# BEARCLAW CAPITAL CORP.

(the "Company" or "Bearclaw")

## FORM 51-102F1
## MANAGEMENT DISCUSSION AND ANALYSIS

For the Six Months Ended June 30, 2013

The following management discussion and analysis ("MD&A") has been prepared by management as of August 23, 2013, and should be read in conjunction with the unaudited interim financial statements and related notes of the Company for the six month period ended June 30, 2013, and the audited financial statements of the Company and related notes for the year ended December 31, 2012. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are stated in Canadian dollars unless otherwise indicated.

### FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking information and statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions as at the date of this MD&A. The words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential", "interprets", "may", "will" and similar expressions identify forward-looking statements. Information concerning the interpretation of drill results may also be considered a forward-looking statement; as such information constitutes a prediction of what mineralization might be found to be present if and when a project is actually developed. The forward-looking statements reflect the current beliefs of the management of the Company, and are based on currently available information. Readers are cautioned not to place undue reliance on these statements as they are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Company to differ materially from those expressed in, or implied by, such forward-looking statements. The Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

### OVERVIEW

Bearclaw was incorporated on August 11, 1999 under the laws of British Columbia, Canada. The Company is primarily engaged in the acquisition, exploration, and development of mineral properties in Canada. The Company's common shares are listed for trading on the TSX Venture Exchange ("TSX-V"), under the symbol "BRL". The Company's common shares also trade on the Frankfurt Stock Exchange, under the symbol "5BQ".

### EXPLORATION ACTIVITIES

As of June 30, 2013, the Company has interests in the following mineral properties in British Columbia.

**Aplite, Bam, Castle, Rey Lake and Santa Maria Properties, British Columbia**

The Company owns a 100% interest in the Aplite, Bam, Castle, Rey Lake, and Santa Marie properties. The Castle property is currently under an option agreement whereby West Cirque Resources Ltd. has option to acquire a 100% interest in the property by making cash payments of $175,000, issuing 500,000 shares, and incurring aggregate exploration expenditures of $1,835,000 over a three year period. The Company is currently seeking joint venture partners for further exploration of the other four properties.

The Aplite property is located 115 kilometres north of the city of Fort St. James. The property is situated 70 kilometres southeast of the Lorraine porphyry copper-gold deposit and 22 kilometres west-northwest of the Chuchi Lake porphyry copper-gold deposit.

The Bam property is located south of Mount Edziza Park, approximately 80 kilometres south of Telegraph Creek. The property is within the “Golden Triangle” of northwestern British Columbia, and is 65 kilometres northwest of the Eskay Creek mine and 20 kilometres south-southeast of Copper Fox’s Schaft Creek porphyry copper-gold deposit. The main exploration target on the Bam is the area of the copper-silver Jan prospect and the geochemical soil anomaly extending to the northeast. In September 2010, a brief exploration program of limited follow-up soil sampling of anomalous gold values in soils and mapping of the Jan prospect area was carried out. The results of the soil survey show the presence of several areas having elevated gold-arsenic–antimony ± copper ±silver signatures.

Rey Lake property is a copper-molybdenum property located in southern British Columbia between Merritt and Logan Lake, approximately 30 kilometres from the Highland Valley copper mine, one of the largest copper producers in North America. The property is located in the northwest-trending Triassic Nicola Group rocks, the same belt that also hosts the Highland Valley mine to the northeast and the Copper Mountain mine to the south. The 2012 exploration program consisted of a reconnaissance geochemical stream silt survey focusing on the newly acquired ground in the north part of the property. In total, 50 silt samples were collected and sent for analysis.

The Santa Maria property is located in central British Columbia, 37 kilometres south-southwest of Smithers. The property hosts base and precious metal mineralization in Eskay-type and aged rocks; however recent lithogeochemistry has determined that rocks do not have the Eskay-style signature. Exploration work on the property has mainly focused on 2 mineralized horizons, referred to as the “Santa Maria Vein” and the “Footwall Vein”. At least 4 other mineralized horizons are known. Mineralization consists of chalcopyrite, chalcocite, bornite, tetrahedrite, malachite, azurite and pyrite within a silicified zone of quartz veining and breccia.

