

**ARROWSTAR RESOURCES LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**MARCH 31, 2013**

(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 first quarter ended March 31, 2013 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 consolidated interim 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.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited – Expressed in Canadian Dollars)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
<b>Current</b>		
Cash (Note 3)	\$ 144,650	\$ 297,332
Marketable securities (Note 4)	3,000	5,000
Receivables (Note 5)	7,915	37,925
Prepaid expenses	<u>11,473</u>	<u>14,500</u>
	167,038	354,757
<b>Equipment</b> (Note 6)	9,722	10,510
<b>Exploration and evaluation advances</b> (Note 7)	4,000	15,721
<b>Exploration and evaluation assets</b> (Note 7)	<u>546,865</u>	<u>519,548</u>
	<u>\$ 727,625</u>	<u>\$ 900,536</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 164,542</u>	<u>\$ 178,390</u>
<b>Shareholders' equity</b>		
Share capital (Note 10)	18,492,446	18,492,446
Reserve (Note 10)	2,984,448	2,965,996
Deficit	<u>(20,913,811)</u>	<u>(20,736,296)</u>
	<u>563,083</u>	<u>722,146</u>
	<u>\$ 727,625</u>	<u>\$ 900,536</u>

**Nature of operations and going concern** (Note 1)  
**Subsequent events** (Note 17)

**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)**

FOR THE THREE MONTH PERIODS ENDED MARCH 31

(Unaudited – Expressed in Canadian Dollars)

	2013	2012
<b>EXPENSES</b>		
Administration fees	\$ 18,000	\$ 18,000
Consulting fees	48,000	113,932
Depreciation	788	106
Foreign exchange loss	(231)	-
Insurance	3,027	-
Investor relations	17,662	12,405
Office	7,156	2,799
Professional fees	4,500	26,900
Property investigation	-	3,561
Rent	15,946	6,679
Regulatory fees	6,445	11,300
Share-based compensation (Note 10)	18,452	112,581
Travel	770	18,543
	<u>(140,515)</u>	<u>(326,806)</u>
Interest income	-	1,700
Unrealized loss on marketable securities (Note 4)	(2,000)	(2,000)
Write-off of exploration and evaluation assets (Note 7)	<u>(35,000)</u>	<u>(3,500)</u>
	<u>(37,000)</u>	<u>(1,800)</u>
<b>Income (loss) and comprehensive income (loss) for the year</b>	<b>\$ (177,515)</b>	<b>\$ (328,606)</b>
<b>Earnings (loss) per common share</b>		
-Basic and diluted	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>		
-Basic and diluted	66,901,369	60,621,369

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

**ARROWSTAR RESOURCES LTD.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTH PERIODS ENDED MARCH 31**  
(Unaudited – Expressed in Canadian Dollars)

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income/(loss) for the year	\$ (177,515)	\$ (328,606)
Items not affecting cash:		
Depreciation	788	106
Share-based compensation	18,452	112,581
Unrealized loss on marketable securities	2,000	3,500
Write-off exploration and evaluation assets	35,000	-
Changes in non-cash working capital items:		
Increase in receivables	30,010	3,272
Increase in prepaid expenses	3,027	(845)
Decrease in accounts payable and accrued liabilities	(13,848)	(60,804)
Net cash provided by (used in) operating activities	(102,086)	(270,796)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Subscriptions received in advance	-	390,000
Net cash provided by financing activities	-	390,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation advances	11,721	-
Exploration and evaluation assets	(62,317)	(28,572)
Net cash used in investing activities	(50,596)	(28,572)
<b>Change in cash during the period</b>	(152,682)	90,632
<b>Cash, beginning of period</b>	297,332	1,654,511
<b>Cash, end of period</b>	\$ 144,650	\$ 1,745,143
<b>Cash paid during the year for:</b>		
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  
FOR THE THREE MONTH PERIODS ENDED MARCH 31  
(Unaudited – Expressed in Canadian Dollars)

	Common Shares		Reserves		Subscriptions received in	Deficit	Total
	Number of Shares	Amount	Share compensation	Warrants			
Balances as at December 31, 2011	60,621,369	\$ 18,188,654	\$ 2,621,958	\$ -	\$ -	\$ (18,607,506)	\$ 2,203,106
Subscriptions received in advance	-	-	-	-	390,000	-	390,000
Grant of stock options	-	-	112,581	-	-	-	112,581
Net income	-	-	-	-	-	(328,606)	2,203,106
<b>Balances as at March 31, 2012</b>	<b>60,621,369</b>	<b>18,188,654</b>	<b>2,734,539</b>	<b>-</b>	<b>390,000</b>	<b>(18,936,112)</b>	<b>4,908,793</b>
Balances as at December 31, 2012	66,901,369	\$ 18,492,446	\$ 2,871,796	\$ 94,200	\$ -	\$ (20,736,296)	\$ 722,146
Vesting of stock options	-	-	18,452	-	-	-	18,452
Loss and comprehensive loss	-	-	-	-	-	(177,515)	(177,515)
<b>Balances as at March 31, 2013</b>	<b>66,901,369</b>	<b>\$ 18,492,446</b>	<b>\$ 2,890,248</b>	<b>\$ 94,200</b>	<b>\$ -</b>	<b>\$ (20,913,811)</b>	<b>\$ 563,083</b>

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

**ARROWSTAR RESOURCES LTD.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2013

(Unaudited – Expressed in Canadian Dollars)

**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 address is Suite 507 – 475 Howe Street, Vancouver, BC, V6C 2B3. The Company is listed on the TSX Venture exchange (“TSX-V”) 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.

