

**BEAR CREEK MINING CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013**

***Introduction***

The following Management's Discussion and Analysis ("MD&A") of Bear Creek Mining Corporation (the "Company" or "Bear Creek") was prepared on November 19, 2013 and should be read in conjunction with the interim consolidated financial statements for the period ended September 30, 2013 and the audited consolidated financial statements of the Company for the year ended December 31, 2012. All dollar amounts are expressed in United States dollars unless otherwise noted. Additional information relating to the Company, including the Company's annual information form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

Bear Creek's business is the acquisition, exploration and development of precious and base metal properties located principally in Peru. In addition to its ongoing exploration activities, the Company is advancing its 100%-owned Corani silver-lead-zinc project towards development. Bear Creek has no revenues from its mineral properties.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations.

Except where otherwise indicated, Bear Creek's exploration programs and pertinent disclosure of a technical or scientific nature are prepared by or prepared under the direct supervision of Andrew Swarthout, P.Geo., CEO, and Christian Rios, VP of Exploration, who serve as the Qualified Persons under the definitions of National Instrument 43-101 ("NI 43-101").

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## **1) Forward-Looking Information**

This document contains "forward-looking information" within the meaning of Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. This information and these statements, referred to herein as "forward-looking statements" are made as of the date of this MD&A or as of the date of the effective date of information described in this MD&A, as applicable. Forward-looking statements relate to future events or future performance and reflect current estimates, predictions, expectations or beliefs regarding future events and include, without limitation, statements with respect to: (i) the amount of mineral reserves and mineral resources; (ii) the amount of future production over any period; (iii) net present value and internal rates of return of the proposed mining operation; (iv) capital costs, including start-up, sustaining capital and reclamation/closure costs; (v) operating costs, including credits from the sale of silver, lead and zinc; (vi) strip ratios and mining rates; (vii) expected grades and payable ounces and pounds of metals and minerals; (viii) expected processing recoveries; (ix) expected time frames; (x) prices of metals and minerals; (xi) mine life; (xii) expected exploration and development programs and their timing and success; (xiii) expected taxation rates and structure; (xiv) expected mineralization; (xv) adequacy of cash balances; and (xvi) resolution of disputes with the Peruvian government. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "envisages", "assumes", "intends", "strategy", "goals", "objectives" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

All forward-looking statements are based on the Company's or its consultants' current beliefs as well as various assumptions made by and information currently available to them. These assumptions include, without limitation: (i) the presence of and continuity of metals at the project at modeled grades; (ii) the capacities of various machinery and equipment; (iii) the availability of personnel, machinery and equipment at estimated prices; (iv) exchange rates; (v) metals and minerals sales prices; (vi) appropriate discount rates; (vii) tax rates and royalty rates applicable to the proposed mining operation; (viii) the availability of financing and expected terms; (ix) financing structure and costs; (x) anticipated mining losses and dilution; (xi) metals recovery rates, (xii) reasonable contingency requirements; and (xiii) receipt of regulatory approvals on acceptable terms. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Many forward-looking statements are made assuming the correctness of other forward looking statements, such as statements of net present value and internal rate of return, which are based on most of the other forward-looking statements and assumptions herein. The cost information is also prepared using current values, but the time for incurring the costs will be in the future and it is assumed costs will remain stable over the relevant period.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that estimates, forecasts, projections and other forward-looking statements will not be achieved or that assumptions do not reflect future experience. We caution readers not to place undue reliance on these forward-looking statements as a number of important factors could cause the actual outcomes to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates assumptions and intentions expressed in such forward-looking statements. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, but specifically

include, without limitation, risks related to exploration and development programs and their timing and success; risks relating to variations in the mineral content within the material identified as mineral reserves and mineral resources from that predicted; variations in rates of recovery and extraction; developments in world metals and minerals markets; risks relating to fluctuations in the Canadian dollar relative to other currencies; increases in the estimated capital and operating costs or unanticipated costs; difficulties attracting the necessary work force; increases in financing costs or adverse changes to the terms of available financing, if any; tax rates or royalties being greater than assumed; changes in development or mining plans due to changes in logistical, technical or other factors, changes in project parameters as plans continue to be refined; risks relating to receipt of regulatory approvals; the effects of competition in the markets in which the Company operates; operational and infrastructure risks; and the additional risks described in the Company's annual information form, annual financial statements and management's discussion and analysis for the year ended December 31, 2012 and in the feasibility study dated December 22, 2011 for the Corani project filed on the SEDAR website (available at [www.sedar.com](http://www.sedar.com)). The foregoing list of factors that may affect future results is not exhaustive.

When relying on the forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on behalf of the Company, except as required by law.

## **2) Current Highlights**

On September 25, 2013, the Company announced that the Peruvian Ministry of Energy and Mines ("MEM") has approved the Environmental and Social Impact Assessment ("ESIA") for the Corani silver- lead-zinc project located in southern Peru. The Company received strong support from the local communities and the various Peruvian Ministries, including the Peruvian Ministry of Energy and Mines ("MEM"), during the approval process.

On August 6, 2013, the Company announced the promotion of Mr. Elsiario Antunez de Mayolo to Chief Operating Officer. Mr. Antunez de Mayolo will continue as General Manager of the Peruvian subsidiaries, a position he has held since joining the Company in March, 2010.

On June 17, 2013, the Company announced the appointment of three new officer positions, Vice President of Legal and General Counsel (Dr. Alvaro Diaz), Vice President of Corporate Development (Mr. Andres Franco), and Vice President of Exploration (Mr. Christian Rios).

On May 7, 2013, the Company announced that its President and Chief Operating Officer, Mr. Marc Leduc, will be leaving to pursue other opportunities effective August 1, 2013.

On April 15, 2013, the Company announced that the public hearing required for the Corani Environmental and Social Impact Assessment ("ESIA") approval has been successfully completed with strong community support for the project and its benefits. Concurrently with the public hearings, the Company completed a Life of Mine Investment Agreement ("LOM"). This agreement was entered into with the District of Carabaya, five surrounding communities, and relevant, ancillary organizations specifying investment commitments over the 23 year project life, including the pre-production period. Under the agreement, annual payments are to be made into a trust designed to fund community projects totaling 4 million nuevos soles per year (approximately \$1.6 million per year).

On March 18, 2013, the Company announced that it had acquired the Carito and Maria Jose gold targets. Carito is located in northern Peru within the Antamina - Magistral thrust fault belt, Ancash Department. The Maria Jose gold target is located in the Department of Ancash, 140 kms NNW of Lima. For more information regarding the projects please refer to sections 4.1 and 4.2 of the MD&A.

On March 13, 2013 the Company announced the results for the five (5) diamond drill holes (1105.3 meters) from its Phase I drill program on the Sumi project. For more information regarding the results please refer to section 4.5 of the MD&A.

On February 5, 2013, the Company was informed that the judge had dismissed the Peruvian Ministry of Energy and Mines (the "MEM") Civil Suit relating to the Santa Ana project. The dismissal was based on technical grounds. The Company was also informed that the MEM has appealed the judge's decision to the next level of court, namely the Peruvian Superior Court. The Peruvian Superior Court has decided to withdraw the pleadings claimed by the MEM as to the validity of Santa Ana's titles and allow certain other claims in the civil case not affecting the validity of Santa Ana's titles to proceed. With respect to the Amparo action, the Company challenges the constitutionality of the Supreme Decree issued in 2011 rescinding the Company's rights to operate the Santa Ana Project while leaving Bear Creek title to the concessions, a ruling is expected before the end of 2013. For more information regarding the Civil Suit and the Amparo action please refer to section 3.2 of the MD&A.