The Castle property is located on the Kinaskan Plateau, about 15 kilometres west of the village of Iskut and 30 kilometres west of the Red Chris porphyry copper-gold deposit. NGEX’s GJ copper-gold porphyry deposit is about 15 kilometres to the south. Historical data indicated that a large epithermal gold system exists on the Castle property with potential for a low-grade, bulk tonnage deposit, along with somewhat less potential for a high-grade vein deposit. The Company had performed some geological ground work on the Castle property during fiscal 2009.

**Axe Property, British Columbia**

The Axe property is located in the Similkameen Mining Division of British Columbia and has a porphyry copper and gold deposit within a northwest trending belt of Triassic rocks that hosts the Copper Mountain, Highland Valley, Afton, Mount Polley and Mount Milligan porphyry deposits. The property is held 30% by the Company and 70% by Weststar Resources Corp. (“Weststar”).

**Capoose Property, British Columbia**

Silver Quest Resources Ltd. (“SQI”) acquired a 100% interest in the property located in the Omineca Mining Division of British Columbia pursuant to an option agreement with the Company. SQI subsequently sold its 100% interest to New Gold Inc. (“New Gold”). The Company retains a 2.25% NSR, of which a 1% NSR can be purchased by New Gold for $1,500,000.

**Gnat Pass Property, British Columbia**

Quartz Mountain Resources Ltd. acquired a 100% interest in the property located in the Omineca Mining Division of British Columbia. The Company retains a 1% NSR, up to a maximum aggregate amount of $7,500,000.

**Man/Prime Property, British Columbia**

Sunrise Resources Ltd. (“SHI”) acquired a 100% interest in the property located in the Similkameen Mining Division of British Columbia by making cash payments of $350,000, issuing 1,150,000 common shares and incurring $800,000 in exploration expenditures. The Company retains a 1.25% NSR, which can be purchased by SHI at any time prior to the beginning of commercial production for $1,250,000.

**Qualified Person**

The technical contents in this document have been reviewed and approved by William R. Gilmour, P.Geo., a qualified person as defined by National Instrument (NI) 43-101.

## DISCUSSION OF OPERATIONS

Bearclaw is an exploration stage company and has no operating revenue. Expenditures related to mineral exploration are capitalized. The Company received $7,500 option payment from Xstrata pursuant to the Axe property option agreement. No exploration work was done in the first six months.

Three month period ended June 30, 2013

During the three months ended June 30, 2013, the Company reported a net loss of $12,643 compared to a net loss of $56,163 incurred in the three months ended June 30, 2012. The loss in the 2013 quarter relates primarily to general operating expenses of $56,335 (2012 - $57,724), mitigated by accretion of loan component of convertible debenture of $25,405 (2012 - $nil) and interest income of $15,654 (2012 - $1,561). The general operating expenses excluding share-based payment expenses were $55,802 (2012 - $55,237). Some of the significant expense items are summarized as follows:

- Consulting fees of $9,308 (2012 - $11,474) include mainly fees to a related party consultant on general corporate development work at a monthly fee of $3,000.
- Management fees of $18,000 (2012 - $18,000) relate to fees paid to the Company's Chief Executive Officer.

Six month period ended June 30, 2013

During the six months ended June 30, 2013, the Company reported a net loss of $24,322 compared to a net income of $37,090 incurred in the six months ended June 30, 2012. The loss in the 2013 quarter relates primarily to general operating expenses of $108,585 (2012 - $110,875), unrealized loss on option component of convertible debenture of $51,000 (2012 - $nil), mitigated by a gain of $50,000 (2012 - $70,551) from the option of the Castle property, accretion of loan component of convertible debenture of $50,531 (2012 - $nil) and interest income of $30,691 (2012 - $3,234). The unrealized loss and accretion on convertible debenture are non-cash items and a result of a change in fair value of the option and loan components of the debenture. The interest income for the 2013 quarter was mainly received from the convertible debenture.

