ARROW EXPLORATION CORP.

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
IN UNITED STATES DOLLARS

Deloitte.

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Independent Auditor's Report

To the Shareholders of Arrow Exploration Corp.

Opinion
We have audited the consolidated financial statements of Arrow Exploration Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
April 25, 2022

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

As at	Notes		December 31, 2021		December 31, 2020
ASSETS					
Current assets					
Cash		$	10,878,508	$	11,473,204
Restricted cash	4		-		262,489
Trade and other receivables	5		639,582		2,456,590
Taxes receivable	6		719,049		1,659,683
Deposits and prepaid expenses			322,300		77,382
Inventory			247,063		29,304
			12,806,502		15,958,652
Non-current assets					
Deferred income taxes	16		4,839,785		-
Restricted cash	4		732,553		460,283
Exploration and evaluation	7		6,964,506		6,961,667
Property and equipment	8		15,852,452		10,151,697
Total Assets		$	41,195,798	$	33,532,299
LIABILITIES AND EQUITY					
Current Liabilities					
Accounts payable and accrued liabilities		$	3,120,777	$	12,101,989
Lease obligation	10		20,258		17,279
Promissory note	9		1,659,393		5,772,324
			4,800,428		17,891,592
Non-current liabilities					
Long-term debt	11		31,552		31,416
Lease obligation	10		34,434		53,563
Other liabilities	12		177,500		177,500
Deferred income taxes	16		3,371,936		
Decommissioning liability	13		2,470,239		2,584,907
Promissory note	9		1,659,393		-
Derivative liability	14		4,692,203		-
Total liabilities			17,237,685		20,738,978
Shareholders' equity					
Share capital	15		56,698,237		50,740,292
Contributed surplus			1,249,418		1,521,845
Deficit			(33,185,806)		(38,879,338)
Accumulated other comprehensive loss			(803,736)		(589,478)
Total shareholders' equity			23,958,113		12,793,321
Total liabilities and shareholders' equity		$	41,195,798	$	33,532,299

Commitments and contingencies (Note 17)

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

On behalf of the Board:

signed "Gage Jull" Director
Gage Jull

signed "Maria Charash" Director
Maria Charash

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

For the years ended December 31,	Notes	2021	2020
Revenue			
Oil and natural gas	20	$ 7,164,680	$ 5,594,503
Royalties	20	(652,187)	(273,938)
		6,512,493	5,320,565
Expenses			
Operating		2,346,039	4,786,768
Administrative		4,881,113	4,321,947
Listing costs	15	583,972	-
Share based payments	15	(84,668)	1,169,766
Financing costs:			
Accretion	13	132,807	524,477
Interest	9	797,943	238,230
Other		46,217	903,597
Foreign exchange gain		(84,924)	(248,139)
Depletion and depreciation	8	1,622,937	2,049,411
Impairment (reversal) of oil and gas properties	8	(5,617,776)	27,263,110
Gain on the disposal of oil and gas properties	8	-	(1,059,474)
Gain on derivative liability	14	(467,507)	-
Other income		(2,018,382)	(636,229)
		2,137,771	39,313,464
Income (loss) before income tax		4,374,722	(33,992,899)
Income tax expense (recovery)			
Current	16	149,040	64,193
Deferred	16	(1,467,850)	(1,824,000)
		(1,318,810)	(1,759,807)
Net income (loss)		5,693,532	(32,233,092)
Other comprehensive loss			
Foreign exchange		(214,258)	(48,085)
Net income (loss) and comprehensive income (loss)		$ 5,479,274	$ (32,281,177)
Earnings (loss) per share			
- basic and diluted		$ 0.06	$ (0.47)
Weighted average shares outstanding			
Basic		94,553,391	68,674,602
Diluted		96,243,078	68,674,602

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

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

	Share Capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance January 1, 2021	$ 50,740,292	$ 1,521,845	$ (589,478)	$ (38,879,338)	$ 12,793,321
Subscription of common shares, net	5,957,945	-	-	-	5,957,945
Net income for the year	-	-	-	5,693,532	5,693,532
Comprehensive loss for the year	-	-	(214,258)	-	(214,258)
Share based payments	-	(272,427)	-	-	(272,427)
Balance December 31, 2021	$ 56,698,237	$ 1,249,418	$ (803,736)	$ (33,185,806)	$ 23,958,113

	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 year	-	-	-	(32,233,092)	(32,233,092)
Comprehensive loss for the year	-	-	(48,085)	-	(48,085)
Share based payments	-	(81,943)	-	-	(81,943)
Balance December 31, 2020	$ 50,740,292	$ 1,521,845	$ (589,478)	$ (38,879,338)	$ 12,793,321

