

**ARROWSTAR RESOURCES LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2014**

(Unaudited – Expressed in Canadian Dollars)



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## **NOTICE TO READER**

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

The condensed consolidated interim financial statements of the Company for the third quarter ended September 30, 2014 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)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current</b>		
Cash (Note 3)	\$ 2,852	\$ 3,988
Marketable securities (Note 4)	1,200	400
Receivables (Note 5)	13,508	7,447
Exploration and evaluation advances (Note 7)	4,000	4,000
Prepaid expenses	<u>3,425</u>	<u>4,932</u>
	24,985	20,767
<b>Exploration and evaluation assets (Note 7)</b>	<u>-</u>	<u>637,719</u>
	<u>\$ 24,985</u>	<u>\$ 658,486</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 738,672</u>	<u>\$ 457,659</u>
<b>Shareholders' equity</b>		
Share capital (Note 9)	18,580,746	18,580,746
Reserve (Note 9)	3,000,737	2,996,933
Deficit	<u>(22,295,170)</u>	<u>(21,376,852)</u>
	<u>(713,687)</u>	<u>200,827</u>
	<u>\$ 24,985</u>	<u>\$ 658,486</u>

**Nature of operations and going concern** (Note 1)

**Subsequent events** (Note 15)

**On behalf of the Board:**

\_\_\_\_\_  
*"Phillip Thomas"* Director

\_\_\_\_\_  
*"Blaine Bailey"* 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 AND SIX MONTH PERIODS ENDED SEPTEMBER 30  
(Unaudited – Expressed in Canadian Dollars)**

	Three Months Ended Sept. 30, 2014	Three Months Ended Sept. 30, 2013	Nine Months Ended Sept. 30, 2014	Nine Months Ended Sept. 30, 2013
<b>EXPENSES</b>				
Administration fees	\$ 2,000	\$ 18,000	\$ 8,800	\$ 54,000
Consulting fees	5,500	48,500	68,500	117,000
Depreciation	-	789	-	2,365
Foreign exchange loss	11,143	187	5,386	205
Insurance	2,519	3,025	11,506	9,044
Investor relations	274	4,477	859	45,151
Office	2,855	1,535	3,631	12,790
Professional fees	22,621	18,050	53,503	28,588
Rent	507	14,947	507	47,751
Regulatory fees	6,859	3,210	14,656	16,636
Share-based compensation (Note 10)	-	7,526	3,804	27,316
Travel	-	417	-	16,877
	<u>(54,278)</u>	<u>(100,663)</u>	<u>(171,152)</u>	<u>(377,723)</u>
Unrealized gain/(loss) on marketable securities (Note 4)	500	(200)	800	(4,200)
Write-off of exploration and evaluation assets (Note 7)	<u>(747,966)</u>	<u>-</u>	<u>(747,966)</u>	<u>(35,000)</u>
	<u>(747,466)</u>	<u>(200)</u>	<u>(747,166)</u>	<u>(39,200)</u>
<b>Loss and comprehensive loss for the year</b>	<b>\$ (801,744)</b>	<b>\$ (100,863)</b>	<b>\$ (918,318)</b>	<b>\$ (416,923)</b>
<b>Loss per common share</b>				
-Basic and diluted	\$ (0.11)	\$ (0.02)	\$ (0.13)	\$ (0.06)
<b>Weighted average number of common shares outstanding</b>				
-Basic and diluted	6,984,421	6,690,137	6,984,421	6,690,137

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 NINE MONTH PERIODS ENDED SEPTEMBER 30**  
(Unaudited – Expressed in Canadian Dollars)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (918,318)	\$ (416,923)
Items not affecting cash:		
Depreciation	-	2,365
Share-based compensation	3,804	27,316
Unrealized (gain)/loss on marketable securities	(800)	4,200
Write-off exploration and evaluation assets	747,966	35,000
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(6,061)	33,426
Increase in prepaid expenses	1,507	1,544
Increase (decrease) in accounts payable and accrued liabilities	170,766	91,259
Net cash provided by (used in) operating activities	<u>(1,136)</u>	<u>(221,813)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Subscriptions received in advance	-	37,300
Net cash provided by financing activities	<u>-</u>	<u>37,300</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation advances	-	11,721
Exploration and evaluation assets	-	(100,022)
Net cash used in investing activities	<u>-</u>	<u>(88,301)</u>
<b>Change in cash during the period</b>	<b>(1,136)</b>	<b>(272,814)</b>
<b>Cash, beginning of period</b>	<b>3,988</b>	<b>297,332</b>
<b>Cash, end of period</b>	<b>\$ 2,852</b>	<b>\$ 24,518</b>
<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 NINE MONTH PERIODS ENDED SEPTEMBER 30**  
(Unaudited – Expressed in Canadian Dollars)

