

ARROWSTAR RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 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 September 30, 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.

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

	September 30, 2019	December 31, 2018
ASSETS		
Current		
Cash (Note 3)	\$ 10,648	\$ 37,629
Marketable securities (Note 4)	700	1,500
Receivables (Note 5)	4,308	1,914
Prepaid expenses	<u>6,638</u>	<u>3,307</u>
	22,294	44,350
Deposit (Note 6)	<u>4,000</u>	<u>4,000</u>
	<u>\$ 26,294</u>	<u>\$ 48,350</u>

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current		
Accounts payable and accrued liabilities (Note 7)	\$ 784,751	\$ 550,778
Due to related parties (Note 8)	<u>54,945</u>	<u>54,945</u>
	839,696	605,723
Shareholders' deficiency		
Share capital (Note 9)	19,758,951	19,758,951
Reserves (Note 9)	3,158,674	3,158,674
Deficit	<u>(23,731,027)</u>	<u>(23,474,998)</u>
	<u>(813,402)</u>	<u>(557,373)</u>
	<u>\$ 26,294</u>	<u>\$ 48,350</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, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
EXPENSES				
Consulting fees (Note 8)	\$ 18,000	\$ 18,000	\$ 88,900	\$ 104,000
Foreign exchange (gain) loss	175	535	1,606	(54)
Insurance	1,326	2,863	5,929	7,890
Investor relations	-	3,428	-	3,428
Office	1,409	2,289	3,716	7,093
Professional fees	67,182	72,020	139,032	93,403
Regulatory fees	5,219	1,667	16,046	13,586
Travel	-	13,685	-	13,685
	<u>(93,311)</u>	<u>(114,487)</u>	<u>(255,229)</u>	<u>(243,031)</u>
Interest income	-	22	-	22
Unrealized loss on marketable securities (Note 4)	<u>(100)</u>	<u>(400)</u>	<u>(800)</u>	<u>(200)</u>
	<u>(100)</u>	<u>(378)</u>	<u>(800)</u>	<u>(178)</u>
Loss and comprehensive loss for the period	<u>\$ (93,411)</u>	<u>\$ (114,865)</u>	<u>\$ (256,029)</u>	<u>\$ (243,209)</u>
Loss per common share				
-Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding				
-Basic and diluted	<u>27,924,921</u>	<u>27,924,921</u>	<u>27,924,921</u>	<u>25,745,434</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 NINE-MONTH PERIOD ENDED SEPTEMBER 30
(Unaudited - Expressed in Canadian Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (256,029)	\$ (243,209)
Items not affecting cash:		
Unrealized gain on marketable securities	800	200
Interest income	-	(22)
Changes in non-cash working capital items:		
Receivables	(2,394)	(346)
Prepaid expenses	(3,331)	(20,000)
Accounts payable and accrued liabilities	233,973	37,056
Net cash used in operating activities	<u>(26,981)</u>	<u>(226,321)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of shares	-	300,000
Share issue costs	-	(9,180)
Related party loans	-	2,500
Net cash provided by financing activities	<u>-</u>	<u>293,320</u>
Decrease in cash during the period	(26,981)	66,999
Cash, beginning of period	37,629	219
Cash, end of period	\$ 10,648	\$ 67,218

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)

	<u>Share Capital</u>		<u>Reserves</u>			
	<u>Number of shares</u>	<u>Amount</u>	<u>Options</u>	<u>Warrants</u>	<u>Deficit</u>	<u>Total</u>
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	-	(14,685)	-	5,505	-	(9,180)
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(243,209)</u>	<u>(243,209)</u>
Balance, September 30, 2018	22,924,921	19,758,951	3,058,969	99,705	(23,293,731)	(376,106)
Shares issued for:						
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(181,267)</u>	<u>(181,267)</u>
Balance, December 31, 2018	27,924,921	19,758,951	3,058,969	99,705	(23,474,998)	(557,373)
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(256,029)</u>	<u>(256,029)</u>
Balance, September 30, 2019	27,924,921	\$ 19,758,951	\$ 3,058,969	\$ 99,705	\$ (23,731,027)	\$ (813,402)

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, 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’s principal business is the identification and evaluation of assets, or a business, and once identified or evaluated, to negotiate the acquisition or participation in the business (Note 13).

As at September 30, 2019, the Company has a working capital deficit of \$817,402 (December 31, 2018 – \$561,373) and an accumulated deficit of \$23,731,027 (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 nine months ended September 30, 2019 were reviewed, approved and authorized for issue by the board on November 20, 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

SEPTEMBER 30, 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 accounting standards

The Company adopted the following accounting standards that are effective for accounting periods beginning on or after January 1, 2019:

IFRS 16 - Leases

IFRS 16, Leases ("IFRS 16") was issued by the IASB on January 13, 2016, and replaced IAS 17, Leases. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 requires a single, on-balance sheet accounting model that is similar to current finance lease accounting. Leases become an on-balance sheet liability that attract interest, together with a new asset.

