# ARROW EXPLORATION CORP.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**THREE AND NINE MONTHS ENDED SEPTEMBER 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 November 28, 2022 and should be read in conjunction with Arrow's condensed consolidated financial statements (unaudited) and related notes for the three and nine months ended September 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 September 30, 2022 | Nine months ended September 30, 2022 | Three months ended September 30, 2021 |
|---|---|---|---|
| **Net income (loss)** | **2,041,955** | **(2,621,593)** | (21,781) |
| **Add/(subtract):** | | | |
| Share based payments | **110,876** | **214,712** | 224,204 |
| Financing costs: | | | |
| Accretion on decommissioning obligations | **54,272** | **144,247** | 33,678 |
| Interest | **123,394** | **367,913** | 173,807 |
| Other | **41,075** | **285,104** | 76,111 |
| Depreciation and depletion | **1,809,340** | **3,649,932** | 507,412 |
| Derivative loss | **(543,659)** | **4,968,934** | - |
| Income taxes, current and deferred | **1,027,093** | **1,027,093** | (27,197) |
| **Adjusted EBITDA [1]** | **4,664,345** | **8,036,342** | 966,234 |
| | | | |
| **Cash flows provided by operating activities** | **5,221,497** | **5,024,604** | 1,115,071 |
| **Minus - Changes in non-cash working capital balances:** | | | |
| Trade and other receivables | **1,097,426** | **3,448,281** | (1,078,909) |
| Restricted cash | **(291,841)** | **(134,360)** | (6,376) |
| Taxes receivable | **58,264** | **361,267** | (119,154) |
| Deposits and prepaid expenses | **(171,610)** | **(160,428)** | (3,732) |
| Inventory | **229,799** | **458,575** | 172,316 |
| Accounts payable and accrued liabilities | **(1,537,411)** | **(1,465,021)** | 796,405 |
| **Funds flow from operations [1]** | **4,606,124** | **7,532,918** | 875,621 |

*[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 September 30, 2022** | **Nine months ended September 30, 2022** | Three months ended September 30, 2021 |
|---|---|---|---|
| Total natural gas and crude oil revenues, net of royalties | **7,614,336** | **16,041,902** | 1,684,609 |
| Funds flow from operations [1] | **4,606,124** | **7,532,918** | 875,621 |
| Funds flow from operations [1] per share – | | | |
| Basic($) | **0.02** | **0.04** | 0.01 |
| Diluted ($) | **0.00** | **0.00** | 0.01 |
| Net income (loss) | **2,041,955** | **(2,621,593)** | (21,781) |
| Net income (loss) per share – | | | |
| Basic ($) | **0.01** | **(0.01)** | (0.00) |
| Diluted ($) | **0.01** | **(0.01)** | (0.00) |
| Adjusted EBITDA [1] | **4,664,345** | **8,036,342** | 966,234 |
| Weighted average shares outstanding – | | | |
| Basic | **215,967,143** | **214,687,656** | 68,674,602 |
| Diluted | **288,235,624** | **276,272,070** | 68,674,602 |
| Common shares end of period | **215,967,143** | **215,967,143** | 68,674,602 |
| Capital expenditures | **4,836,860** | **5,562,525** | 148,528 |
| Cash and cash equivalents | **11,376,702** | **11,376,702** | 5,465,981 |
| Current Assets | **16,870,695** | **16,870,695** | 8,644,830 |
| Current liabilities | **9,478,383** | **9,478,383** | 7,861,123 |
| Working capital [1] | **7,392,312** | **7,392,312** | 783,707 |
| Long-term portion of restricted cash [2] | **598,192** | **598,192** | 485,263 |
| Total assets | **46,979,258** | **46,979,258** | 25,362,323 |
| **Operating** | | | |
| **Natural gas and crude oil production, before royalties** | | | |
| Natural gas (Mcf/d) | **1,917** | **2,853** | 501 |
| Natural gas liquids (bbl/d) | **4** | **5** | 11 |
| Crude oil (bbl/d) | **1,179** | **730** | 481 |
| **Total (boe/d)** | **1,503** | **1,211** | 575 |
| **Operating netbacks ($/boe) [1]** | | | |
| Natural gas ($/Mcf) | **$0.88** | **$1.18** | $1.35 |
| Crude oil ($/bbl) | **$73.69** | **$70.30** | $37.59 |
| **Total ($/boe)** | **$56.75** | **$42.66** | $30.73 |

*[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[1] | 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.

