

ARROW EXPLORATION CORP.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED JUNE 30, 2022**





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 26, 2022 and should be read in conjunction with Arrow's condensed consolidated financial statements (unaudited) and related notes for the three and six months ended June 30, 2022 and 2021. 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, 2021 and 2020.

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, 2022	Six months ended June 30, 2022	Three months ended June 30, 2021
Net income (loss)	768,318	(4,663,547)	(734,317)
Add/(subtract):			
Share based payments	40,917	103,836	(278,254)
Financing costs:			
Accretion on decommissioning obligations	45,644	89,975	32,906
Interest	123,741	244,519	115,883
Other	134,981	244,029	716
Depreciation and depletion	971,353	1,840,592	333,282
Derivative loss	724,758	5,512,593	-
Adjusted EBITDA ⁽¹⁾	2,809,713	3,371,998	(529,784)
Cash flows used in operating activities	(99,185)	(196,893)	(1,762,640)
Minus - Changes in non-cash working capital balances:			
Trade and other receivables	2,185,670	2,350,855	50,628
Restricted cash	157,481	157,481	(3,099)
Taxes receivable	(4,560)	303,003	143,500
Deposits and prepaid expenses	(81,506)	11,182	123,288
Inventory	150,459	228,776	182,695
Accounts payable and accrued liabilities	305,484	72,391	1,018,618
Funds flow from (used in) operations ⁽¹⁾	2,613,843	2,926,795	(247,010)

⁽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, 2022	Six months ended June 30, 2022	Three months ended June 30, 2021
Total natural gas and crude oil revenues, net of royalties	5,024,604	8,427,566	941,620
Funds flow from (used in) operations ⁽¹⁾	2,613,843	2,926,795	(247,010)
Funds flow from (used in) operations ⁽¹⁾ per share –			
Basic(\$)	0.01	0.01	(0.00)
Diluted (\$)	0.00	0.00	(0.00)
Net income (loss)	768,318	(4,663,547)	(734,317)
Net income (loss) per share –			
Basic (\$)	0.00	(0.02)	(0.01)
Diluted (\$)	0.00	(0.02)	(0.01)
Adjusted EBITDA ⁽¹⁾	2,809,713	3,371,998	(529,784)
Weighted average shares outstanding –			
Basic (\$)	214,367,388	213,979,850	68,674,602
Diluted (\$)	288,231,900	270,189,255	68,674,602
Common shares end of period	214,667,143	214,667,143	68,674,602
Capital expenditures	2,777,611	3,503,276	(15,378)
Cash and cash equivalents	7,368,252	7,368,252	4,559,231
Current Assets	12,190,063	12,190,063	8,773,936
Current liabilities	6,596,035	6,596,035	5,632,719
Working capital ⁽¹⁾	5,594,028	5,594,028	3,141,217
Long-term portion of restricted cash ⁽²⁾	867,047	867,047	503,257
Total assets	42,670,153	42,670,153	25,948,551
Operating			
Natural gas and crude oil production, before royalties			
Natural gas (Mcf/d)	2,398	3,329	373
Natural gas liquids (bbl/d)	5	6	4
Crude oil (bbl/d)	575	505	264
Total (boe/d)	980	1,066	331
Operating netbacks (\$/boe) ⁽¹⁾			
Natural gas (\$/Mcf)	\$2.18	\$1.26	\$0.74
Crude oil (\$/bbl)	\$80.04	\$66.37	\$27.31
Total (\$/boe)	\$49.18	\$33.27	\$22.37

⁽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 and the London AIM 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 30, 2022 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
Fir	Non operated	7,680	32%	2,457
Penhold	Non-operated	480	13%	61
Pepper	Operated	23,643	100%	23,643
Wapiti	Non-operated	1,280	13%	160
Total Canada		33,723		26,961
TOTAL		499,140		253,966



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

Llanos Basin

Within the Llanos Basin, the Company is engaged in the exploration, development and production of oil within 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. The Tapir block contain large areas not yet covered by 3D seismic, and in Management's opinion offer substantial exploration upside.

The Company's interest in the Tapir block is held through a private contract with Petrolco, who holds a 50% participating interest in, and is the named operator of, the Tapir contract with Ecopetrol. The formal assignment to the Company is subject to Ecopetrol's consent. The Company is the *de facto* operator pursuant to certain agreements with Petrolco (details of which are set out in Paragraph 16.13 of the Company's AIM Admission Document dated October 20, 2021).

