

Arrow Exploration Corp.
Consolidated Financial Statements
December 31, 2018
In United States Dollars
(Unaudited)

Contents

Consolidated Financial Statements	
Auditor's Report	2-3
Consolidated Statements of Financial Position	4
Consolidated Statements of Operations and Comprehensive Loss	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Consolidated Notes to the Financial Statements	8 – 28



Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 587-774-5379
www.deloitte.ca

To the Shareholders of Arrow Exploration Corp.

Opinion

We have audited the consolidated financial statements of Arrow Exploration Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive income (loss), changes in shareholder's equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Langlois.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
April 30, 2019

Arrow Exploration Corp.
Consolidated Statements of Financial Position
In United States Dollars

As at	Notes	December 31, 2018	December 31, 2017
Assets			
(Note 16)			
Current			
Cash		\$ 1,994,233	\$ 7,966
Accounts receivable and other receivables		3,941,995	-
Taxes receivable		223,598	-
Deposits and prepaid expenses		1,884,331	-
Inventory		555,003	-
		<u>8,599,160</u>	<u>7,966</u>
Non-current assets			
Restricted cash	5	3,154,839	-
Exploration and evaluation	6	10,547,118	-
Property and equipment	7	54,661,198	-
		<u>\$ 76,962,315</u>	<u>\$ 7,966</u>
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 12,157,942	\$ 4,368
Promissory note	8	5,000,000	-
		<u>17,157,942</u>	<u>4,368</u>
Non-current liabilities			
Deferred income taxes	13	2,326,000	-
Derivative liability	9	100	-
Other liabilities	10	1,096,559	-
Decommissioning liability	11	5,833,563	-
Total liabilities		<u>26,414,164</u>	<u>4,368</u>
Shareholders' equity			
Share capital	12	50,740,292	7,585
Contributed surplus		800,787	-
Deficit		(669,351)	(4,228)
Accumulated other comprehensive income (loss)		(323,577)	241
		<u>50,548,151</u>	<u>3,598</u>
Total liabilities and shareholders' equity		<u>\$ 76,962,315</u>	<u>\$ 7,966</u>

Commitments and contingencies (Note 14)

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

On behalf of the Board:

"signed R. Steven Smith" Director
R. Steven Smith

"signed James McFarland" Director
James McFarland

Arrow Exploration Corp.

Consolidated Statements of Operations and Comprehensive Income (Loss)
In United States Dollars

For the year ended December 31,		2018	2017
	Notes		
Revenue			
Oil and natural gas		\$ 6,791,778	\$ -
Other		10,877	-
Royalties		<u>(725,232)</u>	<u>-</u>
		<u>6,077,423</u>	<u>-</u>
Expenses			
Operating		3,510,757	-
Administrative		3,832,430	4,228
Transaction costs	4	1,073,656	-
Share based payments	12	256,987	-
Financing costs:			
Accretion	11	86,621	-
Interest		252,508	-
Foreign exchange		54,267	-
Bargain purchase gain	4(b)	(1,700,000)	-
Derivative gain	9	(1,612,800)	-
Gain on sale of properties	7	(1,131,000)	-
Depletion and depreciation	7	<u>2,044,120</u>	<u>-</u>
		<u>6,667,546</u>	<u>4,228</u>
Loss before income taxes		(590,123)	(4,228)
Income taxes (Note 13)		<u>75,000</u>	<u>-</u>
Net loss for the year		(665,123)	(4,228)
Other comprehensive (loss) income			
Foreign exchange		<u>(323,818)</u>	<u>241</u>
Comprehensive loss for the year		\$ (988,941)	(3,987)
Net loss per share			
- basic and diluted		\$ (0.01)	\$ (0.00)
Weighted average shares outstanding			
- basic and diluted (1)		64,056,032	61,591,065

(1) As of December 31, 2018, the options and warrants have been excluded from the diluted net income per share computation as they are anti-dilutive.

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

Arrow Exploration Corp.
Consolidated Statements of Changes in Shareholders' Equity
In United States Dollars

	Share Capital	Contributed Surplus	Accumulated other comprehensive income (loss)	Deficit	Total Equity
Balance January 1, 2018	\$ 7,585	\$ -	\$ 241	\$ (4,228)	\$ 3,598
Net loss for the year	-	-	-	(665,123)	(665,123)
Comprehensive income (loss) for the year	-	-	(323,818)	-	(323,818)
Share based payments	-	256,987	-	-	256,987
Issuance of common shares net of issue costs	14,393,277	171,800	-	-	14,565,077
Shares issued in the reverse acquisition of Front Range	6,268,930	-	-	-	6,268,930
Shares issued in the acquisition of Carrao	20,000,000	-	-	-	20,000,000
Shares issued in the acquisition of Samaria	10,442,500	-	-	-	10,442,500
Cancellation of common shares	(372,000)	372,000	-	-	-
Balance December 31, 2018	\$ 50,740,292	\$ 800,787	\$ (323,577)	\$ (669,351)	\$ 50,548,151

	Share Capital	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total Equity
Balance January 1, 2017	\$ -	\$ -	\$ -	\$ -	\$ -
Net income (loss) for the year	-	-	-	(4,228)	(4,228)
Comprehensive income (loss) for the year	-	-	241	-	241
Issuance of common shares	7,585	-	-	-	7,585
Balance December 31, 2017	\$ 7,585	\$ -	\$ 241	\$ (4,228)	\$ 3,598

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

Arrow Exploration Corp.
Consolidated Statements of Cash Flows
In United States Dollars

