Arrow Exploration Corp.
Condensed Consolidated Financial Statements
June 30, 2019
In United States Dollars
(Unaudited)

Contents

Arrow Exploration Corp.
Condensed Consolidated Statements of Financial Position
In United States Dollars
(Unaudited)

As at	Notes	June 30, 2019	December 31, 2018
Assets			
Current			
Cash		**$ 844,983**	$ 1,994,233
Restricted cash	**4**	**1,087,323**	-
Trade and other receivables	**5**	**5,463,257**	3,941,995
Taxes receivable	**6**	**2,315,608**	223,598
Deposits and prepaid expenses		**626,462**	1,884,331
Inventory		**136,506**	555,003
Derivative commodity contract	**15(a)**	**251,350**	-
		10,725,489	8,599,160
Non-current assets			
Trade and other receivables	**5**	**1,306,724**	-
Restricted cash	**4**	**368,662**	3,154,839
Exploration and evaluation	**7**	**15,780,162**	10,547,118
Property and equipment	**8**	**48,152,702**	54,661,198
		$ 76,333,739	$ 76,962,315
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 13,726,353**	$ 12,157,942
Promissory note	**9**	**5,000,000**	5,000,000
Lease obligation	**10**	**73,833**	-
		18,800,186	17,157,942
Non-current liabilities			
Derivative liability		**100**	100
Lease obligation	**10**	**220,401**	-
Other liabilities	**11**	**1,007,849**	1,096,559
Decommissioning liability	**12**	**6,665,369**	5,833,563
Deferred income taxes		**2,210,000**	2,326,000
Total liabilities		**28,903,905**	26,414,164
Shareholders' equity			
Share capital	**13**	**50,740,292**	50,740,292
Contributed surplus		**1,288,358**	800,787
Deficit		**(4,150,271)**	(669,351)
Accumulated other comprehensive loss		**(448,545)**	(323,577)
		47,429,834	50,548,151
Total liabilities and shareholders' equity		**$ 76,333,739**	$ 76,962,315

Commitments and contingencies (Note 14)

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

Arrow Exploration Corp.
Condensed Consolidated Statements of Operations and Comprehensive Loss
In United States Dollars
(Unaudited)

	Notes	For the three months ended June 30, 2019	2018	For the six months ended June 30, 2019	2018
Revenue					
Oil and natural gas		**$ 8,376,468**	$ -	**$ 15,111,412**	$ -
Other		**15,034**	-	**16,908**	-
Royalties		**(850,740)**	-	**(1,577,044)**	-
		7,540,762	-	**13,551,276**	-
Expenses					
Operating		**3,205,137**	-	**6,576,198**	-
Administrative		**1,855,026**	345,026	**3,124,023**	657,046
Share based payments	**13**	**165,675**	-	**487,571**	-
Financing costs:					
Accretion	**12**	**96,140**	-	**190,712**	-
Interest		**214,997**	-	**424,930**	-
Other		**588,165**	-	**588,164**	-
Risk management activities	**15(a)**	**(301,210)**	-	**(301,210)**	-
Foreign exchange loss		**527,783**	-	**511,005**	-
Depletion and depreciation		**2,280,963**	-	**4,602,213**	-
Impairment of oil and gas properties	**8**	**2,450,000**	-	**2,450,000**	-
Gain on the disposal of oil and gas properties		**(1,632,174)**	-	**(1,632,174)**	-
		9,450,502	345,026	**17,021,432**	657,046
Loss before taxes		**(1,909,740)**	(345,026)	**(3,470,156)**	(657,046)
Income taxes (recovery)					
Current		**-**	-	**126,764**	-
Deferred		**(133,000)**	-	**(116,000)**	-
		(133,000)	-	**10,764**	-
Net loss for the period		**(1,776,740)**	(345,026)	**(3,480,920)**	(657,046)
Other comprehensive loss					
Foreign exchange		**(140,177)**	(18,483)	**(124,968)**	(12,587)
Net loss and comprehensive loss for the period		**(1,916,917)**	$(363,509)	**$ (3,605,888)**	$ (669,633)
Loss per share					
- basic and diluted		**$ (0.03)**	$ (0.00)	**$ (0.05)**	$ (0.01)
Weighted average shares outstanding					
- basic and diluted (1)		**68,674,602**	61,591,065	**68,674,602**	61,591,065

(1) The options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive.

