

ARROWSTAR RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Arrowstar Resources Ltd.

We have audited the accompanying consolidated financial statements of Arrowstar Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Arrowstar Resources Ltd. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Arrowstar Resources Ltd.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

July 24, 2014

ARROWSTAR RESOURCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	December 31, 2013	December 31, 2012
ASSETS		
Current		
Cash (Note 3)	\$ 3,988	\$ 297,332
Marketable securities (Note 4)	400	5,000
Receivables (Note 5)	7,447	37,925
Exploration and evaluation advances (Note 7)	4,000	-
Prepaid expenses	<u>4,932</u>	<u>14,500</u>
	20,767	354,757
Equipment (Note 6)	-	10,510
Exploration and evaluation advances (Note 7)	-	15,721
Exploration and evaluation assets (Note 7)	<u>637,719</u>	<u>519,548</u>
	<u>\$ 658,486</u>	<u>\$ 900,536</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 457,659</u>	<u>\$ 178,390</u>
Shareholders' equity		
Share capital (Note 10)	18,580,746	18,492,446
Reserves (Note 10)	2,996,933	2,965,996
Deficit	<u>(21,376,852)</u>	<u>(20,736,296)</u>
	<u>200,827</u>	<u>722,146</u>
	<u>\$ 658,486</u>	<u>\$ 900,536</u>

Nature of operations and going concern (Note 1)

Subsequent events (Note 16)

On behalf of the Board:

"Phillip Thomas" Director _____
"Blaine Bailey" Director

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

ARROWSTAR RESOURCES LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian Dollars)

	2013	2012
EXPENSES		
Administration fees (Note 9)	\$ 72,000	\$ 172,000
Consulting fees	175,500	298,101
Depreciation (Note 6)	3,153	2,620
Foreign exchange loss	4,619	473
Insurance	12,068	-
Investor relations	113,479	115,535
Office	15,276	31,217
Professional fees	72,935	104,293
Property investigation	-	94,627
Rent	58,258	48,216
Regulatory fees	18,996	26,293
Share-based payments (Note 10)	30,937	249,838
Travel	11,414	76,635
	<u>(588,635)</u>	<u>(1,219,848)</u>
Interest income	36	7,647
Write-off of prepaid expenses	(5,000)	-
Unrealized loss on marketable securities (Note 4)	(4,600)	(17,000)
Write-off of equipment (Note 6)	(7,357)	-
Write-off of exploration and evaluation assets (Note 7)	(35,000)	(899,589)
	<u>(51,921)</u>	<u>(908,942)</u>
Loss and comprehensive loss for the year	\$ (640,556)	\$ (2,128,790)
Earnings (loss) per common share		
-Basic and diluted	\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding		
-Basic and diluted	67,586,337	65,077,588

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

ARROWSTAR RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian Dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (640,556)	\$ (2,128,790)
Items not affecting cash:		
Depreciation	3,153	2,620
Share-based payments	30,937	249,838
Write-off of equipment	7,357	-
Write-off of exploration and evaluation assets	35,000	899,589
Write-off prepaid expenses	5,000	-
Unrealized loss on marketable securities	4,600	17,000
Changes in non-cash working capital items:		
(Increase) decrease in receivables	30,478	(14,977)
(Increase) decrease in prepaid expenses	4,568	(5,000)
Increase(decrease) in accounts payable and accrued liabilities	252,544	(72,522)
Net cash used in operating activities	<u>(266,919)</u>	<u>(1,052,242)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of units	43,300	450,000
Share issue costs paid	-	(52,008)
Net cash provided by financing activities	<u>43,300</u>	<u>397,992</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment	-	(11,715)
Exploration and evaluation advances	-	(15,721)
Exploration and evaluation assets	(69,725)	(675,493)
Net cash used in investing activities	<u>(69,725)</u>	<u>(702,929)</u>
Change in cash during the year	(293,344)	(1,357,179)
Cash, beginning of year	<u>297,332</u>	<u>1,654,511</u>
Cash, end of year	<u>\$ 3,988</u>	<u>\$ 297,332</u>
Cash paid during the year for:		
Income taxes	\$ -	\$ -
Interest	-	-

