BEAR CREEK MINING CORPORATION

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 AND 2010

EXPRESSED IN US DOLLARS

Independent Auditor's Report

To the Shareholders of Bear Creek Mining Corporation

We have audited the accompanying consolidated financial statements of Bear Creek Mining Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia
March 27, 2012

Bear Creek Mining Corporation
(An Exploration Stage Company)

Consolidated Statements of Financial Position

US Dollars (000's)

	Note		**December 31, 2011**		December 31, 2010		January 1, 2010
ASSETS							
Current assets							
Cash and cash equivalents	6	**$**	**93,027**	$	143,764	$	36,356
Short-term investments	7		**2,004**		59		6,675
Receivables and prepaid expenses			**689**		293		213
			95,720		144,116		43,244
Non-current assets							
Equipment and leasehold improvements	8		**395**		245		211
Resource property costs	9		**73,936**		70,400		66,685
TOTAL ASSETS		**$**	**170,051**	$	214,761	$	110,140
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		**$**	**1,762**	$	1,266	$	248
Current portion of other liabilities	10		**544**		-		-
Due to Rio Tinto Mining and Exploration Limited	11		**-**		11,100		10,000
			2,306		12,366		10,248
Non-current liabilities							
Other liabilities	10		**1,903**		-		-
Due to Rio Tinto Mining and Exploration Limited	11		**-**		13,659		23,108
Provision for site restoration			**200**		300		300
			4,409		26,325		33,656
EQUITY							
Share capital	12		**263,729**		262,542		131,680
Contributed surplus			**17,605**		11,863		14,451
Deficit			**(115,692)**		(85,969)		(69,647)
			165,642		188,436		76,484
TOTAL LIABILITIES AND EQUITY		**$**	**170,051**	$	214,761	$	110,140

Commitments (Note 15)
Subsequent Events (Note 18)

ON BEHALF OF THE BOARD:

Signed "Catherine McLeod-Seltzer", Director

Signed "Nolan Watson", Director

The accompanying notes are an integral part of these financial statements

Bear Creek Mining Corporation
(An Exploration Stage Company)

Consolidated Statements of Loss and Comprehensive Loss

For the Years Ended December 31
US Dollars (000's, except share data)

	Note		2011		2010
Operating expenses					
Exploration and evaluation costs	9	**$**	**20,479**	$	13,432
Share-based compensation			**6,229**		862
Wages and management salaries			**1,481**		1,286
Impairment loss	9		**935**		-
Professional fees			**509**		515
Shareholder information and filing fees			**411**		286
General office expenses			**259**		222
Travel			**239**		234
Loss before other items			**30,542**		16,837
Other income and expense					
Foreign exchange loss (gain)			**298**		(330)
Gain on settlement of financial liability	11		**(765)**		-
Finance income			**(373)**		(142)
Other losses (gains)			**21**		(43)
Loss and Comprehensive Loss for the Year		**$**	**29,723**	$	16,322
Loss per Share – Basic and Diluted		**$**	**0.32**	$	0.22
Weighted Average Number of Shares Outstanding			**92,121,397**		73,383,772

The accompanying notes are an integral part of these financial statements

Bear Creek Mining Corporation
(An Exploration Stage Company)

Consolidated Statements of Cash Flow

For the Years Ended December 31
US Dollars (000's)

	Note		2011		2010
Operating Activities					
Loss for the year		**$**	**(29,723)**	$	(16,322)
Adjustments for:					
Amortization			**150**		69
Gain on settlement of financial liability	11		**(765)**		-
Loss on investments			**21**		(29)
Share-based compensation			**6,229**		862
Impairment loss	9		**935**		
Interest income			**(373)**		(142)
Gain on disposal of asset			**-**		(14)
Unrealized foreign exchange gain			**269**		(1,125)
			(23,257)		(16,701
Changes in current assets and liabilities:					
Receivables and prepaid expenses			**(386)**		(88)
Accounts payable and accrued liabilities			**1,153**		1,017
Cash used in operating activities			**(22,490)**		(15,764)
Investing Activities					
Purchase of equipment and leasehold improvements			**(300)**		(107)
Resource acquisition costs			**(2,668)**		(12,064)
Payment of Corani obligation			**(45)**		-
Short-term investments (purchased) redeemed			**(1,967)**		6,732
Interest received			**363**		150
Proceeds on disposition of equipment			**-**		19
Proceeds from sale of short term investments			**-**		25
Cash used in investing activities			**(4,617)**		(5,253)
Financing Activities					
Payments to Rio Tinto Mining and Exploration Limited			**(24,100)**		-
Share capital issued - net			**700**		127,412
Cash (used in) provided by financing activities			**(23,400)**		127,412
Effect of exchange rate change on cash and cash equivalents			**(230)**		1,013
Net (Decrease) Increase in Cash and Cash Equivalents			**(50,737)**		107,408
Cash and cash equivalents – Beginning of Year			**143,764**		36,356
Cash and Cash Equivalents – End of Year		**$**	**93,027**	$	143,764