The general operating expenses excluding share-based payment expenses were $107,394 (2012 - $104,921). Some of the significant expense items are summarized as follows:

- Consulting fees of $22,310 (2012 - $21,600) include mainly fees to a related party consultant on general corporate development work at a monthly fee of $3,000.
- Management fees of $36,000 (2012 - $36,000) relate to fees paid to the Company's Chief Executive Officer.
- Stock-based compensation expenses of $1,191 (2012 - $5,954), a non-cash charge, are the estimated fair value of the vesting portion of stock options granted in fiscal 2010 and 2011. The Company used the Black-Scholes option pricing model for the fair value calculation.

## SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected unaudited financial information for the Company's eight most recent quarters ending with the last quarter for the three month period ended June 30, 2013.

| | For the Three Months Ended | | |
|---|---|---|---|
| | **Fiscal 2013** | **Fiscal 2012** | **Fiscal 2011** |

| | Jun. 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sept. 30, 2012 | Jun. 30, 2012 | Mar. 31, 2012 | Dec. 31, 2011 | Sept. 30, 2011 |
|---|---|---|---|---|---|---|---|---|
| | **($)** | **($)** | **($)** | **($)** | **($)** | **($)** | **($)** | **($)** |
| | | | | | | | | |
| Total revenues | - | - | - | - | - | - | - | - |
| Income (loss) from continuing operations | (12,643) | (11,679) | (19,496) | (13,863) | (56,163) | 19,073 | 704,552 | 10,914 |
| Net income (loss) | (12,643) | (11,679) | (19,496) | (13,863) | (56,163) | 19,073 | 704,552 | 10,914 |
| | | | | | | | | |
| Income (loss) from continuing operations per share - basic and diluted | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | 0.00 | 0.03 | 0.00 |
| Net income (loss) per share - basic and diluted | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | 0.00 | 0.03 | 0.00 |

## LIQUIDITY AND CAPITAL RESOURCES

During the six months ended June 30, 2013, the cash and cash equivalent balance increased by $205,530 (2012 - decreased by $69,790). The Company received $112,340 (2012 - $86,922 used) in operating activities, $18,258 from sale of a portion of its marketable securities, $32,500 (2012 - $57,500) from options of its mineral properties and $53,671 (2012 - $nil) of BC mining exploration tax credit refund.

As at June 30, 2013, the Company had a cash and cash equivalent balance of $788,168 compared to $582,638 as at December 31, 2012. The Company had working capital of $1,680,346 as at June 30, 2013 compared to working capital of $1,945,840 as at December 31, 2012.

Management estimates that the general operating costs, excluding share-based payment expense, for the next 12 months will be approximately $250,000. At present, management believes that the Company has sufficient capital resources to meet its anticipated operating and capital requirements for the next 12 months.

<u>Going Concern</u>

At present, the Company's operations do not generate cash flow and its financial success is dependent on management's ability to discover economically viable mineral deposits. The mineral exploration process can take many years and is subject to factors that are beyond the Company's control. In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its mineral properties, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. The annual and interim financial statements do not include any adjustments to the recoverability and classification of reduced asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material. The Company is not subject to material externally-imposed capital constraints.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## 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 six month period ended June 30 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Short-term employee benefits | $ - | $ - |
| Share-based payments | 1,191 | 5,790 |
| Total | $ 1,191 | $ 5,790 |

The Company entered into the following transactions with related parties during the six month period ended June 30, 2013:

a) Paid or accrued management fees of $36,000 (2012 - $36,000) to a company controlled by the President of the Company for management services provided.

b) Paid or accrued consulting fees of $18,000 (2012 - $18,000) 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 $4,110 (2012 - $3,304) and geological consulting fees of $6,780 (2012 - $1,590) 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 $4,373 (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.

## SUMMARY OF OUTSTANDING SHARE DATA

The Company's issued and outstanding share capital as at the date of this report is as follows:
(1) Authorized: 100,000,000 common shares without par value.
(2) As at August 23, 2013, the Company has 24,371,991 common shares and 1,900,000 stock options issued and outstanding.

