ARROW EXPLORATION CORP.

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021
IN UNITED STATES DOLLARS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Arrow Exploration Corp.

Report of the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Arrow Exploration Corp. and its subsidiaries (the Company), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of operations and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2022, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. This matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recoverable amount of property and equipment in the Capella block in Colombia ("Capella") cash generating unit ("CGU") and Canada CGU	
For the year ended December 31, 2022, an impairment reversal of $10,409,615 was recorded with respect to property and equipment in the Capella CGU and an impairment charge of $1,388,961 was recorded with respect to property and equipment in the Canada CGU. The Company's disclosures related to property and equipment and impairment reversal and charges are included in notes 2, 3, and 8 of the consolidated financial statements. An assessment is made at each reporting date as to whether there are any indicators for impairment or reversal of previously recognized impairment. If such indicators exist, a previously recognized impairment loss is reversed and/or impairment charges are recognized. A reversal of previous impairment is limited to the extent that the carrying amount of the asset does not exceed its recoverable amount, nor does it exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods. The recoverable amounts of the Capella and Canada CGUs were determined utilizing fair value less costs of disposal models based on the net present value of future cash flows based on an independent reserve evaluation.	To test the Company's estimated recoverable amounts for its Capella and Canada CGUs, we performed the following procedures, among others: • Evaluated the Company's independent reserve evaluator's competence, capability, and objectivity, as well as obtained an understanding of the work they performed. • Involved our internal valuation specialists to assess the methodology applied, and the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums. • Compared forecasted benchmark commodity pricing and foreign exchange rates against other third-party price forecasts. • Assessed forecasted production, royalties, operating costs, and future development costs by comparing them to historical results. • Evaluated the adequacy of the relevant note disclosures included in the consolidated financial statements in relation to this matter.

Auditing the Company's estimated recoverable amounts for its Capella and Canada CGUs was complex due to the subjective nature of the underlying inputs and assumptions and the significant effect changes in these would have on the recoverable amount. Additionally, the evaluation of this estimate required specialized skills and knowledge. The primary inputs noted in the determination of the recoverable amount were expected production volumes, forecasted benchmark prices, forecasted exchange rates, royalties, operating costs, future development costs, and discount rate.

Other matter

The consolidated financial statements of the Company for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 25, 2022.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained

up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Beth Sanford.

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
April 28, 2023

Arrow Exploration Corp.
Consolidated Statements of Financial Position
In United States Dollars

As at	Notes	December 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash		$ **13,060,968**	$ 10,878,508
Restricted cash and deposits	4	**210,654**	-
Trade and other receivables	5	**2,568,290**	639,582
Taxes receivable	6	**801,177**	719,049
Deposits and prepaid expenses		**157,459**	322,300
Inventory		**705,677**	247,063
		17,504,225	12,806,502
Non-current assets			
Deferred income taxes	14	**872,286**	4,839,785
Restricted cash and deposits	4	**608,127**	732,553
Exploration and evaluation	7	**-**	6,964,506
Property and equipment	8	**34,205,610**	15,852,452
Total Assets		$ **53,190,248**	$ 41,195,798
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		$ **5,850,823**	$ 3,120,777
Lease obligation	10	**41,434**	20,258
Promissory note	9	**1,899,294**	1,659,393
Derivative liability	12	**9,540,423**	-
Income taxes	14	**1,488,916**	-
		18,820,890	4,800,428
Non-current liabilities			
Long-term debt		**-**	31,552
Lease obligations	10	**22,317**	34,434
Other liabilities		**80,484**	177,500
Deferred income taxes	14	**5,066,684**	3,371,936
Decommissioning liability	11	**3,303,301**	2,470,239
Promissory note	9	**-**	1,659,393
Derivative liability	12	**-**	4,692,203
Total liabilities		**27,293,676**	17,237,685
Shareholders' equity			
Share capital	13	**57,810,735**	56,698,237
Contributed surplus		**1,570,491**	1,249,418
Deficit		**(32,839,282)**	(33,185,806)
Accumulated other comprehensive loss		**(645,372)**	(803,736)
Total shareholders' equity		**25,896,572**	23,958,113
Total liabilities and shareholders' equity		$ **53,190,248**	$ 41,195,798