Supplemental disclosure with respect to cash flows (Note 11)

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

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

	Common Shares		Reserves			Total
	Number of Shares	Amount	Stock options	Warrants	Deficit	
Balances as at December 31, 2011	60,621,369	\$ 18,188,654	\$ 2,621,958	\$ -	\$ (18,607,506)	\$ 2,203,106
Shares issued for:						
Private placement - units	6,000,000	360,000	-	90,000	-	450,000
Share issue costs - units	280,000	16,800	-	4,200	-	21,000
Share issue costs - paid by units	-	(21,000)	-	-	-	(21,000)
Share issue costs - paid by cash	-	(52,008)	-	-	-	(52,008)
Grant of stock options	-	-	249,838	-	-	249,838
Loss and comprehensive loss	-	-	-	-	(2,128,790)	(2,128,790)
Balances as at December 31, 2012	66,901,369	\$ 18,492,446	\$ 2,871,796	\$ 94,200	\$ (20,736,296)	\$ 722,146
Shares issued for:						
Private placement - units	1,443,333	\$ 43,300	\$ -	\$ -	\$ -	\$ 43,300
Exploration and evaluation assets	1,500,000	45,000	-	-	-	45,000
Grant of stock options	-	-	30,937	-	-	30,937
Loss and comprehensive loss	-	-	-	-	(640,556)	(640,556)
Balances as at December 31, 2013	69,844,702	\$ 18,580,746	\$ 2,902,733	\$ 94,200	\$ (21,376,852)	\$ 200,827

The accompanying notes are an integral part of these consolidated 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 address is Suite 880 – 800 West Pender Street, Vancouver, BC, V6C 2V6. 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 December 31, 2013, the Company has working capital deficit of \$436,892 (2012 – surplus of \$176,367) and an accumulated deficit of \$21,376,852 (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 consolidated 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 consolidated financial statements have been prepared in accordance with IAS 1 ‘Presentation of Financial Statements’ (“IAS 1”) 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”).

These consolidated financial statements were authorized for issue by the Board of Directors on July 24, 2014.

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value, as explained in the accounting policies set out in Note 2. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Basis of consolidation

These 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 its 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Foreign currency transactions

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recorded over the estimated useful lives of office equipment on the declining balance basis at a rate of 30%.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the year. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash and marketable securities are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables are classified as loans and receivables. The Company's exploration and evaluation advances are classified as held to maturity. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. At December 31, 2013, the Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. At December 31, 2013, the Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial liabilities (cont'd...)

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the year in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with rehabilitation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these rehabilitation costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time and changes in the estimated future cash flows underlying any initial estimates.

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

The Company had no rehabilitation obligations as at December 31, 2013 and 2012.

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

The Company had no other provisions as at December 31, 2013 and 2012.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amount of revenues and expenses during the reporting year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Significant accounts that require estimates as the basis for determining the stated amounts include the fair value of financial instruments, deferred income taxes, evaluating the fair value of exploration and evaluation assets, and share-based payments.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned a value based on the residual value, if any, and included in reserves.

Warrants that are issued as payment for agency fee or other transactions costs are accounted for as share-based payments.

Share-based payments

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payments expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserve to share capital.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based payments to non-employees, who are not providing similar services to employees, are measured at the grant date by using the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services received cannot be reliably measured, and are recorded at the date the goods or services are received.

Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes (cont'd...)

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Flow-through shares

Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to resource exploration and evaluation expenditures may be claimed by investors instead of the entity. On issuance, any premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability.

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. As eligible expenditures are incurred, the deferred income tax liability associated with the renounced tax deductions is recognized through profit or loss with a pro-rata portion of the deferred premium liability.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

New standards adopted during the year

Effective January 1, 2013, the following standards were adopted but have had no material impact on the financial statements.

- IAS 1 (Amendment): This standard is amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.
- IFRS 7 (Amendment): This standard is amended to enhance disclosure requirements related to offsetting of financial assets and financial liabilities.
- IFRS 10: New standard to establish principles for the presentation and preparation of consolidated financial statements, effective for annual periods beginning on or after January 1, 2013.
- IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement, effective for annual periods beginning on or after January 1, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New standards adopted during the year (cont'd...)