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

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

For the year ended December 31,	2021	2020
Cash flows used in operating activities:		
Net income (loss)	$ 5,693,532	$ (32,233,092)
Items not involving cash:		
Deferred taxes	(1,467,850)	(1,824,000)
Share based payment	(272,427)	1,169,766
Depletion and depreciation	1,622,937	2,049,411
Impairment (reversal) of oil and gas properties	(5,617,776)	27,263,110
Interest on leases	6,506	15,435
Interest on promissory note, net of forgiveness	657,953	(69,317)
Accretion	132,807	524,477
Foreign exchange (gain) loss	(195,852)	176,166
Gain on change in leases	-	(19,091)
Gain on the disposal of oil and gas properties	-	(1,059,474)
Gain on derivative liability	(467,507)	-
Payment of asset decommissioning obligations	(237,826)	-
Changes in non-cash working capital balances:		
Restricted cash	262,489	(262,489)
Trade and other receivables	1,817,008	2,255,190
Taxes receivable	940,634	689,860
Deposits and prepaid expenses	(244,917)	193,814
Inventory	(217,759)	148,467
Accounts payable and accrued liabilities	(6,918,112)	(1,316,327)
Cash used in operating activities	(4,506,160)	(2,298,094)
Cash flows (used in) provided by investing activities:		
Additions to exploration and evaluation assets	(2,840)	-
Additions to property and equipment	(1,708,706)	(889,928)
Proceeds on the sale of property and equipment	-	12,113,738
Changes in restricted cash	(272,271)	-
Changes in non-cash working capital	(2,063,099)	1,551,785
Cash flows (used in) provided by investing activities	(4,046,916)	12,775,595
Cash flows provided by (used in) financing activities:		
Subscription of common shares, net of costs	11,232,473	-
Payment of promissory note	(3,111,491)	-
Lease payments	(24,535)	(59,992)
Increase in short-term loan	-	500,000
Payment of short-term loan	-	(500,000)
Increase in long-term debt	-	30,942
Cash flows provided by (used in) financing activities	8,096,447	(29,050)
Effect of changes in the exchange rate on cash	(138,067)	(60,902)
Increase (decrease) in cash	(594,696)	10,387,549
Cash, beginning of period	11,473,204	1,085,655
Cash, end of period	10,878,508	11,473,204

Supplemental information		
Interest paid	$ 336,804	$ 71,709
Taxes paid	$ -	$ -

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

1. Corporate Information

Arrow Exploration Corp. ("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 and the AIM Market of the London Stock Exchange plc under the symbol AXL. The head office of Arrow is located at 550, 333 – 11th Ave SW, Calgary, Alberta, Canada, T2R 1L9 and the registered office is located at 1600, 421 – 7th Avenue SW, Calgary, Alberta, Canada, T2P 4K9.

2. Basis of Presentation

Statement of compliance
The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been approved and authorized for issuance by the Board of Directors ("the Board") on April 25, 2022.

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

Functional and presentation currency
These consolidated financial statements are presented in United States Dollars. The Canadian Dollar is the functional currency of the Company and its wholly own subsidiary Arrow Holdings Ltd. (AHL). The functional currency of the Company's subsidiaries operating in Colombia and Panama is the United States Dollar.

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

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

Significant estimates and judgments made by management in the preparation of these financial statements are as follows:

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

Depletion and depreciation
The amounts recorded for depletion and depreciation are based on estimates of proved and probable reserves. Assumptions that are valid at the time of reserve estimation may change materially as new

information becomes available. Changes in forward price estimates, production and future development costs, recovery rates or decommissioning costs may change the economic status of reserves and may ultimately result in reserves used for measurement purposes being removed from similar calculations in future reporting periods.

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

Impairment of Property, plant and equipment and exploration and evaluation assets
Indicators of impairment are assessed by management using judgment, considering future plans, market conditions and commodity prices. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Provisions and contingencies
The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated. The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

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

3. Summary of Significant Accounting Policies

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

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

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

Financial instruments
The Company considers whether a contract contains an embedded derivative when it first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract. Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

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

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

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

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

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

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

Exploration and evaluation assets
Pre-license costs are recognized in the statement of operations and comprehensive income (loss) as incurred. Exploration and evaluation costs include the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property and equipment. When exploration and evaluation assets are determined not to be technically feasible and commercially viable, or the Company decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive income (loss) as pre-license expense when occurs.

