

ARROW RESOURCES DEVELOPMENT INC  
Form 10-Q  
August 20, 2012

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No fee required)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9224

**Arrow Resources Development, Inc.**

**(Name of Small Business Issuer in Its Charter)**

DELAWARE 56-2346563  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

**Carnegie Hall Tower, 152 W. 57th Street, 27th Floor, New York, NY 10019**

**(Address of Principal Executive Offices) (Zip Code)**

**212-262-2300**

**(Issuer's Telephone Number, including Area Code)**

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock - par value \$0.00001	OTC: Bulletin Board

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer; (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of each of the issuer's classes of common equity, as of August 20, 2012 is as follows:

Class	Outstanding
Common stock - par value \$0.00001	767,539,744

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

FORM 10-Q

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**Item 1. Financial Statements**

## ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

## Consolidated Balance Sheets (During the Development Stage)

	June 30, 2012 Unaudited	December 31, 2011
<b>ASSETS</b>		
Current:		
Cash	\$2	\$ 62
Total current assets	2	62
Total assets	\$2	\$ 62
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Current:		
Accounts and accrued expenses payable, including \$10,514,291 and \$9,689,291 due to Company shareholders and directors, respectively	16,884,981	\$ 15,072,479
Estimated liability for legal judgment obtained by predecessor entity shareholder	1,424,703	1,393,101
Due to related parties	15,713,188	13,562,478
Notes payable, including accrued interest of \$228,360 and \$200,677, respectively	2,587,340	2,559,657
Total liabilities	36,610,212	32,587,665
Commitments and contingencies	-	-
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Preferred stock, \$0.00001 par value, 6 million shares authorized, no shares issued or outstanding, respectively	-	-
Preferred stock Series A, \$0.00001 par value, 2 million shares authorized, no shares issued or outstanding, respectively	-	-
Preferred stock Series C, \$0.00001 par value, 2 million shares authorized, no shares issued or outstanding, respectively	-	-
Common stock, \$0.00001 par value, 1 billion shares authorized, 767,539,744 and 737,368,911 issued and outstanding, respectively	7,676	7,375
	353	650

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Common stock to be issued, \$0.00001 par value, 35,179,684 and 64,975,517  
shares to be issued, respectively

Additional paid-in capital	131,839,959	131,832,463	
Accumulated deficit	(168,458,198)	(164,428,091)	)
Total stockholders' (deficit) equity	(36,610,210 )	(32,587,603 )	)
Total liabilities and stockholders' (deficit) equity	\$2	\$ 62	

See accompanying notes to the unaudited consolidated financial statements.

## ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

## Unaudited Consolidated Statements of Operations (During the Development Stage)

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011	Accumulated During the Development Stage for the Period From Inception (November 15, 2005) to June 30, 2012
Revenue	\$ -	\$ -	\$ -	\$ -	\$ 52,000
Operating expenses:					
Consulting fees and services, including \$1,428,285, 1,249,952, \$2,865,570, 2,462,891 and \$29,892,149 incurred to related parties, respectively	1,428,285	1,249,952	2,856,570	2,462,891	29,892,149
General and administrative	15,266	18,849	30,541	33,551	1,144,579
Directors' compensation	43,125	39,375	82,500	82,500	1,222,678
Delaware franchise taxes	105	105	210	210	186,891
Total operating expenses	1,486,781	1,308,281	2,969,821	2,579,152	32,446,297
Loss from operations during the development stage	(1,486,781 )	(1,308,281 )	(2,969,821 )	(2,579,152 )	(32,394,297 )
Other income (expense):					
Income from spin-off	-	-	-	-	52,491
Income from forgiveness of debt	-	-	-	-	5,000
Gain on write off of liabilities associated with predecessor entity not to be paid	-	-	-	-	395,667
Loss on legal judgment obtained by predecessor entity shareholder	(15,801 )	(15,801 )	(31,602 )	(31,602 )	(1,424,703 )
Penalty for default of notes payable	(500,500 )	(500,500 )	(1,001,000 )	(995,500 )	(5,594,000 )

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Loss on write-off of marketing agreement	-	-	-	-	(125,000,000 )
Loss on settlement of predecessor entity stockholder litigation	-	-	-	-	(2,000 )
Loss on debt conversion	-	(1,000,000 )	-	(1,000,000 )	(2,532,500 )
Expenses incurred as part of recapitalization transaction	-	-	-	-	(249,252 )
Debt issue costs including interest expense, of which none, none, none, none and \$1,346,320 is to be satisfied in Company Common Stock and none, none, none, and \$32,000 incurred to related parties	(13,842 )	(4,937 )	(27,684 )	(7,649 )	(1,714,604 )
	(530,143 )	(1,521,238 )	(1,060,286 )	(2,034,751 )	(136,063,901 )
Net loss	\$ (2,016,924 )	\$ (2,829,519 )	\$ (4,030,107 )	\$ (4,613,903 )	\$ (168,458,198 )
NET LOSS PER COMMON SHARE: Basic and Diluted	\$ (0.003 )	\$ (0.004 )	\$ (0.005 )	\$ (0.006 )	\$ (0.262 )
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and Diluted	767,539,744	731,785,047	766,634,845	714,399,758	641,828,030

See accompanying notes to the unaudited consolidated financial statements.



## ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

## Unaudited Consolidated Statements of Changes in Stockholders' (Deficit) Equity (During the Development Stage)

	Series A Convertible Preferred Stock		Series C Convertible Preferred Stock		Preferred Common Stock		Common Stock		Additional Paid-in Capital
	Shares to be issued	Amount	Shares to be issued	Amount	Shares to be issued	Amount	Shares issued	Amount	
Balance, November 14, 2005 pursuant to recapitalization transaction	—	\$—	—	\$—	—	\$—	25,543,240	\$255	\$(2,674,761)
Common stock conversion and settlement of senior note pursuant to recapitalization transaction	—	—	—	—	—	—	624,000,000	6,240	125,907,900
Net loss for the period from November 15, 2005 to December 31, 2005	—	—	—	—	—	—	—	—	—
Balance, December 31, 2005	-	\$-	-	\$-	-	\$-	649,543,240	\$6,495	\$123,233,200
Common stock to be issued for cash received by Company	—	—	—	—	985,000	10	—	—	984,990
Net loss for the year	—	—	—	—	—	—	—	—	—
Balance, December 31, 2006	-	\$-	-	\$-	985,000	\$10	649,543,240	\$6,495	\$124,218,190
Common stock to be issued for cash received	—	—	—	—	500,000	5	—	—	499,995

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by Company Series A Convertible Preferred Stock to be issued for cash received by Company	280,000	280,000	—	—	—	—	—	—	—
Common stock issued in settlement of predecessor entity stockholder litigation	—	—	—	—	-	-	200,000	2	11,998
Common stock to be issued for directors' compensation	—	—	—	—	1,000,685	10	—	—	60,031
Net loss for the year	—	—	—	—	—	—	—	—	—
Balance, December 31, 2007	280,000	\$280,000	-	\$-	2,485,685	\$25	649,743,240	\$6,497	\$124,790,2
Series A Convertible Preferred Stock to be issued for cash received by Company	75,000	75,000	—	—	—	—	—	—	—
Series C Convertible Preferred Stock to be issued for cash received by Company	—	—	25,000	25,000	—	—	—	—	—
Common Stock issued and to be issued for cash received by Company	—	—	—	—	305,000	x 3	250,000	3	104,996
Common stock to be issued for directors' compensation	—	—	—	—	1,000,000	x 10	—	—	77,490
Debt issue costs to be satisfied in Company	—	—	—	—	4,704,000	x 47	3,000,000	30	536,243
Common Stock Common stock to be issued for purchase of	—	—	—	—	1,000,000	x 10	—	—	49,990

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common stock										
Common stock to be issued for consulting and marketing services	—	—	—	—	2,700,000	27	—	—	—	245,969
Common stock issued for consulting and marketing services	—	—	—	—	—	—	2,250,000	23	—	122,481
Net loss for twelve months ended	—	—	—	—	—	—	—	—	—	—
December 31, 2008										
Balance, December 31, 2008	355,000	\$355,000	25,000	\$25,000	12,194,685	\$122	655,243,240	\$6,552		\$125,927,300
Series A Convertible Preferred Stock converted into common stock	(355,000)	(355,000)	-	-	—	—	7,100,000	71	—	354,929
Series C Convertible Preferred Stock converted into common stock	-	-	(25,000)	(25,000)	—	—	500,000	5	—	24,995
Common Stock to be issued for cash received by Company	—	—	—	—	2,500,000	25	—	—	—	249,975
Common stock to be issued for directors' compensation	—	—	—	—	1,000,000	10	—	—	—	34,990
Debt issue costs to be satisfied in Company	—	—	—	—	16,000,000	160	—	—	—	719,840
Common Stock Debt issue costs satisfied in Company	—	—	—	—	-	-	1,000,000	10	—	79,990
Common Stock Common stock issued for reset of previous subscription agreement	—	—	—	—	—	—	138,095	2	—	5,523
	—	—	—	—	1,109,999	11	—	—	—	44,389

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Common stock to be issued for reset of previous subscription agreement									
Common stock issued for debt conversion	—	—	—	—	—	—	14,470,909	145	771,855
Net loss for the year ended December 31, 2009	—	—	—	—	—	—	—	—	—
Balance, December 31, 2009	0	\$0	0	\$0	32,804,684	\$328	678,452,244	\$6,785	\$128,213,8
Common stock to be issued for directors' compensation	—	—	—	—	750,000	8	—	—	52,492
Common stock issued for consulting services, in lieu of cash payment	—	—	—	—	—	—	6,500,000	65	584,935
Common stock issued for debt conversion	—	—	—	—	—	—	20,000,000	200	1,399,800
Net loss for the year ended December 31, 2010	—	—	—	—	—	—	—	—	—
Balance, December 31, 2010	-	\$-	-	\$-	33,554,684	\$336	704,952,244	\$7,050	\$130,251,1
Common stock to be issued for directors' compensation	—	—	—	—	187,500	2	—	—	5,623
Net loss for the three month period ended March 31, 2011	—	—	—	—	—	—	—	—	—
Balance, March 31, 2011	-	\$-	-	\$-	33,742,184	\$338	704,952,244	\$7,050	\$130,256,7
Common stock to be issued for directors' compensation	—	—	—	—	187,500	2	—	—	1,873
	—	—	—	—	—	—	30,000,000	300	1,199,700

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Common stock issued for debt conversion									
Subscription shares of common stock purchased	—	—	—	—	1,066,667	11	—	—	29,989
Net loss for the three month period ended June 30, 2011	—	—	—	—			—	—	
Balance, June 30, 2011	-	\$-	-	\$-	34,996,351	\$351	734,952,244	\$7,350	\$131,488,2
Common stock to be issued for directors' compensation									
Subscription shares of common stock purchased, issued to investor	—	—	—	—	187,500	2	—	—	3,748
Common stock to be issued as interest on loans	—	—	—	—	(1,066,667 )	(11 )	1,066,667	11	—
Common stock issued as interest on loans	—	—	—	—	—	—	1,350,000	14	26,986
Net loss for the three month period ended September 30, 2011	—	—	—	—	—	—	—	—	—
Balance, September 30, 2011	-	\$-	-	\$-	34,617,184	\$347	737,368,911	\$7,375	\$131,529,0
Common stock to be issued for directors' compensation									
Common stock issued for debt conversion	—	—	—	—	187,500	2	—	—	3,748
	—	—	—	—	30,000,000	300	—	—	299,700
	—	—	—	—	170,833	1	—	—	-1

Adjustment to subscription agreement purchase of shares									
Net loss for the three month period ended December 31, 2011	—	—	—	—	—	—	—	—	—
Balance, December 31, 2011	-	\$-	-	\$-	64,975,517	\$650	737,368,911	\$7,375	\$131,832,4
Common stock to be issued for directors' compensation	—	—	—	—	187,500	2	—	—	1,873
Issuance of common stock related to debt conversion	—	—	—	—	(30,000,000)	(300)	30,000,000	300	-
Issuance of common stock for additional shares related to subscription agreement to purchase of shares	—	—	—	—	(170,833 )	(1 )	170,833	1	-
Net loss for the three month period ended March 31, 2012	—	—	—	—	—	—	—	—	—
Balance, March 31, 2012	-	\$-	-	\$-	34,992,184	\$351	767,539,744	\$7,676	\$131,834,3
Common stock to be issued for directors' compensation	—	—	—	—	187,500	2	—	—	5,623
Issuance of common stock related to debt conversion	—	—	—	—	—	—	—	—	—
Issuance of common stock for additional shares related to	—	—	—	—	—	—	—	—	—

subscription agreement to purchase of shares									
Net loss for the three month period ended June 30, 2012	—	—	—	—	—	—	—	—	—
Balance, June 30, 2012	-	\$-	-	\$-	35,179,684	\$353	767,539,744	\$7,676	\$131,839,9

See accompanying notes to the unaudited consolidated financial statements.

## ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

## Unaudited Consolidated Statements of Cash Flows (During the Development Stage)

	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011	Accumulated During the Development Stage for the Period From Inception (November 15, 2005) to June 30, 2012
Net loss	\$ (4,030,107 )	\$ (4,613,903 )	\$ (168,458,198 )
Adjustments to reconcile net loss to net cash used in operating activities:			
Net non-cash change in stockholders' equity due to recapitalization transaction	-	-	1,264,217
Loss on write-off of marketing and distribution agreement	-	-	125,000,000
Common stock issued for reset of previous subscription agreement	-	-	5,525
Common stock to be issued for reset of previous subscription agreement	-	-	44,400
Common stock issued for note payable interest	-	-	27,000
Common stock to be issued for note payable interest	-	-	10,000
Debt issue costs to be satisfied in Company common stock	-	-	1,256,320
Debt issue costs satisfied in Company common stock	-	-	80,000
Loss on common stock issued for debt conversion	-	1,000,000	3,054,500
Common stock issued for conversion due to related party	-	-	(39,000 )
Debt issue costs paid in cash	-	-	50,000
Common stock issued for marketing services	-	-	122,500
Common stock to be issued for consulting services	-	-	246,007
Expense related to common stock issued for consulting services, in lieu of cash	-	-	585,000
Stock-based directors' compensation to be issued	7,500	7,500	247,541
Changes in operating asset and liabilities:			
Increase in accounts and accrued expenses payable	1,840,235	1,800,694	16,445,073
Estimated liability for legal judgment obtained by predecessor entity shareholder	31,602	31,602	1,424,703
Net cash used in operating activities	(2,150,770 )	(1,774,107 )	(18,634,412 )
Cash flows from investing activities:			
Cash acquired as part of merger transaction	-	-	39,576
Advances to related party	-	(11,000 )	(957,775 )



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Net cash used in investing activities	-	(11,000 )	(918,199 )
Cash flows from financing activities:			
Proceeds of issuance of note payable	-	-	2,201,000
Proceeds of loans received from related parties	-	587,980	2,462,980
Repayment towards loan from related party	-	-	(179,425 )
Cash proceeds from common stock subscription sale	-	30,000	30,000
Net increase in due to related parties attributed to operating expenses paid on the Company's behalf by the related party	2,150,710	1,169,341	12,756,058
Net increase in investments/capital contributed	-	-	2,232,000
Advances from senior advisor	-	-	50,000
Net cash provided by financing activities	2,150,710	1,787,321	19,552,613
Net change in cash	(60 )	2,214	2
Cash balance at beginning of period	62	12	-
Cash balance at end of period	\$ 2	2,226	\$ 2
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Income taxes	\$ -	\$ -	\$ -
Interest expense	\$ -	\$ -	\$ -
Non-cash investing and financing activities:			
Non-cash purchase of marketing and distribution agreement	\$ -	\$ -	\$ 125,000,000
Settlement of senior note payable through issuance of convertible preferred stock	\$ -	\$ -	\$ 125,000,000
Non-cash acquisition of accrued expenses in recapitalization	\$ -	\$ -	\$ 421,041
Non-cash acquisition of notes payable in recapitalization	\$ -	\$ -	\$ 220,000

See accompanying notes to the unaudited consolidated financial statements.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS / ORGANIZATION

Business Description

Arrow Resources Development, Inc. and Subsidiaries (“the Company”), was subject to a change of control transaction that was accounted for as a recapitalization of CNE Group, Inc. (“CNE”) in November 2005. Arrow Resources Development, Ltd., (“Arrow Ltd.”) the Company's wholly-owned subsidiary, was incorporated in Bermuda in May 2005. Arrow Ltd. provides marketing and distribution services for natural resource.

