

ARROWSTAR RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

NOTICE TO READER

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

The condensed consolidated interim financial statements of the Company for the third quarter ended September 30, 2018 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these unaudited condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim condensed financial statements by an entity's auditor.

ARROWSTAR RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian Dollars)

	September 30, 2018	December 31, 2017
ASSETS		
Current		
Cash (Note 3)	\$ 67,218	\$ 219
Marketable securities (Note 4)	1,500	1,700
Receivables (Note 5)	3,582	3,236
Prepaid expenses	<u>20,000</u>	<u>-</u>
	92,300	5,155
Deposit (Note 6)	<u>4,000</u>	<u>4,000</u>
	<u>\$ 96,300</u>	<u>\$ 9,155</u>

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current		
Accounts payable and accrued liabilities (Note 7)	\$ 417,461	\$ 380,427
Due to related parties (Note 8)	<u>54,945</u>	<u>52,445</u>
	472,406	432,872
Shareholders' deficiency		
Share capital (Note 9)	19,764,456	19,473,636
Reserves (Note 9)	3,153,169	3,153,169
Deficit	<u>(23,293,731)</u>	<u>(23,050,522)</u>
	<u>(376,106)</u>	<u>(423,717)</u>
	<u>\$ 96,300</u>	<u>\$ 9,155</u>

Nature of operations and going concern (Note 1)

On behalf of the Board:

"Phillip Thomas" Director _____
"Blaine Bailey" Director

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

ARROWSTAR RESOURCES LTD.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30**

(Unaudited - Expressed in Canadian Dollars)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
EXPENSES				
Consulting fees (Note 8)	\$ 18,000	\$ 10,500	\$ 104,000	\$ 35,231
Foreign exchange (gain) loss	535	2	(54)	377
Insurance	2,863	3,990	7,890	17,192
Investor relations	3,428	-	3,428	-
Office	1,381	4,022	4,156	8,435
Professional fees	72,020	35,787	93,403	71,743
Property impairment	-	-	-	343,657
Rent	908	998	2,937	3,634
Regulatory fees	1,667	1,167	13,586	11,577
Travel	13,685	-	13,685	-
	<u>(114,487)</u>	<u>(56,466)</u>	<u>(243,031)</u>	<u>(491,846)</u>
Interest income	22	-	22	-
Unrealized gain/(loss) on marketable securities (Note 4)	<u>(400)</u>	<u>(950)</u>	<u>(200)</u>	<u>(200)</u>
	<u>(378)</u>	<u>(950)</u>	<u>(178)</u>	<u>(200)</u>
Loss and comprehensive loss for the period	\$ (114,865)	\$ (57,416)	\$ (243,209)	\$ (491,046)
Loss per common share				
-Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding				
-Basic and diluted	27,924,921	22,397,448	25,745,434	22,140,391

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

ARROWSTAR RESOURCES LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30
(Unaudited - Expressed in Canadian Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (243,209)	\$ (492,046)
Items not affecting cash:		
Property impairment	-	343,657
Unrealized gain on marketable securities	200	200
Interest income	(22)	-
Changes in non-cash working capital items:		
Receivables	(346)	(421)
Prepaid expenses	(20,000)	2,090
Accounts payable and accrued liabilities	37,056	102,852
Net cash used in operating activities	<u>(226,321)</u>	<u>(43,668)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of shares	300,000	-
Share issue costs	(9,180)	-
Related party loans	2,500	43,435
Net cash provided by financing activities	<u>293,320</u>	<u>43,435</u>
Decrease in cash during the period	66,999	(233)
Cash, beginning of period	219	1,226
Cash, end of period	\$ 67,218	\$ 993

Supplemental disclosure with respect to cash flows (Note 10)

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

ARROWSTAR RESOURCES LTD.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY**

(Unaudited - Expressed in Canadian Dollars)

