BEARCLAW CAPITAL CORP.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bearclaw Capital Corp.

We have audited the accompanying financial statements of Bearclaw Capital Corp., which comprise the statements of financial position as at December 31, 2012 and 2011, the statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Bearclaw Capital Corp. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Accountants

April 25, 2013

Vancouver, Canada

BEARCLAW CAPITAL CORP.
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31

	Note	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents	4	$ 582,638	$ 664,362
Marketable securities	5	472,803	246,123
Receivables	6	326,956	999,142
Prepaid expenses		10,365	11,144
Convertible debenture - loan component	7	565,130	-
Convertible debenture - option component	7	51,000	-
		2,008,892	1,920,771
Non-current assets			
Exploration and evaluation assets	8	158,717	399,205
Total assets		$ 2,167,609	$ 2,319,976
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	$ 63,052	$ 36,790
Total liabilities		63,052	36,790
Equity			
Share capital	10	7,748,505	7,748,505
Share-based payments reserve	11	306,740	299,424
Accumulated other comprehensive income		44,782	160,278
Deficit		(5,995,470)	(5,925,021)
Total equity		2,104,557	2,283,186
Total liabilities and equity		$ 2,167,609	$ 2,319,976

Commitments (Note 8 and 17)

The financial statements were authorized for issue by the board of directors on April 25, 2013 and were signed on its behalf by:

"Scott Ross" Director
Chief Executive Officer

"Arthur Lilly" Director
Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

BEARCLAW CAPITAL CORP.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31

	Note	2012	2011
EXPENSES			
Accounting and audit		$ 45,550	$ 44,000
Consulting		42,556	26,638
Filing and transfer agent fees		13,574	15,647
Insurance		10,686	11,161
Management fees		72,000	52,000
Legal fees		8,581	19,459
Office and miscellaneous		9,223	7,314
Rent		15,680	15,268
Shareholder information		2,852	1,893
Share-based payments	11	7,316	19,274
Travel		869	2,535
		(228,887)	(215,189)
OTHER ITEMS			
Interest income		28,388	7,239
Gain on sale of marketable securities		55,870	62,396
Accretion of loan component of convertible debenture	7	37,130	-
Unrealized loss on option component of convertible debenture	7	(71,000)	-
Gain on sale/option of exploration and evaluation assets	8	400,551	767,554
Write-off of exploration and evaluation assets	8	(292,501)	-
		158,438	837,189
Net income (loss) for the year		(70,449)	622,000
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value gain (loss) on marketable securities		(59,626)	56,258
Reclassification adjustments of gain realized on sale of marketable securities		(55,870)	(62,396)
		(115,496)	(6,138)
Comprehensive income (loss) for the year		$ (185,945)	$ 615,862
Basic and diluted income (loss) per common share	10	$ (0.00)	$ 0.03
Weighted average number of common shares outstanding		24,371,991	24,255,553

The accompanying notes are an integral part of these financial statements.

BEARCLAW CAPITAL CORP.
STATEMENTS OF CHANGES IN EQUITY

	Note	Number of Shares	Share capital	Share-based payments reserve	Accumulated other comprehensive income	Deficit	Total equity
Balance, December 31, 2010		24,246,991	$ 7,738,505	$ 280,150	$ 166,416	$ (6,547,021)	$ 1,638,050
Comprehensive loss							
Income for the year		-	-	-	-	622,000	622,000
Other comprehensive loss for the year		-	-	-	(6,138)	-	(6,138)
Comprehensive loss for the year		-	-	-	(6,138)	622,000	615,862
Transactions with owners							
Acquisition of mineral property interest	8	125,000	10,000	-	-	-	10,000
Share-based payments	11	-	-	19,274	-	-	19,274
Transactions with owners		-	-	19,274	-	-	29,274
Balance, December 31, 2011		24,371,991	7,748,505	299,424	160,278	(5,925,021)	2,283,186
Comprehensive loss							
Loss for the year		-	-	-	-	(70,449)	(70,449)
Other comprehensive loss for the year		-	-	-	(115,496)	-	(115,496)
Comprehensive loss for the year		-	-	-	(115,496)	(70,449)	(185,945)
Transactions with owners							
Share-based payments	11	-	-	7,316	-	-	7,316
Transactions with owners		-	-	7,316	-	-	7,316
Balance, December 31, 2012		24,371,991	$ 7,748,505	$ 306,740	$ 44,782	$ (5,995,470)	$ 2,104,557

The accompanying notes are an integral part of these financial statements.