In April of 2006, Arrow Ltd. entered into an agency agreement with Arrow Pacific Resources Group Limited (“APR”) that provides marketing and distribution services for timber resource products and currently has an exclusive marketing and sales agreement with APR to market lumber and related products from land leased by GMPLH which is operated by APR and its subsidiaries, located in Indonesia. Under the agreement Arrow Ltd. will receive a commission of 10% of gross sales derived from lumber and related products. The consideration to be paid to APR will be in the form of a to-be-determined amount of the Company's common stock, subject to the approval of the Board of Directors.

As of December 31, 2005, the Company also had a wholly-owned subsidiary, Career Engine, Inc. (“Career Engine”) for which operations were discontinued prior to the recapitalization transaction. The net assets of Career Engine had no value as of December 31, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PRESENTATION**

**Interim Financial Statements**

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of June 30, 2012 and the results of its operations, changes in stockholders' (deficit) equity, and cash flows for the three and six month periods ended June 30, 2012 and 2011, respectively and for the period from the commencement of the development stage (November 15, 2005) to June 30, 2012. Although management believes that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities Exchange Commission.

The results of operations for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012. The accompanying consolidated financial statements should be read in conjunction with the more detailed consolidated financial statements, and the related footnotes thereto, filed with the Company's Amended Annual Report on Form 10K for the year ended December 31, 2011 filed on April 16, 2012.

#### **Going-Concern Status**

These consolidated financial statements are presented on the basis that the Company is a going concern. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable period of time.

As shown in the accompanying consolidated financial statements, the Company incurred a net loss of \$4,030,107 for the six months ended June 30, 2012 and a net loss during the development stage from inception (November 15, 2005) through June 30, 2012 of \$168,458,198. The Company's operations are in the development stage, and the Company has not substantially generated any material revenue since inception. The Company's existence in the current period has been dependent upon advances from related parties and other individuals, and proceeds from the issuance of senior notes payable.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

**BASIS OF PRESENTATION CONTINUED**

**Going-Concern Status continued**

One of the principal reasons for the Company's substantial doubt regarding its ability to continue as a going concern involves the fact that as of December 31, 2007, the Company's principal asset, a marketing and distribution intangible asset in the amount of \$125,000,000 was written off as impaired as discussed in Note 6 due to the fact that environment laws affecting timber harvesting have become more restrictive in Papua New Guinea.

The condensed consolidated financial statements do not include any adjustments relating to the carrying amounts of recorded assets or the carrying amounts and classification of recorded liabilities that may be required should the Company be unable to continue as a going concern.

**Principles of Consolidation:**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Arrow Ltd. All significant inter-company balances and transactions have been eliminated.

**Development Stage Company:**

The accompanying financial statements have been prepared in accordance with the FASB ASC No. 915, *Development Stage Entities*. A development stage enterprise is one in which planned and principal operations have not commenced

or, if its operations have commenced, there has been no significant revenue there from. Development-stage companies report cumulative costs from the enterprise's inception.

#### Income Taxes:

The Company follows FASB ASC No. 740, *Income Taxes*. Deferred tax assets or liabilities are recorded to reflect the future tax consequences of temporary differences between the financial reporting basis of assets and liabilities and their tax basis at each year-end. These amounts are adjusted, as appropriate, to reflect enacted changes in tax rates expected to be in effect when the temporary differences reverse.

The Company records deferred tax assets and liabilities based on the differences between the financial statement and tax bases of assets and liabilities and on operating loss carry forwards using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

#### Fair Value of Financial Instruments:

For financial statement purposes, financial instruments include cash, accounts and accrued expenses payable, notes payable and amounts due to related parties (as discussed in Notes 5 and 7) for which the carrying amounts approximated fair value because of their short maturity.

#### Use of Estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Loss Per Share:

The Company complies with the requirements of the FASB Accounting Standard Codification No 260, *Earnings Per Share*. ASC 260 specifies the compilation, presentation and disclosure requirements for earning per share for entities with publicly held common stock or potentially common stock. Net loss per common share, basic and diluted, is determined by dividing the net loss by the weighted average number of common shares outstanding.

Net loss per diluted common share does not include potential common shares derived from stock options and warrants because they are anti-dilutive for the period from inception (November 15, 2005) to December 31, 2011 and for the period ended June 30, 2012. As of June 30, 2012, there are no dilutive equity instruments outstanding.

Acquired Intangibles:

Intangible assets were comprised of an exclusive sales and marketing agreement. In accordance with FASB ASC No. 350, *Intangibles-Goodwill and Other*, the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following:

1. Significant underperformance relative to expected historical or projected future operating results;
2. Significant changes in the manner of use of the acquired assets or the strategy for the overall business; and
3. Significant negative industry or economic trends.

When the Company determines that the carrying value of intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. The Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows.

The sales and marketing agreement was to be amortized over 99 years, utilizing the straight-line method. Amortization expense had not been recorded since the acquisition occurred as the company had not yet made any sales.

The value of the agreement was assessed to be fully impaired by the Company and it recorded a loss on the write off of the Marketing and Distribution agreement of \$125,000,000 at December 31, 2007 (See Note 6).

#### Consideration of Other Comprehensive Income Items:

FASB ASC No. 220, *Comprehensive Income*, requires companies to present comprehensive income (consisting primarily of net income plus other direct equity changes and credits) and its components as part of the basic financial statements. For the period from inception (November 15, 2005) to June 30, 2012, the Company's consolidated financial statements do not contain any changes in equity that are required to be reported separately in comprehensive income.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Stock Based Compensation

The Company applies ASC 718-10 and ASC 505-50 in accounting for stock options issued to employees. For stock options and warrants issued to non-employees, the Company applies the same standard, which requires the recognition of compensation cost based upon the fair value of stock options at the grant date using the Black-Scholes option pricing model.

Recent Accounting Pronouncements:

Accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 3 - AGREEMENT AND PLAN OF MERGER BETWEEN ARROW RESOURCES DEVELOPMENT, LTD. AND CNE GROUP, INC.

In August 2005, the Company entered into an Agreement and Plan of Merger (“the Agreement”) with CNE Group, Inc. (“CNE”) under which, CNE was required to issue 10 million shares of Series AAA convertible preferred stock (“the Preferred Stock”) to the Company, representing 96% of all outstanding equity of CNE on a fully diluted basis for the Marketing and Distribution Agreement provided to the Company, Empire, as agent. Under the Agreement, the Company changed its name to Arrow Resources Development, Inc. and divested all operations not related to Arrow Ltd. The Preferred Stock contained certain liquidation preferences and each share of the Preferred Stock was convertible to 62.4 shares of common stock.



The transaction was consummated upon the issuance of the Preferred Stock on November 14, 2005, which was used to settle the senior secured note payable for \$125,000,000 and \$1,161,000 of cash advances from Empire. The Preferred Stock was subsequently converted to common stock on December 2, 2005, for a total of approximately 649 million shares of common stock outstanding. This was recorded as a change of control transaction that was accounted for as a recapitalization of CNE.

The operations of the Company's wholly-owned subsidiary, Career Engine, Inc. were discontinued prior to the recapitalization transaction. The net assets of Career Engine had no value as of December 31, 2005.

During the period from inception (November 15, 2005) to December 31, 2005, the Company incurred \$249,252 of expenses incurred as part of recapitalization transaction.

#### NOTE 4 - INCOME TAXES

In August 2005, the Company entered into an Agreement and Plan of Merger ("the Agreement") with CNE Group, Inc. ("CNE"). Under the Agreement, the Company changed its name to Arrow Resources Development, Inc. and divested all operations not related to Arrow Ltd. The transaction was consummated upon the issuance of the Preferred Stock on November 14, 2005. (See Note 3 for a detailed description of the transaction.)

Consequently, as of November 14, 2005 the predecessor CNE entity had a net operating loss carryforward available to reduce future taxable income for federal and state income tax purposes of the successor entity of approximately zero, because those losses arose from the predecessor CNE exiting previous business lines that had generated operating losses.

For tax purposes, all expenses incurred by the re-named entity now known as Arrow Resources Development, Inc. after November 14, 2005 have been capitalized as start up costs in accordance with Internal Revenue Code Section ("IRC") No. 195. Pursuant to IRC 195, the Company will be able to deduct these costs by amortizing them over a period of 15 years for tax purposes once the Company commences operations. Accordingly for tax purposes none of the Company's post November 14, 2005 losses are as yet reportable in Company income tax returns to be filed for either the years ended December 31, 2005, 2006, 2007, 2008, 2009, 2010, 2011 or 2012.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The significant components of the Company's deferred tax assets are as follows:

Net operating loss carryforward	\$ 186,891
Differences resulting from use of cash basis for tax purposes	-
Tax rate	34 %
Total deferred tax assets	63,543
Less valuation allowance	(63,543 )
Net deferred tax assets	\$-

The net operating losses expire as follows:

December 31, 2026	\$ 127,349
December 31, 2027	57,652
December 31, 2028	420
December 31, 2029	420
December 31, 2030	420
December 31, 2031	420
June 30, 2032	210
Net Operating Loss Carryover	\$ 186,891

Reconciliation of the differences between the statutory tax rate and the effective tax rate is:

	June 30,	
	2012	
Federal statutory tax rate	34.0	%
Effective Tax Rate	34.0	%
Valuation Allowance	(34.0	)%
Net Effective Tax Rate	0	%

**Reconciliation of net loss for income tax purposes to net loss per financial statement purposes:**

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Costs capitalized under IRC Section 195 which will be amortizable over 15 years for tax purposes once the Company commences operations	\$(168,271,307)
Delaware franchise taxes deductible on Company's tax return	186,891
Net loss for the period from inception (November 15, 2005) to June 30, 2012	\$(168,458,198)

## ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5 - NOTES PAYABLE

As of June 30, 2012 and December 31, 2011, the Company had notes payable outstanding as follows:

Holder	Terms	June 30, 2012	December 31, 2011
Barry Blank (1)	Due on demand, 10% interest	\$ 200,000	\$ 200,000
Accrued interest (1)		50,000	50,000
John Marozzi (2)	Due 30 days after \$750,000 funded to company, 4% interest	387,980	387,980
John Marozzi (2)	Due on demand, non-interest bearing	-	-
Accrued interest (2)		39,013	31,275
James R. McConaughy (3)	Due on demand, non-interest bearing	53,000	53,000
Christopher T. Joffe (4)	Due on demand, non-interest bearing	63,000	63,000
Frank Ciolli (5)	Due on demand, non-interest bearing	550,000	550,000
John Frugone (6)	Due on demand, non-interest bearing	255,000	255,000
Scott Neff (7)	Due on demand, non-interest bearing	50,000	50,000
Cliff Miller (8)	Due on 10/11/09, interest bearing	450,000	450,000
Accrued interest (8)		100,000	100,000
John McConaughy (9)	Due on demand, 10% interest	25,000	25,000
Accrued interest (9)		2,500	2,500
Greg and Lori Popke (10)	Due on 12/11/09	100,000	100,000
H. Lawrence Logan (11)	Due on demand, non-interest bearing	25,000	25,000
Aaron Hiller (12)	Due October 17, 2011, 20% interest & shares	30,000	30,000
Charles Strauss (13)	Due October 20, 2011, 20% interest & shares	50,000	50,000
Ferandell Tennis Courts (14)	Due October 26, 2011, 20% interest & shares	45,000	45,000
Michael Hannegan (15)	Due October 10, 2011, 20% interest & shares	75,000	75,000
Accrued interest (16)		36,847	16,902
Total		\$ 2,587,340	\$ 2,559,657

(1) The Company has a note payable outstanding for \$200,000, plus \$20,000 in accrued interest. Although the predecessor company (CNE) reserved 456,740 shares of its common stock to retire this debt pursuant to a

settlement agreement, the stock could not be issued until the party to whom the note was assigned by its original holder emerged from bankruptcy or reorganization. In March 2010, the note holder emerged from bankruptcy and the note was settled. During the year ended December 31, 2009, an additional \$30,000 in interest expense was recorded for a total of \$50,000 accrued interest outstanding on the note.

On March 31, 2008, the Company received a \$150,000 non-interest bearing advance from John Marozzi (Marozzi") which is due on demand. As payment for his services, the Company was to repay the full amount of the note plus 1,000,000 shares of unregistered restricted common stock. The Company recorded \$40,000 of debt issue costs related to the 1,000,000 shares of common stock that were issuable to Marozzi as of March 31, 2008 (See Note 8).

(2) On May 5, 2008, Marozzi received repayment of \$50,000 from the Company. On October 13, 2008, the Company received another \$50,000 interest bearing advance from Marozzi. The Company was to repay the full amount of the October 31, 2008 \$50,000 note in cash within 60 calendar days from the date the note was executed plus interest paid in the form of 1,000,000 shares of unregistered Company common stock. The Company recorded \$60,000 of debt issue costs related to the 1,000,000 shares of common stock which were issuable to Marozzi as of December 31, 2008.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - NOTES PAYABLE (CONTINUED)

On March 5, 2009, the Company received another \$50,000 interest bearing advance from Marozzi. The Company was to repay the full amount of the March 5, 2009 \$50,000 note in cash within 60 calendar days from the date the note was executed plus interest paid in the form of 1,000,000 shares of unregistered Company common stock. This left a balance of \$200,000 unpaid principal as of June 30, 2009. On August 12, 2009, the Company and Marozzi entered into a six month extension for the Senior Note and Purchase Agreement for the amount of \$200,000. The principal amount was payable on February 5, 2010. On April 17, 2009, the Company received a \$12,500 non-interest bearing advance from Marozzi. The Company was to repay the full amount of the April 17, 2009 \$ 12,500 note in cash within 60 calendar days from the date the note was executed. On May 8, 2009, the Company received a \$ 20,000 non-interest bearing advance from Marozzi. On August 13, 2009, the Company and Marozzi entered into a six month extension for the Senior Note and Purchase Agreement for the amount of \$32,500. The principal amount was payable on February 5, 2010. On August 7, 2009, the Company received a \$33,000 non-interest bearing advance from Marozzi. In repayment, the Company was to repay the full amount of the note in cash within 60 calendar days from the date the note was executed. On November 5, 2009, the Company entered into a thirty day loan extension agreement with Marozzi for the \$33,000 loan to the Company. The principal amount and interest was payable on December 5, 2009. This left a total balance of \$265,500 of unpaid principal as of December 31, 2009 which was in default.

