

NORTH ARROW MINERALS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

These condensed interim consolidated financial statements of North Arrow Minerals Inc. for the three months ended July 31, 2012 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

NORTH ARROW MINERALS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	July 31, 2012	April 30, 2012
ASSETS		
Current		
Cash	\$ 37,669	\$ 47,318
Receivables (Note 4)	26,572	41,513
Marketable securities (Note 5)	4,500	4,500
Prepaid expenses	-	-
	68,741	93,331
Equipment (Note 6)	841	990
Exploration and evaluation assets (Note 7)	809,875	797,253
	\$ 879,457	\$ 891,574
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 66,160	\$ 44,736
Due to related parties	151,801	132,008
	217,961	176,744
Convertible note (Note 11)	984,310	948,205
	1,202,271	1,124,949
CAPITAL AND RESERVES		
Capital stock (Note 8)	10,965,436	10,965,436
Share-based payment reserve	925,209	912,746
Investment revaluation reserve	(10,988)	(10,988)
Equity component of convertible note	137,996	137,996
Deficit	(12,340,467)	(12,238,565)
	(322,814)	(233,375)
	\$ 879,457	\$ 891,574

Nature and continuance of operations (Note 1)

Subsequent events (Note 13)

Approved and authorized on behalf of the Board on September 28, 2012:

“D. Grenville Thomas”

Director

“Kenneth A. Armstrong”

Director

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

NORTH ARROW MINERALS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF LOSS
For the Three Months Ended JULY 31
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	2012	2011
EXPENSES		
Advertising, promotion and travel	\$ 683	\$ 57,897
Consulting	17,325	55,000
Depreciation	149	119
Office, miscellaneous and rent	13,093	32,426
Professional fees	1,846	72,126
Property investigation costs	1,546	71,338
Regulatory and filing fees	687	2,184
Salaries and benefits	18,306	66,778
Share based compensation	<u>12,463</u>	<u>82,075</u>
Loss before other items	<u>(66,098)</u>	<u>(439,943)</u>
OTHER ITEMS		
Interest income	301	943
Interest on convertible note	(17,643)	-
Accretion on convertible note	(18,462)	-
Recoveries from exploration and evaluation assets previously written-off (Note 9)	-	65,487
Write-off of exploration and evaluation assets (Note 9)	<u>-</u>	<u>(33,309)</u>
	<u>(35,804)</u>	<u>33,121</u>
Loss for the period	(101,902)	(406,822)
Unrealized loss on available-for-sale financial assets arising during the period	<u>-</u>	<u>(4,988)</u>
Comprehensive loss for the period	\$ (101,902)	\$ (411,810)
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)
Weighted average number of common shares outstanding	52,758,378	52,675,769

The accompanying notes are an integral part of these consolidated condensed financial statements

NORTH ARROW MINERALS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the Three Months Ended JULY 31,
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (101,902)	\$ (406,822)
Items not involving cash:		
Depreciation	149	119
Share-based compensation	12,463	82,075
Write-off of exploration and evaluation assets	-	33,309
Interest on convertible note	17,643	-
Accretion on convertible note	18,462	-
Changes in non-cash working capital items:		
Increase in receivables	15,555	(6,430)
(Increase)/decrease in prepaid expenses	-	638
Increase in accounts payable and accrued liabilities	19,415	87,797
Increase/(decrease) in due to related parties	<u>19,793</u>	<u>21,200</u>
Net cash used in operating activities	<u>1,578</u>	<u>(188,114)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on exploration and evaluation assets, net	(11,227)	(86,909)
Advances from optionee	<u>-</u>	<u>162,232</u>
Net cash provided by (used in) investing activities	<u>(11,227)</u>	<u>75,323</u>
Change in cash during the period	(9,649)	(112,791)
Cash, beginning of period	<u>47,318</u>	<u>671,960</u>
Cash, end of period	<u>\$ 37,669</u>	<u>\$ 559,169</u>
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid during the period for income taxes	<u>\$ -</u>	<u>\$ -</u>