BEARCLAW CAPITAL CORP.
CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year		$ (70,449)	$ 622,000
Items not affecting cash:			
Share-based payments		7,316	19,274
Gain on sale of marketable securities		(55,870)	(62,396)
Accretion of loan component of convertible debenture		(37,130)	-
Unrealized loss on option component of convertible debenture		71,000	-
Gain on sale/option of exploration and evaluation assets		(400,551)	-
Write-off of exploration and evaluation assets		292,501	(767,554)
Changes in non-cash working capital items:			
Receivables		694,840	(10,395)
Prepaid expenses		779	(5,508)
Convertible debenture - loan component		(528,000)	-
Convertible debenture - option component		(122,000)	-
Trade and other payables		28,154	6,162
Net cash used in operating activities		(119,410)	(198,417)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of marketable securities		65,694	58,135
Proceeds from sale/option of exploration and evaluation assets		57,500	300,000
Exploration and evaluation assets		(85,508)	(217,485)
BC mining exploration tax credit refund		-	39,611
Net cash provided by investing activities		37,686	180,261
Change in cash and cash equivalents during the year		(81,724)	(18,156)
Cash and cash equivalents, beginning of the year		664,362	682,518
Cash and cash equivalents, end of the year	4	$ 582,638	$ 664,362

Supplemental cash flow information (Note 14)

The accompanying notes are an integral part of these financial statements.

1. NATURE OF BUSINESS

Bearclaw Capital Corp. (the "Company") was incorporated on August 11, 1999 under the laws of British Columbia, Canada and maintains its head office at Suite 214, 3540 West 41st Avenue, Vancouver, British Columbia, Canada, V6N 3E6. Its registered office is located at Suite 1900, 1040 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4H3. The Company is primarily engaged in the acquisition, exploration, and development of mineral properties in Canada. The Company is listed on the TSX Venture Exchange (TSX-V) under the symbol “BRL” and on the Frankfurt Stock Exchange under the symbol “5BQ”.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”).

Basis of measurement

These financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Going concern assessment

The Company is an exploration stage company. The Company has a history of losses with no operating revenue. The ability of the Company to recover the costs it has incurred to date on the evaluation and exploration assets is dependent upon the Company being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the properties.

The Company’s ability to continue as a going concern is dependent on its ability to obtain adequate financing on reasonable terms from lenders, shareholders and other investors and/or to commence profitable operations in the future. Although the Company has been successful in raising funds in the past, there is no assurance that it will be able to obtain adequate financing in the future, in which case the Company may be unable to meet its obligations. The Company continues to seek joint venture partners to further its mineral properties. Management believes that the current cash position will be sufficient to fund the Company’s operating and capital requirements for the next 12 months. The directors, after reviewing the current cash position and having considered the Company’s ability to raise funds in the short term, adopt the going concern basis in preparing the accounts.

These financial statements do not include adjustments that would be required if going concern is not an appropriate basis for preparation of the financial statements. These adjustments could be material.

2. BASIS OF PREPARATION (cont'd…)

Significant estimates and assumptions

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised. Significant areas requiring the use of management estimates include:

i) The determination of the fair value of stock options, warrants and option component of convertible debenture using stock pricing models, require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate.
ii) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts.

