

**ARROWSTAR RESOURCES LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

(unaudited - Expressed in Canadian Dollars)

## **NOTICE TO READER**

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

The condensed consolidated interim financial statements of the Company for the first quarter ended September 30, 2016 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, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current</b>		
Cash (Note 3)	\$ 49,993	\$ 17,491
Marketable securities (Note 4)	1,950	550
Receivables (Note 5)	1,972	3,682
Prepaid expenses	<u>-</u>	<u>3,933</u>
	53,915	25,656
<b>Exploration and evaluation assets</b> (Note 6)	298,788	-
<b>Deposit</b> (Note 6)	<u>4,000</u>	<u>4,000</u>
	<u>\$ 356,703</u>	<u>\$ 29,656</u>

**LIABILITIES AND SHAREHOLDERS' DEFICIENCY**

<b>Current</b>		
Accounts payable and accrued liabilities (Note 7)	<u>\$ 167,603</u>	<u>\$ 914,051</u>
<b>Shareholders' deficiency</b>		
Share capital (Note 9)	19,453,936	18,728,826
Reserve (Note 9)	3,165,531	2,998,897
Deficit	(22,431,241)	(22,612,118)
Accumulated other comprehensive loss	<u>874</u>	<u>-</u>
	<u>189,100</u>	<u>(884,395)</u>
	<u>\$ 356,703</u>	<u>\$ 29,656</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 STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)  
FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30  
(Unaudited - Expressed in Canadian Dollars)**

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
<b>EXPENSES</b>				
Administration fees	\$ -	\$ 212	\$ -	\$ 622
Consulting fees	26,849	3,834	81,474	163,166
Foreign exchange loss	538	16,895	2,136	20,484
Insurance	8,300	2,329	13,539	8,978
Investor relations	-	180	1,985	665
Office	10,907	738	12,773	2,165
Professional fees	14,631	47,211	47,344	58,602
Property investigation	3,152	-	14,152	-
Rent	2,635	932	5,692	2,595
Regulatory fees	4,816	6,909	19,841	16,968
Share-based compensation (Note 9)	-	-	166,634	1,964
Travel	465	2,896	553	2,896
	<u>(72,293)</u>	<u>(82,136)</u>	<u>(366,123)</u>	<u>(279,105)</u>
Gain on settlement of accounts payable (Note 8 - 9)	-	-	545,600	49,689
Unrealized gain/(loss) on marketable securities (Note 4)	<u>1,150</u>	<u>(1,000)</u>	<u>1,400</u>	<u>(400)</u>
	<u>1,150</u>	<u>(1,000)</u>	<u>547,000</u>	<u>49,289</u>
<b>Income (loss) for the period</b>	(71,143)	(83,136)	180,877	(229,816)
Translation adjustment	744	-	874	-
<b>Income (loss) and comprehensive income (loss) for the period</b>	\$ (70,399)	\$ (83,136)	\$ 181,751	\$ (229,816)
<b>Income (loss) per common share</b>				
-Basic and diluted	\$ (0.01)	\$ (0.01)	\$ 0.01	\$ (0.03)
<b>Weighted average number of common shares outstanding</b>				
-Basic and diluted	21,924,921	9,464,921	14,636,746	9,001,531

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)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) for the period	\$ 180,877	\$ (229,816)
Items not affecting cash:		
Gain on settlement of debt	(545,600)	(49,689)
Share-based compensation	166,634	1,964
Unrealized (gain)/loss on marketable securities	(1,400)	400
Changes in non-cash working capital items:		
Increase in receivables	1,710	9,007
Increase in prepaid expenses	3,933	(1,960)
Increase (decrease) in accounts payable and accrued liabilities	2,152	146,190
Net cash used in operating activities	<u>(191,694)</u>	<u>(123,904)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of shares	345,000	9,030
Share issue costs	(10,390)	(750)
Net cash provided by financing activities	<u>334,610</u>	<u>8,280</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures on exploration and evaluation assets	(110,414)	-
Net cash (used)provided from investing activities	<u>(110,414)</u>	<u>-</u>
<b>Change in cash during the period</b>	32,502	(115,624)
<b>Cash, beginning of period</b>	<u>17,491</u>	<u>136,845</u>
<b>Cash, end of period</b>	<u>\$ 49,993</u>	<u>\$ 21,221</u>
<b>Cash paid during the year for:</b>		
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 SHAREHOLDERS' DEFICIENCY**

(Expressed in Canadian Dollars)

	Share Capital		Reserve	Accumulated other Comprehensive Income	Subscriptions received in advance	Deficit	Total
	Number of shares	Amount					
Balance, December 31, 2014	6,984,421	\$ 18,580,746	\$ 2,996,933	\$ -	\$ 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	2,998,897	-	-	(22,556,039)	(828,316)
Loss and comprehensive loss	-	-	-	-	-	(56,079)	(56,079)
Balance, December 31, 2015	9,464,921	18,728,826	2,998,897	-	-	(22,612,118)	(884,395)
Shares issue for cash:							
Private placement – units	6,900,000	345,000	-	-	-	-	345,000
Share issue costs	-	(10,390)	-	-	-	-	(10,390)
Shares issue for non-cash:							
Property acquisition	1,500,000	187,500	-	-	-	-	187,500
Share issue in settlement of debt	4,060,000	203,000	-	-	-	-	203,000
Share-based compensation	-	-	166,634	-	-	-	166,634
Translation adjustment	-	-	-	874	-	-	874
Income (loss) and comprehensive Income (loss)	-	-	-	-	-	180,877	180,877
Balance, September 30, 2016	21,924,921	\$ 19,453,936	\$ 3,165,531	\$ 874	\$ -	\$ (22,431,241)	\$ 189,100

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, 2016

(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 2300 – 1177 West Hastings Street, Vancouver, BC, 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.

The Company is in the process of acquiring 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, 2016, the Company has working capital deficit of \$113,688 (2015 – (\$888,395)) and an accumulated deficit of \$22,431,241 (2015 - \$22,612,118). 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 condensed consolidated interim 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 condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 14, 2016.

**Basis of presentation**

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these financial statements are in accordance with IFRS and have not been audited.

The preparation of financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These financial statements do not include all of the information required for full annual financial statements. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The significant accounting policies for the quarter are consistent with those disclosed in the audited annual financial statements for the year ended December 31, 2015 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, 2015.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Expressed in Canadian Dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Basis of consolidation**

These condensed consolidated interim financial statements of the Company include the balances of its subsidiary, Arrowstar Arizona Resources Ltd. Gulfside Alaska Inc. (USA) ("Gulfside") for the period ended September 30, 2015, which was a wholly owned subsidiary incorporated in the state of Alaska USA. During the year ended December 31, 2015 Gulfside was wound up and dissolved.

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 pronouncements have been issued by the IASB that are mandatory for accounting years beginning on or after January 1, 2016.

The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. IFRS 15 is effective for periods beginning on or after January 1, 2018.

**3. CASH**

The Company's cash consists of the following:

	September 30, 2016	December 31, 2015
Cash held with banks	\$ 48,129	\$ 17,315
Cash held with banks in foreign currencies	1,864	176
Total	\$ 49,993	\$ 17,491

**4. MARKETABLE SECURITIES**

On November 8, 2011, the Company received 10,000 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, 2016 to their fair market value of \$1,950 (December 31, 2015 – \$550).



**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Expressed in Canadian Dollars)

**5. RECEIVABLES**

	September 30, 2016	December 31, 2015
GST receivable	\$ 1,972	\$ 3,682

**6. EXPLORATION AND EVALUATION ASSETS**

As at September 30, 2016, the Company holds a reclamation deposit on a previously written-off exploration and evaluation asset in the amount of \$4,000 (2015 - \$4,000).

The Company's capitalized acquisition and exploration expenditures on its exploration and evaluation assets are as follows:

	<b>U.S.A. Secret Pass</b>
<b>Balance, December 31, 2015</b>	<b>\$ -</b>
Acquisition costs	
Acquisition costs – shares	187,500
Land administration	29,170
Total acquisition costs	216,670
Deferred exploration costs	
Report preparation	6,887
Geological	34,519
Geophysical	2,195
Field	36,549
Renewal	2,842
Translation adjustments	(874)
Total exploration costs	82,118
Total expenditures for the period	243,297
<b>Balance, September 30, 2016</b>	<b>\$ 298,788</b>

**Secret Pass Property – U.S.A.**

The Company entered into an Assignment Agreement with Performance Acquisitions LLC (“Performance”) who had entered into an option agreement, the “Tin Cup Option Agreement” with NJB Mining Inc. (“NJB”) pursuant to which Performance has the option (the “Option”) to acquire a one hundred percent (100%) right, title and interest in and to the Secret Pass Concessions situated in the State of Arizona, USA. Performance has assigned all of its rights and obligations (the “Assignment”) in the Tin Cup Option Agreement to a wholly-owned USA subsidiary of the Company which is currently in the process of being incorporated. The Company will pay consideration of five million common shares to Performance as detailed below.

In order to maintain the Tin Cup Option Agreement, the following payment and work commitments will be due to NJB.

- Issue to NJB 5% of any shares issued to Performance as a result of optioning the property to a third party.
- Payment of US\$150,000 on the earlier of commencement of commercial production or March 21, 2018 (being the second anniversary date of the Tin Cup Option Agreement).

**ARROWSTAR RESOURCES LTD.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016

(Expressed in Canadian Dollars)

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

- Annual payment of all tenement and BLM filing fees.
- Phase 1 exploration expenditure of US\$200,000. The Company will vest a 25% interest in the property at the completion of Phase 1.
- Phase 2 exploration expenditure of US\$400,000, whereupon the Company will vest an additional 15% interest in the property for an aggregate interest of 40%. The Company has eighteen months from the date of this agreement, March 21, 2016, to complete Phase 1 and 2. The Company will forfeit its aggregate interest if the Company decides not to go into commercial production.
- If the Company intends to go into commercial production it will be responsible for all costs including drilling, resource estimation, preliminary economic assessment, prefeasibility study, bankable feasibility study and mine permitting. The Company will retain its 40% interest once commercial production commences.
- A royalty of 15% will be paid in favour of NJB on net profits until US\$6,000,000 has been paid. Once US\$6,000,000 has been paid, the Company will have earned a 100% interest in the property subject to a reduced royalty of 5% for the balance of the mine life.
- The Company has the option to acquire the remaining 5% royalty, but the terms under which it can be purchased have not yet been agreed.

As consideration for the Assignment of the Option, the Company will issue an aggregate of 5,000,000 common shares of the Company to Performance as follows:

- 1,500,000 common shares upon receipt by the Company of TSX-V approval on the Transaction (issued).
- 1,000,000 common shares upon completion of Phase 1 exploration requirements.
- 1,000,000 common shares upon completion of Phase 2 exploration requirements.
- 1,500,000 within 14 days of the earlier of the 18-month anniversary of this agreement, March 29, 2016 or the approval from the Arizona Bureau of Land Management of the production plan to commence mining and production.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30 2016	December 31, 2015
Trade payables	\$ 154,459	\$ 904,051
Accrued liabilities	13,144	10,000
	\$ 167,603	\$ 914,051

**8. RELATED PARTY**

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 period ended September 30, 2016 was:

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Expressed in Canadian Dollars)

**8. RELATED PARTY (cont'd...)**

	2016	2015
Short-term benefits paid or accrued:		
Consulting fees - CFO	14,000	31,500
Consulting fees - Directors	-	18,000
Consulting fees - CEO	-	86,666
Deferred exploration costs - CEO	37,484	-
	\$ 51,484	\$ 136,166
Share-based compensation	133,505	1,964
<b>Total remuneration</b>	<b>\$ 184,989</b>	<b>\$ 138,130</b>

Accounts payable and accrued liabilities as at September 30, 2016 included \$Nil (2015 - \$552,987) owed to directors and companies controlled by a director or officer. The Company settled debt of \$573,442, owed to directors and companies controlled by a director or officer, by issuing 3,190,000 common shares of the Company at a deemed price of \$0.05

**9. SHARE CAPITAL AND RESERVES**

Authorized – Unlimited common shares without par value

Please refer to the Condensed Consolidated Interim Statement of Changes in Shareholders' Deficiency for a summary of changes in share capital and reserves for the period ended September 30, 2016 and the year ended December 31, 2015.

**Share issuances**

During the nine months ended September 30, 2016:

On May 16, 2016 the Company settled debt of \$698,245, owed to creditors, by issuing 4,060,000 common shares of the Company at a deemed price of \$0.05. The Company also settled \$51,145 on debt owed to creditors by paying cash of \$4,500.

On June 21, 2016 the Company issued 6,900,000 units at a price of \$0.05 per unit for gross proceeds of \$345,000. Each unit consists of one common share and one transferrable share purchase warrant with each Warrant entitling the holder to purchase an additional common share for a period of two (2) years at a price of \$0.085 per share in the first year of exercise and \$0.12 per share in the second year of exercise.

On June 21, 2016 the Company issued 1,500,000 common shares for the Tin Cup property acquisition, at a deemed price of \$0.125 per share.

During the nine months ended September 30, 2015:

On February 20, 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.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Expressed in Canadian Dollars)

**9. SHARE CAPITAL AND RESERVES (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 maximum issuance in any 12 month period is limited for any consultant or person providing investor relations services to 2%, for insiders to 10% and for any other person to 5%. 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. Options issued for investor relations services will be subject to a vesting schedule of at least 12 months whereby no more than 25% of the options granted may vest within any three-month period. All other vesting terms are determined by the Board of Directors.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2014	507,000	\$ 1.00
Options cancelled	<u>(507,000)</u>	1.00
As at December 31, 2015	-	1.00
Options granted	<u>1,500,000</u>	0.125
As at September 30, 2016	1,500,000	\$ 0.125
Number of options currently exercisable	1,500,000	\$ 0.125

The weighted average remaining contractual life of options outstanding at September 30, 2016 was 4.74 (December 31, 2015 – Nil) years.

Stock options outstanding are as follows:

Number of Options	Exercise Price	Expiry Date
1,500,000	\$ 0.125	June 24, 2021

The Company recorded \$166,634 (2015 - \$1,965) in share based payments for the period ended September 30, 2016.

The Company uses the fair value method for determining share-based payments for all options granted. The fair value was determined using the Black-Scholes option pricing model based on the following weighted average assumptions:

	September 30, 2016	June 30, 2015
Expected life (years)	5.00	2.00
Interest rate	0.63%	1.31%
Volatility	174.22%	114.0%
Dividend yield	-	-

The weighted average fair value of options granted during the period was \$0.125 (2015 - \$Nil).

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Expressed in Canadian Dollars)

**9. SHARE CAPITAL AND RESERVES (cont'd...)****Warrants**

The following common shares purchase warrants entitle the holder thereof to purchase one common share for each warrant. Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2014	-	\$ -
Warrants granted	<u>2,480,500</u>	0.15
As at December 31, 2015	2,480,500	0.15
Warrants granted	<u>6,900,000</u>	0.085
As at September 30, 2016	<u>9,380,500</u>	\$ 0.10

The weighted average remaining contractual life of warrants outstanding at September 30, 2016 was 2.17 (December 31, 2015 – 4.14) years.

Warrants outstanding are as follows:

Number of Shares	Exercise Price	Expiry Date
2,480,500	\$ 0.15	February 20, 2020
6,900,000	\$ 0.085/0.12	June 21, 2017/ 2018

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

Significant non-cash transactions during the period ended September 30, 2016 consist of the following:

- \$187,000 for shares issued for exploration and evaluation assets.
- \$203,000 for shares issued for debt settlement.

Significant non-cash transactions during the period ended September 30, 2015 consist of the following:

- \$139,800 of subscriptions received in advance being allocated to share capital on the issuance of shares.

**11. SEGMENTED INFORMATION**

The business of the Company is the acquisition, exploration and development of mineral properties which is considered one business segment.

Geographic information is as follows:

	September 30, 2016		
	Canada	USA	Total
Exploration and evaluation assets	\$ 187,500	\$ 111,288	\$ 298,788
Cash	49,993	-	49,993
Others	7,922	-	7,922
Total Assets	<u>\$ 245,415</u>	<u>\$ 111,288</u>	<u>\$ 356,703</u>

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Expressed in Canadian Dollars)

**11. SEGMENTED INFORMATION (cont'd...)**

	December 31, 2015		
	Canada	USA	Total
Exploration and evaluation assets	\$ -	\$ -	\$ -
Cash	17,491	-	17,491
Others	12,165	-	12,165
Total Assets	\$ 29,656	\$ -	\$ 29,656

**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, deposit, 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*

As of September 30, 2016, the Company had cash balance of \$49,993 (2015 - \$17,491) to settle current liabilities of \$167,603 (2015 - \$914,051). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company will need to raise additional funds through equity or debt to continue its operations.

*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 \$1,950 (2015 - \$550).

**ARROWSTAR RESOURCES LTD.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Expressed in Canadian Dollars)

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**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (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\$1,421 as of September 30, 2016 (2015 - US\$127).

*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 (deficiency), 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 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.