

ARROW EXPLORATION CORP.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SIX AND THREE MONTHS ENDED JUNE 30, 2021**





MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") as provided by the management of Arrow Exploration Corp. ("Arrow" or the "Company"), is dated as of August 27, 2021 and should be read in conjunction with Arrow's condensed consolidated financial statements (unaudited) and related notes for the six and three months ended June 30, 2021 and 2020. Additional information relating to Arrow is available under Arrow's profile on www.sedar.com, including Arrow's Audited Consolidated Financial Statements (the "Annual Financial Statements") for the year ended December 31, 2020 and 2019.

Advisories

Basis of Presentation

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in United States dollars, unless otherwise noted. Additional information for the Company may be found on SEDAR at www.sedar.com.

Advisory Regarding Forward-Looking Statements

This MD&A contains certain statements or disclosures relating to Arrow that are based on the expectations of its management as well as assumptions made by and information currently available to Arrow which may constitute forward-looking statements or information ("forward-looking statements") under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that Arrow anticipates or expects may, could or will occur in the future (in whole or in part) should be considered forward-looking statements. In some cases, forward-looking statements can be identified by the use of the words "believe", "continue", "could", "expect", "likely", "may", "outlook", "plan", "potential", "will", "would" and similar expressions. In particular, but without limiting the foregoing, this MD&A contains forward-looking statements pertaining to the following: the COVID-19 pandemic and its impact; tax liability; capital management strategy; capital structure; credit facilities and other debt; performance by Canacol (as defined herein) and the Company in connection with the Note (as defined herein) and letters of credit; Arrow's costless collar structure; Arrow's interest in the OBC Pipeline (as defined herein) and the consequences thereof; cost reduction initiatives; potential drilling on the Tapir block; capital requirements; expenditures associated with asset retirement obligations; future drilling activity and the development of the Rio Cravo Este structure on the Tapir Block. Statements relating to "reserves" and "resources" are deemed to be forward-looking information, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future.

The forward-looking statements contained in this MD&A reflect several material factors and expectations and assumptions of Arrow including, without limitation: current and anticipated commodity prices and royalty regimes; the impact and duration of the COVID-19 pandemic; the financial impact of Arrow's costless collar structure; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; commodity prices; the impact of increasing competition; general economic conditions; availability of drilling and related equipment; receipt of partner, regulatory and community approvals; royalty rates; future operating costs; effects of regulation by governmental agencies; uninterrupted access to areas of Arrow's operations and infrastructure; recoverability of reserves; future production rates; timing of drilling and completion of wells; pipeline capacity; that Arrow will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that Arrow's conduct and results of operations will be consistent with its expectations; that Arrow will have the ability to develop its oil and gas properties in the manner currently contemplated; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated; that the estimates of Arrow's reserves and production volumes and the



assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; that Arrow will be able to obtain contract extensions or fulfil the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; and other matters.

Arrow believes the material factors, expectations and assumptions reflected in the forward-looking statements are reasonable at this time but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation: the impact and duration of the COVID-19 pandemic; the impact of general economic conditions; volatility in commodity prices; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; obtaining required approvals of regulatory authorities; counterparty risk; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; commodity price volatility; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs; changes to pipeline capacity; ability to secure a credit facility; ability to access sufficient capital from internal and external sources; risk that Arrow's evaluation of its existing portfolio of development and exploration opportunities is not consistent with future results; that production may not necessarily be indicative of long term performance or of ultimate recovery; and certain other risks detailed from time to time in Arrow's public disclosure documents including, without limitation, those risks identified in Arrow's 2018 AIF, a copy of which is available on Arrow's SEDAR profile at www.sedar.com. Readers are cautioned that the foregoing list of factors is not exhaustive and are cautioned not to place undue reliance on these forward-looking statements.

Non-IFRS Measures

The Company uses non-IFRS measures to evaluate its performance which are measures not defined in IFRS. Working capital, funds flow from operations, realized prices, operating netback, adjusted EBITDA, and net debt as presented do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The Company considers these measures as key measures to demonstrate its ability to generate the cash flow necessary to fund future growth through capital investment, and to repay its debt, as the case may be. These measures should not be considered as an alternative to, or more meaningful than net income (loss) or cash provided by operating activities or net loss and comprehensive loss as determined in accordance with IFRS as an indicator of the Company's performance. The Company's determination of these measures may not be comparable to that reported by other companies.

Working capital is calculated as current assets minus current liabilities; funds from operations is calculated as cash flows from (used in) operating activities adjusted to exclude settlement of decommissioning obligations and changes in non-cash working capital balances; realized price is calculated by dividing gross revenue by gross production, by product, in the applicable period; operating netback is calculated as total natural gas and crude revenues minus royalties, transportation costs and operating expenditures; adjusted EBITDA is calculated as net loss adjusted for interest, income taxes, depreciation, depletion, amortization and other similar non-recurring or non-cash charges; and net debt is defined as the principal amount of its outstanding debt, less working capital items.

The Company also presents funds from operations per share, whereby per share amounts are calculated using weighted-average shares outstanding consistent with the calculation of net loss and comprehensive loss per share.