Commitments and contingencies (Note 15)

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

On behalf of the Board:

signed "Gage Jull" Director
Gage Jull

signed "Anthony Zaidi" Director
Anthony Zaidi

Arrow Exploration Corp.
Consolidated Statements of Operations and Comprehensive Income
In United States Dollars

For the years ended December 31,	**Notes**	**2022**	2021
Revenue			
Oil and natural gas	**18**	**$ 28,135,254**	$ 7,164,680
Royalties	**18**	**(3,161,790)**	(652,187)
Total oil and natural gas revenue, net of royalties		**24,973,464**	6,512,493
Expenses			
Operating		**5,159,068**	2,346,039
Administrative		**6,723,201**	4,881,113
Listing costs		**171,328**	583,972
Share-based compensation expense (recovery)	**13**	**582,405**	(84,668)
Financing costs:			
Accretion	**11**	**199,521**	132,807
Interest	**9, 10**	**460,233**	797,943
Other		**330,797**	46,217
Foreign exchange loss (gain)		**590,034**	(84,924)
Depletion and depreciation	**8**	**5,528,489**	1,622,937
Impairment reversal of oil and gas properties, net	**8**	**(9,020,654)**	(5,617,776)
Loss (gain) on derivative liability	**12**	**5,974,674**	(467,507)
Other income		**(163,266)**	(2,018,382)
		16,535,830	2,137,771
Income before income tax		**8,437,634**	4,374,722
Income tax expense (recovery)			
Current	**14**	**2,428,862**	149,040
Deferred	**14**	**5,662,248**	(1,467,850)
		8,091,110	(1,318,810)
Net income		**346,524**	5,693,532
Other comprehensive income (loss)			
Foreign exchange		**158,364**	(214,258)
Total other comprehensive income (loss)		**158,364**	(214,258)
Total comprehensive income		**$ 504,888**	$ 5,479,274
Net income per share:			
Basic		**$ 0.00**	$ 0.06
Diluted		**$ 0.00**	$ 0.06

Weighted average shares outstanding		
Basic	**215,468,129**	94,553,391
Diluted	**279,288,480**	96,243,078

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

Arrow Exploration Corp.
Statements of Changes in Shareholders' Equity
In United States Dollars

	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
Issuances of common shares, net	1,112,498	-	-	-	1,112,498
Options settled in cash	-	(6,621)	-	-	(6,621)
Net income	-	-	-	346,524	346,524
Other comprehensive income	-	-	158,364	-	158,364
Share-based compensation	-	327,694	-	-	327,694
Balance December 31, 2022	$ 57,810,735	$ 1,570,491	$ (645,372)	$ (32,839,282)	$ 25,896,572

	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
Subscription of common shares, net	5,957,945	-	-	-	5,957,945
Net income	-	-	-	5,693,532	5,693,532
Other comprehensive loss	-	-	(214,258)	-	(214,258)
Share-based compensation	-	(272,427)	-	-	(272,427)
Balance December 31, 2021	$ 56,698,237	$ 1,249,418	$ (803,736)	$ (33,185,806)	$ 23,958,113

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

Arrow Exploration Corp.
Consolidated Statements of Cash Flows
In United States Dollars

