

BEAR CREEK MINING CORPORATION

(An Exploration Stage Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2016 and 2015

EXPRESSED IN US DOLLARS

(Unaudited)

Bear Creek Mining Corporation
(An Exploration Stage Company)
Interim Consolidated Statements of Financial Position

US Dollars (000's)
(Unaudited)

	Note	September 30, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 16,560	\$ 19,368
Short-term investments		18,023	21
Receivables and prepaid expenses		318	785
		34,901	20,174
Non-current assets			
Equipment and leasehold improvements		191	216
Resource property costs	5	78,198	78,301
TOTAL ASSETS		\$ 113,290	\$ 98,691
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 2,097	\$ 1,334
Current portion of other liabilities	6	224	262
		2,321	1,596
Non-current liabilities			
Other liabilities	6	468	464
Provision for site restoration		200	200
		2,989	2,260
EQUITY			
Share capital	7	286,786	265,531
Contributed surplus		30,842	30,217
Deficit		(207,327)	(199,317)
		110,301	96,431
TOTAL LIABILITIES AND EQUITY		\$ 113,290	\$ 98,691

Commitments (Note 10)

ON BEHALF OF THE BOARD:

Signed "Catherine McLeod-Seltzer", Director

Signed "Nolan Watson", Director

The accompanying notes are an integral part of these interim condensed consolidated financial statements

Bear Creek Mining Corporation
(An Exploration Stage Company)
Interim Consolidated Statements of Loss and Comprehensive Loss

US Dollars (000's, except share data)
(Unaudited)

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2016	2015	2016	2015
Operating expenses					
Santa Ana arbitration	5	\$ 1,849	\$ 129	\$ 3,497	\$ 1,357
Corani engineering and evaluation costs	5	905	1,962	2,594	6,152
Other exploration and evaluation costs	5	217	375	698	1,558
Share-based compensation		258	167	630	749
Wages and management salaries	8	169	158	523	567
Professional and advisory fees		52	50	234	292
General office expenses		52	41	130	134
Shareholder information and filing fees		37	34	86	159
Travel		16	22	48	64
Loss before other items		3,555	2,938	8,440	11,032
Other income and expense					
Foreign exchange loss (gain)		(137)	427	(352)	977
Finance income		(40)	(25)	(77)	(96)
Other income		-	-	(1)	-
Loss and Comprehensive Loss for the Period		\$ 3,378	\$ 3,340	\$ 8,010	\$ 11,913
Loss per Share – Basic and Diluted		\$ 0.03	\$ 0.04	\$ 0.08	\$ 0.13
Weighted Average Number of Shares Outstanding		100,268,289	93,107,139	95,512,511	93,107,139

The accompanying notes are an integral part of these interim condensed consolidated financial statements

Bear Creek Mining Corporation
(An Exploration Stage Company)
Interim Consolidated Statements of Cash Flows
For the Nine Months Ended September 30
US Dollars (000's)
(Unaudited)

	Note	2016	2015
Operating Activities			
Loss for the period		\$ (8,010)	\$ (11,913)
Adjustments for:			
Amortization		34	53
Gain on investments		(1)	-
Share-based compensation		630	749
Interest income		(77)	(96)
Unrealized foreign exchange (gain) loss		(243)	738
		(7,667)	(10,469)
Changes in current assets and liabilities:			
Receivables and prepaid expenses		493	(351)
Accounts payable and accrued liabilities		763	209
Cash used in operating activities		(6,411)	(10,611)
Investing Activities			
Purchase of equipment		(9)	(43)
Resource acquisition costs	5	(12)	(209)
Reimbursement of acquisition funds	5	115	-
Payment of Corani obligation	6	(41)	(58)
Short-term investment		(18,000)	-
Interest received		51	106
Cash used in investing activities		(17,896)	(204)
Financing Activities			
Share capital issued – net	7	21,234	-
Options exercised		16	-
Cash provided by financing activities		21,250	-
Effect of exchange rate change on cash and cash equivalents		249	(805)
Net Decrease in Cash and Cash Equivalents		(2,808)	(11,620)
Cash and cash equivalents – Beginning of Period		19,368	34,309
Cash and Cash Equivalents – End of Period		\$ 16,560	\$ 22,689

