

BEAR CREEK MINING CORPORATION

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007 and 2006

EXPRESSED IN US FUNDS

Auditors' Report

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

We have audited the consolidated balance sheets of Bear Creek Mining Corporation (the "Company") as at December 31, 2007 and 2006 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Signed PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, BC
March 19, 2008

Bear Creek Mining Corporation
(An Exploration Stage Company)

Statement 1

Consolidated Balance Sheets

As at 31 December
US Funds

ASSETS	2007	2006
Current		
Cash and cash equivalents	\$ 10,848,072	\$ 5,024,649
Short-term investments (Note 4)	5,148,477	-
Prepaid expenses and advances	203,587	130,562
	<u>16,200,136</u>	<u>5,155,211</u>
Equipment (Note 5)	289,867	250,821
Resource Property Costs (Note 6)	2,275,000	-
	<u>\$ 18,765,003</u>	<u>\$ 5,406,032</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 657,208	\$ 820,391
Asset Retirement Obligation (Note 7)	275,000	-
	<u>932,208</u>	<u>820,391</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)		
Authorized:		
Unlimited common shares without par value		
Issued and fully paid:		
45,217,023 (2006 – 40,423,485 common shares)	49,034,260	28,330,924
Contributed surplus (Note 8b)	10,980,418	4,436,161
	<u>60,014,678</u>	<u>32,767,085</u>
Deficit - Statement 2	<u>(42,181,883)</u>	<u>(28,181,444)</u>
	<u>17,888,795</u>	<u>4,585,641</u>
	<u>\$ 18,765,003</u>	<u>\$ 5,406,032</u>

Nature of Business and Going Concern (Note 1)
Commitments (Note 11)
Subsequent events (Note 13)

ON BEHALF OF THE BOARD:

Signed "Catherine McLeod-Seltzer", Director

Signed "Andrew Swarhout", Director

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the Years Ended 31 December
US Funds

	2007	2006
Operating Expenses		
Exploration costs – <i>Exploration Costs Schedule</i>	\$ 11,041,032	\$ 12,073,719
Stock-based compensation – <i>Note 8b</i>	3,254,894	2,627,562
Wages and management salaries	365,450	300,040
Professional fees	340,756	260,774
Travel	265,088	128,542
Shareholder information and filing fees	244,881	172,033
General administrative expenses	202,126	345,658
Amortization	4,284	2,753
	15,718,511	15,911,081
Other Income		
Foreign exchange gain	1,300,930	295,912
Interest income, net	417,142	356,337
	1,718,072	652,249
Loss and Comprehensive Loss for the Year	(14,000,439)	(15,258,832)
Deficit - Beginning of year	(28,181,444)	(12,922,612)
Deficit - End of Year	\$ (42,181,883)	\$ (28,181,444)
Loss per Share – Basic and Diluted	\$ (0.32)	\$ (0.39)
Weighted Average Number of Shares Outstanding	43,630,935	39,493,559

Consolidated Statements of Cash Flow

For the Years Ended 31 December
US Funds

Cash Resources Provided By (Used In)	2007	2006
Operating Activities		
Loss and Comprehensive Loss for the year	\$ (14,000,439)	\$ (15,258,832)
Items not affecting cash		
Stock-based compensation – <i>Note 8b</i>	3,254,894	2,627,562
Amortization included in exploration costs	81,271	31,116
Amortization	4,284	2,753
	(10,659,990)	(12,597,401)
Changes in current assets and liabilities		
Prepaid expenses and advances	(73,025)	(37,919)
Accounts payable and accrued liabilities	(163,183)	721,058
Cash used in operating activities	(10,896,198)	(11,914,262)
Investing Activities		
Purchase of equipment	(124,600)	(176,015)
Resource acquisition costs	(2,000,000)	-
Short-term investments	(5,148,477)	-
Cash used in investing activities	(7,273,077)	(176,015)
Financing Activities		
Share capital issued – net	23,992,698	4,992,238
Cash provided by financing activities	23,992,698	4,992,238
Net Decrease in Cash and Cash Equivalents	5,823,423	(7,098,039)
Cash and cash equivalents – Beginning of year	5,024,649	12,122,688
Cash and Cash Equivalents – End of Year	\$ 10,848,072	\$ 5,024,649
Cash and cash equivalents consists of:		
Cash	\$ 403,907	\$ 3,073,527
Term Deposit	10,444,165	1,951,122
	\$ 10,848,072	\$ 5,024,649
Supplemental Schedule of Non-Cash Transactions:		
Fair value of options and warrants exercised	\$ 204,826	\$ 889,938
Fair value of warrants issued	\$ 3,690,596	\$ -
Future Reclamation Costs	\$ 275,000	\$ -

Consolidated Schedules of Exploration Costs

For the Years Ended 31 December
US Funds

	2007	2006
Corani		
Drilling	\$ 2,394,219	\$ 5,530,686
Salaries and consulting	1,539,881	927,248
Travel	451,395	188,477
Assaying and sampling	316,018	473,607
Supplies and general	188,503	115,745
Maintenance costs	26,688	330,438
Geophysics	46,071	616,891
	<u>4,962,775</u>	<u>8,183,092</u>
Santa Ana		
Drilling	1,974,514	472,737
Salaries and consulting	394,212	97,665
Travel	218,131	27,264
Assaying and sampling	178,002	41,088
Supplies and general	143,645	27,258
Maintenance costs	64,485	21,600
Geophysics	13,123	-
	<u>2,986,112</u>	<u>687,612</u>
Don Marcelo		
Geophysics	123,310	-
Drilling	84,294	-
Supplies and general	26,926	-
Maintenance costs	95,208	10,000
Salaries and consulting	83,893	-
Travel	35,516	-
Assaying and sampling	13,163	26
	<u>462,310</u>	<u>10,026</u>
Antash		
Expenditures	74,788	57,317
Reimbursement of expenses	(61,764)	-
	<u>13,024</u>	<u>57,317</u>
La Yegua		
Expenditures	4,341	17,203
Option payments	(20,411)	-
	<u>(16,070)</u>	<u>17,203</u>
Generative		
Salaries and consulting	498,438	498,871
Supplies and general	233,627	363,851
Travel	84,863	66,083
Assaying and sampling	33,059	20,656
Maintenance costs	16,816	82,640
Geophysics	6,836	-
	<u>873,639</u>	<u>1,032,101</u>

