

# **SPARROW VENTURES CORP.**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Three and six months ended July 31, 2013 and 2012

# SPARROW VENTURES CORP.

Management's Discussion & Analysis

Three and Six Months Ended July 31, 2013 and 2012

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Sparrow Ventures Corp. (the "Company") is a natural resource company 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, 2013 and is prepared as of September 12, 2013, 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, 2013 and 2012 and audited financial statements for the year ended January 31, 2013, 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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## Mineral Properties

### **The Nebocat and RIM Properties**

The Company entered into an option agreement dated May 26, 2010 with Full Metal Minerals Ltd. ("Full Metal") pursuant to which the Company may earn a 60-per-cent interest in the Properties by incurring aggregate exploration expenditures of \$3,000,000, making cash payments totaling \$150,000 and issuing 400,000 common shares of the Company to Full Metal over a period of four years. During the year ended January 31, 2011, the Company incurred acquisition costs of \$87,531 which consisted of \$25,000, 100,000 common shares of the Company at \$0.11 per share and professional and regulatory fees of \$51,531.

During the year ended January 31, 2012, the Company terminated its option agreement with Full Metal.

## Risk Factors

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties. Due to the nature of the Company's business and the present stage of exploration of its resource properties (which are primarily early stage exploration properties with no known resources or reserves that have not been explored by modern methods), the following risk factors, among others, will apply:

***Mining Industry is Intensely Competitive:*** The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

***Resource Exploration and Development is Generally a Speculative Business:*** Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. The great majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.

***Fluctuation of Metal Prices:*** Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any mineral deposit will be such that any of its mineral properties could be mined at a profit.

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***Permits and Licenses:*** The operations of the Company will require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Delays or a failure to obtain such licenses and permits or a failure to comply with the terms of any such licenses and permits that the Company does obtain could have a material adverse effect on the Company.

***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 or, possibly, the sale or optioning of a portion of its interest in its mineral properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings or through the sale or possible syndication of its properties, 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, 2013, the Company had working capital of \$60,213 as compared to working capital of \$113,523 as at January 31, 2013. 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 and exploration activities. 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.

***Uninsured or Uninsurable Risks:*** Exploration, development and mining operations involve various hazards, including environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structural cave-ins or slides, flooding, fires, metal losses and periodic interruptions due to inclement or hazardous weather conditions. These risks could result in damage to or destruction of mineral properties, facilities or other property, personal injury, environmental damage, delays in operations, increased cost of operations, monetary losses and possible legal liability. The Company may not be able to obtain insurance to cover these risks at economically feasible premiums or at all. The Company may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

***Government Regulation:*** Any exploration, development or mining operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In addition, the profitability of any mining prospect is affected by the market for precious and/or base metals which is influenced by many factors including changing production costs, the supply and demand for metals, the rate of inflation, the inventory of metal producing corporations, the political environment and changes in international investment patterns.

***Environmental Restrictions:*** The activities of the Company are subject to environmental regulations promulgated by government agencies in different countries from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into the air, discharges into water, management of waste,

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management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

***Dependence Upon Others and Key Personnel:*** The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability to design and carry out appropriate exploration programs on its mineral properties; (ii) the ability to produce minerals from any mineral deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the properties held by the Company. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company and its consultants and employees. There can be no assurance of success with any or all of these factors on which the Company's operations will depend, or that the Company will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities. This is especially true as the competition for qualified geological, technical and mining personnel and consultants is particularly intense in the current marketplace.

***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 it for further exploration and development of its projects or to fulfil its obligations under any applicable agreements. 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. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

***Insufficient Financial Resources:*** The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of all of its planned exploration and development programs. Future property acquisitions and the development of the Company's properties will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing,

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short or long-term borrowings or other means. There is no assurance that the Company will be successful in obtaining the required financing. Failure to raise the required funds could result in the Company losing, or being required to dispose of, its interest in its properties. In particular, failure by the Company to raise the funding necessary to maintain in good standing its various option agreements could result in the loss of its rights to such properties.

***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.

***Surface Rights and Access:*** Although the Company acquires the rights to some or all of the minerals in the ground subject to the tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights can be costly and time consuming. In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access; however, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdictions.

***Title:*** Although the Company has taken steps to verify the title to the mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

***Acquisition of Mineral Concessions under Agreements:*** The agreement pursuant to which the Company has the right to acquire a number of its properties provide that the Company must make a series of cash payments and/or share issuances over certain time periods, expend certain minimum amounts on the exploration of the properties or contribute its share of ongoing expenditures. The Company does not presently have the financial resources required to complete all expenditure obligations under its property acquisition agreement over their full term. Failure by the Company to make such payments, issue such shares or make such expenditures in a timely fashion may result in the Company losing its interest in such properties. There can be no assurance that the Company will have, or be able to obtain, the necessary financial resources to be able to maintain all of its property agreements in good standing, or to be able to comply with all of its obligations thereunder, with the result that the Company could forfeit its interest in one or more of its mineral properties.

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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	Finance Income	Income (Loss)	Earnings (Loss) per share
	\$	\$	\$
July 31, 2013	-	(27,651)	(0.002)
April 30, 2013	-	(25,922)	(0.002)
January 31, 2013	-	(31,735)	(0.002)
October 31, 2012	-	(28,556)	(0.002)
July 31, 2012	476	(28,833)	(0.002)
April 30, 2012	17,678	(26,018)	(0.002)
January 31, 2012	559	(37,032)	(0.003)
October 31, 2011	757	(32,126)	(0.002)

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. The grant of stock options can have a material effect on the quarterly results as it results in share-based compensation charges when they arise.

