Arrow Exploration Corp.
Condensed Consolidated Financial Statements
June 30, 2020
In United States Dollars
(Unaudited)

Contents

Notice of No Auditor Review of the Interim Condensed Consolidated Financial Statements as at and for the three and six months ended June 30, 2020

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

As at	Notes		June 30, 2020		December 31, 2019
Assets					
Current					
Cash		**$**	**238,247**	$	1,085,655
Trade and other receivables	**4**		**2,388,322**		3,927,724
Taxes receivable	**5**		**2,606,651**		2,349,543
Deposits and prepaid expenses			**262,003**		271,197
Inventory			**76,968**		177,770
			5,572,191		7,811,889
Non-current assets					
Deferred income taxes			**5,726,000**		-
Trade and other receivables	**4**		**788,777**		784,056
Restricted cash	**3**		**437,411**		449,288
Exploration and evaluation	**6**		**7,142,462**		6,961,667
Property and equipment	**7**		**27,720,099**		56,743,806
Total Assets		**$**	**47,386,940**	$	72,750,706

Liabilities					
Current					
Accounts payable and accrued liabilities		**$**	**10,047,143**	$	10,614,821
Lease obligation	**9**		**15,360**		60,709
Promissory note	**8**		**5,668,302**		-
			15,730,805		10,675,530
Non-current liabilities					
Derivative liability	**10**		**100**		100
Long-term debt	**11**		**29,352**		-
Lease obligation	**9**		**58,315**		199,488
Other liabilities	**12**		**1,007,849**		1,007,849
Decommissioning liability	**13**		**8,457,751**		8,173,222
Promissory note	**8**		**-**		5,714,076
Deferred income taxes			**-**		1,824,000
Total liabilities			**25,284,172**		27,594,265
Shareholders' equity					
Share capital	**14**		**50,740,292**		50,740,292
Contributed surplus			**1,425,257**		1,603,788
Deficit			**(29,535,592)**		(6,646,246)
Accumulated other comprehensive loss			**(527,189)**		(541,393)
			22,102,768		45,156,141
Total liabilities and shareholders’ equity		**$**	**47,386,940**	$	72,750,706

Nature of operations and going concern (Note1)

Commitments and contingencies (Note 15)

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

On behalf of the Board:

signed “Gage Jull” Director
Gage Jull

signed “Brian Hearst” Director
Brian Hearst

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

	Notes	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Revenue					
Oil and natural gas		**$ 890,728**	$ 8,376,468	**$ 5,036,108**	$ 15,111,412
Other		**21,691**	15,034	**23,793**	16,908
Royalties		**5,283**	(850,740)	**(291,617)**	(1,577,044)
		917,702	7,540,762	**4,768,284**	13,551,276
Expenses					
Operating		**1,107,527**	3,205,137	**3,258,552**	6,576,198
Administrative		**845,164**	1,855,026	**2,205,064**	3,124,023
Share based payments	**14**	**(33,504)**	165,675	**(178,531)**	487,571
Financing costs:					
Accretion	**13**	**153,002**	96,140	**304,884**	190,712
Interest		**246,189**	214,997	**502,096**	424,930
Other		**60,447**	588,165	**112,795**	588,164
Risk management activities	**16(a)**	**766,424**	(301,210)	**-**	(301,210)
Foreign exchange loss		**(88,627)**	527,783	**(93,490)**	511,005
Depletion and depreciation		**397,082**	2,280,963	**1,841,936**	4,602,213
Impairment of oil and gas properties	**8**	**-**	1,531,000	**27,263,110**	1,531,000
Gain on the disposal of oil and gas properties		**-**	(1,632,174)	**-**	(1,632,174)
		3,453,704	8,531,502	**35,216,416**	16,102,432
Loss before taxes		**(2,536,002)**	(990,740)	**(30,448,132)**	(2,551,156)
Income taxes (recovery)					
Current		**(45,921)**	-	**(8,786)**	126,764
Deferred		**(5,659,000)**	(133,000)	**(7,550,000)**	(116,000)
		(5,704,921)	(133,000)	**(7,558,786)**	10,764
Net gain (loss) for the period		**3,168,919**	(857,740)	**(22,889,346)**	(2,561,920)
Other comprehensive loss					
Foreign exchange		**(8,075)**	(140,177)	**14,204**	(124,968)
Net gain (loss) and comprehensive loss for the period		**$ 3,160,844**	$ (997,917)	**$ (22,875,142)**	$ (2,686,888)
Loss per share					
- basic and diluted		**$ 0.05**	$ (0.01)	**$ (0.33)**	$ (0.04)
Weighted average shares outstanding					
- basic and diluted [(1)]		**68,674,602**	68,674,602	**68,674,602**	68,674,602

