

BEARCLAW CAPITAL CORP.

CONDENSED INTERIM FINANCIAL STATEMENTS

Nine Months Ended September 30, 2012

(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.
CONDENSED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)

	Note	September 30, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 597,014	\$ 664,362
Marketable securities	5	524,133	246,123
Receivables	6	290,690	999,142
Prepaid expenses		10,990	11,144
Convertible debenture - debt component	8	522,229	-
Convertible debenture - option component	8	81,000	-
		2,026,056	1,920,771
Non-current assets			
Exploration and evaluation assets	7	148,364	399,205
Total assets		\$ 2,174,420	\$ 2,319,976
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	\$ 4,630	\$ 36,790
Total liabilities		4,630	36,790
Equity			
Share capital	10	7,748,505	7,748,505
Share-based payments reserve	11	306,059	299,424
Accumulated other comprehensive income		91,200	160,278
Deficit		(5,975,974)	(5,925,021)
Total equity		2,169,790	2,283,186
Total liabilities and equity		\$ 2,174,420	\$ 2,319,976

Commitments (Note 7 and 16)

The financial statements were authorized for issue by the board of directors on November 22, 2012 and were signed on its behalf by:

<u>“Scott Ross”</u> Chief Executive Officer	Director	<u>“Arthur Lilly”</u> Chief Financial Officer	Director
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The accompanying notes are an integral part of these financial statements.

BEARCLAW CAPITAL CORP.
CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)

	Note	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
EXPENSES					
Accounting and audit		\$ 6,750	\$ 3,700	\$ 17,250	\$ 17,400
Consulting	12	10,846	6,149	32,446	18,035
Filing and transfer agent fees		2,979	1,737	12,944	14,030
Insurance		2,537	2,872	8,266	8,149
Management fees	12	18,000	12,000	54,000	36,000
Legal fees		3,729	5,455	8,581	10,293
Office and miscellaneous		1,899	1,652	7,186	5,319
Rent		3,928	3,803	11,747	11,400
Shareholder information		552	156	2,852	955
Share-based payments	11	681	3,570	6,635	15,704
Travel		-	1,519	869	2,481
		(51,901)	(42,613)	(162,776)	(139,766)
OTHER ITEMS					
Interest income		10,411	1,900	13,645	5,587
Gain on sale of marketable securities		28,332	51,627	28,332	51,627
Accretion of convertible debenture		13,229	-	13,229	-
Unrealized loss on convertible debenture		(60,000)	-	(60,000)	-
Gain on optioning of mineral property interest	7	-	-	70,551	-
Gain on sale of mineral property interest	7	330,000	-	330,000	-
Write-off of exploration and evaluation assets	7	(283,934)	-	(283,934)	-
		38,038	53,527	111,823	57,214
Net income (loss) for the period		(13,863)	10,914	(50,953)	(82,552)
OTHER COMPREHENSIVE INCOME (LOSS)					
Unrealized gain (loss) on marketable securities		(40,153)	(54,385)	(40,746)	27,115
Reclassification adjustments of gain realized on sale of marketable securities		(28,332)	(51,627)	(28,332)	(51,627)
		(68,485)	(106,012)	(69,078)	(24,512)
Comprehensive loss for the period		\$ (82,348)	\$ (95,098)	\$ (120,031)	\$ (107,064)
Basic and diluted loss per common share	10	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding		24,371,991	24,046,991	24,371,991	24,046,991

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

BEARCLAW CAPITAL CORP.
CONDENSED 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, 2011		24,371,991	\$ 7,748,505	\$ 299,424	\$ 160,278	\$ (5,925,021)	\$ 2,283,186
Comprehensive loss							
Loss for the period		-	-	-	-	(50,953)	(50,953)
Other comprehensive loss for the period		-	-	-	(69,078)	-	(69,078)
Comprehensive loss for the period		-	-	-	(69,078)	(50,953)	(120,031)
Transactions with owners							
Share-based payments	10	-	-	6,635	-	-	6,635
Transactions with owners		-	-	6,635	-	-	6,635
Balance, September 30, 2012		24,371,991	\$ 7,748,505	\$ 306,059	\$ 91,200	\$ (5,975,974)	\$ 2,169,790

	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							
Loss for the period		-	-	-	-	(82,552)	(82,552)
Other comprehensive income for the period		-	-	-	(24,512)	-	(24,512)
Comprehensive loss for the period		-	-	-	(24,512)	(82,552)	(107,064)
Transactions with owners							
Share-based payments	10	-	-	15,704	-	-	15,704
Transactions with owners		-	-	15,704	-	-	15,704
Balance, September 30, 2011		24,246,991	\$ 7,738,505	\$ 295,854	\$ 141,904	\$ (6,629,573)	\$ 1,546,690