The accompanying notes are an integral part of these financial statements

Bear Creek Mining Corporation
(An Exploration Stage Company)

Consolidated Statements of Changes in Equity

US Dollars (000's, except share data)

	Share Capital (Number of Shares)	Share Capital (Amount)	Contributed Surplus	Deficit	Total
January 1, 2010	**70,035,139**	**$ 131,680**	**$ 14,451**	**$ (69,647)**	**$ 76,484**
Shares issued in private placement	20,297,500	129,420	-	-	129,420
Share issuance costs	-	(6,709)	-	-	(6,709)
Options exercised	1,628,500	4,701	-	-	4,701
Fair value of options exercised	-	3,450	(3,450)	-	-
Share-based compensation	-	-	862	-	862
Net loss for the year	-	-	-	(16,322)	(16,322)
December 31, 2010	**91,961,139**	**$ 262,542**	**$ 11,863**	**$ (85,969)**	**$ 188,436**
Options exercised	200,500	700	-	-	700
Fair value of options exercised	-	487	(487)	-	-
Share-based compensation	-	-	6,229	-	6,229
Net loss for the year	-	-	-	(29,723)	(29,723)
December 31, 2011	**92,161,639**	**$ 263,729**	**$ 17,605**	**$ (115,692)**	**$ 165,642**

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 and the Lima Stock Exchange. The head office, principal address and records office of the Company are located at 625 Howe Street, Suite 1050, Vancouver, British Columbia, Canada, V6C 2T6.

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 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.

2. Basis of Preparation and First Time Adoption of IFRS

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in the consolidated financial statements. The term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed below, the accounting policies have been consistently applied in our opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on the statements of financial position, loss and comprehensive loss and cash flows, including the nature and effect of significant changes in accounting policies from those used in the consolidated financial statements for the year ended December 31, 2010.

The policies applied in the consolidated financial statements are presented in Note 3 and are based on IFRS issued and outstanding as of March 27, 2012, the date the Board of Directors approved the consolidated financial statements.

All dollar amounts are presented in US dollars unless otherwise specified.

3. Summary of Significant Accounting Policies

This summary of significant accounting policies described below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated. The exemptions we have taken in applying IFRS for the first time are set out in Note 17.

a) Consolidation

The consolidated financial statements include the accounts of the Company's 100%-owned subsidiaries, which include BCMC Corani Holdings Ltd., Bear Creek Mining Inc., Bear Creek (BVI) Limited, Corani Mining Limited, Bear Creek Mining S.A.C., Bear Creek Exploration Company Ltd. and Bear Creek Mining Company Sucursal del Peru. All significant intercompany transactions and balances have been eliminated.

b) **Significant Accounting Estimates and Judgments**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant areas where judgment is applied include the determination of the functional currency, the carrying value and recoverability of mineral property costs, estimated depreciable lives of equipment, inputs used in accounting for share-based compensation and provisions for site restoration. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical accounting estimates

Significant assumptions relate to, but are not limited to, the following:

i) Share-based compensation: We provide compensation benefits to our employees, directors and officers through a stock option plan. The fair value of each option award is estimated on the date of the grant using the Black-Scholes option pricing model. Expected volatility is based on historical volatility of our share price. We utilize historical data to estimate option exercises and forfeiture behaviour with the valuation model. The risk-free rate for the expected term of the option is based on the Government of Canada yield curve in effect at the time of the grant.

ii) Impairment of mineral properties: We regularly review the net carrying value of each mineral property for conditions that suggest impairment. This review requires significant judgment where we do not have any proven and probable reserves that would enable us to estimate future cash flows to be compared to the carrying values. Factors considered in the assessment of asset impairment include, but are not limited to, whether there has been a significant decrease in the market price of the property; whether there has been a significant adverse change in the legal, regulatory, accessibility, title, environmental or political factors that could affect the property's value; whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the property's acquisition, development or cost of holding; whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future and whether the Company has the necessary funds to be able to maintain its interest in the mineral property.

c) **Foreign Currencies**

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and of all of its subsidiaries is the United States ("US") Dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates ("IAS 21").

The consolidated financial statements have been prepared in US dollars in accordance with IAS 21. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The Company's presentation currency is the US dollar.

d) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, term deposits and other short-term highly liquid investments with the original term to maturity of three months or less.

e) **Short-term Investments**

Short-term investments are investments which are transitional or current in nature, with an original term to maturity greater than three months but less than one year.

f) **Financial Instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments held by the Company classified in this category include cash and cash equivalents, and short-term investments.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are initially measured at fair value with subsequent changes in fair value recognized in other comprehensive income. The Company does not hold any available-for-sale assets.

(iii) Held-to-Maturity investments: Held-to-maturity investments are non-derivatives that are designated in this category where the Company's intent is to hold the investment to maturity.

Held-to-maturity investments are initially measured at fair value including transaction costs, and subsequently carried at amortized cost. The Company does not hold any held-to-maturity assets.