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Bear Creek Mining Corporation
(An Exploration Stage Company)

Interim Consolidated Statements of Changes in Equity

US Dollars (000's, except share data)
(Unaudited)

	Share Capital (Number of Shares)	Share Capital (Amount)	Contributed Surplus	Deficit	Total
December 31, 2014	93,107,139	\$ 265,531	\$ 29,391	\$ (184,488)	\$ 110,434
Share-based compensation	-	-	749	-	749
Net loss for the period	-	-	-	(11,913)	(11,913)
September 30, 2015	93,107,139	265,531	30,140	(196,401)	99,270
Share-based compensation	-	-	77	-	77
Net loss for the period	-	-	-	(2,916)	(2,916)
December 31, 2015	93,107,139	265,531	30,217	(199,317)	96,431
Prospectus financing, net of share issuance costs	9,967,050	21,234	-	-	21,234
Options exercised	10,875	21	(5)	-	16
Share-based compensation	-	-	630	-	630
Net loss for the period	-	-	-	(8,010)	(8,010)
September 30, 2016	103,085,064	\$ 286,786	\$ 30,842	\$ (207,327)	\$ 110,301

The accompanying notes are an integral part of these interim condensed consolidated financial statements

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2016

US Dollars
(Unaudited)

1. Nature of Business

Bear Creek Mining Corporation's ("Bear Creek" or the "Company") business is the acquisition, exploration and development of precious and base metal properties in Peru.

Bear Creek is a public company incorporated in British Columbia, Canada with shares listed on the TSX Venture Exchange. The head office, principal address and records office of the Company are located at 400 Burrard Street, Suite 1400, Vancouver, British Columbia, Canada, V6C 3A6.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs and development projects 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 factors include the discovery of economically recoverable reserves, the ability to complete development of these properties, and future profitable production or proceeds from disposition of mineral properties.

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.

2. Basis of Preparation

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by IASB. The accounting policies adopted are consistent with those of the previous financial year.

The Board of Directors approved the interim condensed consolidated financial statements on November 22, 2016.

3. Recent Accounting Pronouncements

The following new standards and amendments to standards have been issued but are not effective during the period ended September 30, 2016:

- IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized costs, fair value through OCI and fair value through P&L. The basis of classification depends on entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2016

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Standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this Standard.

- IFRS 15 Revenue from Contracts with Customers deals with revenue recognition and establishes principles of reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when the customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Standard replaces IAS 18 Revenue, and IAS 11 Construction Contracts and related interpretations. It is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Standard is not expected to have an impact on the Company in its present form.
- IFRS 16 Leases is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. The amendments are effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this Standard.

4. Cash and Cash Equivalents

	September 30, 2016 (000's)	December 31, 2015 (000's)
Cash	\$ 2,397	\$ 779
Investment savings account	14,163	18,589
	\$ 16,560	\$ 19,368

5. Resource Property Costs

	Corani Project (000's)		Maria Jose Project (000's)		Total (000's)
Balance at December 31, 2014	\$ 77,217	\$	335	\$	77,552
Land acquisition costs	101		731		832
Return of acquisition funds	(83)		-		(83)
Balance at December 31, 2015	\$ 77,235	\$	1,066	\$	78,301
Land acquisition costs	12		-		12
Reimbursement of acquisition funds	-		(115)		(115)
Balance at September 30, 2016	\$ 77,247	\$	951	\$	78,198

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2016

US Dollars
(Unaudited)

a) Corani Project

The Company has a 100% interest in the project. The Corani project is located in the Department of Puno, Peru.