For the year ended December 31,	2018	2017
Cash flows from (used in) operating activities		
Net loss for the year	\$ (665,123)	\$ (4,228)
Items not involving cash:		
Deferred taxes	75,000	-
Share based payment	256,987	-
Bargain purchase gain	(1,700,000)	-
Derivative gain	(1,612,800)	-
Gain on sale of properties	(1,131,000)	-
Depletion and depreciation	2,044,120	-
Accretion	86,621	-
Foreign exchange	(25,791)	241
Changes in non-cash working capital balances:		
Accounts receivable and other receivables	(1,277,750)	-
Taxes receivable	740,402	-
Prepaid expenses	(1,152,502)	-
Inventory	(419,860)	-
Accounts payable and accrued liabilities	7,636,835	4,368
Cash flow from operating activities	<u>2,855,139</u>	<u>381</u>
Cash flows from (used in) investing activities		
Acquisition of Front Range (Note 4(a))	1,979,296	-
Acquisition of Carrao (Note 4(b))	(13,987,725)	-
Acquisition of Samaria (Note 4(c))	14,968	-
Additions to property and equipment	(7,007,580)	-
Proceeds on disposal of oil and gas properties	4,875,106	-
Restricted cash	(2,848,514)	-
Cash flow used in investing activities	<u>(16,974,449)</u>	<u>-</u>
Cash flows (used in) from financing activities		
Issue of common shares and warrants	17,692,760	7,585
Share issue costs	(1,587,183)	-
Cash flow from financing activities	<u>16,105,577</u>	<u>7,585</u>
Increase in cash	1,986,267	7,966
Cash, beginning of year	<u>7,966</u>	<u>-</u>
Cash, end of year	\$ 1,994,233	\$ 7,966
Supplemental information		
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

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

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

1. Corporate Information

Arrow Exploration Corp. (formerly Front Range Resources Ltd.) (“Arrow” or “the Company”) is a public junior oil and gas company engaged in the acquisition, exploration and development of oil and gas properties in Colombia and in Western Canada. The Company’s shares trade on the TSX Venture Exchange under the symbol AXL.

The Company and Arrow Exploration Ltd. entered into an arrangement agreement dated June 1, 2018, as amended, whereby the parties completed a business combination pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) on September 28, 2018. Arrow Exploration Ltd. was incorporated under the *Business Corporations Act* (Alberta) on December 12, 2016 as 2010461 Alberta Ltd. and on January 24, 2018 changed its name to Arrow Exploration Ltd. by way of articles and a certificate of amendment. Arrow Exploration Ltd. and Front Range Resources Ltd.’s (Note 4(a)) then wholly owned subsidiary, 2118295 Alberta Ltd., were amalgamated on September 28, 2018 in accordance with the arrangement agreement to form Arrow Holdings Ltd. (“AHL”) a wholly owned subsidiary of the Company.

For accounting and presentation purposes, the consolidated financial statements reflect the results of operations of Arrow Exploration Ltd., the accounting acquirer, with the exception of the number of shares which were retroactively adjusted to reflect the legal capital of the Company.

The head office of Arrow is located at 920, 150 – 9th Avenue SW, Calgary, Alberta, Canada, T2P 3H9 and the registered office is located at Suite 3400, 350 – 7th Avenue SW, Calgary, Alberta, Canada, T2P 3N9.

2. Basis of Presentation

Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 29, 2019, the date they were approved and authorized for issuance by the Board of Directors (“the Board”).

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value and specifically noted within the notes to these consolidated financial statements.

Functional and presentation currency

These consolidated financial statements are presented in United States Dollars. The Canadian Dollar is the functional currency of the Company and its wholly own subsidiary AHL. The functional currency of the Company’s subsidiaries operating in Colombia and Panama is the United States Dollar. The Company changed its reporting currency to United States Dollars with an effect from January 1, 2017. This change was triggered by the completion of the acquisitions in Note 4(b) and (c) and the completion of the \$17,692,760 United States Dollar equity financing.

In making this change to the United States dollar presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years presented have been translated using the new United States dollar as the presentation currency. For the 2017 comparative balances, assets and liabilities have been translated into the presentation currency of United States dollars at the rate of exchange prevailing at the reporting date (Note 16). The statements of operations and comprehensive income (loss) were translated at the average exchange rates for the reporting period, or at the exchange rates prevailing at the date of transactions. Exchange differences arising on translation were recorded in the foreign currency translation reserve in shareholders' equity.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period-end exchange rate. Non-monetary assets, liabilities, revenues and expenses are translated at exchange rates at the transaction date. Exchange gains or losses are included in the determination of profit or loss in the consolidated statements of operations and comprehensive income (loss).

For reporting purposes, the assets and liabilities of Arrow and AHL are translated into United States Dollars at the closing rate at the date of the balance sheets, and revenue and expenses are translated at the average rate for the period. Foreign currency translation adjustments are recorded in other comprehensive income (loss).

Use of estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these financial statements are as follows:

Exploration and evaluation assets

Exploration and evaluation assets require judgment as to whether future economic benefits exist, including the existence of proven or probable reserves and the ability to finance exploration and evaluation projects, where technical feasibility and commercial viability has not yet been determined.

Depletion and depreciation

The amounts recorded for depletion and depreciation are based on estimates of proved and probable reserves. Assumptions that are valid at the time of reserve estimation may change materially as new information becomes available. Changes in forward price estimates, production and future development costs, recovery rates or decommissioning costs may change the economic status of reserves and may ultimately result in reserves used for measurement purposes being removed from similar calculations in future reporting periods.

