ARROWSTAR RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(Unaudited - Expressed in Canadian Dollars)

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NOTICE TO READER

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim condensed financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The condensed consolidated interim financial statements of the Company for the third quarter ended September 30, 2012 have been prepared by and are the responsibility of the Company's management.

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

ARROWSTAR RESOURCES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian Dollars)

	September 30, 2012	December 31, 2011
ASSETS		
Current		
Cash (Note 3)	$ 553,979	$ 1,654,511
Marketable securities (Note 4)	10,000	22,000
Receivables (Note 5)	14,560	22,948
Prepaid expenses	27,296	9,500
	605,835	1,708,959
Equipment (Note 6)	11,055	1,415
Exploration and evaluation advances (Note 7)	566,016	-
Exploration and evaluation assets (Note 7)	790,266	706,691
	$ 1,973,172	$ 2,417,065
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities (Note 8)	$ 88,572	$ 213,959
Shareholders' equity (deficiency)		
Share capital (Note 10)	18,586,646	18,188,654
Share compensation reserve (Note 10)	2,826,300	2,621,958
Deficit	(19,528,346)	(18,607,506)
	1,884,600	2,203,106
	$ 1,973,172	$ 2,417,065

Nature of operations and going concern (Note 1)

On behalf of the Board:

"Robert Card" Director *"Andrew Jarvis"* Director

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

ARROWSTAR RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited - Expressed in Canadian Dollars)

	Three Month Period Ended September 30, 2012	Three Month Period Ended September 30, 2011	Nine Month Period Ended September 30, 2012	Nine Month Period Ended September 30, 2011
EXPENSES				
Administration fees	$ 118,000	$ 15,000	$ 154,000	$ 33,000
Consulting fees	63,169	37,300	257,601	80,025
Depreciation	(89)	100	2,076	300
Foreign exchange loss/(gain)	(7)	-	(592)	-
Insurance	-	12,000	-	12,000
Interest	-	1,865	-	5,595
Investor relations	50,907	7,299	81,898	36,282
Office	4,762	57	14,133	4,912
Professional fees	22,485	68,857	95,547	102,336
Property investigation	-	10,637	3,561	13,203
Rent	14,262	3,415	31,547	6,867
Regulatory fees	5,942	12,789	27,080	31,018
Share-based compensation (Note 10)	91,761	-	204,342	168,965
Travel	16,277	2,625	45,831	7,962
Loss before other items	(387,469)	(171,944)	(917,024)	(502,465)
OTHER ITEMS				
Interest income	5,206	-	8,184	-
Unrealized loss on marketable securities (Note 4)	1,000	-	(12,000)	-
	6,206	-	(3,816)	-
Loss and comprehensive loss for the period	$ (381,263)	$ (171,944)	$ (920,840)	$ (502,465)
Earnings (loss) per common share				
-Basic and diluted	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding				
-Basic and diluted	66,901,369	46,534,774	64,462,981	42,890,538

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

ARROWSTAR RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian Dollars)

	Three Month Period Ended September 30, 2012	Three Month Period Ended September 30, 2011	Nine Month Period Ended September 30, 2012	Nine Month Period Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	$ (381,263)	$ (171,944)	$ (920,840)	$ (502,465)
Items not affecting cash:				
Depreciation	(89)	100	2,075	300
Share-based compensation	91,761	-	204,342	168,965
Unrealized (gain)/loss on marketable securities	(1,000)	-	12,000	-
Changes in non-cash working capital items:				
Increase in receivables	13,685	(10,791)	8,388	(18,542)
Increase in prepaid expenses	204	-	(17,796)	-
Decrease in accounts payable and accrued liabilities	13,789	(22,149)	(125,387)	(114,176)
Net cash provided by (used in) operating activities	(262,913)	(204,784)	(837,218)	(465,918)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from the issuance of shares	-	555,750	450,000	1,318,070
Share issue costs paid	(25,000)	-	(52,008)	-
Subscriptions received in advance	-	-	-	-
Net cash provided by financing activities	(25,000)	555,750	397,992	1,318,070
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of equipment	-	-	(11,715)	-
Increase in exploration and evaluation advances	(295,356)	(22,990)	(566,016)	(87,990)
Increase in exploration and evaluation assets	(12,420)	(92,032)	(83,575)	(110,497)
Net cash used in investing activities	(307,776)	(115,022)	(661,306)	(198,487)
Change in cash during the period	(595,689)	235,944	(1,100,532)	653,665
Cash, beginning of period	1,149,668	551,056	1,654,511	133,335
Cash, end of period	$ 553,979	$ 787,000	$ 553,979	$ 787,000
Cash paid during the period for:				
Income taxes	$ -	$ -	$ -	$ -
Interest	-	-	-	-