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

NORTH ARROW MINERALS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Number of Shares	Capital Stock	Share-based payment reserve	Investment revaluation reserve	Equity component of convertible note	Deficit	Total
Balance, April 30, 2011	52,658,378	\$ 10,947,436	\$ 736,389	\$ -	\$ -	\$(10,154,778)	\$ 1,529,047
Shares issued for exploration and evaluation assets	100,000	18,000	-	-	-	-	18,000
Share based compensation	-	-	82,075	-	-	-	82,075
Loss for the period	-	-	-	-	-	(406,822)	(406,822)
Investment loss	-	-	-	(4,988)	-	-	(4,988)
Balance, July 31, 2011	52,758,378	10,965,436	818,464	(4,988)	-	(10,561,600)	1,217,312
Share based compensation	-	-	94,282	-	-	-	94,282
Loss for the period	-	-	-	-	-	(1,676,965)	(1,676,965)
Investment loss	-	-	-	(6,000)	-	-	(6,000)
Issuance of convertible note – equity component	-	-	-	-	137,996	-	137,996
Balance, April 30, 2012	52,758,378	10,965,436	912,746	(10,988)	137,996	(12,238,565)	(233,375)
Share based compensation	-	-	12,463	-	-	-	12,463
Loss for the period	-	-	-	-	-	(101,902)	(101,902)
Balance, July 31, 2012	52,758,378	\$ 10,965,436	\$ 925,209	\$ (10,988)	\$ 137,996	\$(12,340,467)	\$ (322,814)

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

NORTH ARROW MINERALS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended JULY 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

North Arrow Minerals Inc. (the “Company”) is incorporated federally under the laws of the Canada Business Corporations Act (“CBCA”).

The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company. The Company trades on the TSX Venture Exchange (TSXV – NAR) and its registered office address is Ste. #850-625 Howe Street, Vancouver, BC, Canada V6C 2T6.

The Company’s principal business activity is the acquisition and exploration of exploration and evaluation assets. To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage.

The Company is in the process of acquiring and exploring its exploration and evaluation assets and has not yet determined whether these properties contain reserves that are economically recoverable. These financial statements have been prepared on the assumption that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. At July 31, 2012, the Company has a deficit of \$12,340,467, a \$322,814 shareholders’ deficiency and no current source of revenue. The Company’s continuation as a going concern is dependent on its ability to raise funds sufficient to meet current and future obligations. Management plans to raise additional funds through private placement financings. There can be no assurances that management’s plans for the Company will be successful. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of assets and liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of Compliance to International Financial Reporting Standards

The Canadian Accounting Standards Board (“ASCB”) confirmed in February 2008 that International Financial Reporting Standards (“IFRS”) will replace Canadian generally accepted accounting principles (“GAAP”) for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company adopted IFRS with a transition date of May 1, 2010.

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). Certain of the comparative numbers have been restated to conform with IFRS policies finalized April 30, 2012.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Carolina Lithium Inc., (“Carolina Lithium”) up to its dissolution in August 2011 and Compania Minera North Arrow Chile Limitada (“Minera”). All inter-company transactions and balances have been eliminated upon consolidation.

Significant accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

NORTH ARROW MINERALS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PRESENTATION- continued

Significant accounting estimates and judgments- continued

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and further periods if the review affects both current and future periods.

Critical accounting estimates

Significant assumptions relate to, but are not limited to, the following:

- The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position;
- Environmental rehabilitation is calculated using available market factors;
- The inputs used in accounting for share-based payment expense which is included in the statement of comprehensive loss. These estimates are derived using the Black-Scholes option pricing model or are based on the value of comparable goods and services. Inputs are determined using readily available market data.
- The inputs used in determining the liability and equity components of convertible notes.
- The recognition of deferred tax assets is determined on whether it is more probable than not that these assets will be recovered.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash, marketable securities, receivables, accounts payable and accrued liabilities, due to related parties and a convertible note. Cash is carried at fair value using a level 1 fair value measurement. The carrying value of receivables, accounts payable and accrued liabilities and due to related parties approximate their fair values due to their immediate or short-term maturity. Marketable securities are recorded at fair value based on the quoted market prices in active markets at the balance sheet date, which is consistent with level 1 of the fair value hierarchy. The Company's convertible note is a compound financial instrument that contains a liability component and an equity component, being the conversion feature on the note. The fair value of the liability component is determined first with any residual value allocated to the equity component. The fair value of the liability component was determined using a level 3 fair value measurement. Over the term of the convertible note, the liability amount will increase to the face value of the convertible note through the accretion of interest.

The Company is exposed to a variety of financial risks by virtue of its activities, including credit risk, interest rate risk, liquidity risks, foreign currency risk, and equity market risk. The Company's objective with respect to risk management is to minimize potential adverse effects on the Company's financial performance. The Board of Directors provides direction and guidance to management with respect to risk management. Management is responsible for establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

NORTH ARROW MINERALS INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the Three Months Ended JULY 31, 2012

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3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued*Credit risk*

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. The Company manages credit risk by investing its excess cash in short-term investments with investment grade ratings, issued by a Canadian chartered bank. The Company's receivables consist primarily of sales tax receivables due from the federal government and receivables from companies with which the Company has exploration agreements or options. The maximum exposure to credit risk at the reporting date is the carrying value of the Company's receivables and cash.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to interest rate risk with respect to its cash flow. It is management's opinion that the Company is not exposed to significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future equity financings, asset sales or exploration option agreements, or a combination thereof. The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments. Failure to realize additional funding could cast significant doubt on the Company's ability to continue as a going concern. As at July 31, 2012, the Company had cash of \$37,669 available to settle current liabilities of \$217,961.

Foreign currency risk

The Company has exposure to foreign currency risk through its exploration activities outside of Canada, however, the majority of its assets and liabilities are denominated in Canadian dollars. The Company's exploration activities and any related land tenure expense outside Canada could make it subject to foreign currency fluctuations, which may affect the Company's financial position, and cash flows. During the year ended April 30, 2012, the Company wound up its operations in the United States, however, its material business expenses in South America have been denominated in U.S. dollar and as such, the Company has been affected by changes in exchange rates between the Canadian Dollar and the U.S. dollar. The Company does not presently invest in foreign currency contracts to mitigate this risk. It is management's opinion that the Company is not exposed to significant foreign currency risk arising from these financial instruments. At July 31, 2012, the Company had no operations in the United States

Equity market risk

The Company is exposed to equity price risk arising from its marketable securities, which are classified as available-for-sale. The Company plans to sell its marketable securities as market conditions permit, or as is required to finance the Company's operations from time-to-time.

4. RECEIVABLES

	July 31, 2012	April 30, 2012
HST/GST receivables	\$ 5,564	\$ 19,470
Trade and other receivables	21,008	22,043
Accrued interest	-	-
	\$ 26,572	\$ 41,513

NORTH ARROW MINERALS INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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5. MARKETABLE SECURITIES

	July 31, 2012			April 30, 2012		
	Cost	Unrealized Loss	Fair Market Value	Cost	Unrealized Loss	Fair Market Value
Common shares of a company listed on the TSX-V	\$ 15,488	\$(10,988)	\$4,500	\$ 15,488	\$(10,988)	\$4,500

6. EQUIPMENT

Cost – Computer Equipment		Accumulated Depreciation		Net Book Value	
Balance at April 30, 2012	\$ 6,474	Balance at April 30, 2012	\$ 5,484	Balance at April 30, 2012	\$ 990
Additions	-	Depreciation	149		\$ (149)
Disposals	-	Disposals	-		
Balance at July 31, 2012	\$ 6,474	Balance at July 31, 2012	\$ 5,633	Balance at July 31, 2012	\$ 841