Property and equipment
Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses. The cost of development and production assets includes: transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads. Development and production assets are grouped into CGU's for impairment testing. Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the statement of operations and comprehensive income (loss).

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

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

taking into account the level of development required to produce the reserves. Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the statement of operations and comprehensive income (loss). An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of operations and comprehensive income (loss).

Non-financial assets

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Fair value less cost to dispose is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

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

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive income (loss). Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses recognized in prior years are assessed at each reporting date to determine if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Share based compensation

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

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

The grant date fair value of phantom shares and phantom stock options granted to officers, employees and directors is recognized as share based payment expense with a corresponding increase in accrued liabilities on a graded vesting basis over the vesting period. Subsequent to initial recognition, the phantom shares and phantom stock options accrued liability is measured at fair value.

Provisions

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

Decommissioning obligations

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

Leases

Lease arrangements which meet the criteria of a lease are recognized as right-of-use assets and lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost. Subsequently, it is measured at cost less accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease obligation. The lease obligation is measured at the present value of the lease payments outstanding at the lease commencement date, discounted using the implicit rate, and when not determinable, the Company's incremental borrowing rate. The lease obligation is re-measured when there is a change in estimated future payments arising from a change in a lease term, index or rate, residual guarantee or purchase option. The assessment of whether a renewal, extension, termination or purchase option is reasonably certain to be exercised was considered, based on facts and circumstances, and has the potential to significantly impact the amount of right-of-use asset and lease obligation recognized. The Company recognizes interest expense incurred under finance leases over the lease term in the consolidated statements of comprehensive income (loss) using the effective interest rate method.

Revenue
The Company's revenues are primarily derived from the production of petroleum and natural gas. Revenue from contracts with customers is recognized when the Company satisfies a performance obligation by physically transferring the product and control to a customer. The Company satisfies its performance obligations at the point of delivery of the product and not over a period of time. Revenue is measured based on the consideration specified in contracts with customers. Revenue is recorded net of any royalties when the amount of revenue can be reliably measured and the costs incurred in respect of the transaction can be measured reliably.

Finance expenses
Finance expense comprises interest expense on borrowings, fees on letters of credit and accretion of the discount on decommissioning obligations.

Income tax
Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Recent Accounting Standards
In 2020, the IASB published phase two of its amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 – Insurance Contracts and IFRS 16 - Leases ("IFRS 16") to assist companies in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate from IBOR reform. These amendments were adopted by the Company from January 1, 2021 but they did not have a material impact on the Consolidated Financial Statements.

In United States Dollars

4. Restricted Cash

		December 31, 2021		December 31, 2020
Colombia *(i)*	**$**	**53,726**	$	316,216
Canada *(ii)*		**678,827**		406,556
Sub-total		**732,553**		722,772
Long-term portion		**(732,553)**		(460,283)
Current portion of restricted cash	**$**	**-**	$	262,489

(i) *Restricted cash is comprised of a deposit held as collateral to guarantee abandonment expenditures related to the Mateguafa and Rio Cravo Este-1 wells in the Tapir block.*

(ii) *Pursuant to Alberta government regulations, the Company was required to keep a $328,614 (CAD $416,600; 2020: 414,523) 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 $350,213 pertain to commercial deposits with customers, lease and other deposits held in Canada.*

5. Trade and other receivables

		December 31, 2021		December 31, 2020
Trade receivables, net of advances	**$**	**252,141**	$	99,061
Other accounts receivable		**387,441**		2,357,529
	$	**639,582**	$	2,456,590

As at December 31, 2021, other accounts receivable include $2,332 (December 31, 2020 – $2,185,890) receivable from a partner in the Tapir block and corresponds to reimbursable capital expenditures incurred on the Tapir block.

6. Taxes receivable

		December 31, 2021		December 31, 2020
Value-added tax (VAT) credits recoverable	**$**	**105,827**	$	932,282
Income tax withholdings and advances, net		**613,222**		727,401
	$	**719,049**	$	1,659,683

The VAT recoverable pertains to non-compensated value-added tax credits originated in Colombia as operational and capital expenditures are incurred. The Company is entitled to claim for the reimbursement of these VAT credits.