Cash Generating Unit ("CGU")

IFRS requires that the Company's oil and natural gas properties be aggregated into CGUs, based on their ability to generate largely independent cash flows, which are used to assess the properties for impairment. The determination of the Company's CGUs is subject to management's judgment.

Impairment of Property, plant and equipment and exploration and evaluation assets

Indicators of impairment are assessed by management using judgement, considering future plans, market conditions and commodity prices. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Decommissioning obligations

Measurement of the Company's decommissioning liability involves estimates as to the cost and timing of incurrence of future decommissioning programs. It also involves assessment of appropriate discount rates, rates of inflation applicable to future costs and the rate used to measure the accretion charge for each reporting period. Measurement of the liability also reflects current engineering methodologies as well as current and expected future environmental legislation and standards.

Share-based compensation and warrants

Grants of stock options and warrants require an estimate of the fair value of those instruments at time of issue. The estimate involves assumptions regarding the life of the option or warrant, dividend yields, interest rates, and volatility of the Company's common shares. The charge is measured using the Black-Scholes option pricing model.

Business combinations

Judgement is required when assessing i) whether or not the acquisition of assets meets the criteria of a business combination; ii) the value of the consideration transferred and the net identifiable assets acquired and liabilities assumed in connection with business combinations and iii) determining goodwill or bargain purchase gain.

Income taxes

The Company recognises deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and that sufficient taxable income will be generated in the future to recover such deferred tax assets. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

Provisions and contingencies

The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

Stock-based compensation, warrants and derivative liability

The amounts recorded in respect of share purchase warrants granted and the derivative liability for warrants issued are based on the Company's estimation of their fair value, calculated using assumptions regarding the life of the option or warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of options or warrants may differ at any time.

Functional currency

Management judgement is required in determining the functional currency that represents the economic environment of underlying transactions, events and conditions.

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below and have been applied consistently by the Group entities

Interests in joint arrangements:

Certain of the Company's exploration and production activities are regarded as joint operations and are conducted under joint operating agreements, whereby two or more parties jointly control the assets. These consolidated financial statements reflect only the Company's share of these jointly controlled operations and, once production commences, the Company's proportionate share of the relevant revenue and related costs.

Subsidiaries:

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Intra-group balances and transactions are eliminated in preparing the Consolidated Financial Statements.

Business combinations:

Business combinations are accounted for at fair value using the acquisition method of accounting. The fair value of the net assets acquired and the consideration transferred is measured at the acquisition date. Transaction costs are expensed when incurred. Any excess of the cost of an acquisition over the net fair value of the net identifiable assets acquired is recognized as goodwill. If the consideration is less than the fair value of the net identifiable assets acquired, the difference is recognized as a bargain purchase gain in the statement of operations and comprehensive loss. Transaction costs are expensed as incurred.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed annually for impairment. Impairment losses on goodwill are not reversed.

Financial instruments:

The Company considers whether a contract contains an embedded derivative when it first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss or amortized cost, as appropriate.

The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date. The Company's financial assets are comprised of cash, restricted cash, accounts receivable and other receivable and deposits. Cash and restricted cash are classified as financial assets at fair value through profit or loss. Accounts receivable and other receivable and deposits are classified and measured at amortized cost using the effective interest, less any impairment losses.

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss or amortized cost. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, derivative liability and promissory note. Accounts payable and accrued liabilities and promissory note are classified and measured at amortized cost using the effective interest method.

Derivative liability - Warrants

The non-compensation based warrants entitle the holder to acquire a fixed number of common shares for a fixed United States Dollar price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency of Canadian Dollars, and that does not qualify as a share-based payment, must be classified as a derivative liability and measured at fair value with changes recognized in the statements of operations and comprehensive loss as they arise. The Company has recorded these changes as derivative gain (loss) in the statement of operations and comprehensive loss. The transaction costs associated with the issuance of the warrants are expensed when incurred.

Fair value hierarchy

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from share capital, net of any tax effects.

Exploration and evaluation assets:

Pre-license costs are recognized in the statement of operations and comprehensive loss as incurred. Exploration and evaluation costs include the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property and equipment.

When Exploration and evaluation assets are determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive income (loss) as as pre-license expense when occurs.

Property, Plant and equipment:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion, depreciation and accumulated

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

impairment losses. The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

Development and production assets are grouped into CGU's for impairment testing.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the statement of operations and comprehensive loss.

Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in operating expenses as incurred.

Depletion and depreciation:

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment:

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the statement of operations and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

is recognized in the statement of operations and comprehensive loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are also assessed for impairment prior to being transferred to property and equipment.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

Fair value less cost to dispose is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date to determine if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Share based compensation:

The Company has a share based compensation plan for which the compensation cost attributed to stock options granted is measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options or units that vest. Upon the settlement of the stock options the previously recognized value in contributed surplus is recorded as an increase to share capital.

Share based compensation granted to non-employees is measured based on the fair value of the goods or services received, except in cases where this is not reliably measurable, and then the intrinsic value of the equity instruments granted is used (i.e. the average value of the Company's shares over the service period). Share based compensation subject to performance vesting

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

conditions is recognized based on the Company's estimated probability of achieving those performance vesting conditions determined at each reporting date.

Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Revenue:

The Company's revenues are primarily derived from the production of petroleum and natural gas. Revenue from contracts with customers is recognized when the Company satisfies a performance obligation by physically transferring the product and control to a customer. The Company satisfies its performance obligations at the point of delivery of the product and not over a period of time. Revenue is measured based on the consideration specified in contracts with customers.

Revenue is recorded net of any royalties when the amount of revenue can be reliably measured and the costs incurred in respect of the transaction can be measured reliably.

Finance expenses:

Finance expense comprises interest expense on borrowings and accretion of the discount on decommissioning obligations.

Income tax:

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income (loss) per share:

Basic income (loss) per share is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by adjusting the net income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and warrants granted. The number of shares included with respect to options is computed using the treasury stock method.

Leases:

Leases are classified as either finance or operating. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of the contract. Finance leases are those that transfer to the Company substantially all the risks and benefits of ownership. Assets acquired under finance leases are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, and are depleted on a unit-of-production basis over the proved plus probable developed reserves, or if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, over the shorter of the useful life of the asset or the lease term. All other leases are classified as operating leases and the payments are amortized on a straight-line basis over the lease term.

Recent Accounting Pronouncements

On January 1, 2018, the Corporation adopted new IFRS pronouncements which have the below impact to the financial statements.

(i) IFRS 15: Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" replaces IAS 11 "Construction Contracts", IAS 18 "Revenue Recognition", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services". The standard provides a single, principle-based five-step model that applies to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". In addition to providing a new five step revenue recognition model, the standard specifies how to account for the incremental costs of obtaining a contract and costs directly related to fulfilling a contract. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not part of the Corporation's ordinary activities. The adoption of the new standard did not have a material impact to the financial statements and the required disclosures have been included in the notes to the financial statements.

(ii) IFRS 9: Financial Instruments

IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

single model that has two classification categories: amortized cost and fair value. The standard also requires entities to recognize a loss allowance for expected credit losses on financial assets with the objective to recognize lifetime expected credit losses for all financial instruments. Amendments to IFRS 7 "Financial Instruments: Disclosures" was also adopted simultaneously with IFRS 9. There is no material impact to the financial statements due to the adoption of the new standards.

Future Accounting Changes:

IFRS 16 – Leases

IFRS 16 effectively removes the classification of leases as either finance or operating and treats all leases as finance leases for lessees with exemptions for short-term leases where the lease term is twelve months or less and for leases of low value items. The standard supersedes IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

Management is currently accumulating the information required and developing the framework to capture the impacts of the new standard. The Company has a detailed plan to implement the new standard and, through a cross-functional team, is assessing contractual arrangements that may qualify as leases under the new standard. The Company is also finalizing procedures to validate the completeness of its inventory of arrangements that meet the new definition of a lease, in parallel to documenting internal policy decisions and permitted elections. The Company is also currently evaluating the new disclosure requirements which will be disclosed in the first quarter 2019 financial statements.

4. Acquisitions

- (a) On September 28, 2018, Arrow Exploration Ltd. completed the reverse takeover acquisition of all outstanding shares of the Company, then called Front Range Resources Ltd. ("Front Range"), by way of a Plan of Arrangement for a purchase price of \$6,268,930. Front Range was an oil and gas company engaged in the evaluation, acquisition, exploration and development of oil and gas properties in Western Canada and considered a business in accordance with IFRS.

As a result of the terms of the agreement: i) the former shareholders of Arrow Exploration Ltd. owned the majority of shares (90%) and control the majority of votes of the Company; and ii) Board of Directors and Management of Arrow Exploration Ltd. took over the governance and Management of the Company. Therefore, for accounting purposes, Arrow Exploration Ltd., was identified as the accounting acquirer in the transaction, and as such, the fair values of the identifiable assets acquired and liabilities assumed from Front Range, as well as the purchase consideration transferred, are presented below:

Net assets acquired:	
Cash	\$ 1,979,296
Working capital deficiency	(630,071)
Restricted cash	322,096
Property and equipment	5,154,587
Derivative liability	(72,400)
Decommissioning obligations	(484,578)
Fair value of the net assets acquired	<u>\$ 6,268,930</u>

The consideration transferred has been measured based on the fair value of the notional number of shares that Arrow Exploration Ltd., would have had to issue to Front Range to give the owners of Front Range the same percentage ownership in the combined entity, resulting in a notional amount of 7,083,537 shares at a fair value of \$0.885/share.

The transaction is accounted for using the acquisition method. Allocation of the purchase price is

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

based on the assessment of the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date.

The acquisition contributed revenue of \$122,200 and \$104,123 of a loss before tax from the date of acquisition to December 31, 2018. The Company estimates that had the acquisition occurred on January 1, 2018, the increase in revenue would be approximately \$431,238 and the operating profit would have increased by approximately \$175,122 for the year ended December 31, 2018.

- (b) On September 27, 2018, Arrow Exploration Ltd. completed the acquisition of all outstanding shares of Carrao Energy S.A. ("Carrao") for a purchase price of \$38,000,000, plus subsequent working capital adjustments of approximately \$2,017,000. Carrao is an oil and gas company engaged in the evaluation, acquisition, exploration and development of oil and gas properties in Colombia. The fair values of the identifiable assets acquired and liabilities assumed as well as the purchase consideration transferred are presented below.

