

NORTH ARROW MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
North Arrow Minerals Inc.

We have audited the accompanying consolidated financial statements of North Arrow Minerals Inc. which comprise the consolidated balance sheets as at April 30, 2011 and 2010 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of North Arrow Minerals Inc. as at April 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about North Arrow Minerals Inc.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

August 25, 2011



NORTH ARROW MINERALS INC.
CONSOLIDATED BALANCE SHEET
AS AT APRIL 30

	2011	2010
ASSETS		
Current		
Cash	\$ 671,960	\$ 1,126,124
Receivables	132,785	2,021
Prepaid expenses	<u>32,267</u>	<u>25,014</u>
	837,012	1,153,159
Equipment (Note 3)	1,585	2,264
Mineral properties (Note 4)	<u>857,897</u>	<u>2,207,651</u>
	<u>\$ 1,696,494</u>	<u>\$ 3,363,074</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 59,947	\$ 115,227
Due to related parties (Note 6)	<u>69,498</u>	<u>76,610</u>
	<u>129,445</u>	<u>191,837</u>
Shareholders' equity		
Capital stock (Note 5)	9,765,706	8,755,602
Contributed surplus (Note 5)	702,933	607,963
Deficit	<u>(8,901,590)</u>	<u>(6,192,328)</u>
	<u>1,567,049</u>	<u>3,171,237</u>
	<u>\$ 1,696,494</u>	<u>\$ 3,363,074</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

On behalf of the Board:

"D. Grenville Thomas"

Director

"Blair Murdoch"

Director

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

NORTH ARROW MINERALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED APRIL 30

	2011	2010
EXPENSES		
Advertising, promotion and travel	\$ 172,638	\$ 160,391
Amortization	679	970
Consulting	176,333	11,080
Office, miscellaneous and rent	86,052	97,324
Professional fees	79,968	110,374
Regulatory and filing fees	17,736	23,853
Salaries and benefits	177,166	187,912
Stock-based compensation (Note 5)	<u>121,270</u>	<u>130,276</u>
Loss before other items and income taxes	<u>(831,842)</u>	<u>(722,180)</u>
OTHER ITEMS		
Write-off of mineral properties (Note 4)	(2,087,293)	(2,180,427)
Interest income	<u>6,810</u>	<u>-</u>
	<u>(2,080,483)</u>	<u>(2,180,427)</u>
Loss before income taxes	(2,912,325)	(2,902,607)
Future income tax recovery (Note 7)	<u>203,063</u>	<u>147,500</u>
Loss for the year	(2,709,262)	(2,755,107)
Deficit, beginning of year	<u>(6,192,328)</u>	<u>(3,437,221)</u>
Deficit, end of year	<u>\$ (8,901,590)</u>	<u>\$ (6,192,328)</u>
Basic and diluted loss per share	<u>\$ (0.06)</u>	<u>\$ (0.08)</u>
Weighted average number of common shares outstanding	<u>48,125,072</u>	<u>34,419,087</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
AS AT APRIL 30

	2011	2010
Loss for the year	\$ (2,709,262)	\$ (2,755,107)
Other comprehensive loss	<u>-</u>	<u>-</u>
Comprehensive loss for the year	<u>\$ (2,709,262)</u>	<u>\$ (2,755,107)</u>

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

NORTH ARROW MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED APRIL 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (2,709,262)	\$ (2,755,107)
Items not involving cash:		
Amortization	679	970
Stock-based compensation	121,270	130,276
Future income tax recovery	(203,063)	(147,500)
Write-off of mineral properties	2,087,293	2,180,427
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(50,852)	1,273
Decrease (increase) in prepaid expenses	(7,253)	20,262
Increase in accounts payable and accrued liabilities	3,774	23,059
Increase (decrease) in due to related parties	(216)	18,746
Net cash used in operating activities	<u>(757,630)</u>	<u>(527,594)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	1,220,650	2,836,498
Share issue costs	(43,783)	(61,035)
Proceeds from promissory notes (Note 6)	-	200,000
Repayment of promissory notes (Note 6)	<u>-</u>	<u>(200,000)</u>
Net cash provided by financing activities	<u>1,176,867</u>	<u>2,775,463</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on mineral properties, net	<u>(873,401)</u>	<u>(1,322,231)</u>
Net cash used in investing activities	<u>(873,401)</u>	<u>(1,322,231)</u>
Change in cash during the year	(454,164)	925,638
Cash, beginning of year	<u>1,126,124</u>	<u>200,486</u>
Cash, end of year	<u>\$ 671,960</u>	<u>\$ 1,126,124</u>
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 8)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

