ARROW RESOURCES DEVELOPMENT INC
Form 10-Q
August 19, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

.. **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 l-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 x No o

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

Yes o No x

The number of shares outstanding of each of the issuer's classes of common equity, as of August 12, 2013 is as follows:

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

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

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Item 1. Financial Statements

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

Consolidated Balance Sheets

	(Unaudited) June 30, 2013	December 31, 2012
ASSETS		
Current:		
Cash	$-	$ -
Total current assets	-	-
Total assets	$-	$ -
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current:		
Accounts and accrued expenses payable, including $12,164,291 and $11,339,291 due to Company shareholders and directors, respectively	$20,666,689	$ 18,866,084
Estimated liability for legal judgment obtained by predecessor entity shareholder	1,487,908	1,456,304
Due to related parties	20,842,208	18,263,020
Notes payable, including accrued interest of $283,880 and $256,349, respectively	2,642,860	2,615,329
Total liabilities	45,639,665	41,200,737
Commitments and contingencies	-	-
STOCKHOLDERS' DEFICIT		
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 767,539,744 issued and outstanding, respectively	7,676	7,676

Common stock to be issued, $0.00001 par value, 35,929,684 and 35,554,684 shares to be issued, respectively	361	357
Additional paid-in capital	131,858,701	131,847,455
Accumulated deficit	(177,506,403)	(173,056,225)
Total stockholders' (deficit)	(45,639,665)	(41,200,737)
Total liabilities and stockholders'(deficit)	$-	$ -

See accompanying notes to the unaudited consolidated financial statements.

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ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

Unaudited Consolidated Statements of Operations

	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	Accumulated During the Development Stage for the Period From Inception (November 15, 2005) to June 30, 2013
Revenue	$ -	$ -	$ -	$ -	$ 52,000
Operating expenses:					
Consulting fees and services, including $1,642,093, $1,428,285, $3,284,186, $2,865,570 and $34,809,909 incurred to related parties, respectively	1,642,093	1,428,285	3,284,186	2,856,570	36,471,289
General and administrative	12,500	15,371	25,108	30,751	1,462,745
Directors' compensation	41,250	43,125	86,250	82,500	1,391,428
Total operating expenses	1,695,843	1,486,781	3,395,544	2,969,821	39,325,462
Loss from operations	(1,695,843)	(1,486,781)	(3,395,544)	(2,969,821)	(39,273,462)
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
Increase in estimated for loss on legal judgment obtained by predecessor entity shareholder	(15,801)	(15,801)	(31,602)	(31,602)	(1,487,906)

Penalty for default of notes payable	(500,500)	(500,500)	(995,500)	(1,001,000)	(7,601,500)
Loss on write-off of marketing agreement	-	-	-	-	(125,000,000)
Loss on settlement of predecessor entity stockholder litigation	-	-	-	-	(2,000)
Loss on debt conversion	-	-	-	-	(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, none and $32,000 incurred to related parties	(13,842)	(13,842)	(27,532)	(27,684)	(1,812,941)
Total other income (expense)	(530,143)	(530,143)	(1,054,634)	(1,060,286)	(138,232,941)
Net loss	$(2,225,986)	$(2,016,924)	$(4,450,178)	$(4,030,107)	$(177,506,403)
NET LOSS PER COMMON SHARE: Basic and Diluted	$(0.00)	$(0.00)	$(0.01)	$(0.01)	$(0.28)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and Diluted	767,539,744	767,539,744	766,938,680	766,634,845	624,669,211

See accompanying notes to the unaudited consolidated financial statements.