	Share Capital		Reserves			
	Number of shares	Amount	Options	Warrants	Deficit	Total
Balance, December 31, 2016	21,924,921	\$ 19,433,636	\$ 3,058,969	\$ 94,200	\$ (22,521,332)	\$ 65,473
Shares issued for non-cash:						
Property acquisition	1,000,000	40,000	-	-	-	40,000
Loss for the period	-	-	-	-	(492,046)	(492,046)
Balance, September 30, 2017	22,924,921	19,473,636	3,058,969	94,200	(23,013,378)	(386,573)
Loss for the year	-	-	-	-	(37,144)	(37,144)
Balance, December 31, 2017	22,924,921	19,473,636	3,058,969	94,200	(23,050,522)	(423,717)
Shares issued for:						
Private placement – units	5,000,000	300,000	-	-	-	300,000
Share issue costs	-	(9,180)	-	-	-	(9,180)
Loss for the period	-	-	-	-	(243,209)	(243,209)
Balance, September 30, 2018	27,924,921	\$ 19,764,456	\$ 3,058,969	\$ 94,200	\$ (23,293,731)	\$ (376,106)

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

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

SEPTEMBER 30, 2018

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Arrowstar Resources Ltd. (the “Company”) was incorporated on October 14, 1987 under the laws of British Columbia. The Company’s head office address is Suite 2300 – 1177 West Hastings Street, Vancouver, BC, V6E 2K3. The Company is listed on the TSX Venture exchange (“TSX-V”) under the symbol AWS. To date, the Company has not earned operating revenue.

The Company has entered into a letter of intent dated June 12, 2018 (the “LOI”) to enter into an arm’s length Share Purchase to acquire 100% of the issued and outstanding shares in Recycle Fuel Technologies Inc. The details of the transaction are under the Proposed Transaction section of the Management Discussion and Analysis.

As at September 30, 2018, the Company has a working capital deficit of \$380,106 (December 31, 2017 – \$427,717) and an accumulated deficit of \$23,293,731 (December 31, 2017 - \$23,050,522). The Company expects to incur further losses in the development of its business. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. The Company’s ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These condensed consolidated interim financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as investment held-for-trading, which are stated at their fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting. These condensed consolidated interim financial statements are prepared in Canadian dollars, which is also the Company’s functional currency.

Approval of condensed interim consolidated financial statements

The condensed consolidated interim financial statements for the nine months ended September 30, 2018 were reviewed, approved and authorized for issue by the Audit Committee on November 28, 2018.

Basis of consolidation

These condensed consolidated financial statements of the Company include the transactions and balances of its subsidiary, Arrowstar Arizona Resources Ltd., which was a wholly owned subsidiary incorporated in the state of Arizona USA. The Company consolidates its subsidiary on the basis that it controls the subsidiary through its ability to govern its financial and operating policies.

All intercompany transactions and balances are eliminated on consolidation.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**New accounting policy**

The Company has adopted new accounting standard IFRS 9 - Financial Instruments, effective for annual periods beginning on or after January 1, 2018. The adoption of IFRS 9 did not result in any changes to the classification, measurement or carrying amounts of the Company's existing financial instruments on transition date.

The new standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 - Financial instruments: recognition and measurement. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.

The Company continues to classify and measure its financial instruments at fair value through profit or loss with changes in fair value recognized in profit or loss as they arise ("FVTPL"), unless restrictive criteria regarding the objective and contractual cash flows of the instrument are met for classifying and measuring at either amortized cost or fair value through other comprehensive income.

Cash and cash equivalents, marketable securities and trade receivables continue to be recorded at FVTPL and other receivables and loans, initially at FVTPL, and subsequently at amortized cost using the effective interest rate method. Trade and other payables are classified and measured as financial liabilities, initially at FVTPL, and subsequently at amortized cost using the effective interest rate method.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Standards Interpretation Committee ("IFRIC") that are mandatory for future accounting periods.