North Arrow Minerals Inc. (the “Company”) was incorporated on February 27, 2007 and is in the business of mineral property exploration. 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 exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the financing necessary to complete the development of its mineral properties and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has a history of losses and no current source of revenue. Continued operations of the Company are dependent on the Company’s ability to complete equity financings or generate profitable operations in the future. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

In August 2011 the Company announced a \$1,000,000 private placement of a convertible note with Anglo-Celtic Exploration Ltd., a private company controlled by a director (Note 12f).

	<u>April 30, 2011</u>	<u>April 30, 2010</u>
Deficit	\$ (8,901,590)	\$ (6,192,328)
Working capital	\$ 707,567	\$ 961,322

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned US subsidiary Carolina Lithium Inc. (“Carolina Lithium”). All inter-company balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Significant areas where management applies judgment include the assessment of possible impairment of the carrying value of assets, decisions as to when exploration and development costs should be capitalized or expensed, determination of the rate at which amortization is charged to operations, valuation allowances applied against future tax assets, and factors affecting valuations of stock-based compensation. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is provided for annually at the following rates:

Computer equipment	30% declining balance
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Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)

Mineral properties (cont'd...)

assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have any asset retirement obligations.

Foreign currency translation

The Company's subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect on the date of transactions. Translation gains and losses are included in the results of operations for the year.

Loss per share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. Since the Company has losses, the exercise of outstanding stock options and warrants has not been included in this calculation as it would be anti-dilutive.

Stock-based compensation

The Company uses the fair value method for stock-based compensation whereby all awards to employees and nonemployees will be recorded at fair value on the date of the grant and expensed over the period of vesting. The Company uses the Black-Scholes option-pricing model to estimate the fair value of each stock option at the date of grant. Any consideration paid by the option holders to purchase shares is credited to capital stock.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)

Financial instruments

All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with gains and losses recognized in the Company's loss for the period. Financial assets held-to-maturity, loans and receivables and financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in other comprehensive income ("OCI").

The inputs used in making fair value measurements, are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and 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.

Income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. The Company records a future income tax liability and a reduction in capital stock for the estimated tax benefit transferred to shareholders.

When flow-through expenditures are renounced, a portion of future income tax assets not recognized in previous years, due to the recording of a valuation allowance, will be applied against the future income tax liability and recognized as a recovery of future income taxes in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)

Comprehensive income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Changes in accounting policies

Business Combinations

In January 2009, the CICA issued Handbook section 1582, "Business Combinations", which establishes new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after January 1, 2011. Early adoption is permitted. The Company has elected to early adopt this standard effective on February 1, 2010. The adoption of this standard did not have any impact on the Company's financial statements.

Non-controlling Interest

In January 2009, the CICA issued Handbook section 1602, "Non-controlling Interests", to provide guidance on accounting for non-controlling interests subsequent to a business combination. The section is effective for fiscal years beginning on or after January 1, 2011. Early adoption is permitted. The Company has elected to early adopt this standard effective on February 1, 2010. The adoption of this standard did not have any impact on the Company's financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued Handbook section 1601, "Consolidated Financial Statements", to provide guidance on the preparation of consolidated financial statements. The section is effective for fiscal years beginning on or after January 1, 2011. Early adoption is permitted. The Company has elected to early adopt this standard effective on February 1, 2010. The adoption of this standard did not have any impact on the Company's financial statements.

Recent accounting pronouncements

International financial reporting standards

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian standards and interpretations for fiscal years beginning on or after January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and also affect certain business functions. The Company will be required to prepare fully IFRS compliant financial statements for the year ended April 30, 2012, with the first interim financial statements prepared under IFRS for the three-month period ended July 31, 2011. The Company's transition date of May 1, 2010 requires the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011.