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ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

Unaudited Consolidated Statements of Cash Flows

	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	Accumulated During the Development Stage for the Period From Inception (November 15, 2005) to December 30, 2012	Accumulated During the Development Stage for the Period From Inception (November 15, 2005) to June 30, 2013
Net loss	$ (4,450,178)	$ (4,030,107)	$ (173,056,225)	$ (177,506,403)
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	1,264,217
Loss on write-off of marketing and distribution agreement	-	-	125,000,000	125,000,000
Common stock issued for reset of previous subscription agreement	-	-	5,525	5,525
Common stock to be issued for reset of previous subscription agreement	-	-	44,400	44,400
Common stock issued for note payable interest	-	-	27,000	27,000
Common stock to be issued for note payable interest	-	-	10,000	10,000
Debt issue costs to be satisfied in Company common stock	-	-	1,256,320	1,256,320
Debt issue costs satisfied in Company common stock	-	-	80,000	80,000
Loss on common stock issued for debt conversion	-	-	3,054,500	3,054,500
Common stock issued for conversion due to related party	-	-	(39,000)	(39,000)
Debt issue costs paid in cash	-	-	50,000	50,000
	-	-	122,500	122,500

Common stock issued for marketing services				
Common stock to be issued for consulting services	-	-	246,007	246,007
Expense related to common stock issued for consulting services, in lieu of cash	-	-	585,000	585,000
Stock-based directors' compensation to be issued	11,250	7,500	255,041	266,291
Changes in operating asset and liabilities:				
Increase in accounts and accrued expenses payable	1,828,140	1,840,235	18,454,163	20,282,303
Estimated liability for legal judgment obtained by predecessor entity shareholder	31,602	31,602	1,456,304	1,487,906
Net cash used in operating activities	(2,579,186)	(2,150,770)	(21,184,248)	(23,763,434)
Cash flows from investing activities:				
Cash acquired as part of merger transaction	-	-	39,576	39,576
Advances to related party	-	-	(957,775)	(957,775)
Net cash used in investing activities	-	-	(918,199)	(918,199)
Cash flows from financing activities:				
Proceeds of issuance of note payable	-	-	2,201,000	2,201,000
Proceeds of loans received from related parties	-	-	2,462,980	2,462,980
Repayment towards loan from related party	-	-	(179,425)	(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	2,579,186	2,150,710	15,305,892	17,885,078
Net increase in investments/capital contributed	-	-	2,232,000	2,232,000
Advances from senior advisor	-	-	50,000	50,000
Net cash provided by financing activities	2,579,186	2,150,710	22,102,447	24,681,633
Net change in cash	-	(60)	-	-
Cash balance at beginning of period	-	62	-	-
Cash balance at end of period	$ -	$ 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	$ 125,000,000
Settlement of senior note payable through issuance of convertible preferred stock	$ -	$ -	$ 125,000,000	$ 125,000,000
Non-cash acquisition of accrued expenses in recapitalization	$ -	$ -	$ 421,041	$ 421,041
Non-cash acquisition of notes payable in recapitalization	$ -	$ -	$ 220,000	$ 220,000

See accompanying notes to the unaudited consolidated financial statements.

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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, 2013, and the results of its operations, and cash flows for the three and six month periods ended June 30, 2013 and 2012, respectively, and for the period from the commencement of the development stage (November 15, 2005) to June 30, 2013. 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 months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013. 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, 2012 filed on June 13, 2013.

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 $4,450,178 for the six months ended June 30, 2013 and a net loss during the development stage from inception (November 15, 2005) through June 30, 2013 of $177,506,403. The Company’s operations are in the development stage, and the Company has not generated meaningful 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

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 Accounting Standards Codification 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 Accounting Standards Codification 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

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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*. FASB No. 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, 2012 and for the six months ended June 30, 2013. As of June 30, 2013, there are no dilutive equity instruments outstanding.

Reclassification:

Certain prior period amounts have been reclassified or adjusted to conform to the current presentation. These reclassifications and adjustments had no material impact on the consolidated financial position, results of operations and net cash flows from operations for all periods presented.

Acquired Intangibles:

Intangible assets were comprised of an exclusive sales and marketing agreement. In accordance with FASB Accounting Standard Codification 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 its useful life, utilizing the straight-line method. Amortization expense had not been recorded since the acquisition occurred as the company had not yet commenced operations.

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).

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.

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ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2012 or to date in 2013.