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, 2013 compared with the three months ended July 31, 2012

During the three months ended July 31, 2013, the Company reported a net loss of \$27,651 or \$0.002 per share as compared to a net loss of \$28,142 or \$0.002 per share during the same period in the prior fiscal year, representing a decrease in loss of \$491. The decrease in loss was primarily attributable to a decrease in operating expenses of \$967 offset by a decrease in interest income of \$476.

### Six months ended July 31, 2013 compared with the six months ended July 31, 2012

During the six months ended July 31, 2013, the Company reported a net loss of \$53,573 or \$0.004 per share as compared to a net loss of \$54,160 or \$0.004 per share during the same period in the prior fiscal year, representing a decrease in loss of \$587. The decrease in loss was primarily attributable to a decrease in operating expenses of \$18,741 offset by decreases in interest income of \$833 and other income of \$17,321.

During the six months period ended July 31, 2012, the Company paid consulting fees of \$10,000 related to identification of new properties. No such fees were incurred during the six months period ended July 31, 2013.

Interest and other income decreased by \$18,154 due mainly to a recovery of deposit net of expenses of \$17,321 related to a terminated business acquisition during the six months ended July 31, 2012.

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## **Liquidity and Capital Resources**

As at July 31, 2013, the Company reported working capital of \$60,213 as compared to working capital of \$113,523 as at January 31, 2013, representing a decrease in working capital of \$53,310. Cash on hand decreased by \$73,862 from \$124,184 at January 31, 2013 to \$50,322 at July 31, 2013. The decrease in cash resulted mainly from cash used for operations of \$73,862.

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 Data"); 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 needs to raise additional capital to fund its anticipated ongoing operations through the next twelve months. Although the Company has previously been successful in raising the funds required for its operations, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

## **Summary of Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares. As at September 12, 2013, there were 13,590,500 shares issued and outstanding.

The following stock options were outstanding as at September 12, 2013:

Number of shares	Exercise price per share	Expiry date	Exercisable
760,000	\$0.10	May 26, 2018	760,000
100,000	\$0.11	August 31, 2020	100,000
44,000	\$0.12	October 7, 2020	44,000
320,000	\$0.11	May 27, 2021	320,000
1,224,000			1,224,000

As at September 12, 2013, the Company has 105,000 outstanding charitable options exercisable at \$0.10 and expire on May 26, 2018.

## **Transaction with Related Parties**

During the six months ended July 31, 2013, 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.



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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,	
		2013 \$	2012 \$	2013 \$	2012 \$
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>	16,800	10,100	26,800	19,700
Ultra Lithium Inc., a company with common directors and officers	Rent <sup>(2)</sup>	1,500	3,900	6,000	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 a common officer. Of the fees paid to Remstar Resources Ltd., \$11,500 (2012 - \$7,200) was allocated to the services of the CFO of the Company.

<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 a common officer.

Included in prepaid expenses is a rent deposit of \$1,500 (January 31, 2013 - \$1,500) and a prepaid rent of \$7,350 (January 31, 2013 - \$Nil) paid to a company having a director and an officer in common.

Included in accounts payable and accrued liabilities was the amount of \$Nil (January 31, 2013 - \$275) paid to companies controlled by directors and an office of the Company.

## **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, 2013, 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.

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## **Recent Accounting Pronouncements**

The following IFRS standards have been recently issued by the IASB or the IFRIC. 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 amendment to IFRS 7, Financial Instruments: Disclosures ("IFRS 7") and IAS 32, Financial Instruments: Presentation ("IAS 32"), requiring incremental disclosures regarding transfers of financial assets and clarity of an entity's ability to offset financial assets and financial liabilities. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2013, and the amendments to IAS 32 are effective for annual periods beginning on or after July 1, 2014. The Company will apply the amendment at the beginning of its 2013 financial year. The Company does not expect the implementation to have a significant 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 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") is effective for annual periods beginning on or after January 1, 2013. 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. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. The Company does not expect the implementation to have a significant impact on the Company's results of operations, financial position, and disclosures.

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## (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 the amendment to have a material impact on the financial statements.

## (e) IAS 32: Financial Instruments

Presentation was amended to address inconsistencies in current practice when applying the offsetting criteria in IAS 32. Under this amendment, the meaning of "currently has a legally enforceable right of set-off" was clarified as well as providing clarification that some gross settlement systems may be considered equivalent to net settlement. This amendment is effective for annual periods beginning on or after January 1, 2014 and is not expected to have a significant impact on the Company.

## **Financial Instruments and Other Instruments**

### (a) Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, interest receivable 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. These estimates are subjective and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Cash and cash equivalents and interest receivable are classified as loans and receivables and are carried at their amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are carried at their amortized cost.

Financial instruments measured at fair value are classified into one of the 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 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 for the asset or liability that are not based on observable market data.

The Company has no financial instrument assets or liabilities recorded in the statements of financial position at fair value at July 31, 2013 and 2012.

### (b) Financial instruments risk

The Company is exposed in varying degrees to a variety of financial instrument related to risks. The Board approves and monitors the risk management processes:

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(i) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank, its short-term bank Guaranteed Investment Certificates ("GICs"), and interest receivable. Cash and cash equivalents consisting of GICs have been invested with Schedule 1 banks or equivalents, with its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

(ii) Liquidity risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at July 31, 2013, the Company had cash and cash equivalents of \$50,322 to settle current liabilities of \$624, which mainly consisted of accounts payable that were considered short term and settled within 30 days. The Company believes that it has sufficient capital to meet its requirements for the next twelve months.

(iii) 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.

The Company's cash attracts interest at floating rates and have maturities of 90 days or less. The Company's short-term investments are invested in GICs with greater than 90 day terms but not greater than one year. These GICs have a fixed interest rate for the term of the deposit. The interest on cash and GICs is typical of Canadian banking rates, which are low at present and the conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the financial statements.

## **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).