LUNA INNOVATIONS INC
Form 10-Q
May 16, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from ______ to ______

COMMISSION FILE NUMBER 000-52008

LUNA INNOVATIONS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**54-1560050**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

One Riverside Circle, Suite 400

Roanoke, VA 24016

(Address of Principal Executive Offices)

(540) 769-8400

(Registrant s Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. x Yes ¨ No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of May 9, 2011, there were 13,645,962 shares of the registrant s common stock outstanding.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure About Market Risk under Items 2 and 3, respectively, of Part I of this report, and the section entitled Risk Factors under Item1A of Part II of this report, may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. All statements other than statements of historical fact are forward-looking statements for purposes of these statutes, including those relating to future events or our future financial performance. In some cases, you can identify these forward looking statements by words such as intends, will, plans, anticipates, expects, may, might, estimates, believes, should, projects, predicts, potential or continue, or the negative of those words and other comparable words, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. Similarly, statements that describe our management transition, business strategy, goals, prospects, opportunities, outlook, objectives, plans or intentions are also forward-looking statements. These statements are only predictions and may relate to, but are not limited to, expectations of future operating results or financial performance, capital expenditures, introduction of new products, regulatory compliance and plans for growth and future operations, as well as assumptions relating to the foregoing.

These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause actual events or results to be materially different from any future events or results expressed or implied by these statements. These factors include those set forth in the following discussion and within Item 1A Risk Factors of this Quarterly Report on Form 10-Q and elsewhere within this report.

You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. You should carefully review the risk factors described in other documents that we file from time to time with the U.S. Securities and Exchange Commission, or SEC. Except as required by applicable law, including the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements, whether as a result of any new information, future events or otherwise, other than through the filing of periodic reports in accordance with the Securities Exchange Act of 1934, as amended.

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LUNA INNOVATIONS INCORPORATED

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2011

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Luna Innovations Incorporated

Condensed Consolidated Balance Sheets

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 7,518,020	$ 7,216,580
Accounts receivable, net	7,185,991	7,669,625
Inventory, net	3,532,975	3,106,600
Prepaid expenses	575,841	665,210
Other current assets	45,312	45,348
Total current assets	18,858,139	18,703,363
Property and equipment, net	3,325,399	3,204,670
Intangible assets, net	636,845	664,418
Other assets	284,418	303,210
Total assets	$ 23,104,801	$ 22,875,661
Liabilities and stockholders equity		
Liabilities :		
Current Liabilities		
Line of credit	$ 2,500,000	$ 2,500,000
Current portion of long term debt obligation	1,222,578	1,195,784
Current portion of capital lease obligation	49,590	2,194
Accounts payable	1,703,111	2,008,183
Accrued liabilities	3,493,719	3,549,604
Deferred credits	2,077,099	1,392,602
Total current liabilities	11,046,097	10,648,367
Long-term debt obligation	2,296,292	2,611,609
Long-term lease obligation	221,504	
Total liabilities	13,563,893	13,259,976
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value $ 0.001, 1,321,514 shares authorized, issued and outstanding at March 31, 2011 and December 31, 2010	1,322	1,322
Common stock, par value $ 0.001, 100,000,000 shares authorized, 13,555,293 and 13,449,345 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	13,698	13,526
Additional paid-in capital	57,673,302	56,681,756
Accumulated deficit	(48,147,414)	(47,080,919)

Total stockholders equity	9,540,908	9,615,685
Total liabilities and stockholders equity	$ 23,104,801	$ 22,875,661

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

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Luna Innovations Incorporated

Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
	2011 (unaudited)	**2010 (unaudited)**
Revenues:		
Technology development revenues	$ 5,621,615	$ 5,811,094
Product and license revenues	3,377,009	2,074,697
Total revenues	8,998,624	7,885,791
Cost of revenues :		
Technology development costs	4,086,165	3,832,342
Product and license costs	1,572,691	1,219,241
Total cost of revenues	5,658,856	5,051,583
Gross profit	3,339,768	2,834,208
Operating expense:		
Selling, general and administrative	3,725,829	3,421,262
Research, development, and engineering	512,378	509,899
Total operating expense	4,238,207	3,931,161
Operating loss	(898,439)	(1,096,953)
Other expense		
Interest expense	114,423	84,014
Other, net	1,985	14,877
Total other expense	116,408	98,891
Loss before income taxes	(1,014,847)	(1,195,844)
Income tax expense	10,020	
Net loss	$ (1,024,867)	$ (1,195,844)
Preferred stock dividend	41,628	81,633
Net loss attributable to common stockholders	$ (1,066,495)	$ (1,277,477)
Net loss per share of common stock:		

Basic	$ (0.08)	$ (0.10)
Diluted	$ (0.08)	$ (0.10)
Weighted average shares of common stock:		
Basic	13,484,645	12,497,502
Diluted	13,484,645	12,497,502

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

Luna Innovations Incorporated

Condensed Consolidated Statements of Cash Flows

	Th
	20
	(unauc
y/(used in) operating activities	
	$ (1,02
le net loss to net cash provided by/(used in) operating activities:	
tization	32
tion	81
	2
abilities:	
	48
	(42
	8
	1
accrued expenses	(38
	68
used in) operating activities	60
vesting activities	
and equipment	(10
property costs	(4
ing activities	(14
rovided by financing activities	
se obligations	(
gation	(28
f credit	
cise of options	13
ided by financing activities	(16
	30
iod	7,21
	$ 7,51
ure of cash flow information	
	$ 12
n litigation settlement (1,247,330 shares)	$
in litigation settlement	$
n exchange of notes (1,321,514)	$

hange of notes payable (356,000 warrants)	$
n settlement of other claims (25,000 shares)	$

stock, 19,823 and 17,400 shtantially greater financial, technical and marketing resources; longer operating histories and greater name recognition to apply to nd in some cases have built significant reputations with the customer base in the markets in which we compete. If we are unable to successfully compete, our dition, and operating results could be materially and adversely affected.

suffer if we lose the services of our executive officers, or if we cannot recruit and retain additional skilled personnel. We inued services and performance of Peter Frugone, our Chairman and Chief Executive Officer, Rudolph Karundeng, one of our s Senior Advisor, Hans Karundeng and his subsidiary operations for our future success. If either Mr. Frugone or Mr. Rudolph es unable or unwilling to continue in his current position, our business and financial conditions could be damaged. We are not any key person life insurance covering them or any other executive.

TO THE OWNERSHIP OF OUR COMMON STOCK

any common stock may be restricted, because there is a limited trading market for these securities.

mon stock is currently traded on the NASD OTC Bulletin Board, a liquid market in our stock has been sporadic. Accordingly, e to sell shares of our common stock when you want or at the price you want, if at all.

ling on several factors including, among others, the future market price of our common stock, these securities are subject to the ock" rules that impose additional sales practice and market making requirements on broker-dealers who sell and/or make a market These factors could affect the ability or willingness of broker-dealers to sell and/or make a market in our common stock and the rs of our common stock to sell their shares in the secondary market. A delisting could also negatively affect our ability to raise e.

f our common stock may be volatile, which could adversely affect the value of any common stock that you may own.

f our common stock may fluctuate significantly in response to the following factors:

uarterly operating results;

ts of significant contracts, milestones or acquisitions;

with other companies;

ain capital commitments;

rtures of our key personnel;

mon stock by others or termination of stock transfer restrictions;

ates of our financial condition by securities analysts; and

ck market price and volume.

rs are beyond our control.

ng periods of volatility in the market price of a company's securities, securities class action litigation often has been instituted ny. Such litigation is expensive and diverts management's attention and resources. Any one of the factors noted above could fect on the value of our common stock.

isions of the Delaware General Corporation Law and in our Certificate of Incorporation could discourage a merger or other type nization or a change in control, even if it could be favorable to the interests of our stockholders.

eral Corporation Law and our Certificate of Incorporation contain provisions that may enable our management to retain control er of our Company. These provisions generally prevent us from engaging in a broad range of business combinations with an % in the case of our Certificate of Incorporation, or more of our outstanding voting stock for a period of three years from the date quires his stock. Our Certificate of Incorporation and our By Laws also require the affirmative vote of at least 60% or our voting ect certain actions, including, under certain circumstances, the removal of directors, and provide for the election of different with the term of each class ending at different times. Accordingly, these provisions could discourage or make more difficult a r a merger or other type of corporate reorganization even if it could be favorable to the interests of our stockholders.

rectors exercise significant control over our affairs, which could result in their taking actions that other stockholders do not

d any cash dividends on our common stock and currently intend to retain all future earnings, if any, to invest in our business.

common stock, which it can do without stockholder approval, a purchaser of our common stock could experience substantial

ctors has the authority to issue up to 1 billion shares of common stock and 10,000,000 shares of preferred stock and to issue ts to purchase shares of our common stock without stockholder approval. In the future, we could issue additional shares of our alues substantially below the current market price for our common stock, which could substantially dilute the equity ownership ommon stock. In addition, our Board could issue large blocks of our common stock to prevent unwanted tender offers or hostile any stockholder approval. Our ability to issue preferred stock may adversely affect the rights of common stockholders and be eover device.

ncorporation authorizes our Board of Directors to issue up to 10 million shares of preferred stock without approval from our
rdingly, all of our common stock will be junior to any preferred stock issued by us, and our Board has the right, without the
on stockholders, to fix the relative rights and preferences of such preferred stock. This could affect the rights of common
ding, among other things, voting, dividends and liquidation. We could also use an issuance of preferred stock to deter or delay a
hat may be opposed by our management, even if the transaction might be favorable to the common stockholders.

ht issue options and warrants in the future. The exercise of all of the outstanding options and warrants would dilute the
holders' percentage ownership of our common stock. Any sales resulting from the exercise of options and warrants in the public
es by the selling stockholders pursuant to this prospectus, could adversely affect prevailing market prices for our common stock.
ity to obtain additional equity capital could be adversely affected since the holders of outstanding options and warrants may
time when we would also wish to enter the market to obtain capital on terms more favorable than those provided by such options
ack control over the timing of any exercise or the number of shares issued or sold if exercises occur.

ces are located at Carnegie Hall Tower, 152 W. 57th Street, 27th Floor, New York, NY 10019 where we use office space, under
eement with Empire Advisory, LLC.

ceedings

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
e to compensate him for services related to identifying financing for CNE, based upon an agreement that was entered into
the plaintiff in April 2005. On November 28, 2007, the Company settled the lawsuit with the plaintiff. In full and final
aims asserted in the action, the Company has paid the plaintiff $10,000 in cash and issued the plaintiff 200,000 shares of the
on stock on December 21, 2007. The settlement resulted in a loss on debt conversion of $2,000 during the year ended December
n estimated liability had been recognized prior to 2007.

Company was advised that it was alleged to be in default of a settlement agreement entered into in January of 2005 by CNE, its
ny, related to the release of unrestricted, freely-tradable, non-legend shares of stock. In August 2006, the plaintiffs, alleging the
judgment in the 17th Judicial Circuit Court Broward County, Florida for approximately $1,000,000. On November 13, 2007,
ged by Management commenced an action on the Company's behalf in the above Circuit Court seeking to vacate and set aside
asserting claims under Rule 1.540(b) of the Florida Rules of Civil Procedure. Our counsel's evaluation is that the Company has
ce of having the 2006 judgment opened by the Court because Florida law provides very narrow grounds for opening a judgment
ssed from its entry. The Courts are generally reluctant to disturb final judgments and the Company's grounds for opening the
n the Court's adopting a somewhat novel argument regarding such matters. If, however, the Court does open the default
pany will then have the opportunity to defend the 2006 action and, in such event, our counsel believes that the Company has a
of succeeding in defending that claim, at least in part, based on the documents he has reviewed. As of December 31, 2012 and
y has accrued $1,456,304 and $1,393,101, including accrued interest of $402,920 and $339,717 respectively, related to this

2005, Empire Advisory received a $250,000 non-interest bearing advance from Butler Ventures, LLC the proceeds of which
enefit of the Company and for which the liability was transferred to the Company. In repayment, the Company would repay the
note in converted securities and U.S. dollars on the earlier of March 31, 2006, without further notice or demand, or immediate
nt of default. On December 8, 2008, Butler filed a motion for summary judgment in lieu of complaint against Empire in the
he State of New York for failing to repay the loan on the maturity date. On January 29, 2009, Empire Advisory, LLC and Butler
ered into Settlement Agreement and Mutual Release where the parties had agreed to resolve amicable the amounts due and
issuing to Butler common stock in Empire's affiliated company, Arrow Resources Development, Inc. as well as by payment of
and expenses accrued to date. Empire Advisor shall cause the Company to issue to Butler shares of common stock in the
greed to extend until on or prior to March 31, 2009 for performance of all of Empire's obligations. In consideration for this
Advisor agreed to cause the Company to issue to Butler an additional 100,000 shares of the Company common stock. The
d on this extension. On June 17, 2009, Empire Advisory transferred the loan obligations to the Company, and the Company
he loan obligations. On July 14, 2009, the Company issued 9,690,909 shares of common stock to Butler Ventures, LLC with a
e 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

e that has been assumed by the Company. 100,000 shares were issued in accordance with the aforementioned extension, and
re issued to Butler in consideration of Butler's agreement to forego its remedies related to the aforementioned default of the

n of Matters to a Vote of Security Holders.

