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## **MANAGEMENT DISCUSSION AND ANALYSIS**

**July 31, 2012**

**Form 51-102 F1**  
**Management Discussion and Analysis**  
**North Arrow Minerals Inc. (“North Arrow” or the “Company”)**  
**Containing Information up to and including September 28, 2012**

**Description of Business**

North Arrow Minerals is a junior exploration company with a diversified portfolio including gold, base metal and diamond projects. Shares of the Company trade on the TSX Venture Exchange (“TSXV”) under the symbol NAR.

North Arrow's key Canadian projects include: the Lac de Gras (Northwest Territories) diamond project within 10 km of the Diavik diamond mine, the Contwoyto (Nunavut) gold project adjacent to Elgin Mining’s Lupin gold mine and the Hope Bay ORO gold project (Nunavut) located immediately north of Newmont Mining Corporation's Hope Bay gold project. Most of North Arrow's Canadian property field programs are funded through option or joint venture agreements, allowing the Company to focus its resources on the acquisition and development of new gold and base metal advanced exploration properties.

The following discussion and analysis of the Company’s financial condition and results of operations for the three months ended July 31, 2012 should be read in conjunction with the audited financial statements of the Company for the year ended April 30, 2012 together with the notes thereto and the interim consolidated financial statements for the three months ended July 31, 2012.

Unless otherwise noted, all currency amounts are stated in Canadian dollars.

**Forward-Looking Statements**

This document may contain "forward-looking statements" within the meaning of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law.

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage.

These forward-looking statements include, among others, statements with respect to the Company’s objectives for the ensuing year, our medium and long-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements. In particular, statements regarding the Company’s future operations, future exploration and development activities or other development plans contain forward-looking statements.

All forward-looking statements and information are based on the Company’s current beliefs as well as assumptions made by and information currently available to the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, development plans, exploration, development and mining activities and commitments. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements.

These factors include, but are not limited to, developments in world financial and commodity markets, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration plans due to exploration results and changing budget priorities of the Company or its joint venture partners, changes in project parameters as plans continue to be refined; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing, the effects of competition in the markets in which the Company operates, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks, and the Company's anticipation of and success in managing the foregoing risks. The Company cautions that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on our behalf, except as required by law.

### **Highlights for the three months ended July 31, 2012 and subsequent events up to September 28, 2012**

North Arrow maintains a diversified portfolio of projects designed to provide a breadth of opportunity to discover metal resources. The Company's primary focus is on northern Canadian jurisdictions that are underexplored, and which in many cases have opportunities in close proximity to known deposits and mines. Where possible, the Company has entered into joint venture agreements on these projects to reduce the costs of exploration and capitalize on additional technical expertise.

In the three months ending July 31, 2012 the Company has continued to broaden its exploration strategy by adding projects and continuing to seek joint ventures to advance its properties. Highlights of these actions include:

- \* In June 2012, the Company entered into an agreement with Lupin Mines Incorporated, a wholly owned subsidiary of Elgin Mining Inc. Under the terms of the agreement Elgin can earn a 60% interest in the Company's Contwoyto gold project by spending \$6 million over a period of six years. The Contwoyto properties consist of six blocks (13,000 acres) of mining leases and claims located close to and adjoining the Lupin mine property, which is presently being explored by Elgin with the potential for restart of mining operations. The Contwoyto properties host a number of gold showings and untested geophysical anomalies and include the Dune and Pan prospects, located 25 km southeast and 12 km south of the Lupin mine, respectively.
- \* In July 2012, the Company announced that it had ceased all activities in Chile following a protracted legal dispute on the Agua Grande project and that no further exploration work is planned for Chile.
- \* In August 2012, the Company entered into an option agreement with Strongbow Exploration Inc. on Strongbow's Snowbird Nickel project. Under the terms of the agreement and subject to the Company completing an equity financing by December 31, 2012, the Company can earn a 50% interest in the Snowbird project by incurring \$4 million in exploration expenditures prior to December 31, 2016, including a firm commitment to spend \$30,000 prior to December 31, 2012. The Company and Strongbow are related by virtue of two common directors.