Bear Creek Mining Corporation
(An Exploration Stage Company)

Schedule

Consolidated Schedules of Exploration Costs - Continued

For the Years Ended 31 December
US Funds

	2007	2006
Other Properties	300,868	543,819
IGV	1,458,374	1,542,549
Costs for the Year	\$ 11,041,032	\$ 12,073,719

Notes to Consolidated Financial Statements

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1. Nature of Business and Going Concern

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

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

While these consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are events and conditions that cast significant doubt on the validity of that assumption. The Company has incurred losses since inception and has an accumulated deficit of \$42,181,883 at December 31, 2007. The Company has a payment obligation of \$20 million due on or before December 31, 2008 and \$25 million due on or before December 31, 2009 (note 6 (a)). The Company will need to raise sufficient funds to meet this obligation as well as fund ongoing exploration and administration expenses. Management believes that based upon the underlying value of its Corani and Santa Ana projects, that it will be able to obtain the necessary financing to meet the Company's requirements on an ongoing basis; however, there can be no assurance that the necessary financing will be obtained. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. Significant Accounting Policies

a) Consolidation

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

b) Cash and Cash Equivalents

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

Notes to Consolidated Financial Statements

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c) Short-term Investments

All short term investments are classified as held-for-trading financial instruments as the Company intends to use these investments in its normal course of financing its exploration activities. The held-for-trading classification was applied to estimate the fair value of short term investments at balance sheet dates using quoted market bid prices at close of business on the balance sheet date with changes in fair value recorded in the statement of loss, comprehensive loss and deficit.

d) Equipment

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

e) Income Taxes

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

f) Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing income (or loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents are reflected in diluted earnings per share by application of the treasury stock method.

g) Management's Estimates

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

h) Stock-Based Compensation

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

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of options is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-

Notes to Consolidated Financial Statements

31 December 2007

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line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

i) Foreign Currency Translation

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

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

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

j) Financial Instruments

The Company adopted the provisions of CICA Sections 3855, Financial Instruments – Recognition Measurement, 3865, Hedges and 1530, Comprehensive Income, on January 1, 2007 which addresses the classification, recognition and measurement of financial instruments and hedges in the financial statements and inclusion of other comprehensive income.

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

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

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

The Company has designated each of its significant categories of financial instruments as of January 1, 2007 as follows:

Cash and cash equivalents	Held-for-trading
Marketable securities	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities

The adoption of these accounting policies did not have a material effect on the financial statements of the Company upon adoption.

Notes to Consolidated Financial Statements

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k) Comparative Figures

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

l) Mineral Acquisition and Exploration Costs

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

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

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

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

m) Asset Retirement Obligations

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

n) Consolidation of Variable Interest Entities

The Company follows Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities", which requires consolidation of entities in which the Company has a variable financial interest. The Company has determined that it has no variable interest entities.

o) New accounting pronouncements

There are three new accounting standards that will be effective for the Company's (2008) fiscal year: Section 1535 – *Capital Disclosures*; Section 3862 – *Financial Instruments – Disclosures*; Section 3863 – *Financial Instruments – Presentation*.

Notes to Consolidated Financial Statements

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Section 1535 requires disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

Section 3862 and 3863 replaces the existing Section 3861 – Financial Instruments – Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections require disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks.

3. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short term investments and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, price or credit risks arising from its financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

The Company holds cash balances and incurs payables that are denominated in Canadian Dollars and Peruvian Soles. These balances are subject to fluctuations in the exchange rate between the Canadian Dollar, Peruvian Soles and the U.S. Dollar, resulting in currency gains or losses for the Company.

4. Short-term Investments

Details are as follows:

	31 December 2007
Chapleau Shares	\$ 20,411
Term deposits	5,128,066
Total Short-term Investments	<u>\$ 5,148,477</u>

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

	31 December 2007
Fair value	\$ 20,411
Cost	20,411
Unrealized gain (cumulative)	<u>\$ -</u>

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements

31 December 2007

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5. Equipment

Details are as follows:

	31 December 2007			31 December 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 29,162	\$ 16,734	\$ 12,428	\$ 27,165	\$ 12,450	\$ 14,715
Exploration equipment	438,794	161,355	277,439	316,191	80,085	236,106
	\$ 467,956	\$ 178,089	\$ 289,867	\$ 343,356	\$ 92,535	\$ 250,821

6. Resource Property Costs

Cumulative resource expenditures, per project under active exploration as at December 31, 2007, are as follows:

	Capitalized Acquisition Costs	Future Reclamation Costs	Maintenance Costs	Exploration Costs	Total Incurred to 31 December 2007
Corani Project, Peru	\$ 2,000,000	\$ 200,000	\$ 26,688	\$ 14,522,444	\$ 16,749,132
Santa Ana Project, Peru	-	75,000	64,485	3,774,453	3,913,938
Don Marcelo Project, Peru	-	-	95,208	377,128	472,336
	\$ 2,000,000	\$ 275,000	\$ 186,381	\$ 18,618,025	\$ 21,135,406

a) Corani Project

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

On March 6, 2008 Bear Creek entered into an agreement (the "Purchase 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. Upon completion of the purchase, Bear Creek will own a 100% interest in the Corani project.