A reconciliation of the non-IFRS measures is included as follows:



| (in United States dollars) | Three months ended June 30, 2021 | Six months ended June 30, 2021 | Three months ended June 30, 2019 |
|--|--|--------------------------------------|--|
| Net loss | (734,317) | (1,244,722) | 3,168,919 |
| Add/(subtract): | | | |
| Share based payments | (278,254) | (550,311) | (33,504) |
| Financing costs: | | | |
| Accretion on decommissioning obligations | 32,906 | 64,969 | 153,002 |
| Interest | 115,883 | 377,687 | 246,189 |
| Other | 716 | 46,463 | 60,447 |
| Depreciation and depletion | 333,282 | 603,712 | 397,082 |
| Risk management activities | - | - | 766,424 |
| Income taxes, current and deferred | - | - | (5,704,922) |
| Adjusted EBITDA ⁽¹⁾ | (529,784) | (702,202) | (946,363) |
| Cash flows provided by operating activities | (1,762,640) | (4,698,924) | (960,166) |
| Minus - Changes in non-cash working capital balances: | | | |
| Trade and other receivables | 50,628 | (410,909) | (578,551) |
| Restricted cash | (3,099) | (256,113) | - |
| Taxes receivable | 143,500 | 78,537 | (104,642) |
| Deposits and prepaid expenses | 123,288 | 135,047 | 48,387 |
| Inventory | 182,695 | 182,695 | (100,787) |
| Accounts payable and accrued liabilities | 1,018,618 | 4,351,550 | 349,860 |
| Funds flow used in operations ⁽¹⁾ | (247,010) | (618,117) | (1,345,899) |

⁽¹⁾Non-IFRS measures

The term barrel of oil equivalent (“boe”) is used in this MD&A. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 thousand cubic feet (“Mcf”) of natural gas to one barrel of oil (“bbl”) is used in the MD&A. This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.



FINANCIAL AND OPERATING HIGHLIGHTS

| (in United States dollars, except as otherwise noted) | Three months ended June 30, 2021 | Six months ended June 30, 2021 | Three months ended June 30, 2020 |
|---|--|--------------------------------------|--|
| Total natural gas and crude oil revenues, net of royalties | 941,620 | 1,789,052 | 896,011 |
| Funds flow from (used in) operations ⁽¹⁾ | (247,010) | (618,117) | (1,345,899) |
| Per share – basic (\$) and diluted (\$) | (0.00) | (0.01) | (0.02) |
| Net income (loss) | (734,317) | (1,244,722) | 3,168,919 |
| Per share – basic (\$) and diluted (\$) | (0.01) | (0.02) | 0.05 |
| Adjusted EBITDA ⁽¹⁾ | (529,784) | (702,202) | (946,363) |
| Weighted average shares outstanding – basic and diluted | 68,674,602 | 68,674,602 | 68,674,602 |
| Common shares end of period | 68,674,602 | 68,674,602 | 68,674,602 |
| Capital expenditures | (15,378) | 81,952 | 180,795 |
| Cash and cash equivalents | 4,559,231 | 4,559,231 | 238,247 |
| Current Assets | 8,773,936 | 8,773,936 | 5,572,191 |
| Current liabilities | 5,632,719 | 5,632,719 | 15,730,805 |
| Working capital (deficit) ⁽¹⁾ | 3,141,217 | 3,141,217 | (10,158,614) |
| Long-term portion of restricted cash ⁽²⁾ | 503,257 | 503,257 | 437,412 |
| Total assets | 25,948,551 | 25,948,551 | 47,386,940 |
| Operating | | | |
| Natural gas and crude oil production, before royalties | | | |
| Natural gas (Mcf/d) | 373 | 378 | 545 |
| Natural gas liquids (bbl/d) | 4 | 4 | 6 |
| Crude oil (bbl/d) | 264 | 220 | 321 |
| Total (boe/d) | 331 | 287 | 418 |
| Operating netbacks (\$/boe) ⁽¹⁾ | | | |
| Natural gas (\$/Mcf) | 0.74 | 0.88 | (0.17) |
| Crude oil (\$/bbl) | 27.31 | 31.44 | (7.18) |
| Total (\$/boe) | 22.37 | 25.19 | (5.57) |

⁽¹⁾Non-IFRS measures – see “Non-IFRS Measures” section within this MD&A

⁽²⁾Long term restricted cash not included in working capital



The Company

Arrow is a junior oil and gas company engaged in the acquisition, exploration and development of oil and gas properties in Colombia and 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. and Front Range's then wholly-owned subsidiary, 2118295 Alberta Ltd., were amalgamated to form Arrow Holdings Ltd., a wholly-owned subsidiary of the Company (the "Arrangement"). On May 31, 2018, Arrow Exploration Ltd. entered in a share purchase agreement, as amended, with Canacol Energy Ltd. ("Canacol"), to acquire Canacol's Colombian oil properties held by its wholly-owned subsidiary Carrao Energy S.A. ("Carrao"). On September 27, 2018, Arrow Exploration Ltd. closed the agreement with Canacol.