### **3) Development Projects**

#### **3.1) Corani Silver-Lead-Zinc Project**

The 100%-owned Corani silver-lead-zinc project ("Corani") is located in the Andes Mountains approximately 160 kilometers southeast of Cusco, Peru at elevations from 4,800 to 5,100 meters above sea level. The project consists of twelve mineral concessions that form a contiguous block of ground covering approximately 5,700 hectares.

##### *Current Developments at Corani*

During the nine months ended September 30, 2013, the Company incurred expenses of \$7.0 million on the Corani project. Included in this total are engineering costs of \$0.7 million; supplies and general of \$2.0 million; community contribution activities totaling \$2.2 million; and salaries and consulting of \$1.5 million.

The Company had \$76.6 million of capitalized acquisition costs related to the Corani project as of September 30, 2013 (December 31, 2012 \$75.7 million). During the nine months ended September 30, 2013, the Company capitalized costs for land purchase agreements relating to surface rights acquisitions totaling \$0.9 million.

The Company has budgeted total expenditures for the Corani project of \$8.8 million for 2013, which includes surface rights acquisitions and community contributions, public hearing consultations and camp costs. The budgeted expenditures relate primarily to land acquisitions, project engineering and activities relating to the ESIA.

A Feasibility Study (the "FS" or "Feasibility Study"), as defined by NI 43 - 101, was prepared for Corani on December 22, 2011. Details of the Feasibility Study are summarized below. The Company is currently undertaking internal studies evaluating lower initial start-up throughput capacities with future expansion capabilities in order to reduce CapEx requirements. In addition

to CapEx reductions, higher metals recoveries than predicted by the FS are anticipated as higher head grades will be processed through the concentrator during the first 10 years of mine life. These studies are expected to be completed in the first half of 2014 at which time it will be determined if modifications to the FS are appropriate.

### *Feasibility Study Summary*

- The FS defined a significant undeveloped silver deposit containing proven and probable mineral reserves of 270 million ounces of silver, 3.1 billion pounds of lead and 1.7 billion pounds of zinc.
- The base case after-tax NPV was estimated at \$463 million at a 5% discount rate with an after-tax IRR of 17.6% (\$18/oz silver, \$0.85/lb lead and \$0.85/lb zinc). On a pre-tax basis, the base case NPV at a 5% discount rate was \$907 million with an IRR of 29.7%.
- Average annual payable silver production was estimated at 13.4 million ounces per year for the first five years and 8 million ounces per year over the life-of-mine ("LOM"). On a silver equivalent ounce basis, average annual payable production was estimated at 23.0 million ounces per year for the first five years and 14.7 million ounces per year over the LOM.
- Cash cost was estimated at a negative \$(0.45) per ounce of silver for the first five years, with a LOM cash cost of \$3.40 per ounce of silver (net of base metal credits at \$0.85/lb lead and \$0.85/lb zinc).
- The mine will produce marketable lead and zinc concentrates. Metallurgical testing has established conventional flotation recoveries.
- Initial capital cost was estimated at \$574 million with capital payback of 3.8 years at base case metal prices, and 2.0 years at metal prices on November 8, 2011.
- Mine life was expected to be 20 years.
- Mill capacity is expected to be 22,500 tonnes per day.
- Stripping ratio is expected to be 1.69:1 (waste:ore).
- 89 million of measured and indicated silver resource ounces represent potential future reserve conversion.

The reserve and resource estimates were updated in the FS by Independent Mining Consultants ("IMC"), Tucson, Arizona. M3 Engineering of Tucson, Arizona led the FS with support from Blue Coast Metallurgy and Global Resource Engineering ("GRE") for tailings and geotechnical engineering. All are independent engineering and metallurgical testing firms with recent project development experience in Peru.

The FS is based upon assumptions derived from mine planning sequences completed by IMC and metallurgical test work performed by SGS Laboratories in Vancouver, BC and reviewed by Blue Coast Metallurgy. The mining sequence primarily derives ore from the higher-grade starter pits in the early years and moves to lower-grade areas in the later years of production. Operations are for 20 years based on current reserves. Only measured and indicated resources were used to establish the operations plan when converting resources to reserves.

In the mine sequence, only 270 million ounces contained within 156 million tonnes have been used as reserves in this plan. An additional 134 million tonnes of measured and indicated resource (containing an estimated 88.7 million ounces of silver at 20.5 g/t) and 49.8 million tonnes of inferred resource (containing an estimated 48.0 million ounces of silver at 30 g/t)

remain that could be included in later plans of operations. About 89% of these resources are mixed sulfide and transition material peripheral to the reserve pit. About 11% are contained within oxide mineralization, which outcrops at surface.

<b>Key Assumptions for the Corani Project – Base Case</b>	
Annual ore production – years 1 to end of life (tonnes)	7,875,000
Overall process recovery – silver – into both lead and zinc cons	64.2%
Overall process recovery – lead – into lead cons	71.1%
Overall process recovery – zinc – into zinc cons	51.6%
Total processed tonnes	156,130,000
Average silver grade (g/t)	53.8 g/t
Average lead grade (%)	0.90%
Average zinc grade (%)	0.49%
Payable ounces of silver net of smelter payment terms (total)	160.2 million
Payable pounds of lead net of smelter payment terms (total)	2.1 billion
Payable pounds of zinc net of smelter payment terms (total)	745 million
Overall stripping ratio	1.69 to 1
Life-of-mine (mining only) years	18
Life-of-mine (processing) years	20

Reserves are based on metal prices of \$18.00/oz silver and \$0.85 per pound for both lead and zinc. For the resources, metal prices of \$30.00/oz for silver and \$1.00/lb for both lead and zinc were used, representing the three-year backward and two-year forward metal prices weighted 60:40 from August 2011 which is consistent with the Company's policy and industry standards.

The Feasibility Study recommends proceeding with project development based on:

- Robust economics at the base case assumptions with excellent exposure to up-side silver and base metals prices;
- Well-defined resources open to expansion and conversion to reserves;
- A solid metallurgical process producing highly marketable, separate lead and zinc concentrates;
- Favorable infrastructure for tailings storage, power and access,
- Available local water supply;
- Well-defined permitting process; and
- Local community acceptance and support.

## Project Economics

Sensitivities to various parameters are summarized below for the after-tax case:

Case	IRR	NPV @ 5%	NPV @ 0%
Base Case	17.6%	\$463 M	\$947 M
Recovery +10%	20.7%	\$604 M	\$1,176 M
Recovery -10%	14.2%	\$319 M	\$710 M
Metal Price +10%	21.7%	\$658 M	\$1,268 M
Metal Price -10%	12.9%	\$261 M	\$610 M
Initial Capital Cost +10%	15.6%	\$424 M	\$912 M
Initial Capital Cost -10%	20.0%	\$502 M	\$981 M
Operating Cost +10%	16.1%	\$386 M	\$809 M
Operating Cost -10%	19.0%	\$537 M	\$1,077 M
Metal Prices November 8, 2011	37.7%	\$1,497 M	\$2,617 M

Note: Base case prices are \$18.00/oz Silver, \$0.85/lb Lead, \$0.85/lb Zinc; Spot prices are from November 8, 2011 and were \$34.64/oz Ag, \$0.90/lb Pb and \$0.89/lb Zn.

The financial analysis prepared for the FS utilizes the tax regime enacted by the Peruvian government at the time the FS was released. For the base case assumptions, the project is expected to generate \$636 million of income related taxes (including mandatory workers profit sharing).