### **Exploration Projects Overview**

An overview of the exploration activities for the Company follows. For additional details the reader is referred to the Company's continuous disclosure documents available on SEDAR ([www.sedar.com](http://www.sedar.com)).

	Expended During the Period	Write-offs & Recoveries During the	
<b>April 30, 2012</b>			<b>July 31, 2012</b>

	Period			
<b>Gold and Base Metal Properties, NWT, Yukon and Nunavut</b>				
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
	<b>239,536</b>	<b>12,622</b>	<b>-</b>	<b>252,158</b>
<b>Diamond Properties, NWT and Nunavut</b>				
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
	<b>557,717</b>	<b>-</b>	<b>-</b>	<b>557,717</b>
<b>TOTAL</b>	<b>\$ 797,253</b>	<b>\$ 12,622</b>	<b>\$ -</b>	<b>\$ 809,875</b>

Unless otherwise stated below, the Company's Canadian exploration activities are conducted under the supervision of Gordon Clarke, P.Geol. (NT&NU) the Company's Vice-President, Exploration.

### ***Gold and Base Metal Projects***

#### **Contwoyto Gold Project – Nunavut**

In June 2012, the Company entered into an agreement with Lupin Mines Incorporated, a wholly owned subsidiary of Elgin Mining Inc. ("Elgin"). Under the terms of the agreement Elgin can earn a 60% interest in the Company's Contwoyto gold project by spending \$6 million over a period of six years. The Contwoyto project consists of six blocks (13,000 acres) of mining leases and claims located close to and adjoining Elgin's Lupin gold mine property, which is presently being explored by Elgin with the potential for restart of mining operations.

The Company's Contwoyto project claims contain known gold occurrences that have been subjected to various levels of mineral exploration up to and including diamond drilling. The Company's mining leases 3362 and 3407 contain the Dune and Pan gold prospects, respectively. Management believes that there is the potential to outline additional mineralization at Pan and Dune, as well as elsewhere within the Contwoyto claims and leases.

#### **Hope Bay ORO Gold Project – Nunavut**

The Company's 100% owned ORO gold property is located in the Hope Bay Volcanic Belt (HBVB) in Nunavut and is the only strategically located land holding in the HBVB that is not held by Hope Bay Mining Ltd. (a wholly owned subsidiary of Newmont Mining Corporation). Newmont estimates that current potential resources within the HBVB are approximately 9 million ounces of gold, including the Doris, Madrid and Boston deposits ([www.newmont.com/north-america](http://www.newmont.com/north-america)). The Company's Hope Bay ORO Project is under option to Sennen Resources Ltd. ("Sennen"), and Sennen may earn up to a 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).

The ORO leases cover an area of 40 sq. km that adjoins Newmont's property, with the Doris gold deposit located only 3.25 km to the south of the property boundary. The Doris deposit contains an indicated resource of 798,000 ounces of gold at a grade of 19.31g/t, and mineralization occurs along a well-defined stratigraphic volcanic contact, which extends northward onto the Company's property. The ORO leases host numerous gold showings and potentially gold bearing structures including the Elu shear zone and Wombat zone.

A drilling program completed in 2011 has confirmed the continuity of gold mineralization along the Elu shear and additional drilling is warranted to fully outline gold mineralization associated with this structure. Further work to

identify other gold mineralized shears on the Oro property is also warranted and is planned for spring and summer 2013. This would include prospecting and the application of soil sampling to test for potentially hidden mineralized shears in overburden covered areas.

#### Anialik Gold Project – Nunavut

The Greenstone Lake showing is located on a 762 acre portion of Inuit Owned Land parcel CO-30 under option from Nunavut Tunngavik Incorporated (“NTI”) and forms part of the Anialik project. The initial Greenstone Lake showing was discovered in 1999 when a single sample returned 2.78 g/t gold from a quartz vein with 4% pyrite. Sampling in 2005 returned assays of over 1 g/t gold for six of eight samples described as being from sheared mafic volcanics with carbonate alteration and included assays of 33.83, 22.63 and 7.98 g/t gold. In September 2011, prospecting identified additional mineralized shears with six of twelve samples returning assays of greater than 1 g/t and including assays of 11.2, 6.8 and 3.6 g/t gold. All samples were from shear zones within mafic volcanic flows, tuffs and pillow lavas. The shear zones contain stringy quartz, and brown weathering carbonate, with accessory pyrite, and occasional arsenopyrite. Chlorite alteration is also prevalent. The shears strike just east of north, have sub-vertical dips and tend to occupy depressions. Width potential for individual shears is estimated between 1 to 20 metres. The sampling carried out to date has therefore identified a series of sub-parallel shears within a corridor measuring over 600 metres long and 50 metres wide. A program of detailed geologic mapping, sampling and ground geophysics is planned for the 2013 field season. 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.

