

# **SPARROW VENTURES CORP.**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Three and six months ended July 31, 2012 and 2011

# SPARROW VENTURES CORP.

Management's Discussion & Analysis

Three and Six Months Ended July 31, 2012 and 2011

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Sparrow Ventures Corp. (the "Company") is a natural resource company currently engaged in the acquisition, exploration and development of mineral properties. The Company currently does not hold any mineral property interests and continues to actively evaluate new potential projects. The Company is listed for trading on the TSX Venture Exchange under the symbol SPW.

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of the Company for the three and six months ended July 31, 2012 and is prepared as of September 24, 2012, in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the Company's unaudited condensed interim financial statements and related notes for the three and six months ended July 31, 2012 and 2011 and audited financial statements for the year ended January 31, 2012, which were prepared in accordance with IFRS.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

## **Cautionary Note Regarding Forward-Looking Information**

This document may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this document and Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation.

Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the timing and implementation of the proposed transaction with Far West, estimation of mineral reserves and mineral 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. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; 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 or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements, all of which are filed and available for review under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

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## **Risk Factors**

***No Assurance of Profitability:*** The Company has no history of earnings and, due to the nature of its proposed business, there can be no assurance that the Company will ever be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Company is from the sale of its common shares. While the Company may generate additional working capital through further equity offerings, there can be no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

***Financial statements have been prepared assuming the Company will continue on a going concern basis:*** The financial statements have been prepared on the basis that it will continue as a going concern. At July 31, 2012, the Company had working capital of \$172,209 as compared to working capital of \$217,813 as at January 31, 2012. Management has estimated that the Company has adequate funds from existing working capital to meet its obligations for the next twelve months. If the Company is unable to obtain adequate additional financing, it may be required to curtail operations. Furthermore, failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would likely differ significantly from their going concern assumption carrying values.

***Share Price Volatility:*** During the past year, worldwide securities markets, particularly those in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced unprecedented declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Most significantly, the share prices of junior natural resource companies have experienced an unprecedented decline in value and there has been a significant decline in the number of buyers willing to purchase such securities. In addition, significantly higher redemptions by holders of mutual funds has forced many of such funds (including those holding the Company's securities) to sell such securities at any price. As a consequence, despite the Company's past success in securing significant equity financing, market forces may render it difficult or impossible for the Company to secure places to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all. Therefore, there can be no assurance that significant fluctuations in the trading price of the Company's common shares will not occur, or that such fluctuations will not materially adversely impact on the Company's ability to raise equity funding without significant dilution to its existing shareholders, or at all.

***Financing Risks:*** The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to sustain its operations. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

***Dilution to the Company's existing shareholders:*** The Company will require additional equity financing be raised in the future. The Company may issue securities on less than favourable terms to raise sufficient capital to fund its business plan. Any transaction involving the issuance of equity securities or securities convertible into common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

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## Summary of Quarterly Information

Below are selected financial information from continuing operations for the most recent eight quarters (unaudited). The quarter results presented in the table below were prepared in accordance with IFRS.

Quarter ended	Interest Income \$	Income (Loss) \$	Earnings (Loss) per share \$
July 31, 2012	476	(28,142)	(0.002)
April 30, 2012	357	(26,018)	(0.002)
January 31, 2012	559	(37,032)	(0.003)
October 31, 2011	757	(32,127)	(0.001)
July 31, 2011	701	(62,693)	(0.005)
April 30, 2011	884	(51,075) <sup>(1)</sup>	(0.004)
January 31, 2011	1,146	(56,453)	(0.004)
October 31, 2010	1,244	(122,645) <sup>(1)</sup>	(0.009)

- <sup>(1)</sup> Loss for the periods presented has been restated to reflect the Company's election to change the accounting policy under IFRS to expense all exploration and evaluation expenditures related to its mineral property.

There are no general trends regarding the Company's quarterly results. Quarterly results may vary significantly depending mainly on the Company's exploration activities or whether the Company granted any stock options. These factors may account for material variations in the Company's quarterly net losses and are not predictable. Exploration and evaluation expenditures can have a material effect on the quarterly results as and when they occur as seen in the quarter ended October 31, 2010. The other factor which had a material effect on quarterly results is the granting of stock option due to the resulting share-based compensation charges which may be significant when they arise. This can be seen in the quarters ended October 31, 2010 and July 31, 2011.