On March 3, 2010, the Company received an \$110,000 interest bearing advance from Marozzi. The Company was to pay interest at the interest rate of 10% payable at the time of repayment due March 3, 2011. As of March 3, 2011, the advance was not repaid by the Company, and is currently in default. On April 21, 2010, the Company received a \$42,000 interest bearing advance from Marozzi. The Company will pay interest at the interest rate of 10% which shall be payable at the time of repayment due April 21, 2011. The Company had the option to repay the loan in Company stock at a price based on a 50% discount off the market price, calculated on the average closing price five days prior to delivery of the stock. On December 14, 2010 the Company agreed to issue 20 million shares of its common stock in settlement of \$217,500 of the older debt instruments owed to Marozzi. The Company recorded a loss on debt conversion of \$1,182,500 in connection with this transaction. This left a total balance of \$200,000 of unpaid principal as of December 31, 2010.

On April 1, 2011, the Company executed a loan agreement with Marozzi, whereas Marozzi will provide funding for up to \$750,000. When the entire \$750,000 has been funded to the Company, the principal amount and accrued

interest is due 30 days thereafter. Interest will accrue at 4% per annum until all principal amounts are repaid. If the entire \$750,000 loan is not repaid in 30 days by cash or stock, the entire unpaid balance will be due and payable on demand at the option of the holder. Of the \$750,000 total commitment, Marozzi had advanced \$587,980 through September 30, 2011.

On April 25, 2011, the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as settlement for the outstanding principal balance payable to Marozzi of \$200,000. The Company's stock price on April 25, 2011 was \$0.04; therefore, the value of the 30,000,000 issued was \$1,200,000, resulting in a loss on debt conversion of \$1,000,000 that has been reflected in the Company's Statements of Operations during the second quarter of 2011.

On December 19, 2011, the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as settlement for \$200,000 of the \$587,980 funded to date by Marozzi. The Company's stock price on December 19, 2011 was \$0.01; therefore, the value of the 30,000,000 shares to be issued was \$300,000, resulting in a loss on debt conversion of \$100,000 that has been reflected in the Company's Statements of Operations during the fourth quarter of 2011. Total loss of debt conversions for the year ended December 31, 2011 was \$1,100,000. The above 30,000,000 shares were issued in January 2012. Subsequent to the conversion of debt, there remains \$387,980 of funds due to Marozzi as of December 31, 2011 and June 30, 2012. Accrued interest due on all Marozzi related loans was \$39,013 and \$31,275 as of June 30, 2012 and December 31, 2011, respectively.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - NOTES PAYABLE (CONTINUED)

On April 24, 2008, the Company received a \$38,000 non-interest bearing advance from James R. McConnaughy (McConnaughy”), which is due on demand. In repayment, the Company was to repay the full amount of the note plus 304,000 shares of the Company’s unregistered restricted common stock. The Company recorded \$24,320 in (3) debt issue costs related to the 304,000 shares of common stock that were issuable to McConnaughy as of December 31, 2008. On December 23, 2008, the Company received another \$15,000 non-interest bearing advance from McConnaughy, which is due on demand. James McConnaughy is a relative of John E. McConnaughy Jr., a Company Director discussed in Note 7 [3].

On April 24, 2008, the Company received a \$38,000 non-interest bearing advance from Christopher T. Joffe (Joffe,”) which is due on demand. In repayment, the Company will repay the full amount of the note plus 304,000 (4) shares of the Company’s unregistered restricted common stock. The Company recorded \$24,320 in debt issue costs related to the 304,000 shares of common stock that are issuable to Joffe as of December 31, 2008. On June 13, 2008, the Company received another \$25,000 non-interest bearing advance from Joffe, which is due on demand.

On April 30, 2008, the Company received a \$500,000 non-interest bearing advance from Frank Ciolli (Ciolli.”) In repayment, the Company promised to pay Ciolli the principal sum of \$550,000 on or before October 31, 2008. On October 31, 2008, the Company entered into a 60 day loan extension with Ciolli. In payment, the Company issued 1,000,000 shares of the Company’s unregistered restricted common stock to Ciolli and 1,000,000 shares of the Company’s unregistered restricted common stock to Donna Alferi on behalf of Michael Alferi as designated by Ciolli. The Company recorded \$100,000 and \$100,000, respectively, in debt issue costs related to the 1,000,000 (5) and 1,000,000, respectively, of shares of common stock that were issued to Ciolli and Donna Alferi as of December 31, 2008. On January 15, 2009, the Company entered into the thirty-one day extension from December 31, 2008 for the Convertible Loan Agreement and Convertible Note with Ciolli for the loan amount of \$550,000 dated as of April 30, 2008. The Company issued 500,000 shares of restricted, unregistered common stock each for Michael Alferi and Ciolli, which resulted in Company debt issue costs of \$80,000 as of September 30, 2009. On August 12, 2009, the Company and Ciolli entered into a six month extension for the Senior Note and Purchase Agreement for the principal sum of the \$550,000. The principal amount was payable on February 12, 2010. The balance of the \$550,000 note payable is currently in default.

(6) On September 10, 2008, the Company received a \$100,000 non-interest bearing advance from John Frugone, which was due on demand. In repayment, the Company will repay the full amount of the note in cash over two years from the date the note is executed. On February 25, 2009, the Company received a \$30,000 non-interest



bearing advance from John Frugone, which is due on demand. In repayment, the Company will repay the full amount of the note in cash over two years from the date the note is executed. On July 30, 2009, the Company repaid \$75,000 to John Frugone as a partial payment on the outstanding balance. On November 6, 2009, the Company received a \$100,000 non-interest bearing advance from John Frugone. The Company will repay the loan amount in cash over two years from the date the note is executed. This left a balance of \$155,000 unpaid principal as of December 31, 2009. On March 30, 2010, the Company received a \$100,000 non-interest bearing advance from John Frugone. The principal of this loan was due no later than March 30, 2012. This left a balance of \$255,000 unpaid principal as of December 31, 2011 and June 30, 2012 and the note payable is currently in default. John Frugone is a relative of Peter Frugone, the Company's CEO and also a Company Director.

On October 13, 2008, the Company received a \$50,000 interest bearing advance from Scott Neff ("Neff"). The Company was to repay the full amount of the note in cash within 60 calendar days from the date the note is executed plus interest expense paid in the form of 1,000,000 shares of Company common stock. During the period (7) ended December 31, 2008, the Company recorded \$60,000 in debt issue costs related to the 1,000,000 shares of common stock that are issuable to Neff as of December 31, 2008. On August 12, 2009, the Company and Neff entered into a six month extension for the Senior Note and Purchase Agreement for the principal sum of \$50,000. The principal amount was payable on February 5, 2010. This note payable is currently in default.

On June 29, 2009, the Company received a \$100,000 interest bearing advance from Cliff Miller (Miller.") In repayment, the Company will repay the full amount of the note in cash not later than July 29, 2009. During the period ended September 30, 2009, the Company recorded \$70,000 in debt issue costs related to the 1,000,000 shares of restricted common stock that were issuable to Miller for interest expense as of July 29, 2009. On July 30, 2009, the Company received a \$100,000 interest bearing advance from Miller. In repayment, the Company was to repay the full amount of the note in cash not later than August 30, 2009. During the period ended September 30, 2009, the Company recorded \$60,000 in debt issue costs related to the 1,000,000 shares of restricted common stock that are issuable to Miller for interest expense as of August 30, 2009. On August 11, 2009, the Company received a \$250,000 interest bearing advance from Miller. In repayment, the Company was to repay the full amount of the note in cash not later than October 11, 2009. The Company shall pay interest in the form of 10,000,000 shares of the Company's restricted stock and a \$100,000 cash payment due at maturity. During the year ended December 31, (8) 2009, the Company recorded accrued interest of \$100,000 and debt issue costs of \$400,000 for interest expense. On November 11, 2009, the Company entered into a thirty day loan extension agreement with Miller for the \$100,000 loan on June 29, 2009, the \$100,000 loan on July 30, 2009 and the \$250,000 loan on August 11, 2009. In consideration of the extending the term of the loan, the Company was to issue 2,000,000 shares of the Company's common stock on January 4, 2010. During the year ended December 31, 2009, the Company recorded debt issue costs of \$60,000 related to the 2,000,000 shares for interest expense. The total unpaid principal balance of \$450,000 is currently in default. For the six month period ended June 30, 2012 and the year ended December 31, 2011, the Company incurred and accrued \$819,000 and \$1,642,500 of default penalty interest expense, respectively, and has accrued cumulative default penalties of \$4,680,000 and \$3,861,000, respectively, comprised of accrued interest of \$100,000, and accrued cumulative default penalties of \$4,580,000 for the six months ended June 30, 2012 and accrued interest of \$100,000 and accrued cumulative default penalties of \$3,761,000 for the year ended December 31, 2011.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - NOTES PAYABLE (CONTINUED)

On June 2, 2009, the Company received a \$25,000 10% interest bearing advance from John E. McConnaughy Jr. In repayment, the Company was to repay the full amount of the note and accrued interest in cash by September 1, (9)2009. On November 5, 2009, the Company entered into a thirty day loan extension agreement with John E. McConnaughy Jr. for this \$25,000 loan. The principal amount and interest was payable on December 5, 2009 and the loan is currently in default.

On July 20, 2009, the Company received a \$100,000 interest bearing advance from Greg and Lori Popke (Popke.”) In repayment, the Company was to repay the full amount of the note in cash not later than September 19, 2009. During the period ended September 30, 2009, the Company recorded \$60,000 in debt issue costs related to the 1,000,000 shares of restricted common stock that are issuable to Popke for interest expense as of September 19, (10)2009. On November 12, 2009, the Company entered into a thirty day loan extension agreement with Popke to extend this \$100,000 loan. The principal amount was payable on December 11, 2009 and the loan is currently in default. For the six month period ended June 30, 2012 and the year ended December 31, 2011, the Company incurred and accrued \$182,000 and \$365,000 of default penalty interest expense, respectively, and has accrued cumulative default penalties of \$1,014,000 and \$832,000, respectively.

(11) During the fiscal year 2007, the Company received a \$25,000 non-interest bearing advance from Lawrence Logan. The advance is due on demand.

(12) On July 19, 2011, the Company received a \$30,000 loan that bears 20% interest. Principal and interest are due in 90 days. The Lender was also given 10 shares of common stock for every \$1 loaned, for a total of 300,000 shares. The value of the shares at issuance was \$6,000 and has been recorded as interest expense. As of the June 30, 2012, the Note has not been repaid and is currently in default.

(13) On July 22, 2011, the Company received a \$50,000 loan that bears 20% interest. Principal and interest are due in 90 days. The Lender was also given 10 shares of common stock for every \$1 loaned, for a total of 500,000 shares. The shares were not issued as of September 30, 2011. The value of the shares recorded was \$10,000 and has been recorded as interest expense. As of the June 30, 2012, the Note has not been repaid and is currently in default.

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(14) On July 28, 2011, the Company's CEO received a \$45,000 loan on behalf of the Company that bears 20% interest. Principal and interest are due in 90 days. The Lender was also given 10 shares of common stock for every \$1 loaned, for a total of 450,000 shares. The value of the shares at issuance was \$9,000 and has been recorded as interest expense. As of the June 30, 2012, the Note has not been repaid and is currently in default.

(15) On July 28, 2011, the Company's CEO received a \$75,000 loan on behalf of the Company that bears 20% interest. Principal and interest are due in 90 days. The Lender was also given 8 shares of common stock for every \$1 loaned, for a total of 600,000 shares. The value of the shares at issuance was \$12,000 and has been recorded as interest expense. As of the June 30, 2012, the Note has not been repaid and is currently in default.

(16) The total interest accrued for the loans listed above for items #12-#15 above at 20%, was \$36,847 and \$16,902 for the six month period ended June 30, 2012 and the year ended December 31, 2011, respectively. This amount is expected to be paid in cash.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - IMPAIRMENT OF MARKETING AND DISTRIBUTION AGREEMENT AND RELATED SENIOR NOTE PAYABLE DUE TO EMPIRE ADVISORY, LLC

As discussed in Note 1, in August 2005, the Company executed a marketing and distribution agreement with Arrow Pte. This agreement was valued at fair value as determined based on an independent appraisal, which approximates the market value of 96% of the CNE public stock issued in settlement of the note.

The marketing and distribution agreement would have been amortized over the remainder of 99 years (the life of the agreement) once the Company commenced sales. As of December 31, 2005, the Company had recorded a \$125,000,000 amortizable intangible asset for this agreement and corresponding credits to common stock and additional paid-in capital in conjunction with the stock settlement of the senior secured note payable to Empire Advisory, LLC and related cash advances in the same aggregate amount. The senior secured note payable was non-interest bearing and was repaid in the form of the preferred stock, which was subsequently converted to common stock (See Note 3). Any preferred stock issued under the senior secured note payable is considered restricted as to the sale thereof under SEC Rule 144 as unregistered securities.

The Company's only intangible asset was comprised of this marketing and distribution agreement with Arrow Pte. In accordance with ASC 350, Goodwill and Other Intangible Assets" this intangible agreement is tested for impairment on an annual basis. The Company assesses the impairment of identifiable intangibles and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following:

Significant inability to achieve expected projected future operating results;

Significant changes in the manner in which the work is able to be performed what increases costs;

Significant negative impact on the environment.

We perform goodwill impairment tests on an annual basis and on an interim basis if an event or circumstance indicates that it is more likely than not that impairment has occurred. We assess the impairment of other amortizable intangible assets and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include significant underperformance to historical or projected operating results, substantial changes in our business strategy and significant negative industry or economic trends.

The World Bank and World Wildlife Federation have adopted forest management guidelines to ensure economic, social and environmental benefits from timber and non-timber products and the environmental services provided by forests. Most countries, including Indonesia as of 2007, have adopted these guidelines as law in order to promote economical development while combating the ongoing crisis of worldwide deforestation.

It has always been the policy of Arrow Pte to follow the international guidelines for the harvesting of timber in virgin forests. In December 2007, Arrow Pte. assessed that it would be unable to harvest the timber products in Papua, New Guinea due to the fact that the widely accepted international guidelines of the World Wildlife Federation had not been adopted by Papua, New Guinea. This fact is adverse to the economic, social and environmental goals of Arrow Pte. because with the amount of land that the project was allotted combined with the agreed upon previous guidelines of the marketing and distribution agreement, yields would be significantly reduced. Given the significant change in the economics of the harvesting of the timber in Papua, New Guinea, Arrow Pte. has decided not to pursue any further operations in Papua, New Guinea given that the above restrictions cause a significant reduction in the volume of harvesting, which results in a disproportionate cost to yield ration at the Papua, New Guinea site which makes the project not economically feasible in the foreseeable future.