### Reserve and Resource Estimate (December 22, 2011)

Mineral Reserves, \$10.54 NSR cut-off									
Category	Ktonnes	Contained Metal			Contained Metal		Equivalent Ounces		
		Silver	Lead	Zinc	Silver	Lead	Zinc	Eq. Silver	Eq. Silver
		G/t	%	%	Million Ozs	Million Lbs	Million Lbs	Million Ozs	G/t
Proven	30,083	66.6	1.04	0.60	64.4	690.4	399.9	115.7	119.6
Probable	<u>126,047</u>	<u>50.7</u>	<u>0.87</u>	<u>0.47</u>	<u>205.6</u>	<u>2,422.6</u>	<u>1,297.7</u>	<u>381.5</u>	<u>94.1</u>
Proven + Probable	156,130	53.8	0.90	0.49	270.0	3,113.0	1,697.6	497.2	99.1

Mineral Resources in Addition to Reserves, \$9.20 NSR cut-off									
Category	Ktonnes	Contained Metal			Contained Metal		Equivalent Ounces		
		Silver	Lead	Zinc	Silver	Lead	Zinc	Eq. Silver	Eq. Silver
		G/t	%	%	Million Ozs	Million Lbs	Million Lbs	Million Ozs	G/t
Measured	10,878	17.5	0.38	0.33	6.1	91.1	79.1	13.9	39.6
Indicated	<u>123,583</u>	<u>20.8</u>	<u>0.38</u>	<u>0.29</u>	<u>82.6</u>	<u>1,035.3</u>	<u>790.1</u>	<u>166.7</u>	<u>42.0</u>
Measured + Indicated	134,461	20.5	0.38	0.29	88.7	1,126.4	869.2	180.6	41.8
Inferred	49,793	30.0	0.46	0.28	48.0	509.4	305.2	86.2	53.9

Note: See regulatory footnotes at end of this section for calculation methods used for the reserve and resource and the silver equivalency calculation.

The FS incorporates an updated resource estimation and mine design performed in October 2011 by IMC based upon 93,577 meters of drilling and sampling in 544 diamond drill holes and trenches completed through May of 2009. The Company employs a Net Smelter Return ("NSR") method to determine ore and waste, with the cutoff NSR being \$10.54 per tonne. Measured and indicated resources contained within the Feasibility Study design pit were used to determine final pit limits and thus converted into proven and probable reserves, respectively. The additional resource material is mostly measured and indicated resource that occurs outside of the Feasibility Study pit but which meets the CIM definition of mineral resource.

### *Metallurgical Testing*

The Company has completed two phases of metallurgical optimization tests in order to define recoveries for the purposes of the FS reserve calculation. The results show that the Corani ore body can be divided into two types of ore; mixed sulfide and transitional ores. The mixed sulfide ore, which constitutes 84% of the mill feed, is a conventional polymetallic ore that uses standard processing methods and produces good quality concentrates. The remaining mill feed (16%) is transitional ore which is also treated using standard flotation but has reduced recovery of approximately 5% for silver and 15% for lead. The transitional ore also produces a lower grade concentrate; however, as it only constitutes 16% of the mill feed tonnes, the FS plan effectively blends the transitional ore to produce overall high quality concentrates.

### *Variance from PFS*

The FS more accurately determines the recoveries into the zinc concentrate based upon final metallurgical test work. The recovery of zinc and silver varies with the feed grade of the ore, therefore reducing the recovered zinc and silver at lower zinc head grades (0.3% to 0.7% Zn) from those predicted in the PFS. Importantly, the lead portion of the recovery circuit and the recovery of silver in the lead circuit, where the best silver in concentrate commercial terms are obtained, is not affected by the reduced silver recoveries into the zinc concentrate. The Company believes that improved performance of the zinc circuit and continued improvement of silver recoveries into the lead concentrate at lower zinc feed grades represent opportunities during commercial operation.

### *Average Recoveries and Concentrate Grades of the Life of the Project*

Average Recovery And Con Grades LOM				
	Lead Con		Zinc Con	
	Pb	Ag	Zn	Ag
Recovery	71.70%	60.30%	51.60%	3.90%
Average Concentrate Grades	56.60%	2.9 kg/t	53.00%	437 g/t

### *Mining and Milling*

Mining will be performed using conventional open pit methods using 135 tonne trucks and a mixture of hydraulic excavators and wheel loaders mining on eight meter high benches. The mine requires minimal pre-production waste stripping of 16.2 million tonnes.

Processing of the ore will be by conventional flotation recovery methods. The ore will be crushed close to the mine and the material conveyed to the processing plant which will be



approximately 500 meters from the mine. The ore will be ground to 80% passing 90 microns in a SAG/Ball mill circuit. The material will then be floated with the rougher concentrates being reground to 80% passing 30 microns prior to cleaning to produce high-value separate lead-silver and zinc concentrates. Concentrates will be trucked to the port of Matarani for ocean shipment to smelters.

### *Capital Costs*

The project capital cost estimate has been prepared by three independent engineering companies. The mining costs were prepared by Independent Mining Consultants of Tucson, Arizona, the process and portions of the infrastructure capital cost have been prepared by M3 Engineering of Tucson, Arizona and the Tailings Storage Facility (the "TSF") and remaining infrastructure costs have been prepared by Global Resource Engineering (the "GRE"). The initial startup capital is estimated to be \$574 million and the sustaining capital cost is estimated to be \$7.2 million annually over the life of mine. The capital costs include detailed long-term plans for tailing dam expansions as well as ongoing capital (i.e. mine fleet replacement) and mine closure.

### *Operating Costs*

Mining costs were prepared on a year by year basis with costs varying mostly due to changing haulage distances. The estimated life-of-mine average mining costs will be \$1.42 per tonne of total waste and ore mined. The process costs are estimated to be \$8.44 per tonne of processed ore and the G&A is estimated to be \$1.40 per tonne of processed ore or \$11 million per year.

### *Infrastructure*

The project has favorable infrastructure. Access will be via a new 63 km road to be built over flat topography resulting in low construction costs. The new road will connect to the Interoceanic Highway; a two-lane, paved highway connecting to the port of Matarani. The mine is 30 km from a new high-voltage power line with abundant capacity to meet the project needs. The project has an excellent low environmental impact site for tailings storage resulting in very low capital and operating costs, as the plant will be located immediately adjacent to the mine and the tailings will be pumped to the Tailings Storage Facility ("TSF"). The site is also located in the upper part of drainages with ample surface water supply and as such there are several surface and underground water source alternatives. The FS provides for the construction of a small water storage dam and water capture in the TSF.

### *Social and Environmental*

The Company believes it has maintained good working relationships with the local communities and has continued to operate exploration and development activities at Corani without interruption. One of the areas of primary focus for the coming year will be to build on the positive relations with the local communities as the project is advanced. The Company owns all the land in the area of the mine and plant and is continuing to negotiate the access rights for the ancillary facilities. The Company's commitment to the local communities has been further solidified with an agreement to provide \$1.1 million in aid over the next three years. The \$1.1 million includes costs for two recently completed community schools and plans to build three additional schools to be built in the coming 12 months.

In addition, the Company has completed a Life of Mine Investment Agreement (“LOM”). This agreement was entered into with the District of Carabaya, five surrounding communities, and relevant, ancillary organizations specifying investment commitments over the 23 year project life, including the pre-production period. Under the agreement, annual payments are to be made into a trust designed to fund community projects totaling 4 million nuevos soles per year (approximately \$1.6 million per year), beginning with the first installments payable in 2013. Payments will remain constant throughout the pre-development phase and during production. Cessation or interruptions of operations will cause a pro-rata decrease in the annual disbursements. As an integral part of the LOM agreement, a trust or foundation structure is established for approval of investments and disbursement of funds. Each of the five communities (Corani (Aconsaya), Chacaconiza, Quelcaya, Isivilla, and Aymana) has agreed to the formation of committees which will consider and approve investment projects for the benefit of the communities, such as schools, medical facilities, roads, or other infrastructure. The amounts of the total annual investment to be directed towards each community is agreed to and defined in the agreement. Bear Creek is an oversight member of the trust and will assist towards the success of the projects; however, the Company will have no voting powers. In this structure, Bear Creek's intent is to appoint independent members with community social responsibility experience and credibility in order to provide oversight of the foundation's functions in meeting its commitments to the communities and all of its members. To date, the Company has expensed 2/3 of the 2013 community contributions of four million nuevos soles.