[1]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 km$^2$ 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 September 30, 2022 Financial and Operational Highlights

- Arrow recorded $7,614,336 in revenues (net of royalties) on crude oil sales of 88,630 bbls, 407 bbls of natural gas liquids ("NGL's") and 176,318 Mcf of natural gas sales;
- Generated funds flow from operations of $4,606,124;
- Adjusted EBITDA was $4,664,345;
- The Company recorded a net income of $2,041,955;

## RESULTS OF OPERATIONS

The Company has increased its production, combined with improved pricing of energy commodities. During the three and nine months ended September 30, 2022, the Company increased production at its Tapir block, from the drilling of the RCE-2 and RCS-1 wells, and its Ombu block, with consistent production in the Oso Pardo field. Also, the West Pepper well decreased its production during the three months ended September 30, 2022 due to third party's temporary processing facility constraints and natural declines. Subsequent to September 2022, the processing facilities constraints at West Pepper have been progressively resolved.

### Average Production by Property

| Average Production Boe/d | YTD 2022 | Q3 2022 | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 |
|---|---|---|---|---|---|---|
| Oso Pardo | **112** | **104** | 112 | 121 | 123 | 137 |
| Ombu (Capella) | **164** | **215** | 97 | 177 | 190 | 193 |
| Rio Cravo Este (Tapir) | **454** | **860** | 366 | 136 | 142 | 151 |
| **Total Colombia** | **730** | **1,179** | 575 | 434 | 455 | 481 |
| Fir, Alberta | **83** | **82** | 86 | 73 | 82 | 94 |
| Pepper, Alberta | **398** | **242** | 319 | 636 | 181 | - |
| **TOTAL (Boe/d)** | **1,211** | **1,503** | 980 | 1,144 | 719 | 575 |

For the three months ended September 30, 2022, the Company's average production was 1,503 boe/d (2021: 575 boe/d), which consisted of crude oil production in Colombia at 1,179 bbl/d (2021: 481 bbl/d), and natural gas production of 1,917 Mcf/d (2021: 501 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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **Natural Gas (Mcf/d)** | | | | |
| Natural gas production | **1,917** | 501 | **2,853** | 419 |
| Natural gas sales | **1,917** | 501 | **2,853** | 419 |
| **Realized Contractual Natural Gas Sales** | **1,917** | 501 | **2,853** | 419 |
| **Crude Oil (bbl/d)** | | | | |
| Crude oil production | **1,179** | 481 | **730** | 308 |
| Inventory movements and other | **(216)** | (195) | **(264)** | (100) |
| **Crude Oil Sales** | **963** | 286 | **466** | 208 |
| **Corporate** | | | | |
| Natural gas production (boe/d) | **320** | 83 | **475** | 70 |
| Natural gas liquids(bbl/d) | **4** | 11 | **5** | 6 |
| Crude oil production (bbl/d) | **1,179** | 481 | **730** | 308 |
| Total production (boe/d) | **1,503** | 575 | **1,210** | 384 |
| Inventory movements and other (boe/d) | **(216)** | (195) | **(264)** | (100) |
| **Total Corporate Sales (boe/d)** | **1,287** | 380 | **946** | 284 |

During the three months ended September 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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2021** | 2021 | **2021** | 2021 |
| **Natural Gas** | | | | |
| Natural gas revenues | **557,445** | 133,413 | **3,157,296** | 341,197 |
| NGL revenues | **33,621** | 48,661 | **119,766** | 88,363 |
| Royalties | **(61,267)** | (20,655) | **(497,422)** | (42,986) |
| **Revenues, net of royalties** | **529,799** | 161,419 | **2,779,640** | 386,574 |
| **Oil** | | | | |
| Oil revenues | **8,056,780** | 1,678,526 | **15,013,222** | 3,478,459 |
| Royalties | **(972,243)** | (155,336) | **(1,750,960)** | (391,372) |
| **Revenues, net of royalties** | **7,084,537** | 1,523,191 | **13,262,262** | 3,087,087 |
| **Corporate** | | | | |
| Natural gas revenues | **557,445** | 133,413 | **3,157,296** | 341,197 |
| NGL revenues | **33,621** | 48,661 | **119,766** | 88,363 |
| Oil revenues | **8,056,780** | 1,678,526 | **15,013,222** | 3,478,459 |
| Total revenues | **8,647,846** | 1,860,600 | **18,290,284** | 3,908,019 |
| Royalties | **(1,033,510)** | (175,991) | **(2,248,382)** | (434,358) |
| **Natural gas and crude oil revenues, net of royalties** | **7,614,336** | 1,684,609 | **16,041,902** | 3,473,661 |

Revenue for the three and nine months ended September 30, 2022 was $7.6 and $16 million, respectively, net of royalties, which represents an increase of 362% and 352%, respectively, when compared to the same periods in 2021. This significant increase is mainly due to having two additional wells drilled and producing in Colombia, and the additional natural gas production from the West Pepper well in Canada.