For the year ended December 31,	Notes	2022	2021
Cash flows provided by (used in) operating activities:			
Net income		**$ 346,524**	$ 5,693,532
Items not involving cash:			
Deferred taxes	**14**	**5,662,248**	(1,467,850)
Share-based compensation	**13**	**327,694**	(272,427)
Depletion and depreciation	**8**	**5,528,489**	1,622,937
Impairment reversal of oil and gas properties, net	**8**	**(9,020,654)**	(5,617,776)
Interest on leases	**10**	**9,696**	6,506
Interest on promissory note	**9**	**469,258**	657,953
Accretion	**11**	**199,521**	132,807
Foreign exchange (gain) loss		**79,581**	(195,852)
Loss (gain) on derivative liability	**12**	**5,974,674**	(467,507)
Long-term debt forgiveness		**(7,692)**	-
Payment of asset decommissioning obligations	**11**	**(76,131)**	(237,826)
Changes in non-cash working capital balances:			
Restricted cash and deposits		**(86,228)**	262,489
Trade and other receivables		**(1,928,707)**	1,817,008
Taxes receivable		**(82,129)**	940,634
Deposits and prepaid expenses		**164,840**	(244,917)
Inventory		**(458,613)**	(217,759)
Income tax payable		**1,488,916**	-
Accounts payable and accrued liabilities		**3,445,263**	(6,918,112)
Cash provided by (used in) operating activities		**12,036,550**	(4,506,160)
Cash flows (used in) investing activities:			
Additions to exploration and evaluation assets		**-**	(2,840)
Additions to property and equipment	**8**	**(7,668,988)**	(1,708,706)
Changes in restricted cash and deposits		**-**	(272,271)
Changes in non-cash working capital		**(715,217)**	(2,063,099)
Cash flows (used in) investing activities		**(8,384,205)**	(4,046,916)
Cash flows provided by (used in) financing activities:			
Subscription of common shares, net of costs	**13**	**-**	11,232,473
Issuances of common shares	**13**	**510,786**	-
Payment of promissory note	**9**	**(1,888,750)**	(3,111,491)
Lease payments	**10**	**(39,697)**	(24,535)
Payment of long-term debt		**(23,076)**	-
Cash flows provided by (used in) financing activities		**(1,440,737)**	8,096,447
Effect of changes in the exchange rate on cash		**(29,148)**	(138,067)
Increase (decrease) in cash		**2,182,460**	(594,696)
Cash, beginning of period		**10,878,508**	11,473,204
Cash, end of period		**13,060,968**	10,878,508
Supplemental information			
Interest paid		**$ 285,205**	$ 336,804
Taxes paid		**$ -**	$ -

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

1. Corporate Information

Arrow Exploration Corp. ("Arrow" or "the Company") is a public junior oil and gas company engaged in the acquisition, exploration and development of oil and gas properties in Colombia and in Western Canada. The Company's shares trade on the TSX Venture Exchange and the AIM Market of the London Stock Exchange plc under the symbol AXL. The head office of Arrow is located at 550, 333 – 11th Ave SW, Calgary, Alberta, Canada, T2R 1L9 and the registered office is located at 1600, 421 – 7th Avenue SW, Calgary, Alberta, Canada, T2P 4K9.

2. Basis of Presentation

Statement of compliance
The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been approved and authorized for issuance by the Board of Directors ("the Board") on April 28, 2023.

Basis of measurement
These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value and specifically noted within the notes to these consolidated financial statements.

Functional and presentation currency
These consolidated financial statements are presented in United States Dollars. The Canadian Dollar is the functional currency of the Company and its wholly own subsidiary Arrow Holdings Ltd. (AHL). The functional currency of the Company's subsidiaries operating in Colombia and Panama is the United States Dollar.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period-end exchange rate. Non-monetary assets, liabilities, revenues and expenses are translated at exchange rates at the transaction date. Exchange gains or losses are included in the determination of net income or loss in the consolidated statements of operations and comprehensive income.

Use of estimates and judgments
The preparation of consolidated financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these financial statements are as follows:

Exploration and evaluation assets
Exploration and evaluation assets require judgment as to whether future economic benefits exist, including the existence of proven or probable reserves and the ability to finance exploration and evaluation projects, where technical feasibility and commercial viability has not yet been determined.

Depletion and depreciation
The amounts recorded for depletion and depreciation are based on estimates of proved and probable reserves. Assumptions that are valid at the time of reserve estimation may change materially as new information becomes available.

Changes in forward price estimates, production and future development costs, recovery rates or decommissioning costs may change the economic status of reserves and may ultimately result in reserves used for measurement purposes being removed from similar calculations in future reporting periods.

Cash Generating Unit ("CGU")
IFRS requires that the Company's oil and natural gas properties be aggregated into CGUs, based on their ability to generate largely independent cash flows, which are used to assess the properties for impairment. The determination of the Company's CGUs is subject to management's judgment.