Bear Creek has agreed to pay Rio Tinto total consideration of \$75 million payable as follows: (i) \$30 million by issue of 3,871,000 Bear Creek common shares at a price of \$7.75 per share; (ii) \$20 million in cash payable on the earlier of: December 31, 2008 or 15 business days following a change of control of Bear Creek; and (iii) \$25 million in cash payable on the earlier of: December 31, 2009 or 180 days following a change of control of Bear Creek.

Notes to Consolidated Financial Statements

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The closing of the acquisition of the Rio Tinto interest under the Purchase Agreement is subject to, among other things, all necessary regulatory and stock exchange approvals and the absence of material adverse changes in the affairs of Bear Creek. The balance of the purchase price is to be secured by a General Security Agreement in favour of Rio Tinto in addition to a mortgage on the Corani property, subordinated to future project financing.

b) Santa Ana Project

During 2004, the Company acquired an option to earn a 100% interest in the Santa Ana property in southeastern Peru. The property is subject to payments totalling 3% of direct exploration expenditures to a maximum lifetime payment of \$280,000, of which \$45,268 has been expensed to 31 December 2007. The Company has exercised its option in January 2008 and controls a 100% interest in the Santa Ana project.

c) Don Marcelo Project

On 6 December 2006, the Company entered into an option agreement, whereby the Company has the right to earn a 75% interest in the Don Marcelo property located in Peru. In order to earn its interest, Bear Creek must make payments of \$4.0 million over a four year period and has a commitment to complete a geophysical survey and a drill programme of 1,500 meters in the first year.

The Company can acquire the remaining 25% by either granting a 1.25% NSR or by making the following additional payments of: \$10 million for gold recoveries up to 2 million ounces, \$20 million for gold recoveries between 2 and 5 million ounces, or \$30 million for gold recoveries in excess of 5 million ounces.

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

d) AngloGold Exploration Alliance

The Company acquired certain data from AngloGold Ashanti Exploraciones del Peru S.A. ("AGA") in exchange for the issuance of 200,000 common shares of the Company's stock, 1 million warrants priced at CDN\$1.50 (exercised in 2005), and 1 million warrants priced at CDN\$2.20 to expire 12 January 2007 (exercised in March 2006). Any properties acquired will be subject to certain back-in rights in favor of AGA; namely, AGA has a "back-in" right to acquire a 65% interest in any prospect, acquired through the use of this data package, by funding a feasibility study and providing Bear Creek a full carried interest to production. None of the active projects of the Company are subject to this back-in.

e) Antash Project

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

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

Bear Creek has the option to acquire a 100% of the Colcabamba prospect through escalating cash payments totalling \$1,000,000 by September 2011. Once the prospect is transferred to Bear Creek, a 2.3% NSR will be granted to the optionor. The NSR payments are capped to a maximum of

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\$2,000,000. In order to keep the option agreement in good standing, Bear Creek must \$325,000 of exploration expenditures during the four years of the option.

In March 2007, Bear Creek signed an Agreement with Aztec Metals where Aztec can acquire a 51% interest in Antash by: a) meeting the cash payment obligations that Bear Creek has to the owner of Fe y Esperanza; b) meeting 100% of Bear Creek's finder's fee obligations to a Peruvian individual during the first year and 51% after vesting its interest; and c) completing a 1,000 metres drilling program within 12 months of the signature of the agreement. During the year, the Company received \$66,850 as reimbursement of expenditures.

In December 2007, Aztec terminated its option agreement with Bear Creek. Management of Bear Creek are currently seeking another potential optionor for the Antash project.

f) La Yegua

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

7. Asset Retirement Obligation

The Company has recorded an Asset Retirement Obligation of \$275,000 as of 31 December 2007. The amount was based on an estimate prepared by management to remove drill platforms, planting grass, and to level out the areas of trenching and drilling.

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

	<u>Future Reclamation Costs</u>
Corani Project, Peru	\$ 200,000
Santa Ana Project, Peru	75,000
	<u>\$ 275,000</u>

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

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

Notes to Consolidated Financial Statements

31 December 2007

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8. 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 2005	37,618,609	\$	22,448,748
Shares issued for stock options exercised	764,650		469,963
Shares issued for warrants exercised	1,040,226		2,616,523
Shares issued for exploration alliance warrants exercised	1,000,000		1,905,752
Fair value of options and warrants exercised	-		889,938
Balance – 31 December 2006	40,423,485		28,330,924
Shares issued for stock options exercised	297,500		229,905
Shares issued for warrants exercised	2,071,038		5,942,877
Fair value of broker options exercised	-		16,845
Fair value of options and warrants exercised	-		171,137
Shares issued for private placement	2,425,000		15,222,139
Share issuance costs – private placement	-		(879,567)
Balance – 31 December 2007	45,217,023	\$	49,034,260

On 1 August 2007, the Company completed a private placement through a syndicate of underwriters of 2,425,000 units at a price of C\$8.30 a unit for gross proceeds of \$18,912,735 (approximately C\$20.1 million). Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at a price of C\$10.50 over a two year period expiring on 1 August 2009. The fair value attributable to the common shares and warrants was \$15,222,139 and \$3,690,596 respectively (*Note 8d*).

