

# **ARROW EXPLORATION CORP.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021  
IN UNITED STATES DOLLARS  
(UNAUDITED)**



**Notice of No Auditor Review of the Interim Condensed Consolidated Financial Statements  
as at and for the three and nine months ended September 30, 2022**

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	September 30, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 11,376,702	\$ 10,878,508
Trade and other receivables	4	4,087,863	639,582
Taxes receivable	5	538,620	719,049
Deposits and prepaid expenses		161,872	322,300
Inventory		705,638	247,063
		<b>16,870,695</b>	<b>12,806,502</b>
<b>Non-current assets</b>			
Deferred income taxes		4,839,785	4,839,785
Restricted cash	3	598,192	732,553
Exploration and evaluation	6	6,964,506	6,964,506
Property and equipment	7	17,706,080	15,852,452
<b>Total Assets</b>		<b>\$ 46,979,258</b>	<b>\$ 41,195,798</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 5,277,759	\$ 3,120,777
Income tax payable		485,398	-
Lease obligation	9	38,344	20,258
Promissory note	8	3,676,882	1,659,393
		<b>9,478,383</b>	<b>4,800,428</b>
<b>Non-current liabilities</b>			
Long-term debt		-	31,552
Lease obligation	9	32,676	34,434
Other liabilities	10	177,500	177,500
Deferred income taxes		3,371,935	3,371,936
Decommissioning liability	11	2,831,401	2,470,239
Promissory note	8	-	1,659,393
Derivative liability	12	8,685,960	4,692,203
<b>Total liabilities</b>		<b>24,577,855</b>	<b>17,237,685</b>
<b>Shareholders' equity</b>			
Share capital	13	57,301,384	56,698,237
Contributed surplus		1,457,509	1,249,418
Deficit		(35,807,399)	(33,185,806)
Accumulated other comprehensive loss		(550,091)	(803,736)
<b>Total shareholders' equity</b>		<b>22,401,403</b>	<b>23,958,113</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 46,979,258</b>	<b>\$ 41,195,798</b>

**Commitments and contingencies (Note 14)**

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 "Maria Charash" Director  
Maria Charash

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

	Notes	For the three months ended September 30		For the nine months ended September 30	
		2022	2021	2022	2021
<b>Revenue</b>					
Oil and natural gas		\$ 8,647,846	\$ 1,860,600	\$ 18,290,284	\$ 3,908,019
Royalties		(1,033,510)	(175,991)	(2,248,382)	(434,358)
		<u>7,614,336</u>	<u>1,684,609</u>	<u>16,041,902</u>	<u>3,473,661</u>
<b>Expenses</b>					
Operating		894,160	589,568	3,407,076	1,324,740
Administrative		2,267,379	839,947	4,749,370	3,131,644
Listing costs		54,912	-	131,235	-
Share based payments	14	110,876	224,204	214,712	(326,106)
Financing costs:					
Accretion	13	54,272	33,678	144,247	98,647
Interest		123,394	173,807	367,913	551,494
Other		41,075	76,111	285,104	122,574
Derivative loss (gain)		(543,659)	56,076	4,968,934	15,383
Foreign exchange loss		(234,068)	507,412	(229,526)	1,111,124
Depletion and depreciation		1,809,340	-	3,649,932	-
Other expense (income)		(32,393)	(767,215)	(52,595)	(1,262,139)
		<u>4,545,288</u>	<u>1,733,588</u>	<u>17,636,402</u>	<u>4,767,361</u>
<b>Income (loss) before taxes</b>		<b>3,069,048</b>	<b>(48,979)</b>	<b>(1,594,500)</b>	<b>(1,293,700)</b>
<b>Income taxes (recovery)</b>					
Current		1,027,093	(27,197)	1,027,093	(27,197)
Deferred		-	-	-	-
		<u>1,027,093</u>	<u>(27,197)</u>	<u>1,027,093</u>	<u>(27,197)</u>
<b>Net income (loss) for the period</b>		<b>2,041,955</b>	<b>(21,782)</b>	<b>(2,621,593)</b>	<b>(1,266,503)</b>
<b>Other comprehensive income (loss)</b>					
Foreign exchange		173,067	(196,464)	253,645	67,093
<b>Net income (loss) and comprehensive income (loss) for the period</b>		<b>\$ 2,215,022</b>	<b>\$ (218,246)</b>	<b>\$ (2,367,948)</b>	<b>\$ (1,199,410)</b>
<b>Net income (loss) per share</b>					
- basic		\$ 0.01	\$ (0.00)	\$ (0.01)	\$ (0.00)
- diluted		\$ 0.01	\$ (0.01)	\$ (0.01)	\$ (0.02)
<b>Weighted average shares outstanding</b>					
- basic		215,967,143	68,674,602	214,687,656	68,674,602
- diluted		288,235,624	68,674,602	276,272,070	68,674,602