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

Net operating loss carryforward	$187,206	
Differences resulting from use of cash basis for tax purposes	-	
	187,206	
Tax Rate	35	%
Total deferred tax assets	65,552	
Less valuation allowance	(65,552)	
Net deferred tax assets	$-	

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - INCOME TAXES - CONTINUED

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
December 31, 2032	420
March 31, 2033	105
Net operating loss carryover	$187,206

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

	June 30, 2013
Federal statutory tax rate	35.0 %
Effective tax rate	35.0 %
Valuation allowance	(35.0)%
Net effective tax rate	0 %

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

Costs capitalized under IRC Section 195 which will be amortizable over 15 years for tax purposes once the Company commences operations	$(177,319,197)
Delaware franchise taxes deductible on Company's tax return	187,206
Net loss for the period from inception (November 15, 2005) to June 30, 2013	$(177,506,403)

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - NOTES PAYABLE

As of June 30, 2013 and December 31, 2012, the following notes payable were outstanding:

Holder	Terms	June 30, 2013	December 31, 2012
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)		54,533	46,837
James R. McConnaughy (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 McConnaughy (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)		76,847	57,012
Total		$ 2,642,860	$ 2,615,329

(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.

(2) 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.

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ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - RELATED PARTY TRANSACTIONS

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 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 on debt conversions for the year ended December 31, 2011 was $1,100,000. The 30,000,000 shares of the Company's common stock were issued in January 2012, therefore, the par value was recorded to common stock to be issued at December 31, 2011 and reclassified to issued common stock during the first quarter of 2012. The balance due to Marrozzi was $387,980 as of June 30, 2013 and December 31, 2012, respectively.

Accrued interest due on all Marozzi related loans was $54,533 and $46,837 as of June 30, 2013 and December 31, 2012, respectively.

(3) 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 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].

(4) 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 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.

(5) 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 of $550,000 was payable on February 12, 2010 and remains due at June 30, 2013. The note 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 on March 30, 2012. This left an unpaid principal balance of $255,000 as of December 31, 2011 that remains outstanding at June 30, 2013 and is currently in default. John Frugone is a relative of Peter Frugone, the Company's CEO and also a Company Director.

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ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - RELATED PARTY TRANSACTIONS

(7) 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 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.

(8) 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, 2013 and the year ended December 31, 2012, the Company incurred and accrued $814,500 and $1,647,000 of default penalty interest expense, respectively, and has accrued cumulative default penalties of $6,322,500 and $5,508,000, respectively, comprised of accrued interest of $100,000, and accrued cumulative default penalties of $6,222,500 as of June 30, 2013 and accrued interest of $100,000 and accrued cumulative default penalties of $5,408,000 for the year ended December 31, 2012.

(9) On June 2, 2009, the Company received a $25,000 10% interest bearing advance from John E. McConnaughy Jr. For repayment, the Company was to repay the full amount of the note and accrued interest in cash by September 1, 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.

(10) 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, 2013 and the year ended December 31, 2012, the Company incurred and accrued $181,000 and $366,000 of default penalty interest expense, respectively, and has accrued cumulative default penalties of $1,379,000 and $1,198,000, 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 were 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, 2013, 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 were 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 have not been issued as of June 30, 2013. The value of the shares recorded was $10,000 and has been recorded as interest expense. As of the June 30, 2013, the note has not been repaid and is currently in default.

(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 were 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, 2013, 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 were 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, 2013, the note has not been repaid and is currently in default.

(16) The total accrued interest for the loans listed above for items #12-#15 above at 20% was $76,847 and $57,012 for the six month period ended June 30, 2013 and the year ended December 31, 2012, respectively. These amounts are expected to be paid in cash.

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ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

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 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 18, 2011 the agreement was extended through December 31, 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, 2013 and December 31, 2012, the Company had short-term borrowings of $18,912,208 and $16,333,022, 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 incurred by Empire charged to the Statement of Operations for the six month periods ended June 30, 2013 and 2012 were $3,284,186 and $2,856,570, respectively, and $36,471,289 for the period from inception (November 15, 2005) to June 30, 2013.

During the six months ended June 30, 2013 the Company incurred Director’s compensation expense of $28,750 to Mr. Frugone consisting of cash compensation of $25,000 and stock based compensation of $3,750 based upon the Company’s share trading price on the date of the grant. During the six months ended June 30, 2012 the Company 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, 2013 the Company is obligated to issue 1,625,500 company shares to him, and accounts payable and accrued liabilities" includes $325,000 due to him for the cash based portion of his 2013, 2012, 2011, 2010, 2009, 2008 and 2007 director's compensation (See Note 7[4]).