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

BEARCLAW CAPITAL CORP.
CONDENSED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30
(Unaudited – Prepared by Management)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		\$ (50,953)	\$ (82,552)
Items not affecting cash:			
Share-based payments		6,635	15,704
Gain on sale of marketable securities		(28,332)	(51,627)
Accretion of convertible debenture		(13,229)	-
Unrealized loss on convertible debenture		60,000	-
Gain on optioning of mineral property interest		(70,551)	-
Gain on sale of mineral property interest		(330,000)	-
Write-off of exploration and evaluation assets		283,934	-
Changes in non-cash working capital items:			
Receivables		58,452	9,523
Prepaid expenses		154	(4,907)
Trade and other payables		(30,710)	(15,623)
Net cash used in operating activities		(114,600)	(129,482)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of marketable securities		33,244	58,115
Proceeds from optioning of mineral property interest		57,500	-
Exploration and evaluation costs		(43,492)	(39,125)
Net cash provided by investing activities		47,252	18,990
Change in cash and cash equivalents during the period		(67,348)	(110,492)
Cash and cash equivalents, beginning of the period		664,362	682,518
Cash and cash equivalents, end of the period	4	\$ 597,014	\$ 572,026

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, 2011, 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

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 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...)

Use of estimates and judgements

The preparation of the financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. There have been no changes to the Company's accounting estimates and judgements during the nine months ended September 30, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the Company's annual financial statements for the year ended December 31, 2011 were consistently applied to all the periods presented unless otherwise noted below.

Future accounting changes

- 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.

Reclassification

Certain comparative figures have been reclassified to conform to the presentation of the current period financial statements.

BEARCLAW CAPITAL CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2012
(Unaudited – Prepared by Management)

4. CASH AND CASH EQUIVALENTS

	September 30, 2012	December 31, 2011
Cash	\$ 51,821	\$ 128,106
Money market instruments	545,193	536,256
	\$ 597,014	\$ 664,362

5. MARKETABLE SECURITIES

	September 30, 2012	December 31, 2011
Common shares in listed Canadian companies	\$ 524,133	\$ 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

	September 30, 2012	December 31, 2011
HST recoverable	\$ 25,436	\$ 42,808
BC mining exploration tax credit receivable	53,671	53,671
Quebec mining exploration tax credit receivable	202,663	202,663
Mineral property sale/option proceeds receivable (Note 7)	-	700,000
Interest and other receivables	8,920	-
	\$ 290,690	\$ 999,142

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

BEARCLAW CAPITAL CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2012
(Unaudited – Prepared by Management)

7. 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	-	-	19,039
Consulting	3,000	-	2,842	5,842
Miscellaneous	7,652	-	29	7,681
Transportation	1,378	-	-	1,378
	<u>31,069</u>	<u>-</u>	<u>2,871</u>	<u>33,940</u>
Net costs for the period	33,319	-	8,723	42,042
Balance, beginning of the period	250,615	104,042	44,548	399,205
Option of mineral property interest	-	(7,500)	(1,449)	(8,949)
Write-off of property costs	<u>(283,934)</u>	<u>-</u>	<u>-</u>	<u>(283,934)</u>
Balance, September 30, 2012	\$ -	\$ 96,542	\$ 51,822	\$ 148,364

2011	Lov Property	Axe Property	Other BC Properties	Total
Acquisition costs				
Cash payments	\$ 21,780	\$ -	\$ 10,114	\$ 31,894
Share payments	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
	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	<u>(85,401)</u>	<u>-</u>	<u>(7,881)</u>	<u>(93,282)</u>
	<u>98,907</u>	<u>-</u>	<u>(13,284)</u>	<u>85,623</u>
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	-	-	<u>(232,446)</u>	<u>(232,446)</u>
Balance, December 31, 2011	\$ 250,615	\$ 104,042	\$ 44,548	\$ 399,205

7. 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 has 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 is 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 (\$315,741 completed) by October 31, 2014. During the quarter ended September 30, 2012 the Company decided not to proceed with the option agreement and accordingly wrote off the capitalized acquisition and exploration costs of \$284,934.

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) 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 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, and Rey Lake properties. 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 in two of its BC properties as follows:

7. 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 has agreed to sell its rights and transfer its obligations to 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 (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, issue additional 100,000 shares, and incur additional work costs of \$500,000 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.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2012
(Unaudited – Prepared by Management)

7. 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.