(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, 2020	$ 50,740,292	$ 1,603,788	$ (541,393)	$ (6,646,246)	$ 45,156,441
Net loss for the period	-	-	-	(22,889,346)	(22,889,346)
Comprehensive income for the period	-	-	14,204	-	14,204
Share based payments	-	(178,531)	-	-	(178,531)
Balance June 30, 2020	$ 50,740,292	$ 1,425,257	$ (527,189)	$ (29,535,592)	$ 22,102,768

	Share Capital	Contributed Surplus	Accumulated other comprehensive income (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

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,	**2020**	2019
Cash flows (used in) provided by operating activities		
Net loss for the period	**$ (22,889,346)**	$ (2,561,920)
Items not involving cash:		
Deferred taxes	**(7,550,000)**	(116,000)
Share based payment	**(178,531)**	487,571
Depletion and depreciation	**1,841,936**	4,602,213
Impairment of oil and gas properties	**27,263,110**	1,531,000
Interest on leases	**11,641**	12,682
Accretion	**304,884**	190,712
Foreign exchange	**(161,939)**	(316,212)
Risk management activities	**-**	(251,350)
Gain on change in leases	**(17,981)**	-
Gain on the disposal of oil and gas properties	**-**	(1,632,174)
Changes in non-cash working capital balances:		
Trade and other receivables	**1,534,681**	(2,827,986)
Taxes receivable	**(257,108)**	(2,092,010)
Deposits and prepaid expenses	**9,193**	1,257,869
Inventory	**100,802**	418,497
Accounts payable and accrued liabilities	**(1,551,380)**	(3,768,270)
Cash used in operating activities	**(1,540,038)**	(5,065,378)
Cash flows provided by (used in) investing activities		
Additions to exploration and evaluation assets	**(180,795)**	(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	**983,704**	5,336,681
Cash flows provided by investing activities	**802,909**	3,938,196
Cash flows used in financing activities		
Lease payments	**(47,946)**	(22,068)
Increase in long-term debt	**29,352**	-
Cash flows used in financing activities	**(18,594)**	(22,068)
Effect of changes in the exchange rate on cash and cash equivalents	**(91,685)**	-
Decrease in cash	**(847,408)**	(1,149,250)
Cash, beginning of period	**1,085,655**	1,994,233
Cash, end of period	**$ 238,247**	$ 844,983

Supplemental information		
Interest paid	**$ 71,709**	**$ -**
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 head office of Arrow is located at 1430, 333 – 11th Ave SW, Calgary, Alberta, Canada, T2R 1L9 and the registered office is located at Suite 1600, 421 – 7th Avenue SW, Calgary, Alberta, Canada, T2P 4K9.

These condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company had a net loss of $22,889,346 for the six months ended June 30, 2020 and had a working capital deficit of $10,158,614 as at June 30, 2020. During 2020, oil and gas prices have been significantly depressed and the global impact of the COVID-19 pandemic has fostered a great deal of uncertainty for the future operations of the Company. The Company's ability to continue as a going concern is dependent on management's ability to identify additional sources of capital and to raise sufficient resources to fund ongoing operating expenses and commitments. There is no assurance these initiatives will be successful in the future. These conditions indicate the existence of material uncertainties that may cast significant doubt regarding the applicability of the going concern assumption. These condensed consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. These adjustments could be material.

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 of the Company on August 26, 2020. 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, 2019.

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, 2019.

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, 2019.