During the six months ended June 30, 2013 and 2012, the Company made cash payments of $0 and $195, 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, 2013 and 2012 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, 2013 and December 31, 2012 Company owed them a total of $11,514,291 and $10,739,291, respectively. These agreements are discussed in detail in Note 11.

During the six months ended June 30, 2013 the Company incurred Director's compensation expense of $28,750 to Rudolph Karundeng consisting of cash compensation of $25,000 and stock based compensation of $3,750 based upon the Company's share trading price on the date of the grant. During the six months ended June 30, 2012 the Company 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, 2013 the Company is obligated to issue 1,625,500 company shares to him, and accounts payable and accrued liabilities" includes $325,000 due to him for the cash based portion of his 2013, 2012, 2011, 2010, 2009, 2008 and 2007 director's compensation (See Note 7[4]).

On May 18, 2011 the engagement and consulting agreements with Hans Karundeng and Rudolph Karundeng (See Note 10) were extended through December 31, 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.

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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, 2013 and December 31, 2012, 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. 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. As of June 30, 2013, the outstanding principal and accrued interest of $2,500 has been included in "Notes Payable".

During the six months ended June 30, 2013 the Company incurred Director's compensation expense of $28,750 to Mr. McConnaughy consisting of cash compensation of $25,000 and stock based compensation of $3,750 based upon the Company's share trading price on the date of the grant. During the six months ended June 30, 2012 the Company incurred Director's compensation expense of $27,500 to Mr. 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, 2013 the Company is obligated to issue 1,625,500 company shares to him, and accounts payable and accrued liabilities" includes $325,000 due to him for the cash based portion of his 2013, 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, 2013 and December 31, 2012, none of the shares under this plan have been issued and the Company has an accrued liability of $1,125,137 and $1,050,137, respectively, of cash-based compensation and recorded additional paid-in capital through those dates of $266,263 and $255,017, respectively, for stock-based compensation based on the fair value of 5,625,685 and 4,500,685 shares to be issued to the members of the Board, respectively.

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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, 2013, 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, 2013 and December 31, 2012, none of the shares under this plan have been issued and the Company has an accrued liability of $1,125,137 and $1,050,137, respectively, of cash-based compensation and recorded additional paid-in capital through those dates of $266,263 and $255,017, respectively, for stock-based compensation based on the fair value of 5,625,685 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, 2013, none of these shares have been issued to Charles A. Moskowitz.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

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 note payable balance of $550,000 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 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 on debt conversions for the year ended December 31, 2011 was $1,100,000. The 30,000,000 shares of the Company's common stock were issued in January 2012, therefore, the par value was recorded to common stock to be issued at December 31, 2011 and reclassified to issued common stock during the first quarter of 2012. The balance due to Marrozzi was $387,980 as of June 30, 2013 and December 31, 2012, respectively.

Accrued interest due on all Marozzi related loans was $54,533 and $46,837 as of June 30, 2013 and December 31, 2012, 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).

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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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. McConnaughy, 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. McConnaughy 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. McConnaughy, 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. McConnaughy, III as of December 31, 2008 (See Note 5). As of December 31, 2009, John E. McConnaughy III assigned the $12,000 advance to John McConnaughy, 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, 2013 and December 31, 2012, 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, 2012, 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.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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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 in default. The total unpaid principal balance of $450,000 is currently in default. For the six month period ended June 30, 2013 and the year ended December 31, 2012, the Company incurred and accrued $814,500 and $1,647,000 of default penalty interest expense, respectively, and has accrued cumulative default penalties of $6,322,500 and $5,508,000, respectively, comprised of accrued interest of $100,000, and accrued cumulative default penalties of $6,222,500 as of June 30, 2013 and accrued interest of $100,000 and accrued cumulative default penalties of $5,408,000 for the year ended December 31, 2012.

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, 2013 and the year ended December 31, 2012, the Company incurred and accrued $181,000 and $366,000 of default penalty interest expense, respectively, and has accrued cumulative default penalties of $1,379,000 and $1,198,000, respectively.