Based on the fact that Arrow Pte. is unable to fulfill their part of the agreement, the Company has reached the conclusion that the marketing and distribution agreement has no value. Therefore, the Company has fully impaired the value of the agreement and recorded a loss on write-off of the marketing and distribution agreement of \$125,000,000 at December 31, 2007.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - RELATED PARTY TRANSACTIONS

[1] Management Agreement with Empire Advisory, LLC

Effective August 1, 2005, the Company entered into a Management Agreement with Empire Advisory, LLC (Empire") under which Empire provides chief executive officer and administrative services to the Company in exchange for a) an annual fee of \$300,000 for overhead expenses, b) \$1,000,000 per annum (subject to increases in subsequent years) for executive services, and c) a one-time fee of \$150,000 for execution of the proposed transaction which was incurred in 2005. The term of the agreement was for five years. On May 18th, 2011 the agreement was extended through December 31st, 2016, and will follow the terms of the original agreement, and is automatically renewable thereafter unless notice by both parties are sent within 120 days prior to the end of said agreement.

As of June 30, 2012 and December 31, 2011, the Company had short-term borrowings of \$13,783,188 and \$11,632,478, respectively, due to Empire, consisting of cash advances to the Company and working capital raised by Empire, as agent, on behalf of the Company. These amounts are non-interest bearing and due on demand.

Peter Frugone is a member of the Board of Directors of the Company and is the owner of Empire. Empire, as agent, was the holder of the \$125 million senior secured note payable settled in December 2005.

Management consulting fees and services incurred by Empire charged to the Statement of Operations for the six months ended June 30, 2012 and 2011 were \$2,856,570 and \$2,462,891, respectively.

During the six months ended June 30, 2012, the Company also incurred Director's compensation expense of \$27,500 to Mr. Frugone, consisting of cash compensation of \$25,000 and stock based compensation of \$2,500 based upon the Company's share trading price on the date of the grant. During the six months ended June 30, 2011, the Company also incurred Director's compensation expense of \$27,500 to Mr. Frugone, consisting of cash compensation of \$25,000 and

stock based compensation of \$2,500 based upon the Company's share trading price on the date of the grant. At June 30, 2012 the Company is obligated to issue 1,375,000 company shares to him, and Accounts payable and accrued liabilities" includes \$275,000 due to him for the cash based portion of his 2012, 2011, 2010, 2009, 2008 and 2007 director's compensation (See Note 7[4]).

During the six months ended June 30, 2012 and 2011, the Company made cash payments of \$195 and \$616,564 respectively, to Empire under the agreement.

[2] Engagement and Consulting Agreements entered into with individuals affiliated with Arrow PNG:

Consulting fees and services charged in the Statement of Operations for the six months ended June 30, 2012 and 2011 incurred to Hans Karundeng and Rudolph Karundeng under Engagement and Consulting Agreements totaled \$750,000 and \$750,000, respectively. In addition, as of June 30, 2012 and December 31, 2011 the Company owed them a total of \$9,964,291 and \$9,189,291, respectively. These agreements are discussed in detail in Note 11.

During the six months ended June 30, 2012, the Company also incurred Director's compensation expense of \$27,500 to Rudolph Karundeng, consisting of cash compensation of \$25,000 and stock based compensation of \$2,500 based upon the Company's share trading price on the date of the grant. During the six months ended June 30, 2011, the Company also incurred Director's compensation expense of \$27,500 to Rudolph Karundeng, consisting of cash compensation of \$25,000 and stock based compensation of \$2,500 based upon the Company's share trading price on the date of the grant. At June 30, 2012 the Company is obligated to issue 1,375,000 company shares to him, and Accounts payable and accrued liabilities" includes \$275,000 due to him for the cash based portion of his 2012, 2011, 2010, 2009, 2008 and 2007 director's compensation (See Note 7[4]).

On May 18th, 2011 the engagement and consulting agreements with Hans Karundeng and Rudolph Karundeng (See Note 10) were extended through December 31st, 2016, and will follow the terms of the original agreements, and is automatically renewable thereafter unless notice by both parties are sent within 120 days prior to the end of said agreements.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - RELATED PARTY TRANSACTIONS (CONTINUED)

[3] Non-Interest Bearing Advance Received from Company Director:

In July 2006, the Company received a \$150,000 non-interest bearing advance from John E. McConnaughy, Jr., a Director of the Company, which is due on demand. This note was repaid in October 2006. Also, in October 2006, the Company received an additional \$200,000 non-interest bearing advance from Mr. McConnaughy, Jr. which was also due on demand. Of this amount, \$25,000 was repaid in March 2007 and \$88,000 in April and May 2008, leaving a balance due of \$87,000 on this note. In February and March 2007, the Company received an additional \$200,000 non-interest bearing advance from John E. McConnaughy, Jr., which is due on demand. In May and June 2007, the Company received an additional \$250,000 non-interest bearing advance from John E. McConnaughy, Jr., which is due on demand. In July 2007, the Company received \$250,000 of additional non-interest bearing advances from John E. McConnaughy, Jr., which is due on demand. In August 2007, the Company received a \$50,000 non-interest bearing advance from John E. McConnaughy, Jr., which is due on demand. In October 2007 the Company received a \$200,000 non-interest bearing advance from John E. McConnaughy, Jr., which is due on demand. In December 2007 the Company received a \$250,000 non-interest bearing advance from John E. McConnaughy, Jr., which is due on demand. In March 2008, the Company received an additional \$110,000 non-interest bearing advance from John E. McConnaughy, Jr. In May and June 2008, the Company received \$75,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In July 2008, the Company received \$90,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand.

In August 2008, the Company received \$240,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In September 2008, the Company received \$90,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In October 2008, the Company received \$50,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In November 2008, the Company received \$10,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In December 2008, the Company received \$5,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. On January 15, 2009, the Company received a \$5,000 non-interest bearing advance from John E. McConnaughy Jr. In repayment, the Company will repay the full amount of the note in cash over two years from the date the note is executed. On January 27, 2009, the Company repaid \$5,000 to John E. McConnaughy, Jr against the outstanding balance owed to him. On September 28, 2009, John E. McConnaughy, Jr. converted \$9,000 of non-interest bearing advance owed to him by the Company into 180,000 shares of restricted, unregistered common stock at \$0.05 per share



into the name of Roberta Konrad. On September 28, 2009, John E. McConnaughy, Jr. converted \$30,000 of non-interest bearing advance owed to him by the Company into 600,000 shares of restricted, unregistered common stock at \$0.05 per share into the name of Jacqueline Rowen. As of December 31, 2009, John E. McConnaughy III assigned a \$12,000 advance to John McConnaughy, Jr. As of June 30, 2012 and December 31, 2011, the Company had \$1,955,000 and \$1,955,000, respectively, left to be repaid to Mr. McConnaughy, which is included in Due to Related Parties.”

On June 2, 2009, the Company received a \$25,000 10% interest bearing advance from John E. McConnaughy Jr. In repayment, the Company will repay the full amount of the note and accrued interest in cash by September 1, 2009. As of December 31, 2010, the outstanding principal and accrued interest of \$2,500 has been included in Notes Payable”. On November 5, 2009, the Company entered into a thirty day loan extension agreement with John E. McConnaughy Jr. for this \$25,000 loan. The principal amount and interest was payable on December 5, 2009. This note is currently in default.

During the six months ended June 30, 2012, the Company also incurred Director’s compensation expense of \$27,500 to John. McConnaughy, consisting of cash compensation of \$25,000 and stock based compensation of \$2,500 based upon the Company’s share trading price on the date of the grant. During the six months ended June 30, 2011, the Company also incurred Director’s compensation expense of \$27,500 to John McConnaughy, consisting of cash compensation of \$25,000 and stock based compensation of \$2,500 based upon the Company’s share trading price on the date of the grant. At June 30, 2012 the Company is obligated to issue 1,375,000 company shares to him, and Accounts payable and accrued liabilities” includes \$275,000 due to him for the cash based portion of his 2012, 2011, 2010, 2009, 2008 and 2007 director’s compensation (See Note 7[4]).

#### [4] Directors’ Compensation:

On December 3, 2007, the Board of Directors approved a plan to compensate all members of the Board of Directors at a rate of \$50,000 per year and 250,000 shares of Company common stock effective January 1, 2007. This compensation plan applies to any board member that belonged to the Board as of and subsequent to January 1, 2007. Those board members that were only on the Board for part of the year will received pro-rata compensation based on length of service. As of June 30, 2012 and December 31, 2011, none of the shares under this plan have been issued and the Company has an accrued liability of \$975,137 and \$900,137, respectively, of cash-based compensation and recorded additional paid-in capital through those dates of \$247,521 and \$240,025, respectively, for stock-based compensation based on the fair value of 4,875,685 and 4,500,685 shares to be issued to the members of the Board, respectively.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCKHOLDER'S EQUITY

Arrow Ltd. was incorporated in May 2005 as a Bermuda corporation. Upon incorporation, 1,200,000 shares of \$.01 par value common stock were authorized and issued to CNE.

On November 14, 2005, the Company increased its authorized shares to 1 billion and reduced the par value of its common stock to \$0.00001 per share, resulting in a common stock conversion rate of 1 to 62.4.

On November 14, 2005, the Company completed a reverse merger with CNE Group, Inc. by acquiring 96% of the outstanding shares of CNE's common stock in the form of convertible preferred stock issued in settlement of the senior note payable.

During 2005, CNE divested or discontinued all of its subsidiaries in preparation for the reverse merger transaction. Accordingly, the results of operations for the divested or discontinued subsidiaries are not included in the consolidated results presented herein. In conjunction with the divestitures, CNE repurchased and retired all preferred stock and made certain payments to related parties.

In conjunction with the reverse merger transaction, the Company retired 1,238,656 shares of Treasury Stock.

On August 2, 2006, the Company entered into a stock purchase agreement with APR wherein APR agreed to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$1.00 per share, making this a capital contribution of \$15,000,000 in total. The stock will be delivered at the time the Company files for registration. During the third and fourth quarters of 2006, the Company received a total of \$985,000 in capital contribution towards the stock purchase agreement with APR to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$1.00 per share. During the year ended December 31, 2007, the Company received an additional \$500,000 in capital contribution towards the stock purchase agreement with APR to purchase up to an aggregate

amount of 15,000,000 shares of common stock in the Company for \$1.00 per share. (See Note 10 [5] - Stock Purchase Agreement.)

On November 20, 2007, the Board of Directors approved a private placement offering (the "Offering") approximating \$2,000,000 to accredited investors at \$1.00 per share of Series A Convertible Preferred Stock. The Offering will consist of the Company's Series A Convertible Preferred Stock that will be convertible into our common stock. These securities are not required to be and will not be registered under the Securities Act of 1933. Shares issued under this placement will not be sold in the United States, absent registration or an applicable exemption from registration. As of December 31, 2009, the Company had received \$355,000 from investors towards 355,000 Series A Convertible Preferred Stock shares issuable under subscription agreements covering the placement offering. Each Series A Convertible Preferred Stock is convertible into 20 shares of the Company's Common Stock. The holders of the preferred stock have no voting rights except as may be required by Delaware law, no redemption rights, and no liquidation preferences over the Common Stock holders. On November 3, 2009, the 355,000 Series A Convertible Preferred Stock were converted into 7,100,000 Common shares. As of June 30, 2012, there were no Series A Convertible Preferred Stock outstanding.

On December 3, 2007, the Board of Directors approved a plan to compensate all members of the Board of Directors at a rate of \$50,000 per year and 250,000 shares of Company common stock effective January 1, 2007. This compensation plan applies to any board member that belonged to the Board as of and subsequent to January 1, 2007. Those board members that were only on the Board for part of the year will received pro-rata compensation based on length of service. As of June 30, 2012 and December 31, 2011, none of the shares under this plan have been issued and the Company has an accrued liability of \$975,137 and \$900,137, respectively, of cash-based compensation and recorded additional paid-in capital through those dates of \$247,521 and \$240,025, respectively, for stock-based compensation based on the fair value of 4,875,685 and 4,500,685 shares to be issued to the members of the Board, respectively.

On February 1, 2008, the Company entered into Independent Contractor Agreement with Charles A. Moskowitz of MoneyInfo. Inc. to provide consulting services to the Company in the lumber market development, ethanol market development, and compilation of market prices associated with lumber and ethanol and development of a database for the ongoing analysis of these markets. The term of this agreement was February 1, 2008 through July 31, 2008. As payment for the Consultant's services, the Company will issue 2,600,000 shares of common stock to Charles A. Moskowitz. During the year ended December 31, 2008, the Company recorded consulting fees and services of \$208,000 related to the 2,600,000 shares of common stock that are now issuable to Charles A. Moskowitz. As of June 30, 2012, none of these shares have been issued to Charles A. Moskowitz.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCKHOLDER'S EQUITY (CONTINUED)

On March 13, 2008, the Company and Micro-Cap Review, Inc. (Micro-Cap") executed an Advertising Agreement wherein the Company will pay Micro-Cap Review, Inc. 1,000,000 of restricted common shares to display advertisements and advertorial in the Micro-cap Review magazine and on <http://www.microcapreview.com> website on a rotating basis. The services began on March 13, 2008 and expired on June 30, 2008. On April 29, 2008, the Company issued 1,000,000 shares of unregistered restricted common stock to Micro-Cap Review, Inc. The Company recorded a marketing expense of \$70,000 in consulting fees and services related to the issuance of the 1,000,000 shares of common stock as of December 31, 2008.

On March 15, 2008, the Company and Seapotter Corporation (Seapotter") executed a Consulting Agreement wherein Seapotter would provide information technology support from March 15, 2008 to July 15, 2008 in exchange for \$9,000 per month and 250,000 shares of common stock. On April 29, 2008, the Company issued 250,000 shares of unregistered restricted common stock to Charles Potter per the Consulting Agreement entered into by the Company on March 15, 2008. The Company recorded consulting fees and services of \$17,500 related to the 250,000 shares of common stock that were issued to Seapotter on April 29, 2008.

On April 30, 2008, the Company entered into Independent Contractor Agreement with Ciolli Management Consulting, Inc. to provide advisory services in the land development, construction management, equipment acquisition and project management industries. As payment for the Consultant's services, the Company will issue a one-time, non-refundable fee of 1,000,000 unrestricted shares of common stock. As of December 31, 2008, the Company has expensed \$60,000 for the 1,000,000 shares of common stock that were issued to Ciolli Management Consulting, Inc. as of December 31, 2008.

On April 30, 2008, the Company received a \$500,000 non-interest bearing advance from Frank Ciolli (Ciolli.") In repayment, the Company promised to pay Ciolli the principal sum of \$550,000 on or before October 31, 2008. On October 31, 2008, the Company entered into a 60 day loan extension with Ciolli. In payment, the Company issued 1,000,000 shares of the Company's unregistered restricted common stock to Ciolli and 1,000,000 shares of the Company's unregistered restricted common stock to Donna Alferi on behalf of Michael Alferi as designated by Ciolli. The Company recorded \$100,000 and \$100,000, respectively, in debt issue costs related to the 1,000,000 and

1,000,000, respectively, of shares of common stock that were issued to Ciolli and Donna Alferi as of December 31, 2008. On January 15, 2009, the Company entered into the thirty-one day extension from December 31, 2008 for the Convertible Loan Agreement and Convertible Note with Ciolli for the loan amount of \$550,000 dated as of April 30, 2008. The Company issued 500,000 shares of restricted, unregistered common stock each for Michael Alferi and Ciolli, which resulted in Company debt issue costs of \$80,000 as of September 30, 2009. On August 12, 2009, the Company and Ciolli entered into a six month extension for the Senior Note and Purchase Agreement for the principal sum of \$550,000. The principal amount was payable on February 12, 2010. The balance of the \$550,000 note payable is currently in default.