(iv) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise other receivables, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(v) Financial liabilities at amortized cost: Financial instruments held by the Company and classified in this category include trade payables and accrued liabilities, other liabilities, and amounts owed to Rio Tinto Mining and Exploration Ltd. Trade payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables and accrued liabilities are measured at amortized cost using the effective interest method. Amounts owed to Rio Tinto Mining and Exploration Ltd. were initially recognized at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

The effective interest rate method calculates the amortized cost of a financial instrument and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial instrument.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to the statement of loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

g) **Equipment and Leasehold Improvements**

Equipment and leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of loss during the period they are incurred.

The major categories of equipment and leasehold improvements are depreciated on a straight-line basis as follows:

Exploration and office equipment	10 years
Vehicles	5 years
Leasehold improvements	5 years

The Company allocates the amount initially recognized to each asset's significant components and depreciates each component separately. Residual values, amortization methods and useful lives of the assets are reviewed periodically and adjusted on a prospective basis as required.

Gains and losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of loss.

h) **Mineral Properties and Exploration Costs**

The Company capitalizes the direct costs of acquiring mineral property interests. Option payments are considered acquisition costs if the Company has the intention of exercising the underlying option.

Exploration and evaluation costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration and development costs are capitalized. Exploration and evaluation costs include value-added taxes because the recoverability of these amounts are uncertain.

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.

i) **Borrowing Costs**

The Company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use. Borrowing costs are capitalized when expenditures are incurred and activities are undertaken to acquire an asset or prepare it for its intended use. The amount of borrowing costs capitalized cannot exceed the actual amount of borrowing costs incurred during the period. All other borrowing costs are expensed as incurred. Capitalization of borrowing costs is discontinued when substantially all of the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Capitalized borrowing costs will be amortized over the useful life of the related asset.

j) **Impairment of Non-financial Assets**

The carrying amounts of non-financial assets are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in the statement of loss.

k) **Provisions**

(i) Decommissioning and restoration provision: Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a pre-tax discount rate which reflects the risks specific to the liability. The decommissioning and restoration provision is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the pre-tax discount rate which reflects the risks specific to the liability.

The liability is also accreted to full value over time through periodic charges to earnings. This unwinding of the discount is charged to financing expense in the statement of loss.

The amount of the decommissioning and restoration provision initially recognized is capitalized as part of the related asset's carrying value and amortized to earnings. The method of amortization follows that of the underlying asset. The costs related to a decommissioning and restoration provision are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit.

(ii) Other provisions: Provisions are recognized when a current legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be

required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate pre-tax rate which reflects the risk specific to the liability.

l) **Share-Based Compensation**

The Company grants stock options to directors, officers, employees and other service providers. Option terms and vesting conditions are at the discretion of the Board of Directors. In general, options are granted for a term of five years 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 exercise price is equal to the closing market price on the TSX Venture Exchange on the day preceding the date of grant.

The fair value method of accounting is used for stock-based compensation. Under this method, the cost of stock options and other equity-settled share-based payment arrangements is recorded based on the date of grant estimated fair value of each tranche using the Black-Scholes option pricing model, and charged to earnings over the vesting period. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of loss, with a corresponding adjustment to equity.

m) **Income Taxes**

Income tax comprises current and deferred tax. Income tax is recognized in the statement of loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

n) **Loss per Share**

Basic loss per share is computed by dividing 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 outstanding options and their equivalents are reflected in diluted earnings per share by application of the treasury stock method. Since the Company has losses, the assumed exercise of outstanding stock options has not been included in this calculation as it would be anti-dilutive.

4. Recent Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC"). The Standards impacted that are applicable to the Company are as follows:

a) IFRS 9, Financial Instruments ("IFRS 9") was issued by IASB in October 2010 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. There are two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

   In December 2011, the effective date of IFRS 9 was deferred to years beginning on or after January 1, 2015. The Company is currently evaluating the impact of this standard.

b) IFRS 10, Consolidated Financial Statements ("IFRS 10"), was issued in May 2011 and will supersede the consolidation requirements in SIC-12, Consolidation – Special Purpose Entities ("SIC-12"), and IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as a determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Standard is not expected to have an impact on the Company in its current form.

c) IFRS 11, Joint Arrangements ("IFRS 11"), was issued in May 2011 and will supersede existing IAS 31, Joint Ventures ("IAS 31") effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The Standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Standard is not expected to have an impact on the Company in its current form.

d) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Standard is not expected to have a significant impact on the Company in its current form.

e) IFRS 13, Fair Value Measurements ("IFRS 13") was issued in May 2011 and sets out, in a single IFRS, a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this Standard.

f) IAS 1, Presentation of Items of Other Comprehensive Income ("OCI") ("IAS 1"), was revised in June 2011 to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. The revision is effective for annual periods beginning on or after July 1, 2012 with early application permitted. The Company is currently assessing the impact of this Standard.

g) IFRIC 20, Stripping Costs in the Production Phase of a Mine ("IFRIC 20") was issued in October 2011. This interpretation provides guidance on the accounting for the costs of stripping activity in the production phase when two benefits accrue to the entity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. IFRIC 20 is applicable for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Standard is not expected to have an impact on the Company in its current form.