As at March 31, 2013, the Company has working capital of \$2,496 (December 31, 2012 – \$176,367) and an accumulated deficit of \$20,913,811 (December 31, 2012 - \$20,736,296). The Company expects to incur further losses in the development of its business. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. The Company’s ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These condensed consolidated interim 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.

**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 May 23, 2013.

**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, 2012 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, 2012.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2013

(Unaudited – Expressed in Canadian Dollars)

**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 subsidiary on the basis that it controls the subsidiary through its ability to govern its financial and operating policies.

All intercompany transactions and balances are eliminated on consolidation.

**New standards, amendments and interpretations not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective as of March 31, 2013 and have not been applied in preparing these consolidated financial statements.

*Financial instruments*

IFRS 9 - Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2015, 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 consolidated financial statements for the period beginning January 1, 2015, and has not yet considered the potential impact of the adoption of IFRS 9.

*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 April 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

**3. CASH**

The Company's cash consists of the following:

	March 31, 2013	December 31, 2012
Cash held with banks	\$ 144,244	\$ 296,771
Cash held in foreign currencies	406	561
<b>Total</b>	<b>\$ 144,650</b>	<b>\$ 297,332</b>

**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 March 31, 2013 to their fair market value of \$3,000 (December 31, 2012 – \$5,000).



**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited – Expressed in Canadian Dollars)

**5. RECEIVABLES**

	March 31, 2013	December 31, 2012
HST receivable	\$ 7,915	\$ 37,925
Other receivables	-	-
	\$ 7,915	\$ 37,925

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, 2011	\$ 3,915	\$ (2,500)	\$ 2,022
Additions	11,715	(2,620)	607
Disposals	-	-	-
As at December 31, 2012	\$ 15,630	\$ (5,120)	\$ 10,510
Additions	-	(788)	(788)
Disposals	-	-	-
<b>As at March 31, 2013</b>	<b>\$ 15,630</b>	<b>\$ (5,908)</b>	<b>\$ 9,722</b>

**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 \$4,000 as at March 31, 2013 (December 31, 2012 - \$15,721).

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited – Expressed in Canadian Dollars)

**7. EXPLORATION AND EVALUATION ASSETS (cont'd...)****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 (incurred)	\$-	0
On or before October 31, 2013	200,000 (incurred)	-	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.

**Argonaut and Golden Fleece - British Columbia**

During fiscal 2012, the optionee for Argonaut and Golden Fleece informed the Company that it would not be exercising its option on the properties. As a result, all related claims were forfeited subsequent to year end and the Company retains no exploration and evaluation asset for the projects.

**Bryer Group – British Columbia**

During fiscal 2012, all related exploration and evaluation assets for the Bryer Group of properties in the amount of \$18,016 have been written-off.

**Harris Group – British Columbia**

During fiscal 2012, all related exploration and evaluation assets for the Harris Group of properties in the amount of \$79,188 have been written-off.

**Northern Treasure – British Columbia**

During fiscal 2012, all related exploration and evaluation assets for the Northern Treasure property in the amount of \$101,152 have been written-off.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2013

(Unaudited – Expressed in Canadian Dollars)

**7. EXPLORATION AND EVALUATION ASSETS (cont'd...)****Rannie Lake – Newfoundland**

During fiscal 2012, all related exploration and evaluation assets for the Rannie Lake property in the amount of \$220,249 have been written-off.

**Roberts Lake – Quebec**

During fiscal 2013, the Company made a final payment of \$35,000 to the property vendor in order to meet its obligation to return the property in good standing. The amount paid recorded was recorded in the company's loss for the period.

During fiscal 2012, all related exploration and evaluation assets for the Roberts Lake property in the amount of \$480,984 have been written-off.

March 31, 2012	Port Snettisham AK, USA	Roberts Lake BC, Canada	Total
<b>Acquisition costs</b>			
Balance, December 31, 2012	\$ 155,844	\$ -	\$ 155,844
Additions			
Cash	-	35,000	35,000
Annual acquisition costs	\$ -	\$ 35,000	\$ 35,000
Total acquisition costs	\$ 155,844	\$ 35,000	\$ 190,844
<b>Exploration costs</b>			
Balance, December 31, 2012	\$ 363,704	\$ -	\$ 363,704
Additions			
Assays	4,538	-	4,538
Geological reports	6,303	-	6,303
Mapping	4,533	-	4,533
Field	11,943	-	11,943
Annual exploration costs	\$ 27,317	\$ -	\$ 27,317
Total exploration costs	\$ 391,021	\$ -	\$ 391,021
Write-off	\$ -	\$ (35,000)	\$ (35,000)
Balance, March 31, 2013	\$ 546,865	\$ -	\$ 546,865