In United States Dollars

3. Restricted Cash

		June 30, 2020		December 31, 2019
Colombia *(i)*	**$**	**53,726**	$	53,726
Canada *(ii)*		**383,685**		395,562
	$	**437,411**	$	449,288

(i) *Current restricted cash is comprised by a deposit held as collateral to guarantee abandonment expenditures related to the Mateguafa well in the Tapir block.*

(ii) *Pursuant to Alberta government regulations, the Company was required to pay a $303,415 (CAD $413,485) 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. The remaining $80,270 pertain to lease and other deposits held in Canada.*

4. Trade and other receivables

		June 30, 2020		December 31, 2019
Trade receivables, net of advances	**$**	**480,703**	$	774,740
Other accounts receivable		**2,696,396**		3,937,041
		3,177,099		4,711,781
Long-term portion of trade and other receivables		**(788,777)**		(784,057)
	$	**2,388,322**	$	3,927,725

As at June 30, 2020, other accounts receivable include $2,518,250 (December 31, 2019 – $3,016,367) 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, of which $1,789,332 million will be recovered through future production. The Company estimates that $1,000,555 will be recovered in the next 12 months, therefore $788,777 were classified as non-current. The remaining $728,918 will be collected in cash within the next 12 months.

5. Taxes receivable

		June 30, 2020		December 31, 2019
Value-added tax (VAT) credits recoverable	**$**	**1,795,403**	$	1,776,582
Income tax withholdings and advances, net		**811,248**		572,961
	$	**2,606,651**	$	2,349,543

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.

In United States Dollars

6. Exploration and Evaluation

		June 30, 2020		December 31, 2019
Balance, beginning of the period	**$**	**6,961,667**	$	10,547,118
Additions, net		**180,795**		7,062,638
Capitalized administrative costs		**-**		423,750
Transfers to oil and gas properties		**-**		(11,071,839)
Balance, end of the period	**$**	**7,142,462**	$	6,961,667

During 2019, the Company determined the technical feasibility and commercial viability of its Tapir assets related to the Rio Cravo Este-1 discovery and transfered $11,071,839 to its property and equipment.

7. Property and Equipment

Cost		**Oil and Gas Properties**		**Right of Use and Other Assets**		**Total**
Balance, December 31, 2019	$	67,673,851	$	374,426	$	68,048,277
Change in right-of-use assets (Note 9)		-		(192,321)		(192,321)
Balance, June 30, 2020	$	67,673,851	$	182,105	$	67,854,956

Accumulated depletion and depreciation and impairment		**Oil and Gas Properties**		**Right of Use and Other Assets**		**Total**
Balance, December 31, 2019	$	11,423,360	$	93,742	$	11,517,102
Depletion and depreciation		1,794,740		47,196		1,841,936
Change in right-of-use assets (Note 9)		-		(72,428)		(72,428)
Impairment of oil and gas properties		27,263,110		-		27,263,110
Balance, June 30, 2020	$	40,481,210	$	68,510	$	40,549,720
Foreign exchange						
Balance December 31, 2019	$	221,322	$	(8,690)	$	212,632
Effects of movements in foreign exchange rates		202,393		(1,162)		201,231
Balance June 30, 2020	$	423,715	$	(9,852)	$	413,863
Net Book Value						
Balance December 31, 2019	$	56,471,813	$	271,994	$	56,743,806
Balance June 30, 2020		27,616,356	$	103,743	$	27,720,099

As at June 30, 2020, the Company reviewed its cash-generating unit's ("CGU") for property and equipment and determined that there were no indicators of impairment. As at March 31, 2020, the Company reviewed its CGUs and determined that there were indicators of impairment present related to the decrease in prices and reserves. The company prepared estimates of both the value in use and fair value less costs of disposal of its CGUs and it was determined that carrying value of each CGU not exceeded its recoverable amount and, therefore, an impairment loss of $27,263,110 is included in the consolidated statements of operations and comprehensive loss for the six months ended June 30, 2020.