- IFRS 12: New standard for the disclosure of interest in other entities not within the scope of IFRS 9 / IAS 39, effective for annual periods on or after January 1, 2013.
- IFRS 13: New standard on the measurement and disclosure of fair value, effective for annual periods beginning on or after January 1, 2013.
- IAS 27 (Amendment): As a result of the issue of IFRS 10, IFRS 11 and IFRS 12. IAS 27 deals solely with separate financial statements, effective for annual periods beginning on or after January 1, 2013.
- IAS 28 (Amendment): New standard issued that supersedes IAS 28 (2003) to prescribe the application of the equity method to investments in associates and joint ventures, effective for annual periods beginning on or after January 1, 2013.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2014. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2014.
- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2018.
- IFRS 9: New standard that replaced IAS 39 for classification and measurement.
- IFRS 14: New standard to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. IFRS 14 is effective beginning on or after January 1, 2016.
- IFRS 15: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 is effective beginning on or after January 1, 2016.
- IAS 36: Amendment to the disclosures of the recoverable amount of goodwill or indefinite-lived intangible asset allocations, effective for annual periods beginning on or after January 1, 2014.

ARROWSTAR RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Expressed in Canadian Dollars)

3. CASH

The Company's cash consists of the following:

	December 31, 2013	December 31, 2012
Cash held with banks	\$ 2,968	\$296,771
Cash held with banks in foreign currencies	1,020	561
Total	\$ 3,988	\$ 297,332

4. MARKETABLE SECURITIES

On November 8, 2011, the Company received 10,000 shares in Dunnedin Ventures Inc. (formerly 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 December 31, 2013 to their fair market value of \$400 (2012 – \$5,000).

5. RECEIVABLES

	December 31, 2013	December 31, 2012
GST receivable	\$ 7,447	\$ 37,925

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)	\$ 1,415
Additions	11,715	(2,620)	9,095
Disposals	-	-	-
As at December 31, 2012	15,630	(5,120)	10,510
Additions	-	(3,153)	(3,153)
Write-off	(15,630)	8,273	(7,357)
As at December 31, 2013	\$ -	\$ -	\$ -

ARROWSTAR RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Expressed in Canadian Dollars)

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.

As at December 31, 2013, the Company holds a reclamation deposit on a previously written-off exploration and evaluation asset in the amount of \$4,000 (2012 - \$4,000) which matures on August 1, 2014. The Company also has deposits with vendors related to exploration projects totaling \$Nil (2012 - \$11,721).

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 (amended)	-	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 Company issued 1,500,000 common shares, valued at \$45,000, in lieu of meeting exploration expenditure requirements of \$200,000 that were due on October 31, 2013.

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

The vendor retained a 1% NSR.

During fiscal 2011, the 100% interest in the Argonaut and Golden Fleece properties were farmed-out for proceeds of \$25,000 (received) and 300,000 (100,000 were received) common shares of Ocean Park.

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 and the Company retains no exploration and evaluation asset for the projects.

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

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,
- Incur \$225,000 in exploration expenditures on the property, and
- Issue of 700,000 common shares of the Company.

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, 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,
- incur \$225,000 in exploration expenditures on the property, and
- Issue of 800,000 common shares of the Company.

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 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,
- incur \$225,000 in exploration expenditures on the property, and
- issue of 800,000 common shares of the Company.

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

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:

- Make cash payments aggregating \$3,515,000, and
- incur exploration expenditures aggregating \$2,700,000.

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

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

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 \$3,540,000,
- issue 1,000,000 (issued at a value of \$90,000) common shares of the Company, and
- incur exploration expenditures aggregating \$2,900,000.

During fiscal 2012, all related exploration and evaluation assets for the Roberts Lake property in the amount of \$480,984 have been written-off. An additional \$35,000 of expenditures were written off in fiscal 2013 as 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.