The project is designed to meet and, in many ways exceed, international standards of environmental compliance. The TSF has been designed by GRE to the highest standards of containment and stability. Importantly, the latest design technology will facilitate the permitting process. In the TSF, the Feasibility Study calls for the operation of a sulfide flotation plant that will capture and segregate the sulfide material in the central part of the TSF. This will result in the sulfide material never being exposed to the atmosphere during operations and following mine closure. This technology provides assurance that the TSF will not produce acid rock drainage, thus facilitating final closure of the TSF.

Furthermore, the waste rock storage facilities are designed to capture and manage any flows that may originate from the waste rock. A buffer layer of inert rock will be placed on the outside of the waste rock piles to mitigate the acid producing potential of the facilities. Additionally, the plan calls for partial backfilling of the mining pits so that long-term pit lakes will not form at closure. Finally, the closure plan provides for the covering of the tailing storage and waste rock facilities assuring safe and environmentally compliant closure of the mine.

### *Opportunities*

The FS defines significant resources (134 million tonnes of measured and indicated containing 88.7 million ounces averaging 20.5 g/t Ag and 49.8 million tonnes of inferred resources containing 48 million ounces of silver averaging 30.0 g/t Ag) that are not included in the current mine plan. Depending upon future silver prices, these resources may be converted into reserves and incorporated into the mine plan. Additionally, opportunities exist to discover new mineralization by continuing district exploration. Previous engineering and condemnation drilling has intercepted mineralization up to five kilometers from the current ore body in previously unexplored areas (see news release dated October 11, 2011).

As noted previously, the Company is currently undertaking internal studies evaluating lower initial start-up throughput capacities with future expansions in order to reduce CapEx requirements. In addition to CapEx reductions, higher metals recoveries than predicted by the FS are anticipated as higher head grades will be processed through the concentrator during the

initial 10 years of mine life. These studies are expected to be completed in the first half of 2014 at which time it will be determined if modifications to the FS are appropriate.

**Regulatory footnotes:**

The block model estimate, mine design and schedules were prepared by Independent Mining Consultants of Tucson Arizona. John Marek P.E. acted as the independent qualified person as defined by Canada's NI 43-101. Additionally the methods used in determining and reporting the mineral reserves and resources are consistent with the CIM Best Practices Guidelines. The method used in the resource calculation is equivalent to the method used in the resource calculation shown in the Company's August 23, 2006 Press Release. For the resource estimate in the FS, the Company used metal prices based on a 3-year backward average and a 2-year forward price based on the metal markets in August 2011.

Assumptions used in the mineral reserve and FS model by IMC are: Silver Price=\$18.00/oz; Zinc Price=\$0.85/lb; Lead Price=\$0.85/lb; Mixed Sulfide Material Silver Recovery is fixed at 62% to lead con and an additional 14% to the zinc con when zinc head grade is greater than 0.7%, 10.4% Ag recovery when zinc head grade is from 0.7% to 0.5%, 6.3% recovery of silver to the zinc con when zinc head grade is from 0.5% to 0.3% and no silver recovery to the zinc con when zinc head grades are less than 0.3%. Zinc Recovery=67.5% to zinc con when the zinc head grade is greater than 0.7%, 50% Zn recovery when zinc head grade is from 0.7% to 0.5%, 30% recovery of zinc to the zinc con when zinc head grade is from 0.5% to 0.3% and no zinc recovery to the zinc con when zinc head grades are less than 0.3%. Lead Recovery=75% to lead con. For Transitional Material Silver Recovery= 38.5%+2\*Ag Grade (g/t) (Maximum 70% recovery) to lead con and 0% to the zinc con, Zinc Recovery= 0% to zinc con and Lead Recovery= 38%+10.9\*Lead Grade (%) (Maximum 65% recovery) to lead con. Average smelter charges including Treatment Charges and Refining Charges ("TCRC") and metal deducts against saleable metal: Silver= \$1.52 per ounce; Zinc= \$0.62 per pound; Lead= \$0.41 per pound; Mining Costs per tonne= \$1.34; Process cost per tonne= \$8.00; G&A per processed tonne= \$1.20; Pit Slopes= 42 degrees in mineralized tuff and 46 degrees in post-mineralized tuff. The resulting mineral reserve cutoff is \$10.54/tonne ore NSR. The mineral reserves are contained within a practical mining plan that utilized the 'floating-cone' method as an initial guide for design.

The mineral resource portion of the project is contained in a larger pit than the FS design pit, which was a floating cone using the following input assumptions: Silver Price=\$30.00/oz; Zinc Price=\$1.00/lb; Lead Price=\$1.00/lb; Mixed oxide material that was given 0% recovery for the reserves was assumed to have an 85% recovery of silver, all other recoveries remained the same. The Mineral Resource cut-off was \$9.20/tonne which represents the internal process cutoff. All metallurgical material types were included in the resource.

All diamond drilling has been performed using HQ diameter core with recoveries averaging greater than 95%. Core is logged and split on site under the supervision of Bear Creek geologists. Sampling is done on two-meter intervals and samples are transported by Company staff to Juliaca, Peru for direct shipping to ALS Chemex, Laboratories in Lima, Peru. ALS Chemex is an ISO 9001:2000-registered laboratory and is preparing for ISO 17025 certification. Silver, lead, and zinc assays utilize a multi-acid digestion with atomic absorption ("ore-grade assay method"). The QC/QA program includes the insertion every 20th sample of known standards prepared by SGS Laboratories, Lima. A section in Bear Creek's website is dedicated to sampling, assay and quality control procedures.

The FS was prepared by a team of independent engineering consultants. The mining and block model portion was prepared by Independent Mining Consultants of Tucson Arizona, John Marek, PE acting as QP. The process plant design was prepared by M3 Engineering, Dan Neff, PE acting as QP. Metallurgy and Process design criteria developed by Blue Coast Metallurgy Ltd. Chris Martin, CEng acting as QP. Geotechnical, environmental, infrastructure, waste stockpile and tailings designs were prepared by Global Resource Engineering Ltd., Chris Chapman, PE acting as the QP. Each of these individuals has read and approves the respective scientific and technical disclosure contained in this MD&A. Silver Equivalency calculation represents the contained equivalent silver ounces contained in the ground and is based on the resource metal prices assumptions of \$18.00/oz Ag, 0.85/lb Pb and 0.85/lb Zn and recoveries to concentrate of 64.2% for silver and 71.1% for lead and 51.6% for zinc. The calculation does not take into account the net smelter payment terms for the different metals in the two separate concentrates. The resulting equivalency is 1 oz Ag = 19.1 lb Pb and 1 oz Ag = 26.3 lb Zn.

Total cash cost per ounce of silver is calculated in accordance with a standard approved by The Silver Institute, a nonprofit international association that draws its membership from across the breadth of the silver industry. Adoption of the standard is voluntary and the cost measures presented may not be comparable to other similarly titled measures of other companies. Total cash cost includes mine site operating costs such as mining, processing, administration, and treatment and refining charges, but is exclusive of amortization, reclamation, capital, exploration costs and taxes on income. Total cash costs are reduced by lead and zinc by-product revenues, and then divided by silver ounces sold to arrive at total cash cost of per ounce of silver, net of by-product revenues. Previously, the Company included reclamation costs as a component of its total cash cost per ounce of silver.

The Company has elected to follow the Silver Institute's cash cost standard, and has therefore excluded reclamation costs from its calculation of total cash cost per ounce of silver.