Significant judgments

The preparation of these financial statements requires management to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

i) Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of these properties. The assessment of indications of impairment loss and the reversal of an impairment loss and the measuring of the recoverable amount when impairment tests have been prepared involve judgment. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.
ii) The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its exploration projects and working capital requirements and whether there are events or conditions that may give rise to significant uncertainty.
iii) The classification of financial instruments.
iv) The determination of whether it is likely that future taxable profits will be available to utilize against any deferred tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all years presented in these financial statements, unless otherwise indicated.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and at banks and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets

Once a license to explore an area has been secured, all direct costs related to the acquisition, exploration and evaluation of mineral property interests are capitalized into intangible assets on a property by property basis at such time that technical feasibility and commercial viability of extracting a mineral resource has been determined for a property, the capitalized exploration and evaluation costs are transferred and capitalized into property, plant and equipment. The Company records expenditures on exploration and evaluation activities at cost.

Proceeds received from a partial sale or option of any interest in a property are credited against the carrying value of the property. When the proceeds exceed the carrying costs, the excess is recorded in profit or loss in the period the excess is received. When all of the interest in a property is sold, subject only to any retained royalty interests which may exist, the accumulated property costs are written-off, with any gain or loss included in profit or loss in the period the transfer takes place. No initial value is assigned to any retained royalty interest. A royalty interest is subsequently assessed for value by reference to developments on the underlying mineral property.

When entitled, the Company records mineral exploration tax credits or incentive grants on an accrual basis and as a reduction of the carrying value of the properties.

Management assesses the exploration and evaluation assets for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The assessment is based on the development program, the nature of the mineral deposit, commodity prices and the Company's intentions and ability for development of the undeveloped property. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated recoverable amount. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and its value in use. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Provision for decommissioning and restoration

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of mineral properties in the year in which it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Initially, a provision for a decommissioning liability is recognized based on expected cash flows required to settle the obligation and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. The increase in the provision due to passage of time is recognised as interest expense. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows. As at December 31, 2012 and 2011, the Company had no known restoration, rehabilitation or environmental liabilities related to its mineral properties.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. The Company's at fair value through profit or loss financial assets include the option component of the convertible debenture.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost less any impairment. The Company's loans and receivables comprise cash and cash equivalents, receivables and the loan component of the convertible debenture.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Subsequent to initial recognition, changes in the fair value of available-for-sale financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. When available-for-sale financial asset are sold, the accumulated fair value adjustments recognized in other comprehensive income are transferred to profit and loss. The Company's available-for-sale assets include marketable securities in equity securities of other listed entities.

(ii) Financial liabilities

The Company classifies its financial liabilities as other financial liabilities which include trade and other payables. Other financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

(iii) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired.

Loans and receivables

For loans and receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as default or delinquency by a debtor, the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the agreement. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Available-for-sale financial assets

For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. The Company will measure impairment on the basis of an instrument's fair value using an observable market price. An amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Impairment losses recognised on equity instruments are not reversed through profit or loss if the unrealized fair value of the impaired equity instruments increases.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Share capital

The Company records proceeds from the issuance of its common shares as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that shares are issued.

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability ("flow-through tax liability"), and ii) share capital. Upon qualifying expenditure being incurred and renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available to offset the deferred tax liability, the Company will reduce the deferred tax liability and record a deferred tax recovery.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Earnings / loss per share

Basic earnings/loss per share is calculated by dividing the earnings/loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the earnings/loss attributable to common shareholders equals the reported earnings/loss attributable to owners of the Company. The diluted earnings/loss per share reflects all dilutive potential common shares equivalents, which comprise outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. All of the outstanding stock options were anti-dilutive for the years ended December 31, 2012 and 2011.