Net assets acquired:	
Cash	\$ 1,029,985
Working capital	676,223
Property and equipment	47,020,686
Other liabilities	(1,093,713)
Decommissioning obligations	(3,664,471)
Deferred income taxes	(2,251,000)
Fair value of the net assets acquired	\$ 41,717,710
Consideration:	
22,598,870 Common Shares issued	\$ 20,000,000
Cash	15,017,710
Promissory Note	5,000,000
	\$ 40,017,710
Bargain purchase gain	\$ 1,700,000

The acquisition of this business resulted in a gain on acquisition of \$1,700,000 as a consequence of buying the business from a seller intending to leave the oil space. The gain on bargain purchase was separately presented in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2018.

In the event the Company doubles the proved plus probable reserves from approximately 9.0 million barrels equivalent on the assets acquired within five years, a further \$5,000,000 payment will have to be made to the vendor. The contingent consideration has been estimated to be \$Nil based on the information and current independent reserve report.

The transaction is accounted for using the acquisition method. Allocation of the purchase price is based on the assessment of the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date.

The acquisition contributed revenue of \$6,669,791 and \$863,000 in net income before tax from the date of acquisition to December 31, 2018. The Company estimates that had the acquisition occurred on January 1, 2018, the increase in revenue would be approximately \$23,393,000 and operating profit would have increased by approximately \$4,900,000 for the year ended December 31, 2018.

- (c) On September 27, 2018, pursuant to the purchase and sale agreement between Arrow Exploration Ltd. and Samaria Exploration and Production S.A. ("Samaria") dated May 31, 2018, Arrow Exploration Ltd. closed on its purchase of a fifty percent working interest in the Tapir Association Contract by the purchase of Samaria Llanos Exploration S.A. in

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

exchange for 11,799,435 Common Shares. The assets acquired are non-producing therefore the acquisition is not considered a business acquisition. The Company allocated \$10,547,118 to the exploration and evaluation assets and recorded a decommissioning obligation of \$104,618.

5. Restricted Cash

	2018	2017
Colombia (i)	\$ 2,848,514	\$ -
Canada (ii)	306,325	-
	<u>\$ 3,154,839</u>	<u>\$ -</u>

(i) As part of the purchase and sale agreement, Arrow Exploration Ltd. agreed to reimburse the vendors of Samaria \$3,200,000 for funds historically contributed by Samaria and held in trust in respect of certain obligations. The funds advanced totaling \$3,200,000 less \$351,486 expended and adjusted for foreign exchange, receive interest at 4.0276% and held in trust for the purpose of funding Ecopetrol (the Colombian National Oil Company) approved expenditures on the Tapir Block. Disbursements from the trust can only be made upon approval of Ecopetrol. Arrow anticipates funding part of the cost of drilling an upcoming well from the trust by the end of the first half of 2019 at which point the trust account will be closed.

(ii) At December 31, 2018, pursuant to Alberta government regulations, the Company was required to pay a \$306,325 (CAD \$417,905) deposit with respect to the Company's Liability Rating Management ("LMR"). The deposit is held by a Canadian Chartered Bank with interest paid to the Company on a monthly basis based on the bank's deposit rate.

6. Exploration and Evaluation

	2018	2017
Balance, beginning of the year	\$ -	\$ -
Acquisition of Samaria assets (Note 4(c))	10,547,118	-
Balance, end of the year	<u>\$ 10,547,118</u>	<u>\$ -</u>

7. Property and Equipment

Cost	Oil and Gas		Total
	Properties	Other Assets	
Balance, December 31, 2017	\$ -	\$ -	\$ -
Acquisition of Front Range (Note 4(a))	5,154,587	-	5,154,587
Acquisition of Carrao (Note 4(b))	47,020,686	-	47,020,686
Additions	7,182,076	30,443	7,212,519
Sale of assets	(3,938,763)	-	(3,938,763)
Change in estimates - decommissioning obligations (Note 10)	1,203,980	-	1,203,980
Balance, December 31, 2018	<u>\$ 56,622,566</u>	<u>30,443</u>	<u>\$ 56,653,009</u>
Accumulated depletion and depreciation			
Balance, December 31, 2017	\$ -	\$ -	\$ -
Depletion and depreciation	2,041,962	2,158	2,044,120
Balance, December 31, 2018	<u>\$ 2,041,962</u>	<u>\$ 2,158</u>	<u>\$ 2,044,120</u>

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

Foreign exchange				
Balance December 31, 2017	\$	-	\$	-
Effects of movements in foreign exchange rates		52,998	(689)	52,309
Balance December 31, 2018	\$	52,998	\$ (689)	\$ 52,309
Net Book Value				
Balance December 31, 2017	\$	-	\$	-
Balance December 31, 2018	\$	54,633,602	\$ 27,596	\$ 54,661,198

For the year ended December 31, 2018, Arrow closed the sale of a 20% working interest in the shallow section and a 46.9% working interest in the deeper section in the VMM2 CGU for gross proceeds of \$5,000,000 subject to minor adjustments. As a result of the sale Arrow recognized a gain on working interest dispositions of \$1,131,000.

At December 31, 2018, and considering the recent acquisitions of oil and gas property, the Company did not identify any indicator of impairment.

8. Promissory Note

The promissory note was issued as partial consideration in the Carrao acquisition (Note 4(b)). The promissory note is unsecured, bears interest at 15% per annum and was due on January 28, 2019 and subsequently extended to April 30, 2019. On April 29, 2019, the terms of the promissory note were amended to whereby principal repayments of \$500,000 commence on July 1, 2019. The amending agreement also contains acceleration features whereby if the Rio Cravo Este-1 well is successful, Arrow will increase the base payment by 50% of the working interest cash flow, calculated on a two month trailing basis up to a maximum payment of \$500,000. The combined monthly payment shall be no more than \$1,000,000. In the event the Company, closes a debt facility, asset sale or other financing structure of a minimum of \$5,000,000 any portion of the outstanding obligation may be paid in whole or part.