Impairment of Property, plant and equipment and exploration and evaluation assets
Indicators of impairment are assessed by management using judgment, considering future plans, market conditions and commodity prices. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less costs of disposal and value in use. Recoverable amounts calculated for impairment testing are based on estimates of future commodity prices, expected volumes, quantity of reserves and discount rates as well as future development costs, royalties, and operating costs. These calculations require the use of estimates and assumptions, which by their nature, are subject to measurement uncertainty. In addition, judgment is exercised by management as to whether there have been indicators of impairment or of impairment reversal. Indicators of impairment or impairment reversal may include, but are not limited to a changes in: market value of assets, asset performance, estimate of future prices, royalties and costs, estimated quantity of reserves and appropriate discount rates.

Decommissioning obligations
Measurement of the Company's decommissioning liability involves estimates as to the cost and timing of incurrence of future decommissioning programs. It also involves assessment of appropriate discount rates, rates of inflation applicable to future costs and the rate used to measure the accretion charge for each reporting period. Measurement of the liability also reflects current engineering methodologies as well as current environmental legislation and standards.

Income taxes
The Company recognises deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and that sufficient taxable income will be generated in the future to recover such deferred tax assets. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

Provisions and contingencies
The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated. The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

Stock-based compensation, warrants and derivative liability
The amounts recorded in respect of share purchase warrants granted and the derivative liability for warrants issued are based on the Company's estimation of their fair value, calculated using assumptions regarding the life of the option or warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of options or warrants may differ at any time.

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below and have been applied consistently by the Company.

Interests in joint arrangements
Certain of the Company's exploration and production activities are regarded as joint operations and are conducted under joint operating agreements, whereby two or more parties jointly control the assets. These consolidated financial statements reflect only the Company's share of these jointly controlled operations, and the Company's proportionate share of the relevant revenue and costs.

Subsidiaries
Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

Financial instruments
The Company considers whether a contract contains an embedded derivative when it first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract. Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets
The Company's financial assets are comprised of cash, restricted cash, trade and other receivables and deposits. Cash and restricted cash are classified as financial assets at fair value through profit or loss. Trade and other receivables, and deposits are classified and measured at amortized cost using the effective interest, less any impairment losses. The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classified its financial assets:

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;

- Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or

- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

At initial recognition, the Company measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense. Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities
Financial liabilities are classified as financial liabilities at fair value through profit or loss or amortized cost. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, promissory note and long-term debt. These are classified and measured at amortized cost using the effective interest method.

Derivative liability
The non-compensation based warrants entitle the holder to acquire a fixed number of common shares for a fixed British Pence price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency of Canadian Dollars, and that does not qualify as a share-based payment, must be classified as a derivative liability and measured at fair value with changes recognized in the statements of operations and comprehensive income as they arise. The Company has recorded these changes as derivative gain (loss) in the statement of operations and comprehensive income. The transaction costs associated with exercising of the warrants are expensed when incurred.

Fair value hierarchy
The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and options are recognized as a deduction from share capital, net of any tax effects.

Exploration and evaluation assets
Pre-license costs are recognized in the statement of operations and comprehensive income as incurred. Exploration and evaluation costs include the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property and equipment after performing an impairment assessment. When exploration and evaluation assets are determined not to be technically feasible and commercially viable, or the Company decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive income as pre-license expense.

Property and equipment
Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses, net of reversals. The cost of development and production assets includes: transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination

of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads. Development and production assets are grouped into CGU's for impairment testing. Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the statement of operations and comprehensive income.

Subsequent costs:
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred. Such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in operating expenses as incurred.

Depletion and depreciation:
The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves. Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment
Financial assets
The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

Non-financial assets
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are also assessed for impairment prior to being transferred to property and equipment.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Fair value less cost to dispose is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive income. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. Impairment losses recognized in prior years are assessed at each reporting date to determine if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Share-based compensation
The Company has a share-based compensation plan for which the compensation cost attributed to stock options granted is measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options or units that vest. Upon the settlement of the stock options the previously recognized value in contributed surplus is recorded as an increase to share capital.

Share-based compensation granted to non-employees is measured based on the fair value of the goods or services received, except in cases where this is not reliably measurable, and then the intrinsic value of the equity instruments granted is used (i.e. the average value of the Company's shares over the service period). Share-based compensation subject to performance vesting conditions is recognized based on the Company's estimated probability of achieving those performance vesting conditions determined at each reporting date.