US Dollars (000's except share data)

5. Financial Instruments

Categories of financial instruments

	December 31, 2011	December 31, 2010	January 1, 2010
Financial assets			
Held for trading			
Cash and cash equivalents	**$ 93,027**	$ 143,764	$ 36,356
Short-term investments	**2,004**	59	6,675
Loans and receivables			
Receivables	**423**	161	113
	$ 95,454	$ 143,984	$ 43,144
Financial liabilities			
Other financial liabilities			
Accounts payable and accrued liabilities	**$ 1,762**	$ 1,266	$ 248
Other liabilities	**2,447**	-	-
Due to Rio Tinto Mining and Exploration Limited	**-**	24,759	33,108
	$ 4,209	$ 26,025	$ 33,356

a) **Fair value**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities
Level 2 – Inputs other than quoted prices that are directly or indirectly observable for the asset or liability; and
Level 3 – Inputs that are not based on observable market data.

	December 31, 2011	December 31, 2010	January 1, 2010
Level 1			
Short-term investments – common shares	**$ 10**	$ 32	$ 28
Level 2			
Cash and cash equivalents	**$ 93,027**	$ 143,764	$ 36,356
Short-term investments - term deposits	**1,994**	27	6,647

The carrying values of receivables, accounts payable and accrued liabilities, current portion of other liabilities and Due to Rio Tinto Mining and Exploration Limited approximate their fair value because of the short-term nature of these instruments. The carrying values of other non-current liabilities also approximate their fair value.

b) **Management of financial risk**

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

US Dollars (000's except share data)

i. Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Peru, Canada and the United States, and a portion of its expenses are incurred in Canadian dollars and Peruvian Soles. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar and the Peruvian Sol to the US dollar could have an effect on the Company's results of operations, financial position and cash flows. The Company has not hedged its exposure to currency fluctuations. At December 31, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and Peruvian Soles:

	December 31, 2011	
	Canadian Dollars	Peruvian Soles
Cash and cash equivalents, and short-term investments	16,069	492
Receivables	10	4,565
Accounts payable and accrued liabilities	(157)	(8,430)

Based on the above net exposures as at December 31, 2011, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of $1.6 million in the Company's loss for the period. A 10% depreciation or appreciation of the US dollar against the Peruvian Sol would result in an decrease/increase of $0.1 million in the Company's loss for the period.

ii. Credit risk

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

The Company's cash and cash equivalents, and short-term investments are held through large Canadian financial institutions. Short-term investments (including those presented as part of cash and cash equivalents) are composed of financial instruments issued by Canadian banks. These investments mature at various dates over the current operating period.

iii. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements by taking into account anticipated cash expenditures for its exploration and other operating activities, and its holdings of cash and cash equivalents, and short-term investments. The Company will pursue equity or debt financing as required to meet its long-term commitments. There is no assurance that such financing will be available or that it will be available on favourable terms

As at December 31, 2011, the Company's financial liabilities consist of accounts payable and accrued liabilities totalling $1.8 million, which are expected to be paid within 90 days, and other liabilities of $2.4 million, which are expected to be paid over the next ten years.

iv. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Based on the amount of cash and cash equivalents invested as at December 31, 2011 and assuming that all other variables remain constant, a 0.5% change in the applicable interest rate would result in an increase/decrease of $0.5 million in the interest earned by the Company per annum.

US Dollars (000's except share data)

6. Cash and cash equivalents

		December 31, 2011		December 31, 2010		January 1, 2010
Cash	**$**	**25,544**	$	6,196	$	13,583
Discounted commercial paper		**-**		116,814		17,773
Investment savings account		**67,483**		16,532		5,000
Bankers acceptances		**-**		4,222		-
	$	**93,027**	$	143,764	$	36,356

7. Short-term Investments

		December 31, 2011		December 31, 2010		January 1, 2010
Common shares – Magellan Minerals Ltd.	**$**	**10**	$	32	$	28
Term deposits		**1,994**		27		6,647
	$	**2,004**	$	59	$	6,675

Term deposits included in short-term investments have maturities of greater than three months, but less than one year, and are redeemable at any time.