Share-based payments

Share-based payments to employees and others providing similar services are measured at the grant date fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of options expected to vest. The offset to the recorded cost is to share-based payments reserve. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized as an expense is based on the number of options that eventually vest. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

The fair value of the stock options is determined using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

Income taxes

Current taxes receivable or payable are estimated on taxable income or loss for the current year at the statutory tax rates enacted or substantively enacted at the reporting date.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Future accounting changes

Certain new standards and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2013, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

i) New standard IFRS 11 *Joint Arrangements* (IFRS 11) has been issued to replace IAS 31 *Interests in Joint Ventures*. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled assets and jointly controlled operations under IAS 31. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

ii) New standard IFRS 12 *Disclosure of Interest in Other Entities* (IFRS 12) has been issued to set out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in ISA 28, *Investments in Associates*. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

iii) New standard IFRS 13 *Fair Value Measurement* (IFRS 13) has been issued to provide a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

iv) Amendments to IAS 32 *Financial Instruments: Presentation* (IAS 12) have been issued to clarify requirements for offsetting of financial assets and financial liabilities. The amendments are applicable for annual periods beginning on or after January 1, 2014, with early adoption permitted.

v) New standard IFRS 9 *Financial Instruments* (IFRS 9) has been issued by IASB to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted.

The Company has not early adopted these revised standards and is currently assessing the impact of these standards on the Company's financial statements.

4. CASH AND CASH EQUIVALENTS

	2012	2011
Cash	$ -	$ 128,106
Money market instruments	582,638	536,256
	$ 582,638	$ 664,362

5. MARKETABLE SECURITIES

	2012	2011
Common shares in listed Canadian companies	$ 472,803	$ 246,123

Marketable securities are measured at fair value which is determined using quoted closing prices of the shares on the exchange where they are listed, at the end of each reporting period. A change in fair value of the marketable securities is included as a component of other comprehensive income.

6. RECEIVABLES

	2012	2011
HST recoverable	$ 34,968	$ 42,808
BC mining exploration tax credit receivable	76,325	53,671
Quebec mining exploration tax credit receivable	202,663	202,663
Mineral property sale/option proceeds receivable (Note 8)	-	700,000
Interest receivable	13,000	-
	$ 326,956	$ 999,142

The Company anticipates full recovery of its receivables and therefore no impairment has been recorded against these amounts.

7. CONVERTIBLE DEBENTURE

Pursuant to the amendment signed on the Gnat Pass property (Note 8), Quartz Mountain Resources Ltd. (“Quartz Mountain”) issued the Company a convertible debenture of $650,000. The debenture is unsecured, matures on October 31, 2013 and bears interest at 8% per annum, payable quarterly. The principal amount and accumulated interest of the debenture are convertible into common share of Quartz Mountain at the Company’s option at $0.40 per share.

On initial recognition, the convertible debenture of $650,000 was allocated between the debenture receivable ($528,000) and the related conversion option ($122,000) based on the fair value of the instruments. The fair value of the conversion option was determined using the Black-Scholes option pricing model, using the Quartz Mountain share price and its historical volatility, the conversion price and the expected life of the instruments. The carrying value of the conversion option is adjusted to fair value at each reporting period and any gain or loss is recognized in the statement of operations at that time. Also, the debenture receivable is accreted to the face value of the debenture over its 14 month term and the related amount is included on the statement of operations of each reporting period.

During the year ended December 31, 2012, the Company received or accrued interest of $21,690 and recognized a loss on the change in fair value of the conversion option of $71,000.

8. EXPLORATION AND EVALUATION ASSETS

2012	Lov Property	Axe Property	Other BC Properties	Total
Acquisition costs				
Claim maintenance costs	$ 2,250	$ -	$ 5,852	$ 8,102
Deferred exploration expenditures				
Assays	19,039	-	1,444	20,483
Consulting	3,000	-	14,480	17,480
Miscellaneous	7,753	-	2,967	10,720
Transportation	26,831	-	-	26,831
BC mining exploration tax credit	(16,987)	-	(5,667)	(22,654)
	39,636	-	13,224	52,860
Net costs for the year	41,886	-	19,076	60,962
Balance, beginning of the year	250,615	104,042	44,548	399,205
Option payments received	-	(7,500)	(1,449)	(8,949)
Write-off of property costs	(292,501)	-	-	(292,501)
Balance, December 31, 2012	$ -	$ 96,542	$ 62,175	$ 158,717