## CRITICAL ACCOUNTING ESTIMATES

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 and warrants 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; therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.
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, and therefore do not necessarily provide certainty as to their recorded values.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

### 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.

## 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.

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 |
|---|---|---|---|---|
| June 30, 2013 | | | | |
| Available-for-sale financial assets | | | | |
| Marketable securities | $ 244,962 | $ - | $ - | $ 244,962 |
| At fair value through profit or loss financial assets | | | | |
| Convertible debenture - option component | $ - | $ - | $ - | $ - |
| 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 June 28, 2013.

**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 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 available to fund its projects and operations. As at June 30, 2013, the Company had a cash and cash equivalents balance of $788,168 to settle current liabilities of $8,625. 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 flow. 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.

**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 | $ 3,866 |
| 2014 | $ 7,274 |
| | $ 11,140 |

## EVENTS AFTER THE REPORTING PERIOD

i) On July 4, 2013, the Company and Quartz Mountain entered into an amendment whereby in consideration of $50,000, the Company agreed to reduce the principal amount of the convertible debenture from $650,000 to $600,000. The new debenture bears interest at 10% per annum and matures on October 31, 2014. The principal amount and accumulated interest of the debenture are convertible into common share of Quartz Mountain at the Company's option at $0.15 per share.

ii) On July 23, 2013, the Company granted stock options to directors of the Company to purchase 300,000 common shares at an exercise price of $0.10 per share for a period of 5 years.

## RISK AND UNCERTAINTIES

*Operating Hazards and Risks*

Mineral exploration involves many risks. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the risks involved in the conduct of exploration programs.

*Environmental Factors*

The Company currently conducts exploration activities in the Canadian Province of British Columbia. Such activities are subject to various laws, rules and regulations governing the protection of the environment. In Canada, extensive environmental legislation has been enacted by federal and provincial governments. Such legislation imposes rigorous standards on the mining industry to reduce or eliminate the effects of wastes generated by extraction and processing operations and subsequently deposited on the ground or emitted into the air or water.

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed properties and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. The cost of compliance with changes in governmental regulations has the potential to preclude entirely the economic development of a property.

The Company is able to conduct its exploration within the provisions of the applicable environmental legislation without undue constraint on its ability to carry on efficient operations. The estimated annual cost of environmental compliance for all properties held by the Company in the exploration stage is minimal and pertains primarily to carrying out diamond drilling, trenching or stripping. Environmental hazards may exist on the Companies properties, which hazards are unknown to the Company at present, which have been caused by previous or existing owners or operators of the properties.

*Governmental Regulation*

Exploration activities on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) restrictions on production, price controls, and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Changes in such regulation could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted.

The Company is at the exploration stage on all of its properties. Exploration on the Company's properties requires responsible best exploration practices to comply with company policy, government regulations, maintenance of claims and tenure. The Company is required to be registered to do business and have a valid prospecting license (required to prospect or explore for minerals on Crown Mineral Land or to stake a claim) in any Canadian province in which it is carrying out work.

Mineral exploration primarily falls under provincial jurisdiction. However, the Company is also required to follow the regulations pertaining to the mineral exploration industry that fall under federal jurisdiction, such as the Fish and Wildlife Act.

If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protection, mine safety and other matters.

## OUTLOOK

The Company's management has instituted a strict cost control program to ensure its ability to continue as a going concern. The Company will undertake additional exploration work on its mineral properties and also continue to evaluate new prospects and opportunities.

## DISCLOSURE CONTROLS

In connection with Exemption Orders issued by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificates under National Instrument ("NI") 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109.

## ADDITIONAL INFORMATION

Additional information concerning the Company and its operations is available on SEDAR at www.sedar.com.

## APPROVAL

The Board of Directors of Bearclaw Capital Corp. has approved the contents of this management discussion and analysis on August 23, 2013. A copy of this MD&A together with the Company's audited financial statements for the year ended December 31, 2012 and the unaudited interim financial report for the six month period ended June 30, 2013 will be provided to anyone who requests it.