On May 31, 2018, Arrow Exploration Ltd., entered into a purchase and sale agreement to acquire a 50% beneficial interest in a contract entered into with Ecopetrol S.A. pertaining to the exploration and production of hydrocarbons in the Tapir block from Samaria Exploration & Production S.A. ("Samaria"). On September 27, 2018, Arrow Exploration Ltd. closed the agreement with Samaria. As at June 20, 2021 the Company held an interest in six oil blocks in Colombia and oil and natural gas leases in seven areas in Canada as follows:

| | | Gross Acres | Working Interest | Net Acres |
|-----------------------|--------------|----------------|------------------|----------------|
| COLOMBIA | | | | |
| Tapir | Operated | 65,125 | 50% | 32,563 |
| Oso Pardo | Operated | 672 | 100% | 672 |
| Ombu | Non-operated | 56,482 | 10% | 5,648 |
| COR-39 | Operated | 95,111 | 100% | 95,111 |
| Los Picachos | Non-operated | 52,772 | 37.5% | 19,790 |
| Macaya | Non-operated | 195,255 | 37.5% | 73,221 |
| Total Colombia | | 465,417 | | 227,005 |
| CANADA | | | | |
| Ansell | Operated | 640 | 100% | 640 |
| Chicken | Non-operated | 1,280 | 30% | 384 |
| Fir | Non-operated | 7,680 | 32% | 2,457 |
| Harley | Operated | 1,920 | 100% | 1,920 |
| Penhold | Non-operated | 480 | 13% | 61 |
| Pepper | Operated | 24,320 | 99% | 24,000 |
| Wapiti | Non-operated | 7,040 | 23% | 1,600 |
| Total Canada | | 43,360 | | 31,062 |
| TOTAL | | 508,777 | | 258,067 |



The Company's primary producing assets are located in Colombia in the Tapir, Oso Pardo and Ombu blocks, and in Canada at Fir, Alberta.

Llanos Basin

Within the Llanos Basin, the Company is engaged in the exploration, development and production of oil within the Tapir block. On June 10, 2019, the Company announced a discovery at its Rio Cravo Este-1 ("RCE-1") exploration well on the Tapir block.

In the Llanos Basin most oil accumulations are associated with three-way dip closure against NNE-SSW trending normal faults and can have pay within multiple reservoirs. Effective exploration for this play requires good quality 3D seismic data. The Tapir block contain large areas not yet covered by 3D seismic, and in Management's opinion offer substantial exploration upside.

Middle Magdalena Valley ("MMV") Basin

Arrow's Oso Pardo field is located in the MMV Basin. In general, fields within the basin are more structurally complex than in the Llanos basin but have the potential for thicker oil columns and significant oil in place.

Oso Pardo Field

The Oso Pardo Field is located in the Santa Isabel Block in the MMV Basin. It is a 100% owned property operated by the Company. The Oso Pardo field is located within a Production Licence covering 672 acres. Three wells have been drilled to date within the License area.

Ombu E&P Contract – Capella Conventional Heavy Oil Discovery

The Caguan Basin covers an area of approximately 60,000 km² and lies between the Putumayo and Llanos Basins. The primary reservoir target is the Upper Eocene aged Mirador formation. The Capella structure is a large, elongated northeast-southwest fault-related anticline, with approximately 17,500 acres in closure at the Mirador level. The field is located approximately 250 km away from the nearest offloading station at Neiva, where production from Capella is trucked.

The Capella No. 1 discovery well was drilled in July 2008 and was followed by a series of development wells. The Company earned a 10% working interest in the Ombu E&P Contract by paying 100% of all activities associated with the drilling, completion, and testing of the Capella No. 1 well.

Fir, Alberta

The Company has an average non-operated 32% WI in 12 gross (3.84 net) sections of oil and natural gas rights and 17 gross (4.5 net) producing natural gas wells at Fir. The wells produce raw natural gas into the Cecilia natural gas plant where it is processed.

Three months ended June 30, 2021 Financial and Operational Highlights

- For the three months ended June 30, 2021, Arrow recorded \$941,620 in revenues (net of royalties) on crude oil sales of 14,830 bbls, 456 bbls of natural gas liquids ("NGL's") and 33,889 Mcf of natural gas sales
- Funds used in operations of \$247,010
- Adjusted EBITDA was \$(529,784)
- The Company recorded a net loss of \$734,317 for the three months ended June 30, 2021



RESULTS OF OPERATIONS

The Company has significantly reduced its production due to different factors such as sale of producing assets, operational failures in production equipment, social instability in operational areas, the Covid-19 pandemic and declining prices in energy commodities. This has impacted the main streams of the Company's revenues which is currently focused on its RCE-1 well in the Tapir block and its Oso Pardo wells.