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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 third-party 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, 2013, 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 18, 2011 the agreement was extended through December 31, 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 18, 2011 the agreement was extended through December 31, 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 is to be $500,000 as a director.

During the six months ended June 30, 2013 and 2012, the Company made no cash payments to Hans Karundeng or Rudolph Karundeng under their agreements. During the period from inception (November 15, 2005) to June 30, 2013, 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 18, 2011 the agreement was extended through December 31, 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, 2013 and 2012, the Company made cash payments of $0 and $195 to Empire under the agreement. During the period from inception (November 15, 2005) to June 30, 2013, 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, 2013 and December 31, 2012, the Company has accrued $1,487,906 and $1,456,304, including accrued interest of $434,522 and $402,920 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 amicable 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, 2013, 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 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. As of June 30, 2013, 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, 2013, the Company has not recovered any revenue from this agreement.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

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, 2013, 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, 2013, 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.

ARROW RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, 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.

As of June 30, 2013 and December 31, 2012, the Company has accrued an additional $105 and $420 each period/year for estimated unpaid Delaware franchise taxes. As of June 30, 2013 accounts and accrued expenses payable includes aggregate estimated unpaid Delaware Franchise taxes of $187,206.

[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
2014	$7,961,123
2015	8,826,404
2016	10,658,004
2017	6,376,740
	$33,822,271

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.

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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 December 31, 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. 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, 2013, the Company recovered $52,000 under this agreement.

CRITICAL ACCOUNTING POLICIES JUDGMENTS AND ESTIMATES

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. These policies are contained in Note 1 to the consolidated financial statements.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles and general practices within the financial services industry. Recent accounting pronouncements are contained in Note 1 to the consolidated financial statements. The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurances that actual results will not differ from those estimates. If actual results are different than management's judgments and estimates, the Company's financial results could change, and such change could be material.

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 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. 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 caring 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.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2013 AND 2012

REVENUES

There were no material revenues generated for the period from inception (November 15, 2005) to June 30, 2013 as the Company is still in the development stage.

COST OF GOODS SOLD

There were no cost of goods sold generated for the period from inception (November 15, 2005) to June 30, 2013 as the Company is still in the development stage.

In November 2005, we discontinued and disposed of our subsidiaries except for Arrow Ltd. in conjunction with the recapitalization of the Company. The Company had no revenue during this period as Arrow Ltd. is still in the development stage.

OPERATING EXPENSES – THREE MONTHS ENDED JUNE 30, 2013 AND JUNE 30, 2012

In November 2005, we discontinued and disposed of our subsidiaries except for Arrow Ltd. in conjunction with the recapitalization of the Company. The Company had no revenue during this period as Arrow Ltd. is still in the development stage.

Consulting and related costs increased to $1,642,093 for the three months ended June 30, 2013 as compared to $1,428,285 for the three months ended June 30, 2012, and increased to $36,471,289 accumulated during the development stage for the period from inception (November 15, 2005) to June 30, 2013. 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.

General and administrative expenses increased to decreased to $12,500 for the three months ended June 30, 2013 compared to $15,371 for the three months ended June 30, 2012, and increased to $1,462,745 accumulated during the development stage for the period from inception (November 15, 2005) to June 30, 2013.

Directors' compensation decreased to $41,250 as compared to $43,125 for the three months ended June 30, 2013 and 2012, respectively, and increased to $1,391,428 during the development stage period from inception (November 15, 2005) to June 30, 2013. Directors' compensation is based on an annual fee of $50,000 in cash and 250,000 shares of the Company's restricted common stock; any changes in directors' compensation is primarily due to fluctuating share prices used for valuing the restricted common stock.

The Company has estimated unpaid Delaware franchise taxes as follows:

Year ended:	
June 30, 2013	$105
December 31, 2012	$420
December 31, 2011	$420
December 31, 2010	$420
December 31, 2009	$420
December 31, 2008	$420
December 31, 2007	$57,652
December 31, 2006	$57,650
December 31, 2005	$69,699

Total operating expenses increased to $1,695,843 for the three months ended June 30, 2013 as compared to $1,486,781 for the three months ended June 30, 2012, and increased to $39,325,462 for the period from inception (November 15, 2005) to June 30, 2013.