Supplemental disclosure with respect to cash flows (Note 11)

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

ARROWSTAR RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian Dollars)

	Common Shares								
	Number of Shares		Amount		Share compensation reserves		Deficit		Total
Balances as at December 31, 2010	39,081,367	$	16,769,445	$	2,433,478	$	(19,417,925)	$	(215,002)
Shares issued for:									
Cash	20,240,000		1,318,070		-		-		1,318,070
Mineral properties	300,000		28,500		-		-		28,500
Grant of stock options	-		-		168,965		-		168,965
Loss and comprehensive loss	-		-		-		(502,465)		(502,465)
Balances as at September 30, 2011	59,621,367		18,116,015		2,602,443		(19,920,390)		798,068
Balances as at December 31, 2011	60,621,369		18,188,654		2,621,958		(18,607,506)		2,203,106
Shares issued for:									
Cash	6,000,000		450,000		-		-		450,000
Share issue costs	280,000		21,000		-		-		21,000
Grant of stock options	-		-		204,342		-		204,342
Share issue costs			(73,008)		-		-		(73,008)
Loss and comprehensive loss	-		-		-		(920,840)		(920,840)
Balances as at September 30, 2012	66,901,369	$	18,586,646	$	2,826,300	$	(19,528,346)	$	1,884,600

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Arrowstar Resources Ltd. (the "Company") was incorporated on October 14, 1987 under the laws of British Columbia. The Company's head office and registered records office address is Suite 507 – 475 Howe Street, Vancouver, BC, V6C 2B3. The Company is listed on the TSX Venture exchange under the symbol AWS. To date, the Company has not earned operating revenue.

The Company is in the process of acquiring its exploration and evaluation assets and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These condensed consolidated interim financial statements ("financial statements") do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

As at September 30, 2012, the Company has working capital of $517,263 (December 31, 2011 – $1,495,000) and intends to raise funds through share issuances and support from creditors and related parties. If such funds are not available, the Company may cease operations. The Company estimates that it has sufficient working capital to continue operations for the next year.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared and presented in Canadian dollars in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements were authorized for issue by the Board of Directors on November 21, 2012.

Basis of presentation

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these financial statements are in accordance with IFRS and have not been audited.

The preparation of financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These financial statements do not include all of the information required for full annual financial statements. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The significant accounting policies for the quarter are consistent with those disclosed in the audited annual financial statements for the year ended December 31, 2011 except as specified below. The accompanying financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Basis of consolidation

The consolidated financial statements of the Company include the balances of its subsidiary Gulfside Alaska Inc. (USA) which is a wholly owned subsidiary incorporated in the state of Alaska, USA.

The Company consolidates the subsidiaries on the basis that it controls these subsidiaries through its ability to govern their financial and operating policies.

All intercompany transactions and balances are eliminated on consolidation.

New standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are not yet effective as of September 30, 2012 and have not been applied in preparing these financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

Financial instruments disclosure
In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its financial statements.

Income taxes
In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes* that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its financial statements.

Joint ventures
The IASB issued IFRS 11 – Joint Arrangements on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company is currently evaluating the impact that IFRS 11 is expected to have on its financial statements.

Financial instruments
IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

(Unaudited - Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards, amendments and interpretations not yet effective (cont'd…)

Fair-value measurement
IFRS 13, Fair Value Measurement: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

Consolidation
IFRS 10, Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

i. Requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
ii. Defines the principle of control, and establishes control as the basis for consolidation
iii. Sets out how to apply the principle of control to identify whether an investor controls and investee and therefore must consolidate the investee
iv. Sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidated – Special Purpose Entities.