### Average Benchmark and Realized Prices

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | **2022** | 2021 | Change |
| **Benchmark Prices** | | | | | | |
| AECO ($/Mcf) | **$3.83** | $2.97 | 29% | **$4.31** | $2.59 | 66% |
| Brent ($/bbl) | **$97.81** | $73.23 | 34% | **$102.33** | $67.97 | 51% |
| West Texas Intermediate ($/bbl) | **$91.65** | $70.54 | 30% | **$98.15** | $65.05 | 51% |
| **Realized Prices** | | | | | | |
| Natural gas, net of transportation ($/Mcf) | **$3.16** | $2.90 | 9% | **$4.05** | $2.98 | 36% |
| Natural gas liquids ($/bbl) | **$82.69** | $56.03 | 48% | **$83.54** | $52.56 | 59% |
| Crude oil, net of transportation ($/bbl) | **$90.90** | $63.87 | 42% | **$91.00** | $61.31 | 48% |
| **Corporate average, net of transport ($/boe)[1]** | **$73.02** | $52.21 | 40% | **$61.75** | $50.43 | 22% |

The Company realized prices of $73.02 and $61.75 per boe during the three and nine months ended September 30, 2022 (2021: $52.21 and $50.43 per boe). This increase is a reflection of improved oil and natural gas prices during 2022.

## Operating Expenses

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Natural gas & NGL's | **341,156** | 54,227 | **1,742,933** | 183,091 |
| Crude oil | **553,004** | 535,341 | **1,664,143** | 1,141,649 |
| **Total operating expenses** | **894,160** | 589,568 | **3,407,076** | 1,324,740 |
| Natural gas ($/Mcf) | **$1.93** | $1.18 | **$2.24** | $1.60 |
| Crude oil ($/bbl) | **$6.24** | $20.37 | **$10.09** | $20.12 |
| **Corporate ($/boe)(1)** | **$7.55** | $16.54 | **$11.50** | $17.09 |

*(1)Non-IFRS measure*

During the three and nine months ended September 30, 2022, Arrow incurred operating expenses of $894,160 and $3,407,076, respectively, at an average cost of $7.55 and $11.50 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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **Natural Gas ($/Mcf)** | | | | |
| Revenue, net of transportation expense | **$3.16** | $2.90 | **$4.05** | $2.98 |
| Royalties | **(0.35)** | (0.37) | **(0.63)** | (0.31) |
| Operating expenses | **(1.93)** | (1.18) | **(2.24)** | (1.60) |
| **Natural Gas operating netback(1)** | **$0.88** | $1.35 | **$1.18** | $1.07 |
| **Crude oil ($/bbl)** | | | | |
| Revenue, net of transportation expense | **$90.90** | $63.87 | **$91.00** | $61.31 |
| Royalties | **(10.97)** | (5.91) | **(10.61)** | (6.90) |
| Operating expenses | **(6.24)** | (20.37) | **(10.09)** | (20.12) |
| **Crude Oil operating netback(1)** | **$73.69** | $37.59 | **$70.30** | $34.29 |
| **Corporate ($/boe)** | | | | |
| Revenue, net of transportation expense | **$73.02** | $52.21 | **$61.75** | $50.43 |
| Royalties | **(8.72)** | (4.94) | **(7.59)** | (5.61) |
| Operating expenses | **(7.55)** | (16.54) | **(11.50)** | (17.09) |
| **Corporate Operating netback(1)** | **$56.75** | $30.73 | **$42.66** | $27.73 |

*(1)Non-IFRS measure*

### General and Administrative Expenses (G&A)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| General & administrative expenses | **2,490,114** | 839,947 | **5,139,135** | 3,131,644 |
| Less: G&A capitalized | **-** | - | **-** | - |
| G&A recovered from 3rd parties | **(222,735)** | - | **(389,765)** | - |
| **Total operating overhead recovery** | **(222,735)** | - | **(389,765)** | - |
| **Total G&A** | **2,267,379** | $839,947 | **4,749,370** | $3,131,644 |
| **Cost per boe** | **$30.74** | $23.57 | **$16.03** | $40.41 |

For the three and nine months ended September 30, 2022, G&A expenses before recoveries totaled $2,490,114 and $5,139,135, respectively. This increase is mainly due to increased salaries and performance bonuses paid to personnel and legal fees during Q3.