The foregoing disclosure regarding the Corani project contains forward-looking statements that are based on a number of assumptions which may prove to be incorrect, including but not limited to: the availability of financing of the Company's Corani project; the Company's ability to attract and retain skilled staff; the estimated timeline for the development of the Corani project; the supply and demand for, and the level and volatility of the price of silver, lead and zinc; the timing of the receipt of regulatory and governmental approvals, the supply and availability of consumables and services; the accuracy of the Company's resource and reserves estimates and the geological and metallurgical assumptions (including the size, grade and recoverability of mineral resources and reserves) and operational and price assumptions on which the resource estimates are based; market competition; the Company's ongoing relations with its employees and local communities; and general business and economic conditions. There is also no certainty that the results of the FS will ever be realized. Should one or more of the risks or uncertainties involved in forward-looking statements relating to the FS materialize, or should the assumptions underlying the FS prove incorrect, actual results of the FS may vary materially from those anticipated, believed, estimate or expected. See also "Forward-Looking Information" above.

### **3.2) Santa Ana Silver Project**

The 100%-owned Santa Ana silver project ("Santa Ana") is located 120 kilometers southeast of the city of Puno, Peru at an elevation of 4,150 to 4,300 meters. The project encompasses 5,400 hectares of mineral concessions. An updated feasibility study on Santa Ana, which incorporated three-stage crushing of ores, was completed on January 19, 2011. Further development of the project has been postponed pending resolution of the legal matter discussed below.

#### Current Developments at Santa Ana

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, the Company's rights to operate on the concessions; however, the titles to the concessions continue to be held by the Company. 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 was 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.

On July 13, 2011, the Company filed an application for a Constitutional lawsuit in Peru, known as an "Amparo", against the Peruvian Government. The objective of this legal action is to seek injunctive relief against the rescission of the Company's rights to operate on the mineral concessions comprising the Santa Ana Project requesting that the court determine the Peruvian Government violated the Company's constitutional rights when it issued the Supreme Decree in June 2011 that resulted in the rescission of the Company's authorization to operate on the mineral concessions comprising the Santa Ana Project. The Company and its Peruvian legal advisors continue to maintain that it has complied with all legal requirements and Environmental and Social Impact Assessment in respect of the Santa Ana Project procedures, including public consultations which exceeded the requirements of applicable Peruvian laws. The Company maintains that there was no basis for modifying 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 a judgment is expected to be issued in 2013. The Company believes that a political solution is yet possible.

In September 2011 the Company received notice of a civil lawsuit filed by 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 Suit"). The Company has formally submitted arguments in its defense, and has requested the removal of the judge selected to hear the case due to a conflict of interest, which was accepted by the court in November 2011. The Company and its Peruvian legal counsel strongly maintained that the grounds of the MEM Civil Suit are without merit. In October 2012, the judge ruled that the civil case was inadmissible on technical grounds; namely, that the government's civil suit comingled administrative and civil arguments in a civil proceeding.

On February 5, 2013, the Company was informed that the judge had dismissed the MEM Civil Suit based on technical grounds. The Company was also informed that the MEM has appealed the judge's decision to the next level of court, namely the Peruvian Superior Court. The Peruvian Superior Court has decided to withdraw the pleadings claimed by the MEM as to the validity of Santa Ana's titles and allow certain other claims in the civil case not affecting the validity of Santa Ana's titles to proceed.

With respect to the foregoing, settlement discussions with the Peruvian government have been underway for many months in an effort to amicably resolve the issues related to Santa Ana. While progress has been made, no resolution has been achieved. Accordingly, it may be necessary to deliver to the Peruvian government a Notice of Intent to Submit a Claim to Arbitration ("Notice") under the Canada-Peru Free Trade Agreement ("FTA"). The delivery of such Notice is necessary to preserve the Company's rights under the FTA to commence international arbitration proceedings seeking compensation arising from the Peruvian government's improper actions in the event a negotiated resolution is not achieved prior to December 15, 2013. The Company does not believe the Notice would adversely impact ongoing settlement discussions as the FTA itself requires six months of consultations between the parties to occur after the delivery of any such Notice.

Substantially all detailed engineering and project development activities at Santa Ana have been placed on hold since the third quarter of 2011, pending resolution of the Company's legal actions against the Peruvian government. The Company intends to continue and support its social programs that benefit the local communities, which continue to express their support for development of Santa Ana.

During the nine months ended September 30, 2013, the Company incurred expenditures of \$0.25 million on the Santa Ana project, principally for ongoing legal related costs associated with the Amparo and the civil lawsuit.

For 2013, the Company has budgeted expenditures of \$0.3 million at Santa Ana, principally for legal costs relating to the 2011 Supreme Decree and community relations.

The Company released an updated NI 43-101 report on the Santa Ana project on April 1, 2011, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). A summary of the updated feasibility study is as follows:

#### *Feasibility Study Summary*

The following summary of the feasibility study for the Santa Ana silver project is contained within the feasibility study entitled "Revised Feasibility Study, Santa Ana Project, Puno, Peru, NI 43-101 Technical Report Update to the 21-Oct-2010 Report", dated April 1, 2011 to include the finer crushing of ore identified as an opportunity within the FS. The Report was prepared by

Scott Elfen, PE, Sean Currie, P.Eng., and Thomas Wohlford, CPG, of Ausenco Vector, John Marek, PE, of Independent Mining Consultants, Inc. ("IMC"), and Deepak Malhotra, Ph.D., of Resource Development, Inc. The summary has been updated and conformed to be consistent with other disclosure within this MD&A.

A summary of the results of the Santa Ana feasibility study are as follows:

- Proven and probable mineral reserves containing 63.2 million ounces of silver are currently defined at Santa Ana;
- Santa Ana project pre-tax NPV of \$106.9 million at a 5% discount rate and pre-tax IRR of 30% at \$14.50 per ounce silver. After-tax NPV of \$80.3 million and after-tax IRR 25%;
- 11 year mine life producing a total of 47.4 million ounces of silver;
- Average annual saleable silver production of 5.0 million ounces per year for the first 6 years;
- Cash cost of \$8.72 per ounce silver for the 11 years LOM;
- Capital costs of \$70.8 million with capital payback in 3.0 years at \$14.50/oz silver;
- At \$37.63 per ounce silver (London Silver spot price fix on April 1, 2011, the date of the feasibility study), the project would have a pre-tax IRR of 145% and an NPV of \$859 million at a 5% discount rate. On an after-tax basis the IRR would be 84% and NPV \$422 million;
- Numerous upside opportunities are being explored including reductions in cash costs, and an extended mine life plan to include an additional 35.7 million ounces of silver; and
- The Santa Ana deposit remains open, mainly at depth and to the north where the northernmost holes contain up to 22 meters @ 124 g/t silver from surface.

*Reserve and Resource Estimate (October 21, 2010)*

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

Note: no lead and zinc will be recovered.

## Key Project Assumptions

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

### Regulatory footnotes:

Assumptions used in the mineral reserve are consistent with the costs calculated used throughout the Santa Ana feasibility study and these are: Silver Price=\$14.50/oz; Silver Recovery=70% to a doré bar; Mining Costs per tonne = \$1.68; Process cost per tonne = \$3.19; G&A per processed tonne = \$1.17; Pit Slopes= 42 degrees in mineralized tuff and 46 degrees in post-mineralized tuff. A variable reserve cutoff of 24 to 27 g/t was used and this was employed to improve the IRR in the early years of operation. The mineral reserves are contained within a practical mining plan that utilized the “floating-cone” method as an initial guide for design.

The mineral resource portion of the project is contained in a larger pit than the Santa Ana feasibility study design pit. The method used in the resource calculation is equivalent to the method used in the resource calculation shown in the Company's May 26, 2009 Technical Report on the Santa Ana project (available under the Company's profile at [www.sedar.com](http://www.sedar.com)). For this resource estimate we have used metal prices based on a 3-year backward average and a 2-year forward price based on the current metal markets, Assumptions used in the resource model by IMC. silver price = \$16.00/oz; silver recovery = 70%; zinc recovery = 0%; lead recover y= 0%; smelter charges: silver= \$0.40 per ounce; mining costs per tonne = \$1.67; process plus G&A cost per tonne = \$5.30; Pit Slopes = 40 degrees in all rock types.