Corani Engineering and Evaluation Costs:	Three Months Ended September 30		Nine Months Ended September 30	
	2016 (000's)	2015 (000's)	2016 (000's)	2015 (000's)
Corani				
Community contributions	141	229	397	1,012
Engineering, consulting and geophysics	16	708	67	2,087
Environmental	17	60	74	162
Maintenance costs	11	7	33	35
Salary and consulting	405	400	1,133	1,206
Supplies, camp and logistics	310	548	874	1,618
Travel	5	10	16	32
Costs for the Period	\$ 905	\$ 1,962	\$ 2,594	\$ 6,152

b) Maria Jose Project

The Maria Jose Project is located in northern Peru in the Ancash Department. On February 27, 2013, the Company entered into an option agreement to purchase 100% of the Maria Jose Prospect for \$4.9 million over a four-year period. In 2015, the Company entered into a formal option and joint venture agreement with a private Peruvian gold producer, Analytica Mineral Services SAC ("AMS"). AMS can earn a 51% interest in the project by completing 2,000 meters of tunneling at its cost. Following AMS earning its 51% interest, the two parties will form a joint venture agreement with standard terms. In December 2015, replacing the February 2013 agreement, Bear Creek and AMS made a negotiated purchase payment of \$1.2 million to the underlying property owner to acquire 100% interest in the Maria Jose mineral concessions. The Company and AMS now jointly own 100% of the concessions. There are no royalties; however, under the purchase agreement, BCMC and AMS are obligated to pay an additional \$2.1 million on commencement of commercial production. This additional payment has no time limits.

c) Santa Ana Project

In December 2004 the Company acquired an option to earn a 100% interest in the Santa Ana silver property in south eastern Peru. The option was exercised in November 2007.

On June 25, 2011 the Company learned by publication in the Official Gazette "El Peruano" that the Peruvian Government issued Supreme Decree DS-032-2011 (the "2011 Supreme Decree") that reversed Supreme Decree DS-083-2007 issued in 2007, (the "2007 Supreme Decree") which granted the Company the right to acquire title to and operate on the mineral concessions covering the Santa Ana Project within an area 50 kilometers of the Peruvian territorial boundaries. The 2011 Supreme Decree rescinded, without legal grounds or an opportunity to be heard, the Company's rights to operate on the concessions; however, the titles to the concessions continue to be held by the Company.

On July 12, 2011, the Company commenced a constitutional lawsuit in Peru, known as an "Amparo", against the Peruvian Government. The objective of the Amparo is to seek a determination that the 2011 Supreme Decree violates the Company's rights under the Peruvian Constitution and is therefore unlawful. The Company maintains that there was no basis for rescinding the 2007 Supreme Decree which had granted the Company title to and the rights to operate on the mineral concessions comprising the Santa Ana Project in full accordance with Peruvian Constitutional law. The Amparo hearing was held on June 6, 2013, and on May 12, 2014, as set forth more fully below, the Lima First Constitutional Court issued a ruling in the Company's favor holding that the Peruvian Government, among other things, had violated the Company's constitutional rights and that all rights should be returned to the Company as per the 2007 Supreme Decree. The Peruvian Government appealed that decision. In connection with the international arbitration proceeding described below, as required by the Free Trade Agreement between Canada and Peru ("Canada-Peru FTA"), the Company desisted from the Amparo action it had commenced against the Peruvian Government with respect to the 2011 Supreme Decree.

Notes to Interim Condensed Consolidated Financial Statements

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(Unaudited)

On September 5, 2011, the Company received notice of a civil lawsuit filed by the Peruvian Ministry of Energy and Mines (the "MEM") against the Company claiming that the titles to its Santa Ana mineral concessions were not acquired in accordance with Peruvian law (the "MEM Civil Case"). The Company formally submitted arguments in its defense, and requested the removal of the judge selected to hear the case due to a conflict of interest. In November 2011, the request to seek removal of the judge was granted by the court. The Company and its Peruvian legal counsel strongly maintain that the grounds of the MEM Civil Case are without merit. In October 2012, the judge ruled that the civil case was inadmissible because the government's Civil Case improperly comingled administrative and legal claims.

On February 5, 2013, the Company was informed that the judge had dismissed the MEM Civil Case. This claim had two aspects, one related to administrative acts (the State) and other linked to relations between individuals. The dismissal was based on that, together, these two aspects cannot be treated at the Civil Courts and therefore it would have to become inadmissible. The Company was also informed that the MEM appealed the judge's decision to the Peruvian Superior Court. The Peruvian Superior Court confirmed the dismissal with regards to the administrative issues, and ordered that the process regarding the issues between individuals be initiated. Regarding this decision of the Peruvian Superior Court, the Company initiated an Amparo Action, separately, against the Peruvian Superior Court for, among other things, the violation of the Company's right to due process under the Peruvian Constitution. The court refused to admit the Company's Amparo and the Company appealed this decision. In connection with the international arbitration proceeding described below, the Company has since waived this appeal in its Amparo action, and has formally desisted from the Amparo action it had commenced in connection with the Superior Court's decision dismissing some claims in the MEM Civil Case while permitting others to proceed.