Middle Magdalena Valley ("MMV") Basin

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.

Pepper, Alberta

The Company holds a 100% operated WI in 37 sections of Motney P&NG rights at Pepper. The 06-26 well (West Pepper) is a horizontal Upper Motney exploration well that produces natural gas into the Galloway gas plant where it is processed.

Three months ended June 30, 2022 Financial and Operational Highlights

- Arrow recorded \$5,024,604 in revenues (net of royalties) on crude oil sales of 42,763 bbls, 458 bbls of natural gas liquids ("NGL's") and 222,642 Mcf of natural gas sales;
- Generated funds flow from operations of \$2,613,843;
- Adjusted EBITDA was \$2,809,713;
- The Company recorded a net income of \$768,318;



- Drilled and completed the Rio Cravo Este -2 (RCE-2) and Rio Cravo Sur-1 (RCS-1) wells in the Tapir block, increasing oil production in Colombia

RESULTS OF OPERATIONS

The Company has significantly recovered its production and improved its operations despite the challenges from the Covid-19 pandemic, combined with improved pricing of energy commodities. During the three and six months ended June 30, 2022, the Company increased production at its Tapir block from the drilling of the RCE-2 and RCS-1 wells, offset by a decrease in production at the Ombu blocks, and consistent production in the Oso Pardo field. Also, the West Pepper Well decrease its production during the three months ended June 30, 2022 due to third party's temporary processing facility constraints.

Average Production by Property

Average Production Boe/d	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Oso Pardo	112	121	123	137	20
Ombu (Capella)	97	177	190	193	97
Rio Cravo Este (Tapir)	366	136	142	151	147
Total Colombia	575	434	455	481	264
Fir, Alberta	86	73	82	94	67
Pepper, Alberta	319	636	181	-	-
TOTAL (Boe/d)	980	1,144	719	575	331

For the three months ended June 30, 2022, the Company's average production was 980 boe/d (2021: 331 boe/d), which consisted of crude oil production in Colombia at 575 bbl/d (2021: 264 bbl/d), and natural gas production of 2,398 Mcf/d (2021: 373 Mcf/d) and minor amounts of natural gas liquids from the Company's Canadian properties.

Average Daily Natural Gas and Oil Production and Sales Volumes

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Natural Gas (Mcf/d)				
Natural gas production	2,398	373	3,329	378
Natural gas sales	2,398	373	3,329	378
Realized Contractual Natural Gas Sales	2,398	373	3,329	378
Crude Oil (bbl/d)				
Crude oil production	575	264	505	220
Inventory movements and other	(105)	(101)	(142)	(51)
Crude Oil Sales	470	163	364	169
Corporate				
Natural gas production (boe/d)	400	63	555	63
Natural gas liquids (bbl/d)	5	4	6	4
Crude oil production (bbl/d)	575	264	505	220
Total production (boe/d)	980	331	1,066	287
Inventory movements and other (boe/d)	(105)	(101)	(142)	(51)
Total Corporate Sales (boe/d)	874	230	924	236



During the three months ended June 30, 2022 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. Production has also increased in Canada where the Company has one operated (Pepper) and one non-operated (Fir) producing properties.

Natural Gas and Oil Revenues

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Natural Gas				
Natural gas revenues	1,218,731	103,520	2,599,851	207,784
NGL revenues	42,528	21,993	86,145	39,702
Royalties	(138,491)	(9,500)	(436,155)	(22,331)
Revenues, net of royalties	1,122,768	116,013	2,249,841	225,155
Oil				
Oil revenues	4,475,645	933,103	6,956,442	1,799,933
Royalties	(569,224)	(107,497)	(778,717)	(236,036)
Revenues, net of royalties	3,906,421	825,606	6,177,725	1,563,897
Corporate				
Natural gas revenues	1,218,731	103,520	2,599,851	207,784
NGL revenues	42,528	21,993	86,145	39,702
Oil revenues	4,475,645	933,103	6,956,442	1,799,933
Total revenues	5,736,905	1,058,616	9,642,438	2,047,419
Royalties	(707,716)	(116,997)	(1,214,871)	(258,367)
Natural gas and crude oil revenues, net of royalties, as reported	5,029,189	941,619	8,427,566	1,789,052

Revenue for the three and six months ended June 30, 2022 was \$5.0 and \$8.4 million, respectively, net of royalties, which represents an increase of 371% and 434%, respectively, when compared to the same periods in 2021. This significant increase is mainly due to having all Colombian wells back in production, additional wells drilled and producing, and the additional natural gas production from the West Pepper well in Canada.