7. EXPLORATION AND EVALUATION ASSETS

	April 30, 2012	Expended During the Period	Write-offs & Recoveries During the Period	July 31, 2012
Gold and Base Metal Properties, NWT, Yukon and Nunavut				
Exploration costs	\$ 58,381	\$ 1,622	\$ -	\$ 60,003
Acquisition costs	153,036	11,000	-	164,036
Geological and assays	5,796	-	-	5,796
Office and salaries	22,323	-	-	22,323
	<u>239,536</u>	<u>12,622</u>	<u>-</u>	<u>252,158</u>
Diamond Properties, NWT and Nunavut				
Exploration costs	234,702	-	-	234,702
Acquisition costs	42,918	-	-	42,918
Geological and assays	153,489	-	-	153,489
Office and salaries	126,608	-	-	126,608
	<u>557,717</u>	<u>-</u>	<u>-</u>	<u>557,717</u>
TOTAL	\$ 797,253	\$ 12,622	\$ -	\$ 809,875

NORTH ARROW MINERALS INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS - continued

	April 30, 2011	Expended During the Year	Write-offs & Recoveries During the Year	April 30, 2012
Gold and Base Metal Properties, NWT, Yukon and Nunavut				
Exploration costs	\$ 22,994	\$ 48,018	\$ (12,631)	\$ 58,381
Acquisition costs	136,283	51,116	(34,363)	153,036
Geological and assays	6,561	4,348	(5,113)	5,796
Office and salaries	20,489	4,949	(3,115)	22,323
	<u>186,327</u>	<u>108,431</u>	<u>(55,222)</u>	<u>239,536</u>
Lithium Properties, Nunavut and NWT				
Exploration costs	39,708	16,647	(56,355)	-
Acquisition costs	14,666	248	(14,914)	-
Geological and assays	11,464	211	(11,675)	-
Office and salaries	9,973	2,631	(12,604)	-
	<u>75,811</u>	<u>19,737</u>	<u>(95,548)</u>	<u>-</u>
Lithium Property, USA				
Exploration costs	-	7,598	(7,598)	-
Acquisition costs	-	-	-	-
Geological and assays	-	1,548	(1,548)	-
Office and salaries	-	1,168	(1,168)	-
	<u>-</u>	<u>10,314</u>	<u>(10,314)</u>	<u>-</u>
Diamond Properties, NWT and Nunavut				
Exploration costs	252,487	320,162	(337,947)	234,702
Acquisition costs	22,364	24,467	(3,913)	42,918
Geological and assays	153,264	225	-	153,489
Office and salaries	129,642	22,792	(25,826)	126,608
	<u>557,757</u>	<u>367,646</u>	<u>(367,686)</u>	<u>557,717</u>
TOTAL	\$ 819,895	\$ 506,128	\$ (528,770)	\$ 797,253

Title to exploration and evaluation assets 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 exploration and evaluation assets. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of these assets are in good standing. During the three months ended July 31, 2012, Company wrote - off \$nil (2011 - \$33,309) relating to certain properties and recorded \$nil (2011 - \$125,054) in recoveries of which \$nil (2011 - \$65,487) is recognized as income.

Gold and Base Metal Properties, Northwest Territories, Yukon and Nunavut

In addition to the properties described below, the Company maintains interests in various other gold and base metal properties in the Northwest Territories, Yukon and Nunavut.

Hay Duck Property, NWT

On May 29, 2008, the Company and Strongbow Exploration Inc. (“Strongbow”) entered into an option agreement whereby the Company may earn a 100% interest in the Hay Duck property by reimbursing certain expenditures incurred to-date by Strongbow and assuming the annual option payments due under the original, underlying option agreement.