Average Production by Property

| Average Production Boe/d | YTD 2021 | Q2 2021 | Q1 2021 | Q2 2020 |
|--------------------------|------------|------------|---------|---------|
| LLA-23 | - | - | - | 271 |
| Oso Pardo | 10 | 20 | - | - |
| Ombu (Capella) | 50 | 97 | - | - |
| Rio Cravo Este (Tapir) | 160 | 147 | 174 | 50 |
| Total Colombia | 220 | 264 | 174 | 321 |
| Fir, Alberta | 67 | 67 | 68 | 97 |
| TOTAL (Boe/d) | 287 | 331 | 242 | 418 |

For the six and three months ended June 30, 2021, the Company's average production was 287 boe/d and 331 boe/d, respectively (2020: 778 and 418 boe/d) which consisted of crude oil production in Colombia at 220 and 264 bbl/d (2020: 696 and 321 bbl/d), and natural gas production of 378 and 373 Mcf/d (2020: 523 and 545 Mcf/d) and minor amounts of natural gas liquids from the Company's Canadian properties. During the six and three months ended June 30, 2021, in Colombia production decreased in the Tapir block, and the Oso Pardo and Ombu/Capella blocks resumed production towards the end of the second quarter.

Average Daily Natural Gas and Oil Production and Sales Volumes

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|------|-----------------------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| Natural Gas (Mcf/d) | | | | |
| Natural gas production | 373 | 545 | 378 | 523 |
| Natural gas sales | 373 | 545 | 378 | 523 |
| Realized Contractual Natural Gas Sales | 373 | 545 | 378 | 523 |
| Crude Oil (bbl/d) | | | | |
| Crude oil production | 264 | 321 | 220 | 696 |
| Inventory movements and other | (101) | (35) | (51) | (6) |
| Crude Oil Sales | 163 | 286 | 169 | 690 |
| Corporate | | | | |
| Natural gas production (boe/d) | 63 | 91 | 63 | 87 |
| Natural gas liquids(bbl/d) | 4 | 6 | 4 | 6 |
| Crude oil production (bbl/d) | 264 | 321 | 220 | 696 |



| | | | | |
|---------------------------------------|------------|------------|------------|------------|
| Total production (boe/d) | 331 | 418 | 287 | 788 |
| Inventory movements and other (boe/d) | (101) | (35) | (51) | (6) |
| Total Corporate Sales (boe/d) | 230 | 383 | 236 | 782 |

During the six and three months ended June 30, 2021 the majority of production was attributed to Colombia where the Company has two operated properties: Oso Pardo and Rio Cravo Este, and one non-operated property, Ombu. In Canada, the Company has two operated and two non-operated properties located in the province of Alberta at Fir, Pepper, Harley and Wapiti.

Natural Gas and Oil Revenues

| | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|----------------|-----------------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Natural Gas | | | | |
| Natural gas revenues | 103,520 | 64,948 | 207,784 | 130,225 |
| NGL revenues | 21,993 | 5,049 | 39,702 | 18,322 |
| Royalties | (9,500) | (8,021) | (22,331) | (13,355) |
| Revenues, net of royalties | 116,013 | 61,976 | 225,155 | 135,192 |
| Oil | | | | |
| Oil revenues | 933,103 | 820,731 | 1,799,933 | 4,887,561 |
| Royalties | (107,497) | 13,304 | (236,036) | (278,262) |
| Revenues, net of royalties | 825,606 | 834,035 | 1,563,897 | 4,609,299 |
| Corporate | | | | |
| Natural gas revenues | 103,520 | 64,948 | 207,784 | 130,225 |
| NGL revenues | 21,993 | 5,049 | 39,702 | 18,322 |
| Oil revenues | 933,103 | 820,731 | 1,799,933 | 4,887,561 |
| Total revenues | 1,058,616 | 890,728 | 2,047,419 | 5,036,108 |
| Royalties | (116,997) | 5,283 | (258,367) | (291,617) |
| Natural gas and crude oil revenues, net of royalties, as reported | 941,619 | 896,011 | 1,789,052 | 4,744,491 |

Revenue for the six and three months ended June 30, 2021 and 2020 was \$1,789,052 and \$941,619, respectively, net of royalties, which represents a decrease of 6% and 64%, respectively, when compared to 2020. These decreases are mainly due to significant decreases in production due to the sale of LLA-23 and the Oso Pardo and Ombu shut ins.

Average Benchmark and Realized Prices

| | Three months ended June 30 | | | Six months ended June 30 | | |
|----------------------------------|----------------------------|-------|--------|--------------------------|-------|--------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| Benchmark Prices | | | | | | |
| AECO (\$/Mcf) | 2.48 | 1.47 | 69% | 2.39 | 1.50 | 59% |
| Brent (\$/bbl) | 69.08 | 31.08 | 122% | 65.23 | 37.94 | 72% |
| West Texas Intermediate (\$/bbl) | 66.19 | 28.00 | 136% | 62.22 | 36.81 | 69% |



Realized Prices

| | | | | | | |
|---|--------------|-------|------|--------------|-------|------|
| Natural gas, net of transportation (\$/Mcf) | 3.05 | 1.31 | 133% | 3.04 | 1.37 | 122% |
| Natural gas liquids (\$/bbl) | 48.26 | 9.45 | 411% | 48.86 | 17.96 | 172% |
| Crude oil, net of transportation (\$/bbl) | 63.19 | 28.11 | 101% | 59.10 | 38.60 | 45% |
| Corporate average, net of transport (\$/boe)⁽¹⁾ | 52.78 | 23.45 | 104% | 48.92 | 35.10 | 33% |

The Company realized a price of \$48.92 and \$52.78 per boe during the six and three months ended June 30, 2021 (2020: \$35.10 and \$23.45 per boe) as oil prices have significantly improved when compared to Q2 2020, when pressures from large-producing countries and the Covid-19 pandemic (“Covid-19”) were affecting crude prices. The Company receives Brent referenced pricing for its crude oil. In Canada, natural gas prices have experienced a consistent improvement for the past months.