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OPERATING EXPENSES – SIX MONTHS ENDED JUNE 30, 2013 AND JUNE 30, 2012

Compensation, consulting and related costs increased to $3,284,186 for the six months ended June 30, 2013 as compared to $2,856,570 for the six months ended June 30, 2012, and increased to $36,471,289 accumulated during the development stage for the period from inception (November 15, 2005) to June 30, 2013. 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.

General and administrative expenses decreased to $25,108 for the six months ended June 30, 2013 compared to $30,751 for the six months ended June 30, 2012, and $1,462,745 accumulated during the development stage for the period from inception (November 15, 2005) to June 30, 2013.

Directors' compensation increased to $86,250 as compared to $82,500 for the six months ended June 30, 2013 and 2012, respectively, and increased to $1,391,428 during the development stage period from inception (November 15, 2005) to June 30, 2013. Directors' compensation is based on an annual fee of $50,000 in cash and 250,000 shares of the Company's restricted common stock; any changes in directors' compensation is primarily due to fluctuating share prices used for valuing the restricted common stock.

Total operating expenses increased to $3,395,544 for the six months ended June 30, 2013 as compared to $2,969,821 for the six months ended June 30, 2012, and increased to $39,325,462 for the period from inception (November 15, 2005) to June 30, 2013.

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 due on that date except for $220,000. As of June 30, 2013 and December 31, 2012 the Company had $0 of cash, respectively. The Company had losses of $(4,450,178) and $(4,030,107) for the six months ended June 30, 2013 and 2012 and had zero revenue for the six months ended June 30, 2013 and 2012. In order for us to survive during the next twelve months we will need to secure approximately $10,000,000 of debt or equity financing. We expect to raise the additional financing in the future but there can be no guarantee that we will be successful.

Net cash used in operating activities was $2,579,186 for the six months ended June 30, 2013. The Company had a net loss of $(4,450,178). We had stock-based directors' compensation for shares to be issued of $11,250, an increase in accounts payable and accrued expenses payable of $1,828,140 mostly related to compensation and management fees, and an increase on the liability for legal judgment obtained by the predecessor entity shareholder of $31,602 due to accrued interest. In addition, we had a working capital deficiency of $(45,639,665) at June 30, 2013. We did not have any material commitments for capital expenditures as of June 30, 2013.

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 had an increase in stock-based directors' compensation to be issued of $7,500, an increase in accounts payable and accrued expenses payable of $1,840,235, 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.

The Company did not file their tax returns due to the inability to pay the related taxes. The Company is delinquent in its filing and payment of the Delaware Franchise Tax report and, accordingly, is not in good standing. The Company hopes to file the delinquent tax returns in the near future. The Company has a sufficient liability recorded of $187,206 for non-filing penalties and has discontinued accruing further quarterly penalties of $105 as of April 1, 2013 going forward.

OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2013, we had no off-balance sheet arrangements.

INFLATION

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

RECENT TRANSACTIONS

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We conduct no hedging activity. We have no derivative contracts.

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, 2013 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 March 31, 2013 under the criteria set forth in the in 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, 2013, 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, 2013 and December 31, 2012, the Company has accrued $1,487,906 and $1,456,304, including accrued interest of $434,522 and $402,920 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 amicable 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, 2012 includes a detailed discussion of our risk factors. There have been no significant changes to our risk factors as set forth in our 2012 Amended 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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, none of the shares under this plan have been issued and the Company has an accrued liability of $1,125,137 and $1,050,137, respectively, of cash-based compensation and recorded additional paid-in capital through those dates of $266,263 and $255,017, respectively, for stock-based compensation based on the fair value of 5,625,685 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

SIGNATURES

In accordance with Section 13(a) or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ARROW RESOURCES DEVELOPMENT, INC.	
Dated: August 19, 2013	By:	/S/ PETER J. FRUGONE Peter J. Frugone President and Chief Executive Officer
Dated: August 19, 2013	By:	/S/ PETER J. FRUGONE Peter J. Frugone Principal Accounting Officer

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