

ARCTIC STAR EXPLORATION CORP.

INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by the Management)

PERIODS ENDED JUNE 30, 2017 AND 2016
(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, 2017, 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, 2017	December 31, 2016
ASSETS		
Current		
Cash	\$ 69,885	\$ 372,111
Accounts receivable (Note 5)	7,906	157,072
Due from related parties (Note 11 (g))	172,200	-
Exploration advances (Note 8 (b))	69,653	-
Prepaid expenses (Note 11 (f))	68,321	141,462
	<u>387,965</u>	<u>670,645</u>
Loans receivable (Note 6) and (Note 11 (h))	-	64,471
Security deposit (Note 8 (a))	44,000	44,000
Other assets (Note 7)	7,483	8,595
Mining properties (Note 8)	<u>2,493,327</u>	<u>2,268,844</u>
	<u>\$ 2,932,775</u>	<u>\$ 3,056,555</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable	\$ 307,572	\$ 344,325
Accrued liabilities	13,923	91,238
Due to related parties (Note 11 (i))	132,606	191,231
	<u>454,101</u>	<u>626,794</u>
Shareholders' equity		
Share capital (Note 9)	46,575,315	45,936,418
Contributed surplus (Note 10)	5,486,832	5,497,212
Deficit	<u>(49,583,473)</u>	<u>(49,003,869)</u>
	<u>2,478,674</u>	<u>2,429,761</u>
	<u>\$ 2,932,775</u>	<u>\$ 3,056,555</u>
Nature and continuance of operations (Note 1)		
Commitments (Note 14)		
Subsequent events (Note 15)		
<u>"Patrick Power"</u>	<u>"Buddy Doyle"</u>	
Director – Patrick Power	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, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Expenses				
Accounting and audit (Note 11 (b))	\$ 21,000	\$ 21,750	\$ 42,000	\$ 42,750
Advertisement and promotional	6,585	-	6,585	-
Amortization (Note 7)	557	825	1,113	1,650
Bank charges	254	294	605	509
Consulting fees (Note 11(a))	132,821	115,350	243,498	196,850
Filing fees	7,345	7,829	14,129	13,817
Legal	20,829	3,386	25,549	4,858
Office and administration	5,131	5,910	13,030	13,972
Public relations (Note 11 (f))	43,431	-	86,551	-
Rent (Note 11 (c))	12,694	12,694	25,388	25,388
Shareholders' information	102	356	513	1,002
Stock-based compensation (Note 10)	-	-	30,202	22,573
Trade shows (Note 11 (e))	-	1,000	11,540	3,491
Transfer agent fees	2,305	2,586	5,720	3,773
Travel	27,292	1,091	30,872	1,468
	280,346	173,071	537,295	332,101
Loss before other items	(280,346)	(173,071)	(537,295)	(332,101)
Other items				
Interest income (Note 6 and 11 (h))	246	748	986	1,556
Write-off loan receivables (Note 6)	(58,912)	-	(58,912)	-
Recovery of rent (Note 11 (d))	8,308	6,308	15,617	13,617
Net Loss and Comprehensive loss for the period	(330,704)	\$ (166,015)	(579,604)	\$ (316,928)
Loss per common share – basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	53,300,843	23,886,999	52,685,038	22,737,686