The Santa Ana feasibility study was prepared by a team of independent engineering consultants. The mining and block model portion was prepared by Independent Mining Consultants of Tucson Arizona, with John Marek, PE acting as QP. The process plant design was prepared by Ausenco Vector in Peru with the metallurgy and process design criteria developed by Resource Development Inc., with Deepak Malhotra, Ph.D acting as QP. Geotechnical, environmental, infrastructure, waste stockpile and heap leach designs and financial modeling were prepared by Ausenco Vector, with Scott Elfen, PE, acting as the QP.

Onsite operating cost per ounce represent the sum of the mining, processing and site G&A divided by the silver ounces produced. Cash costs per ounce are consistent with the Gold Institute's definition, where in addition to the onsite costs; refining, dore transport and royalties are added and by-product credits are subtracted from the numerator of the calculation.

Additionally, the methods used in determining and reporting the mineral reserves and resources are consistent with the CIM Best Practices Guidelines.

All diamond drilling has been performed using HQ diameter core with recoveries averaging greater than 95%. Core is logged and split on site under the supervision of Bear Creek geologists. Sampling is done on two-meter intervals and samples are transported by Company staff to Juliaca, Peru for direct shipping to ALS Chemex, Laboratories in Lima, Peru. ALS Chemex is an ISO 9001:2000-registered laboratory and is preparing for ISO 17025 certification. Silver, lead, and zinc assays utilize a multi-acid digestion with atomic absorption (“ore-grade assay method”). The QC/QA program includes the insertion every 20th sample of known standards prepared by SGS Laboratories, Lima. A section in Bear Creek's website is dedicated to sampling, assay and quality control procedures.

Total cash cost per ounce of silver is calculated in accordance with a standard approved by The Silver Institute, a nonprofit international association that draws its membership from across the breadth of the silver industry. Adoption of the standard is voluntary and the cost measures presented may not be comparable to other similarly titled measures of other companies. Total cash cost includes mine site operating costs such as mining, processing, administration, and treatment and refining charges, but is exclusive of amortization, reclamation, capital, exploration costs and taxes on income. Total cash costs are reduced by any by-product revenues, and then divided by silver ounces sold to arrive at total cash cost of per ounce of silver, net of by-product revenues.

The foregoing disclosure regarding the Santa Ana project contains forward-looking statements that are based on a number of assumptions which may prove to be incorrect, including but not limited to: capital cost estimates of the Company's Santa Ana project; the Company's ability to attract and retain skilled staff; the estimated timeline for the development of the Santa Ana project; the supply and demand for, and the level and volatility of the price of silver; the timing of the receipt of regulatory and governmental approvals, the supply and availability of consumables and services; the accuracy of the Company's resource estimates and the geological and metallurgical assumptions (including the size, grade and recoverability of mineral resources and reserves) and operational and price assumptions on which the Santa Ana feasibility study estimates are based; market competition; the Company's ongoing relations with its employees and local communities; and general business and economic conditions. There is also no certainty that the results of the Santa Ana feasibility study will ever be realized. Should one or more of the risks or uncertainties involved in forward-looking statements relating to the Santa Ana feasibility study materialize, or should the assumptions underlying the Santa Ana feasibility study prove incorrect, actual results of the Santa Ana feasibility study may vary materially from those anticipated, believed, estimate or expected. See also "Forward-Looking Information" above.

#### **4) Exploration Projects**

The Company continues to explore for additional gold and silver prospects in Peru. Base metals exploration prospects of potential are also considered, although the Company tends to seek partners for prospects that do not have a significant precious metals component. From time to time, precious or base metal exploration opportunities in other Latin American countries are considered when compatible with management's history and expertise. Several projects are under Bear Creek's review at any given time; including feasibility study, pre-feasibility and scoping study preparation, active drill evaluation, some being prepared for drilling, others in first pass mapping and sampling following staking or acquisition from third parties, and many in preliminary evaluation to decide if property ownership is possible or desired.

##### **4.1) Carito Gold Prospect**

Carito is located in northern Peru within the prolific Antamina - Magistral thrust fault belt, Ancash Department. Two styles of mineralization are present at Carito; a disseminated gold epithermal system hosted within sedimentary rocks and a copper-gold porphyry system. Gold mineralization is controlled by fractured and crackle-brecciated quartzites and sandstones of the Cretaceous Chimu formation. The Chimu formation is a well-known host for disseminated gold deposits in northern Peru. The sedimentary unit is intruded by at least two pervasively altered porphyries. Importantly, hydrothermal breccias and a diatreme breccia have been identified which indicate sources for mineralizing, hydrothermal fluids. Values derived from twenty-five rock chip samples from the quartzites/sandstones in the main area range from trace to 22.1 g/t gold. Eighteen samples from the above twenty-five samples are above 50 ppb gold. Associated favourable trace elements include strongly anomalous Ag, As, Hg, Sb and W. The two altered intrusives observed to date exhibit values up to 0.36 g/t gold. Additionally, an IP-resistivity and magnetic survey was completed which defines a strong sulfide anomaly measuring 500m by 500m underlying the surface gold mineralization indicating a potential, shallow (200-300meters depth) porphyry copper-gold and high-grade, sediment-hosted deposit.

Phase I drilling is anticipated to begin in December 2013, consisting of approximately 2,500 meters in up to 8 drill holes.

Under the option agreement with a private Peruvian third party, Bear Creek may acquire 100% of Carito by making escalating payments totaling \$7M over 5 years. A royalty of 2% NSR exists that can be entirely purchased for \$6M if the deposit is less than 3 million gold equivalent ounces, or the royalty can be reduced for \$6M to 1% NSR if the deposit contains greater than 3 million gold equivalent ounces, as defined in a feasibility study.



\$0.5 million was spent on the Carito project during the nine months ended September 30, 2013. The Company has budgeted \$1.1 million of expenditures on Carito for 2013.

#### **4.2) Maria Jose Prospect**

Maria Jose is located in the Department of Ancash, 140 kms NNW of Lima. The project is comprised of Cretaceous to Paleocene diorites and granitoids of the Coastal Batholith hosting a system of east-west to northeast trending, 45° to steeply north dipping, mesothermal quartz veins and shear zones containing high gold grade values. Similarly to Caritos, the Maria Jose mineralization was only recently exposed by prospectors. At surface, the three main east-west veins can be traced for approximately 400 meters; however, shallow cover is prevalent in the district and the possibility of much longer strike lengths will be investigated by shallow trenching and sampling. The observed veins range in thickness from 0.20 meters to 1.7 meters with average widths of ~1 meter. Northeast trending veins appear to be younger in age with narrower widths ranging from 0.2 to 0.5 meters exhibiting steeply northwest dips. Initial mapping and channel sampling (16 samples) of several veins yielded values ranging from 2.2 g/t to 233 g/t gold in the east-west trending vein system and from 4 g/t to 22 g/t gold in the northeast system over widths from 0.2 meters to 0.4 meters. The full widths are being exposed and sampled in the current field program. Based upon preliminary field work to date, the mesothermal veins are consistently gold bearing and are indicated to have vertical continuity for at least 400 meters as evidenced by prospect pits and scattered outcrops separated by thin soil cover.

The field program commenced in Q1 2013 and include mapping, trenching, and geophysics in preparation for Phase I drilling anticipated in 2014 pending the outcome of community agreements and required permits. Drilling will likely define the various veins for grade continuity laterally and at depths up to 300 meters.