December 31, 2013	Port Snettisham AK, USA	Roberts Lake QC, Canada	Total
Acquisition costs			
Balance, December 31, 2012	\$ 155,844	\$ -	\$ 155,844
Additions:			
Cash	-	35,000	35,000
Other	-	-	-
Shares	45,000	-	45,000
Annual acquisition costs	45,000	35,000	80,000
Total acquisition costs	200,844	35,000	235,844
Exploration costs			
Balance, December 31, 2012	363,704	-	363,704
Additions:			
Assays	4,535	-	4,535
Drilling	-	-	-
Geological reports	29,937	-	29,937
Geophysical	4,601	-	4,601
Mapping	5,102	-	5,102
Renewal	10,092	-	10,092
Field	18,904	-	18,904
Annual exploration costs	73,171	-	73,171
Total exploration costs	436,875	-	436,875
Write-off	-	(35,000)	(35,000)
Balance, December 31, 2013	\$ 637,719	\$ -	\$ 637,719

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Due within the year	December 31, 2013	December 31, 2012
Trade payables	\$ 446,659	\$ 153,390
Accrued liabilities	11,000	25,000
	\$ 457,659	\$ 178,390

9. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. Key management personnel compensation for the years ended December 31 was:

	2013	2012
Short-term benefits paid or accrued:		
Administration fees	\$ 72,000	\$ 172,000
Consulting fees	60,000	69,000
Deferred exploration costs	28,251	115,807
Property investigation	-	3,113
	\$ 160,251	\$ 359,920
Share-based payments	19,930	117,995
Total remuneration	\$ 180,181	\$ 477,915

Accounts payable and accrued liabilities as at December 31, 2013 included \$183,754(2012 - \$79,153) owed to a director and companies controlled by a director or officer.

10. SHARE CAPITAL AND 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 reserve for the years ended December 31, 2013 and 2012.

During fiscal 2013, the Company issued 1,443,333 units for gross proceeds of \$43,300, each unit consisted of one common share and 1/4 share purchase warrant, each whole warrant exercisable at a price of \$0.05 for a period of one year.

During fiscal 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 valued at \$21,000 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.

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

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.

As at December 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
75,000	\$ 0.10	November 16, 2014	0.88
1,550,000	0.10	February 17, 2016	2.13
2,960,000	0.10	January 3, 2017	3.01
860,000	0.10	September 26, 2017	3.74
500,000	0.10	June 13, 2018 (forfeited subsequent to year end)	4.45
<u>5,945,000</u>			<u>2.98</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/expired	<u>(481,667)</u>	1.36
As at December 31, 2012	6,690,000	0.11
Options granted	500,000	0.10
Options cancelled/expired	<u>(1,245,000)</u>	0.10
As at December 31, 2013	<u>5,945,000</u>	\$ 0.10
Number of options currently exercisable	<u>5,470,000</u>	\$ 0.10

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

Stock options (cont'd...)

During the year ended December 31, 2013, the Company:

- granted 500,000 stock options with a fair value of \$13,366 or \$0.08 per option, calculated using the Black-Scholes option pricing model vesting at a rate of 20% every three months after grant. Share-based payments recognized for the current year amounted to \$30,937 for stock options that vested during the year.

During the year ended December 31, 2012, the Company:

- extended 195,000 options issued to former directors, exercisable at a price of \$0.10, to expire one year from the date they ceased to be directors;
- re-priced 245,000 options exercisable at a prices between \$0.57-\$1.52 to \$0.10; and
- granted 4,595,000 stock options with a fair value of \$282,526 or \$0.05 per option, calculated using the Black-Scholes option pricing model. Share-based payments recognized for the 2012 fiscal year amounted to \$326,473 for stock options that vested during the year. The stock options granted vest as follows:
 - o 3,195,000 vested immediately;
 - o 200,000 granted to a new director vested 50% on the date of grant and 50% January 3, 2013;
 - o 1,000,000 granted to directors vested 20% immediately and 20% every year thereafter; and
 - o 200,000 options granted to a consultant which vest 25% three months after grant and a further 25% every three months thereafter.