NORTH ARROW MINERALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2011

3. EQUIPMENT

	As at April 30, 2011			As at April 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 6,474	\$ 4,889	\$ 1,585	\$ 6,474	\$ 4,210	\$ 2,264
	\$ 6,474	\$ 4,889	\$ 1,585	\$ 6,474	\$ 4,210	\$ 2,264

4. MINERAL PROPERTIES

	April 30, 2010	Expended During The Year	Write-offs & Recoveries During The Year	April 30, 2011
Gold and Base Metal Properties, NWT, Yukon and Nunavut				
Exploration costs	\$ 31,523	41,383	(23,834)	\$ 49,072
Acquisition costs	352,982	57,742	(274,441)	136,283
Geological and assays	1,449	5,757	(645)	6,561
Office and salaries	20,948	26,615	(15,150)	32,413
	406,902	131,497	(314,070)	224,329
Lithium Properties, NWT and Nunavut				
Exploration costs	702,769	44,316	(707,377)	39,708
Acquisition costs	71,888	1,689	(58,911)	14,666
Geological and assays	18,909	10,284	(17,729)	11,464
Office and salaries	62,402	10,358	(62,787)	9,973
	855,968	66,647	(846,804)	75,811
Lithium Properties, USA				
Exploration costs	336,900	149,810	(486,710)	-
Acquisition costs	212,505	93,567	(306,072)	-
Geological and assays	13,015	13,821	(26,836)	-
Office and salaries	94,223	30,000	(124,223)	-
	656,643	287,198	(943,841)	-
Diamond Properties, NWT and Nunavut				
Exploration costs	39,238	213,249	-	252,487
Acquisition costs	14,326	8,038	-	22,364
Geological and assays	146,928	6,336	-	153,264
Office and salaries	87,646	41,996	-	129,642
	288,138	269,619	-	557,757
TOTAL	\$ 2,207,651	\$ 754,961	\$ (2,104,715)	\$ 857,897

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing. During the year the Company wrote - off \$2,087,293 (2010 - \$2,180,427) relating to certain properties and recorded \$17,422 (2010 - \$7,548) in recoveries.

NORTH ARROW MINERALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2011

4. MINERAL PROPERTIES (CONT'D...)

	April 30, 2009	Expended During The Year	Write-off of Costs and Recoveries	April 30, 2010
Gold and Base Metal Properties, NWT and Nunavut				
Exploration costs	\$ 893,065	\$ 15,157	\$ (876,699)	\$ 31,523
Acquisition costs	595,889	39,052	(281,959)	352,982
Geological and assays	263,650	-	(262,201)	1,449
Office and salaries	<u>775,883</u>	<u>4,633</u>	<u>(759,568)</u>	<u>20,948</u>
	<u>2,528,487</u>	<u>58,842</u>	<u>(2,180,427)</u>	<u>406,902</u>
Lithium Properties, NWT and Nunavut				
Exploration costs	139,159	563,610	-	702,769
Acquisition costs	21,134	50,754	-	71,888
Geological and assays	3,197	15,712	-	18,909
Office and salaries	<u>26,745</u>	<u>35,657</u>	<u>-</u>	<u>62,402</u>
	<u>190,235</u>	<u>665,733</u>	<u>-</u>	<u>855,968</u>
Lithium Properties, USA				
Exploration costs	4,454	332,446	-	336,900
Acquisition costs	-	212,505	-	212,505
Geological and assays	-	13,015	-	13,015
Office and salaries	<u>371</u>	<u>93,852</u>	<u>-</u>	<u>94,223</u>
	<u>4,825</u>	<u>651,818</u>	<u>-</u>	<u>656,643</u>
Diamond Properties, NWT and Nunavut				
Exploration costs	33,767	5,471	-	39,238
Acquisition costs	21,274	600	(7,548)	14,326
Geological and assays	146,436	492	-	146,928
Office and salaries	<u>78,397</u>	<u>9,249</u>	<u>-</u>	<u>87,646</u>
	<u>279,874</u>	<u>15,812</u>	<u>(7,548)</u>	<u>288,138</u>
TOTAL	\$ 3,003,421	\$ 1,392,205	\$ (2,187,975)	\$ 2,207,651

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.

Canoe Lake Property, Nunavut

The Company maintains, or maintains the right to earn, a 100% interest in certain mineral claims and mining leases known as the "Canoe Lake Property" in the High Lake Greenstone Belt, Nunavut. In order to earn a 100% interest in two mining leases, the Company had to complete a \$490,000 cash payment to Canadian Natural Resources Ltd. ("CNR") before December 31, 2010. The agreement with CNR also provided for a 2.5% gross overriding royalty ("GOR") on diamond production and a 2.5% net smelter return royalty ("NSR") on metallic mineral production from the leases. The Company retained the option to purchase half of these royalties from CNR for \$1,500,000.