9. Derivative liability

(a) Warrants issued and outstanding

	2018		2017	
	Number	Amounts	Number	Amounts
Warrants (i)				
Balance beginning of the year	-	\$ -	-	\$ -
Issued in financing (Note 11(b)(i))	17,692,760	1,540,500	-	-
Issued in the Front Range acquisition (Note 4(a))	630,000	72,400	-	-
Fair value adjustment	-	(1,612,800)	-	-
Balance end of the year	18,322,760	\$ 100	-	\$ -

(i) Only values related to non-compensatory warrants have been included in this table and do not include compensatory warrants included in equity.

There were no non-compensatory warrants outstanding at December 31, 2017.

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

- (b) Each non-compensatory warrant is measured at fair value quarterly using the Black-Scholes options pricing model. The fair value of warrants at September 28, 2018 and December 31, 2018 was estimated using the following assumptions:

	September 28, 2018	December 31, 2018
Number outstanding re-valued warrants, end of period	18,322,760	18,322,760
Fair value of warrants outstanding	CAD\$0.088	CAD\$0.00
Risk free interest rate	1.73%	1.73%
Expected life	2.00 years	1.74 years
Expected volatility	35%	35%

- (c) The following table summarizes the warrants outstanding and exercisable at December 31, 2018:

Number of warrants	Warrant Type	Exercise price (USD \$)	Expiry date
17,692,760	Non-compensatory	\$1.30	September 28, 2020
630,000	Non-compensatory	\$1.30	September 24, 2020
18,322,760			

10. Other Liabilities

The other liabilities of the Company relate to an environmental fee in Colombia that is levied on capital projects such as the costs associated with wellsite preparation and drilling of a well. The fee is calculated as 1% of the project cost. The program is administered by ANLA, the Colombian National Authority of Environmental Licences and is levied on projects that utilize surface water or deep water wells that may have an impact on the environment. The funds are generally used in the affected communities for purposes of land purchases, biomechanic works (e.g. containment walls in rivers), reforestation, research projects and others.

At December 31, 2018 the Company had provided for \$1,096,569 (December 31, 2017 - \$Nil) for the environmental fee.

11. Decommissioning Liability

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the decommissioning of oil and gas properties.

	2018	2017
Obligation, beginning of the year	\$ -	\$ -
Additions as a result of corporate acquisitions (Note 4)	4,030,456	-
Change in estimated cash flows	1,203,980	-
Obligations recognized	729,995	-
Liabilities disposed	(194,657)	-
Accretion expenses	86,621	-
Effects of movements in foreign exchange rates	(22,832)	-
Obligation, end of the year	\$ 5,833,563	\$ -

Subsequent to the reverse takeover transaction (Note 4(a)) and acquisition of Carrao (Note 4(b)), the obligation was calculated using a risk free discount rate of 2.25% in Canada and 5.87% to 7.13% in Colombia with an inflation rate of 2.0% to 3.3%. The result was a \$1,203,980 increase in decommissioning obligations and property plant and equipment.

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

It is expected that the majority of costs are expected to occur between 2021 and 2033. The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$14,714,000.

12. Share Capital

(a) Authorized

Unlimited number of:
Common shares without par value

(b) Issued

Common shares	2018		2017	
	Shares	Amounts	Shares	Amounts
Balance beginning of the year (i)	6,453,537	\$ 7,585	6,453,537	\$ 7,585
Private placement (ii)	17,692,760	16,152,260	-	-
Shares issued in the reverse takeover transaction of Front Range (Note 4(a) (iii))	10,630,000	6,268,930	-	-
Shares issued in the acquisition of Carrao (Note 4(b))	22,598,870	20,000,000	-	-
Shares issued in the Samaria acquisition (Note 4(c))	11,799,435	10,442,500	-	-
Shares returned to treasury (iv)	(500,000)	(372,000)	-	-
Share issue costs (v)	-	(1,758,983)	-	-
	68,674,602	\$ 50,740,292	6,453,537	\$ 7,585

- (i) Pursuant to the arrangement agreement with Arrow Exploration Ltd. and Front Range the opening number of shares are reflective of the Front Range capital and have been consolidated on a 8.5-to-1 basis retroactively.
- (ii) On September 17, 2018, Arrow Exploration Ltd. closed a private placement of 17,692,760 subscription receipts at \$1.00 per subscription receipt. On September 28, 2018 each subscription receipt converted into a unit of Arrow Exploration Ltd. which consisted of one common share and one share purchase warrant with each warrant being exercisable at \$1.30, expiring two years from the date of issuance. These warrants are considered non-compensatory warrants and are required to be fair valued at each quarter (Note 9).
- (iii) This includes 630,000 shares (on a post-consolidation basis) that were issued as part of the Company's private placement unit financing completed on September 24, 2018 following the private placement financing in Arrow Exploration Ltd. referred to in note (ii) and in advance of closing the RTO. Each unit placed in Front Range consisted of, on a subsequent and post-consolidation basis, one common share and one share purchase warrant with each warrant being exercisable at \$1.30, expiring two years from the date of issuance.
- (iv) In order to consummate the acquisitions as disclosed in Note 4, certain Arrow Exploration Ltd. founders returned an aggregate of 500,000 shares to treasury. The value assigned to the shares returned was based on the Company's post transaction equity value.
- (v) Included in share issue costs is the value of \$171,800 assigned to the 634,638 agents options Arrow Exploration Ltd. granted in conjunction with the private placement financing referred to in note (ii). Each agents option is exercisable for a period of 12 months at \$1.00 into one common share and one share purchase warrant with each warrant exercisable at \$1.30 for two years from the date of issuance. The fair value of the agents options was determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 35%, risk free rate of return 1.73%, weighted average life – 1.0 to 2.0 years.