In United States Dollars

7. Exploration and Evaluation

	December 31, 2021	December 31, 2020
Balance, beginning of the period	**$ 6,961,667**	$ 6,961,667
Additions, net	**2,839**	-
Balance, end of the period	**$ 6,964,506**	$ 6,961,667

8. 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
Additions	780,588	-	780,588
Oil and gas properties disposed	(38,018,095)	-	(38,018,095)
Change in right-of-use assets (Note 10)	-	(192,321)	(192,321)
Balance, December 31, 2020	$ 30,436,344	$ 182,105	$ 30,618,449
Additions	1,734,746	1,380	1,736,126
Decommissioning adjustment	(10,173)	-	(10,173)
Balance, December 31, 2021	$ 32,160,917	$ 183,485	$ 32,344,402
Accumulated depletion and depreciation and impairment			
Balance, December 31, 2019	$ 11,423,360	$ 93,742	$ 11,517,102
Depletion and depreciation	1,995,375	61,893	2,057,268
Change in right-of-use assets (Note 10)	-	(72,428)	(72,428)
Impairment of oil and gas properties	27,263,110	-	27,263,110
Accumulated depletion associated with disposed oil and gas properties	(19,963,103)	-	(19,963,103)
Balance, December 31, 2020	$ 20,718,742	$ 83,207	$ 20,801,949
Depletion and depreciation	1,591,179	31,758	1,622,937
Reversal of impairment losses of oil and gas properties	(5,617,776)	-	(5,617,776)
Balance, December 31, 2021	$ 16,692,145	$ 114,965	$ 16,807,110
Foreign exchange			
Balance December 31, 2019	$ 221,322	$ (8,690)	$ 212,632
Effects of movements in foreign exchange rates	118,042	4,524	122,566
Balance December 31, 2020	$ 339,364	$ (4,166)	$ 335,198
Effects of movements in foreign exchange rates	(20,747)	709	(20,038)
Balance December 31, 2021	$ 318,617	$ (3,457)	$ 315,160
Net Book Value			
Balance December 31, 2020	$ 10,056,965	$ 94,732	$ 10,151,697
Balance December 31, 2021	$ 15,787,389	$ 65,063	$ 15,852,452

In United States Dollars

On December 30, 2020, the Company closed its previously announced sale of its LLA-23 block to COG Energy Ltd. ("COG") for a gross cash consideration of $12.1 million consisted of a firm amount of $11.75 million plus sale adjustments agreed within the parties. In addition to receiving the proceeds, Arrow has transferred to COG its work obligations under various letters of credit in place to guarantee work commitments on LLA-23, as well as all the related underlying decommissioning and environmental liabilities (see Note 12 and 13).

As at December 31, 2021, the Company reviewed its cash-generating units ("CGU") for property and equipment and determined that there were indicators of impairment reversal previously recognized in its Tapir block in Colombia and its Canadian assets mostly driven by the recovery in energy commodity prices. The company prepared estimates of both the value in use and fair value less costs of disposal of its CGUs of its CGUs and determined that recoverable amounts exceeded their carrying value and, therefore, an impairment loss reversal of $5,617,776 is included in the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2021. The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2021:

Year	Exchange rate $US / $Cdn	Brent US$/Bbl	AECO Spot Gas C$/MMBtu
2022	0.80	74.50	3.71
2023	0.80	72.00	3.28
2024	0.80	69.50	2.99
2025	0.80	71.00	3.10
2026	0.80	72.00	3.13
Thereafter (inflation %)		2.0%/yr	2.0%/yr

The recoverable amounts were estimated at their fair value less costs of disposal, 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, 2021. The fair value less costs of disposal 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 17.5% discount rate, which took into account risks specific to the Colombian CGUs and inherent in the oil and gas business, and 15% discount rate for its Canadian CGU, and provided the following recoverable values:

CGU	Recoverable Amount	Impairment Reversal
Canada	5,036,655	1,435,201
Tapir	9,147,575	4,182,575
		5,617,776

As at March 31, 2020, the Company reviewed its CGUs and determined that there were indicators of impairment present in its Colombian assets 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 exceeded its recoverable amount and, therefore, an impairment loss of $27,263,110 is included in the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2020. The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at March 31, 2020:

Year	Exchange rate $US / $Cdn	Brent US$/Bbl
2020 (nine months)	0.71	32.00
2021	0.72	42.00
2022	0.73	51.00
2023	0.75	58.00
2024	0.75	62.00
2025	0.75	63.24
Thereafter (inflation %)	0.75	2.0%/yr

In United States Dollars

The recoverable amounts of the Colombian CGUs at March 31, 2020 were estimated at their fair value less costs of disposal, 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, 2019 adjusted for production and future pricing changes during the three months ended March 31, 2020, except for the LLA-23 CGU which used observable market value from bidding offers received from independent third parties. The fair value less costs of disposal 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 17.5% discount rate for the March 31, 2020 impairment test, which took into account risks specific to the Colombian CGUs and inherent in the oil and gas business, and provided the following recoverable values:

CGU	Recoverable Amount	Impairment Loss
LLA-23	11,500,000	12,098,000
Capella / OMBU	-	10,690,000
Tapir	5,390,000	4,475,110
		27,263,110

9. 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 has been subsequently amended and extended. On October 18, 2021, Arrow and Canacol entered into a Seventh Amended and Restated Promissory Note agreement. The principal amendments are the following:

- The new principal amount of the promissory note is $6,026,166
- On or before October 31, 2021, the Company shall make a payment of C$ 3,900,000 plus all Canacol's expenses incurred in connection with this amendment and related matters;
- On or before December 31, 2022, the Company shall make a payment equal to 50% of the total amount outstanding of interest and principal; and
- The remaining balance of principal and interest shall be paid no later than June 30, 2023

This amendment also provided that, in the event that the Company made the payment due on October 31, 2021, Canacol agreed to forgive $658,654 for excess pipeline shipping costs, as a result of the settlement of the OBC pipeline dispute (see note 17), which were recognized as other income in the statement of operations and comprehensive income (loss). On October 27, 2021, the Company paid $3,111,491 (C$3,900,000) to Canacol as stipulated in this seventh amendment.

On August 3, 2020, the Company entered into a Fifth Amended and Restated Promissory 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. The interest forgiven has been recognized as interest in the statement of operations and comprehensive loss for the year ended December 31, 2020.

The Company has granted a general security interest to Canacol for the obligations under the Promissory Note.

In United States Dollars

10. Lease Obligations

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

		2021		2020
Obligation, beginning of the period	**$**	**70,842**	$	260,197
Changes in existing lease		**1,381**		(138,984)
Lease payments		**(24,535)**		(59,992)
Interest		**6,506**		15,435
Effects of movements in foreign exchange rates		**498**		(5,814)
Obligation, end of the year	**$**	**54,692**	$	70,842
Current portion	**$**	**20,258**	$	17,279
Long-term portion		**34,434**		53,563
	$	**54,692**	$	70,842

As at December 31, 2021, the Company has the following future commitments associated with its office lease obligations:

Less than one year	$	24,816
2 – 5 years		37,223
Total lease payments		62,039
Amounts representing interest over the term		(7,347)
Present value of the net obligation	$	54,692

During 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 $138,984, and it recognized a gain in change of lease for $19,091 in the consolidated statement of operations and comprehensive income (loss).

11. Long-term debt

During 2020, the Company received $31,552 (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, biomechanical works (e.g. containment walls in rivers), reforestation, research projects and others. At December 31, 2021 the Company had provided for $177,500 (December 31, 2020 - $177,500) 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.

	December 31, 2021	December 31, 2020
Obligation, beginning of the year	**$ 2,584,907**	$ 8,173,222
Change in estimated cash flows	**(10,173)**	(109,864)
Payments or settlements	**(237,826)**	-
Liabilities disposed	**-**	(6,016,514)
Accretion expenses	**132,807**	524,477
Effects of movements in foreign exchange rates	**524**	13,586
Obligation, end of the year	**$ 2,470,239**	$ 2,584,907

The obligation was calculated using a risk-free discount rate range of 1.00% to 2.00% in Canada (2020: 1.50% to 2.75%) and 8.46% in Colombia (2020: 5.90%) with an inflation rate of 2.0% and 4.5%, respectively (2020: 2.0% and 2.5%). It is expected that the majority of costs are expected to occur between 2022 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 $4,222,717 (2020: $4,072,683).

14. Derivative liability

Derivative liability includes warrants issued and outstanding as follows:

	2021		2020	
Warrants	**Number**	**Amounts**	Number	Amounts
Balance beginning of the year	-	$ -	-	$ -
Issued in AIM financing (Note 15)	**70,474,768**	**5,124,985**	-	-
Issues in private placement (Note 15)	**1,999,938**	**149,543**	-	-
Fair value adjustment	**-**	**(582,225)**	-	-
Balance end of the year	**72,474,706**	**$ 4,692,303**	-	$ -

Each warrant is exercisable at £0.09 per new common share for 24 months from the issuance date and are measured at fair value quarterly using the Black-Scholes options pricing model. The fair value of warrants at October and November 2021, and December 31, 2021 was estimated using the following assumptions:

	October and November 2021	December 31, 2021
Number outstanding re-valued warrants	**72,474,768**	**72,474,706**
Fair value of warrants outstanding	**£0.053**	**£0.048**
Risk free interest rate	**0.50%**	**0.50%**
Expected life	**2.00 years**	**1.82 years**
Expected volatility	**160%**	**160%**