Separate from the agreement with CNR, the Company maintains a 100% interest in a number of contiguous mineral claims. The 'BK claims' are subject to a 1% NSR on non-diamond mineral production and a 1% GOR on diamond production to a third party royalty holder (the 'BK royalty holder'). The 'Canoe claims' are subject to a 1% NSR on non-diamond mineral production and a 1% GOR on diamond production to a different third party royalty holder (the 'Canoe royalty holder'), as well as various royalties, payable to the BK royalty holder, ranging from 0.5% to 1.0%. The Company may purchase 100% of the royalties payable to the Canoe royalty holder for \$1,000,000.

4. MINERAL PROPERTIES (CONT'D...)

Gold and Base Metal Properties, Northwest Territories, Yukon and Nunavut (cont'd...)

The property was under option to Minerals and Metals Group ("MMG"), a subsidiary of the China Minmetals Non-Ferrous Metals Company Limited. Under the terms of the original and several revised agreements, MMG could have earned up to a 70% interest in the Canoe Lake Project by making a cash payment to the Company of \$55,600 (received) and spending \$3,000,000 on project exploration by December 1, 2010 (not completed). In December 2010, MMG informed the Company that it was not going to exercise its option on the Canoe Lake Project.

In December 2010, the Company informed CNR that it would not exercise its option to earn a 100% interest in the two mining leases and accordingly, wrote-off capitalized acquisition and exploration expenditures of \$275,169 for the year ended April 30, 2011.

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. 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 subsequent to year-end) and spending \$5 million over a five year period. A minimum expenditure of \$500,000 is required in the first year. This option agreement with Chelsea is subject to approval from the TSX Venture Exchange. In May 2011, Chelsea was acquired by Sennen Resources Ltd. ("Sennen") pursuant to a Plan of Arrangement.

Yukon Gold Property

On July 30, 2010, the Company and Cathro Resources Corp. ("Cathro") (50%) and Cazador Resources Ltd. ("Cazador") (50%), both private companies and collectively, the "Vendors", entered into an agreement whereby the Company may earn a 100% interest in certain mineral claims situated in north-central Yukon Territory. Under the terms of the agreement, the Company can earn a 100% interest in the property by funding a minimum \$35,000 initial exploration program (completed) and by making cumulative payments totaling \$150,000 and by issuing cumulative share payments totaling 750,000 shares over a period of four years. Upon completion of the option, the Vendors will retain a 2.0% net smelter return royalty of which 1% can be purchased at any time for \$1,000,000. Advance royalty payments of \$25,000 per year will be payable upon exercise of the option until such time as the regular royalty payments begin or the property is returned in good standing. Advance royalty payments can be credited against future royalty payments. The Company issued 25,000 shares to Cathro and 25,000 shares to Cazador during the year ended April 30, 2011 at a total estimated fair value of \$10,000.

4. MINERAL PROPERTIES (CONT'D...)

Gold and Base Metal Properties, Northwest Territories, Yukon and Nunavut (cont'd...)

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. The Company wrote-off \$68,845 relating to certain property segments during the year ended April 30, 2010, since no exploration programs of significance are planned for the foreseeable future on these segments.

The Company continues to maintain an interest in the Anialik property, however, as no exploration programs of significance were planned for the foreseeable future, the Company wrote-off \$2,078,588 for the year ended April 30, 2010.

Silvertip Project, Nunavut

The Company entered into an agreement with Strongbow whereby it could earn a 60% interest in the Silvertip Project by spending \$5,000,000 to explore the property prior to December 31, 2011 with a firm commitment to spend \$300,000 prior to December 31, 2007 (incurred). In December 2008, the Company terminated its option to earn an interest in the Silvertip Project and wrote-off capitalized acquisition and exploration costs totaling \$15,197 during the year ended April 30, 2010.

Other Properties

Mineral property write-offs of \$21,480 (2010 -17,797) during the year ended April 30, 2011 relate to various other properties in NWT and Nunavut, where no exploration programs of significance are planned for the foreseeable future.

Lithium Properties, Northwest Territories and Nunavut

Phoenix Lithium Project, NWT

At various times between June 2008 and July 2009, the Company acquired, by staking, eleven claims in the Aylmer Lake area of the Northwest Territories. The claims form one contiguous block and the Company maintains a 100% interest in all the acquired claims.