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, 2016	48,876,707	\$ 45,936,418	\$ -	\$ 5,497,212	\$ (49,003,869)	\$ 2,429,761
Private placements - net	4,671,666	488,935	-	-	-	488,935
Stock options exercised	750,000	75,250	-	-	-	75,250
Fair value of stock options exercised	-	61,910	-	(61,910)	-	-
Warrants exercised	429,250	34,130	-	-	-	34,130
Fair value of warrants exercised	-	3,542	-	(3,542)	-	-
Fair value of broker's warrants	-	(24,870)	-	24,870	-	-
Fair value of stock options granted	-	-	-	30,202	-	30,202
Loss for the period	-	-	-	-	(579,604)	(579,604)
Balance June 30, 2017	54,727,623	46,575,315	-	5,486,832	(49,583,473)	2,478,674
Balance December 31, 2015	21,588,373	44,138,421	34,500	5,118,760	(47,938,024)	1,353,657
Private placements - net	2,500,000	391,152	(34,500)	-	-	356,652
Fair value of stock options granted	-	-	-	22,573	-	22,573
Loss for the period	-	-	-	-	(316,928)	(316,928)
Balance June 30, 2016	24,088,373	\$ 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, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from (used in)				
Operating activities				
Net loss for the period	\$ (330,704)	\$ (166,015)	\$ (579,604)	\$ (316,928)
Items not affecting cash:				
Amortization	557	825	1,113	1,650
Write-down loan receivables	58,912	-	58,912	-
Accrued interest on loan receivables	(247)	(748)	(987)	(1,496)
Stock-based compensation	-	-	30,202	22,573
	(271,482)	(165,938)	(490,364)	(294,201)
Changes in non-cash working capital items:				
(Increase) decrease in accounts receivable	3,939	(1,243)	149,166	(4,272)
(Increase) decrease in due from related parties	(34,800)	-	(172,200)	-
(Increase) decrease in exploration advances	(69,653)	-	(69,653)	-
(Increase) decrease in prepaid expenses	27,411	(4,376)	73,141	(1,885)
Increase (decrease) in accounts payable and accrued liabilities	(46,803)	(37,056)	(114,069)	(27,050)
	(391,388)	(208,613)	(623,979)	(327,408)
Investing activities				
Short term investments	-	-	-	7,500
Loan receivables	6,546	-	6,546	-
Resource property expenditures	(170,348)	-	(224,483)	(400)
	(163,802)	-	(217,937)	7,100
Financing activities				
Common shares	404,130	400,000	634,680	400,000
Shares issue costs	(28,000)	(8,848)	(36,365)	(8,848)
Shares subscribed	-	(213,500)	-	(34,500)
Due to related parties	57,774	24,115	(58,625)	(2,799)
	433,904	201,767	539,690	353,853
Change in cash during the period	(121,286)	(6,846)	(302,226)	33,545
Cash, beginning of the period	191,171	43,879	372,111	3,488
Cash, end of the period	\$ 69,885	\$ 37,033	\$ 69,885	\$ 37,033

Supplemental disclosure with respect to cash flows (Note 12)

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, 2017, the Company had a working capital deficiency (which excludes prepaid expenses) of \$134,457 (December 31, 2016 – deficiency of \$97,611), had not yet achieved profitable operations, has accumulated losses of \$49,583,473 (December 31, 2015 - \$49,003,869) 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, 2017, 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 10, 2017.

(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. 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 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 end of the Company's period is disclosed in Note 14.

(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, 2016

There are no new accounting pronouncements adopted which had a significant impact on the Company's financial statements.

(ii) Effective for annual periods beginning on or after January 1, 2017

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.

IFRS 16 Leases:

This standard is effective for annual periods beginning on or after January 1, 2019. 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, 2017, 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.

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, 2017				
Cash	\$ 69,885	\$ -	\$ -	69,885
Short term investments	-	-	-	-
Loans receivable	-	-	-	-
	\$ 69,885	\$ -	\$ -	\$ 69,885
December 31, 2016				
Cash	\$372,111	\$ -	\$ -	\$ 372,111
Short term investments	-	-	-	-
Loans receivable	-	64,471	-	64,471
	\$ 372,111	\$ 64,471	\$ -	\$ 436,582

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 is determined based on Level 2 inputs and estimated using the trading value of the equity-linked publicly traded instrument. As at June 30, 2017, 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 \$69,885 (December 31, 2016 - 372,111).

The Company has loaned money to smaller companies to provide assistance. The maximum exposure to credit risk for loans receivable is \$nil (December 31, 2016 - \$64,471).

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, 2017 and 2016
(expressed in Canadian dollars)

5. ACCOUNTS RECEIVABLE

		June 30, 2017		December 31, 2016
GST receivable	\$	7,906	\$	52,472
Share subscriptions receivable		-		104,600
	\$	7,906	\$	157,072

6. LOANS RECEIVABLE

		June 30, 2017		December 31, 2016
(a) Red Oak Mining Corp.		50,000		50,000
Accrued interest		15,458		14,471
Paid out		(6,546)		-
Wrote-off		(58,912)		-
	\$	-	\$	64,471

- (a) During the period ended June 30, 2017 the Company loaned \$Nil (December 31, 2016 - \$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 (December 31, 2016 - \$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.