Under the option agreement with a private Peruvian third party, Bear Creek Mining may acquire 100% of Maria Jose (3,500 hectares) by making escalating payments totaling \$4 million over 4 years. The initial option payment of \$372,000 was paid on February 27, 2013 and the second payment of \$310,000 is due in 18 months; however, the second payment is contingent upon receiving necessary community agreements and permit approvals. Therefore, the Company has sufficient time to complete additional field work and initial drill testing to define the potential in advance of larger, balloon payments. An additional payment of \$2.6 million must be made if the deposit is greater than 1 million ounces gold in resources as defined by NI 43-101 technical report. There are no royalty provisions under the agreement.

\$0.5 million was spent on exploration on the Maria Jose project during the nine months ended September 30, 2013. The Company has budgeted \$0.9 million of expenditures on Maria Jose for 2013.

#### **4.3) Le Yegua Copper-Gold-Molybdenum Prospect**

The La Yegua copper-gold-molybdenum prospect is located in central Peru approximately 20 kilometers northeast of the Los Chancas copper/gold/molybdenum deposit in a prolific porphyry copper belt also containing the Las Bambas, Huaquira, Constancia, Tintaya and Antapaccay deposits.

In October 2010, Bear Creek entered into a joint venture agreement with Japan Oil, Gas and Metals National Corporation ("JOGMEC") to advance the La Yegua Project to phase II drilling. The agreement provides for JOGMEC to earn a 51% interest through investing US\$3M over a

three year period. The US\$3M investment period has been extended until March 2014 due to delays in acquiring environmental permits and- community agreements. Previous limited drilling intersected up to 114 meters with 0.24% copper and 0.03 g/t gold, but was restricted to a small portion of the altered intrusive complex. The joint venture completed additional geophysics in early 2011 that identified two high-chargeability anomalies defined by Induced Polarization/Resistivity ("IP") surveys. These two targets, measuring 700 x 300 meters and 500 x 300 meters, are located at shallow depths 600 meters east and 1.5 kilometers southwest of previous drilling and strongly suggest the presence of untested porphyry targets. See the Company's news release dated April 6, 2011.

Three drill holes totaling 759 meters were drilled at La Yegua from September 2011 through December 2011, where intercepts of up to 0.2% to 0.3% copper were encountered over intervals of up to 20 meters. The next phase of drilling commenced on May 22, 2013, and included 1,183.3 meters of drilling in three holes. This program tested part of the aforementioned two geophysical anomalies, and returned values up to 0.3% copper over 150 meters. One drill hole ended in Cu-Mo mineralization requiring deeper testing. Geological studies both inside and outside the main target area will be done to identify additional possible geophysical and drilling targets. Drilling will continue in the fourth quarter of 2013 depending upon obtaining required environmental permits.

The Company anticipates substantially all expenditures it makes on La Yegua in 2013 will be reimbursed by JOGMEC.

#### **4.4) Tassa Silver-Gold Prospect**

The 100% owned Tassa silver-gold prospect, located southeast of Arequipa in southern Peru, was acquired in 2007 by staking of mineral rights. Tassa is located approximately 160 kilometers northwest and 230 kilometers south of the Company's Santa Ana and Corani projects respectively.

Phase I drilling conducted in 2010 encountered numerous mineralized intercepts including 60 meters averaging 224.2 g/t silver from 24 to 84 meters depth and 40 meters averaging 110.7 g/t silver from 2 to 42 meters depth as well as scattered anomalous gold intercepts with up to 1.24 g/t gold over 2 meters. Phase I drilling tested a 1.5 km by 800 meter anomaly where 852 rock chip samples averaged 30.71 g/t silver.

Phase II drilling in early 2012 focused on expanded target areas defined within a 4 kilometer by 1 kilometer area where two-meter wide surface sampling had identified anomalous outcrops containing up to 2.51 g/t gold in silicified outcrops and 5.36 g/t gold in structures (assay values range from <5ppb to 5.36 g/t gold) and up to 203 g/t silver in strongly fractured rhyolite, and 8,160 g/t silver in selected structures (assay values range from <0.2 g/t to 8,160 g/t silver). The anomalies occur within the hydrothermal breccia complex and the Mesozoic sedimentary contact zone and overlie strong IP anomalies indicating sulfide mineralization at depths between 100 and 400 meters. Eleven holes, totaling 4,797 meters were drilled as part of the phase II program with anomalous gold intercepts in six of the holes of up to 52 meters containing 0.5 g/t gold. In hole T-22, values up to 16 meters containing 1.5 g/t gold and 152.9 g/t silver were found.

Less than \$0.1 million was spent on the Tassa project during the nine months ended September 30, 2013. The Company has budgeted expenditures for the Tassa project of \$0.1 million in 2013.

#### **4.5) Sumi Gold Prospect**

The Company acquired a 100% interest in the Sumi gold prospect by staking in 2011. Sumi is comprised of 1,200 hectares located in the gold-silver tertiary-age epithermal belt in central Peru. The prospect exhibits alteration and mineralization typical of a volcanic-sediment hosted, high and low-sulfidation precious metals system. To date, 111 surface rock chip samples have been collected at Sumi. Assay results for the 111 samples have returned precious metal values including 15.65 g/t gold and 156 g/t silver in a vein-breccia structure over widths of 0.3 to 2.0 meters and 12.1 g/t gold and 102 g/t silver over 2 meter widths in a silicified volcano-sedimentary rock. See the Company's news release dated October 11, 2011. Based upon favorable surface mapping and geochemical sampling, a phase I drilling program was performed in the fourth quarter of 2012 consisting of five diamond drill holes totaling 1,105.3 meters. Highlights of the results are:

- Drill hole SU-5 returns 17 meters averaging 3.6 g/t Au and 3.2 g/t Ag from 50.65 to 68 meters depth.
- Drill hole SU-2 returns 50 meters averaging 0.98 g/t Au and 5.1 g/t Ag from 124 to 174 meters depth.
- Drill hole SU-1 returns 10 meters averaging 4.4 g/t Au from 69.9 to 80 meters depth.
- Three cyanide extraction bottle roll tests on drill core ground to 85% passing minus 200 mesh averaged 86.6% gold recovery; two tests on higher sulfide content samples yielded less than 40% recoveries.

Phase I drilling tested a 400m X 150m area and Phase II drilling is being considered to commence in 2014, to test an additional 1000m X 500m favorable area of the prospect to establish continuity of mineralization and to test additional blind vein and breccia targets beneath shallow, post-mineral cover.

Less than \$0.1 million was spent on the Sumi project during the nine months ended September 30, 2013. The Company has budgeted \$0.1 million of expenditures on Sumi for 2013.

#### **4.6) Generative Exploration**

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

#### *IGV*

IGV ("Impuesto General a las Ventas" - Peruvian value added tax) expense of \$0.9 million represents IGV that was paid to the Peruvian government during the nine months ended September 30, 2013. This amount is expected to be recoverable when the Company generates future revenues in Peru.

Since the Company is in the exploration stage and there is no assurance that future revenues will be generated in Peru, IGV has been expensed as incurred. IGV is denominated in Peruvian

soles, with the total cumulative amount of IGV paid by the Company as of September 30, 2013 being \$12.3 million (34.2 million soles). IGV credits can be carried forward indefinitely.

#### *Other Properties*

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

### **5) Results of Operations**

*Nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012.*

For the nine months ended September 30, 2013 the Company incurred a net loss of \$16.1 million as compared to a net loss of \$24.1 million for the nine months ended September 30, 2012, a decrease of \$8.0 million. The Company's loss per share for 2013 was \$0.17, as compared to a loss per share of \$0.26 for 2012. The decrease in net loss for the nine months ended September 30 2013 was principally due to a \$4.8 million decrease in engineering and evaluation costs of Corani; a \$1.4 million decrease in exploration and evaluation costs in other projects; a \$2.1 million decrease in share-based compensation, a \$0.1 million decrease in professional fees; and a decrease of \$0.3 million in other operating expenses offset by a \$0.6 million increase in the foreign exchange loss during the current period compared to 2012.