Share issuance costs relating to this transaction amounted to \$1,092,819, including a cash commission of 5.5% paid to the Underwriters. The share issuance costs were allocated between shares and warrants on a pro rata basis such that \$213,252 of this amount was allocated to the share purchase warrants issued as part of the units.

b) **Details of Contributed Surplus:**

	2007		2006
Balance – Beginning of Period	\$ 4,436,161	\$	2,698,537
Fair value of private placement warrants (<i>Note 8a</i>)	3,690,596		-
Fair value of stock-based compensation (<i>Note 8c</i>)	3,254,894		2,627,562
Fair value of broker warrants exercised	(16,844)		(276,736)
Fair value of exploration alliance warrants exercised	-		(240,861)
Fair value of stock options exercised	(171,137)		(372,341)
Issuance costs (<i>Note 8a</i>)	(213,252)		-
Balance – End of Period	\$ 10,980,418	\$	4,436,161

Notes to Consolidated Financial Statements

31 December 2007

US Funds

c) Share Purchase Options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Toronto Stock Exchange on the last trading day preceding the grant date. Options begin vesting on the grant date based on a schedule outlined in the share purchase option plan.

	Number of options	Weighted average exercise price (in CDN\$)
Options outstanding at 31 December 2005	5,130,000	1.49
Granted	235,000	6.38
Exercised	(764,650)	0.69
Cancelled	(245,000)	1.99
Options outstanding at 31 December 2006	4,355,350	1.87
Exercised	(297,500)	0.86
Granted	525,000	7.99
Options outstanding at 31 December 2007	4,582,850	2.65

A summary of the Company's options as at 31 December 2007 is as follows:

	Number	Price per Share	Expiry Date
Options	1,135,000	US\$0.50	21 April 2008
	255,000	US\$0.50	5 June 2008
	10,000	US\$0.50	2 July 2009
	782,850	Cdn\$0.70	24 November 2009
	730,000	Cdn\$3.00	5 August 2010
	835,000	Cdn\$3.00	5 August 2010
	100,000	Cdn\$4.75	6 December 2010
	100,000	Cdn\$4.60	31 May 2011
	110,000	Cdn\$8.08	22 August 2011
	525,000	Cdn\$7.99	16 May 2012
	4,582,850		

As at 31 December 2007, 4,292,850 options have vested.

On 17 May 2007, the Company granted employees, consultants and officers of the Company, options to purchase up to 525,000 common shares of the Company at an exercise price of C\$7.99 per share. These options had a \$3,100,998 estimated value on the grant date.

Notes to Consolidated Financial Statements

31 December 2007

US Funds

The options granted during the year ended 31 December 2007 were valued at \$3,100,998 using the Black-Scholes option pricing model, based on the following assumptions:

	2007	2006
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	112%	118 – 121%
Risk-free interest rate	4.30%	4.19%
Expected life of options	5 years	5 years

The weighted average fair value of the options granted was \$5.91.

Option pricing models require the input of highly subjective assumptions including the estimate of the share 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 in the current year includes \$1.516 million from prior year grants, \$1.737 million from the current year grant. \$1.363 million remains to be recorded at 31 December 2007 on options which have yet to vest.

d) Share Purchase Warrants

	Number	Price per Share	Expiry Date
Warrants	1,212,499	C\$10.50	1 August 2009

The warrants granted in the private placement on 1 August 2007, were valued at \$3,690,596 using the Black-Scholes option pricing model, based on the following assumptions:

	1 August 2007
Expected dividend yield	0.00%
Expected stock price volatility	110%
Risk-free interest rate	4.67%
Expected life of warrants	2 years

The weighted average fair value of the warrants granted was Cdn\$4.01.

9. Related Party Transactions

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

	2007	2006
Consulting fees paid to a director of the Company	\$ 48,400	\$ 41,000
Legal fees paid to a firm in which a director of the Company is a partner	\$ 35,243	\$ 22,997
Legal fees paid to a firm in which an officer of the Company is a partner	\$ 149,447	\$ 126,097
Accounting fees paid to a firm in which an officer of the Company is a partner	\$ 66,987	\$ 41,163

Included in accounts payable are \$20,588 of amounts due to related parties, which are unsecured, non-interest bearing and payable on demand.

Notes to Consolidated Financial Statements

31 December 2007

US Funds

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.

10. 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 South America. All of the Company's assets and other expenses are in Canada, except for \$966,628 (2006 - \$323,432) of assets, which are located in Peru.

11. Commitments

- a) By an agreement dated 27 September 2003 (and amended in April 2006 and March 2007), the Company entered into a consulting agreement with a director and officer of the Company to act as the President and C.E.O. of the Company. Compensation per the amended agreement is \$15,000 per month. The amended agreement is effective from March 2007 and will continue for a term of two years. The Company may terminate this agreement by providing a severance package depending on the nature of the termination.
 - b) By an agreement dated 30 September 2003 (and amended in April 2006), the Company entered into a consulting agreement with an officer of the Company to act as the Vice President of Explorations of the Company. Compensation per the amended agreement is \$10,300 per month. The amended agreement is effective from 22 April 2006 and will continue for a term of two years. The Company may terminate this agreement by providing a severance package depending on the nature of termination.
 - c) The Company has co-signed an operating lease agreement, commencing on 1 October 2006 to 31 December 2011. The total minimum lease payments are Cdn\$8,823 per month and Cdn\$105,876, per annum. The Company's proportionate share of the minimum lease payments is Cdn\$3,160 per month and Cdn\$37,920 per annum.
-

12. Income Tax

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

	2007		2006	
Loss before income taxes	\$	(14,000,439)	\$	(15,258,832)
Statutory tax rate		34.12%		34.12%
Expected income tax (recovery)	\$	(4,777,000)	\$	(5,206,000)
Permanent differences		1,069,000		2,056,000
Foreign tax rates different from statutory rates		408,000		448,000
Change in valuation allowance		3,300,000		2,702,000
Total income taxes (recovery)	\$	-	\$	-

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Consolidated Financial Statements

31 December 2007

US Funds

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

	2007	2006
Future income tax assets		
Non-capital losses	\$ 2,943,000	\$ 2,572,000
Unamortized share issue costs	350,000	262,000
Tax value of resource properties and plant and equipment costs in excess of net book value of resource property and plant and equipment	<u>5,773,000</u>	<u>2,932,000</u>
	9,066,000	5,766,000
Valuation allowance	<u>(9,066,000)</u>	<u>(5,766,000)</u>
	<u>-</u>	<u>-</u>

In Canada and Peru, the Company has non-capital losses for income tax purposes of approximately \$10,217,000 (2006 - \$4,774,000), which expire between 2008 and 2027.