The grant date fair value of phantom shares and phantom stock options granted to officers, employees and directors is recognized as share-based compensation expense with a corresponding increase in accrued liabilities on a graded vesting basis over the vesting period. Subsequent to initial recognition, the phantom shares and phantom stock options accrued liability is measured at fair value.

Provisions
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations
The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time

and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Leases

Lease arrangements which meet the criteria of a lease are recognized as right-of-use assets and lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost. Subsequently, it is measured at cost less accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease obligation. The lease obligation is measured at the present value of the lease payments outstanding at the lease commencement date, discounted using the implicit rate, and when not determinable, the Company's incremental borrowing rate. The lease obligation is re-measured when there is a change in estimated future payments arising from a change in a lease term, index or rate, residual guarantee or purchase option. The assessment of whether a renewal, extension, termination or purchase option is reasonably certain to be exercised was considered, based on facts and circumstances, and has the potential to significantly impact the amount of right-of-use asset and lease obligation recognized. The Company recognizes interest expense incurred under finance leases over the lease term in the consolidated statements of operations and comprehensive income using the effective interest rate method.

Revenue

The Company's revenues are primarily derived from the production of petroleum and natural gas. Revenue from contracts with customers is recognized when the Company satisfies a performance obligation by physically transferring the product and control to a customer. The Company satisfies its performance obligations at the point of delivery of the product and not over a period of time. Revenue is measured based on the consideration specified in contracts with customers. Revenue is recorded net of any royalties when the amount of revenue can be reliably measured and the costs incurred in respect of the transaction can be measured reliably.

Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In United States Dollars

Earnings per share

Basic earnings per share is calculated by dividing the net income or loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing the net income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and warrants granted. The number of shares included with respect to options is computed using the treasury stock method.

Recent Accounting Standards

During 2022, the Company adopted amendments published by IASB to IAS 16 *Property, plant and Equipment* and to IAS 37 *Provisions Contingent Liabilities and Contingent Assets*. These amendments were adopted by the Company from January 1, 2021 but they did not have a material impact on the Consolidated Financial Statements.

Future Accounting Standards

The Company plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2023. The pronouncements will be adopted on their respective effective dates and their impact to the financial statements is currently under assessment.

i) Amendments to IAS 8 Changes in Estimates vs Changes in Accounting Policies: In February 2021, the IASB issued amendments to IAS 8 Changes in Estimates vs Changes in accounting Policies, to help distinguish changes in accounting estimates from changes in accounting policies.

ii) Amendments to IAS 12 Income Taxes: In May 2021, the IASB issued amendments to IAS 12 Income Taxes, which require entities to recognize deferred tax on transaction that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

iii) Amendments to IAS 1 Presentation of Financial Statements: In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statements of financial position. In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. These will be effective on January 1, 2024.

4. Restricted Cash and deposits

		December 31, 2022		December 31, 2021
Colombia *(i)*	**$**	**248,462**	$	53,726
Canada *(ii)*		**570,319**		678,827
Sub-total		**818,781**		732,553
Long-term portion		**(608,127)**		(732,553)
Current portion of restricted cash and deposits	**$**	**210,654**	$	-

(i) *This balance is comprised of a deposit held as collateral to guarantee abandonment expenditures related to the Tapir and Santa Isabel blocks.*

(ii) *Pursuant to Alberta government regulations, the Company was required to keep a $313,333 (CAD $424,398; 2021: $416,600) 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 $256,986 pertain to commercial deposits with customers, lease and other deposits held in Canada.*

In United States Dollars

5. Trade and other receivables

		December 31, 2022		December 31, 2021
Trade receivables, net of advances	**$**	**847,432**	$	252,141
Other accounts receivable		**1,720,858**		387,441
	$	**2,568,290**	$	639,582

As at December 31, 2022, other accounts receivable includes a $1,070,825 (December 31, 2021 – $2,322) receivable from a partner in the Tapir block and corresponds to reimbursable capital expenditures incurred on the Tapir block.

6. Taxes receivable

		December 31, 2022		December 31, 2021
Value-added tax (VAT) credits recoverable	**$**	**-**	$	105,827
Income tax withholdings and advances, net		**801,177**		613,222
	$	**801,177**	$	719,049

The VAT recoverable balance in 2021 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.