On March 31, 2008, the Company received a \$150,000 non-interest bearing advance from John Marozzi (Marozzi") which is due on demand. As payment for his services, the Company was to repay the full amount of the note plus 1,000,000 shares of unregistered restricted common stock. The Company recorded \$40,000 of debt issue costs related to the 1,000,000 shares of common stock that were issuable to Marozzi as of March 31, 2008 (See Note 8). On May 5, 2008, Marozzi received repayment of \$50,000 from the Company. On October 13, 2008, the Company received another \$50,000 interest bearing advance from Marozzi. The Company was to repay the full amount of the October 31, 2008 \$50,000 note in cash within 60 calendar days from the date the note was executed plus interest paid in the form of 1,000,000 shares of unregistered Company common stock. The Company recorded \$60,000 of debt issue costs related to the 1,000,000 shares of common stock which were issuable to Marozzi as of December 31, 2008 (See Note 5).

On March 5, 2009, the Company received another \$50,000 interest bearing advance from Marozzi. The Company was to repay the full amount of the March 5, 2009 \$50,000 note in cash within 60 calendar days from the date the note was executed plus interest paid in the form of 1,000,000 shares of unregistered Company common stock. This left a balance of \$200,000 unpaid principal as of June 30, 2009. On August 12, 2009, the Company and Marozzi entered into a six month extension for the Senior Note and Purchase Agreement for the amount of \$200,000. The principal amount was payable on February 5, 2010. On April 17, 2009, the Company received a \$12,500 non-interest bearing advance from Marozzi. The Company was to repay the full amount of the April 17, 2009 \$ 12,500 note in cash within 60 calendar days from the date the note was executed. On May 8, 2009, the Company received a \$ 20,000 non-interest bearing advance from Marozzi. On August 13, 2009, the Company and Marozzi entered into a six month extension for the Senior Note and Purchase Agreement for the amount of \$32,500. The principal amount was payable on February 5, 2010. On August 7, 2009, the Company received a \$33,000 non-interest bearing advance from Marozzi. In repayment, the Company was to repay the full amount of the note in cash within 60 calendar days from the date the note was executed. On November 5, 2009, the Company entered into a thirty day loan extension agreement with Marozzi for the \$33,000 loan to the Company. The principal amount and interest was payable on December 5, 2009. This left a total balance of \$265,500 of unpaid principal as of December 31, 2009 which was in default.

On March 3, 2010, the Company received an \$110,000 interest bearing advance from Marozzi. The Company was to pay interest at the interest rate of 10% payable at the time of repayment due March 3, 2011. As of March 3, 2011, the advance was not repaid by the Company, and is currently in default. On April 21, 2010, the Company received a \$42,000 interest bearing advance from Marozzi. The Company will pay interest at the interest rate of 10% which shall be payable at the time of repayment due April 21, 2011. The Company had the option to repay the loan in Company stock at a price based on a 50% discount off the market price, calculated on the average closing price five days prior to delivery of the stock. On December 14, 2010 the Company agreed to issue 20 million shares of its common stock in settlement of \$217,500 of the older debt instruments owed to Marozzi. The Company recorded a loss on debt

conversion of \$1,182,500 in connection with this transaction. This left a total balance of \$200,000 of unpaid principal as of December 31, 2010.

On April 25, 2011, the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as settlement for the outstanding principal balance payable to Marozzi of \$200,000. The Company's stock price on April 25, 2011 was \$0.04; therefore, the value of the 30,000,000 shares to be issued was \$1,200,000, resulting in a loss on debt conversion of \$1,000,000 to be reflected in the Company's Statements of Operations during the second quarter of 2011.

On December 19, 2011, the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as settlement for \$200,000 of the \$587,980 funded to date by Marozzi. The Company's stock price on December 19, 2011 was \$0.01; therefore, the value of the 30,000,000 shares to be issued was \$300,000, resulting in a loss on debt conversion of \$100,000 that has been reflected in the Company's Statements of Operations during the fourth quarter of 2011. Total loss of debt conversions for the year ended December 31, 2011 was \$1,100,000. The above 30,000,000 shares were issued in January 2012. Subsequent to the conversion of debt, there remains \$387,980 of funds due to Marozzi as of December 31, 2011 and June 30, 2012. Accrued interest due on all Marozzi related loans was \$39,013 and \$31,275 as of June 30, 2012 and December 31, 2011, respectively.

On April 8, 2008, the Company received a \$50,000 non-interest bearing advance from Barry Weintraub, which was due on demand. In repayment, the Company repaid the full amount of the note on April 30, 2008 and is obligated to issue 2,000,000 shares of the Company's unregistered restricted common stock to Barry Weintraub. The Company recorded \$120,000 in debt issue costs related to the 2,000,000 shares of common stock that were issuable to Barry Weintraub as of December 31, 2008 (See Note 5).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCKHOLDER'S EQUITY (CONTINUED)

On April 24, 2008, the Company received a \$38,000 non-interest bearing advance from Christopher T. Joffe, which is due on demand. In repayment, the Company will repay the full amount of the note plus 304,000 shares of the Company's unregistered restricted common stock. The Company recorded \$24,320 in debt issue costs related to the 304,000 shares of common stock that are issuable to Christopher T. Joffe as of December 31, 2008 (See Note 5).

On April 24, 2008, the Company received another \$38,000 non-interest bearing advance from James R. McConnaughey, which is due on demand. In repayment, the Company will repay the full amount of the note plus 304,000 shares of the Company's unregistered restricted common stock. The Company recorded \$24,320 in debt issue costs related to the 304,000 shares of common stock that are issuable to James R. McConnaughey as of December 31, 2008 (See Note 5).

On April 25, 2008, the Company received a \$12,000 non-interest bearing advance from John E. McConnaughey, III, which is due on demand. In repayment, the Company will repay the full amount of the note plus 96,000 shares of unregistered restricted common stock. The Company recorded \$7,680 in debt issue costs related to the 96,000 shares of common stock that are issuable to John E. McConnaughey, III as of December 31, 2008 (See Note 5). As of December 31, 2009, John E. McConnaughey III assigned the \$12,000 advance to John McConnaughey, Jr.

On May 15, 2008, the Board of Directors approved a private placement offering (the "Offering") approximating \$2,000,000 to accredited investors at \$1.00 per share of Series C Convertible Preferred Stock. The Offering will consist of the Company's Series C Convertible Preferred Stock that will be convertible into our common stock. These securities are not required to be and will not be registered under the Securities Act of 1933. Shares issued under this placement will not be sold in the United States, absent registration or an applicable exemption from registration. As of September 30, 2009, the Company received \$25,000 from investors towards the fulfillment of the financing agreement. On November 3, 2009, the 25,000 Series C Convertible Preferred Stock were converted into 500,000 Common shares. As of June 30, 2012 and December 31, 2011 there was no Series C Convertible Preferred Stock outstanding.

Also on May 15, 2008, the Board of Directors approved the issuance of 50,000 shares of unregistered restricted common stock to Sheerin Alli and 50,000 shares of unregistered restricted common stock to Lori McGrath for consulting services provided. As of December 31, 2011, the Company has not yet issued these shares. The Company recorded \$6,500 and \$6,500, respectively, in consulting fees related to the 100,000 shares of common stock that are issuable to Sheerin Alli and Lori McGrath as of September 30, 2008.

On June 24, 2008, Arrow Resources Development, Inc. entered into a Subscription Agreement with Timothy J. LoBello (Purchaser") in which the Purchaser subscribed for and agreed to purchase 1,000,000 shares of the Company's common stock on June 13, 2008 for the purchase price of \$50,000 (\$0.05 per share). As of December 31, 2010, the Company has not yet issued these shares to the Purchaser. On the date of the purchase, the fair value of these shares was \$140,000. During the year ended December 31, 2008, the Company recorded 49,990 to Additional Paid-in Capital to be issued related to this transaction.

On October 13, 2008, the Company received a \$50,000 interest bearing advance from Scott Neff. The Company was to repay the full amount of the note in cash within 60 calendar days from the date the note is executed plus interest expense paid in the form of 1,000,000 shares of unregistered Company common stock. The Company recorded \$60,000 in costs related to the 1,000,000 shares of common stock that are issuable to Scott Neff as of December 31, 2008. On August 12, 2009, the Company and Scott Neff entered into a six month extension for the Senior Note and Purchase Agreement for the principal sum of \$50,000. The principal amount was payable on February 5, 2010. This note payable is currently in default.

On October 29, 2008, the Company entered into a Subscription Agreement with James Fuchs by which he purchased 250,000 shares of common stock in the amount of \$0.10 per share for total of \$25,000. On November 24, 2008, the Company issued 250,000 shares of restricted, unregistered common stock to James Fuchs.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCKHOLDER'S EQUITY (CONTINUED)

On October 31, 2008, the Company entered into a 60 day loan extension with Frank Ciolli related to the \$550,000 in principal loan incurred by the Company on April 30, 2008. The Company issued 1,000,000 shares of the Company's unregistered restricted common stock to Frank Ciolli and 1,000,000 shares of the Company's unregistered restricted common stock to Donna Alferi on behalf of Michael Alferi as Frank Ciolli's designee. The Company recorded \$200,000 in debt issue costs related to the 1,000,000 and 1,000,000, respectively, of shares of common stock that were issued to Frank Ciolli and Donna Alferi as of December 31, 2008 (See Note 5). On August 12, 2009, the Company and Frank Ciolli entered into a six month extension for the Senior Note and Purchase Agreement for the principal sum of \$550,000. The principal amount was payable on February 12, 2010. The note is currently in default.

On November 14, 2008, the Company entered into a Subscription Agreement with Peter Benolie Lane, Jacques Benolie Lane, and Christopher Benoliel Lane for the purchase of 250,000 shares of common stock in the amount of \$0.10 per share for total of \$25,000.

On December 11, 2008, the Company received \$55,000 from Han Karundeng and Arrow Pacific Resources Group Limited for the purchase of 55,000 shares of common stock at \$1.00 per share pursuant to the Stock Purchase Agreement that was executed on August 2, 2006.

On January 15, 2009, the Company entered into a stock purchase agreement with APR wherein APR agreed to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$.10 per share. On January 15, 2009, the Company received \$85,000 from Hans Karundeng and Arrow Pacific Resources Group Limited for the purchase of 850,000 shares of common stock at \$.10 per share pursuant to the APR to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$.10 per share. On January 20, 2009, the Company received \$165,000 from Hans Karundeng and Arrow Pacific Resources Group Limited for the purchase of 1,650,000 shares of common stock at \$.10 per share pursuant to the APR to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$.10 per share. (See Note 10 [5] - Stock Purchase Agreement.)

On December 14, 2005 Empire entered into a non interest bearing note agreement with Butler Ventures for \$250,000. The cash from this note was invested in the Company. On June 17, 2009, the Company assumed the non interest bearing note from Empire for \$250,000 to Butler Ventures. In repayment, the Company will repay the full amount of the note not later than July 29, 2009. On July 14, 2009, the Company issued 9,690,909 shares of common stock to Butler Ventures, LLC with a market value on the date of issuance of \$533,000 in full settlement of the \$250,000 note payable.

On June 29, 2009, the Company received a \$100,000 interest bearing advance from Cliff Miller (Miller.”) In repayment, the Company will repay the full amount of the note in cash not later than July 29, 2009. During the period ended September 30, 2009, the Company recorded \$70,000 in debt issue costs related to the 1,000,000 shares of restricted common stock that were issuable to Miller for interest expense as of July 29, 2009. On July 30, 2009, the Company received a \$100,000 interest bearing advance from Miller. In repayment, the Company was to repay the full amount of the note in cash not later than August 30, 2009. During the period ended September 30, 2009, the Company recorded \$60,000 in debt issue costs related to the 1,000,000 shares of restricted common stock that are issuable to Miller for interest expense as of August 30, 2009. On August 11, 2009, the Company received a \$250,000 interest bearing advance from Miller. In repayment, the Company was to repay the full amount of the note in cash not later than October 11, 2009. The Company shall pay interest in the form of 10,000,000 shares of the Company’s restricted stock and a \$100,000 cash payment due at maturity. During the year ended December 31, 2009, the Company recorded accrued interest of \$100,000 and debt issue costs of \$400,000 for interest expense. On November 11, 2009, the Company entered into a thirty day loan extension agreement with Miller for the \$100,000 loan on June 29, 2009, the \$100,000 loan on July 30, 2009 and the \$250,000 loan on August 11, 2009. In consideration of the extending the term of the loan, the Company was to issue 2,000,000 shares of the Company’s common stock on January 4, 2010. During the year ended December 31, 2009, the Company recorded debt issue costs of \$60,000 related to the 2,000,000 shares for interest expense. The total unpaid principal balance of \$450,000 is currently in default. For the six month period ended June 30, 2012 and the year ended December 31, 2011, the Company incurred and accrued \$819,000 and \$1,642,500 of default penalty interest expense, respectively, and has accrued cumulative default penalties of \$4,680,000 and \$3,861,000, respectively, comprised of accrued interest of \$100,000, and accrued cumulative default penalties of \$4,580,000 for the six months ended June 30, 2012 and accrued interest of \$100,000 and accrued cumulative default penalties of \$3,761,000 for the year ended December 31, 2011.

On July 20, 2009, the Company received a \$100,000 interest bearing advance from Greg and Lori Popke (Popke.”) In repayment, the Company was to repay the full amount of the note in cash not later than September 19, 2009. During the period ended September 30, 2009, the Company recorded \$60,000 in debt issue costs related to the 1,000,000 shares of restricted common stock that are issuable to Popke for interest expense as of September 19, 2009. On November 12, 2009, the Company entered into a thirty day loan extension agreement with Popke to extend this \$100,000 loan. The principal amount was payable on December 11, 2009 and the loan is currently in default. For the six month period ended June 30, 2012 and the year ended December 31, 2011, the Company incurred and accrued \$182,000 and \$365,000 of default penalty interest expense, respectively, and has accrued cumulative default penalties of \$1,014,000 and \$832,000, respectively.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCKHOLDER'S EQUITY (CONTINUED)

On September 28, 2009, John E. McConnaughy, Jr. converted \$9,000 of non-interest bearing advance owed to him by the Company into 180,000 shares of restricted, unregistered common stock at \$0.05 per share into the name of Roberta Konrad. On September 28, 2009, John E. McConnaughy, Jr. converted \$30,000 of non-interest bearing advance owed to him by the Company into 600,000 shares of restricted, unregistered common stock at \$0.05 per share into the name of Jacqueline Rowen.

On November 3, 2009, Hans Karundeng converted \$100,000 of non-interest bearing advance owed to him by the Company into 2,000,000 shares of common stock.

On November 3, 2009, Empire converted \$100,000 of non-interest bearing advance owed to them by the Company into 2,000,000 shares of common stock.

On May 26, 2011, the Company executed a subscription agreement with a third party and under that agreement 1,066,667 shares of common stock, par value \$.00001, was purchased for \$30,000. The purchased shares were issued in August 2011.

On October 11, 2011, the Company's Board of Directors agreed to amend the May 26, 2011 subscription agreement so that 1,237,500 shares of common stock, par value \$.00001 was purchased for \$30,000. The par value of the additional 170,833 shares of \$1 was recorded to common stock to be issued at December 31, 2011 and reversed to common stock issued and outstanding at June 30, 2012.