2011	Lov Property	Axe Property	Other BC Properties	Total
Acquisition costs				
Cash payments	$ 21,780	$ -	$ 10,114	$ 31,894
Share payments	10,000	-	-	10,000
	31,780	-	10,114	41,894
Deferred exploration expenditures				
Assays	14,710	-	(5,403)	9,307
Consulting	26,750	-	-	26,750
Drilling	79,911	-	-	79,911
Geochemical	14,995	-	-	14,995
Miscellaneous	9,621	-	-	9,621
Transportation	38,321	-	-	38,321
BC mining exploration tax credit	(85,401)	-	(7,881)	(93,282)
	98,907	-	(13,284)	85,623
Net costs for the year	130,687	-	(3,170)	127,517
Balance, beginning of the year	119,928	104,042	280,164	504,134
Sale of mineral property interest	-	-	(232,446)	(232,446)
Balance, December 31, 2011	$ 250,615	$ 104,042	$ 44,548	$ 399,205

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

Lov Property, British Columbia

On August 9, 2010 the Company signed an option agreement with SG Spirit Gold Inc. (formerly Ruby Red Resources Inc.) ("SG") whereby the Company had the option to acquire up to an 80% interest in certain mineral claims located in the Fort Steele Mining Division of British Columbia. Pursuant to the amendments signed during the year ended December 31, 2011, to earn the initial 65% interest in the property, the Company was required to make cash payments of $70,000 ($20,000 paid), issue 575,000 common shares (325,000 shares issued with a fair value of $26,000) and fulfill work commitments of $880,000 ($341,295 completed) by October 31, 2014. During year ended December 31, 2012, the Company decided not to proceed with the option agreement and accordingly wrote off the capitalized acquisition and exploration costs of $292,501.

Axe Property, British Columbia

During the year ended December 31, 2005, the Company signed an option agreement with Weststar Resources Corp. ("Weststar") whereby Weststar had an option to earn a 70% interest in the property, located in the Similkameen Mining Division of British Columbia. Weststar earned its 70% interest by spending $500,000 of exploration expenditures on the property and by making certain cash payments and share issuances required under the agreement. The property is thus held 30% by the Company and 70% by Weststar.

On March 21, 2012, the Company and Weststar entered into an agreement with Xstrata Copper Canada ("Xstrata"), a division of Xstrata Canada Corporation, whereby Xstrata was granted an option to earn up to a 75% interest in the property. To earn an initial 51% interest in the property, Xstrata is required to make cash payments of $180,000 ($25,000 paid) (30% to the Company and 70% to Weststar) and incur exploration expenditures of $3,000,000 over a four year period. Upon earning a 51% interest in the property, the parties to the agreement will form a joint venture to fund and manage the property in accordance with their participating interests held, being 51% by Xstrata, 34.3% by Weststar, and 14.7% by the Company. In addition, Xstrata has the option to earn an additional 24% interest in the property by completing a feasibility study or incurring additional exploration expenditures of $15,000,000.

Other British Columbia properties

The Company holds a 100% interest in the Aplite, Bam, Castle, Rey Lake, and Santa Maria properties in British Columbia ("BC"). The Company also retains a 1% net smelter returns royalty ("NSR") in the Gnat Pass property, 1.25% NSR in the Man/Prime property and a 2.25% NSR in the Capoose property.

The Company has entered into the following property agreements related to two of its BC properties as follows:

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Other British Columbia properties (cont'd…)

Gnat Pass Property

On October 4, 2011, the Company signed an agreement with Finsbury Exploration Ltd. ("Finsbury") to sell a 100% interest in its Gnat Pass property. In consideration of the 100% interest, Finsbury agreed to the following terms:

i) Finsbury will pay the Company $300,000 on October 31, 2011 (received) and a further $700,000 on October 31, 2012 (amended);

ii) Finsbury will issue to the Company up to 1,000,000 common shares of Finsbury concurrent with the consummation of a plan of arrangement and qualifying transaction ("QT") that Finsbury proposes to undertake in the future, involving Finsbury, a capital pool company, and the shareholders of Finsbury (amended);

iii) Finsbury will grant the Company an option to acquire common shares in Finsbury with an aggregate subscription price of up to $150,000 as part of a private placement or other financing that is proposed to close prior to or concurrently with the QT (amended).

