

ARROWSTAR RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

JUNE 30, 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 second quarter ended June 30, 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)

	June 30, 2013	December 31, 2012
ASSETS		
Current		
Cash (Note 3)	\$ 35,056	\$ 297,332
Marketable securities (Note 4)	1,000	5,000
Receivables (Note 5)	6,841	37,925
Prepaid expenses	<u>15,981</u>	<u>14,500</u>
	58,878	354,757
Equipment (Note 6)	8,934	10,510
Exploration and evaluation advances (Note 7)	4,000	15,721
Exploration and evaluation assets (Note 7)	<u>574,432</u>	<u>519,548</u>
	\$ 646,244	\$ 900,536

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 220,368</u>	<u>\$ 178,390</u>
Shareholders' equity		
Share capital (Note 10)	18,492,446	18,492,446
Reserve (Note 10)	2,985,786	2,965,996
Deficit	<u>(21,052,356)</u>	<u>(20,736,296)</u>
	<u>425,876</u>	<u>722,146</u>
	\$ 646,244	\$ 900,536

Nature of operations and going concern (Note 1)

On behalf of the Board:

"Robert Card" Director *"Brian Ashton"* Director

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

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
EXPENSES				
Administration fees	\$ 18,000	\$ 18,000	\$ 36,000	\$ 36,000
Consulting fees	40,500	80,500	88,500	194,432
Depreciation	788	2,058	1,576	2,165
Foreign exchange loss	249	(585)	18	(585)
Insurance	2,992	-	6,019	-
Investor relations	23,012	18,586	40,674	30,991
Office	4,099	6,573	11,255	9,371
Professional fees	6,038	46,162	10,538	73,062
Property investigation	-	-	-	3,561
Rent	16,858	10,606	32,804	17,285
Regulatory fees	6,981	9,838	13,426	21,138
Share-based compensation (Note 10)	1,338	-	19,790	112,581
Travel	15,690	11,011	16,460	29,554
	<u>(136,545)</u>	<u>(202,749)</u>	<u>(277,060)</u>	<u>(529,556)</u>
Interest income	-	1,278	-	2,978
Unrealized loss on marketable securities (Note 4)	(2,000)	(9,500)	(4,000)	(13,000)
Write-off of exploration and evaluation assets (Note 7)	-	-	(35,000)	-
	<u>(2,000)</u>	<u>(8,222)</u>	<u>(39,000)</u>	<u>(10,022)</u>
Loss and comprehensive loss for the period	\$ (138,545)	\$ (210,971)	\$ (316,060)	\$ (539,577)
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	65,854,702	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 SIX MONTH PERIODS ENDED JUNE 30
(Unaudited – Expressed in Canadian Dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss) for the period	\$ (316,060)	\$ (539,577)
Items not affecting cash:		
Depreciation	1,576	2,164
Share-based compensation	19,790	112,581
Unrealized loss on marketable securities	4,000	13,000
Write-off exploration and evaluation assets	35,000	-
Changes in non-cash working capital items:		
Increase/(decrease) in receivables	31,084	(5,297)
Increase in prepaid expenses	(1,481)	(18,000)
Decrease/(increase) in accounts payable and accrued liabilities	41,978	(139,176)
	<u>(184,113)</u>	<u>(574,305)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of shares	-	450,000
Subscriptions received in advance	-	(27,008)
	<u>-</u>	<u>422,992</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	-	(11,715)
Exploration and evaluation advances	11,721	(270,660)
Exploration and evaluation assets	(89,884)	(71,155)
	<u>(78,163)</u>	<u>(353,530)</u>
Change in cash during the period	(262,276)	(508,843)
Cash, beginning of period	297,332	1,654,511
Cash, end of period	\$ 35,056	1,149,668
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
FOR THE SIX MONTH PERIODS ENDED JUNE 30
(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
Shares issued for:							
Cash	6,000,000	450,000	-	-	-	-	450,000
Share issue costs	280,000	21,000	-	-	-	-	21,000
Share issue costs	-	(48,008)	-	-	-	-	(48,008)
Grant of stock options	-	-	112,581	-	-	-	112,581
Net income	-	-	-	-	-	(539,577)	2,203,106
Balances as at June 30, 2012	66,901,369	18,611,646	2,734,539	-	-	(19,147,083)	4,941,785
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	-	-	19,790	-	-	-	19,790
Loss and comprehensive loss	-	-	-	-	-	(316,060)	(316,060)
Balances as at June 30, 2013	66,901,369	\$ 18,492,446	\$ 2,891,586	\$ 94,200	\$ -	\$ (21,052,356)	\$ 425,876

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**

JUNE 30, 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 June 30, 2013, the Company has a working capital deficit of \$161,490 (December 31, 2012 – surplus of \$176,367) and an accumulated deficit of \$21,052,356 (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 August 27, 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**

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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 June 30, 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:

	June 30, 2013	December 31, 2012
Cash held with banks	\$ 31,218	\$ 296,771
Cash held in foreign currencies	3,838	561
Total	\$ 35,056	\$ 297,332

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 June 30, 2013 to their fair market value of \$1,000 (December 31, 2012 – \$5,000).