#### Snowbird Project – Northwest Territories-Saskatchewan

In August 2012, the Company entered into an option agreement with Strongbow under which the Company could earn a 50% interest in Strongbow’s Snowbird Nickel project. Under the terms of the agreement and subject to the Company completing an equity financing by December 31, 2012, the Company can earn a 50% interest by incurring \$4 million in exploration expenditures prior to December 31, 2016, including a firm commitment to spend \$30,000 prior to December 31, 2012. D. Grenville Thomas, the Company’s President, CEO and a director, is also Chairman and a director of Strongbow, and Kenneth A. Armstrong, a director of the Company, is also Strongbow’s President, CEO and a director.

The Snowbird project covers approximately 16,000 hectares (40,000 acres) along the southern extent of the Snowbird Tectonic Zone in northern Saskatchewan and southern Northwest Territories. The Snowbird Tectonic Zone is a geologic feature that is considered to be highly prospective for magmatic nickel copper sulphide mineralization and is known to host several deposits including Strongbow’s Nickel King Ni-Cu-Co deposit in the Northwest Territories immediately to the north of the Snowbird project.

Exploration work previously completed by Strongbow has included airborne geophysical surveys, geochemical surveys, bedrock mapping and limited drilling. This work has identified a number of target areas where previously unknown mafic and ultramafic intrusions are coincident with electromagnetic and magnetic geophysical anomalies, geochemical anomalies and nickel-copper mineralization. The highest priority targets are located in the Opescal Lake area along the Saskatchewan – Northwest Territories border where a five kilometre long linear magnetic anomaly coincides with several electromagnetic conductors. These geophysical targets lie beneath glacial cover however they are within a broad area of mapped mafic and ultramafic rocks where prospecting has identified local occurrences of nickel-copper sulphide mineralization associated with norite and pyroxenite intrusions. Rocks collected in the area have returned values ranging from detection up to 1.17% Ni and 0.40% Cu. The Opescal Lake targets have never been previously drilled and will be a priority for ground geophysical surveys and diamond drilling during the winter of 2013.

#### Seagull Tin Project – Yukon

In May 2011, the Company entered into an option agreement with Panarc Resources Ltd. (“Panarc”) for the Seagull Tin project located approximately 156 km west of Watson Lake, Yukon. The project includes seventy-six claims totaling 3,925 acres staked by Panarc to cover historic tin showings. In the long-term the tin market is expected to remain strong, with major demand coming from the use of tin in solder for the growing electronics industry.

Under the terms of the option agreement, the Company made an initial cash payment of \$15,000 to Panarc and issued 100,000 common shares valued at \$18,000. In addition, the Company must incur aggregate exploration

expenditures of \$300,000 within a three-year period. Panarc will retain a royalty equal to 2.0% of net smelter returns, of which the Company may purchase one percentage point (1.0%) for \$1,000,000 such that the royalty would be reduced to 1.0%. At the time the option agreement was executed, Panarc and the Company were related by virtue of a common director.

Exploration work carried out in 2011 has secured land tenure for the seventy-six claims and the Company has currently delayed follow up sampling and ground geophysical programs until the 2013 field season.

