

ARROW EXPLORATION CORP.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 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 and six months ended June 30, 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	June 30, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		\$ 10,801,494	\$ 13,060,968
Restricted cash and deposits	3	218,178	210,654
Trade and other receivables	4	2,100,286	2,568,290
Taxes receivable	5	969,866	801,177
Deposits and prepaid expenses		193,007	157,459
Inventory		876,491	705,677
		15,159,322	17,504,225
Non-current assets			
Deferred income taxes		533,558	872,286
Restricted cash and deposits	3	703,683	608,127
Exploration and evaluation	6	2,849,427	-
Property and equipment	7	37,059,540	34,205,610
Total Assets		\$ 56,305,530	\$ 53,190,248
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 7,944,326	\$ 5,850,823
Lease obligation	9	59,428	41,434
Promissory note	8	-	1,899,294
Derivative liability	11	8,705,321	9,540,423
Income taxes		813,635	1,488,916
		17,522,710	18,820,890
Non-current liabilities			
Lease obligations	9	171,517	22,317
Other liabilities		264,881	80,484
Deferred income taxes	14	2,505,549	5,066,684
Decommissioning liability	10	3,644,646	3,303,301
Total liabilities		24,109,303	27,293,676
Shareholders' equity			
Share capital	12	61,698,396	57,810,735
Contributed surplus		1,861,750	1,570,491
Deficit		(30,606,963)	(32,839,282)
Accumulated other comprehensive loss		(756,956)	(645,372)
Total shareholders' equity		32,196,227	25,896,572
Total liabilities and shareholders' equity		\$ 56,305,530	\$ 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 Income (Loss)
In United States Dollars
(Unaudited)

	Notes	For the three months ended June 30		For the six months ended June 30	
		2023	2022	2023	2022
Revenue					
Oil and natural gas		\$ 11,637,968	\$ 5,731,109	\$ 19,602,826	\$ 9,642,438
Royalties		(1,357,688)	(706,505)	(2,329,686)	(1,214,872)
		<u>10,280,280</u>	<u>5,024,604</u>	<u>17,273,140</u>	<u>8,427,566</u>
Expenses					
Operating		1,391,490	1,074,435	2,509,080	2,512,916
Administrative		3,248,127	1,128,885	4,866,875	2,481,991
Listing costs		(722)	44,958	-	76,323
Share based payments	14	159,018	40,917	291,259	103,836
Financing costs:					
Accretion	13	32,139	45,644	61,295	89,975
Interest		61,349	123,741	122,237	244,519
Other		103,172	134,981	148,854	244,029
Derivative loss		2,436,047	724,758	1,081,772	5,512,593
Foreign exchange (gain) loss		(41,141)	(21,292)	(81,956)	4,543
Depletion and depreciation		3,640,189	971,353	6,094,553	1,840,592
Other income		(157,434)	(12,094)	(218,601)	(20,204)
		<u>10,872,234</u>	<u>4,256,286</u>	<u>14,875,359</u>	<u>13,091,113</u>
Income (loss) before taxes		(591,954)	768,318	2,397,781	(4,663,547)
Income taxes (recovery)					
Current		2,387,868	-	2,387,868	-
Deferred		(2,222,406)	-	(2,222,406)	-
		<u>165,462</u>	<u>-</u>	<u>165,462</u>	<u>-</u>
Net income (loss) for the period		(757,416)	768,318	2,232,319	(4,663,547)
Other comprehensive income (loss)					
Foreign exchange		(93,164)	35,925	(111,584)	80,578
Total comprehensive income (loss) for the period		(850,580)	\$ 804,243	\$ 2,120,735	\$(4,582,969)
Net income (loss) per share					
- basic		\$ (0.00)	\$ 0.00	\$ 0.01	\$ (0.02)
- diluted		\$ (0.00)	\$ 0.00	\$ 0.01	\$ (0.02)
Weighted average shares outstanding					
- basic		230,808,547	68,674,602	226,785,547	213,979,850
- diluted		295,446,047	68,674,602	294,694,399	270,189,255

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	3,887,661	-	-	-	3,887,661
Net income for the period	-	-	-	2,232,319	2,232,319
Other comprehensive loss for the period	-	-	(111,584)	-	(111,584)
Share-based compensation	-	291,259	-	-	291,259
Balance June 30, 2023	\$ 61,698,396	\$ 1,861,750	\$ (756,956)	\$ (30,606,963)	\$ 32,196,227