US Dollars (000's except share data)

8. Equipment and Leasehold Improvements

	December 31, 2011		
	Cost	**Accumulated Amortization**	**Net book Value**
Computer Software	**$ 92**	**$ 62**	**$ 30**
Exploration Equipment	**285**	**91**	**194**
Vehicles	**335**	**309**	**26**
Office Equipment	**73**	**31**	**42**
Leasehold Improvements	**129**	**26**	**103**
	$ 914	**$ 519**	**$ 395**

	December 31, 2010		
	Cost	Accumulated Amortization	Net book Value
Computer Software	$ -	$ -	$ -
Exploration Equipment	241	66	175
Vehicles	335	276	59
Office Equipment	36	27	9
Leasehold Improvements	2	-	2
	$ 614	$ 369	$ 245

	January 1, 2010		
	Cost	Accumulated Amortization	Net book Value
Computer Software	$ -	$ -	$ -
Exploration Equipment	156	46	110
Vehicles	338	248	90
Office Equipment	36	25	11
Leasehold Improvements	-	-	-
	$ 530	$ 319	$ 211

9. Resource Property Costs

	Corani Project	**Santa Ana Project**	**Total**
Balance at January 1, 2010	$ 66,585	$ 100	$ 66,685
Land acquisition costs	1,412	652	2,064
Accretion of purchase liability *(Note 11)*	1,651	-	1,651
Balance at December 31, 2010	$ 69,648	$ 752	$ 70,400
Land acquisition costs	4,182	283	4,465
Accretion of purchase liability *(Note 11)*	106	-	106
Changes in estimate of provision for site restoration	-	(100)	(100)
Impairment loss	-	(935)	(935)
Balance at December 31, 2011	$ **73,936**	**$ -**	**$ 73,936**

a) **Corani Project**

On February 27, 2009 the Company entered into an amendment agreement (the "Amendment Agreement") with Rio Tinto in respect of its purchase of Rio Tinto's remaining 30% interest in the Corani Project. Under the Amendment Agreement, Rio Tinto agreed to restructure the final two cash payments of $15 million previously due September 30, 2009 and $25 million previously due December 31, 2009. In consideration for deferring these payments, the Company agreed to make additional payments to Rio Tinto of $2.2 million. The restructured payments were as follows:

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

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

- $1.1 million upon signing of the Amendment Agreement (paid by the issuance of 1,021,266 shares of Bear Creek in March 2009).
- $1.1 million due on January 10, 2011 (paid January 2011).

On February 3, 2011, the Company entered into an amending agreement whereby Rio Tinto accepted a payment of $23 million in lieu of and in full satisfaction of the final two cash payments required to complete the Company's purchase of a 100% interest in the Corani project of $10 million due September 30, 2011 and $15 million due June 30, 2012.

b) **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 was notified that the Peruvian Government issued a Supreme Decree that reversed an earlier Supreme Decree issued in 2007, which granted the Company the right to acquire title to mineral concessions covering the Santa Ana project. The Company has filed a legal action against the Peruvian Government seeking injunctive relief against the cancellation of its Santa Ana mineral concessions until a Peruvian court can rule on the matter. Although the Company believes that the annulment of the 2007 Supreme Decree represents a violation of the Company's rights, an impairment loss of $0.9 million has been recorded against the carrying amount of Santa Ana resource property costs at December 31, 2011 due to the uncertainty and unknown timing of a favourable resolution to this matter.

c) **Tassa Project**

The Tassa silver-gold prospect is located in southern Peru and was acquired by staking mineral concessions in 2007. The Company has a 100% interest in the project.

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 $3.0 million of qualified expenditures by March 31, 2014. Approximately $1.2 million of qualified expenditures has been incurred by JOGMEC as of December 31, 2011.

US Dollars (000's except share data)

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.

Exploration and evaluation costs:	**Year Ended December 31**	
	2011	2010
Corani		
Assaying and sampling	**$ 23**	$ 52
Community contributions	**1,095**	-
Drilling	**2,646**	226
Engineering and consulting	**3,244**	680
Geophysics	**28**	12
Maintenance costs	**45**	47
Salary and consulting	**2,267**	246
Supplies and general	**2,028**	321
Travel	**1,010**	376
	12,386	1,960
Santa Ana		
Assaying and sampling	**94**	94
Drilling	**79**	1,357
Engineering and consulting	**1,075**	2,627
Geophysics	**-**	6
Maintenance costs	**167**	140
Salary and consulting	**1,039**	568
Supplies and general	**534**	597
Travel	**164**	703
	3,152	6,092
Tassa		
Assaying and sampling	**37**	102
Drilling	**379**	686
Geophysics	**70**	35
Maintenance costs	**5**	14
Salary and consulting	**452**	220
Supplies and general	**375**	131
Travel	**320**	248
	1,638	1,436
La Yegua		
Assaying and sampling	**16**	-
Drilling	**387**	-
Maintenance costs	**36**	-
Salary and consulting	**310**	117
Supplies and general	**152**	15
Travel	**115**	9
Recovery of costs	**(893)**	(333)
	123	(192)
Generative		
Assaying and sampling	**58**	45
Geophysics	**-**	10
Maintenance costs	**127**	56
Salary and consulting	**507**	1,035
Supplies and general	**224**	684
Travel	**236**	217
	1,152	2,047
Other Properties	**4**	417
Value added tax	**2,024**	1,672
Costs for the Year	**$ 20,479**	$ 13,432

US Dollars (000's except share data)

10. Other liabilities

The Company has entered into land purchase agreements with local landowners for surface rights access to the Corani project. The agreements provide for periodic payments of up to $0.8 million over a 10-year period beginning in August 2011. The total amount owed under the agreements was approximately $2.6 million, of which $0.8 million was paid as of December 31, 2011. All amounts have been capitalized as mineral properties.

