

ARROW EXPLORATION CORP.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2023 AND 2022
IN UNITED STATES DOLLARS
(UNAUDITED)**



**Notice of No Auditor Review of the Interim Condensed Consolidated Financial Statements
as at and for the three months ended March 31, 2023**

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

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

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

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

As at	Notes	March 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		\$ 12,354,424	\$ 13,060,968
Restricted cash and deposits	3	219,352	210,654
Trade and other receivables	4	863,345	2,568,290
Taxes receivable	5	1,403,546	801,177
Deposits and prepaid expenses		271,071	157,459
Inventory		823,475	705,677
		15,935,213	17,504,225
Non-current assets			
Deferred income taxes		872,286	872,286
Restricted cash and deposits	3	611,696	608,127
Exploration and evaluation	6	972,692	-
Property and equipment	7	35,328,057	34,205,610
Total Assets		\$ 53,719,944	\$ 53,190,248
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 3,356,144	\$ 5,850,823
Lease obligation	9	42,513	41,434
Promissory note	8	1,958,603	1,899,294
Derivative liability	11	6,705,966	9,540,423
Income taxes		1,252,273	1,488,916
		13,315,499	18,820,890
Non-current liabilities			
Lease obligations	9	11,307	22,317
Other liabilities		80,484	80,484
Deferred income taxes	14	5,066,684	5,066,684
Decommissioning liability	10	3,610,359	3,303,301
Total liabilities		22,084,333	27,293,676
Shareholders' equity			
Share capital	12	60,446,219	57,810,735
Contributed surplus		1,702,731	1,570,491
Deficit		(29,849,547)	(32,839,282)
Accumulated other comprehensive loss		(663,792)	(645,372)
Total shareholders' equity		31,635,611	25,896,572
Total liabilities and shareholders' equity		\$ 53,719,944	\$ 53,190,248

Commitments and contingencies (Note 13)

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

On behalf of the Board:

signed "Gage Jull" Director
Gage Jull

signed "Anthony Zaidi" Director
Anthony Zaidi

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

For the three months ended March 31,	Notes	2023	2022
Revenue			
Oil and natural gas	15	\$ 7,964,857	\$ 3,911,329
Royalties		(971,997)	(508,366)
Total oil and natural gas revenue, net of royalties		6,992,860	3,402,963
Expenses			
Operating		1,117,590	1,438,482
Administrative		1,618,748	1,353,106
Listing costs		722	31,365
Share based payments	12	132,240	62,919
Financing costs:			
Accretion	10	29,156	44,331
Interest	8	60,887	120,778
Other		45,682	109,048
(Gain) loss on derivative liability	11	(1,354,275)	4,787,835
Foreign exchange loss (gain)		(40,816)	25,835
Depletion and depreciation	7	2,454,364	869,239
Other income		(61,173)	(8,110)
		4,003,125	8,834,828
Net income (loss)		2,989,735	(5,431,865)
Other comprehensive (loss) income:			
Foreign exchange		(18,420)	44,652
Total other comprehensive income (loss)		(18,420)	44,652
Total comprehensive income (loss)		2,971,315	\$ (5,387,213)
Net income (loss) per share:			
Basic		\$ 0.01	\$ (0.03)
Diluted		\$ 0.01	\$ (0.02)
Weighted average shares outstanding:			
Basic		222,717,847	213,577,686
Diluted		288,639,348	250,941,120

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

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

	Share Capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance January 1, 2023	\$ 57,810,735	\$ 1,570,491	\$ (645,372)	\$ (32,839,282)	\$ 25,896,572
Issuances of common shares, net	2,635,484	-	-	-	2,635,484
Net income for the period	-	-	-	2,989,735	2,989,735
Comprehensive loss for the period	-	-	(18,420)	-	(18,420)
Share-based compensation	-	132,240	-	-	132,240
Balance March 31, 2023	\$ 60,446,219	\$ 1,702,731	\$ (663,792)	\$ (29,849,547)	\$ 31,635,611