In United States Dollars

8. Promissory Note

The promissory note was issued to Canacol Energy Ltd. ("Canacol") as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The promissory note bears interest at 15% per annum, was initially due on January 28, 2019 and subsequently extended to April 30, 2019, October 1, 2020 and April 1, 2021. On December 31, 2019, Arrow and Canacol entered into a Third Amended and Restated Promissory. The principal amendments are the following:

- On or before April 1, 2021, the Company shall pay in full all accrued and outstanding interest owed until July 31, 2019 of $628,767 (the "Interim Interest") plus interest on such sum at a rate of 15% from December 31, 2019 until the date of payment;
- Commencing September 1, 2019, and on the first day of each month thereafter, the Company shall make interest-only monthly payments equal to the total amount of interest on the principal sum plus interest on the interim interest sum, until paid in full; and
- Commencing April 1, 2021, and on the first day of each of the following six months thereafter, the Company shall make equal monthly payments of the balance of the principal sum outstanding as of April 1, 2021 such that all remaining obligations are paid in full on or before September 1, 2021.

On March 19, 2020, a fourth amended and restated promissory note was agreed by the parties removing a two Canacol Directors requirement and temporarily waiving the change in control provision set forth in the third amendment, leaving all other amendments unchanged.

The Company has 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.

9. Lease Obligations

A reconciliation of the discounted lease obligation is set forth below:

	2020
Obligation, beginning of the period	$ 260,197
Changes in existing lease	(137,874)
Lease payments	(47,946)
Accretion	11,641
Effects of movements in foreign exchange rates	(12,343)
Obligation, end of the period	$ 73,675
Current portion	$ 15,360
Long-term portion	58,315
	$ 73,675

As at June 30, 2020, the Company has the following future commitments associated with its office lease obligations:

Less than one year	$ 22,036
2 – 5 years	67,857
Total lease payments	89,893
Amounts representing interest over the term	(16,218)
Present value of the net obligation	$ 73,675

In United States Dollars

During June 2020, the Company renegotiated its remaining lease agreement to reduce its leased corporate space and its related future lease obligation. As a result, the Company reduced its right-of-use assets in $119,893 (net) and its lease obligation in $137,874, and it recognized a gain in change of lease for $17,981 in the consolidated statement of operations and comprehensive loss.

10. Derivative liability

(a) Warrants issued and outstanding

	2020			2019		
Warrants	**Number**	**Amounts**		Number	Amounts	
Balance beginning of the year	**18,322,760**	**$**	**100**	18,322,760	$	100
Balance end of the year	**18,322,760**	**$**	**100**	18,322,760	$	100

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 compensatory warrants outstanding at June 30, 2020. Each non-compensatory warrant is measured at fair value quarterly using the Black-Scholes options pricing model. The fair value of warrants at June 30, 2020 and December 31, 2019 was estimated using the following assumptions:

	June 30, 2020	December 31, 2019
Number outstanding re-valued warrants, end of period	**18,322,760**	18,322,760
Fair value of warrants outstanding	**CAD$0.00**	CAD$0.00
Risk free interest rate	**1.73%**	1.73%
Expected life	**0.25 years**	0.75 years
Expected volatility	**35%**	35%

The following table summarizes the warrants outstanding and exercisable at June 30, 2020:

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			

11. Long-term debt

During 2020, the Company received $29,352 (CAD$40,000) from the Canadian Emergency Business Account (CEBA) program implemented by the government of Canada to provide support to small businesses affected by the Covid-19 pandemic. The loan does not bear any interest until December 2022 and is subject to a 25% forgiveness if the full balance is repaid before that date.

12. Other Liabilities

The other liabilities of the Company relate to an environmental fee in Colombia that is levied on capital projects. 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, 2020 the Company had provided for $1,007,849 (December 31, 2019 - $1,007,849) for the environmental fee.

In United States Dollars

13. 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.

	June 30, 2020	December 31, 2019
Obligation, beginning of the period	**$ 8,173,222**	$ 5,833,563
Change in estimated cash flows	**-**	1,946,607
Obligations recognized	**-**	104,618
Liabilities disposed	**-**	(116,191)
Accretion expenses	**304,884**	382,997
Effects of movements in foreign exchange rates	**(20,355)**	21,628
Obligation, end of the period	**$ 8,457,751**	$ 8,173,222

The obligation was calculated using a risk-free discount rate range of 1.50% to 2.75% in Canada and 4.50% to 6.42% in Colombia with an inflation rate of 2.0% and 3.8%, respectively. 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 $18,154,528.