The Company also entered into an agreement to provide the Municipality of Corani with $1.1 million of funding for the construction of schools and other improvements to the community as determined by the Municipality of Corani. Approximately $0.4 million of the funding commitment was paid as of December 31, 2011. All community contributions have been expensed.

Other liabilities – December 31, 2010	$	-
Community contributions		667
Land purchase agreements		1,780
		2,447
Less: current portion of other liabilities		**544**
Other liabilities – December 31, 2011	**$**	**1,903**

11. Due to Rio Tinto Mining and Exploration Ltd.

Due to Rio Tinto – January 1, 2010	$	33,108
Accretion on obligation to Rio Tinto		1,651
Less: payment made to Rio Tinto		(10,000)
Due to Rio Tinto – December 31, 2010	$	24,759
Accretion on obligation to Rio Tinto		106
Less: payment made to Rio Tinto		(24,100)
Gain on derecognition of liability		(765)
Due to Rio Tinto – December 31, 2011	**$**	**-**

The Company's obligation to Rio Tinto arose from its purchase of Rio Tinto's 30% interest in the Corani silver-lead-zinc project (Note 9a). Amounts owed to Rio Tinto were non-interest bearing and were recorded at their present value. The accretion on the present value of the obligation was capitalized to resource property costs.

On January 10, 2011, the Company paid Rio Tinto $1.1 million. On February 4, 2011, the Company paid Rio Tinto $23 million in full settlement of remaining amounts due under the purchase agreement of $10 million, originally due September 30, 2011, and $15 million, originally due June 30, 2012, resulting in a gain on settlement of the Rio Tinto liability of $0.8 million. The $23 million payment extinguished all security interests and encumbrances held by Rio Tinto over the Company and the Corani project.

US Dollars (000's except share data)

12. Capital

Authorized share capital

Unlimited number of common shares without par value

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. 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 December 31, 2011, a total of 5,775,663 options were reserved under the Plan with 3,440,500 options outstanding.

a) Movements in share options during the year

The changes in share options during the years ended December 31, 2011 and 2010 were as follows:

	December 31, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price (in CDN$)**	Number of options	Weighted average exercise price (in CDN$)
Options outstanding, beginning of the year	2,336,000	4.14	3,922,000	3.43
Granted	1,353,000	8.85	405,000	6.24
Exercised	(200,500)	3.36	(1,628,500)	2.90
Forfeited	(48,000)	8.53	(362,500)	4.38
Options outstanding, end of the year	**3,440,500**	**5.97**	2,336,000	4.14

b) Fair value of share options granted

During the year ended December 31, 2011, the Company granted options to directors, officers and employees to purchase up to 1,353,000 common shares of the Company at a weighted average exercise price of CDN$8.85 per share. The estimated fair value of the stock options granted during the year ended December 31, 2011 was $6,951 using the Black-Scholes option pricing model.

During the year ended December 31, 2010, the Company granted options to employees to purchase up to 405,000 common shares of the Company at a weighted average exercise price of CDN$6.24 per share. The estimated fair value of the stock options granted during the year ended December 31, 2010 was $1,393 using the Black-Scholes option pricing model.

US Dollars (000's except share data)

	2011	2010
Expected dividend yield	**0.00%**	0.00%
Expected stock price volatility	**75.9% - 80.9%**	75.5% - 77.7%
Risk-free interest rate	**1.49% - 2.36%**	1.84% - 2.26%
Expected life of options	**3.9 years**	3.6 - 3.9 years
Grant date fair value	**$2.38 - $6.24**	$2.24 - $5.61

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

c) Share options outstanding at the end of the year

A summary of the Company's options outstanding as at December 31, 2011 is as follows:

Options Outstanding	Options Exercisable	**Price per Share**	**Remaining contractual life (years)**	**Expiry Date**
445,000	445,000	CDN$7.99	0.38	May 16, 2012
150,000	150,000	CDN$4.95	1.50	July 2, 2013
845,500	845,500	CDN$1.24	2.08	January 27, 2014
100,000	100,000	CDN$1.90	2.64	August 18, 2014
150,000	150,000	CDN$4.00	2.79	October 14, 2014
240,000	240,000	CDN$4.12	3.19	March 8, 2015
90,000	67,500	CDN$8.80	3.90	November 23, 2015
75,000	56,250	CDN$9.95	3.93	December 6, 2015
120,000	60,000	CDN$8.30	4.09	February 1, 2016
885,000	442,500	CDN$10.77	4.23	March 23, 2016
340,000	85,000	CDN$4.01	4.68	September 2, 2016
3,440,500	**2,641,750**		**3.04**	

The weighted average exercise price of exercisable options at December 31, 2011 is CDN$6.00.