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

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

	Share Capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance January 1, 2019	$ 50,740,292	$ 800,787	$ (323,577)	$ (669,351)	$ 50,548,151
Net loss for the period	-	-		(3,480,920)	(3,480,920)
Comprehensive loss for the period	-	-	(124,968)	-	(124,968)
Share based payments	-	487,571	-	-	487,571
Balance June 30, 2019	$ 50,740,292	$ 1,288,358	$ (448,545)	$ (4,150,271)	$ 47,429,834

	Share Capital	Contributed Surplus	Accumulated other comprehensive income (loss)	Deficit	Total Equity (Deficit)
Balance January 1, 2018	$ 7,585	$ -	$ 241	$ (4,228)	$ 3,598
Net loss for the period	-	-	-	(657,046)	(657,046)
Comprehensive loss for the period	-	-	(12,587)	-	(12,587)
Balance June 30, 2018	$ 7,585	$ -	$ (12,346)	$ (661,274)	$ (666,035)

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

Arrow Exploration Corp.
Condensed Consolidated Statements of Cash Flows
In United States Dollars
(Unaudited)

	For the six months ended June 30	
	2019	2018
Cash flows from (used in) operating activities		
Net loss for the period	**$ (3,480,920)**	$ (657,046)
Items not involving cash:		
Deferred taxes	**(116,000)**	-
Share based payment	**487,571**	-
Depletion and depreciation	**4,602,213**	-
Impairment of oil and gas properties	**2,450,000**	-
Interest	**12,682**	-
Accretion	**190,712**	-
Foreign exchange	**(316,212)**	(11,471)
Risk management activities (unrealized)	**(251,350)**	-
Gain on the disposal of oil and gas properties	**(1,632,174)**	-
Changes in non-cash working capital balances:		
Trade and other receivables	**(2,827,986)**	(18,324)
Taxes receivable	**(2,092,010)**	-
Deposits and prepaid expenses	**1,257,869**	-
Inventory	**418,497**	-
Accounts payable and accrued liabilities	**(3,768,270)**	686,475
Cash flows used in operating activities	**(5,065,378)**	(366)
Cash flows used in financing activities		
Lease payments	**(22,068)**	-
Cash flows used in financing activities	**(22,068)**	-
Cash flows used in investing activities		
Additions to exploration and evaluation assets	**(5,128,456)**	-
Additions to property and equipment	**(2,444,589)**	-
Proceeds on the sale of property and equipment	**4,475,706**	-
Changes in restricted cash	**1,698,854**	-
Changes in non-cash working capital	**5,336,681**	-
Cash flows provided by investing activities	**3,938,196**	-
Decrease in cash	**(1,149,250)**	(366)
Cash, beginning of period	**1,994,233**	7,966
Cash, end of period	**$ 844,983**	$ 7,600

Supplemental information		
Interest paid	**$ -**	$ -
Taxes paid	**$ -**	$ -

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

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) ("ABCA") on September 28, 2018. Arrow Exploration Ltd. was incorporated under the *ABCA* 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 (then wholly owned subsidiary, 2118295 Alberta Ltd., were amalgamated on September 28, 2018 in accordance with the arrangement agreement to form Arrow Holdings Ltd. a wholly owned subsidiary of the Company (the "Arrangement").

For accounting and presentation purposes, the condensed 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
These condensed consolidated financial statements (the "Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. These Financial Statements were authorised for issue by the Board of Directors on August 27, 2019. They do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018.

These Financial Statements have been prepared on the historical cost basis, except for financial assets and liabilities recorded in accordance with IFRS 9. The Financial Statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2018, except for the adoption of new accounting pronouncements as discussed below.

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2018.