8. CONVERTIBLE DEBENTURE

Pursuant to the amendment signed on the Gnat Pass property (Note 7), Quartz Mountain issued the Company a convertible debenture of \$650,000. The debenture matures on October 31, 2013, bears interest at 8% per annum and is secured by Quartz Mountain's interest in the Gnat Pass property. 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 (\$509,000) and the related conversion option (\$141,000) 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 was adjusted to fair value at each reporting period and any gain or loss was recognized in the statement of operations at that time. Also, the debenture receivable was accreted to the face value of the debenture over its 14 month term and the related amount was included on the statement of operations of each reporting period.

During the nine months ended September 30, 2012, the Company accrued interest of \$8,690 and recognized a loss on the fair value of the conversion option of \$60,000.

9. TRADE AND OTHER PAYABLES

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

	September 30, 2012	December 31, 2011
Trade payables	\$ 633	\$ 2,122
Amounts due to related parties (Note 12)	997	6,784
Accrued liabilities	3,000	27,884
	<u>\$ 4,630</u>	<u>\$ 36,790</u>

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.

BEARCLAW CAPITAL CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2012
(Unaudited – Prepared by Management)

10. SHARE CAPITAL

Authorized share capital

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

Issued share capital

At September 30, 2012, the Company had 24,371,991 common shares outstanding (December 31, 2011 - 24,371,991).

Basic and diluted earnings/loss per share

The calculation of basic and diluted loss per share for the nine month period ended September 30, 2012 was based on the loss attributable to common shareholders of \$50,953 (2011 - \$82,552) and a weighted average number of common shares outstanding of 24,371,991 (2011 - 24,246,991).

At September 30, 2012, 1,850,000 stock options (2010 - 2,000,000) 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 September 30, 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 2.36 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	<u>(300,000)</u>	0.10
Options outstanding, December 31, 2011 and September 30, 2012	1,850,000	\$ 0.12
Options exercisable at December 31, 2011 and September 30, 2012	1,730,000	\$ 0.12
Weighted average fair value of options granted during the period	\$ nil	(2011 - \$0.045)

The total share-based payments calculated for stock options granted during the period under the fair value method was \$nil (2011 - \$13,520) using the Black-Scholes option pricing model. For the nine month period ended September 30, 2012, the Company expensed \$6,635 (2011 - \$15,704) for the vesting portion of stock options.

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11. SHARE-BASED PAYMENTS (cont'd...)

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

	2011	2010
Risk-free interest rate	-	2.23%
Expected life of options	-	5 Years
Annualized volatility	-	113.29%
Dividend rate	-	Nil

12. RELATED PARTY TRANSACTIONS

Key management includes directors (executive and non-executive) of the Company. The compensation paid or payable to key management personnel during the nine month period ended September 30 is as follows:

	2012	2011
Short-term employee benefits	\$ -	\$ -
Share-based payments	6,471	13,871
Total	\$ 6,471	\$ 13,871

The Company entered into the following related party transactions during the nine month period ended September 30, 2012:

- a) Paid or accrued management fees of \$54,000 (2011 - \$36,000) 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 \$27,000 (2011 - \$5,000) 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 \$4,798 (2011 - \$8,086) and geological consulting fees of \$2,400 (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 \$997 (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.

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(Unaudited – Prepared by Management)

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

Significant non-cash transactions during the nine month period ended September 30, 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 assets are \$442 related to trade and other payables.
- d) Included in exploration and evaluation cost recovery are \$53,671 related to receivables.

Significant non-cash transactions during the nine month period ended September 30, 2011 included:

- a) Included in exploration and evaluation assets are \$12,455 related to trade and other payables.

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 nine month period ended September 30, 2012. 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 - debt 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
September 30, 2012				
Available-for-sale financial assets				
Marketable securities	\$ 290,690	\$ -	\$ -	\$ 290,690
At fair value through profit or loss financial assets				
Convertible debenture - option component	\$ -	\$ 81,000	\$ -	\$ 81,000
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 September 28, 2012.

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.

15. FINANCIAL INSTRUMENTS (cont'd...)

Financial risk management (cont'd...)

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 convertible debenture may be considered to have significant risk but is secured by the Gnat Pass property. 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.

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 available to fund its projects and operations. As at September 30, 2012, the Company had a cash and cash equivalents balance of \$597,014 to settle current liabilities of \$4,630. 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:

2012	\$	1,881
2013	\$	7,709
2014	\$	<u>7,274</u>
	\$	16,864