### ***Diamond Projects***

#### **Lac de Gras Diamond Project – Northwest Territories**

The Company's Lac de Gras project originally consisted of over 81,000 acres and was a 50-50 joint venture with Dr. Chris Jennings who subsequently assigned his interest to Springbok Holdings Inc. ("Springbok"). The North Arrow / Springbok property is contiguous with a 226,000 acre block of claims held by Harry Winston Diamond Mines Ltd. ("Harry Winston"). Under the terms of an option agreement announced on September 6<sup>th</sup> 2011, the Company, Springbok and Harry Winston have agreed to amalgamate the two properties to form a "joint venture property" totaling over 307,000 acres. Harry Winston maintains an option to earn a 55% interest in the joint venture property by funding \$5,000,000 in exploration expenditures over a five year period. Upon exercising the option, a joint venture will be formed in which Harry Winston will hold a 55% interest and North Arrow and Springbok will equally share a 45% interest in the entire 307,000 acre joint venture property.

The joint venture property forms a very large, contiguous block of mineral claims and mining leases located within the prolific Lac de Gras diamondiferous kimberlite field in Canada's Northwest Territories, home to some of the richest diamond deposits in the world. The joint venture property directly adjoins the mineral leases that host the Diavik diamond mine, located only 10 km to the north. The Ekati diamond mine is located within 40 km to the northwest. The trend line defined by Diavik's mine project kimberlites runs directly through the centre of the joint venture property, while trend line defined by Ekati's mine project kimberlites crosses the western portion of the joint venture property.

Previous exploration has been carried out on portions of the joint venture property, but traditional surface till sampling for kimberlite mineral indicator trains has been hampered by thick glacial till cover. Preliminary work, including mapping local ice directions and till characteristics in preparation for a systematic basal till sampling program, has been carried out. Sampling is to be carried out using a helicopter portable reverse circulation drill capable of sampling a complete till column to reach basal till not accessed by previous sampling.

In July of 2012, Harry Winston notified the Company that planned work has been delayed due to lack of availability of the appropriate drilling equipment and the drilling program will commence as soon as permits are received and the appropriate equipment can be sourced.

### ***Other Exploration Properties***

The Company maintains an interest in a number of additional, non-material exploration properties. The Company continues to review the available exploration data associated with these properties in an effort to evaluate ways to further advance these properties.

## **FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES, OPERATIONS AND FINANCIAL RESULTS**

### **Overall performance**

	July 31, 2012	April 30, 2012	April 30, 2011
Current assets	\$ 68,741	\$ 93,331	\$ 837,012
Non-current assets	810,716	798,243	821,480
Liabilities	(1,202,271)	(1,124,949)	(129,445)
Shareholders' equity (deficiency)	\$ (322,814)	\$ (233,375)	\$ 1,529,047

During the first quarter the Company has focused its efforts on Canadian property acquisitions and raising funds for operations. Subsequent to July 31, 2012, the Company announced that it had entered into an agreement with a company, related by common directors, to earn a 50% interest in the Snowbird nickel project in Northern Saskatchewan, Canada. The Company plans to raise funds by way of private placements to finance ongoing exploration and operations.

## Results of Operations

During the three months ended July 31, 2012 (the “current quarter”), the Company recorded a net loss of \$101,902 or \$0.00 per share. This is compared with a net loss of \$406,822 or \$0.01 per share for the three months ended July 31, 2011 (the “comparative quarter”). The primary reason for the reduced loss for the current year is largely related to an overall reduction in operations including the operations in Chile.

Expenses for the current quarter decreased \$373,845 from the comparative quarter with the most significant reductions being: share-based compensation charges \$12,463 (2011- \$82,075), salaries and benefits \$18,306 (2011- \$66,778), property investigation costs \$1,546 (2011- \$71,338), professional fees \$1,846 (2011- \$72,126) and consulting fees \$17,325 (2011- \$55,000). In addition to the expenses for the year, the Company incurred non-cash accretion costs related to the convertible note of \$18,462 (2011- \$nil) and a write-off of \$nil (2011- \$33,309) of exploration and evaluation costs related to its’ mineral properties.

Property investigation costs, the write-off of mineral properties, consulting and legal fees contributed significantly to the comparative period’s loss and reflected the Company’s activities in South America. During 2012, the Company ceased operations in South America and anticipates little or no additional expenditures related to South American operations.

During the current period, current assets decreased from \$93,331 to \$68,741 and exploration and evaluation assets increased from \$797,253 to \$809,875. The reduction in current assets was largely a result of the funding of ongoing operating activities and the use of funds to make property tenure costs associated with its Canadian property interests.