The Company has incurred in Peru certain resource related expenditures of approximately \$18 million (2006 -\$13.6 million), which may be carried forward indefinitely and used to reduce prescribed taxable income in future years.

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

13. Subsequent Events

Subsequent to year end, a total of 1,394,000 stock options were exercised for a cash total of \$706,906

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

Our Management's Discussion and Analysis

Introduction

Prepared 22 March, 2008 for the period ended 31 December 2007. The following discussion and analysis of the financial condition and results of operations of Bear Creek Mining Corporation (the "Company" or "Bear Creek") should be read in conjunction with the Company's audited annual consolidated financial statements for the period ended 31 December 2007, and the notes thereto. This discussion and analysis includes references to United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars. Canadian dollars are referred to as C\$.

Bear Creek Mining Corporation's ("Bear Creek" or the "Company") business is acquiring and exploring mineral properties, principally located in Peru, with the objective of creating value for shareholders by identifying economic mineral deposits which can be sold or developed. Bear Creek is a publicly traded Canadian exploration company without any mineral producing properties, and thus, has no revenues from any mineral properties.

Forward-Looking Information

This management discussion and analysis ("MD&A") contains certain forward-looking statements that are based on the beliefs and assumptions of its management and information currently available to Bear Creek. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to Bear Creek or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of Bear Creek with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Therefore; the reader is cautioned not to place undue reliance on forward-looking statements.

Activities on Mineral Projects

Current efforts are focused primarily on the advancement of the Corani and Santa Ana projects. In addition, the Company continues to explore for gold and silver prospects in Peru. Base metals exploration prospects of potential are also considered. From time to time, precious or base metal exploration opportunities in other Latin American countries are considered when compatible with management's history and expertise. A large number of projects are under Bear Creek's review at any given time; including pre-feasibility and scoping study preparation, active drill evaluation, some being prepared for drilling, others in first pass mapping and sampling following staking or acquisition, and many in preliminary evaluation to decide if property ownership is possible or desired. Due to the generative nature of Bear Creek's

business, many of the expenditures consist of drilling and assay costs, salaries for professional personnel, land, legal and property payments, and travel to/from and within properties.

Corani Project

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. The final option payment of \$3 million was paid in January 2008 upon which the Company earned a 70% interest and the agreement converted to a joint venture in which Rio Tinto has a participatory 30% interest.

On 6 March 2008 Bear Creek entered into an agreement (the "Purchase 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. Upon completion of the purchase, Bear Creek will own a 100% interest in the Corani project.

Bear Creek has agreed to pay Rio Tinto total consideration of \$75 million payable as follows: (i) \$30 million by issue of 3,871,000 Bear Creek common shares at a price of \$7.75 per share; (ii) \$20 million in cash payable on the earlier of: December 31, 2008 or 15 business days following a change of control of Bear Creek; and (iii) \$25 million in cash payable on the earlier of: December 31, 2009 or 180 days following a change of control of Bear Creek.

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

The closing of the acquisition of the Rio Tinto interest under the Purchase Agreement is subject to, among other things, all necessary regulatory and stock exchange approvals and the absence of material adverse changes in the affairs of Bear Creek. The balance of the purchase price is to be secured by a General Security Agreement in favor of Rio Tinto in addition to a mortgage on the Corani property, subordinated to future project financing.

Current Developments at Corani

In January 2008, the Company completed its scoping study, incorporating a preliminary economic assessment (PEA) as defined by NI-43-101 based on the latest resource estimate for the Corani silver-lead-zinc deposit. The study concludes:

- The net present value of 100% of the Corani project is \$470 million at a 7% discount rate and an internal rate of return for the project of 40%.
- Recovered silver production for the first two years is projected to average 22 million ounces per year.
- Cash cost is estimated at \$2.49 per ounce silver, net of base metal credits.
- Measured and Indicated resources are: 327 million ounces of silver, 4.0 billion pounds of lead, and 2.5 billion pounds of zinc.

- The total Measured and Indicated resource is 248.4 million tonnes at average grades of 40.9 g/t silver, 0.73% lead and 0.37% zinc.
- Overall process recoveries of 80% for silver, and 60% each for lead and zinc are assumed in the study as supported by metallurgical test work to date.

The financial model is based upon metals prices of \$12 per ounce silver, and \$0.93 and \$1.19 per pound of lead and zinc, respectively. These prices represent a three-year historical rolling average to the end of November 2007 and two-year future prices weighted 60:40 historical to future.

The project will produce an average of 15.2 million payable ounces of silver, 123 million pounds of lead and 66 million pounds of zinc annually over a 12.5 year mine-life. Cash cost per ounce of silver is projected to be \$2.49, net of base metals credits. Pre-production capital investment in the project is estimated to be \$428 million and total capital expenditures are estimated at \$592 million over the 12.5 year life of the mine. Based upon the aforementioned metals prices, the project achieves payback of capital in less than two years. The scoping study has been prepared using cost estimates and production forecasts provided by qualified engineering consulting groups.

For further information regarding the scoping study, the Company filed on SEDAR its 43-101 compliant technical Report entitled "Corani Resource Estimate and PEA"; prepared by Independent Mining Consultants.