Average Benchmark and Realized Prices

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Benchmark Prices						
AECO (\$/Mcf)	\$5.42	\$2.48	119%	\$4.55	\$2.39	90%
Brent (\$/bbl)	\$111.98	\$69.08	62%	\$104.59	\$65.23	60%
West Texas Intermediate (\$/bbl)	\$108.40	\$66.19	64%	\$101.45	\$62.22	63%
Realized Prices						
Natural gas, net of transportation (\$/Mcf)	\$5.45	\$3.05	78%	\$4.32	\$3.04	42%
Natural gas liquids (\$/bbl)	\$92.56	\$48.26	92%	\$83.87	\$48.86	72%
Crude oil, net of transportation (\$/bbl)	\$104.66	\$63.19	66%	\$91.12	\$59.10	54%
Corporate average, net of transport (\$/boe)⁽¹⁾	\$71.35	\$52.78	35%	\$54.23	\$48.92	11%



The Company realized prices of \$71.35 and \$54.23 per boe during the three and six months ended June 30, 2022 (2021: \$52.78 and \$48.92 per boe). This increase is a reflection of improved oil and natural gas prices during 2022.

Operating Expenses

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Natural gas & NGL's	590,932	70,745	1,401,777	128,864
Crude oil	483,503	422,283	1,111,139	606,309
Total operating expenses	1,074,435	493,028	2,512,916	735,173
Natural gas (\$/Mcf)	\$2.65	\$2.09	\$2.33	\$1.88
Crude oil (\$/bbl)	\$11.31	\$28.60	\$14.55	\$19.91
Corporate (\$/boe)⁽¹⁾	\$13.38	\$24.58	\$14.13	\$17.56

⁽¹⁾Non-IFRS measure

During the three and six months ended June 30, 2022, Arrow incurred operating expenses of \$1,074,435 and \$2,512,916, respectively, at an average cost of \$13.38 and \$14.13 per boe, respectively. Operating expenses per boe have improved due to increases in production of both crude oil and natural gas.

Operating Netbacks

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Natural Gas (\$/Mcf)				
Revenue, net of transportation expense	\$5.45	\$3.05	\$4.32	\$3.04
Royalties	(0.62)	(0.22)	(0.72)	(0.27)
Operating expenses	(2.65)	(2.09)	(2.33)	(1.89)
Natural Gas operating netback⁽¹⁾	\$2.18	\$0.74	\$1.26	\$0.88
Crude oil (\$/bbl)				
Revenue, net of transportation expense	\$104.66	\$63.19	\$91.12	\$59.10
Royalties	(13.31)	(7.28)	(10.20)	(7.75)
Operating expenses	(11.31)	(28.60)	(14.55)	(19.91)
Crude Oil operating netback⁽¹⁾	\$80.04	\$27.31	\$66.37	\$31.44
Corporate (\$/boe)				
Revenue, net of transportation expense	\$71.35	\$52.78	\$54.23	\$48.92
Royalties	(8.80)	(5.83)	(6.83)	(6.17)
Operating expenses	(13.38)	(24.58)	(14.13)	(17.56)
Corporate Operating netback⁽¹⁾	\$49.18	\$22.37	\$33.27	\$25.19

⁽¹⁾Non-IFRS measure



General and Administrative Expenses (G&A)

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
General & administrative expenses	1,275,915	913,069	2,649,021	2,291,697
Less: G&A capitalized	-	-	-	-
G&A recovered from 3 rd parties	(147,030)	-	(167,030)	-
Total operating overhead recovery	(147,030)	913,069	(167,030)	2,291,697
Total G&A	1,128,885	913,069	2,481,991	2,291,697
Cost per boe	\$15.30	\$45.52	\$13.96	\$54.75

For the three and six months ended June 30, 2022, G&A expenses, before recoveries totaled \$1,275,915 and \$2,649,021, respectively, which indicates stable G&A spending.

Share-based Payments Expense

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Share-based Payments	40,917	(278,254)	103,836	(550,310)

Share-based payments expense for the three and six months ended June 30, 2022 totalled \$40,917 and \$103,836, respectively (201: share-based payment income of \$278,254 and \$550,310, respectively). The share-based payments expense 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.

