# BEARCLAW CAPITAL CORP.

CONDENSED INTERIM FINANCIAL STATEMENTS

Three Months Ended March 31, 2013

(Unaudited – Prepared by Management)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL REPORT

The accompanying unaudited interim financial report of the Company has been prepared by and is the responsibility of the Company's management. The Company's independent auditor has not performed a review of this financial report in accordance with securities legislation and the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**BEARCLAW CAPITAL CORP.**
INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)

| | Note | March 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | $ 606,090 | $ 582,638 |
| Marketable securities | 5 | 356,955 | 472,803 |
| Receivables | 6 | 267,001 | 326,956 |
| Prepaid expenses | | 8,490 | 10,365 |
| Convertible debenture - loan component | 7 | 590,256 | 565,130 |
| Convertible debenture - option component | 7 | 1,500 | 51,000 |
| | | 1,830,292 | 2,008,892 |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 8 | 151,990 | 158,717 |
| **Total assets** | | $ 1,982,282 | $ 2,167,609 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 9 | $ 29,477 | $ 63,052 |
| **Total liabilities** | | 29,477 | 63,052 |
| **Equity** | | | |
| Share capital | 10 | 7,748,505 | 7,748,505 |
| Share-based payments reserve | 11 | 307,398 | 306,740 |
| Accumulated other comprehensive income (loss) | | (95,949) | 44,782 |
| Deficit | | (6,007,149) | (5,995,470) |
| **Total equity** | | 1,952,805 | 2,104,557 |
| **Total liabilities and equity** | | $ 1,982,282 | $ 2,167,609 |

**Commitments** (Note 8 and 16)
**Event after the reporting period** (Note 17)

The financial statements were authorized for issue by the board of directors on May 29, 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.**
INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
THREE MONTHS ENDED MARCH 31
(Unaudited – Prepared by Management)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **EXPENSES** | | | |
| Accounting | | $ 3,000 | $ 5,000 |
| Consulting | | 13,002 | 10,126 |
| Filing and transfer agent fees | | 5,959 | 6,064 |
| Insurance | | 2,353 | 2,718 |
| Management fees | | 18,000 | 18,000 |
| Legal fees | | 1,048 | 404 |
| Office and miscellaneous | | 4,125 | 2,738 |
| Rent | | 4,026 | 3,910 |
| Shareholder information | | - | 685 |
| Share-based payments | 11 | 658 | 3,467 |
| Travel | | 79 | 39 |
| | | (52,250) | (53,151) |
| **OTHER ITEMS** | | | |
| Interest income | | 15,037 | 1,673 |
| Loss on sale of marketable securities | | (92) | - |
| Accretion of loan component of convertible debenture | 7 | 25,126 | - |
| Unrealized loss on option component of convertible debenture | 7 | (49,500) | - |
| Gain on sale/option of exploration and evaluation assets | 8 | 50,000 | 70,551 |
| | | 40,571 | 72,224 |
| **Net income (loss) for the period** | | (11,679) | 19,073 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Fair value gain (loss) on marketable securities | | (140,731) | 11,094 |
| | | (140,731) | 11,094 |
| **Comprehensive income (loss) for the period** | | $ (152,410) | $ 30,167 |
| **Basic and diluted income (loss) per common share** | 10 | $ (0.00) | $ 0.00 |
| **Weighted average number of common shares outstanding** | | 24,371,991 | 24,371,991 |

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

**BEARCLAW CAPITAL CORP.**
INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)

| | Note | Number of Shares | Share capital | Share-based payments reserve | Accumulated other comprehensive income | Deficit | Total equity |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2012 | | 24,371,991 | $ 7,748,505 | $ 306,740 | $ 44,782 | $ (5,995,470) | $ 2,104,557 |
| Comprehensive loss | | | | | | | |
| Loss for the period | | - | - | - | - | (11,679) | (11,679) |
| Other comprehensive loss for the period | | - | - | - | (140,731) | - | (140,731) |
| Comprehensive loss for the period | | - | - | - | (140,731) | (11,679) | (152,410) |
| Transactions with owners | | | | | | | |
| Share-based payments | 11 | - | - | 658 | - | - | 658 |
| Transactions with owners | | - | - | 658 | - | - | 658 |
| Balance, March 31, 2013 | | 24,371,991 | $ 7,748,505 | $ 307,398 | $ (95,949) | $ (6,007,149) | $ 1,952,805 |