During period ended June 30, 2017, the Company received \$6,546 against the loan receivables. The rest of the loan was not collectable; therefore the Company wrote-off \$58,912 against the balance of the loan amount.

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7. OTHER ASSETS

Cost		Computer Equipment	Machinery and Equipment	Automobile		Total
Balance at December 31, 2015	\$	69,877	56,818	\$	122,651	\$ 249,346
Additions		-	-		-	-
Disposals		-	-		-	-
Balance at December 31, 2016		69,877	56,818		122,651	249,346
Additions		-	-		-	-
Disposals		-	-		-	-
Balance June 30, 2017	\$	69,877	56,818	\$	122,651	\$ 249,346

Accumulated depreciation and amortization		Computer Equipment	Machinery and Equipment	Automobile		Total
Balance at December 31, 2015	\$	66,197	48,604	\$	122,651	\$ 237,452
Additions		1,656	1,643		-	3,299
Disposals		-	-		-	-
Balance at December 31, 2016		67,853	50,247		122,651	240,751
Additions		457	655		-	1,112
Disposals		-	-		-	-
Balance June 30, 2017	\$	68,310	50,902	\$	122,651	\$ 241,863

Net carrying amounts		Computer Equipment	Machinery and Equipment		Total
At December 31, 2016	\$	2,024	6,571	\$	8,595
At June 30, 2017	\$	1,567	5,916	\$	7,483

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8. MINING PROPERTIES

	Diagras	Redemption	Cap	Stein	Total
Deferred Exploration Expenditures:					
Balance on December 31, 2016	\$ 360,138	\$ 979,774	\$ 522,370	\$ 76,132	\$ 1,938,414
Travel	1,167	-	-	-	1,167
Field and camp	59,309	-	-	-	59,309
Consulting	70,702	225	1,095	-	72,022
Aircraft – fixed wings	39,170	-	-	-	39,170
Others	-	-	-	52,815	52,815
	530,486	979,999	523,465	128,947	2,162,897
Property Acquisitions:					
Balance on December 31, 2016	246,460	50,000	-	33,970	330,430
Additions	-	-	-	-	-
Write-down	-	-	-	-	-
Balance on June 30, 2017	776,946	1,029,999	523,465	162,917	2,493,327

	T-Rex	Triceratops	Redemption	Cap	Stein	Diamond Dunes	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	-	-	522,370	-	-	522,770
Equipment rental	-	-	-	-	-	-	-
Survey	-	-	-	-	-	-	-
	360,138	1,500	979,774	522,370	76,132	-	1,939,914
Property Acquisitions:							
Balance on December 31, 2015	246,460	-	50,000	-	33,970	-	330,430
Additions	-	-	-	-	-	65,000	65,000
	246,460	-	50,000	-	33,970	65,000	395,430
Write-down	-	(1,500)	-	-	-	(65,000)	(66,500)
Balance on December 31, 2016	606,598	-	1,029,774	522,370	110,102	\$ -	2,268,844

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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).

In July 2016 North Arrow notified the Company that they decided not to elect to earn in to the option agreement. The property remains 100% owned by Arctic. The claims are in good standing for a number of years.

(b) Diagrass JV, formerly 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.

In November 2016, the Company and Margaret Lake Diamonds Inc. ("Margaret Lake") entered into an option and joint venture agreement (the "JV Agreement"). Margaret Lake Diamonds earned a 60% interest in certain claims covering all the known kimberlites by making a bond payment of \$186,990 to the Government of the Northwest Territories in lieu of required exploration expenditures and a non-refundable filing fee of \$4,675 to obtain extension of the mineral claims such that they are maintained in good standing. The Company and Margaret Lake formed a joint venture to further explore and evaluate the T-Rex Property renaming the project the DIAGRAS JV. No separate entity was formed under the JV Agreement. The Company and Margaret Lake will contribute to exploration and development costs in proportion to their interests (40% and 60% respectively) with Margaret Lake acting as operator. During the period ended June 30, 2017, the Company has advanced \$240,000 to Margaret Lake for an exploration work. Margaret has spent \$170,347 on exploration work during the period ended June 30, 2017.