3. Change in Accounting Policies

Accounting Pronouncements Adopted

On January 1, 2019, Arrow adopted IFRS 16: Leases (“IFRS 16”) to replace IAS 17: Leases and IFRIC 4: Determining whether an Arrangement contains a Lease. IFRS 16 requires the recognition of a right-of-use asset and lease liability on the statements of financial position for all leases, where Arrow is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases as either a finance or an operating lease. Arrow is the lessee in all of its lease arrangements effective January 1, 2019. The Company adopted IFRS 16 using the modified retrospective approach, which does not require restatement of prior period financial information and applies the standard prospectively.

On initial adoption, Arrow had the following optional practical expedients available under IFRS 16: Certain short-term leases and leases of low value assets that have been identified as a lease under IFRS 16 at January 1, 2019 have been excluded from recognition on the statements of financial position. Arrow has excluded certain low value leases such as information technology, office equipment and other minor operating and capital assets used in its operations. Short-term and low value leases are expensed in profit or loss in the period incurred. Certain classes of lease arrangements that transfer a separate good or service under the same contract that have been identified for recognition at January 1, 2019 can be recognized as a single lease component rather than separating between their lease and non-lease components. Arrow did not apply this practical expedient on initial adoption of IFRS 16. Non-lease components such as operating costs and payment for services were separated from their lease component under the same contract and expensed in profit or loss in the period incurred. For leases having similar characteristics, a portfolio approach can be used by applying a single discount rate. Arrow has applied this practical expedient for leases having similar characteristic on recognition.

On initial adoption of IFRS 16, Arrow recognized a lease liability, herein referred to as a “lease obligation”, and corresponding right-of-use asset, herein referred to as a “lease asset”, for each identified lease effective January 1, 2019. The effect of initially applying the standard was recognized as a $45,377 increase to right-of-use assets (included in "Property and Equipment") with a corresponding increase to lease obligations (the non-current portion of $15,885 is recorded in "Lease Obligation" and the current portion of the lease obligation is $29,492. The lease obligation was determined by discounting the remaining lease term payments using the interest rate implicit in the lease, or the Company’s incremental borrowing rate. The lease obligation is reduced by actual cash lease payments made during the period. Lease obligations are presented on the statements of financial position. The lease assets are included in property and equipment on the statements of financial position. Lease assets are depreciated over the remaining term of the lease and included in depreciation expense the statement of operations and comprehensive income.. The unwinding of the present value of the lease obligation is recorded as accretion (interest) and included in finance expense in the statement of operations. Cash lease payments are classified as a financing activity and accretion expense classified as an operating activity in the statements of cash flows. Any remeasurements based on changes in lease term, payment, or discount rate will increase or decrease the present value of the lease obligation and corresponding lease asset. Such changes will be accounted for through statement of operations. See Notes 10 to these Financial Statements for further details on the financial effects of IFRS 16 on initial adoption.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16 and the application incremental borrowing rate. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Lease obligations that are recognized have been estimated using a discount rate equal to Arrow's incremental borrowing rate. This rate represents the rate that Arrow would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

In United States Dollars

The following reconciliation of the Company's commitments as at December 31, 2018 to the Company's opening lease liability as at January 1, 2019:

Commitments disclosed on December 31, 2018	$	549,996
Relief for short term and low value lease		(151,943)
Lease obligation that commenced in 2019		(326,385)
Other		(22,614)
Gross lease liabilities as at January 1, 2019		49,054
Discounting		(3,677)
Present value of lease liabilities as at January 1, 2019	$	45,377

4. Restricted Cash

		June 30, 2019		December 31, 2018
Colombia *(i)*	**$**	**1,145,345**	$	2,848,514
Canada *(ii)*		**310,640**		306,325
		1,455,985		3,154,839
Current portion		**(1,087,323)**		-
	$	**368,662**	$	3,154,839

(i) *As part of the purchase and sale agreement with Samaria Exploration and Production S.A. ("Samaria"), Arrow 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 are 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 based on expenditures incurred. As of June 30, 2019, $2,112,677 have been released and the remaining balance of $1,087,323 is expected to be executed within the next 12 months.*

(ii) *At June 30, 2019, pursuant to Alberta government regulations, the Company was required to pay a $310,640 (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.*