2007, the Board of Directors approved a private placement offering (the "Offering") approximating $2,000,000 to accredited
per share of Series A Convertible Preferred Stock. The Offering consisted of the Company's Series A Convertible Preferred
convertible into our common stock. These securities were not required to be and will not be registered under the Securities Act
ued under this placement were sold in the United States, absent registration or an applicable exemption from registration. As of
9, the Company received $355,000 from investors towards 355,000 Series A Convertible Preferred Stock shares issuable under
ments covering the placement offering. Each Series A Convertible Preferred Stock was convertible into 20 shares of the
on Stock. The holders of the preferred stock had no voting rights except as was required by Delaware law, no redemption rights,
preferences over the Common Stock holders. On November 3, 2009, the 355,000 Series A Convertible Preferred Stock were
00,000 Common shares. As of December 31, 2012, there were no Series A Convertible Preferred Stock outstanding.

the Board of Directors approved a private placement offering (the "Offering") approximating $2,000,000 to accredited
per share of Series C Convertible Preferred Stock. The Offering consisted of the Company's Series C Convertible Preferred
vertible into our common stock. These securities were not required to be and were not registered under the Securities Act of
d under this placement were sold in the United States, absent registration or an applicable exemption from registration. As of
9, the Company received $25,000 from investors towards 25,000 Series C Convertible Preferred Stock shares issuable under
ments covering the placement offering. Each Series C Convertible Preferred Stock is convertible into 20 shares of the Company's
he holders of the preferred stock have no voting rights except as may be required by Delaware law, no redemption rights, and no
nces over the Common Stock holders. On November 3, 2009, the 25,000 Series C Convertible Preferred Stock were converted
mon shares. As of December 31, 2012, there was no Series C Convertible Preferred Stock outstanding.

07, the Board of Directors approved a plan to compensate all members of the Board of Directors at a rate of $50,000 per year
of Company common stock effective January 1, 2007. This compensation plan applies to any board member that belonged to
d subsequent to January 1, 2007. Those board members that were only on the Board for part of the year will received pro-rata
d on length of service. As of December 31, 2012, none of the shares under this plan have been issued and the Company has
7 of cash-based compensation and recorded additional paid-in capital of $255,017 for stock compensation based on the fair
shares to be issued to the members of the Board.

r Common Equity and Related Stockholder Matters.

is listed on the NASD OTC: Bulletin Board (trading symbol ARWD.OB). The number of record holders of our common stock was 332.

non Stock	
	Low Sales Price
	$ 0.003
	0.01
	0.01
	0.01
	$ 0.02
	0.02
	0.01
	0.01

3 the number of freely tradable shares not held by affiliates was 188,048,237.

3 the aggregate market value of voting stock held by non-affiliates of the Issuer was approximately $3,291,000.

ously paid cash dividends on our common stock. The payments of future dividends and the amount thereof will depend upon our condition, capital requirements and such other factors as our Board of Directors may consider relevant.

inancial Data.

ent's Discussion and Analysis of Financial Condition and Results of Operations.

ompany whose only operating subsidiary as of December 31, 2012 is Arrow Ltd. The principal business of Arrow is to provide istribution, corporate operations and corporate finance services for the commercial exploitation of natural resources around the vember 2005, we used to be a telecommunications and recruiting company formally known as CNE Group, Inc. The company business focus to the worldwide commercial exploitation of natural resources.

RCES DEVELOPMENT, LTD.

rrow entered into an Agreement and Plan of Merger ("the Agreement") with its wholly-owned subsidiary, Arrow Ltd., in which NE) was required to issue 10 million shares of Series AAA convertible preferred stock ("the Preferred Stock") to Arrow Ltd.'s ting 96% of all outstanding equity of CNE on a fully diluted basis in exchange for the Marketing and Distribution Agreement mpany by Arrow. Under the Agreement, the Company discontinued all former operations (CareerEngine, Inc., SRC and US hanged its name to Arrow Resources Development, Inc.

, Arrow Ltd. entered into the Marketing Agreement with Arrow Pte. and its subsidiaries in consideration for Arrow issuing a g note (the "Note") in the principal amount of $125,000,000 to Empire Advisory, LLC, ("Empire"), acting as agent, due on or before 5. Empire is Arrow Pte.'s merchant banker. The Note permitted the Company, as Arrow's sole stockholder, to cause Arrow to ash or with 10,000,000 shares of the Company's non-voting Series AAA Preferred Stock. However, in December 2007, Arrow t would be unable to harvest the timber products in Papua, New Guinea due to the fact that the widely accepted international Vorld Wildlife Federation had not been adopted by Papua, New Guinea.

e to the economic, social and environmental goals of Arrow Pte. because with the amount of land that the project was allotted agreed upon previous guidelines of the marketing and distribution agreement, yields would be significantly reduced. Given the in the economics of the harvesting of the timber in Papua, New Guinea, Arrow Pte. has decided not to pursue any further a, New Guinea given that the above restrictions cause a significant reduction in the volume of harvesting, which results in a

st to yield ration at the Papua, New Guinea site which makes the project not economically feasible in the foreseeable future.

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

Arrow Resource Development Ltd. (the Company's Bermuda subsidiary) entered into an agency agreement with APR in which provide financial consultancy services to APR for an annual fee, payable as collected, equal to 10% of APR's gross revenue ng upon execution. The term of the agreement is effective upon execution, shall remain in effect for ninety-nine (99) years and ated until the expiration of at least ten (10) years. As of December 31, 2012, the Company recovered $52,000 under this

OUNTING POLICIES JUDGMENTS AND ESTIMATES

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

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

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

OR DOUBTFUL ACCOUNTS, REVENUE RECOGNITION

llectability of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific y to meet its financial obligations to us, we record a specific allowance to reduce the net receivable to the amount we reasonably ected. For all other customers, we record allowances for doubtful accounts based on the length of time the receivables are past business environment and our historical experience. If the financial condition of our customers were to deteriorate or if ns were to worsen, additional allowances may be required in the future.

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

' GOODWILL, PURCHASED INTANGIBLE ASSETS AND LONG-LIVED ASSETS

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

ty to achieve expected projected future operating results;

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

ve impact on the environment.

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

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

PERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

, we discontinued and disposed of our subsidiaries except for Arrow Ltd. in conjunction with the recapitalization of the mpany had no revenue during this period as Arrow Ltd. is still in the development stage. For the years ended December 31, 2012 red consulting fees of $6,151,524 and $5,322,678, of which $6,151,524 and $5,307,678, respectively were related to services Management Agreement with Empire under which Empire provides the services of Chief Executive Officer as well as ices to the Company and consulting services provided by Hans Karundeng and Rudolph Karundeng under Engagement and nents.

enues generated for the years ended December 31, 2012 and 2011 as the Company is still in the development stage.

S SOLD

of goods sold for the years ended December 31, 2012 and 2011 as the Company is still in the development stage.

PENSES

nsulting and related costs increased to $6,151,524 for the year ended December 31, 2012 as compared to $5,322,678 for the year 1, 2011, and $33,187,103 accumulated during the development stage for the period from inception (November 15, 2005) to 2. The increase was mostly due to consulting fees for services provided by the Management Agreement with Empire under vides the services of Chief Executive Officer and administrative services to the Company and consulting services provided by nd Rudolph Karundeng under Engagement and Consulting Agreements.

istrative expenses increased to $136,918 for the year ended December 31, 2012 as compared to $85,330 for the year ended 1, and $1,437,637 accumulated during the development stage for the period from inception (November 15, 2005) to December to year increase was primarily due to increased fees of professional services rendered to the Company.

sation remained the same at $165,000 for the years ended December 31, 2012 and 2011, and $1,305,178 during the development nception (November 15, 2005) to December 31, 2012. Directors' compensation is based on an annual fee of $50,000 in cash and he Company's restricted common stock; any changes in directors' compensation is primarily due to fluctuating share prices used ricted common stock.

penses increased to $6,453,442 for the year ended December 31, 2012 as compared to $5,573,008 for the year ended December 929,918 accumulated during the development stage for the period from inception (November 15, 2005) to December 31, 2012.

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 e to compensate him for services related to identifying financing for CNE, based upon an agreement that was entered into the plaintiff in April 2005. On November 28, 2007, the Company settled the lawsuit with the plaintiff. In full and final aims asserted in the action, the Company has paid the plaintiff $10,000 in cash and issued the plaintiff 200,000 shares of the on stock on December 21, 2007. The settlement resulted in a loss on debt conversion of $2,000 during the year ended December n estimated liability had been recognized prior to 2007.

Company was advised that it was alleged to be in default of a settlement agreement entered into in January of 2005 by CNE, its ny, related to the release of unrestricted, freely-tradable, non-legend shares of stock. In August 2006, the plaintiffs, alleging the judgment in the 17th Judicial Circuit Court Broward County, Florida for approximately $1,000,000. On November 13, 2007, ged by Management commenced an action on the Company's behalf in the above Circuit Court seeking to vacate and set aside asserting claims under Rule 1.540(b) of the Florida Rules of Civil Procedure. Our counsel's evaluation is that the Company has ce of having the 2006 judgment opened by the Court because Florida law provides very narrow grounds for opening a judgment ssed from its entry. The Courts are generally reluctant to disturb final judgments and the Company's grounds for opening the n the Court's adopting a somewhat novel argument regarding such matters. If, however, the Court does open the default pany will then have the opportunity to defend the 2006 action and, in such event, our counsel believes that the Company has a

of succeeding in defending that claim, at least in part, based on the documents he has reviewed. As of December 31, 2012 and
y has accrued $1,456,304 and $1,393,101, including accrued interest of $402,920 and $339,717 respectively, related to this

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

D CAPITAL RESOURCES

, we discontinued and disposed of our subsidiaries except for Arrow Ltd. in conjunction with the recapitalization of the mpany was recapitalized by the conversion of $125,000,000 preferred convertible note related to the purchase of the Marketing t of the recapitalization plan, the Company settled all outstanding debt due on that date except for $220,000. As of December mber 31, 2011 the Company had $0 and $62 of cash, respectively. The Company had losses of $(8,628,134) and $(8,816,833) December 31, 2012 and 2011 and had zero revenue as of December 31, 2012 and 2011. In order for us to survive during the s we will need to secure approximately $10,000,000 of debt or equity financing. We expect to raise the additional financing in can be no guarantee that we will be successful.

SHEET ARRANGEMENTS

012, we had no off-balance sheet arrangements.

TIVITIES

perating activities was $4,700,606 during the year ended December 31, 2012. The Company had a net loss of $(8,628,134). We rectors' compensation for shares to be issued of $15,000, an increase in accounts payable and accrued expenses payable of related to compensation and management fees, and an increase on the liability for legal judgment obtained by the predecessor of $63,203 due to accrued interest. In addition, we had a working capital deficiency of $(41,200,737) at December 31, 2012. We aterial commitments for capital expenditures as of December 31, 2012.

lation does not significantly impact our current operations.

SACTIONS

brought together a team of management and professionals with a balance of experience in the fields plantation management, corporate management and governance, marketing and sales, law, accounting and international marketing. The team includes ors (Hans Karundeng and Rudolph Karundeng) who are both members of the Company team and senior management of APR.

09, the Company approved the formation of PT Arrow Resources Development East and PT Arrow Renewable Energy as onesian subsidiaries. The Company authorized Peter J. Frugone as CEO to form the above mentioned subsidiaries.

Chairman and Director - Peter J. Frugone

raditional investment banking skills related to sourcing, valuation and negotiation, Mr. Frugone, 60, has significant experience in roles at the senior levels, as well as strategic and advisory roles as director of and consultant to small-cap and mid-cap overseen the processes of strategic planning and oversight, recruitment of management executives, assisting with follow-on ts, arranging follow-on acquisitions, and assisting with realization of value through IPO, public sale or sale or merger of the gone is experienced in all phases of financial analysis, corporate re-engineering and restructuring, information technology and real estate financing and development, and commercial/residential general construction/management.

one founded, and has since acted as the Managing Director of, Empire Advisory LLC (formerly Electra Capital Corporation), sulting and investment bank specializing in small and medium sized transactions ($1 million to $10 million). Empire has consulting and investing banking services to over 300 clients, which has resulted in the completion of more than 100 debt and with a total value of $250 million.

989 Mr. Frugone was the CEO of Citadel Construction and Financial Corporations. He started Citadel as a small home
pany and expanded to all phases of general construction, project management, and real estate development with 1988 annual
n. During that period Citadel completed development projects of $105 million and construction projects of over $400 million.
d his career as an executive trainee with Marine Midland Bank in 1967, rising to the position of Corporate Trust Officer in
coupon auditing. From 1969 to 1971 Mr. Frugone was a "baby bond" trader for Merrill Lynch Pierce Fenner and Smith, then
and Company and with Pershing and Company.