The following table summarizes the warrants outstanding and exercisable at December 31, 2021:

In United States Dollars

December 31, 2021

Number of warrants	Exercise price	Expiry date
70,474,768	£0.09	October 25, 2023
1,999,938	£0.09	November 23, 2023
72,474,706		

15. Share Capital

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

(b) Issued:

	2021		2020	
Common shares	**Shares**	**Amounts**	Shares	Amounts
Balance beginning of the year	**68,674,602**	**$50,740,292**	68,674,602	$50,740,292
Issued in AIM financing (i)	**140,949,565**	**12,086,423**	-	-
Issued in private placement (ii)	**3,765,476**	**308,501**	-	-
Allocated to warrants (Note 14)	-	**(5,274,528)**	-	-
Share issue costs (iii)	-	**(1,162,451)**	-	-
Balance at end of the year	**213,389,643**	**56,698,237**	68,674,602	$50,740,292

(i) On October 2021, the Company raised approximately $12 million (C$15.0 million), through a placing and subscription for new common shares with new investors, Canacol Energy Ltd. (Canacol), and executive management (the Fundraising) as part of the Company's shares admission to trade on the AIM Market of the London Stock Exchange plc. The Fundraising consisted on placement and subscription of 140,949,565 new common shares at an issue price of £0.0625 (C$0.106125) per new common share. The Company's executive management invested approximately C$ 1.41 million and Canacol participated in the subscription to hold 19.9% of the enlarged share capital. Investors received one warrant for every two new common shares, exercisable at £0.09 per new common share for 24 months from the AIM admission date (October 25, 2021).

(ii) On November 24, 2021, the Company announced that it has closed a private placement of C$395,375 for issuance of 3,765,476 new common shares and 1,999,938 warrants (see Note 14).

(iii) During 2021, the Company recognized share issue costs for $1,162,451 and listing costs of $583,972 associated with the financings completed in 2021 as per above.

(b) 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. 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 December 31, 2021 and 2020 and changes during the respective periods ended on those dates is presented below:

	December 31, 2021		December 31, 2020	
Stock Options	**Number of options**	**Weighted average exercise Price (CAD $)**	Number of options	Weighted average exercise price (CAD $)
Beginning of period	**6,859,000**	**$0.40**	5,470,000	$0.99
Granted	**11,400,000**	**$0.13**	4,319,000	$0.05
Expired/Forfeited	**(1,145,000)**	**$1.04**	(2,930,000)	$0.96
End of period	**17,114,000**	**$0.18**	6,859,000	$0.40
Exercisable, end of period	**2,969,669**	**$0.46**	1,530,001	$1.06

In United States Dollars

Date of Grant	Number Outstanding	Exercise Price (CAD $)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2020
October 22, 2018	1,050,000	$1.15	6.81 years	Oct. 22, 2028	1,050,000
May 3, 2019	345,000	$0.31	7.34 years	May 3, 2029	230,002
March 20, 2020	1,200,000	$0.05	8.22 years	March 20, 2030	400,000
April 13, 2020	2,775,000	$0.05	8.29 years	April 13, 2030	1,175,000
June 18, 2020	344,000	$0.05	8.47 years	June 18, 2030	114,667
December 13, 2021	3,799,998	$0.13	1.45 years	June 13, 2023	-
December 13, 2021	3,799,998	$0.13	2.45 years	June 13, 2024	-
December 13, 2021	3,800,004	$0.13	3.45 years	June 13, 2025	-
Total	**17,114,000**	**$0.18**	**4.29 years**		**2,969,669**

During 2021, the Company recognized an income of $272,427 (2020 – income of $81,943) as share based payments expense, with a corresponding decrease in the contributed surplus account.

(c) Phantom shares:
During 2020, the Company adopted a phantom share program for compensation of its Directors and executives and granted 13,000,000 phantom common shares of the Company which are vested immediately at CAD $0.00 per share. During 2021, the Company recognized $259,527 (2020: $1,163,916) as share based payments expense and a total $1,761,667 were used as part of management's subscription of shares issued in the AIM financing (see Common Shares section).

(d) Phantom stock options:
During 2020, the Company adopted a phantom stock option program for compensation of its executives and granted 1,681,000 phantom stock options of the Company which are vested in equal parts over the three following years after granted. During 2021, the Company recognized $34,450 (2020: $87,794) as share based payments expense and a total $151,290 were used as part of management's subscription of shares issued in the AIM financing (see Common Shares section).