13. Related Party Transactions

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below.

a) Trading transactions

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 (ended January 31, 2011)	Accounting fees
Chairman of the Board of Directors of Bear Creek (ended December 31, 2010)	Consulting fees

US Dollars (000's except share data)

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

	Note		Year Ended December 31, 2011		Year Ended December 31, 2010
Legal fees		$	**284**	$	369
Consulting fees	(i)		**-**		99
Accounting fees			**9**		129
		$	**293**	$	597

(i) The Company paid fees to one of its directors for consulting services performed outside of their capacity as a director.
(ii) Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable at December 31, 2011 included $66 (December 31, 2010 - $158; January 1, 2010 - $47) which were due to individuals or companies whose officers, directors or partners were also officers or directors of the Company.

b) Compensation of key management personnel

The remuneration of the directors, chief executive officer, president and chief operating officer, chief financial officer and vice president of operations (collectively, the key management personnel) during the years ended December 31, 2011 and 2010 were as follows:

	Note		Year Ended December 31, 2011		Year Ended December 31, 2010
Salaries and directors' fees	(i)	$	**932**	$	580
Share-based compensation	(ii)		**5,113**		500
		$	**6,045**	$	1,080

(i) Salaries and directors' fees include consulting fees disclosed in Note 13(a).
(ii) Share-based compensation represents the non-cash expense for the year ended December 31, 2011, translated at the grant date foreign exchange rate.
(iii) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2011 and 2010.

14. 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:

Total Assets		December 31, 2011		December 31, 2010		January 1, 2010
Peru	$	**75,166**	$	71,252	$	67,339
Canada		**94,849**		143,509		42,801
United States		**36**		-		-
	$	**170,051**	$	214,761	$	110,140

US Dollars (000's except share data)

Total Non-current Assets		**December 31, 2011**		December 31, 2010		January 1, 2010
Peru	**$**	**74,325**	$	70,640	$	66,891
Canada		**4**		5		5
United States		**2**		-		-
	$	**74,331**	$	70,645	$	66,896

Net Loss (Income)		**Year Ended December 31, 2011**		Year Ended December 31, 2010
Peru	**$**	**20,592**	$	14,880
Canada		**8,060**		1,442
United States		**1,071**		-
	$	**29,723**	$	16,322

15. Commitments

a) The Company entered into an operating lease for office space commencing January 2012 through December 2014. The total minimum lease payments are $4 per month.

b) The Company entered into an operating lease for office space commencing December 2010 through December 2013. The total minimum lease payments are $8 per month.

c) In January 2011 the Company entered into an operating lease for office space commencing February 2011 through December 2011. The Company extended its lease for an additional six months, ending June 30, 2012. The total minimum lease payments are $2 per month.

16. Income Taxes

a) Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

		Year Ended December 31, 2011		Year Ended December 31, 2010
Loss before income taxes	**$**	**(29,724)**	$	(16,322)
Canadian federal and provincial income tax rates		**26.5%**		28.50%
Income tax recovery based on the above rates		**(7,877)**		(4,652)
Non-deductible expenses		**2,264**		132
Share issue costs		**-**		(1,684)
Effect of change in Canadian and foreign deferred tax rates		**(650)**		(113)
Tax effect of tax losses and temporary differences not recognized		**6,263**		6,317
Total income taxes recovery	**$**	**-**	$	-

US Dollars (000's except share data)

b) The components of deferred income taxes are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred income tax assets:			
Non-capital losses	**$ 5,024**	$ 5,030	$ 4,933
Share issue costs and other	**4,430**	4,271	1,316
Equipment	**2**	-	9
Resource properties costs	**6,991**	3,949	1,233
Total unrecognized deferred tax assets	**$ 16,447**	$ 13,250	$ 7,491
Deferred income tax liabilities	**Nil**	Nil	Nil

The Company has non-capital loss carry-forwards of approximately $19,294 that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian and Peruvian operations and expire as follows:

2012	$ 1,941
2013	1,476
2014	663
2015	713
2026	544
2027	2,538
2028	1,840
2029	2,405
2030	4,076
2031	3,098
	$ 19,294

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

17. Transition to International Financial Reporting Standards

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

a) **IFRS 3 - Business Combinations**

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

b) **IFRS 2 - Share-based Payments**

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payments to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

IFRS

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value. Awards based in a currency other than the Company's functional currency are translated at the foreign exchange rate in effect on the grant date of the award and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are included in the calculation of fair value of share-based awards, and are revised for actual forfeitures in subsequent periods.

Canadian GAAP

- The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value may be recognized on a straight-line basis over the vesting period.
- Forfeitures of awards may be recognized as they occur.

As at January 1, 2010, the application of IFRS 2 resulted in a $24 decrease to the deficit and a corresponding $24 decrease to contributed surplus due to a revaluation of options granted prior to January 1, 2010 but which vested after January 1, 2010. For the year ended December 31, 2010 there was a decrease of $339 in share-based compensation from $1,201 to $862. These IFRS adjustments resulted in a cumulative decrease to the deficit and contributed surplus of $363 as at December 31, 2011. In addition, for the year ended December 31, 2010, contributed surplus increased and share capital decreased by $16 due to the revaluation of options exercised.

c) **Estimates**

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

d) **Taxes**

Under IFRS, temporary differences resulting from the initial recognition of assets or liabilities that do not affect accounting or taxable profit do not result in a deferred tax asset or liability. As of the date of transition, the Company has therefore derecognized the impact of future income tax liabilities which had previously been recognized on the asset acquisition of the Corani project.

