per share to a syndicate of underwriters, of which 1,644,000 common shares were issued pursuant to the exercise in full of the over-allotment option granted to that syndicate of underwriters, to raise gross proceeds of C$46,004,600. Net proceeds from the 2009 Prospectus financing before expenses were C$43,244,324. The Company used the net proceeds as follows:

| Use of Proceeds Items as stated in the October 2009 Prospectus | | Approximate Estimated Cost $ | Approximate Actual Cost $ |
|---|---|---|---|
| *Corani Property* | | | |
| | Feasibility study expenses[(1)] | $8,000,000 | $1,639,000 |
| | Surface rights acquisitions[(2)] | 400,000 | 251,000 |
| | Permits and licences | 250,000 | 27,000 |
| | Property payment to Rio Tinto[(3)] | 10,000,000 | 10,000,000 |
| | *Subtotal:* | *$18,650,000* | *$11,917,000* |
| *Santa Ana Property* | | | |
| | Exploration and condemnation drilling costs | $1,500,000 | $1,357,000 |
| | Metallurgical testing, engineering and scoping studies | 3,000,000 | 3,882,000 |
| | Community relations and surface rights acquisitions[(2)] | 1,000,000 | 420,000 |
| | *Subtotal:* | *$5,500,000* | *$5,659,000* |
| *General* | | | |
| | Estimated costs of the Offering | $350,000 | $258,000 |
| | Generative exploration work and new project preliminary drilling costs[(4)(5)] | 4,000,000 | 1,697,000 |
| | General working capital and administrative expenses[(6)] | 7,313,104 | 2,348,000 |
| | *Subtotal:* | *$11,663,104* | *$4,303,000* |

| Use of Proceeds Items as stated in the October 2009 Prospectus | Approximate Estimated Cost $ | Approximate Actual Cost $ |
|---|---|---|
| Total (not including Over-Allotment Option): | $35,813,104 | $21,879,000 |
| Net proceeds from the 2009 Over-Allotment Option to be allocated by management(6) | $5,371,965 | Nil |
| Net proceeds from the 2009 Prospectus financing (including the 2009 Over-Allotment Option) still held in cash and short term investments(5)(6) | N\A | $19,306,069 |
| Total (including Over-Allotment Option): | $41,185,069 | $41,185,069 |

(1) The Company intends to complete the Feasibility Study for the Corani Project in the third quarter of 2011. The Company estimates its remaining costs to complete the Feasibility Study on the Corani Project at $4.8 million.
(2) The Company has not completed its surface rights acquisition on either the Santa Ana or the Corani projects and anticipates completing these acquisitions in the next twelve months. The Company intends to pay for these surface right acquisitions from the 2009 Prospectus net proceeds remaining in cash and short term investments.
(3) The Company intends to make the $10 million payment to Rio Tinto on or before December 31, 2010.
(4) This amount also includes costs associated with the Company's exploration office located in Peru.
(5) As at September 30, 2010, the Company has $29.3 million remaining from the 2009 Prospectus, of which $10 million has been allocated to the December 2010 Rio Tinto payment as noted in footnote 4 above. The Company intends to use the remaining $19.3 from the 2009 Prospectus to fund its January and September 2011 payment obligations to Rio Tinto of $11.1 million, complete its surface rights acquisitions for Corani and Santa Ana ($3.5 million), fund ongoing generative exploration ($3 million) and for general working capital requirements of the Company for the next twelve months.
(6) None of the net proceeds from the 2009 Over-Allotment Option have been expended as at the date of this Prospectus and are still held in cash and short term investments.

## Liquidity and Capital Resources

Of the $31.1 million in cash and cash equivalents and short term investments as at 30 September 2010, approximately $4.5 million (C$4.7 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 30 September 2010, the Company had 70,040,139 issued shares. As at 30 September 2010, the Company's net working capital was $10.4 million compared to a net working capital of $33.0 million as at 31 December 2009. The cash balance at 30 September 2010 was $31.1 million compared to $36.3 million as at 31 December 2009. As at 30 September 2010 current liabilities were $21.3 million compared to $10.2 million as at 31 December 2009. Included in current liabilities are the amounts owing to Rio Tinto of $10 million to be paid on or before 31 December 2010, $1.1 million to be paid by January 10, 2011 and $10 million to be paid by September 30, 2011.

On November 5, 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.