On July 27, 2012 Finsbury agreed to sell its rights and transfer its obligations in the Gnat pass property under the original purchase agreement to Quartz Mountain Resources Ltd. ("Quartz Mountain"). The parties therefore entered into an amendment to replace the remaining obligations of Finsbury under the original purchase agreement with Quartz Mountain's commitments as follows:

- Pay $50,000 by August 20, 2012 (received);
- Issue 1,000,000 common shares of Quartz Mountain upon the TSX-V approval (received with a fair value of $330,000); and
- Issue a convertible debenture note in the amount of $650,000 at a rate of 8% per annum with a maturity date of October 31, 2013 upon the TSX-V approval (received).

The Company will retain a 1% NSR, up to a maximum aggregate amount of $7,500,000.

Castle Property

On December 5, 2011, the Company entered into an option agreement with West Cirque Resources Ltd. ("West Cirque") whereby the Company granted West Cirque an option to acquire a 100% interest in the Castle property. Under the terms of the option agreement, West Cirque can earn a 100% interest in the property by making cash payments of $175,000, issuing 500,000 shares, and incurring aggregate exploration expenditures of $2,000,000 over a three year period as follows:

- Pay $50,000 (received) and issue 100,000 shares (received with a fair value of $22,000) upon the TSX-V approval;
- Pay $25,000 (subsequently received), issue additional 100,000 shares (subsequently received), and incur additional work costs of $500,000 (incurred) by January 10, 2013;
- Pay $25,000, issue additional 100,000 shares, and incur additional work costs of $500,000 by January 10, 2014;
- Pay $75,000, issue additional 200,000 shares, and incur additional work costs of $1,000,000 by January 10, 2015.

The Company retains a 2% NSR which can be purchased by West Cirque for $4,000,000.

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Other British Columbia properties (cont'd…)

Capoose Property

The Company retains a 2.25% NSR in the certain mineral claims, located in the Omineca Mining Division of British Columbia. The property is currently held 100% by New Gold Inc.

Man/Prime Property

The Company retains a 1.25% NSR in the property, which can be purchased by Candorado Operating Company Ltd. at any time prior to the beginning of commercial production for $1,250,000.

9. TRADE AND OTHER PAYABLES

The Company's trade and other payables are broken down as follows:

	2012	2011
Trade payables	$ 29,102	$ 2,122
Amounts due to related parties (Note 12)	1,039	6,784
Bank indebtedness	4,366	-
Accrued liabilities	28,545	27,884
	$ 63,052	$ 36,790

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration and general operating activities. The usual credit period taken for trade purchases is between 30 to 90 days.

10. SHARE CAPITAL

Authorized share capital

The Company has authorized 100,000,000 common shares with no par value.

Issued share capital

At December 31, 2012 and 2011, the Company had 24,371,991 common shares outstanding.

Basic and diluted earnings/loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2012 was based on the loss attributable to common shareholders of $70,449 (2011 - income of $622,000) and a weighted average number of common shares outstanding of 24,371,991 (2011 - 24,246,991).

At December 31, 2012, 1,850,000 stock options (2011 - 1,850,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. SHARE-BASED PAYMENTS

The Company has a stock option plan under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors.

The options outstanding at December 31, 2012 have an exercise price in the range of $0.10 to $0.25 (December 31, 2011 - $0.10 to $0.25) and a weighted average remaining contractual life of 2.10 years (December 31, 2011 - 3.11 years).

