

**ARROWSTAR RESOURCES LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**MARCH 31, 2019**

(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 condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The condensed consolidated interim financial statements of the Company for the first quarter ended March 31, 2019 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.

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

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

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current</b>		
Cash (Note 3)	\$ 26,605	\$ 37,629
Marketable securities (Note 4)	1,500	1,500
Receivables (Note 5)	914	1,914
Prepaid expenses	<u>3,307</u>	<u>3,307</u>
	32,326	44,350
<b>Deposit (Note 6)</b>	<u>4,000</u>	<u>4,000</u>
	<u>\$ 36,326</u>	<u>\$ 48,350</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)**

<b>Current</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 570,736	\$ 550,778
Due to related parties (Note 8)	<u>54,945</u>	<u>54,945</u>
	625,681	605,723
<b>Shareholders' deficiency</b>		
Share capital (Note 9)	19,758,951	19,758,951
Reserves (Note 9)	3,158,674	3,158,674
Deficit	<u>(23,506,980)</u>	<u>(23,474,998)</u>
	<u>(589,355)</u>	<u>(557,373)</u>
	<u>\$ 36,326</u>	<u>\$ 48,350</u>

**Nature of operations and going concern** (Note 1)

**Subsequent event** (Note 14)

**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 MONTH PERIOD ENDED MARCH 31**

(Unaudited - Expressed in Canadian Dollars)

	2019	2018
<b>EXPENSES</b>		
Consulting fees (Note 8)	\$ 18,000	\$ 10,500
Foreign exchange loss	1,082	70
Insurance	2,864	2,656
Office	480	2,509
Professional fees	4,075	5,253
Regulatory fees	<u>5,481</u>	<u>6,508</u>
	<u>(31,982)</u>	<u>(27,496)</u>
Unrealized gain on marketable securities (Note 4)	<u>-</u>	<u>1,500</u>
	<u>-</u>	<u>1,500</u>
<b>Loss and comprehensive loss for the period</b>	<u>\$ (31,982)</u>	<u>\$ (25,996)</u>
<b>loss per common share</b>		
-Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
<b>Weighted average number of common shares outstanding</b>		
-Basic and diluted	<u>27,924,921</u>	<u>22,924,921</u>

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 THREE MONTH PERIOD ENDED MARCH 31**  
(Unaudited - Expressed in Canadian Dollars)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (31,982)	\$ (25,996)
Items not affecting cash:		
Unrealized gain on marketable securities	-	(1,500)
Changes in non-cash working capital items:		
Decrease in receivables	1,000	1,987
Increase in accounts payable and accrued liabilities	19,958	15,841
Net cash used in operating activities	<u>(11,024)</u>	<u>(9,668)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share subscriptions received in advance	-	137,128
Related party loans	-	2,500
Net cash provided by financing activities	<u>-</u>	<u>139,628</u>
<b>Decrease in cash during the period</b>	<b>(11,024)</b>	<b>129,960</b>
<b>Cash, beginning of period</b>	<b><u>37,629</u></b>	<b><u>219</u></b>
<b>Cash, end of period</b>	<b><u>\$ 26,605</u></b>	<b><u>\$ 130,179</u></b>

**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, 2017	22,924,921	\$ 19,473,636	\$ 3,058,969	\$ 94,200	\$ (23,050,522)	\$ (423,717)
Subscriptions received in advance	-	137,128	-	-	-	137,128
Loss for the period	-	-	-	-	(25,996)	(25,996)
Balance, March 31, 2018	22,924,921	19,610,764	3,058,969	94,200	(23,076,518)	(312,585)
Shares issued for:						
Private placement – units	5,000,000	300,000	-	-	-	300,000
Subscriptions received in advance	-	(137,128)	-	-	-	(137,128)
Share issue costs	-	(14,685)	-	5,505	-	(9,180)
Loss for the year	-	-	-	-	(487,525)	(529,190)
Balance, December 31, 2018	27,924,921	\$ 19,758,951	\$ 3,058,969	\$ 99,705	\$ (23,474,998)	\$ (557,373)
Loss for the period	-	-	-	-	(31,982)	(31,982)
Balance, March 31, 2019	27,924,921	19,758,951	3,058,969	99,705	(23,506,980)	(589,355)

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

MARCH 31, 2019

(Expressed in Canadian Dollars)

**1. NATURE OF OPERATIONS AND GOING CONCERN**

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

The Company is in the process of acquiring exploration and evaluation assets and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

As at March 31, 2019, the Company has a working capital deficit of \$593,355 (December 31, 2018 – \$561,373) and an accumulated deficit of \$23,506,980 (December 31, 2018 - \$23,474,998). 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 on the historical cost basis, except for assets and liabilities recorded at fair value. Intercompany balances and transactions are eliminated on consolidation. The presentation and functional currency of the Company is the Canadian dollar.

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2018.

**Approval of condensed interim consolidated financial statements**

The condensed interim consolidated financial statements for the three months ended March 31, 2019 were reviewed, approved and authorized for issue by the board on May 28, 2019.

**Basis of consolidation**

These consolidated financial statements of the Company include the transactions and balances of its subsidiary, Arrowstar Arizona Resources Ltd., which was a wholly owned inactive subsidiary incorporated in the state of Arizona USA.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2019

(Expressed in Canadian Dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

The Company consolidates its subsidiary on the basis that it controls the subsidiary through its ability to govern its financial and operating policies.