On June 19, 2012, the Company issued a warrant to a thirdparty individual to purchase up to 800,000 shares of common stock at \$.10 per share for donated consulting services rendered. The warrant expires one year from issuance. Based on the Black Scholes calculation, the warrant had no value and therefore, no expense was recorded for the

donated services.

#### Reset of 2005 Subscription Agreement

On February 5, 2009 the Company agreed to issue 1,248,094 shares of common stock to certain investors as settlement for the reset of their August 3, 2005 subscription agreements. As of June 30, 2012, only 138,095 shares had been issued.

#### NOTE 9 - GAIN ON WRITE OFF OF PREDECESSOR ENTITY LIABILITIES

During the fourth quarter of 2006, the Company wrote off accounts payable and accrued expenses in the amount of \$395,667 associated with CNE, the predecessor entity in the reverse merger transaction, which will not be paid. This resulted in the recognition of a gain reflected in the Statement of Operations for the year ended December 31, 2006 in the same amount.

#### NOTE 10 - COMMITMENTS AND OTHER MATTERS

[1] Engagement and Consulting Agreements entered into with individuals affiliated with APR

Effective May 20, 2005, the Company entered into an Engagement Agreement with Hans Karundeng for business and financial consulting services for fees of \$1,000,000 per annum. The term of the agreement is five years. Payments under the agreement are subject to the Company's cash flow. On May 18th, 2011 the agreement was extended through December 31st, 2016, and will follow the terms of the original agreement, and are automatically renewable thereafter unless notice by both parties are send within 120 days prior to the end of said agreements.

Effective August 1, 2005, the Company entered into a Consulting Agreement with Rudolph Karundeng for his services as Chairman of the Board of the Company for fees of \$1,000,000 per annum. The term of the agreement was five years. On May 18th, 2011 the agreement was extended through December 31st, 2016, and will follow the terms of the original agreement, and is automatically renewable thereafter unless notice by both parties are sent within 120 days prior to the end of said agreement. Rudolph Karundeng is a son of Hans Karundeng. However, on May 1, 2006, the Company accepted the resignation of Rudolph Karundeng as Chairman of the Board, but he continues to be a director of the Company. Peter Frugone has been elected as Chairman of the Board until his successor is duly qualified and elected. Subsequent to his resignation, it was agreed that Rudolph Karundeng's annual salary would be \$500,000 as a director.

During the six months ended June 30, 2012, the Company made no cash payments to Hans Karundeng under his agreement. During the six months ended June 30, 2012, the Company made no cash payments to Rudolph Karundeng under his agreement. During the year ended December 31, 2011, the Company made cash payments to Hans Karundeng of \$20,000 under his agreement. During the year ended December 31, 2011, the Company made no cash payments to Rudolph Karundeng under his agreement. During the year ended December 31, 2010, the Company made cash payments to Hans Karundeng of \$37,500 under his agreement. During the year ended December 31, 2010, the Company made no cash payments to Rudolph Karundeng under his agreement. During the year ended December 31, 2009, the Company made cash payments to Hans Karundeng of \$122,700 under his agreement. During the year ended December 31, 2009, the Company made no cash payments to Rudolph Karundeng under his agreement. During the year ended December 31, 2008, the Company made cash payments to Hans Karundeng of \$320,000 under his agreement. During the year ended December 31, 2008, the Company made no cash payments to Rudolph Karundeng under his agreement. During the year ended December 31, 2007, the Company received additional advances of \$100,000 from Hans Karundeng under his agreement and made cash payments to him of \$556,000. During the year ended December 31, 2007, the Company made cash payments of \$7,000 to Rudolph Karundeng under his agreement. During the year ended December 31, 2006, the Company received additional advances of \$61,787 from Hans Karundeng under his agreement. During the year ended December 31, 2006, the Company made cash payments of \$62,174 to Rudolph Karundeng under his agreement. During the period from inception (November 15, 2005) to June 30, 2012, the Company made cash payments to Hans Karundeng and Rudolph Karundeng of \$1,125,374 under the agreements.

## [2] Management Agreement with Empire Advisory, LLC

Effective August 1, 2005, the Company entered into a Management Agreement with Empire Advisory, LLC (Empire") under which Empire provides chief executive officer and administrative services to the Company in exchange for a) an annual fee of \$300,000 for overhead expenses, b) \$25,000 per month for reimbursable expenses, c) \$1,000,000 per annum (subject to increases in subsequent years) for executive services, and d) a one-time fee of \$150,000 for execution of the proposed transaction.

On May 18th, 2011 the agreement was extended through December 31st, 2016, and will follow the terms of the original agreement, and is automatically renewable thereafter unless notice by both parties are sent within 120 days prior to the end of said agreement.

During the six months ended June 30, 2012, the Company made \$195 in cash payments to Empire under the agreement. During the year ended December 31, 2011, the Company made cash payments of \$696,862 to Empire under the agreement. During the year ended December 31, 2010, the Company made cash payments of \$276,043 to Empire under the agreement. During the year ended December 31, 2009, the Company made cash payment of \$992,570 to Empire under the agreement. During the year ended December 31, 2008, the Company made cash payments of \$1,319,216 to Empire under the agreement. During the year ended December 31, 2007, the Company made cash payments of \$1,140,529 to Empire under the agreement. During the year ended December 31, 2006, the Company made cash payments of \$562,454 to Empire under the agreement. During the period from inception (November 15, 2005) to December 31, 2005, the Company made cash payments of \$364,000 to Empire under this

agreement. During the period from inception (November 15, 2005) to June 30, 2012, the Company made cash payments of \$5,351,869 to Empire under this agreement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND OTHER MATTERS (CONTINUED)

[3] Litigation- predecessor entity stock holders

The Company was a party to a lawsuit where the plaintiff is alleged that he was entitled to \$60,000 and 1,300,000 of common stock based upon CNE's failure to compensate him for services related to identifying financing for CNE, based upon an agreement that was entered into between CNE and the plaintiff in April 2005. On November 28, 2007, the Company settled the lawsuit with the plaintiff. In full and final settlement of the claims asserted in the action, the Company has paid the plaintiff \$10,000 in cash and issued the plaintiff 200,000 shares of the Company's common stock on December 21, 2007. The settlement resulted in a loss on debt conversion of \$2,000 during the year ended December 31, 2007 because an estimated liability had been recognized prior to 2007.

In May 2006, the Company was advised that it was alleged to be in default of a settlement agreement entered into in January of 2005 by CNE, its predecessor company, related to the release of unrestricted, freely-tradable, non-legend shares of stock. In August 2006, the plaintiffs, alleging the default, obtained a judgment in the 17th Judicial Circuit Court Broward County, Florida for approximately \$1,000,000. On November 13, 2007, legal counsel engaged by Management commenced an action on the Company's behalf in the above Circuit Court seeking to vacate and set aside the 2006 judgment asserting claims under Rule 1.540(b) of the Florida Rules of Civil Procedure. Our counsel's evaluation is that the Company has only a limited chance of having the 2006 judgment opened by the Court because Florida law provides very narrow grounds for opening a judgment once a year has passed from its entry. The Courts are generally reluctant to disturb final judgments and the Company's grounds for opening the judgment depend on the Court's adopting a somewhat novel argument regarding such matters. If, however, the Court does open the default judgment, the Company will then have the opportunity to defend the 2006 action and, in such event, our counsel believes that the Company has a reasonable chance of succeeding in defending that claim, at least in part, based on the documents he has reviewed. As of June 30, 2012 and December 31, 2011, the Company has accrued \$1,424,703 and \$1,393,101, including accrued interest of \$371,319 and \$339,717 respectively, related to this matter.

On December 14, 2005, Empire Advisory received a \$250,000 non-interest bearing advance from Butler Ventures, LLC the proceeds of which were used for the benefit of the Company and for which the liability was transferred to the Company. In repayment, the Company would repay the full amount of the note in converted securities and U.S.

dollars on the earlier of March 31, 2006, without further notice or demand, or immediate payment in the event of default. On December 8, 2008, Butler filed a motion for summary judgment in lieu of complaint against Empire in the Supreme Court of the State of New York for failing to repay the loan on the maturity date. On January 29, 2009, Empire Advisory, LLC and Butler Ventures, LLC entered into Settlement Agreement and Mutual Release where the parties had agreed to resolve amicably the amounts due and owing to Butler by issuing to Butler common stock in Empire's affiliated company, Arrow Resources Development, Inc. as well as by payment of all attorneys' fees and expenses accrued to date. Empire Advisor shall cause the Company to issue to Butler shares of common stock in the Company. Butler agreed to extend until on or prior to March 31, 2009 for performance of all of Empire's obligations. In consideration for this extension, Empire Advisor agreed to cause the Company to issue to Butler an additional 100,000 shares of the Company common stock. The Company defaulted on this extension. On June 17, 2009, Empire Advisory transferred the loan obligations to the Company, and the Company agreed to assume the loan obligations. On July 14, 2009, the Company issued 9,690,909 shares of common stock to Butler Ventures, LLC with a market value on the date of issuance of \$533,000 in full settlement of the \$250,000 note payable. 9,090,909 shares were issued in exchange for a senior note payable that has been assumed by the Company. 100,000 shares were issued in accordance with the aforementioned extension, and 500,000 shares were issued to Butler in consideration of Butler's agreement to forego its remedies related to the aforementioned default of the extension.

#### [4] Consulting/Marketing and Agency Agreements

On April 4, 2006, the Company entered into a consulting agreement with Dekornas GMPLH (Dekornas") (a nonprofit organization in Indonesia responsible for replanting of trees in areas that were destroyed by other logging companies) in which the Company will provide financial consultancy services to Dekornas for an annual fee of \$1.00 for the duration of the agreement. The term of the agreement is effective upon execution, shall remain in effect for ten (10) years and shall not be terminated until the expiration of at least one (1) year. As of June 30, 2012, the Company has not recovered any revenue from this agreement.

In April of 2006, Arrow Resources Development, Ltd. entered into an agency agreement with APR to provide marketing and distribution services for timber resource products and currently has an exclusive marketing and sales agreement with APR to market lumber and related products from land leased by GMPLH which is operated by APR and its subsidiaries, located in Indonesia. Under the agreement Arrow Ltd. will receive a commission of 10% of gross sales derived from lumber and related products. As of June 30, 2012, the Company has recovered \$52,000 of revenue from this agreement.

On April 14, 2006, the Company entered into a consulting agreement with P.T. Eucalyptus in which the Company will provide financial consultancy services to P.T. Eucalyptus for an annual fee, payable quarterly, equal to 10% of P.T. Eucalyptus' gross revenue payable commencing upon execution. The term of the agreement is effective upon execution, shall remain in effect for ninety-nine (99) years and shall not be terminated until the expiration of at least ten (10) years. As of June 30, 2012, the Company has not recovered any revenue from this agreement.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND OTHER MATTERS (CONTINUED)

On February 1, 2008, the Company entered into Independent Contractor Agreement with Charles A. Moskowitz of MoneyInfo. Inc. to provide consulting services to the Company in the lumber market development, ethanol market development, and compilation of market prices associated with lumber and ethanol and development of a database for the ongoing analysis of these markets. The term of this agreement is February 1, 2008 through July 31, 2008. As payment for the Consultant's services, the Company will issue 2,600,000 shares of common stock to Charles A. Moskowitz. The Company recorded consulting fees and services of \$208,000 related to the 2,600,000 shares of common stock that are issuable to Charles A. Moskowitz as of December 31, 2008. As of June 30, 2012, the Company has not recovered any revenue from this agreement.

On March 13, 2008, the Company and Micro-Cap Review, Inc. (Micro-Cap") executed an Advertising Agreement wherein the Company will pay Micro-Cap Review, Inc. 1,000,000 of restricted common shares to display advertisements and advertorial in the Micro-cap Review magazine and on <http://www.microcapreview.com> website on a rotating basis. The services began on March 13, 2008 and expired on June 30, 2008. On April 29, 2008, the Company issued 1,000,000 shares of unregistered restricted common stock to Micro-Cap Review, Inc. The Company recorded a marketing expense of \$70,000 in consulting fees and services related to the issuance of the 1,000,000 shares of common stock as of December 31, 2008.

On March 15, 2008, the Company and Seapotter Corporation (Seapotter") executed a Consulting Agreement wherein Seapotter would provide information technology support from March 15, 2008 to July 15, 2008 in exchange for \$9,000 per month and 250,000 shares of common stock. On April 29, 2008, the Company issued 250,000 shares of unregistered restricted common stock to Charles Potter per the Consulting Agreement entered into by the Company on March 15, 2008. The Company recorded consulting fees and services of \$17,500 related to the 250,000 shares of common stock that were issued to Seapotter on April 20, 2008.

On April 30, 2008, the Company entered into Independent Contractor Agreement with Ciolli Management Consulting, Inc. to provide advisory services in the land development, construction management, equipment acquisition and project management industries. As payment for the Consultant's services, the Company will issue a one-time, non-refundable fee of 1,000,000 unrestricted shares of common stock. As of December 31, 2008, the Company has

expensed \$60,000 related to the 1,000,000 shares of common stock that are were issued to Ciolli Management Consulting, Inc. on November 26, 2008.

On September 15, 2008, the Company entered into a Consulting Agreement with Infrastructure Financial Services, Inc. to assist and advise the Company in obtaining equity financing up to \$5,000,000. As payment for the Consultant's services, the Company will pay a cash transaction fee of 7% upon closing of any equity financing the Consultants assist in obtaining.

On November 22, 2010, the Company entered into a Consulting Agreement with Franco, Inc. to provide market research and analysis services in the lumber and corn markets of Indonesia and Asia. As payment for the Consultant's services, the Company paid 6.5 million shares of Company common stock. As of December 31, 2010, the Company expensed \$585,000 related to the market value of the 6.5 million shares using the Company's closing market price on November 22, 2010.

**[5]** (a) Stock Purchase Agreement

On August 2, 2006, the Company entered into a stock purchase agreement with APR wherein APR agreed to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$1.00 per share, making this a capital contribution of \$15,000,000 in total. The stock will be delivered at the time the Company files for registration. APR is currently the principal shareholder of the Company, owning 352,422,778 shares or 52%. As of December 31, 2009, the Company has received \$1,540,000 from APR towards the fulfillment of this agreement. As of June 30, 2012, the Company has received no additional funds.

On January 15, 2009, the Company entered into a stock purchase agreement with APR wherein APR agreed to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$.10 per share. On January 15, 2009, the Company received \$85,000 from Hans Karundeng and Arrow Pacific Resources Group Limited for the purchase of 850,000 shares of common stock at \$.10 per share pursuant to the APR to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$.10 per share. On January 20, 2009, the Company received \$165,000 from Hans Karundeng and Arrow Pacific Resources Group Limited for the purchase of 1,650,000 shares of common stock at \$.10 per share pursuant to the APR to purchase up to an aggregate amount of 15,000,000 shares of common stock in the Company for \$.10 per share.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND OTHER MATTERS (CONTINUED)

(b) Private Placement Offering- Series A Convertible Preferred Stock

On November 20, 2007, the Board of Directors approved a private placement offering (the "Offering") approximating \$2,000,000 to accredited investors at \$1.00 per share of Series A Convertible Preferred Stock. The Offering was to consist of the Company's Series A Convertible Preferred Stock that will be convertible into our common stock. These securities are not required to be and will not be registered under the Securities Act of 1933 and will not be sold in the United States.. Each Series A Convertible Preferred Stock is convertible into 20 shares of the Company's Common Stock. The holders of the preferred stock have no voting rights except as may be required by Delaware law, no redemption rights, and no liquidation preferences over the Common Stock holders absent registration or an applicable exemption from registration. On January 31, 2008, the Board of Directors approved an extension of the private placement offering until February 15, 2008, after which the offer was closed. As of September 30, 2009, the Company raised \$355,000 from investors under this financing agreement. On November 3, 2009, the 355,000 Series A Convertible Preferred Stock were converted into 7,100,000 Common shares. As of June 30, 2012 and December 31, 2011, there were no Series A Convertible Preferred Stock outstanding.