(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. The Company has no further plans for this property and as a result all costs have been written-down as at December 31, 2016.

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8. MINING PROPERTIES (continued)

(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.

(e) Diamond Dunes, Athabasca

On July 11, 2016, 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 250,000 (Note 9 (b) (iv))) common shares of the Company to the vendor.

As at December 31, 2016 the Company has decided not to continue with the project and as a result all costs have been written off as at December 31, 2016.

(f) Cap & Seebach, BC

The property was entirely written-off as at December 31, 2012 as the Company did not intend to do further exploration on this property.

The Company again decided to start work on the property in 2017.

The property consists of five contiguous mineral tenures, covering an area of 2,353.83 ha within central British Columbia. The property is located approximately 85 km northeast of Prince George and is accessible during the summer months by 4x4 truck and/or ATV by following a network of logging roads. Alternatively, the property may be accessed year-round by helicopter from Prince George, which is the most expedient option.

The Company owns the property 100%. The property vendors 877384 and Zimtu will retain a 2-per-cent net smelter royalty.

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 wrote down 2 properties for \$66,500 during the year ending December 31, 2016 (2015 \$nil).

9. SHARE CAPITAL

(a) On October 31, 2016, the Company rolled back its shares 4 to 1. All share capital and per share amounts in these financial statements have been adjusted to give retroactive effect to the share consolidation.

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

(i) On April 8th, 2016, the Company completed a private placement of 2,225,000 units at a price of \$0.16 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 \$0.20 for a period of two years. The Company incurred \$8,848 in share issue expenses related to this private placement.

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9. SHARE CAPITAL (continued)

- (ii) On April 11th, 2016, the Company completed a private placement of 275,000 units at a price of \$0.16 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 \$0.20 for a period of two years.
- (iii) On August 5, 2016, the Company issued 250,000 shares at a deemed price of \$0.16 per share pursuant to the property agreement (Note 8 (e)).
- (iv) On December 12th, 2016, the Company completed a private placement of 11,778,334 units at a price of \$0.06 per unit for gross proceeds of \$706,700. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.08 for a period of two years.
- (v) On December 29th, 2016, the Company completed a private placement of 5,000,000 flow-through units at a price of \$0.06 per unit and 7,760,000 non flow-through units at a price of \$0.06 per unit for gross proceeds of \$765,600. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.08 for a period of two years. The Company incurred \$49,338 in share issue expense related to this private placement.

The Company also issued 760,000 broker warrants with an exercise price of \$0.08 per share with an expiry date of December 29, 2018. The warrants were valued at \$56,117 using the Black-Scholes option pricing model with an average risk-free interest rate of 0.50%, expected life of 2 years, volatility of 240.05% and a dividend yield of 0%.

- (vi) On January 12, 2017, the Company completed a private placement of 2,921,666 units at a price of \$0.06 per unit for gross proceeds of \$175,300. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.08 for a period of two years. The Company incurred \$8,365 in share issue expense related to this private placement.
- (vii) On January 05, 2017, 650,000 options were exercised for gross proceed of \$55,250.
On June 19, 2017, 100,000 options were exercised for gross proceed of \$20,000
- (viii) On May 25, 2017, the Company completed a flow-through private placement of 1,750,000 units at a price of \$0.20 per unit for gross proceeds of \$350,000. Each unit consists of one common share and one half share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.30 for a period of two years. The Company paid \$28,000 cash finder's fees and issued 140,000 brokers warrants at a price of \$0.20 per shares for a period of 24 months from closing date.
- (ix) On May 15, 2017, 229,250 warrants were exercised for gross proceed of \$18,130.
On June 15, 2017, 100,000 warrants were exercised for gross proceed of \$8,000.
On June 21, 2017, 100,000 warrants were exercised for gross proceed of \$8,000.