	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	234,433	-	-	-	234,433
Options settled in cash	-	(6,622)	-	-	(6,622)
Net loss for the period	-	-	-	(4,663,547)	(4,663,547)
Other comprehensive income for the period	-	-	80,578	-	80,578
Share based payments	-	103,837	-	-	103,837
Balance June 30, 2022	\$ 56,932,670	\$ 1,346,633	\$ (723,158)	\$ (37,849,353)	\$ 19,706,792

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 six months ended June 30,	2023	2022
Cash flows provided by (used in) operating activities		
Net income (loss)	\$ 2,232,319	\$ (4,663,547)
Items not involving cash:		
Share based payment	291,259	103,836
Deferred income tax	(2,222,406)	-
Depletion and depreciation	6,094,553	1,840,592
Interest on leases	2,954	5,946
Interest on promissory note, net of forgiveness	119,283	238,573
Accretion	61,295	89,975
Foreign exchange loss (gain)	(138,235)	(111,604)
Loss on derivative liability	1,081,772	5,512,593
Changes in non-cash working capital balances:		
Restricted cash	(103,080)	(157,481)
Trade and other receivables	468,003	(2,350,855)
Taxes receivable	(168,689)	(303,003)
Deposits and prepaid expenses	(35,548)	(11,182)
Inventory	(170,814)	(228,776)
Accounts payable and accrued liabilities	537,898	(72,391)
Income tax payable	(675,281)	-
Settlement of decommissioning obligations	(4,150)	(89,569)
Cash provided by (used in) operating activities	<u>7,371,133</u>	<u>(196,893)</u>
Cash flows used in investing activities		
Additions to exploration and evaluation assets	(2,849,427)	-
Additions to property and equipment	(8,292,524)	(3,503,276)
Changes in non-cash working capital	1,740,101	(48,227)
Cash flows used in investing activities	<u>(9,401,850)</u>	<u>(3,551,503)</u>
Cash flows (used in) provided by financing activities		
Common shares issued	1,775,003	118,260
Payment of promissory note, principal and interests	(2,018,577)	-
Lease payments	(23,259)	(19,544)
Cash flows (used in) provided by financing activities	<u>(266,833)</u>	<u>98,716</u>
Effect of changes in the exchange rate on cash	38,075	139,424
Decrease in cash	(2,259,475)	(3,510,256)
Cash, beginning of period	<u>13,060,969</u>	<u>10,878,508</u>
Cash, end of period	<u><u>10,801,494</u></u>	<u><u>7,368,252</u></u>
Supplemental information		
Interest paid	\$ 415,026	\$ -
Taxes paid	\$ 1,119,208	\$ -

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)

June 30, 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 203, 2303 – 4th Street SW, Calgary, Alberta, Canada, T2S 2S7 and the registered office is located at 600, 815 – 8th Avenue SW, Calgary, Alberta, Canada, T2P 3P2.

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 August 25, 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 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

	June 30, 2023	December 31, 2022
Colombia (i)	\$ 255,986	\$ 248,462
Canada (ii)	665,875	570,319
Sub-total	921,861	818,781
Long-term portion	(703,683)	(608,127)
Current portion of restricted cash and deposits	\$ 218,178	\$ 210,654

- (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 \$328,058 (CAD \$434,341; 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 \$337,818 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)

June 30, 2023

4. Trade and other receivables

	June 30, 2023	December 31, 2022
Trade receivables, net of advances	\$ 1,536,092	\$ 847,432
Other accounts receivable	564,194	1,720,858
	<u>\$ 2,100,286</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, which have been subsequently recovered.

5. Taxes receivable

	June 30, 2023	December 31, 2022
Value-added tax (VAT) credits recoverable	\$ 62,464	\$ -
Income tax withholdings and advances, net	907,402	801,177
	<u>\$ 969,866</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

	June 30, 2023	December 31, 2022
Balance, beginning of the period	\$ -	\$ 6,964,506
Additions, net	2,849,427	-
Reclassification to Property and Equipment	-	(6,964,506)
Balance, end of the period	<u>\$ 2,849,427</u>	<u>\$ -</u>

During 2023, the Company incurred in exploration and evaluation assets related to the acquisition and interpretation of 135 square kilometers of 3D seismic data in the Tapir block to confirm or identify leads to additional prospective areas within such block.