General and administrative costs tend to be quite similar from period to period, except in certain cases when there is an increase in corporate activities. The variation in income is related solely to the interest earned on funds held by the Company, which is dependent upon the success of the Company in raising the required financing for its activities which will vary with overall market conditions, and is therefore difficult to predict.

## Results of Operations

### *Three months ended July 31, 2012 compared with the three months ended July 31, 2011*

During the three months ended July 31, 2012, the Company reported a net loss of \$28,142 or \$0.002 per share as compared to a net loss of \$62,693 or \$0.005 per share during the same period in the prior fiscal year, representing a decrease in loss of \$34,551. The decrease in loss was primarily attributable to decreases in operating expenses of \$18,706 and share-based payments of \$16,070 offset by a decrease in finance income of \$225.

Operating expenses decreased by \$18,706 as a result of decreases in accounting, audit and legal fees of \$2,859, bank charges of \$140, consulting fees of \$3,917, depreciation of \$5, office, rent and administration of \$1,212, regulatory fees of \$1,110, transfer agent and shareholder information of \$1,042 and travel and promotion of \$8,421.

Travel and promotion decreased by \$8,421 as a result of various travel expenses incurred during the three months ended July 31, 2011 related to the evaluation of potential projects and participation in mining conferences. No such expenses were incurred during the three months ended July 31, 2012.

During the three months ended July 31, 2012, the Company recorded share-based payments of \$3,177 for stock options vested during the period. During the three months ended July 31, 2011, the Company recorded share-based payments of \$19,247 for stock options granted and vested during the period.

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*Six months ended July 31, 2012 compared with the six months ended July 31, 2011*

During the six months ended July 31, 2012, the Company reported a net loss of \$54,160 or \$0.004 per share as compared to a net loss of \$113,768 or \$0.009 per share during the same period in the prior fiscal year, representing a decrease in loss of \$59,608. The decrease in loss was primarily attributable to decreases in operating expenses of \$28,867 and share-based payments of \$14,172, an increase in other income of \$17,321 offset by a decrease in finance income of \$752.

Operating expenses decreased by \$28,867 as a result of decreases in accounting, audit and legal fees of \$2,949, consulting fees of \$2,078, regulatory fees of \$1,860, transfer agent and shareholder information of \$1,339 and travel and promotion of \$21,177 offset by increases in bank charges of \$60, depreciation of \$9 and office, rent and administration of \$467.

Travel and promotion decreased by \$21,177 as a result of various travel expenses incurred during the six months ended July 31, 2011 related to the evaluation of potential projects and participation in mining conferences. No such expenses were incurred during the six months ended July 31, 2012.

The increase in other income of \$17,321 was mainly due to a recovery of deposit net of expenses related to the terminated business combination with Network Entertainment Inc. in May 2010.

## **Liquidity and Capital Resources**

As at July 31, 2012, the Company reported working capital of \$172,209 as compared to working capital of \$217,813 as at January 31, 2012, representing a decrease in working capital of \$45,604. Cash on hand decreased by \$63,572 from \$226,240 at January 31, 2012 to \$162,668 at July 31, 2012. The decrease in cash resulted mainly from cash used for operations of \$62,858 and purchase of equipment of \$714.

Current assets, excluding cash and cash equivalent, at July 31, 2012 consisted of HST recoverable of \$4,004 and prepaid expenses and deposits of \$6,500 as compared to interest receivable of \$1,235, HST recoverable of \$1,569 and prepaid expenses and deposits of \$1,500 at January 31, 2012.

As of the date of this MD&A, financing for the Company's operations is also potentially available through the exercise of vested stock options (See "Summary of Outstanding Share Date"); however, there can be no assurance that any of these outstanding convertible securities will be exercised, particularly if the trading price of the common shares on the TSX Venture Exchange does not exceed, by an material amount and for a reasonable period, the exercise price of such convertible securities at some time prior to their expiry dates.