On October 4 2010, 62,500 options were exercised for gross proceeds of $250,000. As at 5 November 2010, the Company had 90,400,139 outstanding common shares. The Company has 3,732,000 share purchase options outstanding, and the weighted average exercise price of the share purchase options is C$3.37.

Expenditures under consideration for the remainder of 2010 and 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 through to the end of 2011 is $11.4 million. The Company will also continue exploration programs on other projects, which includes drilling and evaluation of the Tassa project and Campanario projects and spending will vary dependent on success of the exploration programs. In addition to these expenditures, the Company must make the $21.1 million of payments due to Rio Tinto before the end of fiscal 2011.

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

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

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 C$129.9 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 obligation 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 nine months ended 30 September 2010, the Company received cash proceeds of $5,867 from the exercise of 5,000 options.

**Investing Activities**

During the nine months ended 30 September 2010, the Company purchased equipment for $97,700.

**Transactions with Related Parties**

In connection with the approval of related party transactions, the Company has a policy that requires that the terms of all such transactions must be comparable to terms available in arms-length transactions. Each of the transactions described below met those requirements and occurred during the nine months ended 30 September 2010.

The Company received legal services, totaling $83,702, 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 an Officer of the Company, Steven Krause, is a partner. The total accounting fees paid were $77,902.

The Company received consulting services from a Director of the Company, Catherine McLeod-Seltzer, during the period. The fees were incurred in relation to management consulting services. Total fees paid during the period were $40,945.

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

Management reviews and evaluates the carrying value of its mineral property for impairment when events or changes in circumstances indicate that the carrying amount of the related asset may not be recoverable. Management has determined that no impairment is required on its capitalized mineral property as its projected future undiscounted cash flow of its Corani project 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) Changes in Accounting Policies including Initial Adoption

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

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

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

Management has completed phase one and two, and is now advancing through phase three of the Transition Phase. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and identified a number of differences. Many of the differences identified are not expected to have a material impact on the reported results and financial position. Management has also prepared a conversion plan and is currently on target for all of the deliverables.

***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 January 1, 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 November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company will be electing not to apply IFRS 2 to awards that vested prior to January 1, 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 occur 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 January 1, 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 January 1, 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 January 1, 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 may have the highest potential impact on the Company’s consolidated financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

Because the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period the final impact of IFRS on the Company’s consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

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

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 there will be not significant 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 $20,707,554 on the balance sheet at December 31, 2009 under Canadian GAAP will be $Nil. There will be a corresponding decrease in the resource property costs of $21,435,649 which had been recorded under Canadian GAAP and an increase to the deficit of $728,095 representing a reversal of the future income tax recovery of $224,592 and $503,503 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.

***Conclusion***

Currently, the Company is completing the transitional adjustments for the opening balance sheet, and the 1st and 2nd quarter of 2010.

The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable accounting standards at the conversion date are known.

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

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

**Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, short term investments, due to related parties, accounts payable and accrued liabilities and due to Rio Tinto. Cash and cash equivalents is carried at fair value using a level 2 fair value measurement 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 30 September 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

| | 30 September 2010 | |
|---|---|---|
| | Canadian Dollars | Peruvian Soles |
| Cash and cash equivalents and short term investments | 4,283,539 | 792,264 |
| Accounts receivable | 23,482 | 15,680 |
| Accounts payable and accrued liabilities | (53,617) | (369,674) |
| Future income tax | - | (59,793,805) |

Based on the above net exposures as at 30 September 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 $0.4 million in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the US dollar against the Peruvian Soles would result in a decrease/increase of $.02 million in the Company's net earnings.

**Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The 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 30 September 2010:

| | (000s) | | | | | |
|---|---|---|---|---|---|---|
| | 2010<br>$ | 2011<br>$ | 2012<br>$ | 2013<br>$ | 2014 and later<br>$ | Total<br>$ |
| Accounts payable | 222 | - | - | - | - | 222 |
| Asset retirement obligations | - | - | - | - | 300 | 300 |
| Rio Tinto debt | 10,000 | 11,100 | 15,000 | - | - | 36,100 |
| Operating leases | 26 | 103 | - | - | - | 129 |
| Totals | 10,248 | 11,203 | 15,000 | - | 300 | 36,751 |

**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 30 September 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 $156,000 in the interest earned by the company per annum.

**Commodity Price risk**

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

**Approval**

The Audit Committee of Bear Creek has approved the disclosure contained in this MD&A.

**Additional Information**

Additional information relating to Bear Creek is on SEDAR at www.sedar.com