The Company has no future plans to develop the property and consequently wrote-off \$846,804, the capitalized acquisition and exploration expenses related to this property for the year ended April 30, 2011.

Torp Lake Project, Nunavut

In March 2009, the Company acquired, by staking, two claims in the Torp Lake area of Nunavut.

Lithium Properties, USA

Lithium Projects, North Carolina, USA

Between July and September 2009, the Company entered into seven option agreements with landowners in North Carolina. Under the terms of these option agreements, the Company must make cash payments upon execution (US \$84,706 paid) and various annual option payments ranging from US \$9,024 to US \$84,706 (US \$84,706 paid in 2010 and US \$84,706 paid in 2011) between 2010 and 2018.

The Company has decided that it will stop development on the property and consequently wrote off all acquisition and exploration costs totalling \$943,841 on the property for the year ended April 30, 2011.

Lithium Projects, Generative

In July 2009, the Company and Strongbow entered into a generative exploration agreement, which establishes an area of interest ("AOI") for the acquisition of lithium exploration properties, mineral rights or other interests (collectively, the "Rights"). Upon notice from Strongbow, the Company may exercise a back-in right to acquire an undivided 40% interest in the AOI and any Rights acquired by Strongbow within the AOI, after Strongbow incurs \$2 million in acquisition and

4. MINERAL PROPERTIES (CONT'D...)

Diamond Properties, Northwest Territories and Nunavut (cont'd...)

exploration expenditures. If the Company elects to exercise the back-in right, it must spend \$2 million within thirty-six months from the date of notice, including minimum expenditures of \$500,000 within each twelve-month period. As of April 30, 2011, the Company and Strongbow agreed to terminate this agreement.

The Company has varying interests in a number of diamond properties, including the Lac de Gras and Hammer properties described below.

Lac de Gras, NWT

In February 2010, the Company entered into an agreement with a third party option holder to jointly explore its Lac de Gras diamond property. Under the terms of the agreement, the third party option holder can earn a 50% interest in the Lac de Gras diamond property by paying the full legal survey costs required to convert selected existing mineral claims to mining leases (completed), paying the first year's rental fees for the mining leases (completed), and conducting a review of existing geophysical magnetic data (completed). The Company will be responsible for funding the first \$1,000,800 in exploration expenditures on the property, subsequent to which exploration of the Lac de Gras property will be carried out based upon a 50/50 joint venture.

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. The portion of the property comprising the original Bear Property is subject to an underlying 2% NSR and 2% GOR.

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
As at April 30, 2009	25,810,795	\$ 6,137,617	\$ 450,459
Shares issued for mineral property	100,000	17,250	-
Private placements	15,467,500	2,472,410	-
Share issue costs	240,000	(91,975)	30,940
Exercise of warrants	2,427,250	367,800	(3,712)
Tax benefits renounced to flow-through share subscribers (Note 7)	-	(147,500)	-
Stock-based compensation	-	-	130,276
As at April 30, 2010	44,045,545	8,755,602	607,963
Shares issued for mineral property	50,000	10,000	-
Private placements	3,958,333	712,500	-
Share issue costs	-	(43,783)	-
Exercise of warrants	4,604,500	534,450	(26,300)
Tax benefits renounced to flow-through share subscribers (Note 7)	-	(203,063)	-
Stock-based compensation	-	-	121,270
As at April 30, 2011	52,658,378	\$ 9,765,706	\$ 702,933

Share issuances

In June 2009, the Company completed a non-brokered private placement of 5,000,000 flow-through units ("FT Units") at a price of \$0.10 per FT Unit, for gross proceeds of \$500,000. Each FT Unit consisted of one flow-through common share and one non-flow through common share purchase warrant. Each warrant could be exercised to acquire one common share at a price of \$0.20 per share until June 1, 2010. The Company paid certain finders fees of 240,000 common shares at a value of \$24,000. The Company also issued 300,000 warrants to the finders. Each finder's warrant was exercisable to

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (CONT'D...)

Share issuances (cont'd...)

acquire one common share of the Company at \$0.15 per share until June 1, 2010. The fair value of the warrants was estimated to be \$30,940 using the Black-Scholes option pricing model (1.07% risk-free interest rate; one-year term; 0.00% dividend yield; 100% volatility).