On February 6, 2014, the Company officially notified the Peruvian Government with a Notice of Intent to Submit a Claim to Arbitration ("Notice of Intent"), under the Canada-Peru FTA. In the Notice of Intent, the Company advised Peru that the dispute arises out of, among other things, the enactment by the Peruvian Government on June 25, 2011, of Supreme Decree 032 rescinding the Company's rights to operate the Santa Ana Project and which resulted in a complete stoppage of activities at Santa Ana and significant damages to the Company. Peru's actions constitute violations of the Canada-Peru FTA, Peruvian and international law.

The Notice of Intent was a necessary step in order to preserve the Company's rights to initiate arbitration should a resolution with the Peruvian Government not be reached. The filing of the Notice of Intent also initiated a six-month consultation period between the parties during which time they were to continue to attempt to amicably settle the dispute. Because no amicable settlement resulted during that six-month period, the Company initiated international arbitration proceedings against Peru in accordance with the Canada-Peru FTA.

On May 12, 2014, the Company was informed that the Lima First Constitutional Court rendered its ruling regarding the Amparo action brought by the Company against the Peruvian Government challenging the constitutionality of the Supreme Decree N° 032-2011-EM., which rescinded the Company's rights to operate on its Santa Ana mineral concessions. The decision states unequivocally and unconditionally that:

- Bear Creek's constitutional rights were violated;
- The Company's rights are unconditionally returned as stipulated under Supreme Decree N° 083-2007-EM, which originally granted the right to Bear Creek, as a foreign company, to operate the Santa Ana concessions, located within the 50-kilometer border zone of Peru;
- Bear Creek is recognized as title holder of the Santa Ana's mining concessions and therefore, is enabled to perform all the rights arising from said titles; and
- The Court reaffirms that the Santa Ana project is in the National interest of Peru.

The Peruvian Government appealed this decision. As required by the Canada-Peru FTA and in order to pursue the international arbitration process described above, the Company, through local counsel, made a submission to the Peruvian court desisting from this legal proceeding on August 11, 2014. Bear Creek's voluntary dismissal was approved by the Court of Appeals on October 23, 2014, declaring the proceeding concluded.

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(Unaudited)

On August 11, 2014, and after the six-month negotiation period under the Canada-Peru FTA had expired without the parties reaching an amicable resolution of the dispute despite many meetings between the Company and the Peruvian Government to that end, the Company submitted a Request for Arbitration to The International Center for Settlement of Investment Disputes (“ICSID”) against the Republic of Peru pursuant to the terms of the Canada-Peru FTA. While Bear Creek remains committed to continuing discussions with the Peruvian Government to resolve and settle the dispute relating to the Santa Ana mining project, commencing the arbitration proceedings at ICSID was necessary to preserve the Company’s rights under the Canada-Peru FTA.

The Company submitted its memorial on the merits on May 29 2015 and is seeking full reparation for, among other things, the Peruvian Government’s expropriation of Santa Ana as well as resulting damages to the Corani project. In its Memorial on the Merits, the Company articulated factual and legal arguments supporting its claims against the Peruvian Government. In its Memorial on the Merits, the Company also calculated the damages sustained with respect to the expropriation of Santa Ana as the Fair Market Value (“FMV”) of the Santa Ana project on the date immediately prior its expropriation by the Government. The Company estimated the FMV of the Santa Ana Project at US\$ 224.2 million as of June 23, 2011 using the discounted cash flow analysis (“DCF), excluding interest. The Company also estimated the damages to Corani resulting from Peru’s expropriation of Santa Ana at \$170.6 million, excluding interest. Accordingly, the Company requested that the Tribunal award it the sum of \$522.2 million, which includes pre-award interest of 5.0% per annum, compounded annually, up to the estimated date of the award (March 15, 2017). Peru submitted its Counter-Memorial on October 6, 2015, and the Company submitted its Reply to Peru’s Counter-Memorial in early January 2016. Peru’s Rejoinder to the latest filing was submitted to ICSID and the Tribunal in mid-April and a final submission from the Company was filed in late May 2016.