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9. SHARE CAPITAL (continued)

(c) Share purchase warrants

(i) As at June 30, 2017, the Company had warrants outstanding enabling holders to acquire the following:

Number of shares	Exercise Price	Expiry Date
1,375,092	\$0.40	June 30, 2020
2,218,750	\$0.20	April 08, 2018
275,000	\$0.20	April 11, 2018
11,553,334	\$0.08	December 12, 2018
12,710,000	\$0.08	December 29, 2018
712,000	\$0.06	December 29, 2018
2,821,666	\$0.08	January 12, 2019
875,000	\$0.30	May 26, 2019
140,000	\$0.20	May 26, 2019
32,680,842		

(ii) A summary of the Company's issued and outstanding share purchase warrants as at June 30, 2017 and December 31, 2016 and changes during those years are presented below:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2015	3,256,636	\$0.64	0.08 years
Issued	27,798,334	\$0.09	
Expired/Cancelled	(1,881,544)	(\$0.80)	
Balance, December 31, 2016	29,173,426	\$0.10	2.01 years
Issued	3,936,666	\$0.13	
Exercised	(429,250)	\$0.08	
Expired/Cancelled	-	-	
Balance, June 30, 2017	32,680,842	\$0.11	1.75 years

(d) Share based payments

(i) As at June 30, 2017, the Company had stock options outstanding enabling holders to acquire the following:

Number of Shares	Exercise Price	Expiry Date
100,000	\$0.48	December 07, 2017
118,750	\$0.48	April 16, 2018
425,000	\$0.20	February 20, 2020
125,000	\$0.20	June 30, 2020
150,000	\$0.20	March 04, 2021
2,931,661	\$0.085	December 30, 2021
350,000	\$0.09	January 06, 2022
4,200,411		

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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, 2017 and December 31, 2016 and changes during those years is presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2015	1,907,750	\$0.40	2.47 years
Granted	3,931,661	\$0.08	
Exercised/Cancelled	(951,500)	(\$0.48)	
Balance, December 31, 2016	4,887,911	\$0.08	4.39 years
Granted	350,000	\$0.09	
Exercised	(750,000)	(0.08)	
Expired/Cancelled	(287,500)	(\$0.34)	
Balance, June 30, 2017	4,200,411	\$0.08	4.04 years

10. STOCK-BASED COMPENSATION AND CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus:

Balance, December 31, 2015	\$	5,118,760
Options granted		322,335
Agent warrants granted		56,117
Balance, December 31, 2016		5,497,212
Options granted		30,202
Fair value of brokers warrants exercised		(3,542)
Warrants granted		24,870
Fair value of options exercised		(61,910)
Balance, June 30, 2017	\$	5,486,832

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, 2016, the Company has recognized \$322,335 in compensation upon issuance of 4,681,661 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.

On January 6th, 2017 the Company has recognized \$30,202 in compensation upon issuance of 350,000 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, 2017	December 31, 2016
Risk-free interest rate	0.72%	0.06% to 0.81%
Experienced life of options	5	5
Annualized volatility	181.94%	161.56% to 181.72%
Dividend rate	-	-

11. RELATED PARTY TRANSACTIONS

- (a) During the period ended June 30, 2017, the Company incurred consulting fees of \$107,500 (June 30, 2016: \$120,000) with directors and companies owned by directors.
- (b) During the period ended June 30, 2017, the Company incurred accounting fees of \$42,000 (June 30, 2016: \$42,000) with an officer of the Company.
- (c) During the period ended June 30, 2017 payment of rent of \$25,388 (June 30, 2016: \$25,388) pertains to rent paid to a company related by a common director for shared office premises.
- (d) During the period ended June 30, 2017 recovery of rent of \$15,617 (June 30, 2016: \$13,617) pertains to rent collected from companies related by a common officer for shared office premises.
- (e) During the period ended June 30, 2017, the Company incurred trade shows expenses of \$2,500 (June 30, 2016: \$nil) with a company related by a common director.
- (f) During the period ended June 30, 2017, the Company incurred public relation expenses of \$49,590 (June 30, 2016: \$nil) with a company related by a common director. As at June 30, 2017 \$28,493 (December 31, 2016: \$78,082) is included in prepaid expenses.
- (g) As at June 30, 2017 due from related parties include \$172,200 (December 31, 2016: \$nil) due from a Company controlled by a director of the Company.
- (h) As at June 30, 2017 loans receivable includes \$nil (December 31, 2016: \$64,471) 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.
- (i) As at June 30, 2017, \$132,606 (December 31, 2016 - \$191,231) 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.