- IFRS 16 *Leases*: New standard to establish principles for recognition, measurement, presentation, and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

The adoption of these new standards is not expected to have a significant impact on the Company's condensed consolidated interim financial statements

3. CASH

The Company's cash consists of the following:

	September 30, 2018	December 31, 2017
Cash held with banks	\$ 36,191	\$ 191
Cash held with banks in foreign currencies	31,027	28
Total	\$ 67,218	\$ 219

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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4. MARKETABLE SECURITIES

On November 8, 2011, the Company received 10,000 shares in Dunnedin Ventures Inc. (formerly Ocean Park Ventures Corp.) as part of a property option agreement. The shares were valued at \$45,000 on receipt and have been re-valued at September 30, 2018 to their fair market value of \$1,500 (December 31, 2017 – \$1,700).

5. RECEIVABLES

	September 30, 2018	December 31, 2017
GST receivable	\$ 3,582	\$ 3,236

6. EXPLORATION AND EVALUATION ASSETS

As at September 30, 2018, the Company holds a reclamation deposit on a previously written-off exploration and evaluation asset in the amount of \$4,000 (December 31, 2017 - \$4,000).

Secret Pass Property – U.S.A.

The Company entered into an Assignment Agreement with Performance Acquisitions LLC (“Performance”) who had entered into an option agreement, the “Tin Cup Option Agreement” with NJB Mining Inc. (“NJB”) pursuant to which Performance has the option (the “Option”) to acquire a one hundred percent (100%) right, title and interest in and to the Secret Pass Concessions situated in the State of Arizona, USA. Performance has assigned all of its rights and obligations (the “Assignment”) in the Tin Cup Option Agreement to the Company. The Company would pay consideration of five million common shares (2,500,000 issued) to Performance and be required to fulfill all payment and work commitments to NJB.

During the year ended December 31, 2017, the Company decided not to advance with the agreement and wrote-off all capitalized costs.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2018	December 31, 2017
Trade payables	\$ 399,835	\$ 355,692
Accrued liabilities	17,625	24,735
	\$ 417,460	\$ 380,427

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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8. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. Key management personnel compensation for the period ended September 30 was:

	2018	2017
Short-term benefits paid or accrued:		
Consulting fees - CFO	\$ 53,500	\$ 21,000
Consulting fees - CEO	31,000	-
Consulting fees - Director	19,500	-
	<u>104,000</u>	<u>21,000</u>
Total remuneration	\$ 104,000	\$ 21,000

Accounts payable and accrued liabilities as at September 30, 2018 included \$209,803 (December 31, 2017 - \$114,170) owed to directors and companies controlled by a director or officer.

The Company entered into loan agreements with Panopus PLC ("Panopus"), a company controlled by Phil Thomas, CEO and director of the Company. The loans are summarized as follows:

- On January 3, 2018, Panopus extended a USD\$7,500 (CDN\$9,912) unsecured loan to the Company repayable within six months. On June 30, 2018 the loan was extended to January 3, 2019. On maturity the Company is required to repay the principal plus interest of US\$563.
- On January 27, 2018, Panopus extended a \$10,000 unsecured loan to the Company repayable within six months. On June 30, 2018 the loan was extended to January 27, 2019. On maturity the Company is required to repay the principal plus interest of \$1,500.
- On March 29, 2018, Panopus extended a \$17,000 unsecured loan to the Company repayable within six months. On June 30, 2019 the loan was extended to March 29, 2019.
- On November 18, 2017, Panopus extended a \$2,010 non-interest bearing unsecured loan to the Company repayable within six months. On June 30, 2018 the loan was extended to May 17, 2019.

The balance of principal and interest on the loans as at September 30, 2018 is \$42,445 (December 31, 2017 - \$42,445).

During the period ended September 30, 2018, an officer of the Company advanced \$12,500 (December 31, 2017 - \$10,000) to the Company. The advance is non-interest bearing with no set repayment terms.

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9. SHARE CAPITAL AND RESERVES

Authorized – Unlimited common shares without par value

Please refer to the Statement of Changes in Shareholders' Deficiency for a summary of changes in share capital and reserves for the period ended September 30, 2018 and the year ended December 31, 2017.