Financing Costs

	Three months ended June 30		Six months ended June 30	
	2021	2021	2021	2021
Financing expense paid or payable	258,723	116,599	488,549	424,150
Non-cash financing costs	45,644	32,906	89,975	64,969
Net financing costs	\$304,367	149,505	\$578,524	489,119

The finance expense paid or payable represents interest on the promissory note due to Canacol, as partial payment for the acquisition of Carrao which bears interest at 15% per annum. The decrease on this financing expense is due to a reduced outstanding balance outstanding in Canacol's promissory note. In addition, financing expense includes fees and interest associated with financing standby letters of credit on certain of the Company's Colombian blocks. The non-cash finance cost represents an increase in the present value of the decommissioning obligation for the current periods.



Loss on Derivative Liability

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Loss on Derivative Liability	724,758	-	5,512,593	-

During the three and six months ended June 30, 2022, the Company recorded a loss in derivative liability of \$724,758 and \$5,512,593, respectively, related to the valuation of its outstanding warrants issued during its AIM listing and private placement completed in 2021. These warrants provide the right to holders to convert them into common shares at a fixed price set in a currency different to the Company's functional currency and, therefore, they are considered a liability and measured at fair value with changes recognized in the statements of operations and comprehensive loss.

Depletion and Depreciation

	Three months ended June 30		Six months ended June 30	
	2021	2021	2021	2021
Depletion and depreciation	371,353	333,282	1,840,592	603,712

Depletion and depreciation expense in the three and six months ended June 30, 2022 totalled \$371,353 and \$1,840,592, respectively (2021: \$333,282 and \$603,712, respectively). The Company uses the unit of production method and proved plus probable reserves to calculate depletion expense and this increase is directly related to an increase in depletable values and production of crude and natural gas during Q2 2022 compared with 2021.

Other Income

	Three months ended June 30		Six months ended June 30	
	2022	2021	2021	2021
Other expense (income)	(20,204)	46,341	(12,094)	(494,924)

The Company reported other income of \$20,204 and \$541,266 for the three and six months ended June 30, 2022, respectively (2021: \$46,341 expense and \$494,934 income, respectively). The 2021 amount was 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.

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.



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 and executive management as part of the Company's shares admission to trade on the AIM Market of the London Stock Exchange plc. This 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, and 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). On November 24, 2021, the Company closed a private placement of C\$395,375 for issuance of 3,765,476 new common shares and 1,999,938 warrants.

As at June 30, 2022, the Company's working capital is \$5,594,028. During 2021 and 2022, the Company has been favorably impacted by the overall improvement in energy commodity prices, which has also impacted the Company's capacity to generate sufficient financial resources to sustain its operations. This has contributed to the Company's ability to complete financing transactions in 2021, in the form of fundraisings, from its existing and new investors and management is confident that additional resources would be available to the Company to close similar transactions. As at June 30, 2022 the Company's net debt was calculated as follows:

	June 30, 2022
Current assets	\$ 12,190,063
Less:	
Accounts payable and accrued liabilities	3,000,160
Promissory Note – short term portion	3,557,792
Net debt ⁽¹⁾	\$ 5,632,111

⁽¹⁾Non-IFRS measure

Working Capital

As at June 30, 2022 the Company's working capital was calculated as follows:

	June 30, 2022
Current assets:	
Cash	\$ 7,368,252
Trade and other receivables	2,990,437
Taxes receivable	1,022,052
Other current assets	809,321
Less:	
Accounts payable and accrued liabilities	3,000,160
Lease obligation	38,084
Promissory note – short term portion	3,557,792
Working capital⁽¹⁾	\$ 5,594,027

⁽¹⁾Non-IFRS measure

Debt Capital

The Company currently has \$3.5 million in outstanding debt in the form of a promissory note payable to Canacol and a long-term debt of \$31,040. On October 18, 2021, Arrow and Canacol entered into a Seventh Amended and Restated Promissory Note. 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, which has already occurred;
- 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

The total balance of this promissory note and its interest of \$3,557,792 is presented as a current liability in the interim condensed consolidated statement of financial position as at June 30, 2022. 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.