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2010	1,850,000	$ 0.12
Options granted	300,000	0.10
Cancelled	(300,000)	0.10
Options outstanding, December 31, 2011 and December 31, 2012	1,850,000	$ 0.12
Options exercisable at December 31, 2012	1,730,000	$ 0.12
Weighted average fair value of options granted during the year	$ nil	(2011 - $0.045)

The total share-based payments calculated for stock options granted during the year under the fair value method was $nil (2011 - $13,520) using the Black-Scholes option pricing model. For the year ended December 31, 2012, the Company expensed $7,316 (2011 - $19,274) for the vesting portion of stock options.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2012	2011
Risk-free interest rate	-	2.23%
Expected life of options	-	5 Years
Annualized volatility	-	113.29%
Forfeiture rate	Nil	Nil
Dividend rate	-	Nil

12. RELATED PARTY TRANSACTIONS

Key management includes directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management personnel during the years ended December 31 is as follows:

		2012		2011
Short-term employee benefits	$	-	$	-
Share-based payments		7,153		17,394
Total	$	7,153	$	17,394

The Company entered into the following related party transactions during the year ended December 31, 2012:

a) Paid or accrued management fees of $72,000 (2011 - $52,000) to a company controlled by the President of the Company for management services provided.

b) Paid or accrued consulting fees of $nil (2011 - $4,000) to a company controlled by the Chief Financial Officer of the Company for corporate consulting services provided.

c) Paid or accrued consulting fees of $36,000 (2011 - $12,000) to a close family member of the Chief Financial Officer of the Company for corporate consulting services provided.

d) Paid or accrued consulting fees of $6,356 (2011 - $9,409) and geological consulting fees of $14,480 (2011 - $nil) to a company controlled by a director of the Company for general and geological consulting services provided.

These transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

Included in trade and other payables is $1,039 (December 31, 2011 - $6,784) owing to related parties for services provided to the Company and is unsecured, non-interest bearing, and has no specific terms of repayment.

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company's investment policy is to invest its cash in highly liquid investments which are readily convertible into cash with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

There were no changes in the Company's approach to capital management during the year ended December 31, 2012. The Company is not subject to externally imposed capital requirements.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	2012	2011
Cash paid for income taxes during the year	$ -	$ -
Cash paid for interest during the year	$ -	$ -

Significant non-cash transactions during the years ended December 31, 2012 included:

a) The Company received marketable securities with a total value of $22,000 pursuant to the Castle property option agreement.

b) The Company received marketable securities with a total value of $330,000 pursuant to the Gnat Pass property sale agreement.

c) Included in exploration and evaluation cost recovery are $76,325 related to receivables.

d) Received a convertible debenture of $650,000 for receivables outstanding as at December 31, 2011.

Significant non-cash transactions during the years ended December 31, 2011 included:

a) The Company issued 125,000 common shares pursuant to Lov property option agreement with a total value of $10,000.

b) Included in exploration and evaluation assets are $1,892 related to trade and other payables.

c) Included in exploration and evaluation cost recovery are $53,671 related to receivables.

15. INCOME TAXES

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

	December 31, 2012	December 31, 2011
Income (loss) before income taxes	$ (70,449)	$ 622,000
Statutory tax rate	25%	26.5%
Expected income tax recovery (expense) at statutory rates	$ (17,612)	$ 164,830
Non-deductible items	(3,603)	(4,819)
Impact of tax rate changes	-	(9,056)
Unrecognized (recognized) temporary differences	28,411	(164,959)
Other	(7,196)	14,004
Deferred income tax expense	$ -	$ -

15. INCOME TAXES (cont'd…)

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities are as follows:

	December 31, 2011	Credited (charged) to income (loss)	Credited (charged) to accumulated other comprehensive income	December 31, 2012
Exploration and evaluation assets	$ 758,747	$ (27,013)	$ -	$ 731,734
Non-capital loss carry forwards	521,553	32,519	-	554,072
Convertible debenture	-	8,468	-	8,468
Marketable securities	10	-	14,437	14,447
	1,280,310	13,974	14,437	1,308,721
Unrecognized deferred income tax assets	(1,280,310)	(13,974)	(14,437)	(1,308,721)
Deferred income tax assets	$ -	$ -	$ -	$ -