(c) Stock options

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. The options are non-transferable if not exercised. The exercise price is based on the closing price of the Company's common shares on the day prior to the day of the grant, which may be different from the closing price of such

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

shares on the day of grant. A summary of the status of the Company stock option plan as at December 31, 2018 and December 31, 2017 and changes during the respective years ended on those dates is presented below:

Stock Options	2018		2017	
	Number of options	Weighted average Exercise Price (CAD \$)	Number of options	Weighted average exercise price (CAD \$)
Beginning of year	480,659	\$8.42	480,659	\$8.42
Granted	6,350,000	1.15	-	-
Exercised	-	-	-	-
Expired/Forfeited	(480,659)	(8.42)	-	-
End of year	<u>6,350,000</u>	<u>\$1.15</u>	480,659	\$8.42
Exercisable, end of year	-	\$ -	480,659	\$8.42

Date of Grant	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2018
October 22, 2018	6,350,000	\$1.15	9.82 years	October 22, 2028	6,350,000

The weighted average fair market value per option granted in 2018 was approximately \$0.45 (CAD) was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield – nil, expected volatility 65%, risk free rate – 2.0%, expected life - 10 years, an estimated forfeiture rate – 5% and utilizing the graded option method.

13. Income taxes

- (a) The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income (loss) before income taxes. The principal reasons for differences between such expected income tax expense and the amount actually recorded are as follows:

	2018	2017
Loss before income taxes	\$ (590,123)	\$ (4,228)
Corporate income tax rate	<u>27.00%</u>	<u>27.00%</u>
Computed expected tax expense (recovery)	\$ (159,333)	\$ (1,142)
Increase (decrease) in income taxes resulting from:		
Share based compensation	69,386	-
Tax rate difference on foreign jurisdictions	68,018	-
Other permanent difference	(954,378)	-
Change in deferred tax benefits deemed not probable to be recovered	<u>1,051,307</u>	<u>1,142</u>
Income tax recovery	<u>\$ 75,000</u>	<u>\$ -</u>

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

- (b) Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's deferred income tax assets and liabilities are as follows:

As at December 31,	<u>2018</u>	<u>2017</u>
Property and equipment	\$ (4,426,205)	\$ -
Non-capital losses	316,391	-
Decommissioning liabilities and other provisions	<u>1,783,814</u>	-
Deferred tax liability	<u>\$ 2,326,000</u>	<u>\$ -</u>

- (c) At December 31, 2018, the Company had non-capital losses carried forward of approximately \$12,300,000 (2017 - \$4,000) available to reduce future years taxable income. These losses commence expiring in 2029. At December 31, 2018, the Company had deferred income tax assets of approximately \$7,110,000 (2017 - \$1,142) related to Canada that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

14. Commitments and Contingencies

Presented below are the Corporation's contractual commitments at December 31, 2018:

	<u>Less than 1</u> <u>year</u>	<u>1-3 years</u>	<u>Thereafter</u>	<u>Total</u>
Exploration and production contracts	\$ 6,500,000	40,500,000	\$ -	\$ 47,000,000
Office leases	149,759	154,041	171,871	475,671
Equipment leases	26,950	47,375	-	74,325
Total Commitments	\$ 6,676,709	40,701,416	\$ 171,871	\$ 47,549,996

Exploration and Production Contracts

As a result of the acquisitions (Notes 4(b) and (c)), the Company has assumed a number of exploration contracts in Colombia which require the Company to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Company has outstanding exploration commitments at December 31, 2018 of \$47.0 million. Commitments less than one year relate to the commitment to earn a 50% interest in the Tapir Block. This commitment is expected to be fulfilled by May 2019 with the drilling of the Rio Cravo Este well. Additionally, with the sale of non-core assets as disclosed in subsequent events (Note 19), the Company expects to transfer to the purchaser another \$6.95 million in commitments that were scheduled for 2020. The remaining commitments of \$33.55 million are currently suspended due to community or environmental issues.

Contingencies

From time to time, the Company may be involved in litigation or has claims sought against it in the normal course of business operations. Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations.

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service.

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

15. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to, credit and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Company's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. The Company currently has no commodity contracts in place.

(b) Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Company's account receivable balances relate to petroleum and natural gas sales. The Company's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. In Colombia, a significant portion of crude oil and natural gas sales are with customers that are directly or indirectly controlled by the government. The Company has also entered into sales agreements with certain Colombian private sector companies.

The Company's account receivables primarily relate to sales of petroleum and natural gas, which are normally collected within 25 days (in Canada) and 45 days (in Colombia) of the month of production. The Company has historically not experienced any collection issues with its customers.

(c) Market Risk

Market risk is comprised of two components: currency risk and interest rate risk.

i) Foreign Currency Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currencies other than the United States Dollar. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in exploration and evaluation and administrative costs in foreign currencies. The Company incurs expenditures in Canadian Dollars, United States Dollars and the Colombian Peso and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place at December 31, 2018 and December 31, 2017.

ii) Interest Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as it borrows funds at a fixed coupon rate of 15% on the promissory notes.