	Common Shares		Reserves				Total
	Number of Shares	Amount	Share compensation	Warrants	Deficit		
Balances as at December 31, 2012	6,690,137	\$ 18,492,446	\$ 2,871,796	\$ 94,200	\$ -	\$ (20,736,296)	
Vesting of stock options	-	-	27,316	-	-	-	
Subscriptions received in advance	-	-	-	-	37,300	-	
Loss and comprehensive loss	-	-	-	-	-	(416,923)	
Balances as at September 30, 2013	6,690,137	\$ 18,492,446	\$ 2,899,112	\$ 94,200	\$ 37,300	\$ (21,153,219)	
Balances as at December 31, 2013	6,984,421	\$ 18,580,746	\$ 2,902,733	\$ 94,200	\$ (21,376,852)	\$ 200,827	
Vesting of stock options	-	-	3,804	-	-	3,804	
Loss and comprehensive loss	-	-	-	-	(918,318)	(918,318)	
Balances as at September 30, 2014	6,984,421	\$ 18,580,746	\$ 2,906,537	\$ 94,200	\$ (22,295,170)	\$ (713,687)	

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**

SEPTEMBER 30, 2014

(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 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.

During the period ended September 30, 2014, all of the issued common shares and equity instruments of the Company were consolidated on the basis of 10 pre-consolidation common shares/equity instruments for 1 post-consolidation common share/equity instrument. As a result of the consolidation, all share and per-share information in the financial statements has been restated to reflect the consolidation.

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 September 30, 2014, the Company has a working capital deficit of \$713,687 (December 31, 2013 – \$436,892) and an accumulated deficit of \$22,295,170 (December 31, 2013 - \$21,376,852). 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 November 26, 2014.

**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.

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

**Basis of presentation (cont'd...)**

The significant accounting policies for the quarter are consistent with those disclosed in the audited annual financial statements for the year ended December 31, 2013 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, 2013.

**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.

**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, 2015. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- 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.

**3. CASH**

The Company's cash consists of the following:

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	September 30, 2014	December 31, 2013
Cash held with banks	\$ 1,830	\$ 2,968
Cash held in foreign currencies	1,022	1,020
<b>Total</b>	<b>\$ 2,852</b>	<b>\$ 3,988</b>

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**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(Unaudited – Expressed in Canadian Dollars)

**4. MARKETABLE SECURITIES**

On November 8, 2011, the Company received 100,000 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 September 30, 2014 to their fair market value of \$1,200 (December 31, 2013 – \$400).

**5. RECEIVABLES**

	September 30, 2014	December 31, 2013
GST receivable	\$ 13,508	\$ 7,447

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, 2012	15,630	(5,120)	10,510
Additions	-	(3,153)	(3,153)
Write-off	(15,630)	8,273	(7,357)
<b>As at December 31, 2013 and September 30, 2014</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</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 September 30, 2014 (December 31, 2013 - \$4,000).

Exploration and evaluation assets at September 30, 2014 and December 31, 2014 consisted of the following:

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(Unaudited – Expressed in Canadian Dollars)

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

	<b>Port Snettisham, AK, USA</b>		
<b>Acquisition costs</b>			
Balance, December 31, 2013 and September 30, 2014			\$ 200,844
<b>Exploration costs</b>			
Balance, December 31, 2013			436,875
Additions:			
Geological reports			110,247
Annual exploration costs			110,247
Write-off of exploration and evaluation assets			(747,966)
Balance, September 30, 2014			\$ -
	<b>Port Snettisham AK, USA</b>	<b>Roberts Lake QC, Canada</b>	<b>Total</b>
<b>Acquisition costs</b>			
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
<b>Exploration costs</b>			
Balance, December 31, 2012	363,704	-	363,704
Additions:			
Assays	4,535	-	4,535
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

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

**Port Snettisham – Alaska USA**

During fiscal 2014, the Company decided not to exercise its option on the Port Snettisham property. As a result, exploration and evaluation assets of \$747,966 were written-off. The Company has retains ownership of several claim blocks in the area which were acquired through staking.

**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.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2014	December 31, 2013
Trade payables	\$ 732,672	\$ 446,659
Accrued liabilities	6,000	11,000
	<u>\$ 738,672</u>	<u>\$ 457,659</u>

**9. SHARE CAPITAL AND SHARE COMPENSATION RESERVE**

Authorized – Unlimited common shares without par value

During the period ended September 30, 2014, all of the issued common shares and equity instruments of the Company were consolidated on the basis of 10 pre-consolidation common shares/equity instruments for 1 post-consolidation common share/equity instrument.