	Share Capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance January 1, 2022	\$ 56,698,237	\$ 1,249,418	\$ (803,736)	\$ (33,185,806)	\$ 23,958,113
Subscription of common shares, net	6,489	-	-	-	6,489
Options settled in cash	-	(6,622)	-	-	(6,622)
Net loss for the period	-	-	-	(5,431,865)	(5,431,865)
Comprehensive income for the period	-	-	44,652	-	44,652
Share-based compensation	-	62,919	-	-	62,919
Balance March 31, 2022	\$ 56,704,726	\$ 1,305,715	\$ (759,084)	\$ (38,617,671)	\$ 18,633,686

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

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

For the three months ended March 31,	2023	2022
Cash flows provided by (used in) operating activities		
Net income (loss)	\$ 2,989,735	\$ (5,431,865)
Items not involving cash:		
Share based payment	132,240	62,919
Depletion and depreciation	2,454,364	869,239
Interest on leases	1,596	2,158
Interest on promissory note, net of forgiveness	60,887	118,620
Accretion	29,156	44,331
Foreign exchange gain	(73,101)	(50,351)
(Gain) loss on derivative liability	(1,354,275)	4,787,835
Payment of asset decommissioning obligations	-	(89,933)
Changes in non-cash working capital balances:		
Restricted cash	(12,266)	-
Trade and other receivables	1,704,944	(165,185)
Taxes receivable	(602,369)	(307,563)
Deposits and prepaid expenses	(113,612)	(92,688)
Inventory	(117,798)	(78,317)
Accounts payable and accrued liabilities	(2,482,665)	233,092
Income tax payable	(236,642)	-
Cash provided by (used in) operating activities	<u>2,380,195</u>	<u>(97,708)</u>
Cash flows used in investing activities		
Additions to exploration and evaluation assets	(972,692)	-
Additions to property and equipment	(3,299,001)	(725,665)
Changes in non-cash working capital	(11,916)	(1,225,935)
Cash flows used in investing activities	<u>(4,283,609)</u>	<u>(1,951,600)</u>
Cash flows provided by (used in) financing activities		
Issuance of common shares	1,147,827	6,489
Lease payments	(11,586)	(9,186)
Cash flows provided by (used in) financing activities	<u>1,136,241</u>	<u>(2,697)</u>
Effect of changes in the exchange rate on cash	60,628	140,694
Decrease in cash	(706,545)	(1,911,311)
Cash, beginning of period	<u>13,060,969</u>	<u>10,878,508</u>
Cash, end of period	<u><u>12,354,424</u></u>	<u><u>8,967,197</u></u>
Supplemental information		
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

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

Arrow Exploration Corp.
Notes to the Interim Condensed Consolidated Financial Statements
In United States Dollars
(Unaudited)

March 31, 2023

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

These interim condensed consolidated financial statements (the “Financial Statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. These Financial Statements were authorized for issue by the board of directors of the Company on May 29, 2023. They do not contain all disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements as at December 31, 2022.

These Financial Statements have been prepared on the historical cost basis, except for financial assets and liabilities recorded in accordance with IFRS 9. The Financial Statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2022, except for the adoption of new accounting standards effective January 1, 2023. In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2022.

Adoption of New Accounting Standards

The Company adopted amendments published by IASB to IAS 8 *Changes in Estimates vs Changes in Accounting Policies* and to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*. These amendments were adopted by the Company from January 1, 2023 but they did not have a material impact on the Consolidated Financial Statements.