An in-person hearing before the Arbitration Tribunal took place in Washington D.C. between September 7 - 14, 2016, during which time witnesses and experts called by both the Company and the Republic of Peru (together, the “Parties”) provided oral testimony, were cross-examined by counsel for the opposing party, and answered questions posed by the tribunal of three arbitrators (the “Tribunal”). Final written post-hearing memorials will be submitted to ICSID in December 2016 and February 2017, after which the Tribunal will officially close the proceedings and commence deliberations. A decision on Bear Creek’s case is anticipated within the second half of 2017, although there is no prescribed deadline for the tribunal’s ruling.

d) La Yegua Project

The La Yegua gold-copper prospect is located in southern Peru and was acquired by staking of mineral rights in 2004. In 2010 the Company entered into an agreement with Japan Oil, Gas and Metals National Corporation (“JOGMEC”) that provides for JOGMEC to earn a 51% interest in the project by funding \$3 million of qualified expenditures by December 31, 2014, which JOGMEC completed by March 31, 2014.

JOGMEC terminated the joint venture and returned to Bear Creek its 100% undivided interest. The Company has minimal holding costs through June 2017 during which time it will likely seek a new partner to further exploration.

e) Sumi Project

The Sumi gold-silver prospect is located in southern Peru and was acquired by staking the mineral concessions in 2011. The Company has a 100% interest in the project. In March 2014, Bear Creek entered into a joint venture agreement with JOGMEC to advance the project. The agreement provides for JOGMEC to earn a 51% interest through investing \$2.5 million over a three-year period. After March 2017, Bear Creek can elect to maintain its 49% interest or to dilute until reaching 10%, at which time the Company’s interest will revert to a 1.0% NSR.

Bear Creek Mining Corporation
(An Exploration Stage Company)

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2016

US Dollars
(Unaudited)

Other exploration and evaluation costs for the periods ended September 30, 2016 and 2015 are as follows:

Exploration and Evaluation Costs:	Three Months Ended September 30		Nine Months Ended September 30	
	2016 (000's)	2015 (000's)	2016 (000's)	2015 (000's)
Maria Jose				
Community contributions	\$ 2	\$ 9	\$ 4	\$ 29
Geophysics	-	-	1	1
Maintenance costs	14	23	39	52
Salary and consulting	11	32	32	303
Supplies and general	2	46	4	236
	<u>29</u>	<u>110</u>	<u>80</u>	<u>621</u>
Santa Ana				
Community contributions	-	-	-	1
Maintenance costs	-	-	-	49
Salary and consulting	53	31	183	112
Supplies and general	33	10	62	32
Travel	-	1	-	4
	<u>86</u>	<u>42</u>	<u>245</u>	<u>198</u>
La Yegua				
Community contributions	-	7	-	81
Drilling and assaying	-	245	-	476
Geophysics	-	-	2	13
Maintenance costs	-	-	7	14
Salary and consulting	-	114	8	331
Supplies and general	4	153	15	363
Travel	-	3	-	11
Recovery of costs	(19)	(563)	(30)	(1,345)
	<u>(15)</u>	<u>(41)</u>	<u>2</u>	<u>(56)</u>
Sumi				
Community contributions	9	70	23	95
Drilling	-	-	95	-
Geophysics	9	3	12	3
Maintenance costs	-	-	6	6
Salary and consulting	41	39	141	82
Supplies and general	18	10	103	32
Recovery of costs	(92)	(141)	(444)	(268)
	<u>(15)</u>	<u>(19)</u>	<u>(64)</u>	<u>(50)</u>
Generative				
Assaying and sampling	-	1	-	8
Maintenance costs	3	-	7	37
Salary and consulting	10	13	30	39
Supplies and general	-	4	1	13
Travel	-	-	-	2
	<u>13</u>	<u>18</u>	<u>38</u>	<u>99</u>
Other Properties				
	4	11	17	42
Value added tax	115	254	380	704
Costs for the Period	\$ 217	\$ 375	\$ 698	\$ 1,558

Bear Creek Mining Corporation
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US Dollars
(Unaudited)

6. Other Liabilities

During 2011 the Company entered into land purchase agreements with local landowners for surface rights access to the Corani project as well as an agreement to provide the Municipality of Corani with funding for the construction of schools and other improvements to the community as determined by the Municipality of Corani. The total amount owed under the agreements was approximately \$3,533,000 of which \$692,000 remains outstanding as of September 30, 2016. All of the land purchase amounts have been capitalized as mineral properties. All community contributions have been expensed.