	December 31, 2010	Credited (charged) to income (loss)	Credited (charged) to accumulated other comprehensive income	December 31, 2011
Exploration and evaluation assets	$ 950,600	$ (191,853)	$ -	$ 758,747
Non-capital loss carry forwards	457,100	64,453	-	521,553
Marketable securities	900	(890)	-	10
Share issuance costs	36,600	(36,600)	-	-
	1,445,200	(164,890)	-	1,280,310
Unrecognized deferred income tax assets	(1,445,200)	164,890	-	(1,280,310)
Deferred income tax assets	$ -	$ -	$ -	$ -

As at December 31, 2012, the Company has non-capital losses of approximately $2,216,000 (2011 - $2,086,000) for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. These losses, if not utilized, will expire between 2014 and 2032. Subject to certain restrictions, the Company also has resource expenditures of approximately $3,085,000 (2011 - $3,434,000) available to reduce taxable income in future years. Deferred income tax assets which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements as the Company determined that, as at December 31, 2012, their realization is uncertain.

16. FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows: cash and cash equivalents, receivable and convertible debenture - loan component as loans and receivables and measured at amortized cost; convertible debenture - option component as at fair value through profit or loss and measured at fair value; marketable securities as available-for-sale and measured at fair value; trade and other payables as other financial liabilities and measured at amortized cost. The carrying amount of financial assets and liabilities carried at amortized cost is a reasonable approximation of fair value due to the relatively short period to maturity of these financial instruments.

Fair Value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy based on the degree to which the inputs used to determine the fair value are observable. The three levels of the fair value hierarchy are:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments measured at fair value on the statement of financial position are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2012				
Available-for-sale financial assets				
Marketable securities	$ 472,803	$ -	$ -	$ 472,803
At fair value through profit or loss financial assets				
Convertible debenture - option component	$ -	$ 51,000	$ -	$ 51,000
December 31, 2011				
Available-for-sale financial assets				
Marketable securities	$ 246,123	$ -	$ -	$ 246,123

A market is regarded as active if quoted prices are readily and regularly available from an exchange. The quoted market prices used for marketable securities are the closing price on the TSX-V at December 31, 2012.

16. FINANCIAL INSTRUMENTS (cont'd…)

Financial risk management

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, and interest rate risk. The Company's exposures to these risks and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash and cash equivalents, marketable securities, receivables and convertible debenture. The credit risk with respect to its cash and cash equivalents and marketable securities are minimal as they are held with high-credit quality financial institutions. The Company's receivables mainly consist of harmonized sales tax ("HST") and mining exploration tax credit refunds due from the federal and provincial governments of Canada. Management does not expect these counterparties to fail to meet their obligations. The convertible debenture was issued by Quartz Mountain from the sale of Gnat pass property and matures on October 31, 2013. The debenture may be considered to have significant credit risk but management expects that Quartz Mountain will meet their obligation.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its obligations associated with its financial liabilities as they fall due. The Company performs cash flow forecasting for each fiscal year to ensure sufficient cash is available to fund its projects and operations. As at December 31, 2012, the Company had a cash and cash equivalents balance of $582,638 to settle current liabilities of $63,052. The Company's financial liabilities include accrued expenses and trade and other payables which have contractual maturities of 30 days or are due on demand.

At present, the Company's operations do not generate positive cash flows. The Company's primary source of funding has been the issuance of equity securities through private placements and the exercise of stock options and warrants. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings.

Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash and cash equivalents maintained at the financial institutions. The interest rate risks on cash and cash equivalents are not considered significant due to their short-term nature and maturity.

17. COMMITMENTS

On September 14, 2011, the Company entered into an office lease agreement for its office premises commencing December 1, 2011 and ending November 30, 2014. The annual minimum lease commitments under the lease are as follows:

2013	$	7,709
2014	$	7,274
	$	14,983