Based upon the positive scoping study, the Company will commence a pre-feasibility study in the second quarter of 2008, which is expected to cost approximately \$2 million. In the interim, metallurgical testing will continue at SGS Vancouver Laboratories to further optimize process recoveries and operating costs. Metallurgical mapping of the ore types is being completed which will be incorporated into the resource model for mine and process planning purposes.

During the year ended 31 December 2007, the Company incurred acquisition and exploration expenditures of \$7.0 million on the Corani project. Included in this total are option payments of \$2.0 million, drilling costs of \$2.4 million, salaries and consulting of \$1.5 million, and travel costs of \$0.5 million, assaying and sampling of \$0.3 million and other costs of \$0.2 million. In addition the Company recorded an accrued liability of \$0.2 million for future reclamation costs of the project.

Santa Ana Project

The Company has exercised its option in January 2008 and controls a 100% interest in the Santa Ana silver project. The property, comprised of 6,300 hectares, is located in the Puno region in southern Peru.

In January 2008, the Company completed its first resource estimate based on 17,991 meters of drilling in 104 drill holes completed through November 2007. The estimate was prepared by Independent Mining Consultants, Tucson, Arizona. The Independent Qualified 43-101 report is available on SEDAR. The current resource estimates using a \$12/ounce silver resource price are:

Bear Creek Mining, Santa Ana Deposit
Mineral Resource Based on 20 g/t Cutoff and Prudent Open Pit Constraints
January 15, 2007

Category	Ktonnes	Contained Metal					
		Silver Gm/t	Lead %	Zinc %	Silver Million Ozs	Lead Million Lbs	Zinc Million Lbs
Indicated	21,038	44.0	0.29	0.53	29.8	134.5	245.8
Inferred	42,173	45.0	0.26	0.49	61.0	241.7	455.6

The stripping ratio is approximately 1.8:1; however, the block model considers blocks with no nearby drill holes as waste and additional drilling is expected to convert a certain amount of these blocks to resource, thereby reducing the stripping ratio.

Drilling

The Company has completed and reported 24,224 meters in three phases of drilling in 133 drill holes. The drill results since November 2007, as well as future results, will be incorporated into resource estimate updates as appropriate. Silver mineralization is contained in low-angle structures and broad, vertical structural zones outcropping at surface and extending to depths of at least 150 vertical meters. Typical mineralized drilling intercepts average 50 to 75 meters thick, with grades between 30 to 90 grams per tonne silver. These drill intercepts include higher-grade intervals ranging from a thickness of a few meters to tens of meters, with average grades between 100 to 2,000 g/t silver. The target concept is to define an open-pittable, low grade silver deposit amenable to low cost heap-leaching. Mineralization appears to remain open at depth and laterally in all directions. Drill results beneath soil anomalies to the north and southwest confirm that the silver anomalies in soil over covered areas on three sides of the previously drill-tested deposit indicate potential for the expansion of the mineralized areas.

Two drills continue on the project focusing on extending the mineralization in open directions. A third drill is being considered in the second quarter of 2008.

Metallurgical Testing

A second phase test program involving three column leach tests has been completed at McClelland Laboratories in Sparks Nevada, which provided results that show that the Santa Ana material is well suited for heap leach recovery methods. In the test program, average silver recovery of 64.6% was achieved for the conventional tests, and overall long-term silver recovery should exceed 70%, according to McClelland Laboratories.

The first phase of metallurgical testing, which involved cyanide leach tests of 10 samples selected from areas of known silver mineralization (including both low and high grade ranges), has shown that silver recovery can be expected to be 85% with crush sizes of 50% passing 200 mesh and 71% at 70% passing 2mm. The initial results from the early bottle-roll test work show that the silver mineralization leaches well at ¾ inch crush sizes.

Santa Ana Resource and Engineering:

Studies have been completed by Vector Engineering to evaluate the infrastructure and heap leach designs in preparation for a scoping study. The studies indicate that power, water supply and site access road designs are favorable for project development. Drilling continues to intersect higher grade silver intercepts within long intervals of lower grade mineralization indicating that separate treatment and processing may be appropriate to increase recoveries from higher-grade material. Upon completion of further drilling and metallurgical testing, the Company will evaluate straight heap leach, as well as pulp agglomeration heap leach approaches as process alternatives. The pulp agglomeration method utilizes vat leaching of higher grade material with accelerated recoveries followed by heap leaching for more moderate grade material. This conventional technology can produce silver dore on-site with anticipated recoveries likely to be greater than 70%. Cash costs per ounce of silver tend to be in the lowest quartile when using heap-leach technology for precious metals production. It is not expected that the lead and zinc contained in the resource would be recoverable if a silver leach project is pursued.

The Company expects to complete a scoping study/preliminary economic assessment ("PEA") in the third quarter of 2008 once sufficient drilling has been completed to better define the total resource.

During the year ended 31 December 2007, the Company incurred expenditures of \$3.0 million on the Santa Ana project. Included in this total are: \$2.0 million of drilling costs, salaries and consulting of \$0.4 million, assays and sampling of \$0.2 million and various other costs of \$0.4 million. In addition, the Company recorded \$0.075 million for future reclamation costs of the project.

Don Marcelo Project

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

During the year ended 31 December 2007, the Company expended \$0.5 million on the Don Marcelo project, largely on a geophysical survey.

A program of geophysics, including ground magnetics and induced polarization has been completed. The results have been analyzed in conjunction with geologic and geochemical information in the selection of drill targets.

In the first quarter of 2008, the Company evaluated drill results received and has decided to terminate its option agreement for the Don Marcelo project.

Antash Project

Antash represents a porphyry copper (molybdenum-gold) target and it is formed by the following properties: Fe y Esperanza 1, Antash 1 and Colcabamba. Bear Creek owns 100% of the 1,000 hectares Antash concession and have option agreements to acquire 100% of Fe y Esperanza 1 and Colcabamba, both with 100 hectares each.