7. EXPLORATION AND EVALUATION ASSETS - continued

NORTH ARROW MINERALS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended JULY 31, 2012

(Unaudited – Prepared by Management)

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The third party agreement, dated May 2007 and amended April 2009 and January 2010, requires three future annual cash option payments totalling \$450,000. These future option payments will be payable by the Company annually, following receipt of a land use permit which allows the Company to drill at the Hay Duck property. As partial compensation for amending the agreement, the Company issued 50,000 common shares to the property vendor in February 2010. At the date of issuance, the common shares had a fair value of \$9,750, which has been applied against the payment due January 1, 2010. The remainder of the January 2010 payment will be paid by the Company upon receipt of a land use permit for the Hay Duck property. The third party option holder will retain a 2.5% NSR of which 1% can be purchased at anytime for \$500,000. An additional 1% of the royalty can be purchased at any time for \$2,000,000. Upon the Company incurring \$5,000,000 in exploration on the property, Strongbow may elect to back-in to 40% of the Company's interest in the property by funding the next \$5,000,000 in exploration expenditures. In certain circumstances, Strongbow has the option to elect to acquire a 1% NSR in place of exercising the back-in right. The Company may purchase one-half (0.5%) of the NSR at any time for \$500,000.

Hope Bay Property, NU

On January 28, 2011 the Company entered into an agreement with Chelsea Minerals Corp. ("Chelsea"), whereby Chelsea has the option to earn a 60% interest in the Company's Hope Bay Oro gold project in Nunavut, consisting of five mining leases. Under the terms of the agreement, Chelsea may earn up to 60% interest in the project by making an initial cash payment of \$50,000 (received) and spending \$5 million over a five year period. A minimum expenditure of \$500,000 is required in the first year (complete). In May 2011, Chelsea was acquired by Sennen Resources Ltd. ("Sennen") pursuant to a Plan of Arrangement. Sennen has assumed Chelsea's obligations pursuant to the agreement for the Hope Bay Property; the Company is conducting an exploration program at Hope Bay on Sennen's behalf.

Seagull Property

The Company entered into an agreement in May 2011 whereby the Company can earn a 100% interest in certain mineral claims known as the "Seagull Property" from Panarc Resources Ltd ("Panarc"). Under the agreement, the Company must make an initial \$15,000 cash payment (completed) and issue 100,000 common shares (completed). The Company must incur aggregate exploration expenditures of \$300,000 within a 3 year period. Panarc will retain a royalty equal to 2% of net smelter returns, of which the Company may purchase one percent (1.0%) for \$1,000,000, such that the royalty would be reduced to 1.0%. Panarc and the Company were related by virtue of a common director.

Contwoyto, Nunavut

Between June and September 2011, the Company acquired by staking certain mineral claims in the Contwoyto Lake area, Nunavut.

In July 2012, the Company announced that it had entered into an agreement with a subsidiary of Elgin Mining Inc. ("Elgin"). Under the terms of the agreement Elgin can earn a 60% interest in the Company's Contwoyto properties by spending \$6 million over a six year period.

Nunavut Tunngavik Incorporated ("NTI") Properties, Nunavut

The Company has a 100% interest in the Nunavut Tunngavik Incorporated ("NTI") properties located in the West Kitikmeot region of Nunavut. If a feasibility study is completed on any area within the NTI properties, NTI has the option of taking either a 20% participating interest or a 7.5% net profits royalty in the specific area subject to study.

NORTH ARROW MINERALS INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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Lac de Gras, NWT

In August 2011, the Company entered into an option agreement with Harry Winston Diamond Mines Ltd. (“Harry Winston”), and Springbok Holdings Inc. (“Springbok”), to jointly explore the Company’s Lac de Gras property and Harry Winston’s land holdings contiguous to the Company’s Lac de Gras property (collectively, the “JV Property”).

Harry Winston must incur exploration expenditures of at least \$5,000,000 over a 5 year period to allow the option to vest. Upon vesting, a joint venture will be formed whereby Harry Winston will hold a 55% interest and the Company and Springbok will share equally a 45% interest in the JV Property.

Hammer, Nunavut

In October 2008, the Company and Stornoway Diamond Corporation (“Stornoway”) revised a pre-existing agreement on the Bear property, Nunavut, to include an area of interest, known as the “Hammer AOI”, into the agreement. As a result of this revision, the Company holds a 25% interest in the property and Stornoway holds a 75% interest. No further work is planned and as such exploration expenditures totaling \$367,686 were written off for the year ended April 30, 2012.