Letters of Credit

As at June 30, 2022, the Company had obligations under Letters of Credit (“LC’s”) outstanding totaling \$5.3 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
SANTA ISABEL	ANH	Carrao Energy	Abandonment	\$563,894	April 14, 2023
	ANH	Canacol and Carrao	Financial Capacity	\$1,672,162	December 31, 2022
COR - 39	ANH	Canacol	Compliance	\$2,400,000	December 31, 2022
OMBU	ANH	Carrao Energy	Financial Capacity	\$436,300	April 14, 2023
Total				<u>\$5,072,356</u>	

Share Capital

As at June 30, 2022, the Company had 214,667,143 common shares, 71,572,206 warrants and 15,845,000 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, 2022:

	Less than 1 year	1-3 years	Thereafter	Total
Promissory Note	\$ 3,557,792	\$ -	-	\$ 3,557,792
Long term debt	-	31,040	-	31,040
Exploration and production contracts	-	17,800,000	-	17,800,000
	\$ 3,557,792	\$ 17,831,040	-	\$ 21,388,832

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, 2022 of \$17.8 million. The Company, in conjunction with its partners, have made applications to cancel \$15.5 million (\$5.79 million Arrow’s share) 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.



SUMMARY OF THREE MONTHS RESULTS

	2022		2021				2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas sales, net of royalties	5,024,604	3,911,329	3,038,832	1,684,609	941,620	847,432	368,140	207,934
Net income (loss)	768,318	(5,431,865)	6,960,035	(21,782)	(734,317)	(510,405)	(7,953,001)	(1,390,746)
Income (loss) per share –								
basic	0.00	(0.03)	0.04	(0.00)	(0.01)	(0.01)	(0.12)	(0.02)
diluted	0.00	(0.02)	0.04	(0.00)	(0.01)	(0.01)	(0.12)	(0.02)
Working capital (deficit)	5,594,027	7,657,938	8,006,074	783,707	3,141,217	(2,659,690)	(1,932,940)	(11,086,377)
Total assets	42,670,153	39,914,240	41,195,798	25,362,323	25,948,551	27,684,920	33,532,299	46,702,911
Net capital expenditures	2,777,611	725,665	1,991,163	148,528	(15,378)	97,330	89,198	146,584
Average daily production (boe/d)	980	1,144	712	575	331	242	140	105

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 Tapir wells, partially offset by the sale of the Company's interest in the LLA-23 blocks and natural declines on mature blocks. Trends in the Company's net income (loss) are also impacted most significantly by commodity prices, increase in production, 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 26, 2022, the Company had the following securities issued and outstanding:

	Number	Exercise Price	Expiry Date
Common shares	216,175,741	n/a	n/a
Warrants	70,063,607	GBP 0.09	Oct. and Nov, 2023
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	2,000,000	CAD\$ 0.05	April 13, 2030
Stock options	2,983,332	GBP 0.07625	June 13, 2023
Stock options	2,983,332	GBP 0.07625	June 13, 2024
Stock options	2,983,336	GBP 0.07625	June 13, 2025
Stock options	766,665	CAD\$ 0.28	December 9, 2023
Stock options	766,667	CAD\$ 0.28	December 9, 2023
Stock options	766,668	CAD\$ 0.28	December 9, 2023

OUTLOOK

The first six months of 2022 saw the Company deploy the capital it raised at the time of its Admission to AIM on a successful two well drilling campaign at Rio Cravo on the Tapir Block. The better than forecasted results from this drilling campaign and the subsequent generation of positive cashflows in Q3 means Arrow is pleased to be committing to a further drilling programme. In Q4 2022, the Company expects to drill up to three further wells at Rio Cravo and plans a two well program on the Carrizales Norte Structure on the Tapir Block. A letter of intent has been signed with a drilling contractor to execute the planned five well program on the Colombian Tapir Block. Along with workovers to other existing wells, the Company will seek to tie in the East Pepper well in Q4 2022, confirming Arrow remains on target to increase production to 3,000 boe/d within 18 months of AIM Admission. The Company is able to support the planned 2023 CAPEX program with current cash and cashflow from operations. Arrow continues to focus on growth and improving its balance sheet and free cash flow.



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. Commodity prices began to recover in late 2020 and continued that recovery in 2021 and 2022. Although it is impossible to reliably estimate the continuous impact of COVID-19, and OPEC's policies and the volatile commodities market, both are anticipated to have material effects on the Company's 2022 financial results relative to 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, 2021 and 2020. 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, 2021 and 2020. 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, 2021 for a description of the financial, business and other risk factors affecting the Company which are available on SEDAR at www.sedar.com