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, 2022	\$ 56,698,237	\$ 1,249,418	\$ (803,736)	\$ (33,185,806)	\$ 23,958,113
Subscription of common shares, net	603,147	-	-	-	603,147
Options settled in cash	-	(6,621)	-	-	(6,621)
Net loss for the period	-	-	-	(2,621,593)	(2,621,593)
Comprehensive income for the period	-	-	253,645	-	253,645
Share based payments	-	214,712	-	-	214,712
Balance September 30, 2022	\$ 57,301,384	\$ 1,457,509	\$ (550,091)	\$ (35,807,399)	\$ 22,401,403

	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
Net loss for the period	-	-	-	(1,266,503)	(1,266,503)
Comprehensive income for the period	-	-	67,093	-	67,093
Share based payments	-	(326,107)	-	-	(326,107)
Balance September 30, 2021	\$ 50,740,292	\$ 1,195,738	\$ (522,385)	\$ (40,145,841)	\$ 11,267,804

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)**

<b>For nine months ended September 30,</b>	<b>2022</b>	<b>2021</b>
<b>Cash flows provided by (used in) operating activities</b>		
Net loss	\$ (2,621,593)	\$ (1,266,503)
Items not involving cash:		
Share based payment	214,712	(326,106)
Depletion and depreciation	3,649,932	1,111,124
Interest on leases	7,932	5,051
Interest on promissory note, net of forgiveness	359,981	546,442
Accretion	144,247	98,647
Foreign exchange (gain) loss	(133,342)	88,848
Loss on derivative liability	4,968,934	-
Income tax expense	1,027,093	-
Settlement of decommissioning obligations	(77,180)	-
Gain in long-term debt forgiveness	(7,798)	-
Changes in non-cash working capital balances:		
Restricted cash	134,360	262,489
Trade and other receivables	(3,448,281)	1,489,818
Taxes receivable	(361,267)	40,618
Deposits and prepaid expenses	160,428	(131,315)
Inventory	(458,575)	(355,011)
Accounts payable and accrued liabilities	1,465,021	(5,147,955)
Cash provided by (used in) operating activities	<u>5,024,604</u>	<u>(3,583,853)</u>
<b>Cash flows used in investing activities</b>		
Additions to property and equipment	(5,562,525)	(230,480)
Changes in non-cash working capital	691,963	(2,173,682)
Cash flows used in investing activities	<u>(4,870,562)</u>	<u>(2,404,162)</u>
<b>Cash flows provided by (used in) financing activities</b>		
Common shares issued	280,072	-
Payment of long-term debt	(23,394)	-
Lease payments	(29,774)	(18,290)
Cash flows provided by (used in) financing activities	<u>226,904</u>	<u>(18,290)</u>
<b>Effect of changes in the exchange rate on cash</b>	<u>117,248</u>	<u>(918)</u>
<b>Increase (decrease) in cash</b>	<u>498,194</u>	<u>(6,007,223)</u>
Cash, beginning of period	<u>10,878,508</u>	<u>11,473,204</u>
<b>Cash, end of period</b>	<u>11,376,702</u>	<u>5,465,981</u>
<b>Supplemental information</b>		
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

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

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

**September 30, 2022**

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**1. Corporate Information**

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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.