3. Restricted Cash and deposits

	March 31, 2023	December 31, 2022
Colombia (i)	\$ 257,160	\$ 248,462
Canada (ii)	573,888	570,319
Sub-total	<u>831,048</u>	<u>818,781</u>
Long-term portion	<u>(611,696)</u>	<u>(608,127)</u>
Current portion of restricted cash and deposits	<u>\$ 219,352</u>	<u>\$ 210,654</u>

- (i) Balance comprised of deposits held as collateral to guarantee abandonment expenditures in the Tapir and Santa Isabel blocks.
(ii) Pursuant to Alberta government regulations, the Company was required to keep a \$317,123 (CAD \$429,182; 2022: \$424,398) deposit for the Company’s liability rating management (“LMR”), which is held by a bank with interest paid to the Company. The remaining \$256,765 pertain to commercial deposits with customers, lease and other deposits held in Canada.

Arrow Exploration Corp.
Notes to the Interim Condensed Consolidated Financial Statements
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(Unaudited)

March 31, 2023

4. Trade and other receivables

	March 31, 2023	December 31, 2022
Trade receivables, net of advances	\$ 198,531	\$ 847,432
Other accounts receivable	<u>664,814</u>	<u>1,720,858</u>
	<u>\$ 863,345</u>	<u>\$ 2,568,290</u>

As at December 31, 2022, other accounts receivable included a \$1,070,825 receivable from a partner in the Tapir block and corresponds to reimbursable capital expenditures incurred on the Tapir block.

5. Taxes receivable

	March 31, 2023	December 31, 2022
Value-added tax (VAT) credits recoverable	\$ 643,469	\$ -
Income tax withholdings and advances, net	<u>760,077</u>	<u>801,177</u>
	<u>\$ 1,403,546</u>	<u>\$ 801,177</u>

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

6. Exploration and Evaluation

	March 31, 2023	December 31, 2022
Balance, beginning of the period	\$ -	\$ 6,964,506
Additions, net	<u>972,692</u>	-
Reclassification to Property and Equipment	-	<u>(6,964,506)</u>
Balance, end of the period	<u>\$ 972,692</u>	<u>\$ -</u>

Arrow Exploration Corp.
Notes to the Interim Condensed Consolidated Financial Statements
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(Unaudited)

March 31, 2023

7. Property and Equipment

Cost	Oil and Gas Properties	Right of Use and Other Assets	Total
Balance, December 31, 2021	\$ 32,160,917	\$ 183,485	\$ 32,344,402
Additions	7,663,062	50,671	7,713,733
Transfers from exploration and evaluation assets	6,964,506	-	6,964,506
Decommissioning adjustment	756,541	-	756,541
Balance, December 31, 2022	\$ 47,545,026	\$ 234,156	\$ 47,779,182
Additions	3,299,001	-	3,299,001
Decommissioning adjustment	277,309	-	277,309
Balance, December 31, 2023	\$ 51,121,336	\$ 234,156	\$ 51,355,492

Accumulated depletion and depreciation and impairment

Balance, December 31, 2021	\$ 16,692,145	\$ 114,965	\$ 16,807,110
Depletion and depreciation	5,482,218	46,271	5,528,489
Reversals net of impairment loss	(9,020,654)	-	(9,020,654)
Balance, December 31, 2022	\$ 13,153,709	\$ 161,236	\$ 13,314,945
Depletion and depreciation	2,441,790	12,573	2,454,363
Balance, December 31, 2023	\$ 15,595,499	\$ 173,809	\$ 15,769,308

Foreign exchange

Balance December 31, 2021	\$ 318,617	\$ (3,457)	\$ 315,160
Effects of movements in foreign exchange rates	(568,525)	(5,262)	(573,787)
Balance December 31, 2022	\$ (249,908)	\$ (8,719)	\$ (258,627)
Effects of movements in foreign exchange rates	448	52	500
Balance, December 31, 2023	\$ (249,460)	\$ (8,667)	\$ (258,127)

Net Book Value

Balance December 31, 2022	\$ 34,141,409	\$ 64,201	\$ 34,205,610
Balance, December 31, 2023	\$ 35,276,377	\$ 51,680	\$ 35,328,057

Effective February 9, 2023, the Agencia Nacional de Hidrocarburos (“ANH”) approved the suspension of the obligations and operations of the OMBU contract due to *force majeure* circumstances generated by the blockades and social unrest around the Capella field. The suspension is for an initial term of three months and the Company, together with its partner and the ANH, is monitoring this suspension to define next steps.