14. Share Capital

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

(b) Issued:

Common shares	Shares	Amounts
Balance as at June 30, 2020 and December 31, 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. A summary of the status of the Company stock option plan as at June 30, 2020 and December 31, 2019 and changes during the respective periods ended on those dates is presented below:

	June 30, 2020		December 31, 2019	
Stock Options	**Number of options**	**Weighted average exercise Price (CAD $)**	Number of options	Weighted average exercise price (CAD $)
Beginning of period	**5,470,000**	**$0.99**	6,350,000	$1.15
Granted	**-**	**-**	1,665,000	$0.31
Exercised	**-**	**-**	-	-
Expired/Forfeited	**(2,546,667)**	**$0.96**	(2,545,000)	$1.15
End of period	**2,923,333**	**$1.01**	5,470,000	$0.99
Exercisable, end of period	**1,230,001**	**$1.04**	1,466,667	$1.15

In United States Dollars

Date of Grant	Number Outstanding	Exercise Price (CAD $)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable June 30, 2020
October 22, 2018	2,433,333	$1.15	8.32 years	Oct. 22, 2028	1,066,667
May 3, 2019	490,000	$0.31	8.85 years	May 3, 2029	163,334
	2,923,333	$1.01	8.41 years		1,230,001

During the six and three months ended June 30, 2020 and 2019, the Company recognized an income of $178,531 and an expense of $487,571, respectively, as share based payments expense, with a corresponding decrease or increase in the contributed surplus account.

On May 23, 2020, the Company announced the completion of a proposed non-brokered private placement of 13,000,000 common shares of the Company at a price of CAD$0.025 per share for gross proceeds of CAD$325,000. This private placement has not been approved by regulators and the Company has decided to cancel it.

15. 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, 2020 of $23.8 million. The Company, in conjunction with its partners, have made applications to cancel a further $15.5 million ($5.79 million Arrow's share) in commitments on the Macaya and Los Picachos blocks. This request has been denied by the ANH. 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, 2020:

	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. 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, 2020, the Company had obligations under Letters of Credit ("LC's") outstanding totaling $12.3 million to guarantee work commitments on exploration blocks and other contractual commitments. Of the total, approximately $11.9 million has been guaranteed by Canacol. Under an agreement, 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 exploration and production 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.

In United States Dollars

Current Outstanding Letters of Credit

Contract	Beneficiary	Issuer	Type	Amount (US $)	Renewal Date
LLA - 23	ANH	Canacol	Abandonment	$3,489,495	December 31, 2020
	ANH	Canacol and Carrao	Abandonment	$3,176,625	December 31, 2020
	ANH	Canacol and Carrao	Compliance	$600,000	December 31, 2020
Tapir	ECP	Samaria Llanos	Abandonment	$52,898	December 26, 2020
SANTA ISABEL	ANH	Carrao Energy SA Suc Col	Abandonment	$482,451	April 14, 2021
	ANH	Canacol and Carrao	Financial Capacity	$1,672,162	December 30, 2020
CORE - 39	ANH	Canacol	Compliance	$2,400,000	December 31, 2020
OMBU	ANH	Carrao Energy SA Suc Col	Financial Capacity	$436,300	April 14, 2021
Total				**$12,309,931**	

16. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price, 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.

i) Financial Derivative Contracts

The Company has one financial derivative contract 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 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.

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 realized gain on risk management activities is included as part of revenues in the consolidated statements of operations and comprehensive loss. The gains on risk management activities for the six months ended June 30, 2020 are comprised as follows:

	For the six months ended June 30	
	2020	2019
Realized risk management gain on commodity contract settled	**$ 1,288,523**	$ 49,860
Unrealized gain on commodity contract outstanding	**-**	251,350
	$ 1,288,523	$ 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 and balances receivables with partners in areas operated by the Company. 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 the trade accounts receivable balance is with one commodity trader, which accounts for more than 65% of such balance, under an existing sale/offtake agreement with prepayment provisions and priced using the Brent benchmark. Other accounts receivable include a significant balance with a partner with an existing agreement to use 50% of its production entitlement to repay this balance.