As at January 1, 2010, there was a decrease in the deferred tax liability from $20,708 to Nil, a decrease of $21,436 in the capitalized resource property costs from $88,121 to $66,685 and a corresponding increase in the deficit of $728 resulting from the reversal of a foreign exchange gain of $503 and a tax recovery of $225 previously recorded under Canadian GAAP. During the year ended December 31, 2010, there was a $501 tax recovery reversal and a reversal of a $1,121 foreign exchange loss recorded under Canadian GAAP. As a result of these IFRS adjustments, at December 31, 2010 there was a decrease in the deferred tax liability from $22,035 to $Nil, a decrease of $22,143 in the capitalized resource property costs from $92,543 to $70,400, and an increase to the deficit of $108.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of loss and comprehensive loss and statement of financial position for the year ended December 31, 2010 have been reconciled to IFRS, with the resulting differences explained.

US Dollars (000's except share data)

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Note		Canadian GAAP		Effect of transition to IFRS		IFRS
					January 1, 2010		
ASSETS							
Current assets							
Cash and cash equivalents		$	36,356	$	-	$	36,356
Short-term investments			6,675		-		6,675
Receivables and prepaid expenses			213		-		213
			43,244		-		43,244
Non-current assets							
Equipment and leasehold improvements			211		-		211
Resource property costs	(f)		88,121		(21,436)		66,685
TOTAL ASSETS		$	131,576	$	(21,436)	$	110,140
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		$	248	$	-	$	248
Due to Rio Tinto Mining and Exploration Limited			10,000				10,000
			10,248				10,248
Non-current liabilities							
Due to Rio Tinto Mining and Exploration Limited			23,108				23,108
Provisions for site restoration			300				300
Deferred income tax	(f)		20,708		(20,708)		-
			54,364		(20,708)		33,656
EQUITY							
Share capital			131,680				131,680
Contributed surplus	(b)		14,475		(24)		14,451
Deficit	(b)(f)		(68,943)		(704)		(69,647)
			77,212		(728)		76,484
TOTAL LIABILITIES AND EQUITY		$	131,576	$	(21,436)	$	110,140

US Dollars (000's except share data)

The December 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

		December 31, 2010					
	Note		Canadian GAAP		Effect of transition to IFRS		IFRS
ASSETS							
Current assets							
Cash and cash equivalents		$	143,764	$	-	$	143,764
Short-term investments			59		-		59
Receivables and prepaid expenses			293		-		293
			144,116		-		144,116
Non-current assets							
Equipment and leasehold improvements			245		-		245
Resource property costs	(f)		92,543		(22,143)		70,400
TOTAL ASSETS		$	236,904	$	(22,143)	$	214,761
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		$	1,266	$	-	$	1,266
Due to Rio Tinto Mining and Exploration Limited			11,100				11,100
			12,366				12,366
Non-current liabilities							
Due to Rio Tinto Mining and Exploration Limited			13,659				13,659
Provisions for site restoration			300				300
Deferred income tax	(f)		22,035		(22,035)		-
			48,360		(22,035)		26,325
EQUITY							
Share capital			262,558		(16)		262,542
Contributed surplus	(b)		12,210		(347)		11,863
Deficit	(b)(f)		(86,224)		255		(85,969)
			188,544		(108)		188,436
TOTAL LIABILITIES AND EQUITY		$	236,904	$	(22,143)	$	214,761

US Dollars (000's except share data)

The December 31, 2010 Canadian GAAP statement of loss and comprehensive loss has been reconciled to IFRS as follows:

		December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Operating expenses				
Exploration and evaluation costs		$ 13,432	$ -	$ 13,432
Share-based compensation	(b)	1,201	(339)	862
Shareholder information and filing fees		286	-	286
Wages and management salaries		1,286	-	1,286
Professional fees		515	-	515
General office expenses		215	7	222
Travel		234	-	234
Loss before other items		17,169	(332)	16,837
Other Income and expense				
Foreign exchange loss (gain)	(f)	791	(1,121)	(330)
Finance income		(135)	(7)	(142)
Other gains		(43)	-	(43)
Loss before income tax		17,782	(1,460)	16,322
Income tax recovery	(f)	(501)	501	-
Loss and Comprehensive Loss for the Year		$ 17,281	$ (959)	$ 16,322

Upon transition to IFRS there were no significant changes to the statement of cash flow.

18. Subsequent Events

Subsequent to the year end, the Company granted 2,576,200 incentive stock options to certain directors, officers, and employees. The options are exercisable at CDN$3.73 per common share for a period of five years from the date of grant.