8. Promissory Note

The promissory note was issued to Canacol Energy Ltd. (“Canacol”), a related party to the Company, as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The promissory note bears interest at 15% per annum, and, on October 18, 2021, Arrow and Canacol entered into a Seventh Amended and Restated Promissory Note agreement with a current balance payable of \$ 1,958,603 as at March 31, 2023 which shall be paid no later than June 30, 2023. The Company has granted a general security interest to Canacol for the obligations under the Promissory Note.

Arrow Exploration Corp.
Notes to the Interim Condensed Consolidated Financial Statements
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March 31, 2023

9. Lease Obligations

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

	2023	2022
Obligation, beginning of the period	\$ 63,751	\$ 54,692
Changes in existing lease	-	44,701
Lease payments	(11,586)	(39,697)
Interest	1,596	9,696
Effects of movements in foreign exchange rates	59	(5,641)
Obligation, end of the period	\$ 53,820	\$ 63,751
Current portion	(42,513)	(41,434)
Long-term portion	11,307	\$ 22,317

As at March 31, 2023, the Company has the following future lease obligations:

Less than one year	\$ 45,982
2 – 5 years	11,495
Total lease payments	57,477
Amounts representing interest over the term	(3,657)
Present value of the net obligation	\$ 53,820

10. 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.

	March 31, 2023	December 31, 2022
Obligation, beginning of the period	\$ 3,303,301	\$ 2,470,239
Change in estimated cash flows	277,309	756,541
Payments or settlements	-	(76,131)
Accretion expense	29,156	199,521
Effects of movements in foreign exchange rates	593	(46,869)
Obligation, end of the period	\$ 3,610,359	\$ 3,303,301

The obligation was calculated using a risk-free discount rate range of 2.50% to 3.75% in Canada (2022: 2.50% to 3.75%) and between 3.55% and 4.13% in Colombia (2022: 3.55% and 4.13%) with an inflation rate of 3.0% and 3.5%, respectively (2022: 3.0% and 3.5%). The majority of costs are expected to occur between 2023 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 \$5,006,281 (2022: \$4,480,074).

Arrow Exploration Corp.
Notes to the Interim Condensed Consolidated Financial Statements
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March 31, 2023

11. Derivative liability

Derivative liability includes warrants issued and outstanding as follows:

	March 31, 2023		December 31, 2022	
	Number	Amounts	Number	Amounts
Warrants				
Balance beginning of the period	67,837,418	\$ 9,540,423	72,474,706	\$ 4,692,303
Exercised	(10,577,910)	(1,487,657)	(4,637,288)	(598,509)
Fair value adjustment	-	(1,354,275)	-	5,974,674
Foreign exchange	-	7,475	-	(528,045)
Balance end of the period	57,259,508	\$ 6,705,966	67,837,418	\$ 9,540,423

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 March 31, 2023 and December 31, 2022 was estimated using the following assumptions:

	March 31, 2023	December 31, 2022
Number outstanding re-valued warrants	57,259,508	67,837,418
Fair value of warrants outstanding	£0.0948	£0.1157
Risk free interest rate	3.75%	3.41%
Expected life	0.65 years	0.82 years
Expected volatility	138%	147%

The following table summarizes the warrants outstanding and exercisable at March 31, 2023:

Number of warrants	Exercise price	Expiry date
56,606,859	£0.09	October 24, 2023
652,649	£0.09	November 22, 2023
57,259,508		

12. Share Capital

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

(b) Issued:

	March 31, 2023		December 31, 2022	
	Shares	Amounts	Shares	Amounts
Common shares				
Balance beginning of the year	218,401,931	57,810,735	213,389,643	56,698,237
Issued from warrants exercised	10,577,910	2,635,483	4,637,288	1,094,574
Issued from options exercised	-	-	375,000	17,924
Balance at end of the period	228,979,841	60,446,219	218,401,931	57,810,735

Arrow Exploration Corp.
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(c) Stock options:

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase a number of non-transferable common shares not exceeding 10% of the common shares that are outstanding. 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 March 31, 2023 and December 31, 2022 and changes during the respective periods ended on those dates is presented below:

Stock Options	March 31, 2023		December 31, 2022	
	Number of options	Weighted average exercise Price (CAD \$)	Number of options	Weighted average exercise price (CAD \$)
Beginning of period	20,590,000	\$0.24	17,114,000	\$0.18
Granted	650,000	\$0.32	10,028,332	\$0.27
Expired/Forfeited	(1,375,000)	\$0.46	(2,794,000)	\$0.12
Exercised	-	-	(3,758,332)	\$0.11
End of period	19,865,000	\$0.23	20,590,000	\$0.24
Exercisable, end of period	3,420,000	\$0.31	3,395,000	\$0.42

Date of Grant	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable March 31, 2023
October 22, 2018	750,000	\$1.15		Oct. 22, 2028	750,000
May 3, 2019	270,000	\$0.31		May 3, 2029	270,000
March 20, 2020	1,200,000	\$0.05		March 20, 2030	1,200,000
April 13, 2020	2,000,000	\$0.05		April 13, 2030	1,200,000
December 13, 2021	2,983,332	\$0.13		June 13, 2024	-
December 13, 2021	2,983,336	\$0.13		June 13, 2025	-
June 9, 2022	766,665	\$0.28		December 9, 2023	-
June 9, 2022	766,667	\$0.28		December 9, 2024	-
June 9, 2022	766,668	\$0.28		December 9, 2025	-
September 7, 2022	416,666	\$0.26		March 7, 2024	-
September 7, 2022	416,666	\$0.26		March 7, 2025	-
September 7, 2022	416,668	\$0.26		March 7, 2026	-
December 21, 2022	1,826,110	\$0.28		June 13, 2023	-
December 21, 2022	1,826,110	\$0.28		June 13, 2024	-
December 21, 2022	1,826,112	\$0.28		June 13, 2025	-
January 23, 2023	216,667	\$0.32		July 23, 2024	-
January 23, 2023	216,667	\$0.32		July 23, 2025	-
January 23, 2023	216,666	\$0.32		July 23, 2026	-
Total	19,865,000	\$0.23	2.94 years		3,420,000

The Company recognized \$132,240 as share-based compensation expense (2022 – recovery of \$62,919) for the three months ended March 31, 2023, with a corresponding effect in the contributed surplus account.

13. 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

Arrow Exploration Corp.
Notes to the Interim Condensed Consolidated Financial Statements
In United States Dollars
(Unaudited)

March 31, 2023

has outstanding exploration commitments of \$17.8 million as at March 31, 2023. The Company have made applications to cancel its commitments on the COR-39, Macaya and Los Picachos blocks.

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.

Letters of Credit

At March 31, 2023, the Company had obligations under Letters of Credit ("LC's") outstanding totaling \$2.8 million to guarantee work commitments on exploration blocks and other contractual commitments. 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.

Current Outstanding Letters of Credit

Contract	Beneficiary	Issuer	Type	Amount (US \$)	Renewal Date
SANTA ISABEL	ANH	Carrao Energy	Abandonment	\$563,894	April 14, 2024
	ANH	Carrao Energy	Financial Capacity	\$1,672,162	December 31, 2023
CORE - 39	ANH	Carrao Energy	Compliance	\$100,000	June 30, 2023
OMBU	ANH	Carrao Energy	Financial Capacity	\$436,300	April 14, 2024
Total				<u>\$2,772,356</u>	

14. Risk Management

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. There were no derivative contracts during 2023 and 2022.