5. Trade and other receivables

		June 30, 2019		December 31, 2018
Trade receivables	**$**	**2,791,470**	$	3,799,995
Other accounts receivable		**3,978,511**		142,000
		6,769,981		3,941,995
Long-term portion of trade and other receivables		**(1,306,724)**		-
	$	**5,463,257**	$	3,941,995

As at June 30, 2019, other accounts receivable include $3,728,918 (2018 – nil) receivable from a partner in the Tapir block and corresponds to technical services, overhead, and reimbursable capital expenditures incurred by the Company on the Tapir block. $3 million of $3.7 million will be recovered through future production. The Company estimates that $1,693,276 will be recovered in the next 12 months and $1,306,724 are classified as long term. The remaining $728,918 will be collected in cash within the next 12 months.

In United States Dollars

6. Taxes receivable

		June 30, 2019		December 31, 2018
Value-added tax (VAT) credits recoverable	**$**	**2,277,736**	$	223,598
Income tax withholdings and advances, net		**37,872**		-
	$	**2,315,608**	$	223,598

The VAT recoverable pertains to non-compensated value-added tax credits originated in Colombia as operational and capital expenditures are incurred. Most of the Company's sales are considered exports, which are not subject to VAT. The Company is entitled to claim for the reimbursement of these VAT credits and it is currently in the process to file the required documentation.

7. Exploration and Evaluation

		June 30, 2019		December 31, 2018
Balance, beginning of the period	**$**	**10,547,118**	$	-
Acquisition of Samaria assets		**-**		10,547,118
Additions, net		**5,081,794**		-
Capitalized administrative costs		**151,250**		-
Balance, end of the period	**$**	**15,780,162**	$	10,547,118

In 2019, the Company capitalized $151,250 of general and administrative costs inclusive of costs related to technical personnel directly related to exploration and evaluation activities on the Tapir block. The exploration and evaluation assets additions, net include $500,000 of success fee payable to the former owner of the Tapir block and a credit of $3 million recoverable from its partner in the same block (see Note 5).

8. Property and Equipment

Cost		Oil and Gas Properties		Right of Use and Other Assets (i)		Total
Balance, December 31, 2018	$	56,622,566	$	30,443	$	56,653,009
Right of use assets (Note 3)		-		45,377		45,377
Additions		3,006,703		293,118		3,299,821
Oil and gas properties disposed		(3,403,532)		-		(3,403,532)
Balance, June 30, 2019	$	56,225,737	$	368,938	$	56,594,675

In United States Dollars

Accumulated depletion and depreciation		Oil and Gas Properties		Right of Use and Other Assets(1)		Total
Balance, December 31, 2018	$	2,041,962	$	2,158	$	2,044,120
Depletion and depreciation		4,556,363		45,850		4,602,213
Impairment of oil and gas properties		2,450,000		-		2,450,000
Accumulated depletion associated with oil and gas properties disposed		(560,000)		-		(560,000)
Balance, June 30, 2019	$	8,488,325	$	48,008	$	8,536,333
Foreign exchange						
Balance December 31, 2018	$	52,998	$	(689)	$	52,309
Effects of movements in foreign exchange rates		35,905		6,146		42,051
Balance June 30, 2019	$	88,903	$	5,457	$	94,360
Net Book Value						
Balance December 31, 2018	$	54,633,602	$	27,596	$	54,661,198
Balance June 30, 2019	$	47,826,315	$	326,387	$	48,152,702

(1) Included leased and other assets is $45,377 related to lease asset additions on initial adoption of IFRS 16 as at January 1, 2019 and $251,876 in current period additions (see Notes 3 and 10). The carrying amount of lease assets at June 30, 2019 was $272,571 after giving effect to depreciation.

In March 2019, the Company decided to dispose of two non-core properties (VMM-2 and Coati) and on April 26, 2019, the Company entered into Definitive Agreements to sell the two non-core interests in Colombia for an aggregate sale price of $5.0 million, subject to adjustments. The first sale, for $3.5 million, subject to adjustments, closed 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, subject to adjustments, closed on May 22, 2019. These transactions eliminated approximately $6.95 million from Arrow's future commitments (see Note 14). The purchaser assumed the decommissioning obligations (Note 12). As a result of these transactions, the Company recognized a gain in the disposal of its oil and gas properties for $1,632,174 in its condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2019.