Other entities
IFRS 12, Disclosure of Involvement with Other Entities requires the disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance, and cash flows.

Investments in Associates and Joint Ventures
IFRS 28, Investments in Associates and Joint Ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, and investee (associate or joint venture).

3. CASH

The Company's cash consists of the following:

	September 30, 2012	December 31, 2011
Cash held with banks	$ 553,400	$ 1,643,166
Cash held in foreign currencies	579	11,345
Total	$ 553,979	$ 1,654,511

(Unaudited - Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES

On November 8, 2011, the Company received 100,000 shares in Ocean Park Ventures Corp. as part of a property option agreement. The shares were valued at $45,000 on receipt and have been re-valued at September 30, 2012 to their fair market value of $10,000 (December 31, 2011 – $22,000).

5. RECEIVABLES

		September 30 2012		December 31, 2011
HST receivable	$	10,597	$	21,829
Other receivables		3,963		1,119
	$	14,560	$	22,948

The Company does not have any significant balances that are past due. All accounts receivable are current, and the Company does not have any allowance for doubtful accounts. Due to their short-term maturities, the fair value of accounts receivable approximates their carrying value.

6. EQUIPMENT

The equipment account is broken down as follows:

Office equipment		Cost		Depreciation		Net Book Value
As at December 31, 2010	$	3,915	$	(1,893)	$	2,022
Additions		-		(607)		607
Disposals		-		-		-
As at December 31, 2011	$	3,915	$	(2,500)	$	1,415
Additions		11,716		(2,076)		9,639
Disposals		-		-		-
As at September 30, 2012	$	15,631	$	(4,576)	$	11,055

7. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its properties are in good standing.

The Company has deposits with vendors related to exploration projects totaling $566,016 as at September 30, 2012 (December 31, 2011 - $nil).

(Unaudited - Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

September 30, 2012	Northern Treasure BC, Canada	Bryer BC, Canada	Harris Group BC, Canada	Port Snettisham AK, USA	Rannie Lake NL, Canada	Roberts Lake QC, Canada	Total
Acquisition costs							
Balance, December 31, 2011	$ 33,438	$ 16,172	$ -	$ 154,423	$ 139,849	$ 267,793	$ 611,675
Additions:							
Cash	-	-	20,000	-	-	-	20,000
Other	-	-	3,251	1,422	20,523	-	25,196
Shares	-	-	-	-	-	-	-
	-	-	23,251	1,422	20,523	-	45,196
Total acquisition costs	33,438	16,172	23,251	155,845	160,372	267,793	656,871
Exploration costs							
Balance, December 31, 2011	61,547	1,844	-	-	31,625	-	95,016
Additions:							
Assays	800	-	1,453	7,467	-	-	9,720
Geological reports	4,567	-	-	12,910	-	12,500	29,977
Geophysical	800	-	1,200	-	-	-	2,000
Field	-	-	700	-	-	-	700
Total exploration costs	6,167	-	3,353	20,377	-	12,500	42,397
Recovery	-	-	-	-	(4,018)	-	(4,018)
Balance, September 30, 2012	$ 101,152	$ 18,016	$ 26,604	$ 176,222	$ 187,979	$ 280,293	$ 790,266