The option to acquire a 100% of the 100 he Fe y Esperanza 1 prospect is through escalating cash payments totaling \$765,000 by October 2009. Once the prospect is transferred to Bear

Creek, a 2% NSR will be granted to the optionor. The NSR payments are capped to a maximum of \$700,000.

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

In March 2007, Bear Creek signed a binding letter of intent with Aztec Metals, whereby Aztec could acquire 51% interest in Antash by: a) meeting the cash payment obligations that Bear Creek has to the owner of Fe y Esperanza; b) meeting 100% of Bear Creek's finders fee obligations to a Peruvian individual during the first year and 51% after vesting its interest; and c) completing a 1,000 meters drilling program within twelve months of the signature of the agreement.

In December 2007, Aztec terminated its option agreement with Bear Creek as it did not complete the necessary drilling program under the option program. Bear Creek is currently evaluating the Antash project, which may include optioning the project to another third party.

La Yegua

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

In February 2007, Bear Creek signed a Letter of Intent with Chapleau Resources Ltd. ("Chapleau") and subsequently formalized it by means of an option agreement dated 29 January 2008 where Chapleau has an option to acquire up to a 75% interest in the project. Chapleau has an opportunity to earn a 51% interest in the property by spending a total amount of \$2.65 million in exploration over a four year period and the issuance of the equivalent of \$0.35 million in Chapleau shares, which is based on the market price of Chapleau shares at the time of issuance, during the four years. With the issuance of an additional 1.25 million shares Chapleau may increase the vested interest from 51% to 75%.

Chapleau has informed the Company that all required exploration permits and surface agreements are in place, and that Chapleau has currently completed 900 meters of drilling. Results from the initial Chapleau drilling program were announced on 18 December 2007; including one drill hole averaging 0.2% copper over 180 meters.

Generative Exploration

Generative exploration is a crucial part of the business in identifying and acquiring new opportunities. Generative exploration costs are those costs not attributable to a specific Bear Creek project. Bear Creek maintains at least two field teams and a system of field prospectors who focus on generating new exploration targets with the emphasis on gold and silver. Typically, dozens of prospects are submitted to or are generated by Bear Creek during any given quarter. At any given time, several targets may be under consideration for possible acquisition through staking or entering into third party option to purchase agreements. When

Bear Creek defines a project as a distinct exploration target, it is then accounted for as a separate project.

IGV

IGV expense of \$1.5 million represents the amount of IGV that has been paid to the Peruvian government during the year ended 31 December 2007. 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.

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 without any mineral producing properties, and thus, does not have revenues from any mineral properties.

For the Period Ended 31 December 2007 as compared to the Period Ended 31 December 2006

Net Loss and Operating Expenses

In the current year, the Company incurred a net loss of \$14.0 million compared to a net loss of \$15.3 million for the same period in 2006, a decrease of \$1.3 million. The decrease is primarily due to lower drilling and exploration costs incurred on the Corani property offset by increased drilling costs on the Company's Santa Ana project. The Company had a loss per share of \$0.32 compared to \$0.39 for the same period in 2006.

Total operating expenses for the year ended 31 December 2007 were \$15.7 million compared to operating expenses of \$15.9 million for the year ended 31 December 2006. Stock compensation expense increased to \$3.3 million in the current year, up from \$2.6 million in the same period in 2006, due to an increase in the fair value of options that vested during the current year as compared to 2006, attributable to the increased fair value attributed to the stock options granted in 2007 and 2006 using the Black-Scholes pricing model. Exploration costs were \$11 million in the current year, down from \$12.1 million in 2006 largely due to lower drilling costs incurred on the Corani project.

For the Three Months Ended 31 December 2007 as compared to the Three Months Ended 31 December 2006

In the current quarter, the Company experienced a net loss of \$4.9 million compared to a net loss of \$4.0 million for the same period in 2006, an increase in net loss of \$0.9 million. In the current quarter, the Company had a loss per share of \$0.11 compared to \$0.12 for the same period in 2006. The increase in net loss is primarily due to \$4.4 million of drilling and exploration costs being incurred in the fourth quarter of 2007 as compared to \$3.7 million being incurred in the fourth quarter of 2006. The increase in exploration expenditures in 2007 primarily related to \$1.7 million of exploration expenditures on Santa Ana as well as \$0.3 million

in exploration expenditures on Don Marcelo. These increases in exploration costs were offset by a reduction in expenditures on the Corani project as compared to 2006.

Total operating expenses for the third quarter in 2007 were \$5.4 million compared to operating expenses of \$4.8 million for the same period in 2006. The Company had a foreign exchange gain of \$0.4 million due to the Company maintaining a portion of its cash reserves in Canadian dollars and Peruvian soles, and the Company reporting its results in US dollars. During the three months ended 31 December 2007, the Canadian dollar and Peruvian soles strengthened against 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 from Continued Operations (In Millions)	Basic and Fully Diluted Loss per Share from Continued Operations
4 th Quarter 2007	Nil	(4.9)	(0.11)
3 rd Quarter 2007	Nil	(2.9)	(0.07)
2 nd Quarter 2007	Nil	(3.9)	(0.09)
1 st Quarter 2007	Nil	(2.3)	(0.10)
4 th Quarter 2006	Nil	(4.8)	(0.12)
3 rd Quarter 2006	Nil	(4.0)	(0.10)
2 nd Quarter 2006	Nil	(3.6)	(0.09)
1 st Quarter 2006	Nil	(2.9)	(0.08)

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

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

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

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

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

The increase in the third quarter of 2006 resulted primarily from increased drilling and other exploration incurred on the Corani project.