As at June 30, 2019, the Company reviewed its Cash-Generating Unit's ("CGU") property and equipment for indicators of impairment and determined that an indicator related to the decrease in future commodity prices for natural gas in Canada was present. The company prepared estimates of both the value in use and fair value less cost to sell of its Canadian CGU. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at June 30, 2019:

Year	Exchange rate $US / $Cdn	AECO Spot Gas CDN$/MCF
2019 (six months)	0.76	1.39
2020	0.78	1.91
2021	0.80	2.37
2022	0.80	2.66
2023	0.80	2.79
2024	0.80	2.92
Thereafter (inflation %)	0.80	2.0%/yr

These benchmark prices reflect the average of three consultant price forecasts, effective July 1, 2019 (McDaniel, GLJ Petroleum Consultants and Sproule Associates Limited). The recoverable amounts of the Canadian CGU at June 30, 2019 were estimated at their fair value less cost to sell, based on the net present value of the future cash flows from oil and gas reserves as estimated by the Company's independent reserve evaluator at December 31, 2018 adjusted for production and future pricing changes during the six months ended June 30, 2019. The fair value less costs to sell used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data but rather, the Company's best estimate.

The Company used a 12.5% discount rate for the June 30, 2019 impairment test which took into account risks specific to the Canadian CGU and inherent in the oil and gas business to arrive at a recoverable value of $2,316,000 and recognize a loss for impairment of its oil and gas properties of $2,450,000. As at June 30, 2019, a 1% decrease in the discount rate applied to the Company's future estimated cash flows would result in a reversal of impairment of approximately $0.13 million, whereas a ten percent increase in forward commodity prices would result in a reversal of $0.7 million impairment recognized in the statement of operations comprehensive loss for the six months ended June 30, 2019.

9. Promissory Note

The promissory note was issued to Canacol Energy Ltd. ("Canacol") as partial consideration in the Carrao acquisition. 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, Arrow and Canacol entered into an Amended and Restated Promissory Note to revise the terms of the original $5 million promissory note issued upon Arrow's acquisition of Carrao Energy S.A. from Canacol in September 2018. The amendments provide for repayment of the obligation commencing on July 1, 2019 at $500,000 per month until payout. The Amended Note, which still bears interest at 15%, also contains an accelerated payment feature whereby Canacol will receive 50% of Arrow's working interest cash flow from the Rio Cravo Este-1 well, calculated on a two-month trailing basis with immediate effect, up to a maximum of $500,000, such that the monthly payment to Canacol will not exceed $1 million. The balance of the obligation is also accelerated under the Amended Note in the event Arrow closes a credit facility or other financing structure, or closes a sale of assets pursuant to a definitive agreement entered into after April 29, 2019, in either case for net proceeds to Arrow in a minimum amount of $5 million.

On July 31, 2019, Arrow and Canacol entered into a Second Amended and Restated Promissory note to revise the terms of the April 29, 2019, Amended and Restated Promissory Note. The amendments provide a deferral of principal payments to commence on October 1, 2020, and which shall be paid in six monthly instalments such that all note obligations are paid in full on or before March 1, 2021. The amendments also provide that Arrow will repay all interest accrued to July 31, 2019, by December 31, 2019, and that commencing on September 1, 2019, the company will make monthly interest-only payments on the principal sum then outstanding plus the outstanding accrued interest balance. The interest payable on the promissory note remains unchanged at 15%, and the Note continues to be repayable at any time without penalty. The Company has now granted a general security interest to Canacol for the obligations under the Note which will be subordinated to second position in the event the Company secures additional financing.

10. Lease Obligations

Effective January 1, 2019, Arrow recognized a discounted lease obligation of $45,377 on initial adoption of IFRS 16. The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately $409,400 at June 30, 2019. A reconciliation of the discounted lease obligation is set forth below:

In United States Dollars

		June 30, 2019
Obligation, beginning of the period *(1)(2)*	$	45,377
Additions		251,876
Lease payments		(22,070)
Accretion		12,682
Effects of movements in foreign exchange rates		6,369
Obligation, end of the period	$	294,234
Current portion	$	73,833
Long-term portion		220,401
	$	294,234

(1) Arrow recognized a lease obligation primarily related to its office premises on initial adoption of IFRS 16.
(2) Arrow applied a discount rate of 10% to calculate the discounted value of the lease obligation on initial adoption of IFRS 16 and at June 30, 2019.