McConnaughy, Jr.

ghy, Jr., 81 is Chairman and Chief Executive Officer of JEMC Corporation, a personal holding company he founded in 1985.
and CEO of Peabody International Corp. from 1969 and in addition Chairman and CEO of GEO International Corp. when it was
le retired from the former in February 1986 and the latter in October 1992.

enure with Peabody International Corp., the Company had sales of $23 million. During the next 11 years, he built sales to $85
8th of the Fortune 500 Companies in growth of earnings per share. He was named outstanding Chief Executive Officer for the
ntrol industry for the years 1975, 1976 and 1978 by Financial World magazine.

abody in 1969, Mr. McConnaughy served as Vice President of European Consumer Products with the Singer Company. He was
rations in 16 countries and sales of $400 million. He had previously been President of the Singer Company of Canada, Limited.
nagement positions at Westinghouse Electric Corp. in its consumer group and portable appliance divisions. Mr. McConnaughy
board of Fortune Natural Resources Corporation from 2000 through January 30, 2004.

son University with a B.A. in Economics, Mr. McConnaughy earned his M.B.A. in Marketing and Finance at Harvard's
f Business Administration. Mr. McConnaughy has been a Director of Oxigene, Inc., Varsity Brands, Inc., Texstar Corporation,
Pets Choice Ltd., Akzona Corp., First Bank Corp. (New Haven), Beringer Co., Inc., the Pullman Co., Moore McCormack
y International Corp., DeVlieg Bullard, Inc., Mego Financial Corp., Trasact International, Inc. and RateXchange, who changed
Corporation. Mr. McConnaughy currently serves on the boards of five other public companies (Wave Systems, Inc.,
ergy Inc., Overhill Farms inc., Consumer Portfolio Services, Inc. and Levcor International, Inc.)

the Board of Trustees and Executive Committee of the Strang Cancer Prevention Center and is Chairman Emeritus of the
he Arts.

h Karundeng

, has assisted Hans Karundeng, helping start, maintain and oversee the operations at a senior level of numerous projects
ld since 2000. His primary role in most of these projects was the acquisition of capital through banking means as well as
f projects and transforming their structure in order to be viable for funding by banks.

degree in Economics from UCLA, Rudolph Karundeng has been Director in numerous corporations throughout the world
Summit Inc. a small-cap company lender and loan facilitator, Du Motier International Corporation, a note structure developer as
facilitation consultant. During his tenure as a Director for these companies he has been involved in facilitating the loans for 25
a loan range from $100 Million to $1.8 Billion for various projects including mining, manufacturing, and marketing.

ntimately involved with all the processes, equipment, and day to day operations of each project in order to better help in cost
s for each project. Through his family's earlier background of mining and forestry he has developed a strong base of knowledge
operations as well as development, marketing and all forms of operations for coal mining, oil refining, gas mining, and forestry.
f his tenure as Director of these companies is Mr. Karundeng's has developed his knowledge in Note Structures as well as the
them in many areas of the world including but not limited to United States, Europe, China, Singapore, and Indonesia. He has
usage, and the acquisition of Notes throughout the world utilizing his many banking relationships throughout the world to assist
ng a project forward.

Hans Karundeng

ng, 60, has been involved in a wide variety of business ventures throughout his life. His first business activity was operating a
lied bread to the city as well as neighboring cities and to this day is still well known throughout Java, Indonesia. After selling
siness, he became involved in Timber and timber related products with the company that has now become one of the largest
ated products manufacturer and supplier in the world, Asian Pulp and Paper. Mr. Karundeng during this time, opened a
T. Akal Rasa, which helped develop low-income housing for an underdeveloped area in Indonesia.

n moved on and started a mid cap firm that built, maintained and sold real estate. A by-product of this company was starting a
ltant company with a large Engineering consultant arm which later became the 4th largest in Indonesia. During the time of this
s Karundeng acquired the licensing right to repair and maintain the turbines for select Oil companies in Indonesia, PLN
of Indonesia) and Telkom (Tele-Communication company of Indonesia). Diversifying his portfolio he went into Small saving
shares in a number of these facilities.

s diversified his operations to include Sulfur Mining, Orange Plantation, Shrimp Farming and Sand mining, as well as owning
ir Cargo company specializing in exporting Seafood to Japan and Hong Kong. During this period he also had shares in a
tained 300,000 ha of Kasava for animal feed for exportation. During the time of the expansion of his holdings, Mr. Karundeng
er dealings on the international level. Helped obtain large quantities of Rice Donations to the Indonesian government from
am, and paved the way for larger loan from the World Bank for Indonesia to help the underdeveloped areas of Indonesia.

nesia he became involved in the opening of the Indonesian Exim Bank in NY, where he first started his international consultancy
his numerous clients achieve the level of competence in order to receive bank loans either through corporate restructuring, cost
ructuring.

ative and Qualitative Disclosures About Market Risk.

lging activity. We have no derivative contracts.

Statements.

ments to be filed hereunder follow, beginning with page F-1.

n and Disagreements with Accountants on Accounting and Financial Disclosure

o disagreements concerning any matter of accounting principle or financial statement disclosure between the Company and its
r, KBL, LLP.

s and Procedures

losure Controls and Procedures

ief Executive Officer and acting Chief Financial Officer, who is the same person, has evaluated the effectiveness of the
ure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the fiscal period ending
2 covered by this amended Annual Report on Form 10-K/A. Based upon such evaluation, the Chief Executive Officer and acting
ficer has concluded that, as of the end of such period, the Company's disclosure controls and procedures were not effective as
es 13a-15(e) and 15d-15(e) under the Exchange Act. This conclusion by the Company's Chief Executive Officer and acting
ficer does not relate to reporting periods after December 31, 2012.

ort on Internal Control Over Financial Reporting

ponsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and
xchange Act) of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance
bility of financial reporting and the preparation of financial statements for external purposes in accordance with accounting
y accepted in the United States of America.

ernal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that,
l, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance
e recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally
ited States of America, and that receipts and expenditures of the Company are being made only in accordance with
nanagement and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of
sition, use or disposition of the Company's assets that could have a material effect on the financial statements.

rent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any
tiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that
liance with the policies or procedures may deteriorate.

r the supervision of the Company's Chief Executive Officer and acting Chief Financial Officer, conducted an evaluation of the
ernal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the
nsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's
er financial reporting was not effective as of December 31, 2012 under the criteria set forth in the Internal Control-Integrated

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

does not include an attestation report of the Company's registered public accounting firm regarding internal control over
Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the
to provide only management's report in this amended Annual Report on Form 10-K/A.

l Control Over Financial Reporting

Company's internal control over financial reporting occurred during the year ended December 31, 2012, that materially affected,
ely to materially affect, the Company's internal control over financial reporting.

nformation.

s, Executive Officers, Promoters and Control Persons; Compliance With Section 16 (a) of the Exchange Act.

xecutive officers of the Company are set forth below. All directors hold office until the next annual meeting of stockholders, or
signation, retirement, removal, disqualification, and until their successors have been elected and qualified. Vacancies in the
filled by a majority vote of the remaining directors.

xecutive officers of the Registrant as of December 31, 2012 were as follows:

s	Position	Tenure
et, Apt 14B	Chairman, Chief Executive Officer and Director	2005 to Present
g TImur Raya No. 7 nesia	Director	2005 to Present
ghy Jr.	Director	2005 to Present

RIENCE

NE. In addition to the traditional investment banking skills related to sourcing, valuation and negotiation, Mr. Frugone, has nce in hands-on operating roles at the senior levels, as well as strategic and advisory roles as director of and consultant to cap companies. He has overseen the processes of strategic planning and oversight, recruitment of management executives, w-on capital requirements, arranging follow-on acquisitions, and assisting with realization of value through IPO, public sale or e company. Mr. Frugone is experienced in all phases of financial analysis, corporate re-engineering and restructuring, logy and Internet marketing, real estate financing and development, and commercial/residential general gement. In 1991, Mr. Frugone founded, and has since acted as the Managing Director of, Empire Advisory LLC (formerly rporation), a boutique consulting and investment bank specializing in small and medium sized transactions ($1 million to $10 as provided financial consulting and investing banking services to over 300 clients which has resulted in the completion of more equity placements with a total value of $250 million. From 1972 until 1989 Mr. Frugone was the CEO of Citadel Construction orations. He started Citadel as a small home improvement company and expanded to all phases of general construction, project eal estate development with 1988 annual sales of $25 million. During that period Citadel completed development projects of onstruction projects of over $400 million. Mr. Frugone started his career as an executive trainee with Marine Midland Bank in position of Corporate Trust Officer in charge of bond and coupon auditing. From 1969 to 1971 Mr. Frugone was a "baby bond" ynch Pierce Fenner and Smith, then with Loeb Rhodes and Company and with Pershing and Company.

UNDENG. Mr. Karundeng has assisted Hans Karundeng, helping start, maintain and oversee the operations at a senior level of throughout the world since 2000. His primary role in most of these projects was the acquisition of capital through banking nancial analysis of projects and transforming their structure in order to be viable for funding by banks Since receiving his cs from UCLA, Rudolph Karundeng has been Director in numerous corporations throughout the world including Golden ll-cap company lender and loan facilitator, Du Motier International Corporation, a note structure developer as well as a bank nsultant. During his tenure as a Director for these companies he has been involved in facilitating the loans for 25 Clients, which om $100 Million to $1.8 Billion for various projects including mining, manufacturing, and marketing. Mr. Karundeng is

d with all the processes, equipment, and day to day operations of each project in order to better help in cost and budget analysis hrough his family's earlier background of mining and forestry he has developed a strong base of knowledge for the day-to-day as development, marketing and all forms of operations for coal mining, oil refining, gas mining, and forestry. Another product rector of these companies is Mr. Karundeng's has developed his knowledge in Note Structures as well as the laws that pertain to s of the world including but not limited to United States, Europe, China, Singapore, and Indonesia. He has facilitated the sale, uisition of Notes throughout the world utilizing his many banking relationships throughout the world to assist companies in orward.

NAUGHY, JR. Mr. McConnaughy is Chairman and Chief Executive Officer of JEMC Corporation. He was Chairman and CEO tional Corp. from 1969 and in addition Chairman and CEO of GEO International Corp. when it was spun off in 1981. He retired February 1986 and the latter in October 1992. Prior to joining Peabody in 1969, Mr. McConnaughy served as Vice President of er Products with the Singer Company. He was responsible for operations in 16 countries and sales of $400 million. He had esident of the Singer Company of Canada, Limited. Earlier, he held management positions at Westinghouse Electric Corp. in its d portable appliance divisions. Mr. McConnaughy currently serves on the boards of five other public companies Allis-Chalmers) Wave Systems Corp. (WAVX), Arrow Resources Development, Inc, (OTC:BB ARWD) Levcor International, Inc. inetitec Corporation. Mr. McConnaughy has been a Director of Oxigene, Inc., Varsity Brands, Inc., Texstar Corporation, MAI Choice Ltd., Akzona Corp., First Bank Corp. (New Haven), Beringer Co., Inc., the Pullman Co., Moore McCormack Resources, nal Corp., DeVlieg Bullard, Inc., Mego Financial Corp., Trasact International, Inc. and RateXchange, who changed their name on. and Fortune Natural Resources Corporation from 2000 through January 30, 2004.

Financial Expert

ctors has determined that Mr. McConnaughy is an “audit committee financial expert” (as defined in Item 401(e)(2) of Regulation
aughy is independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

Section 16 (a) of the Exchange Act.

e Securities Exchange Act of 1934, as amended, requires the Company’s directors, executive officers and holders of more than
on Stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership
ock. Based solely upon a review of Forms 3, 4 and 5 furnished to the Company with respect to the year ended December 31,
f the Company’s knowledge, the Company’s directors, executive officers and holders of more than 10% of its Common Stock
orts required by Section 16(a).

adopted a written Code of Ethics that applies to the Company’s principal executive officer, principal financial officer, principal
or controller and any persons performing similar functions. The Company will provide a copy of its Code of Ethics to any
rge upon written request addressed to Arrow Resources Development, Inc. 152 W. 57th Street, 27th Floor, New York, NY
Shareholder Relations.

e Compensation.

e sets forth the salaries of the Company’s executive officers for the fiscal years ending December 31, 2012 and December 31,

l	Year	Annual Compensation			Long-Term Compensation					
		Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Award(s) ($)	Number of Restricted Stock Award(s)	Securities Underlying Options/ SARs (#)	LTIP Payouts ($)	All other Compensation ($)	
	2012 (1)	$ -	$ -	$ 50,000	$ -		-	$ -	$ 5,000	(1)
d Director	2011	-	-	50,000	-		-	-	5,000	
g	2012 (2)	-	-	50,000	-	-	-	-	5,000	(2)
	2011	-	-	50,000	-		-	-	5,000	
ghy, Jr.	2012 (3)	-	-	50,000	-	-	-	-	5,000	(3)
	2011	-	-	50,000	-		-	-	5,000	

rman's compensation that was approved by the Board of Director on December 3, 2007, Mr. Frugone is entitled to 1,500,000
mpany's Common Stock which has an aggregated fair market value of $70,625. At December 31, 2012, none of these shares

tor's compensation that was approved by the Board of Director on December 3, 2007, Mr. Karundeng is entitled to 1,500,000
mpany's Common Stock which has fair market value of $70,625. At December 31, 2012, none of these shares were issued.

tor's compensation that was approved by the Board of Director on December 3, 2007, Mr. McConnaughy is entitled to
s of the Company's Common Stock which has fair market value of $70,625. At December 31, 2012, none of these shares were

Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

, there were 767,539,744 shares of the Company’s $0.00001 par value per share common stock outstanding. The following table
, address, number of shares beneficially owned, and the percentage of the Company's total outstanding common stock shares
of the Company's Officers and Directors; (ii) the Company's Officers and Directors as a group; and (iii) other shareholders of
Registrant's total outstanding common stock shares.

of 1)	Company Position	Number of Shares Owned	Percent of Class	
g (2)	Director	52,000,000	6.8	%
ources Group Limited (3)		342,072,778	44.6	%
Holdings Ltd. (4)		55,000,000	7.2	%

able, a beneficial owner of a security includes any person who, directly or indirectly, through contract, arrangement,
relationship or otherwise has or shares (a) the power to vote, or direct the voting of, such security or (b) investment power which
ver to dispose, or to direct the disposition of, such security. In addition, a person is deemed to be the beneficial owner of a
person has the right to acquire beneficial ownership of such security.

s address is Jl. Cempaka Putih TImur Raya No. 7, Jakarta 10510 Indonesia. Mr. Karundeng is entitled to 1,500,000 common
directors' compensation, none of which were issued as of December 31, 2012. Mr. Karungdeng also holds 52,000,000 shares
's restricted shares, all of which are not exercisable as of December 31, 2012.