(c) Private Placement Offering- Series C Convertible Preferred Stock

On May 15, 2008, the Board of Directors approved a private placement offering (the "Offering") approximating \$2,000,000 to accredited investors at \$1.00 per share of Series C Convertible Preferred Stock. The Offering will consist of the Company's Series C Convertible Preferred Stock that will be convertible into our common stock. These securities are not required to be and will not be registered under the Securities Act of 1933. Shares issued under this placement will not be sold in the United States, absent registration or an applicable exemption from registration. As of September 30, 2009, the Company received \$25,000 from investors towards the fulfillment of the financing agreement. On November 3, 2009, the 25,000 Series C Convertible Preferred Stock were converted into 500,000 Common shares. As of June 30, 2012 and December 31, 2011, there was no Series C Convertible Preferred Stock outstanding.

[6] Delaware Corporate Status

The Company is delinquent in its filing and payment of the Delaware Franchise Tax Report and, accordingly, is not in good standing.

At June 30, 2012 and December 31, 2011, the Company has accrued an additional \$210 and \$420 for estimated unpaid Delaware franchise taxes incurred to date reportable for the year ended December 31, 2012 and 2011, respectively. As of June 30, 2012 accounts and accrued expenses payable includes aggregate estimated unpaid Delaware Franchise taxes of \$186,891.

[7] 5 Year Table of obligations under [1] and [2] above:

The minimum future obligations for consulting fees and services under agreements outlined in [1] and [2] are as follows:

Periods ending June 30,	Amounts
2013	\$6,788,898
2014	7,361,123
2015	8,826,404
2016	10,658,004
2017	6,376,740
	\$40,011,169

The Company also engages certain consultants to provide services including management of the corporate citizenship program and investor relation services. These agreements contain cancellation clauses with notice periods ranging from zero to sixty days.

NOTE 11 - SPIN OFF AGREEMENT

On March 12, 2009, the Company entered into an agreement with a third party company to reinstate a Letter Agreement dated March 13, 2006 (the Original Agreement”) and extend time to close on a contemplated spin-off. Pursuant to the Original Agreement, the Company will incorporate a new 100% owned Bermudan subsidiary that will be spun out to the Company’s shareholders. The third party company will put assets into the new subsidiary and assume 90% of the new subsidiary. The third party company paid the Company \$250,000 for anticipated closing and transactional costs in March 2006 pursuant to the Original Agreement. It costs \$50,000 to the

Company to reinstate the Letter Agreement and to disclose reinstatement in its public filings by amendment. Therefore, the third party company paid the Company an additional \$25,000 upon acceptance of the agreement and \$25,000 on March 30, 2009.

NOTE 12 - SUBSEQUENT EVENT

The Company has evaluated events through the date that these financial statements were available to be issued. There are no subsequent events that need to be recorded.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **GENERAL**

We are a holding company whose only operating subsidiary as of June 30, 2012 is Arrow Ltd. The principal business of Arrow is to provide marketing, sales, distribution, corporate operations and corporate finance services for the commercial exploitation of natural resources around the world. Prior to November 2005, we used to be a telecommunications and recruiting company formally known as CNE Group, Inc. The company elected to shift its business focus to the worldwide commercial exploitation of natural resources.

### **ARROW RESOURCES DEVELOPMENT, LTD.**

In August 2005, Arrow entered into an Agreement and Plan of Merger (“the Agreement”) with its wholly-owned subsidiary, Arrow Ltd., in which Arrow (formerly CNE) was required to issue 10 million shares of Series AAA convertible preferred stock (“the Preferred Stock”) to Arrow Ltd.'s designees, representing 96% of all outstanding equity of CNE on a fully diluted basis in exchange for the Marketing and Distribution Agreement provided to the Company by Arrow. Under the Agreement, the Company discontinued all former operations (CareerEngine, Inc., SRC and US Commlink.) and changed its name to Arrow Resources Development, Inc.

On August 1, 2005, Arrow Ltd. entered into the Marketing Agreement with Arrow Pte. and its subsidiaries in consideration for Arrow issuing a non-interest bearing note (the “Note”) in the principal amount of \$125,000,000 to Empire Advisory, LLC, (“Empire”), acting as agent, due on or before December 31, 2005. Empire is Arrow Pte.'s merchant banker. The Note permitted the Company, as Arrow's sole stockholder, to cause Arrow to repay the Note in cash or with 10,000,000 shares of the Company's non-voting Series AAA Preferred Stock. However, in December 2007, Arrow Pte. assessed that it would be unable to harvest the timber products in Papua, New Guinea due to the fact that the widely accepted international guidelines of the World Wildlife Federation had not been adopted by Papua, New Guinea.

This fact is adverse to the economic, social and environmental goals of Arrow Pte. because, with the amount of land that the project was allotted combined with the agreed upon previous guidelines of the marketing and distribution agreement, yields would be significantly reduced. Given the significant change in the economics of the harvesting of the timber in Papua, New Guinea, Arrow Pte. has decided not to pursue any further operations in Papua, New Guinea given that the above restrictions cause a significant reduction in the volume of harvesting, which results in a disproportionate cost to yield ration at the Papua, New Guinea site which makes the project not economically feasible in the foreseeable future.

Based on the fact that Arrow Pte. is unable to fulfill their part of the agreement, the Company has reached the conclusion that the marketing and distribution agreement has no value. Therefore, the Company has fully impaired the value of the agreement and recorded a loss on write-off of the marketing and distribution agreement of \$125,000,000 at December 31, 2007. (See Note 6.)

On April 4, 2006 Arrow Resource Development Ltd. (the Company's Bermuda subsidiary) entered into an agency agreement with APR in which the Company will provide financial consultancy services to APR for an annual fee, payable as collected, equal to 10% of APR's gross revenue payable commencing upon execution. This agreement provides for the company to collect all revenues from all operations, retain its 10% fee and disperse the remaining 90% to APR and its subsidiaries. The term of the agreement is effective upon execution, shall remain in effect for ninety-nine (99) years and shall not be terminated until the expiration of at least ten (10) years. As of June 30, 2012, the Company has recovered \$52,000 of revenue under this agreement.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to our allowance for doubtful accounts, inventory reserves, and goodwill and purchased intangible asset valuations, and asset impairments. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies, among others, affect the significant judgments and estimates we use in the preparation of our consolidated financial statements.

### **ALLOWANCE FOR DOUBTFUL ACCOUNTS, REVENUE RECOGNITION**

We evaluate the collectability of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific allowance to reduce the net receivable to the amount we reasonably believe will be collected. For all other customers, we record allowances for doubtful accounts based on the length of time the receivables are past due, the prevailing business environment and our historical experience. If the financial condition of our customers were to deteriorate or if economic conditions were to worsen, additional allowances may be required in the future.

We recognize product revenue when persuasive evidence of an arrangement exists, the sales price is fixed, the service is performed or products are shipped to customers, which is when title and risk of loss transfers to the customers, and collectability is reasonably assured.

## **VALUATION OF GOODWILL, PURCHASED INTANGIBLE ASSETS AND LONG-LIVED ASSETS**

The Company's only intangible asset was comprised of a marketing and distribution agreement with Arrow Pte. In accordance with FASB Accounting Standard Codification No 350, Intangibles-Goodwill and Other, this intangible agreement is no longer amortized; instead the intangible is tested for impairment on an annual basis. The Company assesses the impairment of identifiable intangibles and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following:

Significant inability to achieve expected projected future operating results;

Significant changes in the manner in which the work is able to be performed what increases costs;

Significant negative impact on the environment.

We perform goodwill impairment tests on an annual basis and on an interim basis if an event or circumstance indicates that it is more likely than not that impairment has occurred. We assess the impairment of other amortizable intangible assets and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include significant underperformance to historical or projected operating results, substantial changes in our business strategy and significant negative industry or economic trends. If such indicators are present, we evaluate the fair value of the goodwill. For other intangible assets and long-lived assets we determine whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values.

Fair value of goodwill is determined by using a valuation model based on market capitalization. Fair value of other intangible assets and long-lived assets is determined by future cash flows, appraisals or other methods. If the long-lived asset determined to be impaired is to be held and used, we recognize an impairment charge to the extent the anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the long-lived asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset.



## **REVENUES**

There was no revenue for the three and six months ended June 30, 2012 and June 30, 2011 as the Company is in its development stage.

## **COST OF GOODS SOLD**

There was no cost of goods sold for the three and six months ended June 30, 2012 and June 30, 2011 as the Company is in its development stage.

## **OPERATING EXPENSES – THREE MONTHS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

Compensation, consulting and related costs increased to \$1,428,285 for the three months ended June 30, 2012 as compared to \$1,249,952 for the three months ended June 30, 2011. The increase was mostly due to consulting fees for services provided by the Management Agreement with Empire under which Empire provides the services of Chief Executive Officer and administrative services to the Company and consulting services provided by Hans Karundeng and Rudolph Karundeng under Engagement and Consulting Agreements that increases annually by 25%.

General and administrative expenses decreased to \$15,266 for the six months ended June 30, 2012 as compared to \$18,849 for the three months ended June 30, 2011.

Directors' compensation increased to \$43,125 for the three months ended June 30, 2012 compared to \$39,375 for the three months ended June 30, 2011. Directors' compensation is based on the company stock at the end of each reporting period.

Total operating expenses during the development stage increased to \$1,486,781 for the three months ended June 30, 2012 as compared to \$1,308,281 for the three months ended June 30, 2011. The increase primarily related to the increased consulting fee charges.

## **OPERATING EXPENSES – SIX MONTHS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

Compensation, consulting and related costs increased to \$2,856,570 for the six months ended June 30, 2012 as compared to \$2,462,891 for the six months ended June 30, 2011, and was \$29,892,149 for the period from inception (November 15, 2005) to June 30, 2012. The increase was mostly due to consulting fees for services provided by the Management Agreement with Empire under which Empire provides the services of Chief Executive Officer and administrative services to the Company and consulting services provided by Hans Karundeng and Rudolph Karundeng under Engagement and Consulting Agreements. Charges under the Management Agreement increase 25% on an annual basis.

General and administrative expenses decreased to \$30,541 for the six months ended June 30, 2012 as compared to \$33,551 for the six months ended June 30, 2011, and was \$1,144,579 for the period from inception (November 15, 2005) to June 30, 2012.

Directors' compensation remained the same at \$82,500 for the six months ended June 30, 2012 and 2011, respectively and was \$1,222,678 for the period from inception (November 15, 2005) to June 30, 2012.

Delaware franchise taxes amount was \$210 for the six months ended June 30, 2012 and June 30, 2011, \$186,891 for the period from inception (November 15, 2005) to June 30, 2012. The Company is delinquent in its filing and payment of the Delaware Franchise Tax report and, accordingly, is not in good standing. At June 30, 2012, and for the years ended December 31, 2011, 2010, 2009, 2008, 2007, 2006 and 2005 the Company has estimated unpaid Delaware franchise taxes in the amount of \$210, \$420, \$420, \$420, \$420, \$57,652, \$57,650 and \$69,699, respectively. The Company did not file their tax returns on time due to lack of funds available.

Total operating expenses during the development stage increased to \$2,969,821 for the six months ended June 30, 2012 as compared to \$2,579,159 for the six months ended June 30, 2011, and increased to \$32,446,297 for the period from inception (November 15, 2005) to June 30, 2012.

## **OTHER EXPENSES**

On March 31, 2008, the Company received a \$150,000 non-interest bearing advance from John Marozzi, which is due on demand. In repayment, the Company will repay the full amount of the note plus 1,000,000 shares of unregistered restricted common stock. The Company recorded \$40,000 debt issue costs related to the 1,000,000 shares of common stock that is now issuable to John Marozzi as of March 31, 2008. On May 5, 2008, John Marozzi received repayment of \$50,000 from the Company. On October 13, 2008, the Company received another \$50,000 interest bearing advance from John Marozzi. The Company was to repay the full amount of the October 31, 2008 \$50,000 note in cash within 60 calendar days from the date the note was executed plus interest paid in the form of 1,000,000 shares of unregistered Company common stock. During the year ended December 31, 2008, the Company recorded \$60,000 of debt issue costs related to the 1,000,000 shares of common stock that were issuable to John Marozzi as of December 31, 2008 (See Note 5). On March 5, 2009, the Company received another \$50,000 interest bearing advance from John Marozzi. The Company is to repay the full amount of the March 5, 2009, \$50,000 note in cash within 60 calendar days from the date the note was executed plus interest paid in the form of 1,000,000 shares of unregistered Company common stock. On April 17, 2009, the Company received a \$12,500 non-interest bearing advance from John Marozzi. The Company is to repay the full amount of the April 17, 2009 \$ 12,500 note in cash within 60 calendar days from the date the note was executed. On May 8, 2009, the Company received a \$ 20,000 non-interest bearing advance from John Marozzi. The Company is to repay the full amount of the May 8, 2009 \$ 20,000 note in cash within 30 calendar days from the date the note was executed. This leaves a balance of \$200,000 unpaid principal as of June 30, 2009. On August 12, 2009, the Company and John Marozzi entered into a six month extension for the Senior Note and Purchase Agreement for the amount of \$200,000. The principal amount was payable on February 5, 2010. On April 17, 2009, the Company received a \$12,500 non-interest bearing advance from John Marozzi. The Company is to repay the full amount of the April 17, 2009 \$ 12,500 note in cash within 60 calendar days from the date the note was executed. On May 8, 2009, the Company received a \$ 20,000 non-interest bearing advance from John Marozzi. The Company is to repay the full amount of the May 8, 2009 \$20,000 note in cash within 30 calendar days from the date the note was executed. This leaves a balance of \$32,500 unpaid principal as of June 30, 2009. On August 13, 2009, the Company and John Marozzi entered into a six month extension for the Senior Note and Purchase Agreement for the amount of \$32,500. The principal amount was payable on February 5, 2010. On August 7, 2009, the Company received a \$33,000 non-interest bearing advance from John Marozzi. In repayment, the Company will repay the full amount of the note in cash within 60 calendar days from the date the note is executed. On November 5, 2009, the Company entered into a thirty day loan extension agreement with John Marozzi for this \$33,000 loan to the Company. The principal amount and interest was payable on December 5, 2009. This left a total unpaid principal balance of \$265,500 as of December 31, 2009 which was in default.

On March 3, 2010, the Company received an \$110,000 interest bearing advance from Marozzi. The Company was to pay interest at the interest rate of 10% payable at the time of repayment due March 3, 2011. As of March 3, 2011, the advance was not repaid by the Company, and is currently in default. On April 21, 2010, the Company received a \$42,000 interest bearing advance from Marozzi. The Company will pay interest at the interest rate of 10% which shall

be payable at the time of repayment due April 21, 2011. The Company had the option to repay the loan in Company stock at a price based on a 50% discount off the market price, calculated on the average closing price five days prior to delivery of the stock. On December 14, 2010 the Company agreed to issue 20 million shares of its common stock in settlement of \$217,500 of the older debt instruments owed to Marozzi. The Company recorded a loss on debt conversion of \$1,182,500 in connection with this transaction. This left a total balance of \$200,000 of unpaid principal as of December 31, 2010.