(Unaudited - Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

December 31, 2011	Northern Treasure BC, Canada	Bryer BC, Canada	Golden Fleece BC, Canada	Argonaut BC, Canada	Port Snettisham AK, USA	Rannie Lake NL, Canada	Roberts Lake QC, Canada	Total
Acquisition costs								
Balance, December 31, 2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions:								
Cash	10,000	5,000	2,500	2,500	120,000	115,000	140,000	395,000
Other	5,438	672	-	-	34,423	24,849	37,793	103,175
Shares	18,000	10,500	-	-	-	-	90,000	118,500
	33,438	16,172	2,500	2,500	154,423	139,849	267,793	616,675
Total acquisition costs	33,438	16,172	2,500	2,500	154,423	139,849	267,793	616,675
Exploration costs								
Balance, December 31, 2010	-	-	-	-	-	-	-	-
Additions:								
Assays	1,544	1,844	1,465	-	-	-	-	4,853
Geological reports	-	-	-	-	-	31,625	-	31,625
Geophysical	47,971	-	1,952	-	-	-	-	49,923
Field	12,032	-	20,541	-	-	-	-	32,573
Total exploration costs	61,547	1,844	23,958	-	-	31,625	-	118,974
Recovery	-	-	(26,458)	(2,500)	-	-	-	(28,958)
Balance, December 31, 2011	$ 94,985	$ 18,016	$ -	$ -	$ 154,423	$ 171,474	$ 267,793	$ 706,691

7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Northern Treasure – British Columbia

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the Atlin Mining Division in British Columbia, Canada. In order to acquire the interest in the project, the Company must complete the following:

Cash payments aggregating $30,000 payable as follows:
- $10,000 (paid) on execution of the agreement;
- $10,000 payable on January 12, 2013; and
- $10,000 payable on January 12, 2014.

Incur $225,000 in exploration expenditures on the property as follows:
- $50,000 (incurred) within the first year of the agreement;
- $75,000 within the second year of the agreement; and
- $100,000 within the third year of the agreement.

Issue of 800,000 common shares of the Company as follows:
- 200,000 (issued at a value of $18,000) upon TSX Venture Exchange approval;
- 200,000 upon the completion of the minimum work commitments; and
- 400,000 upon the property being put into commercial production.

The vendor retains a 1% net smelter return royalty ("NSR") which the company may purchase for $1,000,000.

Bryer Group – British Columbia

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the Atlin Mining Division in British Columbia, Canada. In order to acquire the interest in the project, the Company must complete the following:

Cash payments aggregating $15,000 payable as follows:
- $5,000 (paid) on execution of the agreement; and
- $10,000 payable on March 12, 2013.

Incur $225,000 in exploration expenditures on the property as follows:
- $50,000 within the first year of the agreement;
- $75,000 within the second year of the agreement; and
- $100,000 within the third year of the agreement.

Issue of 700,000 common shares of the Company as follows:
- 100,000 (issued at a value of $10,500) upon TSX Venture Exchange approval;
- 200,000 upon the completion of the minimum work commitments; and
- 400,000 upon the property being put into commercial production.

The vendor retains a 1% NSR.

(Unaudited - Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Argonaut and Golden Fleece - British Columbia

During fiscal 2011, the Company acquired a 100% interest in certain claims located in the Atlin Mining Division of British Columbia.

The vendor retains a 1% NSR.

100% interest in the Argonaut and Golden Fleece properties were farmed-out for proceeds of $25,000 (received) and 300,000 common shares of Ocean Park, to be issued as follows:

- 100,000 on signing (received at a value of $45,000)
- 50,000 within year one of the agreement for Argonaut
- 50,000 within year one of the agreement for Golden Fleece
- 50,000 within year two of the agreement for Argonaut
- 50,000 within year two of the agreement for Golden Fleece

Port Snettisham – Alaska USA

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the State of Alaska, USA. In order to acquire the interest in the project, the Company must complete the following:

Make cash payments aggregating $270,000 payable as follows:

- $25,000 (paid) on execution of the agreement;
- $95,000 (paid) within seven days of TSX approval; and
- $150,000 on August 18, 2014.

Incur exploration expenditures aggregating $3,300,000 and make additional cash payments aggregating $3,650,000 in order to maintain the option and earn an interest in the property as follows:

Year of term and expenditure date	Minimum property expenditures	Cash payments	Total deemed interest earned (%)
On or before October 31, 2012	$ 100,000	$ -	0
On or before October 31, 2013	200,000	-	0
On or before October 31, 2014	1,000,000	-	51
On or before October 31, 2016	-	500,000	51
On or before October 31, 2018	2,000,000	-	75
On or before October 31, 2018	-	3,000,000	100

The vendor retains a 2.5% NSR and at any time prior to the earlier of October 31, 2018 and on the first anniversary date upon which commercial production commences on the property, the Company may elect to reduce the NSR to 1.5% by paying the sum of $1,500,000.