8. CAPITAL STOCK AND RESERVES**Authorized share capital**

The authorized share capital of the Company is an unlimited number of common shares without par value.

Share issuances

During the three months ended July 31, 2012, the Company issued nil common shares (2011- 100,000 common shares) at a value of \$nil (2011-\$18,000) pursuant to the Seagull property option agreement.

Stock options and warrants

The Company’s stock option plan (the “Plan”) was approved by shareholders at the September 2010 annual meeting. The Plan gives the directors the authority to grant options to directors, officers, employees and consultants. The maximum number of shares to be issued under the Plan is 10% of the issued and outstanding common shares at the time of the grant. The exercise price of each option granted shall not be less than the market price at the date of grant less a discount up to 25% in accordance with the policies of the TSX Venture Exchange (“TSXV”). Options granted can have a term up to 5 years with vesting provisions determined by the directors in accordance with TSXV policies for Tier 2 Issuers, with a typical vesting period of 25% upon grant and 25% every six months thereafter.

As at July 31, 2012, the following stock options and warrants were outstanding:

Number of Shares	Exercise Price	Number of Shares Vested	Expiry Date
900,000	0.40	900,000	August 7, 2012**
1,180,000	0.20	1,180,000	June 4, 2014
200,000	0.30	200,000	September 2, 2014
1,000,000	0.20	750,000	September 28, 2012
770,000	0.20	577,500	May 12, 2016
170,000	0.20	85,000	November 3, 2016

**Subsequently Expired

8. CAPITAL STOCK AND RESERVES - continued

A summary of the Company’s stock option activity is as follows:

NORTH ARROW MINERALS INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	Number of Options	Weighted Average Exercise Price
Balance, April 30, 2012	4,220,000	\$ 0.25
Granted	-	0.20
Expired	-	0.22
Balance, July 31, 2012	4,220,000	\$ 0.25
Number of options currently exercisable	3,692,500	\$ 0.25

During the three months ended July 31, 2012, the Company granted nil stock options (2011 - 1,220,000 stock options). The estimated fair value of the options granted during the period is \$nil (July 31, 2011 - \$132,708). During the three months ended July 31, 2012 the Company recognized share-based compensation of \$12,463 (July 31, 2011 - \$82,075) relating to options vested during the period.

The following assumptions were used for the Black Scholes valuation of stock options granted:

	Three months Ended July 31, 2012	Three Months Ended July 31, 2011
Risk-free interest rate	1.94%	1.94%
Expected life of options	3.0 years	3.0 years
Annualized volatility	100%	100%
Forfeiture Rate	0.00%	0.00%
Dividend rate	0.00%	0.00%

9. RELATED PARTY TRANSACTIONS

- a) During the three months ended July 31, 2012, the Company paid or accrued \$4,116 (2011 - \$21,752) for shared technical services and rent to Strongbow.
- b) During the three months ended July 31, 2012, the Company paid or accrued \$23,784 (2011 - \$4,597) for administrative, corporate secretarial and accounting services to related parties.
- c) During the three months ended July 31, 2012, the Company paid consulting fees of \$nil (2011 - \$55,000) to a company controlled by a director and a company controlled by an officer of the Company.
- d) Included in prepaid expenses as at July 31, 2012 is \$nil (2011 - \$10,000) paid to the President of the Company for future management services.
- e) During the three months ended July 31, 2012, the Company paid or accrued \$nil (2011 - \$4,015) for office rent to a company controlled by a director.

9. RELATED PARTY TRANSACTIONS - continued

The remuneration of directors and other members of key management personnel during the three month period ending July 31, 2012 were as follows:

NORTH ARROW MINERALS INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the Three Months Ended JULY 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Salaries ¹	\$ -	\$ 89,644
Share-based payments ²	4,259	81,583
Total	\$ 4,259	\$ 171,227

1 – When key management is working specifically on mineral properties their time is capitalized against the mineral property.