All intercompany transactions and balances are eliminated on consolidation.

**New standards and interpretations not yet adopted**

Certain 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:

	March 31, 2019	December 31, 2018
Cash held with banks	\$ 9,762	\$ 6,768
Cash held with banks in foreign currencies	16,843	30,951
Total	\$ 26,605	\$ 37,629

**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 March 31, 2019 to their fair market value of \$1,500 (December 31, 2018 – \$1,500).

**5. RECEIVABLES**

	March 31, 2019	December 31, 2018
GST receivable	\$ 914	\$ 1,914

**6. EXPLORATION AND EVALUATION ASSETS**

As at March 31, 2019, the Company holds a reclamation deposit on a previously written-off exploration and evaluation asset in the amount of \$4,000 (December 31, 2018 - \$4,000).



**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2019

(Expressed in Canadian Dollars)

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2019	December 31, 2018
Trade payables	\$ 546,361	\$ 529,778
Accrued liabilities	24,375	21,000
	<u>\$ 570,736</u>	<u>\$ 550,778</u>

**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 March 31 was:

	2019	2018
Short-term benefits paid or accrued:		
Consulting fees	\$ 18,000	\$ 10,500
<b>Total remuneration</b>	<b>\$ 18,000</b>	<b>\$ 10,500</b>

Accounts payable and accrued liabilities as at March 31, 2019 included \$309,498 (December 31, 2018 - \$280,974) 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, 2017, Panopus extended a USD\$7,500 (CDN\$9,912) unsecured loan to the Company repayable within six months. On July 3, 2017 the loan was extended for an additional six month term. On maturity the Company is required to repay the principal plus interest of US\$563.
- On January 27, 2017, Panopus extended a \$10,000 unsecured loan to the Company repayable within six months. On July 27, 2017 the loan was extended for an additional six month term. On maturity the Company is required to repay the principal plus interest of \$1,500.
- On March 29, 2017, Panopus extended a \$17,000 unsecured loan to the Company repayable within six months. On September 29, 2017 the loan was extended for an additional six month term.
- On November 17, 2017, Panopus extended a \$2,010 non-interest bearing unsecured loan to the Company repayable within six months.

The balance of principal and interest on the loans as at March 31, 2019 is \$42,445 (December 31, 2018 - \$42,445). As at March 31, 2019, these loans have not been repaid and are due on demand.

During the period ended March 31, 2019, an officer of the Company advanced \$12,500 (December 31, 2018 - \$12,500) to the Company. The advance is non-interest bearing with no set repayment terms.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2019

(Expressed in Canadian Dollars)

**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 March 31, 2019 and the year ended December 31, 2018.

During the period ended March 31, 2018, the Company received subscriptions in advance of \$137,128 relating to a private placement closed subsequent to March 31, 2018 where 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.

**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 March 31, 2019, the Company had 1,300,000 stock options outstanding and exercisable at a weighted average exercise price of \$0.125.

Stock options outstanding are as follows:

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

(\*) Subsequent to March 31, 2019 1,300,000 options were cancelled.

There were no changes in the outstanding stock options during the period ended March 31, 2019 and the years ended December 31, 2018.

**Warrants**

As at March 31, 2019, 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 March 31, 2019 and December 31, 2018	7,596,000	\$ 0.18

The weighted average remaining contractual life of warrants outstanding at March 31, 2019 was 1.03 (March 31, 2018 – 0.92) years.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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 March 31, 2019 or March 31, 2018.

**11. SEGMENTED INFORMATION**

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

**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.

**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 March 31, 2019, the Company had cash balance of \$26,605 (December 31, 2018 - \$37,629) to settle current liabilities of \$625,681 (December 31, 2018 - \$605,723). 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.

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2019

(Expressed in Canadian Dollars)

**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)***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, 2018 - \$1,500).

*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\$12,604 as of March 31, 2019 (December 31, 2018 - US\$22,622).

*Price risk*

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

**13. CAPITAL MANAGEMENT**

The Company 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.

**14. PROPOSED TRANSACTION**

The Company entered into a Letter of Intent ("LOI") dated June 12, 2018 with Dr. Carlos Sorentino and Lucian C. Sorentino (the "Sorentino's") to acquire 100% of the issued and outstanding shares in Recycle Fuel Technologies ("RFT").

Under the terms of the LOI, the Company will acquire all the issued and outstanding shares of RFT and will become a wholly owned subsidiary of the Company. The total purchase price for the shares will be US\$5,000,000 payable in cash and shares of the Company valued at \$0.20 per share as follows:

**ARROWSTAR RESOURCES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2019

(Expressed in Canadian Dollars)

**14. PROPOSED TRANSACTION (cont'd...)**

	Cash (US\$)	Shares
TSX-V approval	\$500,000	10,000,000
Six months after TSX-V approval	\$500,000	5,000,000
Twelve months after TSX-V approval	\$500,000	8,400,000
Total	\$1,500,000	23,400,000

Prior to or concurrent with completion of the transaction, the Company will conduct a financing for gross proceeds of CDN\$5,000,000 at a price of \$0.20.

The Company nor the Sorentino's have completed closing conditions that were required in the LOI or extended the time for due diligence and closing conditions, which was to expire on September 30, 2018. The Company is evaluating its options to determine if it is in the best interest of the Company to proceed or extend the option which the Sorentino's have agreed in principle or terminate the LOI.

**14. SUBSEQUENT EVENTS**

1,300,000 stock options were cancelled.