The increase in the loss for the first quarter of 2006 resulted primarily from increased drilling and other exploration costs incurred on the Corani project.

Selected Annual Information

The following table sets out selected annual financial information of the Company and is derived from the Company's audited consolidated financial statements for the periods ended 31 December 2007, 2006 and 2005.

	2007		2006		2005	
Sales	\$	-	\$	-	\$	-
Loss for the Period – In Millions	\$	(14.0)	\$	(15.3)	\$	(4.8)
Loss per Share - Basic and Diluted	\$	(0.32)	\$	(0.39)	\$	(0.15)
Total Assets – In Millions	\$	18.8	\$	5.4	\$	12.3
Total Long-term Liabilities – In Millions	\$	0.3	\$	-	\$	-
Dividends Declared	\$	Nil	\$	Nil	\$	Nil

Liquidity and Capital Resources

Of the \$15.9 million in cash and cash equivalents and short term investments as at 31 December 2007, approximately \$5.1 million is denominated in Canadian dollars, with the remaining in US dollars. The Company's major exploration expenditures are denominated in US dollars. The Company places its cash and cash equivalents in either government backed paper or in Canadian chartered bank corporate paper with maturities of less than 90 days.

On 31 December 2007, the Company had 45,217,023 issued shares. The Company's net working capital as at 31 December 2007 was \$15.3 million compared to a net working capital of \$4.3 million as at 31 December 2006. The cash balance at 31 December 2007 was \$15.9 million compared to \$5.0 million as at 31 December 2006. As at 31 December 2007 current liabilities were \$0.9 million compared to \$0.8 million as at 31 December 2006.

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

On 1 August 2007, the Company completed a private placement through a syndicate of underwriters of 2,425,000 units at a price of C\$8.30 a unit for gross proceeds of approximately C\$20.1 million. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at a price of C\$10.50 over a two year period expiring on 1 August, 2009. The underwriting fees associated with this issuance included a cash commission of 5.5%.

As at 22 March 2008, the Company had 46,611,023 outstanding common shares. In addition the Company has a commitment to issue to Rio Tinto 3,871,000 shares of the Company. The Company has 3,513,850 share purchase options and 1,212,499 share purchase warrants

outstanding. The average exercise price of the share purchase options is C\$3.53, and the share purchase warrants exercise price is C\$10.50.

With the private placement completed in August 2007 of C\$20.1 million, the Company estimates that it has sufficient cash to meet its planned exploration expenditures and operating needs through the end of 2008, but will require additional funding in order to make the \$20 million payment to Rio Tinto due on or before December 31, 2008. This estimate is based on current information, as the Company's expenditures and cash requirements may change over time.

Planned expenditures for the 2008 fiscal year includes the start of the pre-feasibility study at Corani. On the Santa Ana project the Company will complete a scoping study and continue drilling; the Company will also continue exploration programs on other projects. In addition to the option payment made to Rio Tinto of \$3 million in January and the \$20 million payment due to Rio Tinto required by the end of 2008, cash exploration expenditures and administrative costs in 2008 is anticipated to be approximately \$12 million for the 2008 fiscal year

The Company is aware that its cash needs and requirements will require additional financing to satisfy its future commitments and planned expenditures. The Company anticipates obtaining additional financing through but not limited to, the issuance of additional equity. The Company believes that given the opportunities that the Corani and Santa Ana Projects represents the necessary financing will be obtained, although the Company has no assurance that such financing will be available or be available on favorable terms.

Bear Creek's opinion concerning liquidity and its ability to avail itself in the future of the financing options mentioned above are based on currently available information. To the extent that this information proves to be inaccurate, future availability of financing may be adversely affected. Factors that could affect the availability of financing include Bear Creek's performance (as measured by various factors including the progress and results of the Corani and Santa Ana projects, the state of international debt and equity markets, investor perceptions and expectations and the global financial and metals markets).

Financing Activity

During the year ended 31 December 2007, the Company received cash proceeds of \$24.0 million from the private placement completed in August and the exercise of 2,071,038 Series D and E and Broker warrants and the exercise of 297,500 options.

Investing Activity

During the year ended 31 December 2007, the Company made an option payment of \$2.0 million related to its Corani option agreement.

Transactions with Related Parties

In connection with the approval of related party transactions, the Company has a policy that requires that the terms of all such transactions must be comparable to terms available in arms-length transactions. Each of the transactions described below meet those requirements and occurred during the year ended 31 December, 2007.

The Company received legal services, totaling \$35,243, from a law firm in which a Director of Bear Creek, is a partner. Legal services were rendered in association with the Company's subsidiary in Peru and its interest in various mineral projects.

The Company received legal services, totaling \$149,447, from a law firm in which an Officer of Bear Creek, is a partner. Legal fees related primarily to the amendment of the Company warrants, the equity financing and other ongoing administrative items.

The Company received accounting services from an accounting firm in which an Officer of the Company, is a partner. The total accounting fees paid were \$66,987.

The Company received consulting services from a Director of the Company, during the period. The fees were incurred in relation to management consulting services. Total fees paid during the year were \$48,400.

Critical Accounting Policies and Estimates

The details of Bear Creek's accounting policies are presented in note 2 of the annual consolidated financial statements. The following policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Company's financial statements and the uncertainties that could have a bearing on its financial results.

a) *Resource Properties*

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

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

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

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

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

b) Estimates

Financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Financial Instruments

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

a) Section 3855 – Financial Instruments – Recognition and Measurement. Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. Investments classified as available for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

b) Section 1530 – Comprehensive Income. Comprehensive Income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Corporation's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net income (loss) until realized.

c) The adoption of Section 3855 and 1530 had no impact on the opening equity and losses of the Company.

Disclosure Controls and Internal Control Over Financial Reporting

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended 31 December 2007, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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