Rannie Lake – Newfoundland

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in Newfoundland, Canada. In order to acquire the interest in the project, the Company must complete the following:

(Unaudited - Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Rannie Lake – Newfoundland (cont'd…)

Make cash payments aggregating $265,000 payable as follows:

- $25,000 (paid) on execution of the agreement;
- $90,000 (paid) payable within seven days of TSX approval; and
- $150,000 on August 18, 2014.

Incur exploration expenditures aggregating $2,700,000 and additional cash payments aggregating $3,400,000 in order to maintain the option and earn an interest in the property as follows;

Year of term and expenditure date	Minimum property expenditures	Cash payments	Total deemed interest earned (%)
On or before October 31, 2012	$ 100,000	$ -	0
On or before October 31, 2013	200,000	-	0
On or before October 31, 2014	400,000	-	51
On or before October 31, 2016	-	250,000	51
On or before October 31, 2018	2,000,000	-	75
On or before October 31, 2018	-	3,000,000	100

The vendor retains a 2.5% NSR and at any time prior to the earlier of October 31, 2018 and on the first anniversary date upon which commercial production commences on the property, the Company may elect to reduce the NSR to 1.5% by paying the sum of $1,500,000.

Roberts Lake – Quebec

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in Quebec, Canada. In order to acquire the interest in the project, the Company must complete the following:

Make cash payments aggregating $290,000 payable as follows:

- $25,000(paid) in trust on execution of the agreement;
- $115,000 (paid) within seven days of TSX approval; and
- $150,000 on August 18, 2014.

Issue 1,000,000 (issued at a value of $90,000) common shares of the Company within seven days of TSX approval.

Incur exploration expenditures aggregating $2,900,000 and additional cash payments aggregating $3,400,000 in order to maintain the option and earn an interest in the property as follows:

Year of term and expenditure date	Minimum property expenditures (CDN$)	Cash payments (CDN$)	Total deemed interest earned (%)
On or before October 31, 2012	$ 150,000	$ -	0
On or before October 31, 2013	250,000	-	0
On or before October 31, 2014	500,000	-	51
On or before October 31, 2016	-	250,000	51
On or before October 31, 2018	2,000,000	-	75
On or before October 31, 2018	-	3,000,000	100

(Unaudited - Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Roberts Lake – Quebec (cont'd…)

The vendor retains a 2% NSR and at any time prior to the earlier of October 31, 2018 and on the first anniversary date upon which commercial production commences on the property, the Company may elect to reduce the NSR to 1.0% by paying the sum of $1,500,000.

Harris Group – British Columbia

During fiscal 2012, the Company entered into an option agreement to acquire 100% of certain claims located in British Columbia, Canada. In order to acquire the interest in the project, the Company must complete the following:

Cash payments aggregating $100,000 payable as follows:
- $20,000 (paid) on execution of the agreement;
- $15,000 payable on October 31, 2012;
- $20,000 on February 12, 2014;
- $20,000 on February 12, 2015; and
- $25,000 on February 12, 2016.

Incur $225,000 in exploration expenditures on the property as follows:
- $50,000 during the first year of the agreement;
- $75,000 during the second year of the agreement; and
- $100,000 during the third year of the agreement.

Issue of 800,000 common shares of the Company
- 200,000 upon the decision to continue after TSX Venture exchange approval but no later than November 30, 2012 – TSX approval was received March 3, 2012;
- 200,000 upon the completion of the minimum work commitments; and
- 400,000 upon the property being put into commercial production.

The vendor retains a 2% NSR which can be reduced to 1% for $1,000,000 and to 0% for an additional $2,000,000.

During the year ended December 31, 2011, the Company has renounced $417,769 of exploration expenditures of which $289,275 remains unspent at September 30, 2012.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Due within the year		September 30 2012		December 31, 2011
Trade payables	$	64,572	$	173,959
Accrued liabilities		24,000		40,000
	$	88,572	$	213,959

(Unaudited - Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) paid or accrued administration fees of $154,000 (2011 - $33,000) to a company controlled by a director.

b) paid or accrued consulting fees of $55,500 (2011 - $17,500) to a company controlled by an officer and directors.