16. Income taxes

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

	2021	2020
Income (loss) before income taxes	**$ 4,374,722**	$ (33,992,899)
Corporate income tax rate	**23%**	24%
Computed expected tax expense (recovery)	**$ 1,006,186**	$ (8,158,296)
Increase (decrease) in income taxes resulting from:		
Share based compensation	**19,474**	280,744
(Recognized)/unrecognized deferred tax benefits	**(3,871,436)**	5,116,588
Tax rate difference on foreign jurisdictions	**783,741**	(2,487,409)
Other permanent difference	**(332,528)**	(363,362)
Foreign exchange and others	**1,075,753**	3,851,928
Income tax recovery	**$ (1,318,810)**	$ (1,759,807)

In United States Dollars

During 2021, the Company recognized a deferred income tax asset of $4,839,785 and a deferred tax liability of $3,371,936 which represents the tax impact of temporary differences and management's estimation of current tax benefits that would be realized to compensate future taxable income, due to an increase in forecast commodity prices, at substantially enacted tax rates. In Colombia, the enacted tax rate is 31% for 2021, and the Colombian government mandated an increase in the tax rate to 35% from 30% beginning on January 1, 2022. The components of the Company's deferred income tax assets and liabilities are as follows:

As at December 31	**2021**	**2020**
Property and equipment	$ **(2,421,172)**	$ **(624,325)**
Decommissioning liabilities and other provisions	**637,785**	**624,325**
Carryforward non-capital losses	**3,251,236**	**-**
Net change in deferred tax	$ **1,467,850**	$ **-**
Deferred tax liability	**3,371,935**	**-**
Deferred tax asset	$ **4,839,785**	$ **-**

At December 31, 2021, the Company had non-capital losses carried forward of approximately $63,875,000 (2020 - $48,492,000) available to reduce future years taxable income. These losses commence expiring in 2029. At December 31, 2021, the Company had income tax credits and benefits of approximately $54,586,346 (2020 - $47,527,000) related to Canada and Colombia that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

17. 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 December 31, 2021 of $17.8 million. The Company, in conjunction with its partners, have made applications to cancel $15.5 million ($5.8 million Arrow's share as per table below) in commitments on the Macaya and Los Picachos blocks. 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 December 31, 2021:

Block	**Less than 1 year**	**1-3 years**	**Thereafter**	**Total**
COR-39	-	12,000,000	-	12,000,000
Los Picachos	-	1,970,000	-	1,970,000
Macaya	-	3,830,000	-	3,830,000
Total	**-**	**17,800,000**	**-**	**17,800,000**

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.

Oleoducto Bicentenario de Colombia ("OBC") Pipeline

The Company was 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. Likewise, Canacol was in litigation with OBC in relation to ship or pay obligations that were terminated by Canacol in July 2018 under force majeure. 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 remained 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. During 2021, negotiations between the parties involved were finally settled and approved by the courts and the Company has been cleared from any past and future ship or pay obligations associated with OBC.

In United States Dollars

Letters of Credit

At December 31, 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 $4.1 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 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.

Current Outstanding Letters of Credit

Contract	Beneficiary	Issuer	Type	Amount (US $)	Renewal Date
SANTA ISABEL	ANH	Carrao Energy	Abandonment	$643,423	April 14, 2022
	ANH	Canacol and Carrao	Financial Capacity	$1,672,162	June 30, 2022
CORE - 39	ANH	Canacol	Compliance	$2,400,000	June 30, 2022
OMBU	ANH	Carrao Energy	Financial Capacity	$436,300	April 14, 2022
Total				**$5,151,885**	

18. 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

During 2020, the Company had one financial derivative contract in order to manage commodity price risk. This instrument was not used for trading or speculative purposes. Arrow had not designated its financial derivative contract as effective accounting hedge, but the Company considered the commodity contract to be an effective economic hedge. The financial derivative contract was 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 income (loss). This contract was terminated during 2020.

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. The realized gain on risk management activities is included as part of revenues in the consolidated statements of operations and comprehensive income (loss). The gains on risk management activities for the period are comprised as follows:

	For the years ended December 31	
	2021	2020
Realized risk management gain on commodity contract settled	**$ -**	$ 1,288,523
Unrealized gain on commodity contract outstanding	-	-
	$ -	$ 1,288,523

(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 sales is with a producing company under an existing sale/offtake agreement with prepayment provisions and priced using the Brent benchmark. 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 up to 15 days in advance (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.

(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.

In United States Dollars

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.