The Company does not have any leases and accordingly, there was no impact to the Company's financial statements as a result of adopting this new standard.

3. CASH

The Company's cash consists of the following:

	September 30, 2019	December 31, 2018
Cash held with banks	\$ 4,599	\$ 6,768
Cash held with banks in foreign currencies	6,049	30,861
Total	\$ 10,648	\$ 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 September 30, 2019 to their fair market value of \$700 (December 31, 2018 - \$1,500).

5. RECEIVABLES

	September 30, 2019	December 31, 2018
GST receivable	\$ 4,308	\$ 1,914

6. EXPLORATION AND EVALUATION ASSETS

As at September 30, 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

SEPTEMBER 30, 2019

(Expressed in Canadian Dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2019	December 31, 2018
Trade payables	\$ 768,251	\$ 529,778
Accrued liabilities	16,500	21,000
	<u>\$ 784,751</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 September 30 was:

	2019	2018
Short-term benefits paid or accrued:		
Consulting fees	\$ 88,900	\$ 104,000
Total remuneration	<u>\$ 88,900</u>	<u>\$ 104,000</u>

Accounts payable and accrued liabilities as at September 30, 2019 included \$382,573 (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 September 30, 2019 is \$42,445 (December 31, 2018 - \$42,445). As at September 30, 2019, these loans have not been repaid and are due on demand.

As of September 30, 2019, an officer of the Company had advanced \$Nil (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

SEPTEMBER 30, 2019

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES

Authorized – Unlimited common shares without par value

2019 Transactions

There was no share issuance during the period ended September 30, 2019.

2018 Transactions

On April 26, 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.

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, 2019, the Company had Nil stock options outstanding.

	Number of Options	Weighted Average Exercise Price
As at December 31, 2018	1,300,000	\$ 0.125
Options cancelled	<u>(1,300,000)</u>	0.125
As at September 30, 2019	-	\$ 0.00

Warrants

As at September 30, 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 December 31, 2017	9,380,500	\$ 0.13
Warrants granted	5,115,500	0.20
Warrants expired	<u>(6,900,000)</u>	0.12
As at September 30, 2019 and December 31, 2018	7,596,000	\$ 0.18

The weighted average remaining contractual life of warrants outstanding at September 30, 2019 was 0.52 (December 31, 2018 – 1.27) years.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(Expressed in Canadian Dollars)

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 26, 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, 2019 or September 30, 2018.

11. 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 September 30, 2019, the Company had cash balance of \$10,648 (December 31, 2018 - \$37,629) to settle current liabilities of \$839,696 (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.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(Expressed in Canadian Dollars)

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

exchange rates, and commodity and equity prices. Amounts exposed to market risk include marketable securities of \$700 (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\$4,568 as of September 30, 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.

12. 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.

13. PROPOSED TRANSACTION

The Company has entered into a letter of intent (the "LOI") to enter into a Share Exchange Agreement with Adastra Labs Holdings Ltd. ("Adastra") whereby the parties will complete a business combination by way of a transaction that will constitute a reverse takeover of the Company by Adastra (the "Transaction"). Pursuant to the Transaction, the Company will first apply to delist from the TSX Venture Exchange (the "TSXV"), then on closing of the Transaction (the "Closing") all of the issued and outstanding common shares of Adastra (the "Adastra Shares") will be exchanged for common shares of the Company (the "AWS Shares"), which will result in Adastra becoming a wholly-owned subsidiary of the Company or otherwise combining its corporate existence with a wholly-owned subsidiary of the Company. The resulting issuer upon completion of the Transaction (the "Resulting Issuer") will change its business from mining to cannabis

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(Expressed in Canadian Dollars)

13. PROPOSED TRANSACTION (cont'd...)

standard processor and analytical testing laboratory and apply to be listed on the Canadian Securities Exchange (the "CSE"). During the period ended September 30, 2019 the Company received conditional approval to list on the CSE.

Description of Adastra and its Business

Adastra is a private company incorporated under the British Columbia Business Corporations Act in 2018 to capitalize on the significant opportunities in the cannabis industry. It is headquartered in Langley, British Columbia where it has invested in re-purposing a former food manufacturing facility into a cannabis standard processor and analytical testing laboratory. Adastra's focus is to provide B2B services for cannabis extractions and concentrates through its standard processing subsidiary Adastra Labs Inc. while offering full-spectrum cannabis analytical testing services to its customers through its testing lab subsidiary Chemia Analytics Inc., co-located in their Langley facility. Adastra is also developing its own cannabis extracts-related products through its brand subsidiary Adastra Brands Inc. Adastra expects to provide these services to the cannabis industry on a global basis but only in jurisdictions where all laws and statutes governing the business are complied with at all levels of government. Adastra has focused on developing a GMP-compliant facility design using the latest technology to allow high volume production of cannabis extractions. Adastra subsidiaries submitted licence applications in October 2018 and received the Analytical Testing License from Health Canada under the Cannabis Act and Cannabis Regulations.