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

Key management personnel compensation for the nine months ended September 30 was:

	2012	2011
Short-term benefits	$ 209,500	$ 50,500
Share-based compensation	85,497	81,816
Total remuneration	$ 257,795	$ 132,316

10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE

Authorized – Unlimited common shares without par value

Please refer to the Statement of Changes in Equity for a summary of changes in share capital and reserves for the periods ended September 30, 2012 and 2011.

During firscal 2012 the Company:
- completed a non-brokered private placement for gross proceeds of $450,000 by issuing 6,000,000 units. A finder's fee of 280,000 units was issued as part of the private placement. Each unit consists of one common share and one share purchase warrant exercisable at a price of $0.15 for a period of two years.
-

During fiscal 2011 the Company:
- issued 1,300,000 shares valued at $118,500 pursuant to an exploration and evaluation asset agreement (Note 8).
- completed a non-brokered private placement and issued 3,100,000 flow through units and 5,140,000 non-flow-through units a price of $0.10 per unit, for gross proceeds of $824,000. Each flow through unit consisted of one common share and one half share purchase warrant exercisable at a price of $0.15 per share expiring on April 13, 2012. Each non-flow through unit consisted of one common share and one whole share purchase warrant, exercisable at a price of $0.15 per share expiring on April 13, 2012.
- completed a non-brokered private placement and issued 2,200,000 flow through units and 9,800,000 non-flow-through units a price of $0.05 per unit, for gross proceeds of $600,000. Each flow through unit consisted of one common share and one whole share purchase warrant exercisable at a price of $0.15 per share expiring on September 30, 2013. Each non-flow through unit consisted of one common share and one whole share purchase warrant, exercisable at a price of $0.15 per share expiring on September 30, 2013.

Stock options

The Company has a stock option plan in place under which it is authorized to grant options to directors, senior officers, employees, management company employees, and consultants to acquire up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of five years. Vesting is determined by the Board of Directors.

(Unaudited - Expressed in Canadian Dollars)

10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd…)

As at September 30, 2012, the Company had stock options outstanding enabling the holder to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date	Weighted Average Life Remaining
20,000	0.57	November 16, 2014	2.13
95,000	0.10	November 16, 2014	2.13
2,000,000	0.10	February 17, 2016	3.38
3,485,000	0.10	January 3, 2017	4.26
910,000	0.10	September 26, 2017	4.99
200,000	0.10	September 26, 2017	4.99
6,710,000			4.08

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
As at December 31, 2011	3,050,000	$	0.49
Options granted	2,200,000		0.10
Options cancelled	(2,673,333)		0.31
As at December 31, 2012	2,576,667	$	0.35
Options granted	4,595,000		0.10
Options cancelled/expired	(461,667)		0.96
As at September 30, 2012	6,710,000	$	0.10
Number of options currently exercisable	6,560,000	$	0.10

During the period ended September 30, 2012, the Company granted 4,595,000 (December 31, 2011 – 2,200,000) stock options with a fair value of $218,462 (December 31, 2011 - $202,222) or $0.05 (December 31, 2011 - $0.09) per option, calculated using the Black-Scholes option pricing model. With the exception of 200,000 options granted during the period ended September 30, 2012 and 200,000 options granted during the year ended December 31, 2011 to investor relation consultants which vest 25% three months after grant and a further 25% every three months thereafter, the stock options all vested at the time of granting.