**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2013

(Unaudited – Expressed in Canadian Dollars)

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2013	December 31, 2012
Due within the year		
Trade payables	\$ 160,042	\$ 153,390
Accrued liabilities	4,500	25,000
	\$ 164,542	\$ 178,390

**9. RELATED PARTY TRANSACTIONS**

Key management personnel compensation for the period ended March 31 was as follows:

	2013	2012
Short-term benefits paid or accrued:		
Administration fees	\$ 18,000	\$ 18,000
Consulting fees	13,500	13,500
Deferred exploration costs	-	-
Property investigation	-	-
	\$ 31,500	\$ 31,500
Share-based compensation	15,925	48,295
<b>Total remuneration</b>	\$ 47,425	\$ 76,795

Accounts payable and accrued liabilities as at March 31, 2013 included \$79,153 (December 31, 2012 - \$79,153) owed to a director and companies controlled by a director or officer.

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.

**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 March 31, 2013 and 2012.

During the three month periods ended March 31, 2013 and 2012, there were no share capital transactions.

**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.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2013

(Unaudited – Expressed in Canadian Dollars)

**10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd...)****Stock options (cont'd...)**

As at March 31, 2013, 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
100,000	0.10	June 13, 2013	0.20
75,000	0.10	November 16, 2014	1.63
1,550,000	0.10	February 17, 2016	2.88
2,960,000	0.10	January 3, 2017	3.76
<u>1,060,000</u>	0.10	September 26, 2017	<u>4.49</u>
5,745,000			3.57

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2011	2,576,667	\$ 0.35
Options granted	4,595,000	0.10
Options cancelled	<u>(481,667)</u>	<u>1.36</u>
As at December 31, 2012	6,690,000	\$ 0.11
Options granted	-	-
Options cancelled/expired	<u>(395,000)</u>	<u>0.11</u>
As at March 31, 2013	6,295,000	\$ 0.11
Number of options currently exercisable	5,595,000	\$ 0.11

During the period ended March 31, 2013, 350,000 options vested. \$18,452 of share-based compensation or \$0.05 per option, was recognized as calculated using the Black-Scholes option pricing model.

During the period ended March 31, 2012, the Company granted 3,670,000 stock options with a fair value of \$112,581 or \$0.03 per option, calculated using the Black-Scholes option pricing model.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2013

(Unaudited – Expressed in Canadian Dollars)

**10. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd...)****Stock options (cont'd...)**

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the periods ended March 31:

	2013	2012
Risk-free interest rate	NA	1.31%
Expected life of options	NA	5.00
Annualized volatility	NA	158%
Dividend rate	NA	-

**Warrants**

As at March 31, 2013, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date	Weighted Average Life Remaining
12,000,000	\$0.15	September 30, 2013	0.75
<u>6,280,000</u>	0.15	April 16, 2014	1.29
18,280,000			

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2011	18,690,000	\$ 0.15
Warrants issued	6,280,000	0.15
Warrants expired	<u>(6,690,000)</u>	-
As at December 31, 2012 and March 31, 2013	18,280,000	\$ 0.15

The options and warrants were not dilutive as at March 31, 2013 and December 31, 2012 and therefore, had no effect on diluted earnings per share for the period ended March 31, 2013 and the year ended December 31, 2012.

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

There were no significant non-cash transactions during the period ended March 31, 2013.

Significant non-cash transactions during the year ended December 31, 2012 consist of the following:

- of the issuance of 280,000 units, valued at \$21,000, for finders' fees on a private placement; and
- the accrual of \$47,270 of exploration and evaluation assets in accounts payable and accrued liabilities.

**ARROWSTAR RESOURCES LTD.**  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
MARCH 31, 2013  
(Unaudited – Expressed in Canadian Dollars)

**12. SEGMENTED INFORMATION**

The Company has operating segments in both Canada and USA:

	March 31 2013	December 31 2012
Equipment		
Canada	\$ 9,722	\$ 10,510
USA	-	-
	\$ 9,722	\$ 10,510
Exploration and evaluation assets		
Canada	\$ -	\$ -
USA	546,865	519,548
	\$ 546,865	\$ 519,548

**13. 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.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The fair value of cash and marketable securities are measured at Level 1 of the fair value hierarchy. The carrying value of receivables, and accounts payable and accrued liabilities 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.



**ARROWSTAR RESOURCES LTD.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2013

(Unaudited – Expressed in Canadian Dollars)

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**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

*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 March 31, 2013 the Company had cash balance of \$144,650 (December 31, 2012 - \$297,332) to settle current liabilities of \$165,542 (December 31, 2012 - \$178,390). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

*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 \$3,000 (December 31, 2012 - \$5,000).

*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 demand 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\$406 as of (December 31, 2012 – US\$561).

*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.

**14. 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 property in which the Company currently has an interest is 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.

**15. SUBSEQUENT EVENTS**

Subsequent to the period ended March 31, 2012, 550,000 share purchase options, exercisable at a price of \$0.10, expired. This included options whose expiry date was modified subsequent to year end for a director who resigned.