The Company's trade account receivables primarily relate to sales of crude oil 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.

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.

In United States Dollars

(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 capital base sufficient 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 debt, less working capital items. 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:

	June 30, 2020	December 31, 2019
Working capital (deficit)	**(4,490,312)**	(2,863,641)
Promissory note	**(5,668,302)**	(5,714,076)
	$ (10,158,614)	$ (8,577,717)

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and its ability to generate income and cash flows in the future. At June 30, 2020, the Company remains in compliance with all terms of its debt and, based on current available information, management expects to comply with all terms during the subsequent 12 months period. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for recovery in such prices and the effect of the Covid-19 pandemic, the preparation of financial forecast is challenging.

In United States Dollars

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. 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, 2020:

Three months ended June 30, 2020	**Colombia**	**Canada**	**Total**
Revenue:			
Oil Sales	$ 820,731	$ -	$ 820,731
Natural gas and liquid sales	-	69,997	69,997
Other	3,046	18,645	21,691
Royalties	(13,304)	8,021	(5,283)
Expenses	2,677,906	775,798	3,453,704
Impairment of oil and gas properties	-	-	-
Taxes	(5,704,922)	-	(5,704,922)
Net income (loss)	$ 3,864,096	$ (695,177)	$ 3,168,919

Six months ended June 30, 2020	**Colombia**	**Canada**	**Total**
Revenue:			
Oil Sales	$ 4,887,561	$ -	$ 4,887,561
Natural gas and liquid sales	-	148,547	148,547
Other	3,615	20,177	23,792
Royalties	278,262	13,355	291,617
Expenses	6,177,407	1,775,899	7,953,306
Impairment of oil and gas properties	27,263,110	-	27,263,110
Taxes	(7,558,786)	-	(7,558,786)
Net income (loss)	$ (21,268,816)	$ (1,620,530)	$ (22,889,346)

As at June 30, 2020	**Colombia**	**Canada**	**Total**
Current assets	$ 5,508,874	$ 63,317	$ 5,572,191
Non-current:			
Deferred income taxes	5,726,000	-	5,726,000
Other receivables	788,777	-	788,777
Restricted cash	53,726	383,686	437,412
Exploration and evaluation	7,142,462	-	7,142,462
Property, plant and equipment	24,635,547	3,084,552	27,720,099
Total Assets	$ 43,855,385	$ 3,531,555	$ 43,386,940
Current liabilities	$ 6,758,930	$ 3,303,573	$ 10,062,503
Non-current liabilities:			
Derivative liability	-	100	100
Other liabilities	1,007,849	-	1,007,849
Lease obligation	-	58,315	58,315
Decommissioning liability	7,986,914	470,837	8,457,751
Long-term debt	-	29,352	29,352
Promissory note	-	5,668,302	5,668,302
Total liabilities	$ 15,753,693	$ 9,530,479	$ 25,284,172

18. Subsequent events

On August 24, 2020, the Company announced the sale of its LLA-23 block to COG Energy Ltd. For a gross cash consideration of up to $12 million (the "Sale Price")subject to the approval of the license transfer to the ANH. The Sale Price consists of a firm amount of US$11.75 million, and a contingent payment amount of up to US$0.25 million ("Contingent Payment"). The Contingent Payment shall be made to Arrow, in whole or in part, depending on the outcome of some specific matters. In addition to receiving the Sale Price, Arrow will transfer to COG its work obligations under various letters of credit in place to guarantee work commitments on LLA-23, as well as some underlying decommissioning and environmental liabilities.

On August 3, 2020, the Company entered into a Fifth Amended and Restated Promissory Note (the "Note") with Canacol. Among other amendments, Canacol has agreed to forgive $918,000 of accrued interest to date, in exchange for the Company providing full and perfected security to the Canacol over the shares of its operating subsidiaries in Panama. At any time, and from time to time, all or any portion of the Note then outstanding, may be prepaid by the Company without penalty or prepayment fee.