| | Note | Number of Shares | Share capital | Share-based payments reserve | Accumulated other comprehensive income | Deficit | Total equity |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2011 | | 24,371,991 | $ 7,748,505 | $ 299,424 | $ 160,278 | $ (5,925,021) | $ 2,283,186 |
| Comprehensive loss | | | | | | | |
| Income for the period | | - | - | - | - | 19,073 | 19,073 |
| Other comprehensive income for the period | | - | - | - | 11,094 | - | 11,094 |
| Comprehensive loss for the period | | - | - | - | 11,094 | 19,073 | 30,167 |
| Transactions with owners | | | | | | | |
| Share-based payments | 11 | - | - | 3,467 | - | - | 3,467 |
| Transactions with owners | | - | - | 3,467 | - | - | 3,467 |
| Balance, March 31, 2012 | | 24,371,991 | $ 7,748,505 | $ 302,891 | $ 171,372 | $ (5,905,948) | $ 2,316,820 |

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

**BEARCLAW CAPITAL CORP.**
INTERIM STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31
(Unaudited – Prepared by Management)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income (loss) for the period | | $ (11,679) | $ 19,073 |
| Items not affecting cash: | | | |
| Share-based payments | | 658 | 3,467 |
| Loss on sale of marketable securities | | 92 | - |
| Accretion of loan component of convertible debenture | | (25,126) | - |
| Unrealized loss on option component of convertible debenture | | 49,500 | - |
| Gain on sale/option of exploration and evaluation assets | | (50,000) | (70,551) |
| Changes in non-cash working capital items: | | | |
| Receivables | | 6,284 | (5,345) |
| Prepaid expenses | | 1,875 | 2,350 |
| Trade and other payables | | (33,575) | (1,213) |
| Net cash used in operating activities | | (61,971) | (52,219) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of marketable securities | | 25 | - |
| Proceeds from sale/option of exploration and evaluation assets | | 32,500 | 50,000 |
| Exploration and evaluation assets | | (773) | (4,517) |
| BC mining exploration tax credit refund | | 53,671 | - |
| Net cash provided by investing activities | | 85,423 | 45,483 |
| **Change in cash and cash equivalents during the period** | | 23,452 | (6,736) |
| **Cash and cash equivalents, beginning of the period** | | 582,638 | 664,362 |
| **Cash and cash equivalents, end of the period** | 4 | $ 606,090 | $ 657,626 |

**Supplemental cash flow information** (Note 13)

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 condensed interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by International Accounting Standards Board (“IASB”), applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. The condensed interim financial statements do not include all of the disclosures required for a complete set of annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the 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 in the Company's annual financial statements for the year ended December 31, 2012 were consistently applied to all the periods presented unless otherwise noted below.

## 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, 2014, 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) 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.

ii) 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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Cash | $ 41,711 | $ - |
| Money market instruments | 564,379 | 582,638 |
| | $ 606,090 | $ 582,638 |

## 5. MARKETABLE SECURITIES

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Common shares in listed Canadian companies | $ 356,955 | $ 472,803 |

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

| | | March 31, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| HST recoverable | $ | 41,684 | $ | 34,968 |
| BC mining exploration tax credit receivable | | 22,654 | | 76,325 |
| Quebec mining exploration tax credit receivable | | 202,663 | | 202,663 |
| Interest receivable | | - | | 13,000 |
| | $ | 267,001 | $ | 326,956 |

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 three months ended March 31, 2013, the Company received or accrued interest of $12,929 and recognized a loss on the change in fair value of the conversion option of $49,500.

## 8. EXPLORATION AND EVALUATION ASSETS

| 2013 | | Axe Property | | Other BC Properties | | Total |
|---|---|---|---|---|---|---|
| Acquisition costs | | | | | | |
| Claim maintenance costs | $ | - | $ | 773 | $ | 773 |
| Net costs for the period | | - | | 773 | | 773 |
| Balance, beginning of the year | | 96,542 | | 62,175 | | 158,717 |
| Option payments received | | (7,500) | | - | | (7,500) |
| Balance, March 31, 2013 | $ | 89,042 | $ | 62,948 | $ | 151,990 |

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

| 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 |

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.

**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 ($50,000 paid, of which 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.