(d) Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

The Company's approach to managing liquidity is to ensure, within reasonable means,

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. Any funding shortfall may be met in a number of ways, including, but not limited to, the issuance of new debt or equity instruments, further expenditure reductions and/or the introduction of joint venture partners.

(e) Capital Management

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include share capital, bank debt (when available), promissory notes and working capital, defined as current assets less current liabilities. In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels. The Company monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding bank debt (when available), promissory notes and working capital, as defined above. In order to facilitate the management of its net debt, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

The Company's capital includes the following:

	December 31, 2018	December 31, 2017
Working capital (deficiency)	\$ (3,558,782)	\$ 3,598
Promissory notes	(5,000,000)	-
	\$ (8,558,782)	\$ 3,598

16. Adjustment of previously reported financial information due to change in presentation currency

For comparative purposes, the statement of financial position as at December 31 2017 includes adjustments to reflect the change in the reporting currency to United States dollars. The amounts previously reported in Canadian Dollars as shown below have been translated into United States dollars at the December 31, 2017 of 0.7966 CAD:USD.

As at December 31, 2017	As previously reported CAD	As translated at a rate of 0.7966
Current assets	\$ 10,000	\$ 7,966
Non-current	-	-
Total Assets	\$ 10,000	\$ 7,966
Current liabilities	\$ 5,483	\$ 4,368
Non-current liabilities	-	-
Total liabilities	\$ 5,483	\$ 4,368

For comparative purposes, the Consolidated Statements of Operations and Comprehensive Loss for the twelve-month period ended December 31, 2017 includes adjustments reflect the change in

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

the reporting currency to United States dollars. The amounts previously reported in Canadian Dollars of \$5,483 have been translated into US dollars at the average 2017 exchange rate of 0.7711 CAD:USD.

17. Segmented Information

The Company has two reportable operating segments for the year ended December 31, 2018: Colombia and Canada. In 2017, the Company only had the Canadian reporting segment. The Company, through its operating segments, is engaged primarily in oil exploration, development and production, and the acquisition of oil and gas properties. Previous to the Acquisitions described in Note 4, the Company had no active operations other than incurred costs to consummate the transactions and complete the equity financing. Arrow management will regularly review funds flow from operations generated by each of Arrow's operating segments. Funds flow from operations is a non-GAAP measure of profit or loss that provides Arrow's management with the ability to assess the operating segments' profitability and, correspondingly, the ability of each operating segment to sustain capital, enable future growth through capital investment and to repay debt. The funds flow from operations is computed prior to any changes in working capital balances.

The following tables show information regarding the Company's segments for the year ended and as at December 31, 2018.

	Colombia	Canada	Total
Revenues			
Oil Sales	\$ 6,669,558	\$ -	\$ 6,669,558
Natural gas and liquid sales		122,220	122,220
Other	-	10,877	10,877
Royalties	719,298	5,934	725,232
Expenses	4,207,099	2,460,447	6,667,546
Taxes	75,000	-	75,000
Net income (loss)	\$ 1,668,161	\$ (2,333,284)	\$ (665,123)
Funds flow from (used in) operations	\$ 969,233	\$ (3,641,219)	\$ (2,671,986)
As at December 31, 2018			
Current assets	\$ 6,157,407	\$ 2,441,753	\$ 8,599,160
Non-current	-	-	-
Restricted cash	2,851,514	303,325	3,154,839
Exploration and evaluation	10,547,118	-	10,547,118
Property, plant and equipment	49,927,784	4,733,414	54,661,198
Total Assets	\$ 69,484,823	\$ 7,478,492	\$ 76,962,315
Current liabilities	\$ 14,996,317	\$ 2,161,625	\$ 17,157,942
Non-current liabilities	-	-	-
Deferred income taxes	2,326,000	-	2,326,000
Derivative liability	-	100	100
Other liabilities	1,096,559	-	1,096,559
Decommissioning liability	5,405,528	428,035	5,833,563
Total liabilities	\$ 23,824,404	\$ 2,589,760	\$ 26,414,164

The Canadian segment is also considered the corporate segment.

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2018

18. Compensation to Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel are its directors and executive officers. Key management personnel compensation is comprised of the following:

	December 31, 2018	December 31, 2017
Executives and Executive Directors	\$ 882,111	\$ -
Non-Executive Directors	49,754	-
Share based compensation	238,775	-
Total remuneration	\$ 1,170,640	\$ -

Personnel expenses are recorded in general and administrative expenses.

19. Subsequent Events

Except as disclosed elsewhere in these consolidated financial statements the Company has the following subsequent events:

On April 26, 2019 the Company announced that it had entered into Definitive Agreements to sell two non-core interests in Colombia for an aggregate sale price of \$5.0 million US, subject to adjustments. The first sale, for \$3.5 million US, subject to adjustments, is expected to close on April 29, 2019, with the formal legal transfer of ownership of working interests subject to ultimate approval by the Agencia Nacional de Hidrocarburos (ANH). The second transaction, for \$1.5 million US, subject to adjustments, is anticipated to close this fiscal quarter, subject to satisfaction of certain conditions precedent. Combined production for the disposed assets averaged approximately 75 bbl/d in the first quarter which equates to a sale metric of \$66,000 US per flowing barrel. Transaction proceeds, in combination with cash set aside for drilling, are expected to fully fund drilling RCE1. Furthermore, these transactions are expected to eliminate approximately \$6.95 million US from Arrow's future commitments.