During 2020, one of the Company's subsidiary secured a bridge loan with CEDCO (a subsidiary of COG Energy Ltd., the LLA-23 purchaser) for $500,000 which assisted the Company in meeting its near-term financial obligations. The loan had an annual interest rate of 6% and was repayable upon the earliest of: (i) the closing of the LLA-23 sale, or (ii) the receipt of certain Value-Added Tax ("VAT") refunds in Colombia, or (iii) where the closing of the LLA-23 sale is delayed after December 31, 2020 or does not occur, or where is terminated, either in cash or through the delivery of an equivalent value of crude oil produced from the LLA-23 Block and the Tapir Block. The balance of this bridge loan and interest was fully paid in November 2020.

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:

	December 31, 2021	December 31, 2020
Working capital, before promissory note	**$ 8,006,074**	**$ (1,932,940)**
Non-Current portion of promissory note	**(1,659,393)**	-
	$ 6,346,681	**$ (1,932,940)**

19. Key Management Personnel

The Company has determined that key management personnel consists of its executive management and its Board of Directors. In addition to the salaries and fees paid to key management, the Company also provides compensation to both groups under its share-based compensation plans. Compensation expenses paid to key management personnel were as follows:

In United States Dollars

	Years ended December 31	
	2021	2020
Salaries, severances and director fees	**$ 2,410,920**	$ 447,152
Share based payments	**227,659**	1,169,766
	$ 2,638,579	$ 1,616,918

20. 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 years ended and as at December 31:

Year ended December 31, 2021	**Colombia**	**Canada**	**Total**
Revenue:			
Oil Sales	$ 6,199,231	$ -	$ 6,199,231
Natural gas and liquid sales	-	965,449	965,449
Royalties	(567,633)	(84,554)	(652,187)
Expenses	(3,282,997)	(4,472,550)	(7,755,547)
Impairment reversal of oil and gas properties	4,182,575	1,435,201	5,617,776
Taxes	1,318,810	-	1,318,810
Net income (loss)	**$ 7,849,986**	**$ (2,156,454)**	**$ 5,693,532**

As at December 31, 2021	**Colombia**	**Canada**	**Total**
Current assets	**$ 5,198,545**	**$ 7,607,957**	**$ 12,806,502**
Non-current:			
Deferred income taxes	4,839,785	-	4,839,785
Restricted cash	53,726	678,827	732,553
Exploration and evaluation	6,964,506	-	6,964,506
Property, plant and equipment	9,876,172	5,976,280	15,852,452
Total Assets	**$ 26,932,734**	**$ 14,263,064**	**$ 41,195,798**
Current liabilities	**$ 1,550,665**	**$ 3,249,763**	**$ 4,800,428**
Non-current liabilities:			
Long-term debt	-	31,552	31,552
Lease obligation	-	34,434	34,434
Other liabilities	177,500	-	177,500
Deferred income taxes	3,371,935	-	3,371,935
Decommissioning liability	1,822,243	647,996	2,470,239
Promissory note	-	1,659,393	1,659,393
Derivative liability	-	4,692,203	4,692,203
Total liabilities	**$ 6,922,344**	**$ 10,315,341**	**$ 17,237,685**

Year ended December 31, 2020	**Colombia**	**Canada**	**Total**
Revenue:			
Oil Sales	$ 5,179,819	$ -	$ 5,179,819
Natural gas and liquid sales	-	414,684	414,684
Royalties	(236,816)	(37,122)	(273,938)
Expenses	(9,831,878)	(3,277,950)	(13,109,828)
Impairment of oil and gas properties	(27,263,110)	-	(27,263,110)
Gain on sale of oil and gas properties	1,059,474	-	1,059,474
Taxes	1,759,807	-	1,759,807
Net loss	$ (29,332,704)	$ (2,900,388)	$ (32,233,092)

In United States Dollars

As at December 31, 2020	Colombia	Canada	Total
Current assets	$ 14,859,186	$ 1,099,466	$ 15,958,652
Non-current:			
Restricted cash	53,727	406,556	460,283
Exploration and evaluation	6,961,667	-	6,961,667
Property and equipment	7,016,982	3,134,715	10,151,697
Total Assets	$ 28,891,562	$ 4,640,737	$ 33,532,299
Current liabilities	$ 8,622,577	$ 9,269,015	$ 17,891,592
Non-current liabilities:			
Other liabilities	177,500	-	177,500
Lease obligation	-	53,563	53,563
Decommissioning liability	2,081,083	503,824	2,584,907
Long-term debt	-	31,416	31,416
Total liabilities	$ 10,881,160	$ 9,857,818	$ 20,738,978