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

June 30, 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	8,302,444	190,266	8,492,710
Decommissioning adjustment	350,611	-	350,611
Balance, June 30, 2023	\$ 56,198,081	\$ 424,422	\$ 56,622,503

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	6,068,960	25,502	6,094,462
Balance, June 30, 2023	\$ 19,222,669	\$ 186,738	\$ 19,409,407

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	101,025	4,046	105,071
Balance, June 30, 2023	\$ (148,883)	\$ (4,673)	\$ (153,556)

Net Book Value

Balance December 31, 2022	\$ 34,141,409	\$ 64,201	\$ 34,205,610
Balance, June 30, 2023	\$ 38,826,529	\$ 233,011	\$ 37,059,540

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 was for an initial term of three months, but it has been extended for nine additional months. The Company, together with its partner and the ANH, is monitoring this suspension to define next steps.

During the three months ended June 30, 2023, the Company entered in a new office lease for its corporate offices for \$183,135 and has been recognized as a right-of-use assets (see note 9).

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 bore interest at 15% per annum, and, on October 18, 2021, Arrow and Canacol entered into a Seventh Amended and Restated

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

June 30, 2023

Promissory Note agreement. On June 30, 2023, the Company paid the remaining balance of \$2,018,577, including interest, and no other obligation is pending with Canacol under the Promissory Note.

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
Additions	186,392	-
Changes in existing lease	-	44,701
Lease payments	(23,259)	(39,697)
Interest	2,953	9,696
Effects of movements in foreign exchange rates	1,108	(5,641)
Obligation, end of the period	\$ 230,945	\$ 63,751
Current portion	(59,428)	(41,434)
Long-term portion	171,517	\$ 22,317

As at June 30, 2023, the Company has the following future lease obligations:

Less than one year	\$ 61,879
2 – 5 years	282,651
Total lease payments	344,530
Amounts representing interest over the term	(113,585)
Present value of the net obligation	\$ 230,945

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.

	June 30, 2023	December 31, 2022
Obligation, beginning of the period	\$ 3,303,301	\$ 2,470,239
Change in estimated cash flows	461,927	756,541
Payments or settlements	(4,150)	(76,131)
Accretion expense	61,295	199,521
Disposals	(191,365)	-
Effects of movements in foreign exchange rates	13,638	(46,869)
Obligation, end of the period	\$ 3,644,646	\$ 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 \$4,855,989 (2022: \$4,480,074).

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

June 30, 2023

11. Derivative liability

Derivative liability includes warrants issued and outstanding as follows:

	June 30, 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	(15,872,962)	(2,112,658)	(4,637,288)	(598,509)
Fair value adjustment	-	1,081,772	-	5,974,674
Foreign exchange	-	195,784	-	(528,045)
Balance end of the period	51,964,456	\$ 8,705,321	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 June 30, 2023 and December 31, 2022 was estimated using the following assumptions:

	June 30, 2023	December 31, 2022
Number outstanding re-valued warrants	51,964,456	67,837,418
Fair value of warrants outstanding	£0.1326	£0.1157
Risk free interest rate	4.88%	3.41%
Expected life	0.40 years	0.82 years
Expected volatility	136%	147%

The following table summarizes the warrants outstanding and exercisable at June 30, 2023:

Number of warrants	Exercise price	Expiry date
51,411,807	£0.09	October 24, 2023
552,649	£0.09	November 22, 2023
51,964,456		

12. Share Capital

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

(b) Issued:

	June 30, 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	15,872,962	3,887,661	4,637,288	1,094,574
Issued from options exercised	-	-	375,000	17,924
Balance at end of the period	234,274,893	61,698,396	218,401,931	57,810,735

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

June 30, 2023

(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 June 30, 2023 and December 31, 2022 and changes during the respective periods ended on those dates is presented below:

Stock Options	June 30, 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	4,986,665	\$0.26	3,395,000	\$0.42

Date of Grant	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable June 30, 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	2,000,000
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	766,665
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	2.69 years		4,986,665

The Company recognized \$159,018 and \$291,258 as share-based compensation expense for the three and six months ended June 30, 2023 (2022: \$40,917 and \$103,836), with a corresponding effect in the contributed surplus account.