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

	2013	2012
Risk-free interest rate	1.53%	1.31%
Expected life of options	5.00	4.99
Annualized volatility	108%	111%
Dividend rate	-	-
Forfeiture rate	0%	0%

Warrants

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>	0.15
As at December 31, 2012	18,280,000	0.15
Warrants issued	360,833	0.05
Warrants expired	<u>(12,000,000)</u>	0.15
As at December 31, 2013	6,640,833	\$ 0.14

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

Warrants(cont'd...)

As at December 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
6,280,000	\$ 0.15	April 16, 2014	0.29
<u>360,833</u>	0.15	October 4, 2014	0.76
<u>6,640,833</u>			

The options and warrants were not dilutive during fiscal 2013 and 2012 and therefore, had no effect on diluted earnings per share for the years ended December 31, 2013 and 2012.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended December 31, 2013 consist of the following:

- the issuance of 1,500,000 common shares with a fair value of \$45,000 for exploration and evaluation assets
- the application of exploration and evaluation advances to exploration and evaluation assets of \$11,721; and
- the accrual of \$73,995 (2012 - \$47,270) of exploration and evaluation assets in accounts payable and accrued liabilities.

Other significant non-cash transactions during the year ended December 31, 2012 consist of the:

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

12. SEGMENTED INFORMATION

As at December 31, 2013, the Company has operating segments in both Canada and USA:

	December 31 2013	December 31 2012
Equipment		
Canada	\$ -	\$ 10,510
USA	<u>-</u>	<u>-</u>
	\$ -	\$ 10,510
Exploration and evaluation assets		
Canada	\$ -	\$ -
USA	<u>637,719</u>	<u>519,548</u>
	\$ 637,719	\$ 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, exploration and evaluation advances, 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.

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 December 31, 2013, the Company had cash balance of \$3,988 (2012 - \$297,332) to settle current liabilities of \$457,659 (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 \$400 (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.

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

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\$954 as of December 31, 2013 (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. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2013	2012
Loss before income taxes	\$ (640,556)	\$ (2,128,790)
Expected income tax (recovery)	\$ (165,000)	\$ (532,000)
Change in statutory, foreign tax, foreign exchange rates and other	(514,000)	5,000
Permanent difference	12,000	63,000
Impact of flow through share	-	81,000
Share issue cost	-	(13,000)
Change in unrecognized deductible temporary differences	<u>667,000</u>	<u>396,000</u>
Total income tax expense (recovery)	\$ -	\$ -

The Canadian income tax rate increased during the year due to changes in the law that increased corporate income tax rates in Canada.

The nature and tax effect of the temporary differences and tax loss carry-forwards giving rise to unrecorded deferred tax assets at December 31, 2013 and 2012 are summarized as follows:

	December 31, 2013	December 31, 2012
Deferred tax assets		
Capital losses	\$ 150,000	\$ 144,000
Equipment	4,000	1,000
Exploration and evaluation assets	1,484,000	1,409,000
Marketable securities	3,000	5,000
Non-capital loss carry-forwards	1,714,000	1,507,000
Share issue costs	<u>21,000</u>	<u>40,000</u>
Unrecognized tax assets	\$ 3,376,000	\$ 3,106,000

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14. INCOME TAXES (cont'd...)

Significant components of deductible temporary differences, unused tax losses and unused tax credits that have not been included on the consolidated statement of financial position are as follows:

	December 31, 2013	Expiry dates	December 31, 2012	Expiry dates
Share issue costs	\$ 81,000	2034-2036	\$ 159,000	2033-2036
Non-capital losses	6,590,000	2014-2033	6,029,000	2014-2032
Exploration and evaluation assets	5,707,000	N/A	5,636,000	N/A
Equipment	16,000	N/A	5,000	N/A
Marketable securities	25,000	N/A	20,000	N/A
Capital losses	576,000	N/A	576,000	N/A

Tax attributes are subject to review and potential adjustment by tax authorities.

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 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. There were no changes to the Company's approach to capital management during the year.

16. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2013:

- 275,000 share purchase options, exercisable at a price of \$0.10, expired. This included options whose expiry date was modified subsequent to year end for consultants and directors who resigned or were terminated; 500,000 share purchase options were forfeited.
- 6,280,000 warrants, exercisable at a price of \$0.15, expired.