In August 2009, the Company completed a non-brokered private placement of 2,206,500 units at a price of \$0.22 per unit, for total gross proceeds of \$485,430. Each unit consisted of one common share and one-half of one common share purchase warrant. Each full warrant entitled the holder to purchase one additional common share at a price of \$0.32 per share. A total of 1,045,750 warrants expired February 21, 2011 and the remaining 57,500 warrants expired February 26, 2011.

In March, 2010, the Company completed a non-brokered private placement of 2,780,000 units at a price of \$0.18 per unit for total gross proceeds of \$500,400. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company until March 26, 2011 (subsequently extended to September 26, 2011) at a price of \$0.30 per share.

In April, 2010, the Company completed a non-brokered private placement of 5,481,000 units at a price of \$0.18 per unit, for total gross proceeds of \$986,580. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitled the holder to purchase one additional common share of the Company until April 20, 2011 (subsequently extended to October 20, 2011) at a price of \$0.30 per share.

In August 2010, the Company completed a non-brokered private placement of 3,958,333 flow-through units (the "FT Units") at a price of \$0.18 per FT Unit, for total gross proceeds of \$712,500. Each FT Unit consisted of one flow-through common share and one-half of one non-flow-through common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share until August 20, 2011 at a price of \$0.25 per share. As part of this private placement, the Company paid finder's fees of \$38,220.

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 April 30, 2011, the following stock options and warrants were outstanding:

	Number of Shares	Exercise Price	Number of Shares Vested	Expiry Date
Options	54,000	\$ 0.25	54,000	September 15, 2011
	148,000	0.25	148,000	March 29, 2012
	1,125,000	0.40	1,125,000	August 7, 2012
	1,410,000	0.20	1,410,000	June 4, 2014
	200,000	0.30	200,000	September 2, 2014
	150,000	0.19	112,500	March 26, 2015*
	150,000	0.25	112,500	March 26, 2015*
	1,000,000	0.20	250,000	March 7, 2016
Warrants	1,979,167	0.25	1,979,167	August 20, 2011 (Note 12)
	1,390,000	0.30	1,390,000	September 26, 2011
	2,740,500	0.30	2,740,500	October 20, 2011

*subsequently cancelled

NORTH ARROW MINERALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2011

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (CONT'D...)

Stock options and warrants (cont'd...)

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

	Number of Options	Weighted Average Exercise Price
Balance, April 30, 2009	1,727,300	\$ 0.35
Granted	1,910,000	0.21
Cancelled	(57,000)	0.37
Expired	<u>(255,800)</u>	0.26
Balance, April 30, 2010	3,324,500	0.28
Granted	1,000,000	0.20
Expired	<u>(87,500)</u>	0.25
Balance, April 30, 2011	4,237,000	\$ 0.26
Number of options currently exercisable	<u>3,412,000</u>	<u>\$ 0.28</u>

A summary of the Company's warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, April 30, 2009	7,125,000	\$ 0.12
Granted	10,533,750	0.25
Expired	(733,750)	0.15
Exercised	<u>(2,427,250)</u>	0.15
Balance, April 30, 2010	14,497,750	0.21
Granted	1,979,167	0.25
Exercised	(4,604,500)	0.11
Expired	<u>(5,762,750)</u>	0.22
Balance, April 30, 2011	6,109,667	\$ 0.28

In March 2010, the Company issued 1,390,000 warrants exercisable at \$0.30 until March 26, 2011 to subscribers of a private placement. In March 2011, the Company received regulatory approval to extend the expiry date for those warrants by six months to September 26, 2011.

In April 2010, the Company issued 2,740,500 warrants exercisable at \$0.30 until April 20, 2011 to subscribers of a private placement. In March 2011, the Company received regulatory approval to extend the expiry date for those warrants by six months to October 20, 2011.

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (CONT'D...)

Stock-based compensation

During the year ended April 30, 2011, the Company granted 1,000,000 stock options (April 30, 2010 – 1,910,000). The estimated fair value of the options granted during the year is \$109,058 (April 30, 2010 - \$244,622). During the year ended April 30, 2011 the Company recognized stock-based compensation of \$121,270 (April 30, 2010 - \$130,276) relating to options vested during the year.