As at June 30, 2019, the Company has the following future commitments associated with its office lease obligations:

Less than one year	$	99,933
2 – 5 years		267,723
Total lease payments		367,656
Amounts representing interest over the term		(73,422)
Present value of the net obligation	$	294,234

The Corporation utilized certain IFRS 16 exemptions to exclude low-value right-of-use assets and short-term lease arrangements as leases. There were no lease arrangements subject to variable lease payments. These types of lease arrangements were recognized as operating leases payments totalled $40,142 and $72,662, and were recognized in the general and administrative expenses in the condensed consolidated statements of operations and comprehensive loss on a straight-line basis during the respective three and six months ended June 30, 2019.

11. 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 the Colombian National Authority of Environmental Licences (“ANLA”) 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 June 30, 2019 the Company had provided for $1,007,849 (December 31, 2018 - $1,096,559) for the environmental fee.

12. 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.

In United States Dollars

	June 30, 2019	December 31, 2018
Obligation, beginning of the period	**$ 5,833,563**	$ -
Additions as a result of corporate acquisitions	**-**	4,030,456
Change in estimated cash flows	**634,275**	1,203,980
Obligations recognized	**104,618**	729,995
Liabilities disposed	**(116,191)**	(194,657)
Accretion expenses	**190,712**	86,621
Effects of movements in foreign exchange rates	**18,392**	(22,832)
Obligation, end of the period	**$ 6,665,369**	$ 5,833,563

The obligation was calculated using a risk free discount rate of 2.25% in Canada and 5.31% to 6.22% in Colombia with an inflation rate of 2.0% to 3.3%.

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 $14,345,000.

13. Share Capital

(a) Authorized: Unlimited number of common shares without par value

(b) Issued:

Common shares	Shares	Amounts
Balance as at January 1, 2018	6,453,537	$ 7,585
Private placement	17,692,760	16,152,260
Shares issued in the reverse takeover transaction of Front Range	10,630,000	6,268,930
Shares issued in the acquisition of Carrao	22,598,870	20,000,000
Shares issued in the Samaria acquisition	11,799,435	10,442,500
Shares returned to treasury	(500,000)	(372,000)
Share issue costs	-	(1,758,983)
Balance as at December 31, 2018 and June 30, 2019	**68,674,602**	**$ 50,740,292**

(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 a number of non-transferable 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 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 shares on the day of grant. A summary of the status of the Company stock option plan as at June 30, 2019 and December 31, 2018 and changes during the respective periods ended on those dates is presented below:

	June 30, 2019		December 31, 2018	
Stock Options	**Number of options**	**Weighted average Exercise Price (CAD $)**	Number of options	Weighted average exercise price (CAD $)
Beginning of period	**6,350,000**	**$1.15**	480,659	$8.42
Granted	**1,665,000**	**$0.31**	6,350,000	1.15
Exercised	**-**	**-**	-	-
Expired/Forfeited	**(1,300,000)**	**$1.15**	(480,659)	(8.42)
End of period	**6,715,000**	**$0.94**	6,350,000	$1.15

In United States Dollars

Exercisable, end of period	**-**	**$ -**	-	$ -

Date of Grant	Number Outstanding	Exercise Price (CAD $)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable June 30, 2019
October 22, 2018	5,050,000	$1.15	9.32 years	Oct. 22, 2028	-
May 3, 2019	1,665,000	$0.31	9.85 years	May 3, 2029	-
	6,715,000	$0.94	9.45 years		

The weighted average fair market value per option granted in 2019 was approximately $0.21 (CAD) 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.

During the three and six months ended June 30, 2019, the Company recognized $165,675 and $487,571 (2018 - $nil), respectively, as share based payments expense, with a corresponding increase in the contributed surplus account.