Resources Group Limited's address is Jl. Cempaka Putih TImur Raya No. 7, Jakarta 10510 Indonesia. Arrow Pacific Resources
currently holds 342,072,778 shares of the Company's restricted shares, all of which are not exercisable as of December 31,

al Holdings Ltd. currently holds 55,000,000 shares of the Company's restricted shares, all of which are not exercisable as of
012.

Relationships and Related Transactions.

l below, we have not been a party to any transaction, proposed transaction, or series of transactions in which the amount
60,000, and in which, to our knowledge, any of our directors, officers, five percent beneficial security holder, or any member of
ily of the foregoing persons has had or will have a direct or indirect material interest.

l Accountant fees and Services.

2 and 2011 incurred to KBL, LLP were $97,500 and $90,000. All services provided by independent accountants were approved
ittee. Audit Fees consist of fees billed for professional services rendered for the audit of the Company's annual statements, for
onsolidated financial statements included in quarterly reports and services that are normally provided by KBL, LLP in
tutory and regulatory filings or engagements.

not incur any other audit related fees from KBL, LLP in 2012 and 2011. Audit-Related Fees consist of fees billed for assurance
s that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and
der "Audit Fees."

not incur tax fees from KBL, LLP in 2012 and 2011. Tax Fees consist of fees billed for professional services rendered for tax
e services include assistance regarding federal, state and local tax compliance.

r fees for professional services rendered to the Company during the fiscal years 2012 and 2011, other than the services reported

.

by furnishes the exhibits listed on the attached exhibit index. Exhibits, which are incorporated herein by reference, may be
ed at the public reference facilities maintained by the SEC at Room 1024, Washington, D.C. 20549. Copies of such material
/ mail from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at
ne SEC also maintains a website that contains reports, proxy and information statements and other information regarding
electronically with the SEC at the address http://www.sec.gov.

Section 13(a) or 15(d) of the Exchange Act, the registrant has duly caused this amendment to its Form 10KA annual report to
half by the undersigned, thereunto duly authorized.

ROW RESOURCES DEVELOPMENT,
.

/ S/ PETER J. FRUGONE
Peter J. Frugone
President and Chief Executive Officer

/ S/ PETER J. FRUGONE
Peter J. Frugone
Principal Accounting Officer

the Exchange Act, this amendment to the Form 10-K annual report has been signed by the following persons on behalf of the
e capacities and on the dates indicated.

	Title	**Date**
RUGONE	President and Chief Executive Officer and Director (principal executive officer)	June 12, 2013
RUGONE	Principal Accounting Officer (principal financial and accounting officer)	June 12, 2013
CONNAUGHY, JR. **ughy, Jr.**	Director	June 12, 2013

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

ENT STAGE COMPANY)

SOLIDATED AUDITED FINANCIAL STATEMENTS

S ENDED DECEMBER 31, 2012 AND 2011

dent Registered Public Accounting Firm	F-1
cial statements:	
nce Sheets (At December 31, 2012 and 2011)	F-2
ments of Operations (For the years ended December 31, 2012 and December 31, 2011, and the period from er 15, 2005, to December 31, 2012)	F-3
ments of Changes in Stockholders' (Deficit) (For the period from inception November 15, 2005 to December 31,	F-4
ments of Cash Flows (For the years ended December 31, 2012 and December 31, 2011, and the period from er 15, 2005, to December 31, 2012)	F-5
idated financial statements	F-6 - F-26

DEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Directors and Stockholders

Development, Inc.

York

he accompanying consolidated balance sheets of Arrow Resources Development, Inc. and Subsidiaries (a development stage
mpany") as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' (deficit) equity,
each of the years in the two year period ended December 31, 2012. Arrow Resources Development, Inc. and Subsidiaries'
ponsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial
n our audits.

audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards
n and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
t required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included
ternal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not
expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no
udit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
unting principles used and significant estimates made by management, as well as evaluating the overall financial statement
elieve that our audits provide a reasonable basis for our opinion.

consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arrow
oment, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of
o year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of

te 12 to the consolidated financial statements there were several typographical, punctuation, numerical transposition and text
any's originally filed Form 10-K for the year ended December 31, 2012. The correction of the aforementioned items did not
impact to the consolidated financial statements.

consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As
2 to the consolidated financial statements, the Company has suffered recurring losses from operations, and is dependent upon
vide sufficient working capital to maintain continuity. These circumstances create substantial doubt about the Company's ability
ing concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this

pt for the effects of the restated consolidated financial statements described in Note 12, as to which the date is June 12, 2013

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

nce Sheets

	December 31, 2012	December 31, 2011
	$ -	$ 62
s	-	62
	$ -	$ 62
D STOCKHOLDERS' DEFICIT		
ued expenses payable, including $11,339,291 and $9,689,291 due to Company irectors, respectively	$ 18,866,084	$ 15,072,429
for legal judgment obtained by predecessor entity shareholder	1,456,304	1,393,101
ies	18,263,020	13,562,478
uding accrued interest of $256,349 and $200,677, respectively	2,615,329	2,559,657
	41,200,737	32,587,665
contingencies	-	-
S' DEFICIT		
.00001 par value, 6 million shares authorized, no shares issued or outstanding,	-	-
ies A, $0.00001 par value, 2 million shares authorized, no shares issued or tively	-	-
ies C, $0.00001 par value, 2 million shares authorized, no shares issued or tively	-	-
.00001 par value, 1 billion shares authorized, 767,539,744 and 737,368,911 issued spectively	7,676	7,375
e issued, $0.00001 par value, 35,554,684 and 64,975,517 shares to be issued,	357	650
capital	131,847,455	131,832,463
it	(173,056,225)	(164,428,091)
(deficit)	(41,200,737)	(32,587,603)

l stockholders’(deficit)	$ -	$ 62

notes to the consolidated financial statements.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

ments of Operations

	For the Year Ended December 31, 2012		For the Year Ended December 31, 2011		Accumulated During the Development Stage for the Period From Inception (November 15, 2005) to December 31, 2012	
	$ -		$ -		$ 52,000	
s:						
d services, including $6,151,524, $5,307,678, and $31,525,723 parties, respectively	6,151,524		5,322,678		33,187,103	
istrative	136,918		85,330		1,437,637	
ation	165,000		165,000		1,305,178	
enses	6,453,442		5,573,008		35,929,918	
ns	(6,453,442	)	(5,573,008	)	(35,877,918	)
ense):						
off	-		-		52,491	
veness of debt	-		-		5,000	
f liabilities associated with predecessor entity not to be paid	-		-		395,667	
e for loss on legal judgment obtained by predecessor entity	(63,203	)	(63,203	)	(1,456,304	)
of notes payable	(2,013,000	)	(2,007,500	)	(6,606,000	)
f marketing agreement	-		-		(125,000,000	)
of predecessor entity stockholder litigation	-		-		(2,000	)
ersion	-		(1,100,000	)	(2,532,500	)
as part of recapitalization transaction	-		-		(249,252	)
cluding interest expense, of which none, $10,000, and $1,346,320 Company Common Stock and none, none, and $32,000 incurred	(98,489	)	(73,122	)	(1,785,409	)
e (expense)	(2,174,692	)	(3,243,825	)	(137,178,307	)
	$ (8,628,134	)	$ (8,816,833	)	$ (173,056,225	)
OMMON SHARE:	$ (0.01	)	$ (0.01	)	$ (0.27	)

RAGE COMMON SHARES - Basic and Diluted	767,089,767	725,537,130	644,632,330

notes to the consolidated financial statements.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

ments of Changes in Stockholders' (Deficit) Equity

	Series A Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Common Stock				
	Shares to be issued	Amount	Shares to be issued	Amount	Shares to be issued	Amount	Shares issued	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
r to	—	$—	—	$—	—	$—	25,543,240	$255	$(2,674,761)	$—	$(2,6
r	—	—	—	—	—	—	624,000,000	6,240	125,907,967	—	125
5	—	—	—	—	—	—	—	—	—	(1,272,258)	(1,2
r	-	$-	-	$-	-	$-	649,543,240	$6,495	$123,233,206	$(1,272,258)	$121
	—	—	—	—	985,000	10	—	—	984,990	—	985
ar	—	—	—	—	—	—	—	—	—	(3,514,445)	(3,5
r	-	$-	-	$-	985,000	$10	649,543,240	$6,495	$124,218,196	$(4,786,703)	$119
	—	—	—	—	500,000	5	—	—	499,995	—	500
	280,000	280,000	—	—	—	—	—	—	—	—	280

t	—	—	—	—	-		-	200,000	2	11,998	—	12,(
	—	—	—	—	1,000,685		10	—	—	60,031	—	60,(
ar	—	—	—	—	—		—	—	—	—	(130,076,689)	(130
r	280,000	$280,000	-	$-	2,485,685		$25	649,743,240	$6,497	$124,790,220	$(134,863,392)	$(9,7
	75,000	75,000	—	—	—		—	—	—	—	—	75,(
	—	—	25,000	25,000	—		—	—	—	—	—	25,(
	—	—	—	—	305,000	x	3	250,000	3	104,996	—	105
	—	—	—	—	1,000,000	x	10	—	—	77,490	—	77,5
n	—	—	—	—	4,704,000	x	47	3,000,000	30	536,243	—	536
	—	—	—	—	1,000,000	x	10	—	—	49,990	—	50,(
	—	—	—	—	2,700,000		27	—	—	245,969	—	245
	—	—	—	—	—		—	2,250,000	23	122,481	—	122

	—	—	—	—	—	—	—	—	—	(5,360,576)	(5,3
3 r	355,000	$355,000	25,000	$25,000	12,194,685	$122	655,243,240	$6,552	$125,927,389	$(140,223,968)	$(13,
	(355,000)	(355,000)	-	-	—	—	7,100,000	71	354,929	—	-
	-	-	(25,000)	(25,000)	—	—	500,000	5	24,995	—	-
	—	—	—	—	2,500,000	25	—	—	249,975	—	250
	—	—	—	—	1,000,000	10	—	—	34,990	—	35,(
n	—	—	—	—	16,000,000	160	—	—	719,840	—	720
n	—	—	—	—	-	-	1,000,000	10	79,990	—	80,(
	—	—	—	—	—	—	138,095	2	5,523	—	5,52
	—	—	—	—	1,109,999	11	—	—	44,389	—	44,4
	—	—	—	—	—	—	14,470,909	145	771,855	—	772
ar 1,	—	—	—	—	—	—	—	—	—	(6,520,053)	(6,5
r	0	$0	0	$0	32,804,684	$328	678,452,244	$6,785	$128,213,875	$(146,744,021)	$(18,
	—	—	—	—	750,000	8	—	—	52,492	—	52,5