Operating Expenses

| | Three months ended June 30 | | Six months ended June 30 | |
|---|----------------------------|-----------|--------------------------|-----------|
| | 2021 | 2020 | 2021 | 2020 |
| Natural gas & NGL's | 70,745 | 63,856 | 128,864 | 122,643 |
| Crude oil | 422,283 | 1,043,671 | 606,309 | 3,135,909 |
| Total operating expenses | 493,028 | 1,107,527 | 735,173 | 3,258,552 |
| Natural gas (\$/Mcf) | 2.09 | 1.29 | 1.88 | 1.29 |
| Crude oil (\$/bbl) | 28.60 | 35.75 | 19.91 | 24.77 |
| Corporate (\$/boe)⁽¹⁾ | 24.58 | 29.15 | 17.56 | 22.71 |

⁽¹⁾Non-IFRS measure

During the six and three months ended June 30, 2021 and 2020, Arrow incurred operating expenses of \$735,173 and \$493,028, respectively, at an average cost of \$17.56 and \$24.58 per boe. Operating expenses have increased in Q2 2021 due to restarting production in the Oso Pardo and Capella fields, including a pump replacement for the Morsa-1 well, together with an increase in lease cost in the Canadian operations.

Operating Netbacks

| | Three months ended June 30 | | Six months ended June 30 | |
|--|----------------------------|---------|--------------------------|---------|
| | 2021 | 2020 | 2021 | 2020 |
| Natural Gas (\$/Mcf) | | | | |
| Revenue, net of transportation expense | 3.05 | 1.31 | 3.04 | 1.37 |
| Royalties | (0.22) | (0.19) | (0.27) | (0.14) |
| Operating expenses | (2.09) | (1.29) | (1.89) | (1.29) |
| Natural Gas operating netback⁽¹⁾ | 0.74 | (0.17) | 0.88 | (0.06) |
| Crude oil (\$/bbl) | | | | |
| Revenue, net of transportation expense | 63.19 | 28.11 | 59.10 | 38.60 |
| Royalties | (7.28) | 0.46 | (7.75) | (2.20) |
| Operating expenses | (28.60) | (35.75) | (19.91) | (24.77) |
| Crude Oil operating netback⁽¹⁾ | 27.31 | (7.18) | 31.44 | 11.64 |



| Corporate (\$/boe) | | | | |
|--|----------------|---------|----------------|---------|
| Revenue, net of transportation expense | 52.78 | 23.45 | 48.92 | 35.10 |
| Royalties | (5.83) | 0.14 | (6.17) | (2.03) |
| Operating expenses | (24.58) | (29.15) | (17.56) | (22.71) |
| Corporate Operating netback⁽¹⁾ | 22.37 | (5.57) | 25.19 | 10.36 |

⁽¹⁾Non-IFRS measure

General and Administrative Expenses (G&A)

| | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|---------|-----------------------------|-----------|
| | 2021 | 2020 | 2021 | 2020 |
| General & administrative expenses | 913,069 | 845,164 | 2,291,697 | 2,205,064 |
| Less: G&A capitalized | - | - | - | - |
| G&A recovered from 3 rd parties | - | - | - | - |
| Total operating overhead recovery | 913,069 | 845,164 | 2,291,697 | 2,205,064 |
| Total G&A | 913,069 | 845,164 | 2,291,697 | 2,205,064 |
| Cost per boe | 45.52 | 22.25 | 54.75 | 15.37 |

For the six and three months ended June 30, 2021, G&A expenses totaled \$2,291,697 and \$913,069, respectively. When compared to 2020, these increases were mainly represented by increases in personnel compensation, offset by lower legal fees and reduction of office expenses.

Financing Costs

| | Three months ended June 30 | | Six months ended June 30 | |
|-----------------------------------|-------------------------------|---------|-----------------------------|---------|
| | 2021 | 2020 | 2021 | 2020 |
| Financing expense paid or payable | 116,599 | 306,636 | 424,150 | 614,891 |
| Non-cash financing costs | 32,906 | 153,002 | 64,969 | 304,884 |
| Net financing costs | 149,505 | 459,638 | 489,119 | 919,775 |

The finance expense paid or payable represents interest on the \$6.1 million promissory note due to Canacol, as partial payment for the acquisition of Carrao, which bears interest at 15% per annum, and fees associated with financing standby letters of credit (SBLC) on certain of the Company's Colombian blocks, which have been reduced in 2021 after the sale of LLA-23 and the cancellation of the related SBLCs. The non-cash finance cost represents an increase in the present value of the decommissioning obligation for the current periods, which has been decreasing as the result of properties sold.