		(000's)
Balance as of December 31, 2014	\$	920
Payments		(80)
Impact of foreign exchange		(114)
Balance as of December 31, 2015	\$	726
Payments		(41)
Impact of foreign exchange		7
Balance as of September 30, 2016	\$	692
Less: current portion		(224)
Long-term portion as of September 30, 2016	\$	468

The Company's estimated future payments are as follows:

	September 30, 2016 (000's)	December 31, 2015 (000's)
Within one year	\$ 224	\$ 262
After one year but not more than five years	411	408
More than five years	57	56
	\$ 692	\$ 726

7. Capital

Authorized share capital

Unlimited number of common shares without par value.

During the current period 10,875 options were exercised for gross proceeds of \$15,812.

On July 26, the Company closed a bought deal financing through a syndicate of underwriters. The Company issued 8,667,000 common shares at a price of CDN\$3.00 per common share for gross proceeds of CDN\$26,001,000. The underwriters also exercised their over-allotment option and acquired an additional 1,300,050 common shares for additional gross proceeds of CDN\$3,900,150. Including the over-allotment, the Company received gross proceeds of \$29,901,150 (\$22,638,161) and issued 9,967,050 common shares. The underwriters received a cash fee equal to 5% of the gross proceeds.

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2016

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(Unaudited)

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 ten 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 determined by the Board of Directors, but it cannot be less than the closing price on the TSX Venture Exchange on the trading date preceding the date of grant, less the maximum discount permitted under TSX policies applicable to share purchase options. Vesting terms for each grant are also set by the Board of Directors but they are generally set with vesting of 25% on the date of grant, 25% six months from the date of grant, 25% one year from the date of grant and 25% eighteen months from the date of grant. The option plan provides that the aggregate number of shares reserved for issuance under the plan which may be made subject to options at any time and from time to time (including those issuable upon the exercise of pre-existing options) shall not exceed 10% of the total number of issued and outstanding shares, on a non-diluted basis, as constituted on the grant date of such options. At September 30, 2016, a total of 2,954,656 options were reserved under the option plan with 7,353,850 options outstanding.

a) Movements in share options during the period

The changes in share options during the period ended September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016		December 31, 2015	
	Number of options	Weighted average exercise price (in CDN\$)	Number of options	Weighted average exercise price (in CDN\$)
Outstanding, beginning of the year	7,842,100	3.66	7,195,900	4.15
Granted	936,000	2.48	1,170,000	1.41
Exercised	(10,875)	1.85	-	-
Expired	(913,000)	9.70	(305,000)	6.93
Forfeited	(500,375)	3.61	(218,800)	3.26
Outstanding, end of the period	7,353,850	2.76	7,842,100	3.66

b) Fair value of share options granted

During the nine months ended September 30, 2016, the Company granted options to directors, officer, and employees to purchase up to 936,000 common shares of the Company at a weighted average exercise price of CDN\$2.48 per share.

During the year ended December 31, 2015, the Company granted options to directors, officers, and employees to purchase up to 1,170,000 common shares of the Company at a weighted average exercise price of CDN\$1.41 per share.

The options vest over a period of 18 months from the date of grant and expire five years from the date of grant.