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March 31, 2023

(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 joint billings. 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 less than market value; or
- The Company may be unable to settle or recover a financial asset.

The Company's approach to managing its liquidity risk is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Company's business objectives.

The Company prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. Any funding shortfall may be met in a number of ways, including, but not limited to, the issuance of new debt or equity instruments, further expenditure reductions and/or the introduction of joint venture partners.

(e) Capital Management

The Company's objective is to maintain a capital base sufficient to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include

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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:

	March 31, 2023	December 31, 2022
Working capital	\$ 2,619,715	\$ (1,316,665)
Derivative liability	6,705,966	9,540,423
	\$ 9,325,681	\$ 8,223,758

15. 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 Canada segment is also considered the corporate segment. The following tables show information regarding the Company's segments for the three months ended and as at March 31:

Three months ended March 31, 2023	Colombia		Canada		Total
Revenue:					
Oil Sales	\$ 7,473,836	-	-	-	\$ 7,473,836
Natural gas and liquid sales	-	-	491,021	-	491,021
Royalties	(929,033)	-	(42,964)	-	(971,997)
Expenses	(3,190,316)	-	(812,809)	-	(4,003,125)
Net income (loss)	\$ 3,354,487	\$ -	(364,752)	\$ -	\$ 2,989,735
As at March 31, 2023	Colombia		Canada		Total
Current assets	\$ 14,119,230	\$ -	1,815,983	\$ -	\$ 15,935,213
Non-current:					
Deferred income taxes	872,286	-	-	-	872,286
Restricted cash	37,808	-	573,888	-	611,696
Exploration and evaluation	972,692	-	-	-	972,692
Property, plant and equipment	30,678,708	-	4,649,349	-	35,328,057
Total Assets	\$ 46,680,724	\$ -	7,039,220	\$ -	\$ 53,719,944
Current liabilities	\$ 3,755,781	\$ -	9,559,718	\$ -	\$ 13,315,499
Non-current liabilities:					
Deferred income taxes	5,066,684	-	-	-	5,066,684
Other liabilities	80,484	-	-	-	80,484
Lease obligation	-	-	11,307	-	11,307
Decommissioning liability	2,869,359	-	741,000	-	3,610,359
Total liabilities	\$ 13,189,670	\$ -	14,104,006	\$ -	\$ 22,084,333

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Three months ended March 31, 2022	Colombia	Canada	Total
Revenue:			
Oil Sales	\$ 2,480,797	\$ -	\$ 2,480,797
Natural gas and liquid sales		1,430,532	1,430,532
Royalties	(209,492)	(298,874)	(508,366)
Expenses	(1,616,403)	(7,218,425)	(8,834,828)
Net income (loss)	\$ 654,901	\$ (6,086,767)	\$ (5,431,865)
As at March 31, 2022			
Current assets	\$ 5,086,336	\$ 6,452,608	\$ 11,538,944
Non-current:			
Deferred income taxes	-	4,839,785	4,839,785
Restricted cash	53,726	689,007	742,733
Exploration and evaluation	6,954,506		6,954,506
Property, plant and equipment	10,120,646	5,707,626	15,828,272
Total Assets	\$ 27,064,998	\$ 12,849,241	\$ 39,914,240
Current liabilities	\$ 986,650	\$ 2,894,356	\$ 3,881,006
Non-current liabilities:			
Long-term debt	-	32,012	32,012
Lease obligation	58,292	-	58,292
Other liabilities	-	177,500	177,500
Deferred income taxes	3,371,935	-	3,371,935
Decommissioning liability	1,863,626	569,298	2,432,924
Promissory note	-	1,718,071	1,718,071
Derivative liability	-	9,608,814	9,608,814
Total liabilities	\$ 6,399,711	\$ 14,880,843	\$ 21,280,554