,	—	—	—	—	—	—	6,500,000	65	584,935	—	585
	—	—	—	—	—	—	20,000,000	200	1,399,800	—	1,40
ar 1,	—	—	—	—	—	—	—	—	—	(8,867,237)	(8,8
r	-	$-	-	$-	33,554,684	$336	704,952,244	$7,050	$130,251,102	$(155,611,258)	$(25,
	—	—	—	—	187,500	2	—	—	5,623	—	5,62
	—	—	—	—	—	—	—	—	—	(1,784,384)	(1,7
’	-	$-	-	$-	33,742,184	$338	704,952,244	$7,050	$130,256,725	$(157,395,642)	$(27,
	—	—	—	—	187,500	2	—	—	1,873	—	1,87
	—	—	—	—	—	—	30,000,000	300	1,199,700	—	1,20
	—	—	—	—	1,066,667	11	—	—	29,989	—	30,0
	—	—	—	—		—	—	—		(2,829,519)	(2,8
1	-	$-	-	$-	34,996,351	$351	734,952,244	$7,350	$131,488,287	$(160,225,161)	$(28,
	—	—	—	—	187,500	2	—	—	3,748	—	3,75
	—	—	—	—	(1,066,667)	(11)	1,066,667	11	—	—	-

t	—	—	—	—	—	—	1,350,000	14	26,986	—	27,0
n	—	—	—	—	500,000	5	—	—	9,995	—	10,0
	—	—	—	—	—	—	—	—	—	(2,050,769)	(2,0
r	-	$-	-	$-	34,617,184	$347	737,368,911	$7,375	$131,529,016	$(162,275,930)	$(30,
	—	—	—	—	187,500	2	—	—	3,748	—	3,75
	—	—	—	—	30,000,000	300	—	—	299,700	—	300
e	—	—	—	—	170,833	1	—	—	-1	—	-
1,	—	—	—	—	—	—	—	—	—	(2,152,161)	(2,1
r	-	$-	-	$-	64,975,517	$650	737,368,911	$7,375	$131,832,463	$(164,428,091)	$(32,
	—	—	—	—	187,500	2	—	—	1,873	—	1,87
	—	—	—	—	(30,000,000)	(300)	30,000,000	300	-	—	-
	—	—	—	—	(170,833)	(1)	170,833	1	-	—	-
	—	—	—	—	—	—	—	—	—	(2,013,183)	(2,0

’	-	$-	-	$-	34,992,184	$351	767,539,744	$7,676	$131,834,336	$(166,441,274)	$(34,
	—	—	—	—	187,500	2	—	—	5,623	—	5,62
	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	(2,016,924)	(2,0
2											
	-	$-	-	$-	35,179,684	$353	767,539,744	$7,676	$131,839,959	$(168,458,198)	$(36,
	—	—	—	—	187,500	2	—	—	(1,877)	—	(1,8
	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	(2,237,115)	(2,2
er	-	$-	-	$-	35,367,184	$355	767,539,744	$7,676	$131,838,082	$(170,695,313)	$(38,
	—	—	—	—	187,500	2	—	—	9,373	—	9,37

	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	(2,360,912)	(2,3
er	-	$-	-	$-	35,554,684	$357	767,539,744	$7,676	$131,847,455	$(173,056,225)	$(41,

notes to the consolidated financial statements.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

ments of Cash Flows

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	Accumulated During the Development Stage for the Period From Inception (November 15, 2005) to December 31, 2012
	$ (8,628,134)	$ (8,816,833)	$ (173,056,225)
oncile net loss to net cash used in operating activities:			
ge in stockholders' equity due to recapitalization transaction	-	-	1,264,217
f marketing and distribution agreement	-	-	125,000,000
ued for reset of previous subscription agreement	-	-	5,525
be issued for reset of previous subscription agreement	-	-	44,400
ued for note payable interest	-	27,000	27,000
be issued for note payable interest	-	10,000	10,000
be satisfied in Company common stock	-	-	1,256,320
tisfied in Company common stock	-	-	80,000
tock issued for debt conversion	-	1,100,000	3,054,500
ued for conversion due to related party	-	-	(39,000)
id in cash	-	-	50,000
ued for marketing services	-	-	122,500
be issued for consulting services	-	-	246,007
common stock issued for consulting services, in lieu of cash	-	-	585,000
ors' compensation to be issued	15,000	15,000	255,041
ng asset and liabilities:			
s and accrued expenses payable	3,849,325	3,808,595	18,454,163
for legal judgment obtained by predecessor entity shareholder	63,203	63,203	1,456,304
erating activities	(4,700,606)	(3,793,035)	(21,184,248)
vesting activities:			
art of merger transaction	-	-	39,576
d party	-	(20,000)	(957,775)
vesting activities	-	(20,000)	(918,199)
nancing activities:			
ce of note payable	-	80,000	2,201,000

eceived from related parties	-	587,980	2,462,980
s loan from related party	-	-	(179,425)
n common stock subscription sale	-	30,000	30,000
to related parties attributed to operating expenses paid on the by the related party	4,700,544	3,115,105	15,305,892
estments/capital contributed	-	-	2,232,000
ior advisor	-	-	50,000
by financing activities	4,700,544	3,813,085	22,102,447
	(62)	50	-
ginning of period	62	12	-
d of period	$ -	$ 62	$ -
osures of cash flow information:			
e period for:			
	$ -	$ -	$ -
	$ -	$ -	$ -
and financing activities:			
of marketing and distribution agreement	$ -	$ -	$ 125,000,000
r note payable through issuance of convertible preferred stock	$ -	$ -	$ 125,000,000
on of accrued expenses in recapitalization	$ -	$ -	$ 421,041
on of notes payable in recapitalization	$ -	$ -	$ 220,000

notes to the consolidated financial statements.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

E OF BUSINESS / ORGANIZATION

on

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

rrow Ltd. entered into an agency agreement with APR to provides marketing and distribution services for timber and natural nd currently has an exclusive marketing and sales agreement with APR to market lumber and related plantation products from PLH which is operated by APR and its subsidiaries, located in Indonesia. Under the agreement Arrow Ltd. will receive a % of gross sales derived from lumber and plantation related products. The consideration to be paid to APR will be in the form of amount of the Company's common stock, subject to the approval of the Board of Directors.

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

ARY OF SIGNIFICANT ACCOUNTING POLICIES

tus:

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

companying consolidated financial statements, the Company incurred a net loss of $(8,628,134) for the year ended December loss during the development stage from inception in November 15, 2005 through December 31, 2012 of $(173,056,225). The ons are in the development stage, and the Company has substantially not generated any revenue since inception. The Company's rrent period has been dependent upon advances from related parties and other individuals, and proceeds from the issuance of e.

l reasons for the Company's substantial doubt regarding its ability to continue as a going concern involves the fact that as of 7, the Company's principal asset, a marketing and distribution intangible asset in the amount of $125,000,000 was written off as sed in Note 6 due to the fact that environment laws affecting timber harvesting have become more restrictive in Papua New

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

olidation:

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

e Company:

financial statements have been prepared in accordance with the FASB Accounting Standards Codification No. 915, *e Entities.* A development stage enterprise is one in which planned and principal operations have not commenced or, if its mmenced, there has been no significant revenue there from. Development-stage companies report cumulative costs from the on.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

ARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ows FASB Accounting Standards Codification No. 740, *Income Taxes*. Deferred tax assets or liabilities are recorded to reflect equences of temporary differences between the financial reporting basis of assets and liabilities and their tax basis at each nounts are adjusted, as appropriate, to reflect enacted changes in tax rates expected to be in effect when the temporary .

rds deferred tax assets and liabilities based on the differences between the financial statement and tax bases of assets and perating loss carryforwards using enacted tax rates in effect for the year in which the differences are expected to reverse. A e is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

ting guidance concerning provision for uncertain income tax provisions contained in Accounting Standards Codification (“ASC”) o uncertain income tax positions. The federal and state income tax returns of the Company are subject to examination by the g authorities, generally for three years after they were filed.

ncial Instruments:

ment purposes, financial instruments include cash, accounts and accrued expenses payable, notes payable and amounts due to which the carrying amounts approximated fair value because of their short maturity.

consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ent to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent s at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting lts may differ from those estimates.

plies with the requirements of the FASB ASC No. 260, *Earnings Per Share*. ASC No. 260 specifies the compilation, sclosure requirements for earning per share for entities with publicly held common stock or potentially common stock. Net loss basic and diluted, is determined by dividing the net loss by the weighted average number of common shares outstanding. Net hare, basic and diluted, is determined by dividing the net loss by the weighted average number of common shares outstanding.

d common share does not include potential common shares derived from stock options and warrants because they are e period from inception (November 15, 2005) to December 31, 2012 and for the years ended December 31, 2012 and 2011. As 012, there are no dilutive equity instruments outstanding.

d amounts have been reclassified or adjusted to conform to the current presentation. These reclassifications and adjustments had on the consolidated financial position, results of operations and net cash flows from operations for all periods presented.

es:

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

Significant underperformance relative to expected historical or projected future operating results;

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.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

ARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

ensation

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

Pronouncements

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

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

MENT AND PLAN OF MERGER BETWEEN ARROW RESOURCES DEVELOPMENT, LTD. AND CNE GROUP, INC **.**

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

s consummated upon the issuance of the Preferred Stock on November 14, 2005, which was used to settle the senior secured
25,000,000 and $1,161,000 of cash advances from Empire. The Preferred Stock was subsequently converted to common stock
05, for a total of approximately 649 million shares of common stock outstanding. This was recorded as a change of control
s accounted for as a recapitalization of CNE.

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

from inception (November 15, 2005) to December 31, 2005, the Company incurred $249,252 of expenses incurred as part of
nsaction.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

E TAXES

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

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

ll expenses incurred by the re-named entity now known as Arrow Resources Development, Inc. after November 14, 2005 have start up costs in accordance with Internal Revenue Code Section (“IRC”) No. 195. Accordingly for tax purposes none of the ovember 14, 2005 losses are as yet reportable in Company income tax returns to be filed for any of the years ended December 012.

nponents of the Company’s deferred tax assets are as follows:

carryforward	$ 187,101
ng from use of cash basis for tax purposes	-
	35 %
assets	65,485
wance	(65,485)
sets	$ -

osses expire as follows:

6	$ 127,349

7	57,652
3	420
9	420
0	420
1	420
2	420
carryover	$ 187,101

he differences between the statutory tax rate and the effective tax rate is:

	December 31, 2012	
ax rate	35.0	%
	35.0	%
ce	(35.0	)%
te	0	%

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

or tax purposes	$ (172,869,124)
e taxes deductible on Company's tax return	187,101
riod from inception (November 15, 2005) to December 31, 2012	$ (173,056,225)

elinquent in its filing and payment of the Delaware Franchise Tax report and, accordingly, is not in good standing.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

PAYABLE

, 2012 and December 31, 2011, the Company had notes payable outstanding as follows:

	Terms	December 31, 2012	December 31, 2011
	Due on demand, 10% interest	$ 200,000	$ 200,000
)		50,000	50,000
	Due 30 days after $750,000 funded to company, 4% interest	387,980	387,980
	Due on demand, non-interest bearing	-	-
)		46,837	31,275
ughy (3)	Due on demand, non-interest bearing	53,000	53,000
e (4)	Due on demand, non-interest bearing	63,000	63,000
	Due on demand, non-interest bearing	550,000	550,000
	Due on demand, non-interest bearing	255,000	255,000
	Due on demand, non-interest bearing	50,000	50,000
	Due on 10/11/09, interest bearing	450,000	450,000
)		100,000	100,000
y (9)	Due on demand, 10% interest	25,000	25,000
)		2,500	2,500
ke (10)	Due on 12/11/09	100,000	100,000
n (11)	Due on demand, non-interest bearing	25,000	25,000
	Due October 17, 2011, 20% interest & shares	30,000	30,000
)	Due October 20, 2011, 20% interest & shares	50,000	50,000
ourts (14)	Due October 26, 2011, 20% interest & shares	45,000	45,000
(15)	Due October 10, 2011, 20% interest & shares	75,000	75,000
6)		57,012	16,902
		$ 2,615,329	$ 2,559,657

as a note payable outstanding for $200,000, plus $20,000 in accrued interest. Although the predecessor company (CNE) 0 shares of its common stock to retire this debt pursuant to a settlement agreement, the stock could not be issued until the party te was assigned by its original holder emerged from bankruptcy or reorganization. In March 2010, the note holder emerged from

the note was settled. During the year ended December 31, 2009, an additional $30,000 in interest expense was recorded for a accrued interest outstanding on the note.

008, the Company received a $150,000 non-interest bearing advance from John Marozzi (“Marozzi”) which is due on demand. As services, the Company was to repay the full amount of the note plus 1,000,000 shares of unregistered restricted common stock. ecorded $40,000 of debt issue costs related to the 1,000,000 shares of common stock that were issuable to Marozzi as of March ote 8). On May 5, 2008, Marozzi received repayment of $50,000 from the Company. On October 13, 2008, the Company r $50,000 interest bearing advance from Marozzi. The Company was to repay the full amount of the October 31, 2008 $50,000 hin 60 calendar days from the date the note was executed plus interest paid in the form of 1,000,000 shares of unregistered non stock. The Company recorded $60,000 of debt issue costs related to the 1,000,000 shares of common stock which were ozzi as of December 31, 2008.