During the period ended June 30, 2017, 250,000 stock options (December 31, 2016 – 2,171,661) were granted to directors and officers.

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11. RELATED PARTY TRANSACTIONS (continued)

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

	June 30, 2017	June 30, 2016
Consulting fees	\$ 107,500	\$ 120,000
Accounting fees	42,000	42,000
Stock based compensation	21,573	7,326
Rent	25,388	25,388
Trade shows	2,500	-
Public relations	49,590	-

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

Non-cash investing and financing activities for the year ended December 31, 2016, were as follows:

- (a) Issued 250,000 common shares with a value of \$40,000 pursuant to the property agreement (Note 8 (e)).
- (b) Accounts payable includes \$248,487 related to mining property expenditures.
- (c) Accounts receivable includes \$104,600 related to subscriptions receivable for private placements completed during the year.

13. SEGMENTED INFORMATION

The Company operates in one reportable operating segment - mineral exploration. As at June 30, 2017, 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 March 31, 2017.

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. 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, 2016, the Company had spent approximately \$535,000 (2014 - \$338,895) of the flow-through funds on qualified programs. The flow-through share premium liability has been reduced pro-rata by \$15,500 (2015 - \$48,000) for the tax benefits that were renounced for funds spent to the end of 2015 and a deferred income tax recovery of \$15,500 (2014 - \$48,000) 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, 2016, the Company had spent \$500,004 (2015 - \$nil) of the flow-through fund on qualified programs. The flow-through share premium liability has been reduced pro-rata by \$83,334 (2015 - \$nil) for the tax benefits that were renounced for funds spent to the end of 2016 and a deferred income tax recovery of \$83,334 (2015 - \$nil) has been recorded. Under the look-back rules, effective from February 1, 2016, any flow-through funds spent in 2016 were charged a floating interest tax, which was set at 1% per annum and resulted in flow-through taxes payable of \$3,887.

During the year ended December 31, 2016, the Company completed a private placement of flow-through shares for gross proceeds of \$300,000 (Note 9). There was no flow-through share premium liability resulting from the issuance.

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14. COMMITMENTS (continued)

The flow-through funds are required to be spent on qualified exploration programs no later than December 31, 2017. As at December 31, 2016, 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 2017.

15. SUBSEQUENT EVENTS

- (a) On July 12th, 2017, the Company announced that it has agreed to acquire a 100% interest in a 243Ha Exploration Permit over the Black Wolf (*Masta Susi*) and the White Wolf (*Valkoinen Susi*) diamond bearing kimberlites (together the "Wolf kimberlites") in northern Finland. The Exploration Permit is being acquired via a Share Exchange Agreement with the Finnish holding company (transaction details below).

Furthermore, the Company has filed application for an Exploration Reservation centered on the acquired Exploration Permit. The Reservation is approximately 95,700 hectares in size, and it provides Arctic Star with exclusive rights to acquire additional exploration permits for a 2 year period.

The combined regional exploration and diamondiferous kimberlite property has been named the **Timantti Project** (Timantti is Finnish for "diamond").

The Company has entered into a Share Exchange Agreement dated effective June 7, 2017 and agreed to issue 14,500,000 common shares at a deemed price of \$0.20 per share for all the right, title and interest to Foriet Oy, a Finnish company that has the 243Ha exploration permit over the Wolf kimberlites in North-Eastern Finland. 10,000,000 of the Arctic Star shares are to be issued to Dragon Equities Ltd., a UK company, which indirectly owns Foriet Oy, and 4,500,000 shares will be issued to the beneficial owners of a joint venture partner of Foriet Oy. On completion of the Share Exchange, Foriet Oy will become a wholly owned subsidiary of Arctic Star.

In addition to the 4 month hold period imposed by securities regulation, all shares issued in the transaction will be subject to a Value Securities Escrow Agreement whereby the shares are released over a 3 year period. Closing of the Share Exchange Agreement is subject to TSX-V approval.

- (b) 62,500 warrants @\$0.20 and 300,000 @ \$0.08 were exercised.