## Summary of quarterly results

The following table sets out selected unaudited quarterly financial information of North Arrow Minerals Inc. and is derived from the Company’s unaudited quarterly consolidated financial statements prepared by management. The Company’s interim consolidated financial statements are prepared in accordance with IFRS and are expressed in Canadian dollars.

Quarter Ending	Interest Income	Income or (Loss) from Continued Operation and Net Income (Loss)	Basic Earnings (Loss) per share <sup>(1)</sup> from Continued Operation and Net Income (Loss)	Earnings (Loss) per share
July 31, 2012	\$ -	\$ (101,902)	\$ (0.00)	\$ (0.00)
April 30, 2012	\$ -	\$ (440,691)	\$ (0.01)	\$ (0.01)
January 31, 2012	\$ 113	\$ (855,393)	\$ (0.02)	\$ (0.02)
October 31, 2011	\$ 179	\$ (380,881)	\$ (0.01)	\$ (0.01)
July 31, 2011	\$ 943	\$ (406,822)	\$ (0.01)	\$ (0.01)
April 30, 2011	\$ 1,874	\$ (2,152,683)	\$ (0.04)	\$ (0.04)
January 31, 2011	\$ 2,179	\$ (121,088)	\$ (0.01)	\$ (0.01)
October 31, 2010	\$ 1,962	\$ (425,617)	\$ (0.01)	\$ (0.01)

## Statement of Compliance to International Financial Reporting Standards

The Canadian Accounting Standards Board (“ASCB”) confirmed in February 2008 that International Financial Reporting Standards (“IFRS”) would 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.

The Company's 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.

### **July 31, 2012 compared to April 30, 2012**

The Company's quarterly results can be affected by many factors such as seasonal fluctuations, variations in capital markets, the write-off of capitalized amounts, stock-based compensation costs, tax recoveries and legal matters.

During the first quarter of fiscal 2013 the Company incurred a loss of \$101,902, a \$65,807 increase in its working capital deficiency and a \$9,649 reduction of cash from April 30, 2012. The reduction in the Company's financial position is a result of its continued operations. During the current quarter the Company has reduced costs and focused on both the raising of funds and the advancement of its Canadian operations through joint ventures and/or other means.

### **Liquidity**

At July 31, 2012 the Company had a working capital deficiency of \$149,220 compared to a working capital deficiency of \$83,413 at April 30, 2012 and working capital of \$221,735 at July 31, 2011. During the current quarter the Company's cash position was reduced by \$9,649 (comparative quarter- \$112,791) as a result of funding its operating and investing activities.

#### **Operating activities**

During the current quarter the Company's operating activities provided cash of \$1,578 (comparative quarter- use of cash \$188,114) arising from the funding of a loss of \$101,902 (comparative quarter- \$406,822) adjusted for the adding back of non-cash items such as share-based compensation \$12,463 (comparative quarter- \$82,075) write-offs \$nil (comparative quarter- \$33,309) accretion \$18,462 (comparative quarter- \$nil) and other non-cash working capital items \$54,763 (comparative quarter- \$103,205) such as changes in accounts receivable and payable.

#### **Investing activities**

The Company's primary investing activity is the acquisition and exploration of mineral properties. During the current quarter, the Company spent \$11,227 (comparative quarter- \$86,909) on exploration and evaluation assets and received \$nil (comparative quarter - \$162,232) from advances from optionees.

#### **Financing activities**

During the current and comparative quarters, the Company did not participate in any financing activities.

### **Capital Resources**

The Company's financial condition and future prospects are significantly affected by overall economic conditions. The Company has no source of operating revenue and relies on equity financings, joint ventures and warrant and stock option exercises to further exploration on its properties.

The Company's long-term financial success is dependent on management's ability to discover and develop economically viable mineral deposits. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity and the Company's ability to raise additional funds on favourable terms. Management recognizes there will be risks involved that may be beyond their control. The Company intends to continue to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

The Company's ability to generate cash is very much affected by the current market conditions, its share price and third party interest in its assets. In the current equity market, funds for companies at an early/grass-roots stage of



exploration are limited and dilution to existing shareholders from an equity financing increases as the share price decreases. The Company has no credit facilities that could be used for ongoing operations because it has no operating cash flow.