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

the Company received an $110,000 interest bearing advance from Marozzi. The Company was to pay interest at the interest e at the time of repayment due March 3, 2011. As of March 3, 2011, the advance was not repaid by the Company, and is . On April 21, 2010, the Company received a $42,000 interest bearing advance from Marozzi. The Company will pay interest 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 a price based on a 50% discount off the market price, calculated on the average closing price five days prior to delivery of the er 14, 2010 the Company agreed to issue 20 million shares of its common stock in settlement of $217,500 of the older debt o Marozzi. The Company recorded a loss on debt conversion of $1,182,500 in connection with this transaction. This left a total 0 of unpaid principal as of December 31, 2010.

he Company executed a loan agreement with Marozzi, whereas Marozzi will provide funding for up to $750,000. When the s been funded to the Company, the principal amount and accrued interest is due 30 days thereafter. Interest will accrue at 4% principal amounts are repaid. If the entire $750,000 loan is not repaid in 30 days by cash or stock, the entire unpaid balance yable on demand at the option of the holder. Of the $750,000 total commitment, Marozzi had advanced $587,980 through 1.

the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as outstanding principal balance payable to Marozzi of $200,000. The Company's stock price on April 25, 2011 was $0.04; e 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 ents of Operations during the second quarter of 2011.

2011, the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as 0,000 of the $587,980 funded to date by Marozzi. The Company's stock price on December 19, 2011 was $0.01; therefore, the 0,000 issued was $300,000, resulting in a loss on debt conversion of $100,000 that has been reflected in the Company's rations during the fourth quarter of 2011. Total loss on debt conversions for the year ended December 31, 2011 was $1,100,000. ares of the Company's common stock were issued in January 2012, therefore, the par value was recorded to common stock to be r 31, 2011 and reclassified to issued common stock during the first quarter of 2012. The balance due to Marrozzi was $387,980 , 2012 and 2011, respectively.

ue on all Marozzi related loans was $46,837 and $31,275 as of December 31, 2012 and 2011, respectively.

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

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

08, the Company received a $500,000 non-interest bearing advance from Frank Ciolli (“Ciolli.”) In repayment, the Company
Ciolli the principal sum of $550,000 on or before October 31, 2008. On October 31, 2008, the Company entered into a 60 day
with Ciolli. In payment, the Company issued 1,000,000 shares of the Company’s unregistered restricted common stock to Ciolli
hares of the Company’s unregistered restricted common stock to Donna Alferi on behalf of Michael Alferi as designated by
mpany recorded $100,000 and $100,000, respectively, in debt issue costs related to the 1,000,000 and 1,000,000, respectively, of
on stock that were issued to Ciolli and Donna Alferi as of December 31, 2008. On January 15, 2009, the Company entered into
ay extension from December 31, 2008 for the Convertible Loan Agreement and Convertible Note with Ciolli for the loan
,000 dated as of April 30, 2008. The Company issued 500,000 shares of restricted, unregistered common stock each for Michael
li, which resulted in Company debt issue costs of $80,000 as of September 30, 2009. On August 12, 2009, the Company and
nto a six month extension for the Senior Note and Purchase Agreement for the principal sum of $550,000. The principal amount
s payable on February 12, 2010 and remains due at December 31, 2012. The note is currently in default.

0, 2008, the Company received a $100,000 non-interest bearing advance from John Frugone, which was due on demand. In
Company will repay the full amount of the note in cash over two years from the date the note is executed. On February 25,
any received a $30,000 non-interest bearing advance from John Frugone, which is due on demand. In repayment, the Company
ull amount of the note in cash over two years from the date the note is executed. On July 30, 2009, the Company repaid
Frugone as a partial payment on the outstanding balance. On November 6, 2009, the Company received a $100,000
ring advance from John Frugone. The Company will repay the loan amount in cash over two years from the date the note is
left a balance of $155,000 unpaid principal as of December 31, 2009. On March 30, 2010, the Company received a $100,000
ring advance from John Frugone. The principal of this loan was due on March 30, 2012. This left an unpaid principal balance
of December 31, 2011 that remains outstanding at December 31, 2012 and is currently in default. John Frugone is a relative of
he Company’s CEO and also a Company Director.

2008, the Company received a $50,000 interest bearing advance from Scott Neff (“Neff”). The Company was to repay the full
ote 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
mmon stock. During the period ended December 31, 2008, the Company recorded $60,000 in debt issue costs related to the
s of common stock that are issuable to Neff as of December 31, 2008. On August 12, 2009, the Company and Neff entered into
ension for the Senior Note and Purchase Agreement for the principal sum of $50,000. The principal amount was payable on
0. This note payable is currently in default.

09, the Company received a $100,000 interest bearing advance from Cliff Miller ("Miller.") In repayment, the Company will
mount of the note in cash not later than July 29, 2009. During the period ended September 30, 2009, the Company recorded
issue costs related to the 1,000,000 shares of restricted common stock that were issuable to Miller for interest expense as of July
uly 30, 2009, the Company received a $100,000 interest bearing advance from Miller. In repayment, the Company was to repay
of the note in cash not later than August 30, 2009. During the period ended September 30, 2009, the Company recorded $60,000
sts related to the 1,000,000 shares of restricted common stock that are issuable to Miller for interest expense as of August 30,
st 11, 2009, the Company received a $250,000 interest bearing advance from Miller. In repayment, the Company was to repay
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
ricted stock and a $100,000 cash payment due at maturity. During the year ended December 31, 2009, the Company recorded
of $100,000 and debt issue costs of $400,000 for interest expense. On November 11, 2009, the Company entered into a thirty
ion 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
9. In consideration of the extending the term of the loan, the Company was to issue 2,000,000 shares of the Company's common
y 4, 2010. During the year ended December 31, 2009, the Company recorded debt issue costs of $60,000 related to the
s for interest expense. The total unpaid principal balance of $450,000 is currently in default. For the years ended December 31,
the Company incurred and accrued $1,647,000 and $1,642,500 of default penalty interest expense, respectively, and has
tive default penalties of $5,508,000 and $3,861,000, respectively, comprised of accrued interest of $100,000, and accrued
ult penalties of $5,408,000 for the year ended December 31, 2012 and accrued interest of $100,000 and accrued cumulative
s of $3,761,000 for the year ended December 31, 2011.

9, the Company received a $25,000 10% interest bearing advance from John E. McConnaughy Jr. For repayment, the Company e full amount of the note and accrued interest in cash by September 1, 2009. On November 5, 2009, the Company entered into a extension agreement with John E. McConnaughy Jr. for this $25,000 loan. The principal amount and interest was payable on 09 and the loan is currently in default.

09, the Company received a $100,000 interest bearing advance from Greg and Lori Popke ("Popke.") In repayment, the Company he full amount of the note in cash not later than September 19, 2009. During the period ended September 30, 2009, the Company 000 in debt issue costs related to the 1,000,000 shares of restricted common stock that are issuable to Popke for interest expense er 19, 2009. On November 12, 2009, the Company entered into a thirty day loan extension agreement with Popke to extend this . The principal amount was payable on December 11, 2009 and the loan is currently in default. For the years ended December 2011, the Company incurred and accrued $366,000 and $365,000 of default penalty interest expense, respectively, and has ative default penalties of $1,198,000 and 832,000, respectively.

cal year 2007, the Company received a $25,000 non-interest bearing advance from Lawrence Logan. The advance is due on

11, the Company received a $30,000 loan that bears 20% interest. Principal and interest were due in 90 days. The Lender was 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 ded as interest expense. As of the December 31, 2012, the Note has not been repaid and is currently in default.

11, the Company received a $50,000 loan that bears 20% interest. Principal and interest were due in 90 days. The Lender was shares of common stock for every $1 loaned, for a total of 500,000 shares. The shares have not been issued as of December 31, ue of the shares recorded was $10,000 and has been recorded as interest expense. As of the December 31, 2012, the Note has d and is currently in default.

11, the Company's CEO received a $45,000 loan on behalf of the Company that bears 20% interest. Principal and interest were . 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 nce was $9,000 and has been recorded as interest expense. As of the December 31, 2012, the Note has not been repaid and is fault.

11, the Company's CEO received a $75,000 loan on behalf of the Company that bears 20% interest. Principal and interest were . 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 nce was $12,000 and has been recorded as interest expense. As of the December 31, 2012, the Note has not been repaid and is fault.

ued interest for the loans listed above for items #12-#15 above at 20% was $57,012 and $16,902 for the years ended December 2011, respectively. These amounts are expected to be paid in cash.

MENT OF MARKETING AND DISTRIBUTION AGREEMENT AND RELATED SENIOR NOTE PAYABLE DUE TO RY, LLC

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

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

ly intangible asset was comprised of this marketing and distribution agreement with Arrow Pte. In accordance with ASC 350,
er Intangible Assets" this intangible agreement is tested for impairment on an annual basis. The Company assesses the impairment
ngibles and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable.
ny 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.

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

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

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

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

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

ED PARTY TRANSACTIONS

greement with Empire Advisory, LLC

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

, 2012 and December 31, 2011, the Company had short-term borrowings of $16,333,022 and $11,632,478, respectively, due to of cash advances to the Company and working capital raised by Empire, as agent, on behalf of the Company. These amounts aring and due on demand.

member of the Board of Directors of the Company and is the owner of Empire. Empire, as agent, was the holder of the $125 red note payable settled in December 2005.

ncurred by Empire charged to the Statement of Operations for the years ended December 31, 2012 and 2011 were $4,651,524 spectively.

ded December 31, 2012, the Company also incurred Director's compensation expense of $55,000 to Mr. Frugone, consisting of of $50,000 and stock based compensation of $5,000 based upon the Company's share trading price on the date of the grant. ded December 31, 2011, the Company incurred Director's compensation expense of $55,000 to Mr. Frugone, consisting of cash 50,000 and stock based compensation of $5,000 based upon the Company's share trading price on the date of the grant. During ember 31, 2010, the Company incurred Director's compensation expense of $67,500 to Mr. Frugone, consisting of cash

50,000 and stock based compensation of $17,500 based upon the Company's share trading price on the date of the grant. During ember 31, 2009, the Company incurred Director's compensation expense of $58,750 to Mr. Frugone, consisting of cash 50,000 and stock based compensation of $8,750 based upon the Company's share trading price on the date of the grant. At 2 the Company is obligated to issue 1,500,000 company shares to him, and "Accounts payable and accrued liabilities" includes m for the cash based portion of his 2012, 2011, 2010, 2009, 2008 and 2007 director's compensation (See Note 7[4]).

nded December 31, 2012 and 2011, the Company made cash payments of $195 and $696,862, respectively, to Empire under the

d Consulting Agreements entered into with individuals affiliated with Arrow PNG:

d services charged in the Statement of Operations for the years ended December 31, 2012 and December 31, 2011 incurred to nd Rudolph Karundeng under Engagement and Consulting Agreements totaled $1,500,000 and $1,500,000, respectively. In ember 31, 2012 and 2011 the Company owed them a total of $10,739,291 and $9,189,291, respectively. These agreements are in Note 11.

ded December 31, 2012, the Company also incurred Director's compensation expense of $55,000 to Rudolph Karundeng, compensation of $50,000 and stock based compensation of $5,000 based upon the Company's share trading price on the date of he year ended December 31, 2011, the Company incurred Director's compensation expense of $55,000 to Rudolph Karundeng, compensation of $50,000 and stock based compensation of $5,000 based upon the Company's share trading price on the date of he year ended December 31, 2010, the Company incurred Director's compensation expense $67,500 to Rudolph Karundeng, compensation of $50,000 and stock based compensation of $17,500 based upon the Company's share trading price on the date of he year ended December 31, 2009, the Company incurred Director's compensation expense $58,750 to Rudolph Karundeng, compensation of $50,000 and stock based compensation of $8,750 based upon the Company's share trading price on the date of mber 31, 2012 the Company is obligated to issue 1,500,000 company shares to him, and "Accounts payable and accrued liabilities" due to him for the cash based portion of his 2012, 2011, 2010, 2009, 2008 and 2007 director's compensation (See Note 7[4]).

he engagement and consulting agreements with Hans Karundeng and Rudolph Karundeng (See Note 10) were extended through 5, and will follow the terms of the original agreements, and is automatically renewable thereafter unless notice by both parties days prior to the end of said agreements.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

ED PARTY TRANSACTIONS (CONTINUED)

earing Advance Received from Company Director:

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

e Company received $240,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In
he Company received $90,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In
Company received $50,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In
he Company received $10,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. In
e Company received $5,000 non-interest bearing advance from John E. McConnaughy, Jr, which is due on demand. On January
pany received a $5,000 non-interest bearing advance from John E. McConnaughy Jr. In repayment, the Company will repay 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.
against the outstanding balance owed to him. On September 28, 2009, John E. McConnaughy, Jr. converted $9,000 of
g advance owed to him by the Company into 180,000 shares of restricted, unregistered common stock at $0.05 per share into the
onrad. On September 28, 2009, John E. McConnaughy, Jr. converted $30,000 of non-interest bearing advance owed to him by
600,000 shares of restricted, unregistered common stock at $0.05 per share into the name of Jacqueline Rowen. As of December
McConnaughy III assigned a $12,000 advance to John McConnaughy, Jr. As of December 31, 2012 and 2011, the Company had
955,000, respectively, left to be repaid to Mr. John McConnaughy, Jr. McConnaughy, which is included in "Due to Related

ne Company received a $25,000 10% interest bearing advance from John E. McConnaughy Jr. In repayment, the Company will
unt of the note and accrued interest in cash by September 1, 2009. On November 5, 2009, the Company entered into a thirty day
eement with John E. McConnaughy Jr. for this $25,000 loan. The principal amount and interest was payable on December 5,
currently in default. As of December 31, 2012, the outstanding principal and accrued interest of $2,500 has been included in

ded December 31, 2012, the Company also incurred Director's compensation expense $55,000 to Mr. McConnaughy, consisting
on of $50,000 and stock based compensation of $5,000 based upon the Company's share trading price on the date of the
year ended December 31, 2011, the Company incurred Director's compensation expense $55,000 to Mr. McConnaughy,
compensation of $50,000 and stock based compensation of $5,000 based upon the Company's share trading price on the date of
ne year ended December 31, 2010, the Company incurred Director's compensation expense $67,500 to Mr. McConnaughy,
compensation of $50,000 and stock based compensation of $17,500 based upon the Company's share trading price on the date of
he year ended December 31, 2009, the Company incurred Director's compensation expense $58,750 to Mr. McConnaughy,
compensation of $50,000 and stock based compensation of $8,750 based upon the Company's share trading price on the date of
mber 31, 2012 the Company is obligated to issue 1,500,000 company shares to him, and "Accounts payable and accrued
s $300,000 due to him for the cash based portion of his 2012, 2011, 2010, 2009, 2008 and 2007 director's compensation (See Note

pensation:

007, the Board of Directors approved a plan to compensate all members of the Board of Directors at a rate of $50,000 per year
of Company common stock effective January 1, 2007. This compensation plan applies to any board member that belonged to
l subsequent to January 1, 2007. Those board members that were only on the Board for part of the year will received pro-rata
d on length of service. As of December 31, 2012 and December 31, 2011, none of the shares under this plan have been issued
has an accrued liability of $1,050,137 and $900,137, respectively, of cash-based compensation and recorded additional paid-in
se dates of $255,017 and $240,025, respectively, for stock-based compensation based on the fair value of 5,250,685 and
be issued to the members of the Board, respectively.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

HOLDER'S EQUITY

corporated in May 2005 as a Bermuda corporation. Upon incorporation, 1,200,000 shares of $.01 par value common stock were
ed to CNE.

2005, the Company increased its authorized shares to 1 billion and reduced the par value of its common stock to $0.00001 per
a common stock conversion rate of 1 to 62.4.

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

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

n the reverse merger transaction, the Company retired 1,238,656 shares of Treasury Stock.

, the Company entered into a stock purchase agreement with APR wherein APR agreed to purchase up to an aggregate amount
es of common stock in the Company for $1.00 per share, making this a capital contribution of $15,000,000 in total. The stock
t the time the Company files for registration. During the third and fourth quarters of 2006, the Company received a total of
contribution towards the stock purchase agreement with APR to purchase up to an aggregate amount of 15,000,000 shares of
he Company for $1.00 per share. During the year ended December 31, 2007, the Company received an additional $500,000 in
n towards the stock purchase agreement with APR to purchase up to an aggregate amount of 15,000,000 shares of common stock
r $1.00 per share. (See Note 10 [5] - Stock Purchase Agreement.)

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

007, the Board of Directors approved a plan to compensate all members of the Board of Directors at a rate of $50,000 per year
of Company common stock effective January 1, 2007. This compensation plan applies to any board member that belonged to
l subsequent to January 1, 2007. Those board members that were only on the Board for part of the year will received pro-rata
d on length of service. As of December 31, 2012 and December 31, 2011, none of the shares under this plan have been issued
has an accrued liability of $1,050,137 and $900,137, respectively, of cash-based compensation and recorded additional paid-in
se dates of $255,017 and $240,025, respectively, for stock-based compensation based on the fair value of 5,250,685 and
o be issued to the members of the Board, respectively.

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

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

HOLDER'S EQUITY (CONTINUED)

3, the Company and Micro-Cap Review, Inc. ("Micro-Cap") executed an Advertising Agreement wherein the Company will pay
, Inc. 1,000,000 of restricted common shares to display advertisements and advertorial in the Micro-cap Review magazine and
rocapreview.com website on a rotating basis. The services began on March 13, 2008 and expired on June 30, 2008. On April
pany issued 1,000,000 shares of unregistered restricted common stock to Micro-Cap Review, Inc. The Company recorded a
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,

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

the Company entered into Independent Contractor Agreement with Ciolli Management Consulting, Inc. to provide advisory
development, construction management, equipment acquisition and project management industries. As payment for the
es, the Company will issue a one-time, non-refundable fee of 1,000,000 unrestricted shares of common stock. As of December
pany has expensed $60,000 for the 1,000,000 shares of common stock that were issued to Ciolli Management Consulting, Inc. as
008.

the Company received a $500,000 non-interest bearing advance from Frank Ciolli ("Ciolli.") In repayment, the Company
olli the principal sum of $550,000 on or before October 31, 2008. On October 31, 2008, the Company entered into a 60 day
n Ciolli. In payment, the Company issued 1,000,000 shares of the Company's unregistered restricted common stock to Ciolli and
f the Company's unregistered restricted common stock to Donna Alferi on behalf of Michael Alferi as designated by Ciolli. The
$100,000 and $100,000, respectively, in debt issue costs related to the 1,000,000 and 1,000,000, respectively, of shares of
were issued to Ciolli and Donna Alferi as of December 31, 2008. On January 15, 2009, the Company entered into the
nsion from December 31, 2008 for the Convertible Loan Agreement and Convertible Note with Ciolli for the loan amount of
of April 30, 2008. The Company issued 500,000 shares of restricted, unregistered common stock each for Michael Alferi
resulted in Company debt issue costs of $80,000 as of September 30, 2009. On August 12, 2009, the Company and Ciolli

nonth extension for the Senior Note and Purchase Agreement for the principal sum of $550,000. The principal amount was ry 12, 2010. The note payable balance of $550,000 is currently in default.

3, the Company received a $150,000 non-interest bearing advance from John Marozzi ("Marozzi") which is due on demand. As rvices, the Company was to repay the full amount of the note plus 1,000,000 shares of unregistered restricted common stock. rded $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, On May 5, 2008, Marozzi received repayment of $50,000 from the Company. On October 13, 2008, the Company 50,000 interest bearing advance from Marozzi. The Company was to repay the full amount of the October 31, 2008 $50,000 60 calendar days from the date the note was executed plus interest paid in the form of 1,000,000 shares of unregistered stock. The Company recorded $60,000 of debt issue costs related to the 1,000,000 shares of common stock which were issuable ecember 31, 2008 (See Note 5).

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

the Company received an $110,000 interest bearing advance from Marozzi. The Company was to pay interest at the interest e at the time of repayment due March 3, 2011. As of March 3, 2011, the advance was not repaid by the Company, and is . On April 21, 2010, the Company received a $42,000 interest bearing advance from Marozzi. The Company will pay interest 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 a price based on a 50% discount off the market price, calculated on the average closing price five days prior to delivery of the er 14, 2010, the Company agreed to issue 20 million shares of its common stock in settlement of $217,500 of the older debt o Marozzi. The Company recorded a loss on debt conversion of $1,182,500 in connection with this transaction. This left a total 0 of unpaid principal as of December 31, 2010.

the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as outstanding principal balance payable to Marozzi of $200,000. The Company's stock price on April 25, 2011 was $0.04; e 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 ents of Operations during the second quarter of 2011.

2011, the Company and its Board of Directors agreed to issue to Marozzi 30,000,000 shares of the Company's common stock as),000 of the $587,980 funded to date by Marozzi. The Company's stock price on December 19, 2011 was $0.01; therefore, the

,000 issued was $300,000, resulting in a loss on debt conversion of $100,000 that has been reflected in the Company's
rations during the fourth quarter of 2011. Total loss on debt conversions for the year ended December 31, 2011 was $1,100,000.
ares of the Company's common stock were issued in January 2012, therefore, the par value was recorded to common stock to be
r 31, 2011 and reclassed to issued common stock during the first quarter of 2012. The balance due to Marrozzi was $387,980 as
012 and 2011, respectively.

ue on all Marozzi related loans was $46,837 and $31,275 as of December 31, 2012 and 2011, respectively.

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

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

HOLDER'S EQUITY (CONTINUED)

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

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

the Company received a $12,000 non-interest bearing advance from John E. McConnaughy, III, which is due on demand. In
mpany will repay the full amount of the note plus 96,000 shares of unregistered restricted common stock. The Company
debt issue costs related to the 96,000 shares of common stock that are issuable to John E. McConnaughy, III as of December
5). As of December 31, 2009, John E. McConnaughy III assigned the $12,000 advance to John McConnaughy, Jr.

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

008, the Board of Directors approved the issuance of 50,000 shares of unregistered restricted common stock to Sheerin Alli and
registered restricted common stock to Lori McGrath for consulting services provided. As of December 31, 2012, the Company
hese shares. The Company recorded $6,500 and $6,500, respectively, in consulting fees related to the 100,000 shares of

are issuable to Sheerin Alli and Lori McGrath as of September 30, 2008.

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

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

08, the Company entered into a Subscription Agreement with James Fuchs by which he purchased 250,000 shares of common t of $0.10 per share for total of $25,000. On November 24, 2008, the Company issued 250,000 shares of restricted, unregistered ames Fuchs.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

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CONSOLIDATED FINANCIAL STATEMENTS

HOLDER'S EQUITY (CONTINUED)

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

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

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

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

2005 Empire entered into a non interest bearing note agreement with Butler Ventures for $250,000. The cash from this note was
npany. On June 17, 2009, the Company assumed the non interest bearing note from Empire for $250,000 to Butler Ventures. In
npany will repay the full amount of the note not later than July 29, 2009. On July 14, 2009, the Company issued 9,690,909
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

the Company received a $100,000 interest bearing advance from Cliff Miller (“Miller.”) In repayment, the Company will repay the note in cash not later than July 29, 2009. During the period ended September 30, 2009, the Company recorded $70,000 in ated to the 1,000,000 shares of restricted common stock that were issuable to Miller for interest expense as of July 29, 2009. On Company received a $100,000 interest bearing advance from Miller. In repayment, the Company was to repay the full amount of t later than August 30, 2009. During the period ended September 30, 2009, the Company recorded $60,000 in debt issue costs),000 shares of restricted common stock that are issuable to Miller for interest expense as of August 30, 2009. On August 11, y received a $250,000 interest bearing advance from Miller. In repayment, the Company was to repay the full amount of the note an October 11, 2009. The Company shall pay interest in the form of 10,000,000 shares of the Company’s restricted stock and a ment due at maturity. During the year ended December 31, 2009, the Company recorded accrued interest of $100,000 and debt ,000 for interest expense. On November 11, 2009, the Company entered into a thirty day loan extension agreement with Miller an 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 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 1, 2009, the Company recorded debt issue costs of $60,000 related to the 2,000,000 shares for interest expense. The total unpaid f $450,000 is in default. For the years ended December 31, 2012 and 2011, the Company incurred and accrued $1,647,000 and ult penalty interest expense, respectively, and has accrued cumulative default penalties of $5,508,000 and $3,861,000, rised of accrued interest of $100,000, and accrued cumulative default penalties of $5,408,000 for the year ended December 31, nterest of $100,000 and accrued cumulative default penalties of $3,761,000 for the year ended December 31, 2011.

he Company received a $100,000 interest bearing advance from Greg and Lori Popke (“Popke.”) In repayment, the Company was nount of the note in cash not later than September 19, 2009. During the period ended September 30, 2009, the Company n debt issue costs related to the 1,000,000 shares of restricted common stock that are issuable to Popke for interest expense as of 9. On November 12, 2009, the Company entered into a thirty day loan extension agreement with Popke to extend this $100,000 amount was payable on December 11, 2009 and the loan is currently in default. For the years ended December 31, 2012 and y incurred and accrued $366,000 and $365,000 of default penalty interest expense, respectively, and has accrued cumulative f $1,198,000 and 832,000, respectively.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

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CONSOLIDATED FINANCIAL STATEMENTS

HOLDER'S EQUITY (CONTINUED)

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

009, Hans Karundeng converted $100,000 of non-interest bearing advance owed to him by the Company into 2,000,000 shares

009, Empire converted $100,000 of non-interest bearing advance owed to them by the Company into 2,000,000 shares of

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

11, the Company's Board of Directors agreed to amend the May 26, 2011 subscription agreement so that 1,237,500 shares of value $.00001 was purchased for $30,000. The par value of the additional 170,833 shares of $1 was recorded to common stock ember 31, 2011 and reversed to common stock issued and outstanding at June 30, 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 ting services rendered. The warrant expires one year from issuance. Based on the Black Scholes calculation, the warrant had no , no expense was recorded for the donated services.

scription Agreement

09 the Company agreed to issue 1,248,094 shares of common stock to certain investors as settlement for the reset of their August n agreements. As of December 31, 2012, only 138,095 shares had been issued.