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

**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:

***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.

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

**Other British Columbia properties** (cont'd…)

***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.

Subsequent to March 31, 2013, the Company and West Cirque amended the terms of the option agreement (Note 18).

***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 Sunrise Resources Ltd. at any time prior to the beginning of commercial production for $1,250,000.

**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.

## 9. TRADE AND OTHER PAYABLES

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

| | | March 31, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| Trade payables | $ | 1,479 | $ | 29,102 |
| Amounts due to related parties (Note 12) | | 6,720 | | 1,039 |
| Bank indebtedness | | - | | 4,366 |
| Accrued liabilities | | 21,278 | | 28,545 |
| | $ | 29,477 | $ | 63,052 |

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 March 31, 2013, 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 three months ended March 31, 2013 was based on the loss attributable to common shareholders of $11,679 (2012 - income of $19,073) and a weighted average number of common shares outstanding of 24,371,991 (2012 - 24,371,991).

At March 31, 2013, 1,850,000 stock options (2012 - 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 March 31, 2013 have an exercise price in the range of $0.10 to $0.25 (December 31, 2012 - $0.10 to $0.25) and a weighted average remaining contractual life of 1.86 years (December 31, 2012 – 2.10 years).

There were no stock option transactions during the year ended December 31, 2012 and the three month period ended March 31, 2013. For the three month period ended March 31, 2013, the Company expensed $658 (2012 - $3,467) for the vesting portion of stock options granted in fiscal 2011.

## 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 three month periods ended March 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Short-term employee benefits | $ - | $ - |
| Share-based payments | 658 | 2,848 |
| Total | $ 658 | $ 2,848 |

The Company entered into the following related party transactions during the three month period ended March 31, 2013:

a) Paid or accrued management fees of $18,000 (2012 - $18,000) to a company controlled by the President of the Company for management services provided.

b) Paid or accrued consulting fees of $9,000 (2012 - $9,000) to a close family member of the Chief Financial Officer of the Company for corporate consulting services provided.

c) Paid or accrued consulting fees of $3,802 (2012 - $1,126) to a company which a director of the Company is a principal 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 $6,720 (December 31, 2012 - $1,039) owing to related parties for services provided to the Company and is unsecured, non-interest bearing, and has no specific terms of repayment.

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

| | 2013 | 2012 |
|---|---|---|
| Cash paid for income taxes during the period | $ - | $ - |
| Cash paid for interest during the period | $ - | $ - |

Significant non-cash transactions during the three month period ended March 31, 2013 included:

a) The Company received marketable securities with a total value of $25,000 pursuant to the Castle property option agreement.

b) Included in exploration and evaluation cost recovery are $22654 related to receivables.

Significant non-cash transactions during the three month period ended March 31, 2012 included:

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

b) Included in exploration and evaluation assets are $73 related to trade and other payables.

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

## 14. 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 three month period ended March 31, 2013. The Company is not subject to externally imposed capital requirements.

## 15. 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 |
|---|---|---|---|---|
| March 31, 2013 | | | | |
| Available-for-sale financial assets | | | | |
| Marketable securities | $ 356,955 | $ - | $ - | $ 356,955 |
| At fair value through profit or loss financial assets | | | | |
| Convertible debenture - option component | $ - | $ 1,500 | $ - | $ 1,500 |
| 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 |

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 March 28, 2013.

## 15. 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 March 31, 2013, the Company had a cash and cash equivalents balance of $606,090 to settle current liabilities of $29,477. 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.

## 16. 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 | $ | 5,789 |
| 2014 | $ | 7,274 |
| | $ | 13,063 |

## 17. EVENT AFTER THE REPORTING PERIOD

West Cirque entered into an Earn-In Agreement dated March 1, 2013 with Freeport-McMoran of Canada Limited ("FMCC") whereby West Cirque granted FMCC an option to earn up to a 77.5% interest in the Castle property. On May 1, 2013, the Company and West Cirque amended the remaining terms of the option agreement on the Castle property as follows:

- Pay $25,000 and issue additional 100,000 shares on the earlier of i) January 10, 2014 and ii) 10 days following the commencement date of the Earn-In Agreement;
- Incur aggregate work costs of $1,000,000 by January 10, 2014;
- Issue additional 200,000 shares on the earlier of i) January 10, 2015 and ii) one year following the commencement date of the Earn-In Agreement.
- Pay $75,000 and incur additional work costs of $835,000 by January 10, 2015.

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