14. Commitments and Contingencies

Exploration and Production Contracts

The Company has entered into 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 June 30, 2019 of $23.8 million. During the quarter the Company completed its earning commitment on the Tapir block by drilling the Rio Cravo Este-1 well and with the sale of non-core assets (Note 8), the Company transferred to the purchaser $6.95 million in commitments on the Coati block that were scheduled for 2020. Additionally, the company, in conjunction with its partners has made application to cancel a further $15.5 million gross, $5.79 million net to Arrow in commitments on the Macaya and Los Picachos blocks. If this application is successful, total commitments would be reduced to $18.0 million. The remaining commitments are expected to be satisfied by means of seismic work, exploration drilling and farm-outs.

Presented below are the Company's exploration and production contractual commitments at June 30, 2019:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	-	23,790,000	-	23,790,000
	$ -	**$ 23,790,000**	**$ -**	**$ 23,790,000**

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.

In United States Dollars

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.

Letters of Credit

At June 30, 2019, the Company had obligations under Letters of Credit ("LC's") outstanding totaling $13,205,000 to guarantee work commitments on exploration blocks and other contractual commitments. Of the total, approximately $12,200,000 has been guaranteed by Canacol. Under an agreement with Canacol, Canacol will continue to provide security for Arrow's Letters of Credit providing that Arrow uses all reasonable efforts to replace the LC's. In the case of the abandonment LC's on LLA-23, if the LC's have not been replaced by December 31, 2020, then Arrow will pay a 1% per annum fee, payable monthly until the LC's have been replaced. In the event the Company fails to secure the renewal of the letters of credit underlying the ANH guarantees, or any of them, the ANH could decide to cancel the underlying E&P contract for a particular block, as applicable. In this instance, the Company could risk losing its entire interest in the applicable block, including all capital expended to date, and could possibly also incur additional abandonment and reclamation costs if applied by the ANH.

Outstanding Letters of Credit as at June 30, 2019

Contract	Beneficiary	Issuer	Type	Amount (US $)	Due Date
LLA - 23	ANH	Canacol	Abandonment	$3,489,495	October 31, 2019
	ANH	Canacol and Carrao	Abandonment	$3,176,625	October 31, 2019
	ANH	Canacol and Carrao	Compliance	$1,495,000	September 30, 2019
Tapir	ECP	Samaria Llanos	Abandonment	$53,000	December 26, 2019
SANTA ISABEL	ANH	Carrao Energy SA Suc Col	Abandonment	$482,451	April 14, 2020
	ANH	Canacol and Carrao	Financial Capacity	$1,672,162	October 31, 2019
CORE - 39	ANH	Canacol	Compliance	$2,400,000	September 20, 2019
OMBU	ANH	Carrao Energy SA Suc Col	Financial Capacity	$436,300	April 14, 2020
Total				**$13,205,033**	

During the quarter the Company was able to reduce its guarantees required for abandonment on the LLA-23 block from $11,501,000 to $6,666,000 and following the sale of the remaining interest in the VMM2 block, the Company was able to cancel the compliance LC totaling $434,850.

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.

In United States Dollars

(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.

i) Financial Derivative Contracts

As of June 30, 2019, the Company had one financial derivative contract outstanding in order to manage commodity price risk. This instrument is not used for trading or speculative purposes. Arrow has not designated its financial derivative contract as effective accounting hedge, even though the Company considers the commodity contract to be an effective economic hedge. As a result, the such financial derivative contract has been recorded on the statements of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in the statement of operations and comprehensive loss.

As at June 30, 2019, Arrow had the following financial derivative contract in place in order to manage commodity price risk:

On May 10, 2019, Arrow entered into a costless collar structure to hedge approximately 600 barrels per day of Brent Oil for the period June 1, 2019 to December 31, 2019. The costless collar has a floor price of $65 per barrel and a ceiling price of $71 per barrel and a fair value of $251,350 at June 30, 2019.

The estimated fair value of the derivative financial instrument in Level 2 at each measurement date have been determined based on appropriate internal valuation methodologies and/or third party indications. Level 2 fair values determined using valuation models require the use of assumptions concerning the amount and timing of future cash flows and discount rates. In determining these assumptions, the Company primarily relied on external, readily-observable quoted market inputs as applicable, including crude oil forward benchmark commodity prices and volatility, and discounted to present value as appropriate. The resulting fair value estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and these differences may be material.