ON WRITE OFF OF PREDECESSOR ENTITY LIABILITIES

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

MITMENTS AND OTHER MATTERS

d Consulting Agreements entered into with individuals affiliated with APR

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

, 2005, the Company entered into a Consulting Agreement with Rudolph Karundeng for his services as Chairman of the Board r fees of $1,000,000 per annum. The term of the agreement was five years. On May 18, 2011 the agreement was extended 31, 2016, and will follow the terms of the original agreement, and is automatically renewable thereafter unless notice by both hin 120 days prior to the end of said agreement. Rudolph Karundeng is a son of Hans Karundeng. However, on May 1, 2006, pted the resignation of Rudolph Karundeng as Chairman of the Board, but he continues to be a director of the Company. Peter elected as Chairman of the Board until his successor is duly qualified and elected. Subsequent to his resignation, it was agreed ndeng's annual salary is to be $500,000 as a director.

ded December 31, 2012, the Company made no cash payments to Hans Karundeng under his agreement. During the year ended 2, the Company made no cash payments to Rudolph Karundeng under his agreement. During the year ended December 31, y made cash payments to Hans Karundeng of $20,000 under his agreement. During the year ended December 31, 2011, the cash payments to Rudolph Karundeng under his agreement. During the year ended December 31, 2010, the Company made Hans Karundeng of $37,500 under his agreement. During the year ended December 31, 2010, the Company made no cash ph Karundeng under his agreement. During the year ended December 31, 2009, the Company made cash payments to Hans 2,700 under his agreement. During the year ended December 31, 2009, the Company made no cash payments to Rudolph

is agreement. During the year ended December 31, 2008, the Company made cash payments to Hans Karundeng of $320,000 nt. During the year ended December 31, 2008, the Company made no cash payments to Rudolph Karundeng under his the year ended December 31, 2007, the Company received additional advances of $100,000 from Hans Karundeng under his de cash payments to him of $556,000. During the year ended December 31, 2007, the Company made cash payments of $7,000 deng under his agreement. During the year ended December 31, 2006, the Company received additional advances of $61,787 eng under his agreement. During the year ended December 31, 2006, the Company made cash payments of $62,174 to Rudolph is agreement. During the period from inception (November 15, 2005) to December 31, 2012, the Company made cash payments g and Rudolph Karundeng of $1,125,374 under the agreements.

greement with Empire Advisory, LLC

, 2005, the Company entered into a Management Agreement with Empire Advisory, LLC (“Empire”) under which Empire cutive officer and administrative services to the Company in exchange for a) an annual fee of $300,000 for overhead expenses, nth for reimbursable expenses, c) $1,000,000 per annum (subject to increases in subsequent years) for executive services, and d) 150,000 for execution of the proposed transaction.

he agreement was extended through December 31, 2016, and will follow the terms of the original agreement, and is wable thereafter unless notice by both parties are sent within 120 days prior to the end of said agreement.

ded December 31, 2012, the Company made cash payments of $195 to Empire under the agreement. During the year ended 1, the Company made cash payments of $696,862 to Empire under the agreement. During the year ended December 31, 2010, e cash payments of $276,043 to Empire under the agreement. During the year ended December 31, 2009, the Company made 992,570 to Empire under the agreement. During the year ended December 31, 2008, the Company made cash payments of ire under the agreement. During the year ended December 31, 2007, the Company made cash payments of $1,140,529 to greement. During the year ended December 31, 2006, the Company made cash payments of $562,454 to Empire under the the period from inception (November 15, 2005) to December 31, 2005, the Company made cash payments of $364,000 to agreement. During the period from inception (November 15, 2005) to December 31, 2012, the Company made cash payments mpire under this agreement.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

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CONSOLIDATED FINANCIAL STATEMENTS

MITMENTS AND OTHER MATTERS (CONTINUED)

decessor entity stock holders

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
e to compensate him for services related to identifying financing for CNE, based upon an agreement that was entered into
the plaintiff in April 2005. On November 28, 2007, the Company settled the lawsuit with the plaintiff. In full and final
aims asserted in the action, the Company has paid the plaintiff $10,000 in cash and issued the plaintiff 200,000 shares of the
on stock on December 21, 2007. The settlement resulted in a loss on debt conversion of $2,000 during the year ended December
n estimated liability had been recognized prior to 2007.

Company was advised that it was alleged to be in default of a settlement agreement entered into in January of 2005 by CNE, its
ny, related to the release of unrestricted, freely-tradable, non-legend shares of stock. In August 2006, the plaintiffs, alleging the
judgment in the 17th Judicial Circuit Court Broward County, Florida for approximately $1,000,000. On November 13, 2007,
ged by Management commenced an action on the Company's behalf in the above Circuit Court seeking to vacate and set aside
asserting claims under Rule 1.540(b) of the Florida Rules of Civil Procedure. Our counsel's evaluation is that the Company has
ce of having the 2006 judgment opened by the Court because Florida law provides very narrow grounds for opening a judgment
ssed from its entry. The Courts are generally reluctant to disturb final judgments and the Company's grounds for opening the
n the Court's adopting a somewhat novel argument regarding such matters. If, however, the Court does open the default
pany will then have the opportunity to defend the 2006 action and, in such event, our counsel believes that the Company has a
of succeeding in defending that claim, at least in part, based on the documents he has reviewed. As of December 31, 2012 and
y has accrued $1,456,304 and $1,393,101, including accrued interest of $402,920 and $339,717 respectively, related to this

2005, Empire Advisory received a $250,000 non-interest bearing advance from Butler Ventures, LLC the proceeds of which
enefit of the Company and for which the liability was transferred to the Company. In repayment, the Company would repay the
note in converted securities and U.S. dollars on the earlier of March 31, 2006, without further notice or demand, or immediate
nt of default. On December 8, 2008, Butler filed a motion for summary judgment in lieu of complaint against Empire in the
the State of New York for failing to repay the loan on the maturity date. On January 29, 2009, Empire Advisory, LLC and Butler
ered into Settlement Agreement and Mutual Release where the parties had agreed to resolve amicable the amounts due and

issuing to Butler common stock in Empire's affiliated company, Arrow Resources Development, Inc. as well as by payment of
and expenses accrued to date. Empire Advisor shall cause the Company to issue to Butler shares of common stock in the
greed to extend until on or prior to March 31, 2009 for performance of all of Empire's obligations. In consideration for this
Advisor agreed to cause the Company to issue to Butler an additional 100,000 shares of the Company common stock. The
d on this extension. On June 17, 2009, Empire Advisory transferred the loan obligations to the Company, and the Company
he loan obligations. On July 14, 2009, the Company issued 9,690,909 shares of common stock to Butler Ventures, LLC with a
e 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
e that has been assumed by the Company. 100,000 shares were issued in accordance with the aforementioned extension, and
re issued to Butler in consideration of Butler's agreement to forego its remedies related to the aforementioned default of the

rketing and Agency Agreements

he Company entered into a consulting agreement with Dekornas GMPLH ("Dekornas") (a nonprofit organization in Indonesia
lanting of trees in areas that were destroyed by other logging companies) in which the Company will provide financial
es to Dekornas for an annual fee of $1.00 for the duration of the agreement. The term of the agreement is effective upon
main in effect for ten (10) years and shall not be terminated until the expiration of at least one (1) year. As of December 31, 2012
not recovered any revenue from this agreement.

rrow Resources Development, Ltd. entered into an agency agreement with APR to provides marketing and distribution services
products and currently has an exclusive marketing and sales agreement with APR to market lumber and related products from
PLH which is operated by APR and its subsidiaries, located in Indonesia. Under the agreement Arrow Ltd. will receive a
% of gross sales derived from lumber and related products. As of December 31, 2012, the Company has recovered $52,000 of
greement.

the Company entered into a consulting agreement with P.T. Eucalyptus in which the Company will provide financial
es to P.T. Eucalyptus for an annual fee, payable quarterly, equal to 10% of P.T. Eucalyptus' gross revenue payable commencing
he term of the agreement is effective upon execution, shall remain in effect for ninety-nine (99) years and shall not be terminated
of at least ten (10) years. As of December 31, 2012, the Company has not recovered any revenue from this agreement.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

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MITMENTS AND OTHER MATTERS (CONTINUED)

08, the Company entered into Independent Contractor Agreement with Charles A. Moskowitz of MoneyInfo. Inc. to provide to the Company in the lumber market development, ethanol market development, and compilation of market prices associated hanol and development of a database for the ongoing analysis of these markets. The term of this agreement is February 1, 2008 008. As payment for the Consultant's services, the Company will issue 2,600,000 shares of common stock to Charles A. ompany recorded consulting fees and services of $208,000 related to the 2,600,000 shares of common stock that are issuable to witz as of December 31, 2008. As of December 31, 2012, the Company has not recovered any revenue from this agreement.

8, the Company and Micro-Cap Review, Inc. ("Micro-Cap") executed an Advertising Agreement wherein the Company will pay , Inc. 1,000,000 of restricted common shares to display advertisements and advertorial in the Micro-cap Review magazine and rocapreview.com website on a rotating basis. The services began on March 13, 2008 and expired on June 30, 2008. On April pany issued 1,000,000 shares of unregistered restricted common stock to Micro-Cap Review, Inc. The Company recorded a 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,

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

the Company entered into Independent Contractor Agreement with Ciolli Management Consulting, Inc. to provide advisory development, construction management, equipment acquisition and project management industries. As payment for the es, the Company will issue a one-time, non-refundable fee of 1,000,000 unrestricted shares of common stock. As of December pany has expensed $60,000 related to the 1,000,000 shares of common stock that are were issued to Ciolli Management November 26, 2008.

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

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

ase Agreement

, the Company entered into a stock purchase agreement with APR wherein APR agreed to purchase up to an aggregate amount
es of common stock in the Company for $1.00 per share, making this a capital contribution of $15,000,000 in total. The stock
t the time the Company files for registration. APR is currently the principal shareholder of the Company, owning 352,422,778
of December 31, 2009, the Company has received $1,540,000 from APR towards the fulfillment of this agreement. As of
2, the Company has received no additional funds.

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

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

MITMENTS AND OTHER MATTERS (CONTINUED)

ent Offering- Series A Convertible Preferred Stock

2007, the Board of Directors approved a private placement offering (the "Offering") approximating $2,000,000 to accredited per share of Series A Convertible Preferred Stock. The Offering was to consist of the Company's Series A Convertible Preferred convertible into our common stock. These securities are not required to be and will not be registered under the Securities Act of be sold in the United States.. Each Series A Convertible Preferred Stock is convertible into 20 shares of the Company's Common of the preferred stock have no voting rights except as may be required by Delaware law, no redemption rights, and no nces over the Common Stock holders absent registration or an applicable exemption from registration. On January 31, 2008, the approved an extension of the private placement offering until February 15, 2008, after which the offer was closed. As of 9, the Company raised $355,000 from investors under this financing agreement. On November 3, 2009, the 355,000 Series A red Stock were converted into 7,100,000 Common shares. As of December 31, 2012 and 2011, there were no Series A red Stock outstanding.

ent Offering- Series C Convertible Preferred Stock

the Board of Directors approved a private placement offering (the "Offering") approximating $2,000,000 to accredited investors of Series C Convertible Preferred Stock. The Offering will consist of the Company's Series C Convertible Preferred Stock that into our common stock. These securities are not required to be and will not be registered under the Securities Act of 1933. r this placement will not be sold in the United States, absent registration or an applicable exemption from registration. As of 9, the Company received $25,000 from investors towards the fulfillment of the financing agreement. On November 3, 2009, the onvertible Preferred Stock were converted into 500,000 Common shares. As of December 31, 2012 and 2011, there was no le Preferred Stock outstanding.

orate Status

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

012 and 2011, the Company has accrued an additional $420 each year for estimated unpaid Delaware franchise taxes. As of 2 accounts and accrued expenses payable includes aggregate estimated unpaid Delaware Franchise taxes of $187,101.

f obligations under [1] and [2] above:

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

31,	Amounts
	$7,365,076
	8,081,346
	9,726,682
	11,783,352
	$36,956,456

OFF AGREEMENT

9, the Company entered into an agreement with a third party company to reinstate a Letter Agreement dated March 13, 2006 (the nt") and extend time to close on a contemplated spin-off. Pursuant to the Original Agreement, the Company will incorporate a Bermudan subsidiary that will be spun out to the Company's shareholders. The third party company will put assets into the new ume 90% of the new subsidiary. The third party company paid the Company $250,000 for anticipated closing and transactional 6 pursuant to the Original Agreement. It costs $50,000 to the Company to reinstate the Letter Agreement and to disclose public filings by amendment. Therefore, the third party company paid the Company an additional $25,000 upon acceptance of $25,000 on March 30, 2009.

RCES DEVELOPMENT, INC. AND SUBSIDIARIES

NT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

ATEMENT OF CURRENT YEAR'S FINANCIAL INFORMATION

typographical, punctuation, numerical transposition and text errors in the Company's originally filed Form 10-k for the year 1, 2012. The correction of the aforementioned items did not result in a material impact to the consolidated financial statements. ended Form 10-K/A includes an additional $76,045 of expenses recorded in the Statement of Operations that were brought to ention subsequent to the original filing.

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

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

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

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

stance Document

axonomy Extension Schema

axonomy Extension Calculation Linkbase

axonomy Extension Definition Linkbase

axonomy Extension Label Linkbase

axonomy Extension Presentation Linkbase