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**2. Basis of Presentation**

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**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 authorised for issue by the board of directors of the Company on November 28, 2022. 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, 2021.

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, 2021. 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, 2021.

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**3. Restricted Cash**

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	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Colombia (i)	\$ <b>37,808</b>	\$ 53,726
Canada (ii)	<u><b>560,384</b></u>	<u>678,827</u>
	<u><b>\$ 598,192</b></u>	<u>\$ 732,553</u>

(i) *Restricted cash is comprised of a deposit held as collateral to guarantee abandonment expenditures related to wells in the Tapir and Oso Pardo blocks.*

(ii) *Pursuant to Alberta government regulations, the Company was required to keep a \$306,852 (CAD \$420,576; 2021: \$415,557) 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 \$253,533 pertain to commercial deposits with customers, lease and other deposits held in Canada.*

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

**September 30, 2022**

**4. Trade and other receivables**

	<b>September 30, 2022</b>	December 31, 2021
Trade receivables, net of advances	\$ 2,456,551	\$ 252,141
Other accounts receivable	<u>1,631,312</u>	<u>387,441</u>
	<u>\$ 4,087,863</u>	<u>\$ 639,582</u>

**5. Taxes receivable**

	<b>September 30, 2022</b>	December 31, 2021
Value-added tax (VAT) credits recoverable	\$ 32,350	\$ 105,827
Income tax withholdings and advances, net	<u>506,270</u>	<u>613,222</u>
	<u>\$ 538,620</u>	<u>\$ 719,049</u>

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.

**6. Exploration and Evaluation**

	<b>September 30, 2022</b>	December 31, 2021
Balance, beginning of the period	\$ 6,964,506	\$ 6,961,667
Additions, net	<u>-</u>	<u>2,839</u>
Balance, end of the period	<u>\$ 6,964,506</u>	<u>\$ 6,964,506</u>

**7. Property and Equipment**

<b>Cost</b>	<b>Oil and Gas Properties</b>	<b>Right of Use and Other Assets</b>	<b>Total</b>
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
Additions	5,887,608	50,671	5,938,279
Balance, September 30, 2022	\$ 38,048,525	\$ 234,156	\$ 38,282,681



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

**September 30, 2022**

<b>Accumulated depletion and depreciation and impairment</b>	<b>Oil and Gas Properties</b>	<b>Right of Use and Other Assets</b>	<b>Total</b>
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
Depletion and depreciation	3,616,023	33,909	3,649,932
Balance, September 30, 2022	\$ 20,308,168	\$ 148,874	\$ 20,457,042

**Foreign exchange**

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
Effects of movements in foreign exchange rates	(428,640)	(6,079)	(434,719)
Balance September 30, 2022	\$ (110,023)	\$ (9,536)	\$ (119,559)

**Net Book Value**

Balance December 31, 2021	\$ 15,787,389	\$ 65,063	\$ 15,852,452
Balance September 30, 2022	\$ 17,630,334	\$ 75,746	\$ 17,706,080

As at September 30, 2022, the Company reviewed its cash-generating units (“CGU”) for property and equipment and determined that there were no indicators of impairment present. 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:

<b>Year</b>	<b>Exchange rate \$US / \$Cdn</b>	<b>Brent US\$/Bbl</b>	<b>AECO Spot Gas C\$/MMBtu</b>
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:

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

**September 30, 2022**

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

**8. Promissory Note**

The promissory note was issued to Canacol Energy Ltd. ("Canacol") as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The promissory note bears interest at 15% per annum, was initially due on January 28, 2019 and 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, 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 \$3,676,882 is presented as a current liability in the interim condensed consolidated statement of financial position as at September 30, 2022. The Company has granted a general security interest to Canacol for the obligations under the Promissory Note.