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

	Year Ended April 30, 2011	Year Ended April 30, 2010
Risk-free interest rate	2.21%	1.58%~2.57%
Expected life of options	3.0 years	1.5~5.0 years
Annualized volatility	100%	100%
Dividend rate	0.00%	0.00%

6. RELATED PARTY TRANSACTIONS

	April 30, 2011	April 30, 2010
Strongbow, a company with two common directors and a common officer	\$ 17,655	\$ 28,364
Stornoway, a company with a common officer	12,206	7,301
Directors	39,637	40,945
	\$ 69,498	\$ 76,610

- a) During the year ended April 30, 2011, the Company paid or accrued \$129,210 (April 30, 2010 - \$133,982) for shared technical services and rent to Strongbow.
- b) During the year ended April 30, 2011, the Company paid or accrued \$23,451 (April 30, 2010 - \$31,072) for administrative and accounting services to Stornoway.
- c) During the year ended April 30, 2011, the Company paid \$Nil (April 30, 2010 - \$7,350) for technical services to a private company controlled by a director.
- d) During the year ended April 30, 2011, the Company paid \$1,338 (April 30, 2010 - \$Nil) for office rent to a company controlled by a director.
- e) During the year ended April 30, 2011, the Company paid consulting fees of \$150,833 (April 30, 2010 - \$Nil) to a company controlled by a director and a company controlled by an officer of the company.
- f) Included in prepaid expenses as at April 30, 2011 is \$10,000 (April 30, 2010 - \$Nil) paid to the President of the Company for future management services.

Promissory Note Payable

In January 2010, a private company controlled by a director loaned the Company \$100,000 for short-term working capital. In February 2010, the private company loaned the Company an additional \$100,000 bringing the total owed to \$200,000. This amount was evidenced by a promissory note and was unsecured, bearing no interest and was due on March 31, 2010 (paid).

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

7. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2011	2010
Loss before income taxes	\$ (2,912,325)	\$ (2,902,607)
Expected income tax recovery	\$ 811,555	\$ 858,119
Non-deductible items	(635,376)	(662,822)
Recognized (unrecognized) benefit of tax assets	<u>26,884</u>	<u>(47,797)</u>
Future income tax recovery	\$ 203,063	\$ 147,500

As at April 30, 2011, the Company has approximately \$1,817,000 in non-capital losses available for deduction against future year's taxable income. These losses will expire up to 2031.

Subject to certain restrictions, the Company has approximately \$4,520,000 of mineral property expenditures available to reduce taxable income of future years.

During the year ended April 30, 2011, the Company issued 3,958,333 (2010 – 5,000,000) common shares on a flow-through basis for gross proceeds of \$712,500 (2010 - \$500,000). The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenses incurred on the Company's mineral properties to the flow-through participants. The Company has renounced exploration expenditures of \$712,500 (2010 - \$500,000), which resulted in an initial future income tax liability and a charge against capital stock of \$203,063 (2010 – \$147,500).

The significant components of the Company's future income tax assets are as follows:

	2011	2010
Future income tax assets		
Equipment	3,468	\$ 3,298
Non-capital losses	454,209	298,018
Share issuance costs	31,970	41,607
Mineral properties	<u>915,719</u>	<u>247,424</u>
	1,405,366	590,347
Less: valuation allowance	<u>(1,405,366)</u>	<u>(590,347)</u>
	\$ -	\$ -

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the period ended April 30, 2011 were:

- a) The Company incurring mineral property expenditures of \$9,176 (April 30, 2010 - \$68,230) that are included in accounts payable and accrued liabilities at April 30, 2011.
- b) The Company incurring mineral property expenditures of \$5,784 (April 30, 2010 - \$12,680) that are included in due to related parties at April 30, 2011.
- c) The Company incurring mineral property cost recoveries of \$79,912 (April 30, 2010 - \$Nil) that are included in receivables at April 30, 2011.
- d) The Company issuing 50,000 common shares valued at \$10,000 (April 30, 2010 – 100,000 common shares valued at \$17,250) pursuant to property option agreements (Note 4).
- e) During the year ended April 30, 2010, the Company issuing 300,000 finder's warrants with a value of \$30,940 and issuing 240,000 common shares with a value of \$24,000 to the finders as a financing fee for a non-brokered private placement.