The gains on risk management activities for the three and six months ended June 30, 2019 are comprised as follows:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	**2019**	2018
Realized risk management gain on commodity contract settled	**$ 49,860**	$ -	**$ 49,860**	$ -
Unrealized gain on commodity contract outstanding at the end of the period	**251,350**	-	**251,350**	-
	$ 301,210	-	**$ 301,210**	-

(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 trade 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. Other accounts receivable mainly relate to balances owed by the Company's partner in one of its blocks, and are mainly recoverable through production. The Company has historically not experienced any collection issues with its customers and partners.

(c) Market Risk
Market risk is comprised of two components: foreign currency exchange 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 June 30, 2019 and December 31, 2018.

ii) Interest Rate 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 its liquidity risk is to ensure, within reasonable means, 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 objective 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

In United States Dollars

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:

		June 30, 2019		December 31, 2018
Working capital (deficiency)		**(3,000,864)**	$	(3,558,782)
Promissory notes		**(5,000,000)**		(5,000,000)
	$	**(8,000,864)**	$	(8,558,782)

16. Related parties

The Company paid legal and professional fees and reimbursements for the three and six months ended June 30, 2019 amounting to $18,000 (2018 - nil) and $36,000 (2018 - $nil), respectively, to a law firm of which a director of the Company is a partner. As at June 30, 2019, the amounts payable to the law firm were nil (December 31, 2018 - nil).

17. Segmented Information

The Company has two reportable operating segments: Colombia and Canada. 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 September 27, 2018 acquisition of assets in Colombia, 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 Canadian segment is also considered the corporate segment.

The following tables show information regarding the Company's segments for the three and six months ended and as at June 30, 2019.

Three months ended June 30, 2019		**Colombia**		**Canada**		**Total**
Revenue:						
Oil Sales	$	8,300,819	$	-	$	8,300,819
Natural gas and liquid sales		-		75,649		75,649
Other		-		15,034		15,034
Royalties		843,862		6,878		850,740
Expenses		4,692,472		2,308,030		7,000,502
Impairment of oil and gas properties		-		2,450,000		2,450,000
Taxes		(133,000)		-		(133,000)
Net loss	$	2,897,485	$	(4,674,225)	$	(1,776,740)
Funds flow from (used in) operations	$	2,934,861	$	(1,969,291)	$	965,570

In United States Dollars

June 30, 2019

Six months ended June 30, 2019		**Colombia**		**Canada**		**Total**
Revenue:						
Oil Sales	$	14,881,558	$	-	$	14,881,558
Natural gas and liquid sales		-		229,854		229,854
Other		-		16,908		16,908
Royalties		1,559,689		17,355		1,577,044
Expenses		10,818,405		3,753,027		14,571,432
Impairment of oil and gas properties		-		2,450,000		2,450,000
Taxes		10,764		-		10,764
Net loss	$	2,492,700	$	(5,973,620)	$	(3,480,920)
Funds flow from (used in) operations	$	4,825,489	$	(2,878,967)	$	1,946,522

As at June 30, 2019		**Colombia**		**Canada**		**Total**
Current assets	$	9,937,448	$	788,041	$	10,725,489
Non-current:						
Other receivables		1,306,724		-		1,306,724
Restricted cash		58,022		310,640		368,662
Exploration and evaluation		15,780,162		-		15,780,162
Property, plant and equipment		45,521,857		2,630,845		48,152,702
Total Assets	$	72,604,213	$	3,729,526	$	76,333,739
Current liabilities	$	15,849,928	$	2,950,258	$	18,800,186
Non-current liabilities:						
Derivative liability		-		100		100
Other liabilities		1,007,849		-		1,007,849
Lease obligation		-		220,401		220,401
Decommissioning liability		6,211,929		453,440		6,665,369
Deferred income taxes		2,210,000		-		2,210,000
Total liabilities	$	25,279,706	$	3,624,199	$	28,903,905