During the period ended September 30, 2018, the Company issued 5,000,000 units at \$0.06 per unit for gross proceeds of \$300,000. Each unit consists of one common share and one share purchase warrant entitling the holder the purchase an additional share of the Company for a period of two years at \$0.20 per warrant in year one and \$0.30 in year two. In connection with the unit issuance, the Company paid finders fees of \$6,930 and issued 115,500 finders warrants exercisable for a period of two years at \$0.20 per warrant in year one and \$0.30 in year two.

On May 23, 2017, the Company issued 1,000,000 common shares for the Tin Cup property acquisition, at a value of \$0.04 per share.

Stock options

The Company has a stock option plan in place under which it is authorized to grant options to directors, senior officers, employees, management company employees, and consultants to acquire up to 10% of the issued and outstanding common shares. Under the plan, the maximum issuance in any 12 month period is limited for any consultant or person providing investor relations services to 2%, for insiders to 10% and for any other person to 5%. The exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of five years. Options issued for investor relations services will be subject to a vesting schedule of at least 12 months whereby no more than 25% of the options granted may vest within any three-month period. All other vesting terms are determined by the Board of Directors.

As at September 30, 2018, the Company had 1,300,000 stock options outstanding.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2016	1,300,000	\$ 0.125
Options granted	-	-
Options forfeited	-	-
As at September 30, 2018 and December 31, 2017	1,300,000	0.125
Number of options currently exercisable	1,300,000	\$ 0.125

The weighted average remaining contractual life of options outstanding at September 30, 2018 was 2.74 (December 31, 2017 – 3.48) years.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

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

Stock options outstanding are as follows:

Number of Options	Exercise Price	Expiry Date
1,300,000	\$ 0.125	June 24, 2021

Warrants

As at September 30, 2018, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2017	9,380,500	\$ 0.13
Warrants granted	5,115,500	0.20
Warrants expired	(6,900,000)	0.12
As at September 30, 2018	7,596,000	\$ 0.18

The weighted average remaining contractual life of warrants outstanding at September 30, 2018 was 1.52 (December 31, 2017 – 0.92) years.

Warrants outstanding are as follows:

Number of Shares	Exercise Price	Expiry Date
2,480,500	\$ 0.15	February 20, 2020
5,115,500	\$ 0.20	April 30, 2020
7,596,000	\$ 0.18	

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no significant non-cash transactions during the periods ended September 30, 2018.

Significant non-cash transactions during the period ended September 30, 2017 consist of the following:

- \$40,000 for shares issued for exploration and evaluation assets.
- \$343,657 for property impairment.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

11. SEGMENTED INFORMATION

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

Geographic information is as follows:

	September 30, 2018	
	Canada	Total
Exploration and evaluation assets	\$ -	\$ -
Cash	67,218	67,218
Others	29,082	29,082
Total Assets	\$ 96,300	\$ 96,300

	December 31, 2017	
	Canada	Total
Exploration and evaluation assets	\$ -	\$ -
Cash	219	219
Others	8,936	8,936
Total Assets	\$ 9,155	\$ 9,155

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The fair value of cash and marketable securities are measured at Level 1 of the fair value hierarchy. The carrying value of receivables, accounts payable and accrued liabilities and due to related parties approximate their fair value because of the short-term nature of these instruments.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Canadian Dollars)

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

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote and has deposited cash in high credit quality financial institutions.

Liquidity risk

As of September 30, 2018, the Company had cash balance of \$67,218 (December 31, 2017 - \$219) to settle current liabilities of \$472,406 (December 31, 2017 - \$432,872). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company will need to raise additional funds through equity or debt to continue its operations.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Amounts exposed to market risk include marketable securities of \$1,500 (December 31, 2017 - \$1,700).

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade demand investments issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars. Amounts exposed to foreign currency risk include cash of US\$23,986 as of September 30, 2018 (December 31, 2017 - US\$22).

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's profit or loss due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

ARROWSTAR RESOURCES LTD.

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(Expressed in Canadian Dollars)

13. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of all components of shareholders' deficiency, specifically its issued common shares, stock options and warrants.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions. There were no changes to the Company's approach to capital management during the year.