Risk Management Contracts

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|-----------|-----------------------------|-----------|
| | 2021 | 2020 | 2021 | 2020 |
| Realized derivative gain on commodity risk management contracts | - | 766,424 | - | 1,288,523 |
| Unrealized derivative gain on commodity risk management contracts | - | (766,424) | - | - |
| Total income on risk management activities | - | - | - | 1,288,523 |

There was no risk management activities conducted by the Company in 2021. During 2020, the Company entered into a 'costless collar' commodity hedging agreement for a total of 15,000 barrels of oil per month from January 1 to June 30, 2020. This agreement provides a Brent-based floor price of \$62 per barrel and a ceiling price of \$66.5 per barrel on 15,000 barrels of oil per month over the aforementioned time period.

Share-based Payments

| | Three months ended June 30 | | Six months ended June 30 | |
|-----------------------------|-------------------------------|----------|-----------------------------|-----------|
| | 2021 | 2020 | 2021 | 2020 |
| Share-based Payments | (278,254) | (33,504) | (550,310) | (178,531) |

Share-based payments (income) for the six and three months ended June 30, 2021 totalled (\$550,310) and (\$278,254), respectively. During 2021 and 2020, a significant number of options were cancelled due to resignations and terminations of option holders, including executives, causing a reversal of expenses recognized in previous periods. The share-based payments (income) is the result of the progressive vesting of the options granted to the Company's employees and consultants, net of cancellations and forfeitures, according to the company's stock-based compensation plan.

Depletion and Depreciation

| | Three months ended June 30 | | Six months ended June 30 | |
|-----------------------------------|-------------------------------|---------|-----------------------------|-----------|
| | 2021 | 2020 | 2021 | 2020 |
| Depletion and depreciation | 333,282 | 397,082 | 603,712 | 1,841,936 |

Depletion and depreciation expense in the six and three months ended June 30, 2021 totalled \$603,712 and \$333,282, respectively. The Company uses the unit of production method and proved plus probable reserves to calculate depletion expense and decreases are directly related with a lower quantity of crude and natural gas produced during 2021 compared with 2020, mainly caused by the sale of the LLA-23 block.

Impairment of Oil and Gas Properties

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|------|-----------------------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| Impairment of Oil and Gas Properties | - | - | - | 27,263,110 |



As at March 31, 2020, the Company reviewed its cash-generating unit's ("CGU") property and equipment and determined that there were indicators of impairment present related to the decrease in 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 exceeded its recoverable amount and, therefore, an impairment provision of \$27,263,110 was required.

Other expense (income)

| | Three months ended June 30 | | Six months ended June 30 | |
|-------------------------------|-------------------------------|-----------------|-----------------------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| Other expense (income) | 46,341 | (21,691) | (494,924) | (23,793) |

The Company reported other income of \$494,924 and other expense for \$46,341 for the six and three months ended June 30, 2021, respectively. The 2021 amount has been generated from the Company's ongoing negotiations of accounts payable and debts with vendors, both in Colombia and Canada, which have resulted in reductions of amounts actually paid in cash to settle its liabilities.

Income Taxes

| | Three months ended June 30 | | Six months ended June 30 | |
|---------------------------------|-------------------------------|--------------------|-----------------------------|--------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Current income tax recovery | - | (45,921) | - | (8,786) |
| Deferred income tax recovery | - | (5,659,000) | - | (7,550,000) |
| Total income tax expense | - | (5,704,921) | - | (7,558,786) |

Due to the Company's tax losses available in Canada and Colombia, it is expected that the Company will not generate current income tax from its operations for the year 2021, other than a minimum tax payable. During 2020, there were changes the Company's deferred income tax liability mainly caused by the impairment provision recorded during the three months ended March 31, 2020. In making this determination, the Company considers all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

LIQUIDITY AND CAPITAL RESOURCES

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, debt and working capital, excluding non-cash items. 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 had a net loss of \$32,233,092 for the year 2020 and had a working capital of \$3,141,217 as at June 30, 2021. 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 interim 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. As at June 30, 2021 the Company's net debt was calculated as follows:

| | June 30, 2021 |
|--|-----------------------|
| Current assets | \$ 8,773,936 |
| Less: | |
| Accounts payable and accrued liabilities | (5,614,063) |
| Lease obligation – shot term | (18,656) |
| Promissory Note | (6,135,132) |
| Net debt ⁽¹⁾ | \$ (2,993,915) |

⁽¹⁾Non-IFRS measure

Working Capital

As at June 30, 2021 the Company's working capital was calculated as follows:

| | June 30, 2021 |
|---|----------------------|
| Current assets: | |
| Cash and restricted cash | \$ 4,565,607 |
| Trade and other receivables | 2,045,681 |
| Taxes receivable | 1,738,219 |
| Other current assets | 424,429 |
| Less: | |
| Accounts payable and accrued liabilities | (5,614,063) |
| Lease obligation | (18,656) |
| Working capital (deficit) ⁽¹⁾ | \$ 3,141,217 |

⁽¹⁾Non-IFRS measure

Debt Capital

The Company currently has \$6.1 million in outstanding debt in the form of a promissory note payable to Canacol.

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. Arrow and Canacol entered into a third, fourth and fifth Amended and Restated Promissory Notes in December 2019, March and August 2020, respectively.