In order to finance the Company's exploration programs and to cover administrative and overhead expenses, the Company raises money through equity sales, from the exercise of convertible securities and, in the past, from the sale of investments. Although the Company has had past success in obtaining financing, there can be no such assurance that it will be able to obtain adequate financing in the future or that the terms of any financing will be favourable. Many factors influence the Company's ability to raise funds, including the state of the resource market and commodities prices and, the climate for mineral exploration.

The Company's management actively manages its landholdings in an effort to keep those landholdings with the greatest exploration potential in good standing for as long as possible. The Company's management regularly reviews its cash position against future plans and makes decisions regarding these plans accordingly.

The Company will have to raise additional funds to further exploration efforts at its various exploration properties and to maintain its listing on the TSXV. The Company is seeking to minimize variable expenses to the extent possible and to seek joint venture partners to continue exploration of its mineral properties.

## **Risks and Uncertainties**

### **Industry**

An investment in natural resource companies involves a significant degree of risk. The degree of risk increases substantially where the Company's properties are in the exploration as opposed to the development stage. Investment in the securities of the Company should be considered as highly speculative due to the nature of the Company's business. The following additional risk factors should be given special consideration.

### **Exploration, Development and Mining Risks**

Exploring and developing mineral resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of base/precious metals, any of which could result in work stoppages, damage to property, and possible environmental damage. If any of the Company's exploration programs are successful, there is a degree of uncertainty attributable to the calculation of ore resources and corresponding grades being mined or dedicated to future production. Until ore is actually mined and processed, quantity of reserves and grade must be considered as estimates only. In addition, the quantity of reserves may vary depending on metal prices. Any material change in quantity of reserves, grade or recovery ratio, may affect the economic viability of the Company's properties. In addition, there can be no assurance that metal reserves in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. The Company closely monitors its activities and those factors, which could impact them, and employs experienced consulting, engineering, and legal advisors to assist in its risk management reviews.

The Company's properties are currently being assessed for exploration and as a result, the Company has no source of operating cash flow. Failure to obtain additional financing could result in a delay or indefinite postponement of further exploration. Development of the Company's mineral properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of bodies of ore. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors. Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes to extract the metal from the resources and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

## Foreign Operation Risks

Historically, the majority of the Company's expenses have been denominated in Canadian Dollars so its exposure to foreign exchange risk has been limited. Exploration activities outside of Canada can expose the Company to foreign exchange risk. Presently, the Company does not use foreign-exchange contracts to mitigate this risk, but that may change in future, depending upon the size of the Company's exploration programs denominated in currencies other than the Canadian Dollar.

## Insurance

The Company's involvement in the exploration for mineral properties may result in the Company becoming subject to liability for pollution, property damage, personal injury or other hazards. Although the Company may have insurance to address many risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

## Environmental Risks

All phases of the mineral exploration and development business present environmental risks and hazards and are subject to environmental legislation. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances used and or produced in association with mining exploration and mining operations. The legislation typically requires that facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that the application of environmental laws to the business and operations of the Company will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

## Prices, Markets and Marketing of Base/Precious Metals

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of base/precious metals or interests related thereto. The price of those commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities, increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of base/precious metals, and therefore the economic viability of any of the Company's exploration projects, cannot accurately be predicted.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the control of the Company and which cannot be accurately predicted, such as the proximity and capacity of milling facilities, mineral markets and processing equipment and governmental regulations including regulations relating to royalties, allowable production and importing and exporting of minerals.

## Substantial Capital Requirements and Liquidity

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of its mineral properties in the future. The Company currently has no revenue and may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt equity financing is available, that it will be on terms

acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

#### Convertible Note Payable and Issuance of Debt

From time to time the Company may enter into transactions or activities that may be financed with debt which could impair the Company's ability to obtain additional financing in the future. On August 31, 2011, the Company closed a \$1,000,000 private placement of a convertible note with Anglo-Celtic Exploration Ltd. ("Anglo Celtic"), a private company controlled by a director of the Company. The term of the loan is for two years, to August 31, 2013. If the Company fails to repay the loan in full by August 31, 2012 (not repaid) or if the Company and Anglo-Celtic amend or re-negotiate the terms of the loan in future, 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 inability of the Company to access sufficient capital for the repayment of the convertible note could have a material effect on the Company's financial condition, results of operations or prospects.