**9. Lease Obligations**

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

	2022	2021
Obligation, beginning of the period	\$ 54,692	\$ 70,842
Changes in existing lease	44,701	1,381
Lease payments	(29,774)	(24,535)
Interest	7,932	6,506
Effects of movements in foreign exchange rates	(6,531)	498
Obligation, end of the period	\$ 71,020	\$ 54,692
Current portion	\$ 38,344	\$ 20,258
Long-term portion	32,676	34,434
	\$ 71,020	\$ 54,692

As at September 30, 2022, the Company has the following future commitments associated with its office lease obligations:

Less than one year	\$ 43,781
2 – 5 years	34,053
Total lease payments	77,834
Amounts representing interest over the term	(6,814)
Present value of the net obligation	71,020

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

**September 30, 2022**

During 2022, the Company renegotiated its remaining lease agreement to add space to its leased corporate space and its related future lease obligation. As a result, the Company increased its right-of-use assets and its lease obligation in \$44,701.

**10. 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.

**11. 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.

	<b>September 30, 2022</b>	December 31, 2021
Obligation, beginning of the period	\$ 2,470,239	\$ 2,584,907
Change in estimated cash flows	-	(10,173)
Additions	338,319	-
Payments or settlements	(77,180)	(237,826)
Accretion expenses	144,247	132,807
Effects of movements in foreign exchange rates	(44,224)	524
Obligation, end of the period	<b>\$ 2,831,401</b>	<b>\$ 2,470,239</b>

The obligation was calculated using a risk-free discount rate range of 1.00% to 2.00% in Canada (2021: 1.00% to 2.00%) and 8.46% in Colombia (2021: 8.46%) with an inflation rate of 2.0% and 4.5%, respectively (2021: 2.0% and 4.5%). 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 \$4,754,579 (2021: \$4,222,717).

**12. Derivative liability**

Derivative liability includes warrants issued and outstanding as follows:

	<b>September 30, 2022</b>		December 31, 2021	
<b>Warrants</b>	<b>Number</b>	<b>Amounts</b>	Number	Amounts
Balance beginning of the period	72,474,706	\$ 4,692,303	-	\$ -
Issued in AIM financing (Note 15)	-	-	70,474,768	5,124,985
Issues in private placement (Note 15)	-	-	1,999,938	149,543
Exercised	(2,411,098)	(319,871)	-	-
Fair value adjustment	-	4,313,628	-	(582,225)
Balance end of the period	<b>70,063,608</b>	<b>\$ 8,686,060</b>	72,474,706	\$ 4,692,303

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

**September 30, 2022**

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 September 30, 2022 and December 31, 2021 was estimated using the following assumptions:

	September 30, 2022	December 31, 2021
Number outstanding re-valued warrants	70,063,608	72,474,706
Fair value of warrants outstanding	£0.1125	£0.048
Risk free interest rate	3.78%	0.50%
Expected life	1.07 years	1.82 years
Expected volatility	150%	160%

The following table summarizes the warrants outstanding and exercisable at September 30, 2022:

Number of warrants	Exercise price	Expiry date
68,934,769	£0.09	October 25, 2023
1,128,839	£0.09	November 23, 2023
<b>70,063,608</b>		

**13. Share Capital**

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

(b) Issued:

	September 30, 2022		December 31, 2021	
	Shares	Amounts	Shares	Amounts
<b>Common shares</b>				
Balance beginning of the period	213,389,643	\$ 56,698,237	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)
Issued from warrants exercised	2,411,098	585,222	-	-
Issued from options exercised	375,000	17,925	-	-
Balance at end of the period	<b>216,175,741</b>	<b>\$ 57,301,384</b>	213,389,643	\$ 56,698,237

- (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).