9. SEGMENTED INFORMATION

The Company operates in one business segment being the exploration of mineral properties in Canada and the United States as follows:

	April 30, 2011			April 30, 2010		
	Canada	United States	Total	Canada	United States	Total
Mineral Properties	\$ 857,897	\$ -	\$ 857,897	\$ 1,551,008	\$ 656,643	\$ 2,207,651
Equipment	<u>1,585</u>	<u>-</u>	<u>1,585</u>	<u>2,264</u>	<u>-</u>	<u>2,264</u>
	<u>\$ 859,482</u>	<u>\$ -</u>	<u>\$ 859,482</u>	<u>\$ 1,553,272</u>	<u>\$ 656,643</u>	<u>\$ 2,209,915</u>

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and due to related parties. 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 approximates their fair values due to their immediate or short-term maturity.

The Company is exposed to a variety of financial risks by virtue of its activities, including credit risk, interest rate risk, liquidity risks, and foreign currency 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's cash is held in high quality financial institutions. 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 isn't exposed to significant interest rate risk arising from these financial instruments.

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, as required, could result in the delay or indefinite postponement of further exploration and development of the Company's properties. As at April 30, 2011, the Company had cash of \$671,960 (2010 - \$1,126,124) available to settle current liabilities of \$129,445 (2010 - \$191,837).

Foreign Currency Risk

The Company has some exposure to foreign currency risk with its mineral properties in the United States however; the majority of its assets and liabilities are denominated in Canadian dollars. The Company's exploration activities and ongoing land tenure expense in the United States make it subject to foreign currency fluctuations, which may affect the Company's financial position, and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and the US dollar. The Company does not presently invest in foreign currency contracts to

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D...)

Foreign Currency Risk (cont'd...)

mitigate this risk. It is management's opinion that the Company is not exposed to significant foreign currency risk arising from these financial instruments.

11. 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 mineral properties 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 spend its existing working capital and 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.

12. SUBSEQUENT EVENTS

a) In May 2011, the Company granted 1,220,000 incentive stock options to directors, officers, employees and consultants. The options have an exercise price of \$0.20 and can be exercised until May 12, 2016.

b) In May 2011, the Company received 75,000 common shares of a TSXV - listed company pursuant to the sale of exploration data.

c) In May 2011, the Company entered into a property option agreement with Panarc Resources Ltd. ("Panarc"), whereby the Company may earn a 100% interest in certain mineral claims (Seagull property) located in the Yukon. Panarc will retain a 2% NSR on the property, of which 1% may be purchased by the Company for \$1,000,000. Panarc has a director in common with the Company. To earn a 100% interest in the Seagull property, the Company is required to make an initial cash payment of \$15,000 to Panarac (completed) and issue 100,000 common shares (completed). The Company must also incur \$300,000 in exploration expenditures with a three-year period.

d) In June 2011, the Company executed a letter of intent ("LOI") to acquire up to a 100% interest in the Agua Grande gold-copper project in Chile. The LOI requires the Company to make a \$50,000 USD payment (completed). The Company has 90 days to conduct technical and legal due diligence, prior to executing a definitive agreement (the "Definitive Agreement"). Upon execution of Definitive Agreement, the Company will have the option to acquire a 100% interest in the property by making staged cash payments totalling \$10,000,000 USD over a five-year period and completing a feasibility study. The property will be subject to a 1.5% NSR, and the agreement is subject to regulatory approval.

e) In August 2011, the Company extended the expiry date of 1,979,167 warrants exercisable at \$0.25 from August 20, 2011 to February 20, 2012.

f) In August 2011, the Company announced a \$1,000,000 private placement of a convertible note with Anglo-Celtic Exploration Ltd. (the "Lender"), a private company controlled by a director. The private placement will consist of a convertible note, structured as an unsecured, interest-bearing loan of \$1,000,000. The term of the loan will be for one-year, following receipt of all required regulatory approvals. The Lender may convert at any time all or a portion of the principal amount outstanding under the loan into common shares of the Company at a conversion price of \$0.25 per common share. The Lender will also have the right to convert all or any portion of the accrued interest on the loan into common shares of the Company at the market price of the Company's common shares at the time of conversion. The Company may, at its option, repay all or any part of the principal amount outstanding under the loan, without bonus or penalty, subject to the requirement that the Company give notice to the Lender that the Lender may elect within 10 days to convert all or any portion of the loan into common shares. The loan agreement will contain provisions related to default by the Company and remedies available to the Lender. The Company will pay interest to the Lender at the rate charged by the Lender's bank or financial institution, plus 400 basis points. The loan will accrue interest to the date of repayment and will be calculated monthly on the last day of the month.