2 - Share-based payments are the fair value of options that have been granted to directors and key management personnel.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the period ended July 31, 2012 were:

- The Company incurring exploration and evaluation expenditures of \$12,666 (July 31, 2011 - \$53,152) that are included in accounts payable and accrued liabilities at July 31, 2011.
- The Company incurring exploration and evaluation expenditures of \$7,434 (July 31, 2011 - \$nil) that are included in due to related parties at July 31, 2011.
- The Company incurring exploration and evaluation cost recoveries of \$2,258 (July 31, 2011 - \$nil) that are included in receivables at July 31, 2012.
- The Company issuing nil common shares (2011-100,000 common shares) valued at \$nil (2011- \$18,000) pursuant to a property option agreement and the Company received nil (2011- 75,000) common shares with a fair value of \$ nil (2011-\$15,488) from the sale of exploration data.

11. CONVERTIBLE NOTE

On August 31, 2011, the Company closed a \$1,000,000 private placement of a convertible promissory note with Anglo-Celtic Exploration Ltd. (“Anglo Celtic”), a private company controlled by D. Grenville Thomas, who is a director of the Company. The private placement consists of a convertible note, structured as an unsecured, interest bearing loan of \$1,000,000. Anglo-Celtic may convert at any time all or a portion of the principal amount outstanding into common shares of the Company at \$0.25 per share, which would result in the issuance of up to 4,000,000 common shares if the entire principal amount is converted. The loan bears interest at the Royal Bank Prime Rate plus 400 basis points. The loan accrues interest to the date of repayment; interest is calculated and accrued on a monthly basis.

The term of the loan is for two years, to August 31, 2013. Anglo-Celtic did not receive any warrants upon issuance of the convertible note, however, if the Company fails to repay the loan in full by August 31, 2012 or if the Company and Anglo-Celtic amend or re-negotiate the terms of the loan, Anglo-Celtic will have the right to convert the principal amount of the note into both common shares and an equal number of warrants, such warrants being exercisable until the August 31, 2013 due date.

The convertible note has been segregated into its respective debt and equity components on the date of issuance. The debt component, representing the fair value of the liability at inception, is recorded as a long-term liability. The remaining component, representing the residual value ascribed to the holder’s option to convert the principal balance into common shares, is classified in shareholders’ equity as “equity component of convertible note”. Over the term of the note, the debt component will be accreted to the face value of the note by the recording of additional interest expense.

11. CONVERTIBLE NOTE - continued

	July 31, 2012	April 30, 2012
Principal amount	\$ 1,000,000	\$ 1,000,000

NORTH ARROW MINERALS INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the Three Months Ended JULY 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

Less equity component of convertible note	(137,996)	(137,996)
Accrued interest	64,310	46,667
Accretion	57,996	39,534
Liability component	\$ 984,310	\$ 948,205

12. CAPITAL MANAGEMENT

The capital of the Company consists of the items included in shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. The Company's objective for capital management is to plan for the capital required to support the Company's ongoing acquisition and exploration of its mineral properties and to provide sufficient funds for its corporate activities.

The Company's exploration and evaluation assets are in the exploration stage. As an exploration stage company, the Company is currently unable to self-finance its operations. The Company has historically relied on equity financings to finance its operations. In order to carry out the Company's planned exploration programs and to pay for administrative costs, the Company will have to raise additional funds as required. To effectively manage the Company's capital requirements, the Company's management has in place a planning and budgeting process.

13. SUBSEQUENT EVENTS

- a) Subsequent to July 31, 2012, the Company announced that, subject to regulatory approval, it had entered into an agreement with Strongbow Exploration Inc. to earn a 50% interest in the Snowbird nickel project in Northern Saskatchewan, Canada. Under the terms of the agreement the Company can earn its interest by incurring \$4 million in exploration expenditures by December 31, 2016 including a firm commitment to spend \$30,000 prior to December 31, 2012. Strongbow Exploration Inc. has two directors in common with the Company.