In May 2021, a sixth and amended and restated promissory note was agreed with Canacol which includes that the new principal amount of the promissory note is \$6,026,166 (including interest and fees), which bears interest at an annual rate of 15%, and includes the following repayment provisions:

- In the event that the Company does not complete a successful equity financing of \$12,000,000 or more by September 30, 2021, the payment of the principal plus interest shall be made as follows:
 - Two payments of \$1,600,000 in cash due on July 30 and December 30, 2022; and
 - Issuance of common shares of the Company on July 30, 2022 for the remaining balance for an amount of shares resulting from Canacol having less than 19.9%, with any remainder payable in cash



- In the event that the Company completes a successful equity financing of \$12,000,000 or more by September 30, 2021, the payment of the principal plus interest shall be made as follows:
 - One payment of \$3,200,000 in cash due 15 days from the financing closing date; and
 - At the discretion of the Company, the balance shall be paid either in cash or by issuance of common shares of the Company for an amount of shares resulting from Canacol having less than 19.9%, and any remainder balance payable in cash.

The Company also commits to replace the letters of credit currently guaranteed by Canacol and, Canacol commits to absorb the Company's commitments and balances related to the OBC pipeline dispute. The Company has granted a general security interest to Canacol for the obligations under the Promissory Note which will be subordinated to second position in the event the Company secures additional financing.

The Company has been engaging in discussions with various potential lenders to provide alternative debt solutions.

Letters of Credit

As at June 30, 2021, the Company had obligations under Letters of Credit ("LC's") outstanding totaling \$5.2 million to guarantee work commitments on exploration blocks and other contractual commitments. Of the total, approximately \$4 million has been guaranteed by Canacol. Under an agreement with Canacol, Canacol will continue to provide security for the LC's providing that Arrow uses all reasonable efforts to replace the LC's. In the event the Company fails to secure the renewal of the LC's underlying the Company's Agencia Nacional de Hidrocarburos ("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.

Current Outstanding Letters of Credit

| Contract | Beneficiary | Issuer | Type | Amount (US\$) | Renewal Date |
|--------------|-------------|--------------------------|--------------------|------------------|-------------------|
| Tapir | ECP | Samaria Llanos | Abandonment | 52,898 | December 26, 2021 |
| SANTA ISABEL | ANH | Carrao Energy SA Suc Col | Abandonment | 643,423 | April 14, 2022 |
| | ANH | Canacol and Carrao | Financial Capacity | 1,672,162 | December 31, 2021 |
| CORE - 39 | ANH | Canacol | Compliance | 2,400,000 | December 31, 2021 |
| OMBU | ANH | Carrao Energy SA Suc Col | Financial Capacity | 436,300 | April 14, 2022 |
| Total | | | | 5,204,783 | |

Share Capital

As at June 30, 2021, the Company had 68,674,602 common shares and 5,714,000 stock options outstanding.

CONTRACTUAL OBLIGATIONS

The following table provides a summary of the Company's cash requirements to meet its financial liabilities and contractual obligations existing at June 30, 2021:

| | Less than 1 year | 1-3 years | Thereafter | Total |
|--------------------------------------|------------------|----------------------|-------------|----------------------|
| Promissory Note | \$ - | \$ 6,135,132 | \$ - | \$ 6,135,132 |
| Exploration and production contracts | - | 17,800,000 | - | 17,800,000 |
| | \$ - | \$ 23,935,132 | \$ - | \$ 23,935,132 |



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, 2021 of \$17.8 million. During 2019, the Company, in conjunction with its partners, made application to cancel a further \$15.5 million in commitments on the Macaya and Los Picachos blocks. This request was subsequently denied by the ANH. The remaining commitments are expected to be satisfied by means of seismic work, exploration drilling and farm-outs.

Oleoducto Bicentenario de Colombia (“OBC”) Pipeline

The Company is party to an agreement with Canacol that entitles it to a 0.5% interest in OBC, which owns a pipeline system intended to link Llanos basin oil production to the Caño Limon oil pipeline system in Colombia. This agreement was part of Arrow’s acquisition of Carrao from Canacol. Recently, the Company in conjunction with Canacol, notified OBC to transfer title of the shares currently in the name of Canacol to Arrow. The transfer requires approval by OBC which at the date of this MD&A had not been received.

Canacol is currently in litigation with OBC in relation to ship or pay obligations that were terminated by Canacol in July 2018 under force majeure. Under terms of the agreement, if the pipeline has not been operational for a period greater than six months then the ship or pay obligation may be cancelled. The pipeline remains non-operational as of the date of this MD&A.

On March 27, 2019, the court in charge of the case ruled in favor of the OBC and opined that the obligations under the ship or pay contract remains in force. Subsequently, on May 13, 2019, Canacol filed an appeal at the State Council, a higher-level court in the Colombian judiciary system, requesting annulment of this ruling. Likewise, in July 2019, OBC has also started litigation against Canacol for not honouring its ship or pay obligations under the contract. Depending on the final outcome of this dispute, Arrow may be required to satisfy past and future ship or pay obligations.

Upon official transfer of ownership to Arrow and under the terms of the OBC agreement, Arrow may be required to provide financial support or guarantees for its proportionate equity interest in any future debt financings or cash calls undertaken by OBC. At the same time, Arrow would be entitled to dividends declared and paid by OBC based on its 0.5% ownership interest.