**Arrow Exploration Corp.**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
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- (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 12).
- (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:

Stock Options	September 30, 2022		December 31, 2021	
	Number of options	Weighted average exercise Price (CAD \$)	Number of options	Weighted average exercise price (CAD \$)
Beginning of period	17,114,000	\$0.18	6,859,000	\$0.40
Granted	4,550,000	\$0.27	11,400,000	\$0.13
Exercised in shares	(375,000)	\$0.05	-	-
Exercised in cash	(400,000)	\$0.05	-	-
Expired/Forfeited	(2,794,000)	\$0.12	(1,145,000)	\$1.04
End of period	18,095,000	\$0.21	17,114,000	\$0.18
Exercisable, end of period	3,395,000	\$0.42	2,969,669	\$0.46

Date of Grant	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable September 30, 2021
October 22, 2018	1,050,000	\$1.15	6.07 years	Oct. 22, 2028	1,050,000
May 3, 2019	345,000	\$0.31	6.59 years	May 3, 2029	345,000
March 20, 2020	1,200,000	\$0.05	7.47 years	March 20, 2030	800,000
April 13, 2020	2,000,000	\$0.05	7.54 years	April 13, 2030	1,200,000
December 13, 2021	2,983,332	\$0.13	0.70 years	June 13, 2023	-
December 13, 2021	2,983,332	\$0.13	1.70 years	June 13, 2024	-
December 13, 2021	2,983,336	\$0.13	2.70 years	June 13, 2025	-
June 9, 2022	766,665	\$0.28	1.19 years	December 9, 2023	-
June 9, 2022	766,667	\$0.28	2.19 years	December 9, 2024	-
June 9, 2022	766,668	\$0.28	3.19 years	December 9, 2025	-
September 7, 2022	749,999	\$0.26	1.44 years	March 7, 2024	-
September 7, 2022	749,999	\$0.26	2.44 years	March 7, 2025	-
September 7, 2022	750,002	\$0.26	3.44 years	March 7, 2026	-
<b>Total</b>	<b>18,095,000</b>	<b>\$0.27</b>	<b>3.23 years</b>		<b>3,395,000</b>

During 2022, the Company recognized an expense of \$214,712 (2021 – income of \$326,106) as share based payments expense, with a corresponding decrease in the contributed surplus account.

**14. Commitments and Contingencies**

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**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 September 30, 2022 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 September 30, 2022:

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
<b>Total</b>	<b>-</b>	<b>17,800,000</b>	<b>-</b>	<b>17,800,000</b>

**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 September 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 \$4.1 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	\$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
<b>Total</b>				<b>\$5,072,356</b>	

**15. 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.

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(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. Currently, the Company does not have any commodity price contract in place.

(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.

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

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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:

	<b>September 30, 2022</b>	December 31, 2021
Working capital	<b>\$ 7,392,312</b>	\$ 8,006,074
Non-Current portion of promissory note	-	(1,659,393)
	<b>7,392,312</b>	<b>\$ 6,346,681</b>

**16. Segmented Information**

The Company has two reportable operating segments: Colombia and Canada. The Company, through its operating segments, is engaged primarily in oil exploration, development and production, and the acquisition of oil and gas properties. The Canadian segment is also considered the corporate segment. The following tables show information regarding the Company's segments for the three and nine months ended, and as at, September 30:

<b>Three months ended September 30, 2022</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
Revenue:			
Oil Sales	\$ 8,056,780	\$ -	\$ 8,056,780
Natural gas and liquid sales	-	591,066	591,066
Royalties	(972,243)	(61,267)	(1,033,510)
Expenses	(2,435,749)	(2,109,539)	(4,545,288)
Income tax	(1,027,093)	-	(1,027,093)
<b>Net income (loss)</b>	<b>\$ 3,621,695</b>	<b>\$ (1,579,740)</b>	<b>\$ (2,041,955)</b>
<b>Nine months ended September 30, 2022</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
Revenue:			
Oil Sales	\$ 15,013,222	\$ -	\$ 15,013,222
Natural gas and liquid sales	-	3,277,062	3,277,062
Royalties	(1,750,960)	(497,422)	(2,248,382)
Expenses	(5,593,170)	(12,043,232)	(17,636,402)
Income tax	(1,027,093)	-	(1,027,093)
<b>Net income (loss)</b>	<b>\$ 6,641,999</b>	<b>\$ (9,263,592)</b>	<b>\$ (2,621,593)</b>



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<b>As at September 30, 2022</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
<b>Current assets</b>	\$ 12,900,256	\$ 3,970,439	\$ 16,870,695
<b>Non-current:</b>			
Deferred income taxes	4,839,785	-	4,839,785
Restricted cash	37,808	560,384	598,192
Exploration and evaluation	6,964,506	-	6,964,506
Property and equipment	12,378,156	5,327,924	17,706,080
<b>Total Assets</b>	<b>\$ 37,120,511</b>	<b>\$ 9,858,747</b>	<b>\$ 46,979,258</b>
<b>Current liabilities</b>	\$ 4,622,600	\$ 4,855,783	\$ 9,478,383
<b>Non-current liabilities:</b>			
Other liabilities	177,500	-	177,500
Deferred income taxes	3,371,935	-	3,371,935
Lease obligation	-	32,676	32,676
Decommissioning liability	2,296,091	535,310	2,831,401
Derivative liability	-	8,685,960	8,685,960
<b>Total liabilities</b>	<b>\$ 10,468,126</b>	<b>\$ 14,109,729</b>	<b>\$ 24,577,855</b>

<b>Three months ended September 30, 2021</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
<b>Revenue:</b>			
Oil Sales	\$ 1,678,526	\$ -	\$ 1,678,526
Natural gas and liquid sales		182,074	182,074
Royalties	155,336	20,655	175,991
Expenses	636,806	1,096,782	1,733,588
Income taxes (recovery)	(27,197)	-	(27,197)
<b>Net income (loss)</b>	<b>\$ 913,581</b>	<b>\$ (935,363)</b>	<b>\$ (21,782)</b>

<b>Nine months ended September 30, 2021</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
<b>Revenue:</b>			
Oil Sales	\$ 3,478,459	\$ -	\$ 3,478,459
Natural gas and liquid sales	-	429,560	429,560
Royalties	391,372	42,986	434,358
Expenses	2,371,656	2,395,705	4,767,361
Income taxes (recovery)	(27,197)	-	(27,197)
<b>Net income (loss)</b>	<b>\$ 742,628</b>	<b>\$ (2,009,131)</b>	<b>\$ (1,266,503)</b>

<b>As at September 30, 2021</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
<b>Current assets</b>	\$ 5,055,424	\$ 3,589,406	\$ 8,644,830
<b>Non-current:</b>			
Restricted cash	53,726	431,537	485,263
Exploration and evaluation	6,961,667	-	6,961,667
Property and equipment	6,224,873	3,045,690	9,270,563
<b>Total Assets</b>	<b>\$ 18,295,690</b>	<b>\$ 7,066,633</b>	<b>\$ 25,362,323</b>
<b>Current liabilities</b>	\$ 3,023,180	\$ 4,837,943	\$ 7,861,123
<b>Non-current liabilities:</b>			
Other liabilities	177,500	-	177,500
Lease obligation	-	39,493	39,493
Decommissioning liability	2,174,968	508,180	2,683,148
Long-term debt	-	31,396	31,396
Promissory note	-	3,301,860	3,301,860
<b>Total liabilities</b>	<b>\$ 5,375,648</b>	<b>\$ 8,718,872</b>	<b>\$ 14,094,519</b>