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

June 30, 2023

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 has outstanding exploration commitments of \$17.8 million as at June 30, 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 June 30, 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	December 31, 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

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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.

(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.

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(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:

	June 30, 2023	December 31, 2022
Working capital deficit	\$ (2,363,388)	\$ (1,316,665)
Derivative liability	8,705,321	9,540,423
	\$ 6,341,933	\$ 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 June 30:

Three months ended June 30, 2023	Colombia		Canada		Total
Revenue:					
Oil Sales	\$ 11,206,886	\$ -	\$ -	\$ -	\$ 11,206,886
Natural gas and liquid sales	-	-	431,082	-	431,082
Royalties	(1,399,621)	-	41,933	-	(1,357,688)
Expenses	(5,270,072)	-	(5,502,162)	-	(10,872,234)
Income taxes	(165,462)	-	-	-	(165,462)
Net income (loss)	\$ 4,371,731	\$ -	\$ (5,129,147)	\$ -	\$ (757,416)
Six months ended June 30, 2023	Colombia		Canada		Total
Revenue:					
Oil Sales	\$ 18,680,723	\$ -	\$ -	\$ -	\$ 18,680,723
Natural gas and liquid sales	-	-	922,103	-	922,103
Royalties	(2,328,654)	-	(1,032)	-	(2,329,686)
Expenses	(8,460,388)	-	(6,414,971)	-	(14,875,359)
Income taxes	(165,462)	-	-	-	(165,462)
Net income (loss)	\$ 7,726,219	\$ -	\$ (5,493,900)	\$ -	\$ 2,232,319

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As at June 30, 2023	Colombia		Canada		Total
Current assets	\$	13,847,131	\$	1,312,191	\$ 15,159,322
Non-current:					
Deferred income taxes		533,558		-	533,558
Restricted cash		37,808		665,875	703,683
Exploration and evaluation		2,849,427		-	2,849,427
Property, plant and equipment		32,495,634		4,563,906	37,059,540
Total Assets	\$	49,763,558	\$	6,541,972	\$ 56,305,530
Current liabilities	\$	8,150,721	\$	9,371,989	\$ 17,522,710
Non-current liabilities:					
Deferred income taxes		2,505,549		-	2,505,549
Other liabilities		264,881		-	264,881
Lease obligation		-		171,517	171,517
Decommissioning liability		3,080,832		563,814	3,644,646
Total liabilities	\$	14,001,983	\$	10,107,320	\$ 24,109,303

Three months ended June 30, 2022	Colombia		Canada		Total
Revenue:					
Oil Sales	\$	4,475,645	\$	-	\$ 4,475,645
Natural gas and liquid sales				1,255,464	1,255,464
Royalties		(569,224)		(137,281)	(706,505)
Expenses		(1,541,018)		(2,715,267)	(4,256,286)
Net loss	\$	2,365,403	\$	(1,597,084)	\$ 768,318

Six months ended June 30, 2022	Colombia		Canada		Total
Revenue:					
Oil Sales	\$	6,956,442	\$	-	\$ 6,956,442
Natural gas and liquid sales		-		2,685,996	2,685,996
Royalties		(778,717)		(436,155)	(1,214,872)
Expenses		3,157,421		9,933,692	(13,091,113)
Net income (loss)	\$	3,020,304	\$	(7,683,851)	\$ (4,663,547)

As at June 30, 2022	Colombia		Canada		Total
Current assets	\$	6,491,047	\$	5,699,016	\$ 12,190,063
Non-current:					
Deferred income taxes		4,839,785		-	4,839,785
Restricted cash		195,289		671,758	867,047
Exploration and evaluation		6,964,506		-	6,964,506
Property and equipment		12,530,568		5,278,184	17,808,752
Total Assets	\$	31,021,195	\$	11,648,958	\$ 42,670,153
Current liabilities	\$	2,196,394	\$	4,399,641	\$ 6,596,035
Non-current liabilities:					
Other liabilities		177,500		-	177,500
Deferred income taxes		3,371,935		-	3,371,935
Lease obligation		-		45,773	45,773
Decommissioning liability		2,244,675		554,904	2,799,579
Long-term debt		-		31,040	31,040
Derivative liability		-		9,941,499	9,941,499
Total liabilities	\$	7,990,505	\$	14,972,857	\$ 22,963,362