During 2020 and 2021, there has been negotiations between the parties involved in order to settle this case and settlement agreements have been submitted to courts for their approval. Depending on the final outcome of this dispute, Arrow may be required to satisfy past and future ship or pay obligations and has accrued \$658,654 accordingly.

SUMMARY OF THREE MONTHS RESULTS

| | 2021 | | 2020 | | | | 2019 | |
|---|------------|-------------|-------------|--------------|--------------|--------------|-------------|-------------|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Oil and natural gas sales, net of royalties | 941,620 | 847,432 | 368,140 | 207,934 | 896,011 | 3,848,478 | 5,585,531 | 6,320,471 |
| Net income (loss) | (734,317) | (510,405) | (7,953,001) | (1,390,746) | 3,168,919 | (26,058,265) | (2,089,036) | (1,325,939) |
| Income (loss) per share – basic and diluted | (0.01) | (0.01) | (0.12) | (0.02) | 0.05 | (0.38) | (0.02) | (0.02) |
| Working capital (deficit) | 3,141,217 | (2,659,690) | (1,932,940) | (11,086,377) | (10,158,614) | (2,711,756) | (2,863,641) | (3,231,242) |
| Total assets | 25,948,551 | 27,684,920 | 33,532,299 | 46,702,911 | 47,386,940 | 43,775,967 | 72,750,706 | 74,789,261 |
| Net capital expenditures | (15,378) | 97,330 | 89,198 | 146,584 | 180,795 | 473,351 | (171,138) | 2,012,557 |
| Average daily production (boe/d) | 331 | 242 | 140 | 104 | 417 | 1,159 | 1,595 | 1,799 |

Over the past quarters, the Company’s oil and natural gas sales have fluctuated due to changes in production, movements in the Brent benchmark oil price and fluctuations in realized oil price differentials. The Company’s production levels in Colombia have been variable, with increases driven by additional crude oil from the RCE-1 well, partially offset by the sale of the Company’s interest in the VMM-2 and LLA-23 blocks, and natural declines on mature blocks. Trends in the Company’s



net income (loss) are also impacted most significantly by financing costs, income taxes, depletion, depreciation and impairment of oil and gas properties, gains and losses from risk management activities.

OUTSTANDING SHARE DATA

At August 27, 2021, the Company had the following securities issued and outstanding:

| | Number | Exercise Price | Expiry Date |
|---------------|------------|----------------|------------------|
| Common shares | 68,674,602 | n/a | n/a |
| Stock options | 1,050,000 | CAD\$ 1.15 | October 22, 2028 |
| Stock options | 345,000 | CAD\$ 0.31 | May 3, 2029 |
| Stock options | 1,200,000 | CAD\$ 0.05 | March 20, 2030 |
| Stock options | 2,775,000 | CAD\$ 0.05 | April 13, 2030 |
| Stock options | 344,000 | CAD\$ 0.05 | June 18, 2030 |

OUTLOOK

On January 30, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern and, on March 10, 2020, declared it to be a pandemic. Actions taken around the world to mitigate the spread of COVID-19, combined with OPEC's initial plan to increase global supply resulted in significant weakness and volatility in commodity prices in early 2020. The simultaneous demand and supply shocks have resulted in significant declines in product demand and pricing in the latter part of the first quarter and throughout the second and third quarter of 2020. Commodity prices began to recover in late 2020 and continued that recovery in early 2021. Although it is impossible to reliably estimate the impact of COVID-19, the pandemic is anticipated to have material effects on the Company's 2021 financial results relative to 2020 and 2019.

Due to the current economic circumstances caused by the Covid-19 global pandemic, in 2021 the company is continuing to focus on improving its free cash flow by optimizing its sources of funds and reducing operating and administrative costs. During 2020, salaries, personnel benefits and office costs continued to be reduced, and the Company has made a significant improvement in operating costs and administrative expenses.

The Company continues to defer its plans for drilling a follow-up appraisal well in Rio Cravo Este until adequate financing can be secured and current oil crude prices improve, as well as determining rig availability, and obtaining partner approval. A second contingent well is planned pending the results of Rio Cravo Este-2. Workovers in Oso Pardo are currently planned and expected to be performed in Q3 2021, subject to funding.

The Company intends to seek a dual listing through an admission of its common shares to trading on the AIM market of the London Stock Exchange. The Company intends to concurrently pursue an offering of its common shares to fund an expanded capital program. The Company continues to proceed with this process and expects to conclude it in the second half of 2021.

CRITICAL ACCOUNTING ESTIMATES

A summary of the Company's significant accounting policies is contained in Note 3 of the audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019. These accounting policies are subject to estimates and key judgements about future events, many of which are beyond Arrow's control.



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies is included in of the audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019. These accounting policies are consistent with those of the previous financial year.

RISKS AND UNCERTAINTIES

The Company is subject to financial, business and other risks, many of which are beyond its control and which could have a material adverse effect on the business and operations of the Company. Please refer to "Risk Factors" in the MD&A for the year ended December 31, 2020 for a description of the financial, business and other risk factors affecting the Company which are available on SEDAR at www.sedar.com