

ARROWSTAR RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(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, 2015 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, 2015	December 31, 2014
ASSETS		
Current		
Cash (Note 3)	\$ 21,221	\$ 136,845
Marketable securities (Note 4)	700	1,100
Receivables (Note 5)	5,730	14,737
Prepaid expenses	<u>5,823</u>	<u>3,863</u>
	33,474	156,545
Deposit (Note 6)	<u>4,000</u>	<u>4,000</u>
	<u>\$ 37,474</u>	<u>\$ 160,545</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities (Note 7)	<u>\$ 865,790</u>	<u>\$ 769,289</u>
Shareholders' equity		
Share capital (Note 8)	18,728,826	18,580,746
Subscriptions Received in Advance	-	139,800
Reserve (Note 8)	2,998,897	2,996,933
Deficit	<u>(22,556,039)</u>	<u>(22,326,223)</u>
	<u>(828,316)</u>	<u>(608,744)</u>
	<u>\$ 37,474</u>	<u>\$ 160,545</u>

Nature of operations and going concern (Note 1)

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 LOSS
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30**

(Unaudited – Expressed in Canadian Dollars)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
EXPENSES				
Administration fees	\$ 212	\$ 2,000	\$ 622	\$ 8,800
Consulting fees	3,834	5,500	163,166	68,500
Foreign exchange loss	16,895	11,143	20,484	5,386
Insurance	2,329	2,519	8,978	11,506
Investor relations	180	274	665	859
Office	738	2,855	2,165	3,631
Professional fees	47,211	22,621	58,602	53,503
Rent	932	507	2,595	507
Regulatory fees	6,909	6,859	16,968	14,656
Share-based compensation (Note 8)	-	-	1,964	3,804
Travel	2,896	-	2,896	-
	<u>(82,136)</u>	<u>(54,278)</u>	<u>(279,105)</u>	<u>(171,152)</u>
Gain on settlement of accounts payable (Note 7)	-	-	49,689	-
Unrealized gain/(loss) on marketable securities (Note 4)	(1,000)	500	(400)	800
Write-off of exploration and evaluation assets	-	(747,966)	-	(747,966)
	<u>(1,000)</u>	<u>(747,466)</u>	<u>49,289</u>	<u>(747,166)</u>
Loss and comprehensive loss for the year	\$ (83,136)	\$ (801,744)	\$ (229,816)	\$ (918,318)
Loss per common share				
-Basic and diluted	\$ (0.01)	\$ (0.11)	\$ (0.03)	\$ (0.13)
Weighted average number of common shares outstanding				
-Basic and diluted	9,464,921	6,984,421	9,001,531	6,984,421

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 PERIOD ENDED SEPTEMBER 30
(Unaudited – Expressed in Canadian Dollars)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (229,816)	\$ (918,318)
Items not affecting cash:		
Gain on settlement of debt	(49,689)	-
Share-based compensation	1,964	3,804
Unrealized (gain)/loss on marketable securities	400	(800)
Write-off of exploration and evaluation assets	-	747,966
Changes in non-cash working capital items:		
Increase in receivables	9,007	(6,061)
(Decrease)/Increase in prepaid expenses	(1,960)	1,507
Increase (decrease) in accounts payable and accrued liabilities	146,190	170,766
Net cash used in operating activities	<u>(123,904)</u>	<u>(1,136)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of shares	9,030	-
Share issue costs	(750)	-
Net cash provided by financing activities	<u>8,280</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Change in cash during the period	(115,624)	(1,136)
Cash, beginning of period	<u>136,845</u>	<u>3,988</u>
Cash, end of period	<u>\$ 21,221</u>	<u>\$ 2,852</u>
Cash paid during the year for:		
Income taxes	\$ -	\$ -
Interest	-	-

Supplemental disclosure with respect to cash flows (Note 10)

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 PERIOD ENDED SEPTEMBER 30, 2015 and 2014

(Unaudited – Expressed in Canadian Dollars)

	Common shares		Reserves		Subscriptions received in advance	Deficit	Total
	Number of shares	Amount	Options	Warrants			
Balance, 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)
Balance, September 30, 2014	6,984,421	\$ 18,580,746	\$ 2,906,537	\$ 94,200	\$ -	\$ (22,295,170)	\$ (713,687)
Balance, December 31, 2014	6,984,421	18,580,746	2,902,733	94,200	139,800	(22,326,223)	(608,744)
Shares issue for:							
Private placement – units	2,480,500	148,830	-	-	(139,800)	-	9,030
Share issue costs	-	(750)	-	-	-	-	(750)
Share-based compensation	-	-	1,964	-	-	-	1,964
Loss and comprehensive loss	-	-	-	-	-	(229,816)	(229,816)
Balance, September 30, 2015	9,464,921	\$ 18,728,826	\$ 2,904,697	\$ 94,200	\$ -	\$ (22,556,039)	\$ (828,316)

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, 2015

(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 2300 -1177 West Hastings Street Vancouver, B.C. V6E 2K3. 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 year ended December 31, 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, 2015, the Company has a working capital deficit of \$832,316 (December 31, 2014 – \$612,744) and an accumulated deficit of \$22,556,039 (December 31, 2014 - \$22,326,223). 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 30, 2015.

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.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(Unaudited – Expressed in Canadian Dollars)

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, 2014 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, 2014.

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, effective for annual periods beginning on or after January 1, 2018.
- 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:

	September 30, 2015	December 31, 2014
Cash held with banks	\$ 21,026	\$ 135,836
Cash held in foreign currencies	195	1,009
Total	\$ 21,221	\$ 136,845

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4. MARKETABLE SECURITIES

On November 8, 2011, the Company received 100,000 shares in Dunedin 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, 2015 to their fair market value of \$700 (December 31, 2014 – \$1,100).

5. RECEIVABLES

	September 30, 2015	December 31, 2014
GST receivable	\$ 5,730	\$ 14,737

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. DEPOSIT

As at September 30, 2015, the Company holds a reclamation deposit on a previously written-off exploration and evaluation asset in the amount of \$4,000 (December 31, 2014 - \$4,000).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2015	December 31, 2014
Trade payables	\$ 635,379	\$ 759,289
Accrued liabilities	7,500	10,000
	<u>\$ 642,879</u>	<u>\$ 769,289</u>

During the period ended September 30, 2015, the Company settled accounts payable of \$54,689 for \$5,000 resulting in a gain on settlement of accounts payable of \$49,689 (2014 - \$nil).

8. 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 reserve for the periods ended September 30, 2015 and 2014.

During the period ended September 30, 2015, the Company issued 2,480,500 units at a price of \$0.06 per unit for gross proceeds of \$148,830 of which \$139,800 was received and recorded as subscriptions received in advance as of December 31, 2014. Each unit consists of one common share and one share purchase warrant exercisable at a price of \$0.15 for a period of five years.

The Company did not issue any additional common shares during the period ended September 30, 2014.

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8. SHARE CAPITAL AND SHARE COMPENSATION 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 September 30, 2015, the Company had no stock options outstanding.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2013	594,500	\$ 1.00
Options cancelled/expired	<u>(87,500)</u>	1.00
As at December 31, 2014	507,000	\$ 1.00
Options cancelled/expired	<u>(507,000)</u>	1.00
As at September 30, 2015	-	\$ NA
Number of options currently exercisable	-	\$ NA

During the period ended September 30, 2015, 10,000 options vested. \$1,965 of share-based compensation or \$0.20 per option was recognized as calculated using the Black-Scholes option pricing model.

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.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the period ended September 30, 2015 and 2014:

	September 30, 2015	September 30, 2014
Risk-free interest rate	1.31%	1.31%
Expected life of options	2.00	3.00
Annualized volatility	114%	102%
Dividend rate	-	-
Forfeiture rate	0%	0%

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8. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd...)**Warrants**

As at September 30, 2015, 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
<u>2,480,500</u>	0.15	February 20, 2020	4.39
<u>2,480,500</u>			

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2013	664,083	\$ 1.40
Warrants expired	<u>(664,083)</u>	1.40
As at December 31, 2014	-	\$ -
Warrants granted	<u>2,480,500</u>	0.15
As at September 30, 2015	<u>2,480,500</u>	\$ 0.15

The options and warrants were not dilutive as at September 30, 2015 and 2014 and therefore, had no effect on diluted earnings per share for the periods ended September 30, 2015 and 2014.

9. RELATED PARTY TRANSACTIONS

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Short-term benefits paid or accrued:				
Administration fees	\$ -	\$ -	\$ -	\$ 6,000
Consulting fees	(5,166)	14,500	136,166	41,500
Deferred exploration costs	-	-	-	110,641
	<u>\$ (5,166)</u>	<u>\$ 14,500</u>	<u>\$ 136,166</u>	<u>\$ 158,141</u>
Share-based compensation	-	-	1,964	3,804
Total remuneration	<u>\$ (5,166)</u>	<u>\$ 14,500</u>	<u>\$ 138,130</u>	<u>\$ 161,945</u>

Accounts payable and accrued liabilities as at September 30, 2015 included \$552,987 (December 31, 2014 - \$364,729) owed to a director and companies controlled by directors.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited – Expressed in Canadian Dollars)

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the period ended September 30, 2015 consist of \$139,800 of subscriptions received in advance being allocated to share capital on the issuance of shares.

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

11. 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, 2015 the Company had cash balance of \$21,221 (December 31, 2014 - \$136,845) to settle current liabilities of \$865,790 (December 31, 2014 - \$769,289). 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 \$700 (December 31, 2014 - \$1,100).

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(Unaudited – Expressed in Canadian Dollars)

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

Financial risk factors (cont'd...)

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\$195 as of September 30, 2015 (December 31, 2014 – US\$870).

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.

12. 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.