Transfer of Listing to the CSE

Upon Closing of the Transaction and subject to receipt of approvals of the TSXV for the delisting of the AWS Shares from the TSXV (the "TSXV Delisting") and the CSE for the listing of the AWS Shares on the CSE (the "CSE Listing"), the listing of AWS Shares will be transferred from the TSXV to the CSE. The TSXV Delisting is subject to the Company receiving approval from the TSXV and the CSE Listing is subject to the Company receiving approval from the CSE. There can be no assurance that the TSXV will approve the proposed TSXV Delisting or that the CSE will approve the listing of the Resulting Issuer's shares. Non-approval of the transfer of the listing will prohibit or negatively impact closing of the Transaction with the result that the Company may need to seek and secure another acquisition of a business or assets to ensure that the Company will meet the TSXV's continued listing requirements.

Shareholder Approvals for the Company

Prior to the completion of the Transaction, the Company will call a meeting of its shareholders for the purpose of approving, among other matters, (i) the TSXV Delisting; (ii) the Listing on the CSE; and (iii) the approval of the Transaction.

The Transaction is a non-arm's length transaction. The Company has prepared and filed with the CSE a CSE Form 2A listing statement (the "Listing Statement") providing comprehensive disclosure on Adastra and the Transaction in connection with the application to list on the CSE.

Adastra Private Placement

Prior to or concurrently with Closing, Adastra is to complete up to \$4,000,000 12% Secured Convertible Debentures convertible to units and a private placement of a minimum \$1,000,000 and a maximum of \$5,000,000 (the "Adastra Private Placement"). Final terms of the Adastra Private Placement such as pricing, financing structure, commission and finder's or agent's fees will be subject to final approval by Adastra, the CSE and/or other applicable regulatory authorities.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(Expressed in Canadian Dollars)

13. PROPOSED TRANSACTION (cont'd...)

Securities Exchange and AWS Warrants

Pursuant to the Transaction, all of the existing 81,138,333 Adastra Shares will be acquired by AWS in consideration of AWS issuing one (1) AWS Shares for each one (1) Adastra Share issued and outstanding immediately prior to Closing (the "Exchange Ratio").

In addition, all Adastra Shares issued in the Adastra Private Placement will be exchanged into additional AWS Shares upon completion of the Transaction at the Exchange Ratio, and all Adastra convertible securities issued in the Adastra Private Placement shall be exchanged, at the Exchange Ratio, for an equivalent number of AWS convertible securities on the same terms and conditions with the exercise/conversion price adjusted based on the Exchange Ratio.

Further, following Closing, the outstanding AWS Warrants will remain in effect.

Management of the Resulting Issuer

Upon closing of the Transaction, Philip Thomas and Andrew Jarvis, AWS's current directors and officer, will resign; the board of directors of the Resulting Issuer will consist of four directors, including Blaine Bailey, Stephen Brohman, who will also be appointed CFO, George Routhier and Andrew Hale, who will be appointed President and CEO of the Resulting Issuer.

Name Change

It is anticipated that Arrowstar will be renamed "Adastra Labs Holdings Ltd." following completion of the Transaction.

The Company

The Company will consolidate its shares on a of five (5) old Company shares for one (1) new Company share prior to closing of the Transaction. It is a condition to the Share Exchange Agreement that prior to the Closing of the completion of the Transaction, The Company will complete an equity offering (the "Concurrent Financing"), post share consolidation, to raise \$500,000, such Concurrent Financing to consist of 10,000,000 common shares (the "Offering Shares") at a price of \$0.05 per Offering Share, or such other terms as the Company and Adastra may agree, mutually in writing.

Closing Conditions

The completion of the Transaction is subject to several conditions, including but not limited to the following:

- completion of mutually satisfactory due diligence;
- completion of the Private Placement; and
- receipt of all required regulatory, corporate and third-party approvals, including approvals by the TSXV, the CSE, the shareholders of the Company and Adastra, and fulfilment of all applicable regulatory requirements and conditions necessary to complete the Transaction.

Trading Halt

Trading in the Company's shares was halted on June 13, 2018 and is expected to remain halted until closing of the Transaction and listing on the CSE.

Recycling Fuel Technologies Inc. ("RFT")

The Company has terminated the RFT letter of intent dated June 12, 2018.

ARROWSTAR RESOURCES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(Expressed in Canadian Dollars)