### Share-based Payments Expense

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **Share-based Payments** | **110,876** | 224,204 | **214,712** | (326,106) |

Share-based payments expense for the three and nine months ended September 30, 2022 totalled $110,876 and $214,712, respectively (2021: $224,204 and income of $326,106). 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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Financing expense paid or payable | **164,469** | 249,918 | **653,017** | 674,068 |
| Non-cash financing costs | **54,272** | 33,678 | **144,247** | 98,647 |
| **Net financing costs** | **218,741** | 283,596 | **797,264** | 772,715 |

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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **(Gain) loss on Derivative Liability** | **(543,659)** | - | **4,968,934** | - |

During the three and nine months ended September 30, 2022, the Company recorded a (gain) loss in derivative liability of ($543,659) and $4,968,934, 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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **Depletion and depreciation** | **1,809,340** | 507,412 | **3,649,932** | 1,111,124 |

Depletion and depreciation expense in the three and nine months ended September 30, 2022 totalled $1,809,340 and $3,649,932, respectively (2021: $507,412 and $1,111,124). 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 Q3 2022 compared with 2021.

## Other Income

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **Other expense (income)** | **(32,392)** | (767,215) | **(52,595)** | (1,262,139) |

The Company reported other income of $32,392 and $52,596 for the three and nine months ended September 30, 2022, respectively (2021: $767,215 and $1,262,139). The 2021 amount was generated from the Company's 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 September 30, 2022, the Company's working capital is $7,392,312. 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 September 30, 2022 the Company's net debt was calculated as follows:

| | | September 30, 2022 |
|---|---|---|
| Current assets | $ | 16,870,695 |
| **Less:** | | |
| Accounts payable and accrued liabilities | | 5,277,761 |
| Promissory Note | | 3,676,882 |
| **Net debt (1)** | **$** | **7,916,052** |

*(1)Non-IFRS measure*

## Working Capital

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

| | | September 30, 2022 |
|---|---|---|
| **Current assets:** | | |
| Cash | $ | 11,376,702 |
| Trade and other receivables | | 4,087,863 |
| Taxes receivable | | 538,620 |
| Other current assets | | 867,510 |
| **Less:** | | |
| Accounts payable and accrued liabilities | | 5,277,759 |
| Income tax payable | | 485,398 |
| Lease obligation | | 38,344 |
| Promissory note – short term portion | | 3,676,882 |
| **Working capital(1)** | **$** | **7,392,312** |

*(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 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 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** | | | | **$5,072,356** | |

### Share Capital

As at September 30, 2022, the Company had 214,687,656 common shares, 70,063,607 warrants and 18,095,000 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 September 30, 2022:

| | Less than 1 year | 1-3 years | Thereafter | Total |
|---|---|---|---|---|
| Promissory Note | $ 3,676,882 | $ - | - | **$ 3,676,882** |
| Long term debt | - | 31,040 | - | **31,040** |
| Exploration and production contracts | - | 17,800,000 | - | **17,800,000** |
| | **$ 3,676,882** | **$ 17,831,040** | **-** | **$ 21,507,922** |

### 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 | | | | |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Oil and natural gas sales, net of royalties | 7,614,336 | 5,024,604 | 3,911,329 | 3,038,832 | 1,684,609 | 941,620 | 847,432 | 368,140 |
| Net income (loss) | 2,041,955 | 768,318 | (5,431,865) | 6,960,035 | (21,782) | (734,317) | (510,405) | (7,953,001) |
| Income (loss) per share – | | | | | | | | |
| basic | 0.02 | 0.00 | (0.03) | 0.04 | (0.00) | (0.01) | (0.01) | (0.12) |
| diluted | 0.00 | 0.00 | (0.02) | 0.04 | (0.00) | (0.01) | (0.01) | (0.12) |
| Working capital (deficit) | 7,392,310 | 5,594,027 | 7,657,938 | 8,006,074 | 783,707 | 3,141,217 | (2,659,690) | (1,932,940) |
| Total assets | 46,979,259 | 42,670,153 | 39,914,240 | 41,195,798 | 25,362,323 | 25,948,551 | 27,684,920 | 33,532,299 |
| Net capital expenditures | 4,836,860 | 2,777,611 | 725,665 | 1,991,163 | 148,528 | (15,378) | 97,330 | 89,198 |
| Average daily production (boe/d) | 1,503 | 980 | 1,144 | 712 | 575 | 331 | 242 | 140 |

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 November 28, 2022, the Company had the following securities issued and outstanding:

| | Number | Exercise Price | Expiry Date |
|---|---|---|---|
| Common shares | 217,901,931 | 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, 2024 |
| Stock options | 766,668 | CAD$ 0.28 | December 9, 2025 |
| Stock options | 749,999 | CAD $0.26 | March 7, 2024 |
| Stock options | 749,999 | CAD $0.26 | March 7, 2025 |
| Stock options | 750,002 | CAD $0.26 | March 7, 2026 |

## 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. Accordingly, in Q4 2022, in addition to undertaking the workover of two wells at Rio Cravo, the Company expects to start drilling up to three further wells at Rio Cravo and plans a two well program on the Carrizales Norte Structure on the Tapir Block. The Company has tied 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.

## 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