#### Outstanding Share Data

The Company's authorized capital is unlimited common shares without par value. As at September 28, 2012, there were 52,758,378 common shares issued and outstanding. As at September 28, 2012 the Company had the following options outstanding:

	Number of Shares	Exercise Price	Number of Shares Vested	Expiry Date
Options				
	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	385,000	May 12, 2016
	<u>170,000</u>	0.20	85,000	November 3, 2016
	<u>3,320,000</u>			

In addition, the Company has a \$1,000,000 convertible note payable outstanding that can be converted into 4,000,000 common shares at a price of \$0.25 per share and an equal number of warrants.

#### Transactions with Related Parties

Balances and transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below.

##### a) *Related party transactions*

Certain companies which have an officer and/or director or former officer and/or director in common and render services or are charged for certain services as follows:

	Nature of transactions
Anglo-Celtic Exploration Ltd.	Interest and consulting
Strongbow Exploration Inc.	Exploration and administration
Stornoway Diamond Corporation	Administration
International Northair Mines Ltd.	Accounting and corporate services

The Company incurred the following transactions in the normal course of operations in connection with companies which have an officer and/or director in common or with a company in which an officer of the Company is a partner.

- 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.

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

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

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.

### **Commitments/Convertible Note Payable**

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 (not repaid) 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.

	July 31, 2012	April 30, 2012
Principal amount	\$ 1,000,000	\$ 1,000,000
Less equity component of convertible note	(137,996)	(137,996)
Accrued interest	64,310	46,667
Accretion	57,996	39,534
Liability component	<u>\$ 984,310</u>	<u>\$ 948,205</u>

## CHANGES IN ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

### Nature and continuance of operations

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 is a going concern, meaning that it 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.

### Significant accounting policies

The July 31, 2012 Management Discussion and Analysis should be read in conjunction with the audited annual financial statements of the Company for a listing of the Company's significant accounting policies.

### 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. 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 the convertible note.
- The recognition of deferred tax assets is determined on whether it is more probable than not that these assets will be recovered.

## New standards not yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended April 30, 2012:

- IFRS 9 New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets<sup>(iii)</sup>
- IFRS 10 New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities<sup>(i)</sup>
- IFRS 11 New standard to account for the rights and obligations in accordance with a joint agreement<sup>(i)</sup>
- IFRS 12 New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39<sup>(i)</sup>
- IFRS 13 New standard on the measurement and disclosure of fair value<sup>(i)</sup>
- IAS 1 Presentation of other comprehensive income<sup>(ii)</sup>  
(Amendment)
- IAS 28 New standard issued that supercedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures<sup>(i)</sup>  
(Amendment)

i) Effective for annual periods beginning on or after January 1, 2013

ii) Effective for annual periods beginning on or after July 1, 2012

iii) Effective for annual periods beginning on or after January 1, 2015

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

## 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.

### *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.

## **Subsequent Events and Proposed Transactions**

- a) Subsequent to July 31, 2012 the Company announced that it had entered into an agreement with Strongbow Exploration Inc., a related party with two common directors, 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 and spend \$30,000 by December 2012.

## **Capital Management**

The capital of the Company consists of the items included in capital and reserves. 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. To effectively manage the Company's capital requirements, the Company's management has in place a planning and budgeting process.

#### **Additional Disclosure for Venture Issuers Without Significant Revenue**

Additional disclosure concerning the Company's general and administrative expenses and exploration and evaluation assets and expenses is provided in the Company's statement of financial position, statement of changes in equity, statement of loss and comprehensive loss and the Exploration and Evaluation Assets note contained in its consolidated financial statements for the periods ended July 31, 2012 and April 30, 2012. These statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Additional Information**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com) and is available on the Company's website at [www.northarrowminerals.com](http://www.northarrowminerals.com).

#### **Approval**

The Board of Directors of the Company has approved the disclosure contained in this interim MD&A. A copy of this interim MD&A will be provided to anyone who requests it.