(Unaudited - Expressed in Canadian Dollars)

10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd…)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the period ended September 30:

	2012	2011
Risk-free interest rate	1.29%	2.77%
Expected life of options	4.40	5.00
Annualized volatility	170%	119%
Dividend rate	-	-

Warrants

As at September 30, 2012, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
12,000,000	$0.15	September 30, 2013
6,280,000	0.15	April 16, 2014
18,280,000		

Warrant transactions are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
As at December 31, 2010	2,857,143	$	0.15
Warrants issued	18,690,000		0.15
Warrants expired	(2,857,143)		0.15
As at December 31, 2011	18,690,000	$	0.15
Warrants issued	6,280,000		0.15
Warrants expired	(6,690,000)		-
As at September 30, 2012	18,280,000	$	0.15
Number of warrants currently exercisable	18,280,000	$	0.15

The options and warrants were not "in the money" during fiscal 2011 and therefore, had no effect on diluted earnings per share for the year ended December 31, 2011 or the period ended September 30, 2012.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the nine month periods ended September 30, 2012 consisted of:

- the issuance of 280,000 units, valued at $21,000, for finders' fees on a private placement, and

There were no significant non-cash transactions during the three month periods ended September 30, 2012 and 2011.

The significant non-cash transactions during the nine month period ended September 30, 2011 consisted of the issuance of 200,000 common shares at a value of $28,500 pursuant to mineral property acquisitions.

12. RECOVERY FROM PROPERTY SETTLEMENT

During fiscal 2007, the Company acquired an option, subsequently amended, for the acquisition of up to a 49% interest in a company that held a coal license located in Mongolia, referred to as the Erdenetsogt project.

During fiscal 2008, the Company initiated civil proceedings against the vendor of the Erdenetsogt property, alleging that the vendor did not comply with the terms of the purchase agreement by selling 100% of the company holding title to the property to another party (the "Acquiring Party"). Additionally, the Company initiated arbitration proceedings against the Acquiring Party alleging violation of the Company's agreement to acquire a 49% interest in the company holding title to the property.

During fiscal 2009, the Company won its civil proceedings and received shares representing 5% of ECM LLC ("ECM") the Mongolian company which owns the exploration License to the Erdenetsogt coal project ("Erdenetsogt"). The Company filed a writ, in Mongolia, seeking to rescind the transfer of shares of ECM to the Acquiring Party. The Company contended as the holder of a 5% interest in ECM it held the right of first refusal on any offer of sale, and that the vendor breached this right. Under the writ, the Company was seeking to have 95% of ECM currently held by the Acquiring Party returned to Mongolia and offered to the Company.

During fiscal 2010, the Company signed a SPA with Mangreat Group Ltd. ("Mangreat"), the majority owner of ECM providing for the sale of the Company's 5% interest in ECM. Under the terms of the settlement, the Company received US$500,000 in fiscal 2010 and received US$1,500,000 in fiscal 2011. The Company transferred its 5% interest in ECM and has terminated its litigation in Mongolia. If the property is sold or joint ventured to a third party for a value greater than US$40,000,000 the Company will receive an additional US$1,000,000. Under the SPA the parties have also agreed to abandon all litigation over the property and the license.

The Company incurred costs during fiscal 2011 of $4,729 (2010 - $5,094) in connection with the litigation and all such costs have been expensed.

(Unaudited - Expressed in Canadian Dollars)

13. SEGMENTED INFORMATION

As at September 30, 2012, the Company has operating segments in both Canada and USA:

		June 30 2012		December 31 2011
Equipment				
Canada	$	11,055	$	1,415
USA		-		-
		11,055		1,415
Exploration and evaluation assets				
Canada	$	614,044	$	552,268
USA		176,222		154,423
		790,266		706,691

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash and marketable securities are measured at Level 1 of the fair value hierarchy. The carrying value of receivables, accounts payable and accrued liabilities and note payable approximate their fair value because of the short-term nature of these instruments.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk
Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote and has deposited cash in high credit quality financial institutions, as well as in a lawyers trust accounts in Mongolia.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of September 30, 2012 the Company had cash balance of $553,979 (December 31, 2011 - 1,654,511) to settle current liabilities of $88,572 (December 31, 2011 - $213,959). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Amounts exposed to market risk include marketable securities of $10,000 (December 31, 2011 - $22,000).

Interest rate risk
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term investments issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk
The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars. Amounts exposed to foreign currency risk include cash of US$579 as of September 30, 2012 (December 31, 2011 - US$11,155).

Price risk
The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's profit or loss due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

15. CAPITAL MANAGEMENT

The Company defines capital that it manages as shareholders' equity, consisting of issued common shares, stock options and warrants.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions.