

ARCTIC STAR EXPLORATION CORP.

INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by the Management)

PERIODS ENDED JUNE 30, 2016 AND 2015
(Expressed in Canadian dollars)

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NOTICE – NO Auditor Review of the Interim Financial Statements

The accompanying unaudited interim financial statements of Arctic Star Exploration Corp. (“the Company”), for the six months ended June 30, 2016, have been prepared by management and have not been the subject of a review by the Company’s external independent auditor.

Arctic Star Exploration Corp.
Statements of Financial Position
(expressed in Canadian Dollars)

	June 30, 2016	December 31, 2015
ASSETS		
Current		
Cash	\$ 37,033	\$ 3,488
Accounts receivable and advances (Note 5)	8,235	3,963
Short term investments	-	7,500
Due from related parties (Note 11 (g))	525	525
Prepaid expenses	13,376	11,491
	<u>59,169</u>	<u>26,967</u>
Loans receivable (Note 6) and (Note 11 (h))	62,959	61,463
Security deposit (Note 8 (b))	44,000	44,000
Other assets (Note 7)	10,245	11,894
Mining properties (Note 8) and (Note 11 (f))	1,747,974	1,747,574
	<u>\$ 1,924,347</u>	<u>\$ 1,891,898</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable	\$ 103,245	\$ 96,819
Accrued liabilities	42,836	76,311
Due to related parties (Note 11 (a))	263,478	266,277
Flow-through share premium liability (Note 14)	98,834	98,834
	<u>508,393</u>	<u>538,241</u>
Shareholders' equity		
Share capital (Note 9)	44,529,573	44,138,421
Shares subscribed	-	34,500
Contributed surplus (Note 10)	5,141,333	5,118,760
Deficit	(48,254,952)	(47,938,024)
	<u>1,415,954</u>	<u>1,353,657</u>
	<u>\$ 1,924,347</u>	<u>\$ 1,891,898</u>

Nature and continuance of operations (Note 1)

Commitments (Note 14)

Subsequent events (Note 15)

"Patrick Power"
 Director – Patrick Power

"Buddy Doyle"
 Director – Buddy Doyle

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

Arctic Star Exploration Corp.
Interim Statements of Loss and Comprehensive Loss
(expressed in Canadian Dollars)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Expenses				
Accounting and audit (Note 11 (b))	\$ 21,750	\$ 23,640	\$ 42,750	\$ 44,640
Advertising	-	-	-	500
Amortization (Note 7)	825	2,102	1,650	4,204
Bank charges	294	661	509	967
Consulting fees (Note 11(e))	55,350	110,530	76,850	195,045
Filing fees	7,829	4,984	13,817	10,184
Legal	3,386	7,310	4,858	9,174
Management fees (Note 11(a))	60,000	60,000	120,000	120,000
Office and administration	5,910	11,262	13,972	25,185
Public relations	-	31,250	-	37,500
Rent (Note 11 (c))	12,694	31,051	25,388	60,274
Shareholders' information	356	1,056	1,002	4,368
Stock-based compensation (Note 10)	-	15,160	22,573	89,972
Trade shows	1,000	-	3,491	5,584
Transfer agent fees	2,586	1,192	3,773	2,497
Travel	1,091	39,242	1,468	51,184
	173,071	339,440	332,101	661,278
Loss before other items	(173,071)	(339,440)	(332,101)	(661,278)
Other items				
Interest income (Note 6 and 11 (h))	748	2,629	1,556	9,495
Recovery of rent (Note 11 (d))	6,308	-	13,617	-
Loss from investment in associate	-	(6,208)	-	(9,681)
Net loss and Comprehensive loss for the period	(166,015)	(343,019)	(316,928)	(661,464)
Loss per common share – basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted average number of common shares outstanding	95,547,996	76,051,840	90,950,744	75,993,646

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

Arctic Star Exploration Corp.
Interim Statements of Changes in Equity
(expressed in Canadian Dollars)

	Number of Shares	Share Capital	Shares Subscribed	Contributed Surplus	Deficit	Shareholder's Equity
Balance, December 31, 2014	75,936,091	\$ 43,665,504	\$ -	\$ 5,001,526	\$ (45,878,654)	\$ 2,788,376
Private placements - net	10,417,400	565,908	-	-	-	565,908
Fair value of stock options granted	-	-	-	89,972	-	89,972
Loss for the period	-	-	-	-	(661,464)	(661,464)
Balance June 30, 2015	86,353,491	44,231,412	-	5,091,498	(46,540,118)	2,782,792
Shares subscribed	-	-	34,500	-	-	34,500
Premium on flow-through shares	-	(83,334)	-	-	-	(83,334)
Fair value of broker's warrants issued	-	(9,657)	-	9,657	-	-
Fair value of stock options granted	-	-	-	17,605	-	17,605
Loss for the period	-	-	-	-	(1,397,906)	(1,397,906)
Balance December 31, 2015	86,353,491	44,138,421	34,500	5,118,760	(47,938,024)	1,353,657
Private placements - net	10,000,000	391,152	-	-	-	391,152
Shares subscribed	-	-	(34,500)	-	-	(34,500)
Fair value of stock options granted	-	-	-	22,573	-	22,573
Loss for the period	-	-	-	-	(316,928)	(316,928)
Balance June 30, 2016	96,353,491	44,529,573	-	5,141,333	(48,254,952)	1,415,954

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

Arctic Star Exploration Corp.
Interim Statements of Cash Flows
(expressed in Canadian Dollars)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from (used in)				
Operating activities				
Net loss for the period	\$ (166,015)	\$ (343,019)	\$ (316,928)	\$ (661,464)
Items not affecting cash:				
Amortization	825	2,102	1,650	4,204
Accrued interest on loan receivables	(748)	(2,630)	(1,496)	(9,418)
loss from investment in associate	-	6,208	-	9,681
Stock-based compensation	-	15,160	22,573	89,972
	(165,938)	(322,179)	(294,201)	(567,025)
Changes in non-cash working capital items:				
(Increase) decrease in accounts receivable	(1,243)	(8,939)	(4,272)	(3,322)
(Increase) decrease in due from related parties	-	1,683	-	2,217
(Increase) decrease in prepaid expenses	(4,376)	65,384	(1,885)	13,158
Increase (decrease) in loan payable	-	(75,000)	-	-
Increase (decrease) in accounts payable and accrued liabilities	(37,056)	56,277	(27,050)	142,614
	(208,613)	(282,774)	(327,408)	(412,358)
Investing activities				
Deposits	-	-	-	26,570
Loan receivables	-	237,181	-	237,181
Short term investments	-	-	7,500	-
Resource property expenditures	-	(139,987)	(400)	(223,758)
Exploration advances	-	-	-	10,125
	-	97,194	7,100	50,118
Financing activities				
Common shares	400,000	525,004	400,000	604,204
Shares issue costs	(8,848)	(38,296)	(8,848)	(38,296)
Shares subscribed	(213,500)	-	(34,500)	-
Due to related parties	24,115	75,649	(2,799)	142,526
	201,767	562,357	353,853	708,434
Change in cash during the period	(6,846)	376,777	33,545	346,194
Cash, beginning of the period	43,879	6,344	3,488	36,927
Cash, end of the period	\$ 37,033	\$ 383,121	\$ 37,033	\$ 383,121

Supplemental disclosure with respect to cash flows (Note 13)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Arctic Star Exploration Corp. (the "Company") was federally incorporated under the Canada Business Corporations Act on January 5, 2001. In addition, effective September 15, 2004, the Company registered as an extra-territorial corporation in the Northwest Territories. The Company's registered office is located at Suite 1400 – 1111 West Georgia Street, Vancouver BC, V6E 4M3.

The Company is in the process of exploring its resource properties and has not determined whether these properties contain mineral reserves which are economically recoverable. The recoverability of amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and future profitable production from mining properties or proceeds from their disposition.

At June 30, 2016, the Company had a working capital deficiency (which excludes prepaid expenses and liabilities related to flow-through share obligations) of \$363,766 (December 31, 2015 – deficiency of \$423,931), had not yet achieved profitable operations, has accumulated losses of \$48,254,952 (December 31, 2015 - \$47,938,023) since its inception and expects to incur further losses in the development of its business, all of which indicate the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to conduct its planned work programs on its mineral properties, meet its on-going levels of corporate overhead and commitments, keep its properties in good standing and discharge its liabilities as they come due. These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge liabilities in the normal course of business. Although the Company presently has sufficient financial resources to undertake its currently planned work programs and has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Accordingly, the financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in these financial statements.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These interim consolidated financial statements, as at and for the six months ended June 30, 2016, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These financial statements were approved and authorized for issue by the Board of Directors on August 25, 2016.

(c) Basis of preparation

These financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, the financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All financial information in these financial statements is presented in Canadian dollars which is the functional currency of the parent Company, its subsidiaries and its investment in associate. The accounting policies set out below have been applied consistently by the Company and its subsidiaries and any associates.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of policies and reported amounts of assets and liabilities and disclosures of assets and liabilities at the date of the financial statements, along with reported amounts of expenses and net losses during the period. Actual results may differ from these estimates, and as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position reporting date that could result in a material adjustment to the carrying value of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

2. BASIS OF PRESENTATION (continued)

Judgments:

- the Company is entitled to refundable input tax credits and tax credits on qualified resource expenditures incurred in Canada. Management's judgment is applied in determining whether expenditures are eligible for claiming such credits;
- the Company is required to spend proceeds received from the issuance of flow-through shares on qualifying resource expenditures. Management's judgment is applied in determining whether qualified expenditures have been incurred. Differences in judgment between management and regulatory authorities can materially increase the flow-through premium liability and outstanding commitments (Note 14);
- the recoverability of mineral properties and exploration and evaluation expenditures incurred on its Canadian projects; the Company capitalizes acquisition, exploration and evaluation expenditures on its statement of financial position, and evaluates these amounts at least annually for indicators of impairment; and
- the Company determines the flow-through share premium by allocating the total funds received between common share and flow-through premium liability by first assessing the fair value of the common shares issued, based on market price at issuance, with any excess considered being allocated to warrants (if any) and the flow-through premium.
- The accounting for investments in other companies can vary depending on the degree of control and influence over those other companies. Management is required to assess at each reporting date the Company's control and influence over these other companies. Management has used its judgment to determine which companies are controlled and require consolidation and those which are significantly influenced and require equity accounting.

Estimates:

- the estimated useful lives and residual value of property, plant and equipment which are included in the statement of financial position and the related amortization included in the statement of loss and comprehensive loss;
- the estimated fair value of the loans receivable;
- the inputs in accounting for share-based payment transactions in the statement of loss and comprehensive loss (using the Black-Scholes model) including volatility, probable life of options granted, time of exercise of the options and forfeiture rate; and
- the determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

(e) Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the Company as determined by management, is the Canadian dollar and this is also the currency in which it presents these consolidated financial statements. The Company recognizes transactions in currencies other than the Canadian dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the statement of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Property, plant and equipment

(i) Mining properties and exploration and evaluation expenditures

Acquisition costs of resource properties together with direct exploration and evaluation expenditures thereon are recorded in the accounts at costs. These are classified as intangible assets. Once a project has been established as commercially viable and technically feasible, mineral properties are reclassified as tangible assets and related development expenditures are capitalized. When production is attained these costs will be amortized using the unit of production method based upon estimated proven recoverable reserves. When deferred expenditures on individual producing properties exceed the estimated net realizable value, the properties are written down to the estimated value. Costs relating to properties abandoned are written off when the decision to abandon is made. The Company recognizes in income costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount.

The amounts shown for mining properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

(ii) Other assets

Other assets are reported at cost. Amortization is provided over the assets' estimated useful life using the declining balance method at the following rates per annum.

Machinery and equipment	20%
Computer equipment	45%

(iii) Subsequent costs

The cost of replacing part of an item within property, plant and equipment is capitalized or deferred when the cost is incurred if it is probable that the future economic benefits will flow to the company and the cost of the item can be measured reliably. All other costs are recognized as an expense as incurred.

(iv) Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

(v) Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(b) Short-term investments

Short-term investments are recorded at cost, which approximate market value and consist of short-term investments with a maturity of more than three months.

(c) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period.

3. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(d) **Common shares**

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares or the date of share issuance, whichever is more appropriate. The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in private placements to be the more easily measurable component of unit offerings and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to any attached warrants or other features. Any fair value attributed to warrants is recorded as contributed surplus.

Common shares designated by agreement as flow-through shares, may be issued at a premium to non-flow-through common shares. On issuance, the Company allocates the flow-through share into i) fair value of capital stock and ii) the residual as a flow-through share premium, which is recognized as a liability. On issuance of a flow-through unit when no comparable non flow-through units have been issued, the Company allocates the flow-through unit into i) fair value of capital stock, ii) fair value of a warrant and iii) the residual as a flow-through share premium, which is recognized as a liability. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax recovery. The Company is required to spend the proceeds received from issuance of flow-through shares on Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received, but not yet expended at the of the Company's period, is disclosed in Note 16.

(e) **Share-based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized immediately that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

The fair value of the options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

(f) **Provision for environmental rehabilitation**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mining properties and other assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets. The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision.

The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the. The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of ongoing current programs to prevent and control pollution is charged against profit and loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments

Financial Assets

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

Financial assets at FVTPL include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in profit or loss. Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company has classified its cash and loans receivable as FVTPL.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Financial assets classified as loans and receivables are measured at amortized cost less impairment. The Company has classified its due from related parties and other receivables as loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company has classified its short-term investment 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

Financial liabilities are initially recorded at fair value and designated upon inception as other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. The Company has classified its accounts payable and accrued liabilities and due to related parties as other financial liabilities.

(h) Agent warrants and warrants

Warrants issued to agents in connection with a financing are recorded at fair value and charged to share issue costs associated with the offering with an offsetting credit to contributed surplus in shareholders' equity.

Warrants included in units offered to subscribers in connection with financings are valued using the residual value method whereby proceeds are first allocated to the fair value of the shares and the excess if any, allocated to the warrants.

(i) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) New standards

(i) Effective for annual periods beginning on or after January 1, 2015

IAS 24 Related Party Disclosures – annual improvements to IFRSs 2010-2012 cycle

Amended to clarify that an entity providing key management services to the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This standard is effective for annual periods beginning on or after July 1, 2014. Adoption of this standard resulted in additional related party disclosure.

Certain other pronouncements were adopted by the Company on January 1, 2015, none of which had a significant impact on the Company's consolidated financial statements.

(ii) Effective for annual periods beginning on or after January 1, 2016

New standard IFRS 9 Financial Instruments

Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. This standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard.

4. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL DISCLOSURES

(a) Fair value of financial instruments

As at June 30, 2016, the Company's financial instruments consist of cash, short term investments, loans receivable, accounts payable and accrued liabilities, and due to and due from related parties.

IFRS requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. IFRS establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS prioritizes the inputs into three levels that may be used to measure fair value.

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the net asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Arctic Star Exploration Corp.
Notes to the Interim Financial Statements
Periods ended June 30, 2016 and 2015
(expressed in Canadian dollars)

4. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL DISCLOSURES (continued)

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

	Level 1	Level 2	Level 3	Total
June 30, 2016				
Cash	37,033	\$ -	\$ -	\$ 37,033
Short term investments	-	-	-	-
Loans receivable	-	62,959	-	62,959
	\$ 37,033	\$ 62,959	\$ -	\$ 99,992
December 31, 2015				
Cash	\$ 3,488	\$ -	\$ -	\$ 3,488
Short term investments	7,500	-	-	7,500
Loans receivable	-	61,464	-	61,464
	\$ 10,988	\$ 61,464	\$ -	\$ 72,452

The fair value of cash and short-term investments are determined based on Level 1 inputs which consist of quoted prices in active markets for identical assets. The fair value of loans receivable are determined based on Level 2 inputs and estimated using the trading value of the equity-linked publicly traded instrument. As at June 30, 2016, the Company believes that the carrying values of accounts payable and accrued liabilities and due to and due from related parties approximate the fair values because of their nature and relatively short maturity dates or durations.

(b) **Risk Management**

Credit Risk

Credit risk refers to the risk that the counterparty will default on its contractual obligation resulting in financial loss to the Company. Credit risk is primarily related to the Company's cash and loans receivable. To minimize this risk, cash has been placed with major Canadian financial institutions. The maximum exposure to credit risk for cash is \$37,033 (2015 – 3,488),

The Company has loaned money to smaller companies to provide assistance. The maximum exposure to credit risk for loans receivable is \$62,959 (2015 - \$61,463).

Interest Rate Risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet annual business requirements, after taking into account administrative, property holding and exploration budgets, and cash and cash equivalent holdings. As the Company does not have operating cash flow, the Company has relied primarily on equity financings to meet its capital requirements (Note 1).

Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risk associated with fluctuations in the market prices of gold, silver, nickel, diamonds and copper.

(c) **Capital management**

The Company considers its capital structure to include working capital and shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future, or that the terms of such financings will be favourable. The Company's share capital is not subject to any external restriction and the Company did not change its approach to capital management during the period.

Arctic Star Exploration Corp.
Notes to the Interim Financial Statements
Periods ended June 30, 2016 and 2015
(expressed in Canadian dollars)

5. ACCOUNTS RECEIVABLE AND ADVANCES

		June 30, 2016		December 31, 2015
GST receivable	\$	6,735	\$	3,963
Others		1,500		-
	\$	8,235	\$	3,963

6. LOANS RECEIVABLE

		June 30, 2016		December 31, 2015
(a) Red Oak Mining Corp.		50,000		50,000
-accrued interest		12,959		11,463
	\$	62,959	\$	61,463

- (a) During the period ended June 30, 2016 the Company loaned \$Nil (2015 - \$nil) to Red Oak Mining Corp. a publicly traded company related by an officer who is a director of Red Oak.

The total loan of \$50,000 (2015 - \$50,000) is unsecured and due on demand with interest at 6.00% per annum and can be repaid in shares of Red Oak Mining Corp. at any time at the Company's discretion.

The loans receivable were issued by the Company for the purpose of providing assistance to smaller companies.

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7. OTHER ASSETS

Cost	Computer Equipment	Machinery and Equipment	Total
Balance at December 31, 2014	\$ 69,877	56,818	\$ 126,695
Additions	-	-	-
Disposals	-	-	-
Balance at December 31, 2015	69,877	56,818	126,695
Additions	-	-	-
Disposals	-	-	-
June 30, 2016	\$ 69,877	56,818	\$ 126,695

Accumulated depreciation and amortization	Computer Equipment	Machinery and Equipment	Total
Balance at December 31, 2014	\$ 62,961	46,553	\$ 109,514
Additions	3,236	2,051	5,287
Disposals	-	-	-
Balance at December 31, 2015	66,197	48,604	114,801
Additions	828	821	1,649
Disposals	-	-	-
June 30, 2016	\$ 67,025	49,425	\$ 116,450

Net carrying amounts	Computer Equipment	Machinery and Equipment	Total
At December 31, 2015	\$ 3,680	8,214	\$ 11,894
At June 30, 2016	\$ 2,852	7,393	\$ 10,245

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8. MINING PROPERTIES

	T-Rex	Triceratops	Redemption	Stein	Total
Deferred Exploration Expenditures:					
Balance on December 31, 2015	\$ 359,738	\$ 1,500	\$ 979,774	\$ 76,132	\$ 1,417,144
Travel	-	-	-	-	-
Field and Camp Costs	-	-	-	-	-
Consulting	400	-	-	-	400
Equipment rental	-	-	-	-	-
Survey	-	-	-	-	-
	360,138	1,500	979,774	76,132	1,417,544
Property Acquisitions:					
Balance on December 31, 2015	246,460	-	50,000	33,970	330,430
Additions	-	-	-	-	-
	246,460	-	50,000	33,970	330,430
Balance on June 30, 2016	\$ 606,598	\$ 1,500	1,029,774	\$ 110,102	\$ 1,747,974

	T-Rex	Triceratops	Redemption	Stein	Total
Deferred Exploration Expenditures:					
Balance on December 31, 2014	\$ 96,675	\$ -	\$ 979,774	\$ -	\$ 1,076,449
Travel	4,395	-	-	7,933	12,328
Field and Camp Costs	12,270	-	-	-	12,270
Consulting	166,398	1,500	-	68,199	236,097
Equipment rental	10,000	-	-	-	10,000
Survey	70,000	-	-	-	70,000
	359,738	1,500	979,774	76,132	1,417,144
Property Acquisitions:					
Balance on December 31, 2014	246,460	-	50,000	-	296,460
Additions	-	-	-	33,970	33,970
	246,460	-	50,000	33,970	330,430
Balance on December 31, 2015	\$ 606,198	\$ 1,500	1,029,774	\$ 110,102	\$ 1,747,574

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8. MINING PROPERTIES (continued)

Title to resource properties 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 resource properties. The Company has investigated title to all of its resource properties and to the best of its knowledge, title to all of its properties are in good standing.

(a) Redemption project, Lac-De- Gras

During the year ended December 31, 2013, the Company signed an agreement with GGL Resource Corp. ("GGL") regarding four mining leases, south of Lac de Gras. Per the agreement, the Company has acquired a 100-per-cent interest in the four mining leases for \$50,000. The Company and GGL subsequently added an addendum to the agreement under which the Company purchased one additional mining lease for \$17,500. GGL retains a 1.5% gross overriding royalty on any diamond production from the property and a 1.5% net smelter royalty for any other commodity mined. The Company may buy 0.5% of this royalty for \$2-million. The mining leases are contiguous with the Company's Redemption project which was staked during fiscal 2012.

During the year ended December 31, 2013 the Company deposited a security deposit of \$44,000 with Aboriginal Affairs and Northern Development Canada, which will be held for the duration of the permit.

During the year ended December 31, 2013, the Company signed an option agreement with North Arrow Mineral Inc. ("North"). Under the agreement, North can earn a 55-per-cent interest in the Redemption property, including the mining leases acquired from GGL, by incurring \$5 million in exploration expenditure prior to July 1, 2017, including a firm commitment to spend \$1,000,000 prior to July 1, 2014 (completed) and paying \$17,500 (paid).

(b) T-Rex property, Lac De Gras NT

During the year ended December 31, 2014, the Company staked 54,000 hectares of ground, for \$246,460, in an area previously held by other diamond explorers in the Lac de Gras kimberlite field 20km North of Diavik and 24 km East of Ekati.

(c) Triceratops property, Lac De Gras NT

During the year ended December 31, 2015, the Company acquired "Triceratops Property," Northwest Territories, Canada. The 100 % owned property consists of 62 contiguous prospecting permits covering an area of 46,840 hectares in the Lac de Gras kimberlite field.

(d) Stein property, Nunavut

During the year ended December 31, 2015 the Company acquired "Stein Diamond Property," Nunavut, Canada. The 100 % owned property consists of 4 contiguous prospecting permits covering an area of 105,637 hectares on the Boothia Peninsula.

Management reviews the carrying values of its mining claims on at least an annual basis, or when an impairment event occurs, to determine whether impairment should be recognized. The Company did not write down any property during the year ending December 31, 2015 (2014 \$nil).

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9. SHARE CAPITAL

	June 30, 2016	December 31, 2015
(a) Authorized: Unlimited common shares without par value		
Issued:		
96,353,491 common shares (2015: 86,353,491 shares)	\$ 44,529,573	\$ 44,138,421

(b) The Company issued shares pursuant to private placements as follows:

- (i) During the year ended December 31, 2015, the Company closed a non-brokered private placement by issuing 8,333,400 flow-through units at a price of \$0.06 per unit and 2,084,000 non-flow-through units at a price of \$0.05 per unit for gross cash proceeds of \$604,204. Each unit consists of one common share and one half of a share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at an exercise price of \$0.10 per share expiring on June 30, 2020.

The flow-through shares were issued at a premium to the non-flow-through shares which is a reflection of the value of the income tax write-offs that the Company will pass on to the flow-through shareholders. The premium was determined to be \$83,334 and was recorded as a reduction of share capital. An equivalent flow-through share premium liability was recorded which is being reversed as the required exploration expenditures are completed.

The Company incurred \$38,296 in share issue expenses related to this private placement.

The Company also issued 291,669 brokers warrants at a price of \$0.10 per share with an exercise date of June 30, 2020. The warrants were valued at \$9,657 using the Black-Scholes option pricing model with an average risk-free interest rate of 0.90%, expected life of 5 years, volatility of 141.24% and dividend yield of 0%.

- (ii) On April 8th, 2016, the Company completed a private placement of 8,900,000 units at a price of \$0.04 per unit for gross proceeds of \$356,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.05 for a period of two years.
- (iii) On April 11th, 2016, the Company completed a private placement of 1,100,000 units at a price of \$0.04 per unit for gross proceeds of \$44,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.05 for a period of two years.

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9. SHARE CAPITAL (continued)

(c) Share purchase warrants

(i) As at June 30, 2016, the Company had warrants outstanding enabling holders to acquire the following:

Number of shares	Exercise Price	Expiry Date
2,569,166	\$0.20	July 21, 2016
2,292,500	\$0.20	July 28, 2016
2,224,509	\$0.20	July 30, 2016
88,000	\$0.20	July 21, 2016
32,000	\$0.20	July 28, 2016
320,000	\$0.20	July 30, 2016
5,500,369	\$0.10	June 30, 2020
8,900,000	\$0.05	April 08, 2018
1,100,000	\$0.05	April 11, 2018
23,026,544		

(ii) A summary of the Company's issued and outstanding share purchase warrants as at June 30, 2016 and December 31, 2015 and changes during those periods are presented below:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2014	15,831,672	\$0.27	1.17 years
Issued	5,500,369	\$0.10	
Expired/Cancelled	(8,305,497)	\$0.33	
Balance, December 31, 2015	13,026,544	\$0.16	5.08 years
Issued	10,000,000	-	
Expired/Cancelled	-	-	
Balance, June 30, 2016	23,026,544	\$0.11	5.83 years

(d) Share based payments

(i) As at June 30, 2016, the Company had stock options outstanding enabling holders to acquire the following:

Number of Shares	Exercise Price	Expiry Date
2,075,000	\$0.12	January 13, 2017
91,000	\$0.12	May 4, 2017
690,000	\$0.12	December 07, 2017
550,000	\$0.12	April 12, 2018
875,000	\$0.12	April 16, 2018
1,150,000	\$0.11	February 04, 2019
1,700,000	\$0.05	February 20, 2020
500,000	\$0.05	June 30, 2020
1,000,000	\$0.05	March 21, 2021
8,631,000		

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9. SHARE CAPITAL (continued)

(d) Share based payments (continued)

(ii) A summary of the status of the Company's stock options as at June 30, 2016 and December 31, 2015, and changes during those years is presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2014	5,431,000	\$0.12	2.96 years
Granted	2,600,000	\$0.05	
Exercised	(400,000)	(0.05)	
Balance, December 31, 2015	7,631,000	\$0.10	2.47 years
Granted	1,000,000	\$0.05	
Expired/Cancelled	-	-	
Balance, June 30, 2016	8,631,000	\$0.09	2.42 years

10. STOCK-BASED COMPENSATION AND CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus:

Balance, December 31, 2014	\$	5,001,526
Options granted		107,577
Agent warrants granted		9,657
Balance, December 31, 2015		5,118,760
Options granted		22,573
Balance, June 30, 2016	\$	5,141,333

The Company has a stock option plan (the "Plan") for directors, senior officers, employees, consultants, and management. The Plan provides for the granting of stock options up to a maximum of 10% of the issued and outstanding common shares of the Company at the date of grant. Options are granted for a term not exceeding five years. Options granted to directors, senior officers, employees, and consultants vest fully on the grant date. Options granted to consultants performing investor relations activities vest over a period of twelve months with no more than one-quarter of the options vesting in any three month period.

During the year ended December 31, 2015, the Company has recognized \$107,577 in compensation upon issuance of 2,600,000 stock options. These options vested 100% on the grant date. The fair values of these options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions.

During the period ended June 30, 2016, the Company has recognized \$22,573 in compensation upon issuance of 1,000,000 stock options. These options vested 100% on the grant date. The fair values of these options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions.

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10. STOCK-BASED COMPENSATION AND CONTRIBUTED SURPLUS (continued)

	June 30, 2016	December 31, 2015
Risk-free interest rate	0.81%	0.75% -1.38%
Experienced life of options	5	5
Annualized volatility	161.56%	137.56% - 141.24%
Dividend rate	-	-

11. RELATED PARTY TRANSACTIONS

- (a) During the period ended June 30, 2016, the Company incurred management fees of \$120,000 (June 30, 2015: \$120,000) with directors and companies owned by directors.
- (b) During the period ended June 30, 2016, the Company incurred accounting fees of \$42,000 (June 30, 2015: \$42,000) with an officer of the Company.
- (c) During the period ended June 30, 2016 payment of rent of \$25,388 (June 30, 2015: \$60,274) pertains to rent paid to a company related by a common director for shared office premises.
- (d) During the period ended June 30, 2016 recovery of rent of \$13,617 (June 30, 2015: \$nil) pertains to rent collected from a company related by a common officer for shared office premises.
- (e) During the period ended June 30, 2016, the Company incurred consulting fees of \$nil (June 30, 2015: \$67,500) with a director, a company owned by a director and a company related by a common director.
- (f) During the period ended June 30, 2016, the Company incurred deferred exploration expenditures and consulting fees of \$nil (June 30, 2015: \$69,375) with a company owned by a director of the Company and a company related to the spouse of a director.
- (g) As at June 30, 2016 due from related parties include \$525 (December 31, 2015: \$525) due from a Company controlled by a director of the Company and with a company related by a common officer.
- (h) As at June 30, 2016 loans receivable includes \$62,959 (December 31, 2015: \$61,464) due from a company related by an officer who is a director of that company. The loan is due on demand with interest at 6% per annum. During the period ended June 30, 2016, the Company accrued \$1,496 (June 30, 2015 - \$740) of interest on the loan.
- (i) As at June 30, 2016, \$263,478 (December 31, 2014 - \$266,277) was owing to companies controlled by directors and officers of the Company.

The amounts due from or to the related parties are unsecured and without interest (except for the loans receivable) or stated terms of repayment.

Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

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11. RELATED PARTY TRANSACTIONS (continued)

During the period ended June 30, 2016, 375,000 stock options (December 31, 2015 – 2,600,000) were granted to directors and officers. The aggregate value of transactions relating to key management personnel were as follows:

The aggregate values of transactions relating to key management personnel were as follows:

	June 30, 2016	June 30, 2015
Management fees	\$ 120,000	\$ 60,000
Accounting fees	42,000	21,000
Rent	28,388	60,274
Consulting fees	-	67,500
Capitalized consulting fees	-	69,375

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO OPERATING, FINANCING AND INVESTING ACTIVITIES

Non-cash investing and financing activities for the year ended December 31, 2015, were as follows:

- (a) The Company issued 291,669 brokers' warrants valued at \$9,657 recorded as share issuance costs.
- (b) Accounts payable includes \$108,989 related to mining property expenditures.

13. SEGMENTED INFORMATION

The Company operates in one reportable operating segment - mineral exploration. As at June 30, 2016, the Company's resource properties are located in Canada. The Company is in the exploration stage and, accordingly, has no reportable segment revenues during the period ended June 30, 2016.

14. COMMITMENTS

During the year ended December 31, 2014, the Company completed a private placement of flow-through shares for gross proceeds of \$535,000 (Note 9). A flow-through share premium liability of \$76,500 was recorded on the issue. The flow-through funds were required to be spent on qualified exploration programs no later than December 31, 2015. As at December 31, 2015, the Company had spent approximately \$338,895 (2014 - \$90,675) of the flow-through funds on qualified programs, and under the look-back rules permitted by Canadian tax authorities expects to spend the remaining funds in 2016. The flow-through share premium liability has been reduced pro-rata by \$48,000 (2014 - \$13,000) for the tax benefits that were renounced for funds spent to the end of 2015 and a deferred income tax recovery of \$48,000 (2014 - \$13,000) has been recorded. Under the look-back rules, effective from February 1, 2015, any flow-through funds spent in 2015 were charged a floating interest tax, which was set at 1% per annum and resulted in flow-through taxes payable of \$12,811.

During the year ended December 31, 2015, the Company completed a private placement of flow-through shares for gross proceeds of \$500,004 (Note 9). A flow-through share premium liability of \$83,334 was recorded on the issue. The flow-through funds are required to be spent on qualified exploration programs no later than December 31, 2016. As at December 31, 2015, the Company had spent \$nil of the flow-through fund on qualified programs, and under the look-back rules permitted by Canadian tax authorities expects to spend the remaining funds in 2016.

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15. SUBSEQUENT EVENTS

- a. Cancelled 900,000 options, which were previously issued to directors, officers and consultants at \$0.11.
- b. Cancelled 2,156,000 options, which were previously issued to directors, officers and consultants at \$0.12.
- c. Granted 4,060,000 options at \$0.05 to consultants expiring on July 21, 2021.
- d. The Company has acquired a Diamond Dunes Project, located in the Western Athabasca Basin, Saskatchewan, a 100 percent interest in mineral claims comprising 40,831 hectares in the Athabasca Basin by paying \$25,000 cash plus issuing one million Arctic Star shares to the vendor. The Company shares issued are subject to a four-month hold period.

The Company has paid \$25,000 and issued 1,000,000 shares at deemed price of \$0.04.

- e. 7,526,175 warrants at \$0.20 expired unexercised.