On April 25, 2011, the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as settlement for the outstanding principal balance payable to Marozzi of \$200,000. The Company's stock price on April 25, 2011 was \$0.04; therefore, the value of the 30,000,000 shares issued was \$1,200,000, resulting in a loss on debt conversion of \$1,000,000 recorded in the Company's Statements of Operations during the second quarter of 2011.

On December 19, 2011, the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as settlement for \$200,000 of the \$587,980 funded to date by Marozzi. The Company's stock price on December 19, 2011 was \$0.01; therefore, the value of the 30,000,000 shares to be issued was \$300,000, resulting in a loss on debt conversion of \$100,000 that has been reflected in the Company's Statements of Operations during the fourth quarter of 2011. Total loss of debt conversions for the year ended December 31, 2011 was \$1,100,000. The above 30,000,000 shares were issued in January 2012. Subsequent to the conversion of debt, there remains \$387,980 of funds due to Marozzi as of December 31, 2011 and June 30, 2012. Accrued interest due on all Marozzi related loans was \$39,013 and \$31,275 as of June 30, 2012 and December 31, 2011, respectively.

In December 2007, Arrow Pte. assessed that it would be unable to harvest the timber products in Papua, New Guinea due to the fact that the widely accepted international guidelines of the World Wildlife Federation had not been adopted by Papua, New Guinea. This fact is adverse to the economic, social and environmental goals of Arrow Pte. because with the amount of land that the project was allotted combined with the agreed upon previous guidelines of the marketing and distribution agreement, yields would be significantly reduced. Given the significant change in the economics of the harvesting of the timber in Papua, New Guinea, Arrow Pte. has decided not to pursue any further operations in Papua, New Guinea given that the above restrictions cause a significant reduction in the volume of harvesting, which results in a disproportionate cost to yield ration at the Papua, New Guinea site which makes the project not economically feasible in the foreseeable future. Based on the fact that Arrow Pte. is unable to fulfill their part of the agreement, the Company has reached the conclusion that the marketing and distribution agreement has no value. Therefore, the Company has fully impaired the value of the agreement and recorded a loss on write-off of the marketing and distribution agreement of \$125,000,000 at December 31, 2007. (See Note 6.)

The Company was a party to a lawsuit where the plaintiff is alleged that he was entitled to \$60,000 and 1,300,000 of common stock based upon CNE's failure to compensate him for services related to identifying financing for CNE, based upon an agreement that was entered into between CNE and the plaintiff in April 2005. On November 28, 2007, the Company settled the lawsuit with the plaintiff. In full and final settlement of the claims asserted in the action, the Company has paid the plaintiff \$10,000 in cash and issued the plaintiff 200,000 shares of the Company's common stock on December 21, 2007. The settlement resulted in a loss on debt conversion of \$2,000 during the year ended December 31, 2007 because an estimated liability had been recognized prior to 2007.



In May 2006, the Company was advised that it was alleged to be in default of a settlement agreement entered into in January of 2005 by CNE, its predecessor company, related to the release of unrestricted, freely-tradable, non-legend shares of stock. In August 2006, the plaintiffs, alleging the default, obtained a judgment in the 17th Judicial Circuit Court Broward County, Florida for approximately \$1,000,000. On November 13, 2007, legal counsel engaged by Management commenced an action on the Company's behalf in the above Circuit Court seeking to vacate and set aside the 2006 judgment asserting claims under Rule 1.540(b) of the Florida Rules of Civil Procedure. Our counsel's evaluation is that the Company has only a limited chance of having the 2006 judgment opened by the Court because Florida law provides very narrow grounds for opening a judgment once a year has passed from its entry. The Courts are generally reluctant to disturb final judgments and the Company's grounds for opening the judgment depend on the Court's adopting a somewhat novel argument regarding such matters. If, however, the Court does open the default judgment, the Company will then have the opportunity to defend the 2006 action and, in such event, our counsel believes that the Company has a reasonable chance of succeeding in defending that claim, at least in part, based on the documents he has reviewed. As of June 30, 2012 and December 31, 2011, the Company has accrued \$1,424,703 and \$1,393,101, including accrued interest of \$371,319 and \$339,717 respectively, related to this matter.

## **LIQUIDITY AND CAPITAL RESOURCES**

In November 2005, we discontinued and disposed of our subsidiaries except for Arrow Ltd. in conjunction with the recapitalization of the Company. The Company was recapitalized by the conversion of \$125,000,000 preferred convertible note related to the purchase of the Marketing Agreement. As part of the recapitalization plan, the Company settled all outstanding debt except for \$220,000.

As of June 30, 2012 and December 31, 2011 the Company had \$2 and \$62 of cash, respectively. We had losses of \$4,030,107 and \$4,613,903 for the six months ended June 30, 2012 and 2011, respectively, and do not currently generate any revenue. In order for us to survive during the next twelve months we will need to secure approximately \$3 million of debt or equity financing. We expect to raise additional financing in the future but there can be no guarantee that we will be successful.

## **OFF-BALANCE SHEET ARRANGEMENTS**

At June 30, 2012, we had no off-balance sheet arrangements.

## **OPERATING ACTIVITIES**

We used \$2,150,770 of cash in our operating activities during the six months ended June 30, 2012. We had a net loss of \$4,030,107. We incurred stock-based directors' compensation to be issued of \$7,500, an increase in accounts payable and accrued expenses payable of \$1,840,235, and an increase in an estimated liability for legal judgment obtained by predecessor entity shareholder of \$31,602. In addition, we had a working capital deficiency of \$36,610,210 at June 30, 2012. We did not have any material commitments for capital expenditures as of June 30, 2012.

We used \$1,774,107 of cash in our operating activities during the six months ended June 30, 2011. We had a net loss of \$4,613,903. We had an increase in stock-based directors' compensation to be issued of \$7,500, an increase in accounts payable and accrued expenses payable of \$1,800,694, an increase in an estimated liability for legal judgment obtained by predecessor entity shareholder of \$31,602, and a loss on debt conversion of \$1,000,000 for notes payable converted to common stock. In addition, we had a working capital deficiency of \$28,729,173 at June 30, 2011. We did not have any material commitments for capital expenditures as of June 30, 2011.

## **INVESTING ACTIVITIES**

During the six months ended June 30, 2012, we did not use or receive any cash from investing activities. During the six months ended June 30, 2011, we used \$11,000 towards payments to a related party. We used \$918,199 cash for the period from inception (November 15, 2005) to June 30, 2012

## **FINANCING ACTIVITIES**

For the six months ended June 30, 2012 the Company's liability due to related parties increased by \$2,150,710, compared to an increase of \$1,169,341 for the six months ended June 30, 2011.

On April 1, 2011, the Company executed a loan agreement with Marozzi, whereas Marozzi will provide funding up to \$750,000. When the entire \$750,000 has been funded to the Company, the principal amount and accrued interest is due 30 days thereafter. Interest will accrue at 4% per annum until all principal amounts are repaid. If entire \$750,000 loan is not repaid in 30 days by cash or stock, the entire unpaid balance will be due and payable on demand at the option of the holder. Of the \$750,000 total commitment, Marozzi has advanced \$587,980 through June 30, 2011.

On May 26, 2011, the Company executed a subscription agreement with a third party and under that agreement 1,066,667 shares of common stock, par value \$.00001, was purchased for \$30,000. The purchased shares were not issued till August 2011, and are reflected in the common stock to be issued line on the balance sheet.

**INFLATION**

We believe that inflation does not significantly impact our current operations.



## RECENT TRANSACTIONS

None.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and acting Chief Financial Officer has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the fiscal period ending June 30, 2012 covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Chief Executive Officer and acting Chief Financial Officer has concluded that, as of the end of such period, the Company's disclosure controls and procedures were not effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act. The Company is currently in the process of evaluating its options to fix the deficiency in internal controls.

### Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the

assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, under the supervision of the Company's Chief Executive Officer and acting Chief Financial Officer, conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was not effective as of June 30, 2012 under the criteria set forth in the Internal Control-Integrated Framework.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has determined that material weaknesses exist due to a lack of segregation of duties, resulting from the Company's limited resources.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this Quarterly Report on Form 10-Q.

#### Changes in Internal Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the three month period ended June 30, 2012, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company was a party to a lawsuit where the plaintiff is alleged that he was entitled to \$60,000 and 1,300,000 of common stock based upon CNE's failure to compensate him for services related to identifying financing for CNE, based upon an agreement that was entered into between CNE and the plaintiff in April 2005. On November 28, 2007, the Company settled the lawsuit with the plaintiff. In full and final settlement of the claims asserted in the action, the Company has paid the plaintiff \$10,000 in cash and issued the plaintiff 200,000 shares of the Company's common stock on December 21, 2007. The settlement resulted in a loss on debt conversion of \$2,000 during the year ended December 31, 2007 because an estimated liability had been recognized prior to 2007.

In May 2006, the Company was advised that it was alleged to be in default of a settlement agreement entered into in January of 2005 by CNE, its predecessor company, related to the release of unrestricted, freely-tradable, non-legend shares of stock. In August 2006, the plaintiffs, alleging the default, obtained a judgment in the 17th Judicial Circuit Court Broward County, Florida for approximately \$1,000,000. On November 13, 2007, legal counsel engaged by Management commenced an action on the Company's behalf in the above Circuit Court seeking to vacate and set aside the 2006 judgment asserting claims under Rule 1.540(b) of the Florida Rules of Civil Procedure. Our counsel's evaluation is that the Company has only a limited chance of having the 2006 judgment opened by the Court because Florida law provides very narrow grounds for opening a judgment once a year has passed from its entry. The Courts are generally reluctant to disturb final judgments and the Company's grounds for opening the judgment depend on the Court's adopting a somewhat novel argument regarding such matters. If, however, the Court does open the default judgment, the Company will then have the opportunity to defend the 2006 action and, in such event, our counsel believes that the Company has a reasonable chance of succeeding in defending that claim, at least in part, based on the documents he has reviewed. As of June 30, 2012 and December 31, 2011, the Company has accrued \$1,424,703 and \$1,393,101, including accrued interest of \$371,319 and \$339,717 respectively, related to this matter.

On December 14, 2005, Empire Advisory received a \$250,000 non-interest bearing advance from Butler Ventures, LLC the proceeds of which were used for the benefit of the Company and for which the liability was transferred to the Company. In repayment, the Company would repay the full amount of the note in converted securities and U.S. dollars on the earlier of March 31, 2006, without further notice or demand, or immediate payment in the event of default. On December 8, 2008, Butler filed a motion for summary judgment in lieu of complaint against Empire in the Supreme Court of the State of New York for failing to repay the loan on the maturity date. On January 29, 2009, Empire Advisory, LLC and Butler Ventures, LLC entered into Settlement Agreement and Mutual Release where the parties had agreed to resolve amicably the amounts due and owing to Butler by issuing to Butler common stock in Empire's affiliated company, Arrow Resources Development, Inc. as well as by payment of all attorneys' fees and expenses accrued to date. Empire Advisor shall cause the Company to issue to Butler shares of common stock in the Company. Butler agreed to extend until on or prior to March 31, 2009 for performance of all of Empire's obligations. In consideration for this extension, Empire Advisor agreed to cause the Company to issue to Butler an additional 100,000 shares of the Company common stock. The Company defaulted on this extension. On June 17, 2009, Empire Advisory transferred the loan obligations to the Company, and the Company agreed to assume the loan obligations. On July 14, 2009, the Company issued 9,690,909 shares of common stock to Butler Ventures, LLC with a market value on the date of issuance of \$533,000 in full settlement of the \$250,000 note payable. 9,090,909 shares were issued in exchange for a senior note payable that has been assumed by the Company. 100,000 shares were issued in accordance with the aforementioned extension, and 500,000 shares were issued to Butler in consideration of Butler's agreement to forego its remedies related to the aforementioned default of the extension.

#### **Item 1A. Risk Factors**

Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2011 includes a detailed discussion of our risk factors. There have been no significant changes to our risk factors as set forth in our 2011 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

On November 20, 2007, the Board of Directors approved a private placement offering (the "Offering") approximating \$2,000,000 to accredited investors at \$1.00 per share of Series A Convertible Preferred Stock. The Offering will consist of the Company's Series A Convertible Preferred Stock that will be convertible into our common stock. These securities are not required to be and will not be registered under the Securities Act of 1933. Shares issued under this placement will not be sold in the United States, absent registration or an applicable exemption from registration. As of September 30, 2009, the Company received \$355,000 from investors towards 355,000 Series A Convertible Preferred Stock shares issuable under subscription agreements covering the placement offering. Each Series A Convertible Preferred Stock was convertible into 20 shares of the Company's Common Stock. The holders of the preferred stock had no voting rights except as was required by Delaware law, no redemption rights, and no liquidation preferences over the Common Stock holders. On November 3, 2009, the 355,000 Series A Convertible Preferred Stock were converted into 7,100,000 Common shares. As of June 30, 2012 and December 31, 2011, there were no Series A Convertible Preferred Stock outstanding.

On April 20, 2008, the Board of Directors approved a private placement offering (the "Offering") approximating \$2,000,000 to accredited investors at \$1.00 per share of Series C Convertible Preferred Stock. The Offering will consist of the Company's Series C Convertible Preferred Stock that will be convertible into our common stock. These securities are not required to be and will not be registered under the Securities Act of 1933. Shares issued under this placement will not be sold in the United States, absent registration or an applicable exemption from registration. As of September 30, 2009, the Company received \$25,000 from investors towards 25,000 Series C Convertible Preferred Stock shares issuable under subscription agreements covering the placement offering. Each Series C Convertible Preferred Stock is convertible into 20 shares of the Company's Common Stock. The holders of the preferred stock have no voting rights except as may be required by Delaware law, no redemption rights, and no liquidation preferences over the Common Stock holders. On November 3, 2009, the 25,000 Series C Convertible Preferred Stock were converted into 500,000 Common shares. As of June 30, 2012 and December 31, 2011, there was no Series C Convertible Preferred Stock outstanding.

On December 3, 2007, the Board of Directors approved a plan to compensate all members of the Board of Directors at a rate of \$50,000 per year and 250,000 shares of Company common stock effective January 1, 2007. This compensation plan applies to any board member that belonged to the Board as of and subsequent to January 1, 2007. Those board members that were only on the Board for part of the year will received pro-rata compensation based on length of service. As of June 30, 2012 and December 31, 2011, none of the shares under this plan have been issued and the Company has an accrued liability of \$975,137 and \$900,137, respectively, of cash-based compensation and recorded additional paid-in capital through those dates of \$247,521 and \$240,025, respectively, for stock-based compensation based on the fair value of 4,875,685 and 4,500,685 shares to be issued to the members of the Board, respectively.

## **Item 5. Other Information**

None

## **Item 6. Exhibits**

### **Exhibit Index**

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of the Principal Accounting Officer

32.1 Certification Pursuant to 18 U.S.C. §1350 of Chief Executive Officer

32.2 Certification Pursuant to 18 U.S.C. §1350 of the Principal Accounting Officer