Please refer to the Statement of Changes in Equity for a summary of changes in share capital and reserve for the period ended September 30, 2014 and the year ended December 31, 2013.

No shares were issued during the period ended September 30, 2014.

During fiscal 2013, the Company issued 144,333 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 \$0.50 for a period of one year.

**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

SEPTEMBER 30, 2014

(Unaudited – Expressed in Canadian Dollars)

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

As at September 30, 2014, 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
3,500	1.00	November 16, 2014 (Subsequently Expired – Note 15)	0.13
145,000	1.00	February 17, 2016	1.38
281,000	1.00	January 3, 2017	2.26
<u>81,000</u>	1.00	September 26, 2017	<u>2.99</u>
510,500			2.11

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2012	669,000	1.10
Options granted	50,000	1.00
Options cancelled/expired	<u>(124,500)</u>	1.00
As at December 31, 2013	594,500	\$ 1.00
Options granted	-	1.00
Options cancelled/expired	<u>(84,000)</u>	1.00
As at September 30, 2014	510,500	\$ 1.00
Number of options currently exercisable	500,500	\$ 1.00

During the period ended September 30, 2014, 10,000 options vested. \$3,804 of share-based compensation or \$0.40 per option was recognized as calculated using the Black-Scholes option pricing model.

During the period ended September 30, 2013, 57,500 options vested. \$27,316 of share-based compensation or \$0.50 per option was recognized as calculated using the Black-Scholes option pricing model.

There were no stock options granted during the periods ended September 30, 2014 (2013 – 50,000, vesting 25% every three months with a fair-value of \$13,366, or \$0.30 per option, calculated using the Black-Scholes option pricing model with a risk-free interest rate of 1.53%, expected life of 5 years, an annualized volatility of 108%, and a dividend rate of 0%).

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(Unaudited – Expressed in Canadian Dollars)

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

As at September 30, 2014, 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
36,083	1.50	October 4, 2014 (Subsequently Expired – Note 15)	0.01
36,083			

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2012	1,828,000	\$ 1.50
Warrants issued	36,083	0.50
Warrants expired	<u>(1,200,000)</u>	1.50
As at December 31, 2013	664,083	\$ 1.40
Warrants expired	<u>(628,000)</u>	1.50
As at September 30, 2014	36,083	\$ 1.00

The options and warrants were not dilutive as at September 30, 2014 and September 30, 2013 and therefore, had no effect on diluted earnings per share for the periods ended September 30, 2014 and 2013.

**10. RELATED PARTY TRANSACTIONS**

Key management personnel compensation for the period ended September 30 was as follows:

	3 Months Ended September 30, 2014	3 Months Ended September 30, 2013	9 Months Ended September 30, 2014	9 Months Ended September 30, 2013
Short-term benefits paid or accrued:				
Administration fees	\$ -	\$ 18,000	\$ 6,000	\$ 54,000
Consulting fees	14,500	16,500	41,500	30,000
Deferred exploration costs	-	-	110,641	20,000
	<u>\$ 14,500</u>	<u>\$ 34,500</u>	<u>\$ 158,141</u>	<u>\$ 104,000</u>
Share-based compensation	-	6,961	3,804	22,886
<b>Total remuneration</b>	<u>\$ 14,500</u>	<u>\$ 41,461</u>	<u>\$ 161,945</u>	<u>\$ 126,886</u>

Accounts payable and accrued liabilities as at September 30, 2014 included \$334,581 (December 31, 2013 - \$183,754) owed to a director and companies controlled by a director or officer.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(Unaudited – Expressed in Canadian Dollars)

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

Significant non-cash transactions during the period ended September 30, 2014 consist of the accrual of \$110,640 (2013 - \$nil) of written-off exploration and evaluation assets in accounts payable and accrued liabilities.

**12. 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.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of September 30, 2014 the Company had cash balance of \$2,852 (December 31, 2013 - \$3,988) to settle current liabilities of \$738,672 (December 31, 2013 - \$457,659). 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 \$1,200 (December 31, 2013 - \$400).

*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.

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

**Financial risk factors (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\$888 as of (December 31, 2013 – US\$954).

*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.

**13. 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.

**14. SEGMENTED INFORMATION**

The Company has operating segments in both Canada and USA. All exploration and evaluation assets are located in the USA totalling \$Nil as at September 30, 2014 (December 31, 2013 - \$637,719).

**15. SUBSEQUENT EVENTS**

Subsequent to the period ended September 30, 2014:

- 3,500 share purchase options with an exercise price of \$1.00 expired unexercised; and
- 36,083 share purchase warrants with an exercise price of \$1.50 expired unexercised.