The \$2.0 million decrease in share-based compensation in the nine months ended September 30, 2013 was principally due to a lower number of option grants in the 2013 as compared to 2012 as well as a lower share price.

The Company also had a foreign exchange loss of \$0.3 million in the nine months ended September 30, 2013 as compared to a foreign exchange gain of \$0.3 million in 2012. The difference results from the impact of fluctuations in Canadian and US dollar exchange rates on the Company's Canadian dollar cash balances.

*Three months ended September 30, 2013 as compared to the three months ended September 30, 2012.*

For the three months ended September 30, 2013 the Company incurred a net loss of \$4.6 million as compared to a net loss of \$6.9 million for the three months ended September 30, 2012, a decrease of \$2.3 million. The Company's loss per share for 2013 was \$0.05, as compared to a loss per share of \$0.07 for 2012. The decrease in net loss for the three months ended September 30, 2013 was principally due to a \$2.0 million decrease in engineering and evaluation costs of Corani; a \$0.3 million decrease in exploration and evaluation costs in other properties; a \$0.3 million decrease in share-based compensation, offset by an increase of \$0.1 in other operating expenses and a \$0.2 million increase in the foreign exchange loss during the current period compared to 2012.

## Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of the Company and is derived from unaudited interim consolidated financial statements prepared by management. The Company's interim consolidated financial statements are prepared in accordance with IFRS applicable to interim financial statements, and are expressed in US dollars. The presentation currency is the US dollar.

Period	Revenues	Loss for the period (in millions)	Basic and fully diluted loss per share
3 <sup>rd</sup> Quarter 2013	Nil	\$4.6	\$0.05
2 <sup>nd</sup> Quarter 2013	Nil	\$6.0	\$0.07
1 <sup>st</sup> Quarter 2013	Nil	\$5.5	\$0.06
4 <sup>th</sup> Quarter 2012	Nil	\$6.9	\$0.07
3 <sup>rd</sup> Quarter 2012	Nil	\$6.9	\$0.07
2 <sup>nd</sup> Quarter 2012	Nil	\$8.3	\$0.09
1 <sup>st</sup> Quarter 2012	Nil	\$9.0	\$0.10
4 <sup>th</sup> Quarter 2011	Nil	\$8.7	\$0.09

The decrease in losses in 2013 compared to 2012 principally related to reduced expenditures on the Corani project as a result of the Company filing its ESIA in December 2012 as well as reduction of expenditures on all projects as a result of current market conditions.

The decrease in loss for the third quarter of 2012 principally resulted from a foreign exchange gain resulting from fluctuations of the Canadian and US dollar exchange rates on the Canadian dollar cash balances as well as lower share-based compensation costs in the third quarter of 2012. The loss remained consistent in the fourth quarter as lower exploration costs were offset by a foreign exchange loss.

The principal factors that can cause fluctuations in the Company's quarterly results include the timing and valuations attributable to stock option grants, expenditure levels on exploration projects, impairment losses on exploration projects and foreign exchange gains or losses related to Canadian dollar cash balances.

The decrease in loss for the fourth quarter of 2011 principally resulted from a foreign exchange gain of \$0.3 million in the quarter ended December 31, 2011 as compared to a foreign exchange loss of \$1.3 million in the quarter ended September 30, 2011. The \$1.6 million foreign exchange difference was offset by higher exploration expenditures incurred in the fourth quarter primarily due to completing the Corani Feasibility Study.

## 6) Liquidity and Capital Resources

Of the \$54.2 million in cash and cash equivalents, and short term investments, as of September 30, 2013, approximately \$11.2 million (CDN\$10.2 million and Soles \$1.0 million) was denominated in Canadian dollars and Peruvian soles, with the remaining balance in US dollars. The Company's major exploration and development expenditures for 2013 are expected to be denominated in US dollars. The Company generally invests its cash and cash equivalents in either Canadian government backed paper or in Canadian chartered bank corporate paper with short-term maturities.

As of September 30, 2013, the Company's net working capital was \$53.0 million compared to net working capital of \$66.7 million as of December 31, 2012. Cash and cash equivalents at September 30, 2013 totaled \$52.4 million compared to \$64.4 million as of December 31, 2012. The \$12.0 million decrease in cash and cash equivalents principally resulted from expenditures for land acquisitions, engineering, exploration and other operating activities during the quarter, net of working capital adjustments.

The Company believes its current cash balances are sufficient to fund its planned exploration and corporate overhead activities for at least the next twelve months. Construction of the Corani mine will require financing either by way of share issuance, debt financing and/or by other financing alternatives to satisfy the projected \$574 million capital requirement for the Corani project (capital estimate derived from the December 2011 feasibility study).

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

The following table summarizes the contractual maturities of the Company's financial liabilities, and operating and capital commitments at September 30, 2013:

(000's)	2013	2014	2015	2016	2017 and Beyond	Total
Accounts payable and accrued liabilities	\$ 579	\$ -	\$ -	\$ -	\$ -	\$ 579
Provisions	-	-	-	-	200	200
Other liabilities	1,149	215	282	235	540	2,421
Operating leases	36	96	-	-	-	132
	<b>\$ 1,764</b>	<b>\$ 311</b>	<b>\$ 282</b>	<b>\$ 235</b>	<b>\$ 740</b>	<b>\$ 3,332</b>

As of November 19, 2013, the Company had 92,586,639 outstanding common shares. The Company also had 7,509,700 share purchase options outstanding with a weighted average exercise price of CDN\$4.38.

## 7) Related Party Transactions

### 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 (effective May 7, 2012)	Accounting fees

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

	<b>Nine Months Ended September 30, 2013</b>		Nine Months Ended September 30, 2012	
Legal fees	\$	<b>386</b>	\$	273
Accounting fees		<b>135</b>		81
	<b>\$</b>	<b>521</b>	<b>\$</b>	<b>354</b>

Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable at September 30, 2013 included \$18,787 (December 31, 2012 - \$35) 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 nine months ended September 30, 2013 and 2012 were as follows:

	Note	<b>Nine Months Ended September 30, 2013</b>		Nine Months Ended September 30, 2012	
Salaries and directors' fees		\$	<b>584</b>	\$	927
Share-based compensation	(i) (ii)		<b>3,342</b>		4,839
		<b>\$</b>	<b>3,926</b>	<b>\$</b>	<b>5,766</b>

- (i) Share-based compensation represents the non-cash expense for the nine months ended September 30, 2013 and 2012, translated at the grant date foreign exchange rate.
- (ii) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the nine months ended September 30, 2013 and 2012.

### 8) Key Accounting Estimates and Judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities, as well as revenues and expenses. Management's critical accounting estimates are summarized below:

#### *Asset carrying values and impairment assessment*

In accordance with the Company's accounting policy each asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable

amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use.

The determination of fair value less costs to sell and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the income statement.

#### *Determination of the fair value of stock-based compensation*

The fair value of share-based compensation granted is computed to determine the relevant charge to the statement of operations. In order to compute this fair value the Company uses the Black-Scholes option pricing model, which requires management to make various estimates and assumptions in relation to the expected life of the award, expected volatility and the risk free rate.

### **9) Financial Instruments**

The Company's financial instruments as at September 30, 2013 consist of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities, and other liabilities. The fair value of these instruments approximates their carrying value. There were no off-balance sheet financial instruments.

Cash and cash equivalents other than the minor amounts held in Peruvian soles consist solely of cash deposits with major Canadian banks.

The Company does not use derivative or hedging instruments to reduce its exposure to fluctuations in foreign currency exchange rates involving the Canadian dollar or Peruvian Sol.

#### **Approval**

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

#### **Additional Information**

Additional information relating to Bear Creek, including the Company's latest Annual Information Form, is on SEDAR at [www.sedar.com](http://www.sedar.com)