The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model, with the following weighted average assumptions:

	2016	2015
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	79.35%	78.53%
Risk-free interest rate	0.57%	0.50%
Expected life of options	4.1 years	4.0 years
Forfeiture rate	1.67%	1.42%
Grant date fair value	CDN \$1.43	CDN \$0.80

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c) Share options outstanding at the end of the period

A summary of the Company's options outstanding as at September 30, 2016 is as follows:

Options Outstanding	Options Exercisable	Price per Share	Remaining contractual life (years)	Expiry Date
1,899,600	1,899,600	CDN\$3.73	0.32	January 23, 2017
16,000	16,000	CDN\$3.64	0.51	April 3, 2017
30,000	30,000	CDN\$2.71	0.70	June 11, 2017
255,000	255,000	CDN\$3.55	1.13	November 15, 2017
1,658,000	1,658,000	CDN\$3.25	1.35	February 6, 2018
250,000	250,000	CDN\$1.85	1.84	August 2, 2018
1,200,000	1,200,000	CDN\$2.05	2.39	February 21, 2019
1,109,250	1,109,250	CDN\$1.41	3.40	February 23, 2020
936,000	234,000	CDN\$2.48	4.72	June 17, 2021
7,353,850	6,651,850		2.00	

The weighted average exercise price of exercisable options at September 30, 2016 is CDN\$2.79.

8. Related Party Transactions

Details of the transactions between the Company and other related parties are disclosed below.

a) Services provided by related parties

Certain of the Company's officers and directors render services to the Company as sole proprietors or through companies in which they are an officer, director or partner.

	Nature of transactions
DuMoulin Black LLP	Legal fees
Estudio Grau S.C.R.L.	Legal fees
Avisar Chartered Accountants	Accounting fees

The Company incurred the following fees and expenses in the normal course of operations in connection with related parties:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016 (000's)	2015 (000's)	2016 (000's)	2015 (000's)
Legal fees – DuMoulin Black LLP	\$ 125	\$ 15	\$ 215	\$ 114
Legal fees – Estudio Grau S.C.R.L.	-	29	45	29
Accounting fees	41	24	104	113
	\$ 166	\$ 68	\$ 364	\$ 256

Transactions with related parties for goods and services are made on commercial terms. Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable at September 30, 2016 included \$10,176 (December 31, 2015 - \$17,793) which were due to individuals or companies whose officers, directors or partners were also officers or directors of the Company.

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b) Compensation of key management personnel

The remuneration of the directors, president and chief executive officer, and the chief operating officer (collectively, the key management personnel) for the period ended September 30, 2016 and 2015 were as follows:

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2016 (000's)	2015 (000's)	2016 (000's)	2015 (000's)
Salaries and directors' fees	(i)	\$ 208	\$ 202	\$ 623	\$ 621
Share-based compensation	(ii)	220	141	548	627
		\$ 428	\$ 343	\$ 1,171	\$ 1,248

- (i) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three and nine months ended September 30, 2016 and 2015.
- (ii) Share-based compensation represents the non-cash expense for the three and nine months ended September 30, 2016 and 2015, translated at the grant date foreign exchange rate.

9. Segmented Information

The Company's business consists of a single reportable segment being mineral exploration and development. Details on a geographic basis are as follows:

	September 30, 2016 (000's)	December 31, 2015 (000's)
Total Assets		
Peru	\$ 79,144	\$ 79,545
Canada	34,146	19,135
United States	-	11
	\$ 113,290	\$ 98,691

	Three Months Ended September 30		Nine Months Ended September 30	
	2016 (000's)	2015 (000's)	2016 (000's)	2015 (000's)
Net Loss (Income)				
Peru	\$ 1,124	\$ 2,374	\$ 3,378	\$ 7,756
Canada	2,254	966	4,632	4,166
United States	-	-	-	(9)
	\$ 3,378	\$ 3,340	\$ 8,010	\$ 11,913

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10. Commitments

On April 8, 2013 the Company entered into a Framework Agreement for the Sustainable Use of Natural Resources in the Mining Project Corani with the Corani District Municipality and the five communities contained within the District Municipality: Chacaconiza, Quelcaya, Isivilla, Corani-Aconsaya and Aymaña. Under the agreement, annual payments of S/. 4 million (approximately \$1.6 million) over the 23-year project life are to be made into a trust designed to fund community projects. The first two payments of S/. 1.332 million each were dependent on the Company obtaining the Environmental and Social Impact Assessment approval which was received in September 2013. As of September 30, 2016, the Company has made payments totalling S/. 4 million. All future ongoing payments of S/. 4 million per year are dependent on receiving the permit for the construction of the processing facilities and the mining installations.