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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5. RECEIVABLES

	June 30, 2013	December 31, 2012
HST receivable	\$ 6,841	\$ 37,925
Other receivables	-	-
	\$ 6,841	\$ 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	-	(1,576)	(1,576)
Disposals	-	-	-
As at June 30, 2013	\$ 15,630	\$ (6,696)	\$ 8,934

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 June 30, 2013 (December 31, 2012 - \$15,721).

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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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	-	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

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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.

June 30, 2013	Port Snettisham AK, USA	Roberts Lake BC, Canada	Total
Acquisition costs			
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
Exploration costs			
Balance, December 31, 2012	\$ 363,704	\$ -	\$ 363,704
Additions			
Assays	4,538	-	4,538
Geological reports	26,303	-	26,303
Mapping	5,102	-	5,102
Field	18,941	-	18,941
Annual exploration costs	\$ 54,884	\$ -	\$ 54,884
Total exploration costs	\$ 418,588	\$ -	\$ 418,588
Write-off	\$ -	\$ (35,000)	\$ (35,000)
Balance, June 30, 2013	\$ 574,432	\$ -	\$ 574,432

ARROWSTAR RESOURCES LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2013
(Unaudited – Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2013	December 31, 2012
Due within the year		
Trade payables	\$ 211,368	\$ 153,390
Accrued liabilities	9,000	25,000
	\$ 220,368	\$ 178,390

9. RELATED PARTY TRANSACTIONS

Key management personnel compensation for the three and six month periods ended June 30 2013 and 2012 are as follows:

	Three Months June 30, 2013	Three Months June 30, 2012	Six Months June 30, 2013	Six Months June 30, 2012
Short-term benefits paid or accrued:				
Administration fees	\$ 18,000	\$ 18,000	\$ 36,000	\$ 36,000
Consulting fees	13,500	13,500	27,000	27,000
Deferred exploration costs	20,000	-	20,000	-
	\$ 51,500	\$ 31,500	\$ 83,000	\$ 63,000
Share-based compensation	-	32,730	15,925	48,295
Total remuneration	\$ 51,500	\$ 64,230	\$ 98,925	\$ 111,295

Accounts payable and accrued liabilities as at June 30, 2013 included \$76,509 (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 June 30, 2013 and 2012.

During the three month periods ended June 30, 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

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(Unaudited – Expressed in Canadian Dollars)

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

As at June 30, 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
75,000	0.10	November 16, 2014	1.38
1,550,000	0.10	February 17, 2016	2.64
2,960,000	0.10	January 3, 2017	3.52
1,060,000	0.10	September 26, 2017	4.24
500,000	0.10	June 13, 2018	4.96
<u>6,145,000</u>			<u>3.51</u>

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	500,000	0.10
Options cancelled/expired	<u>(1,045,000)</u>	<u>0.10</u>
As at June 30, 2013	<u>6,145,000</u>	\$ 0.10
Number of options currently exercisable	<u>5,545,000</u>	\$ 0.10

During the six month period ended June 30, 2013, 400,000 options vested. \$19,790 of share-based compensation or \$0.05 per option was recognized as calculated using the Black-Scholes option pricing model. The Company also granted 500,000 stock options (2012 – 3,670,000), vesting 25% every three months, with a fair value of \$13,366 (2012 - \$112,581) or \$0.03 per option (2011 - \$0.03), calculated using the Black-Scholes option pricing model.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(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 June 30:

	2013	2012
Risk-free interest rate	1.53%	1.31%
Expected life of options	5.00	5.00
Annualized volatility	108%	158%
Dividend rate	-	-

Warrants

As at June 30, 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	0.25
<u>6,280,000</u>	0.15	April 16, 2014	0.79
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 June 30, 2013	18,280,000	\$ 0.15

The options and warrants were not dilutive as at June 30, 2013 and December 31, 2012 and therefore, had no effect on diluted earnings per share for the period ended June 30, 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 June 30, 2013.

Significant non-cash transactions during the three and six month periods ended June 30, 2012 consisted of:

- the issuance of 280,000 units, valued at \$21,000, for finders' fees on a private placement, and
- the transfer of \$390,000 from subscriptions received to share capital.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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12. SEGMENTED INFORMATION

The Company has operating segments in both Canada and USA:

	June 30 2013	December 31 2012
Equipment		
Canada	\$ 8,934	\$ 10,510
USA	<u>-</u>	<u>-</u>
	\$ 8,934	\$ 10,510
Exploration and evaluation assets		
Canada	\$ -	\$ -
USA	<u>574,432</u>	<u>519,548</u>
	<u>\$ 574,432</u>	<u>\$ 519,548</u>

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

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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 June 30, 2013 the Company had cash balance of \$35,056 (December 31, 2012 - \$297,332) to settle current liabilities of \$220,368 (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 \$1,000 (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\$3,838 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.