The Company believes that it has sufficient funds to continue its anticipated ongoing operations through the next twelve months. However, if the Company's plans change (as, for example, if it determines to acquire additional properties or accelerate its presently contemplated work programs) or its current assumptions change or prove inaccurate, the Company may be required to seek additional financing through the issuance of shares.

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## Summary of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares. As at September 24, 2012, there were 13,590,500 shares issued and outstanding.

The following stock options and charitable options were outstanding as at September 24, 2012:

Number of shares	Exercise price per share	Expiry date	Exercisable
865,000	\$0.10	May 26, 2018	865,000
100,000	\$0.11	August 31, 2020	100,000
159,000	\$0.12	October 7, 2020	159,000
330,000	\$0.11	May 27, 2021	247,500
1,454,000			1,371,500

## Transaction with Related Parties

During the six months ended July 31, 2012, the Company has entered into certain transactions with related parties. These transactions are in the normal course of business operations and are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

A description of the related party transactions is as follows:

Name and Relationship to Company	Transaction	Three months ended July 31,		Six months ended July 31,	
		2012 \$	2011 \$	2012 \$	2011 \$
Marc Morin, Director, President & CEO	Management fees	3,000	3,000	6,000	6,000
Remstar Resources Ltd., a company with a common director and a common officer <sup>(3)</sup>	Office, rent and administration <sup>(1)</sup>	10,100	11,100	19,700	18,800
Ultra Lithium Inc., a company with common directors and officers	Rent <sup>(2)</sup>	3,900	3,900	7,800	7,800

<sup>(1)</sup> The Company entered into a month-to-month arrangement for the rental of office premises and the provision of accounting, financial reporting and administrative services with Remstar Resources Ltd., a public company related by a common director and common officers.

<sup>(2)</sup> The Company entered into a month-to-month arrangement for the rental of office premises with Ultra Lithium Inc., a public company related by a common director and common officers.

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- <sup>(3)</sup> Included in prepaid expenses is a rent deposit of \$1,500 (January 31, 2012 – \$1,500) paid to a company having a director and an officer in common.

## **Critical Accounting Estimates**

In the application of the Company's accounting policies which are described in Note 2 of the Company's annual financial statements as at and for the year ended January 31, 2012, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements relate to share based compensation and deferred tax assets.

## **Future Accounting Pronouncements**

The following IFRS standards issued by the IASB or the IFRIC are anticipated to be effective January 1, 2013. The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded herein.

- (a) IFRS 7, Financial Instruments: Disclosures and IAS 32, Financial Instruments: Presentation

The IASB has issued amendments to IFRS 7, Financial Instruments: Disclosures ("IFRS 7") and IAS 32, Financial Instruments: Presentation, requiring incremental disclosures and clarify an entity's ability to offset financial assets and financial liabilities. These amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and the amendments to IAS 32 are applicable for annual periods beginning on or after January 1, 2014. The Company does not expect the implementation to have a material impact on the Company's disclosures.

- (b) IFRS 9, Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company does not expect the implementation to have a significant impact on the Company's results of operations, financial position and disclosures.

- (c) IFRS 13, Fair value measurement

IFRS 13, Fair Value Measurement ("IFRS 13"), was issued by the IASB in May 2011, and is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 13 was issued to

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remedy the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurement in various current IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

(d) **IAS 1, Presentation of Items of Other Comprehensive Income**

The IASB has issued an amendment to IAS 1, Presentation of Financial Statements ("IAS 1"), which requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. This amendment is effective for annual periods beginning on or after July 1, 2012 and requires full retrospective application. The Company does not expect IAS 1 to have a material impact on the financial statements.

## **Financial Instruments and Other Instruments**

As at July 31, 2012, the Company's financial instruments consist of cash and cash equivalents, interest receivables and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values because of their short term nature and/or the existence of market related interest rates on the instruments. The Company has no financial instrument assets or liabilities recorded in the statements of financial position at fair value.

Cash and cash equivalents are held as cash deposits or investments in guaranteed investment certificates ("GICS") at banks within Canada. The GICs are immediately redeemable and their fixed terms do not exceed one year. The Company does not invest in asset-backed commercial paper and does not expect any credit losses.

## **Additional Information**

Additional information relating to Sparrow Ventures Corp. can be accessed under the Company's public filings found at [www.sedar.com](http://www.sedar.com).