7. Exploration and Evaluation

		December 31, 2022		December 31, 2021
Balance, beginning of the period	**$**	**6,964,506**	$	6,961,667
Additions, net		**-**		2,839
Reclassification to Property and Equipment		**(6,964,506)**		-
Balance, end of the period	**$**	**-**	$	6,964,506

During 2022, the Company determined the technical feasibility and commercial viability of its Tapir assets related to the Rio Cravo Sur-1 discovery and transferred $6,964,506 to its property and equipment. An impairment test on this asset was prepared and no losses were identified as a result of such test.

In United States Dollars

8. Property and Equipment

Cost	Oil and Gas Properties	Right of Use and Other Assets	Total
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	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
Accumulated depletion and depreciation and impairment			
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	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
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	(568,525)	(5,262)	(573,787)
Balance December 31, 2022	$ (249,908)	$ (8,719)	$ (258,627)
Net Book Value			
Balance December 31, 2021	$ 15,787,389	$ 65,063	$ 15,852,452
Balance December 31, 2022	$ 34,141,409	$ 64,201	$ 34,205,610

As at December 31, 2022, 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 Capella block in Colombia, mostly driven by the recovery in energy commodity prices. The Company prepared estimates of fair value less costs of disposal of its Capella and determined that recoverable amount of the Capella field exceeded its carrying value and, therefore, recognized an impairment loss reversal of $10,409,615.

Additionally, as at December 31, 2022, the Company determined there were indicators of impairment in its Canada CGU, mainly due to revision of reserves, and prepared estimates of fair value less costs of disposal of its Canada CGU. It was determined that carrying value of its Canada CGU exceeded its recoverable amount and, therefore, an impairment loss of $1,388,961 was included in the consolidated statements of operations and comprehensive income for the year ended December 31, 2022.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2022:

In United States Dollars

Year	Exchange rate $US / $Cdn	Brent US$/Bbl	AECO Spot Gas C$/MMBtu
2023	0.79	85.00	4.83
2024	0.79	82.80	4.50
2025	0.79	80.50	4.31
2026	0.79	82.00	4.42
2027	0.79	84.20	4.53
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, 2022. 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% pre-tax discount rate, which took into account risks specific to the Capella CGU and inherent in the oil and gas business, and a 15% pre-tac discount rate for its Canada CGU, and provided the following recoverable values:

CGU	Recoverable Amount	Impairment Loss (Reversal)
Canada	4,092,254	1,388,961
Capella	33,876,730	(10,409,615)
		(9,020,654)

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

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 Canada CGU 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 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 for the year ended December 31, 2021.

9. Promissory Note

The promissory note was issued to Canacol Energy Ltd. ("Canacol"), a related party to the Company, as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The promissory note bears interest at 15% per annum, and, on October 18, 2021, Arrow and Canacol entered into a Seventh Amended and Restated Promissory Note agreement with the following terms:

- 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;
- 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

In United States Dollars

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 (see note 15), which were recognized as other income in the statement of operations and comprehensive income. On October 27, 2021, the Company paid $3,111,491 (C$3,900,000) to Canacol as stipulated in this seventh amendment.

During December 2022, the Company made a payment of $1,888,750 to Canacol equivalent to 50% of the outstanding balance of the promissory note, and its current balance of $1,899,294 is presented as a current liability in the condensed consolidated statement of financial position as at December 31, 2022. The Company has granted a general security interest to Canacol for the obligations under the Promissory Note.

10. 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	**(39,697)**	(24,535)
Interest	**9,696**	6,506
Effects of movements in foreign exchange rates	**(5,641)**	498
Obligation, end of the year	**$ 63,751**	$ 54,692
Current portion	**(41,434)**	(20,258)
Long-term portion	**$ 22,317**	$ 34,434

As at December 31, 2022, the Company has the following future lease obligations:

Less than one year	$ 45,944
2 – 5 years	22,972
Total lease payments	68,916
Amounts representing interest over the term	(5,165)
Present value of the net obligation	**$ 63,751**

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

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.

	December 31, 2022	December 31, 2021
Obligation, beginning of the year	**$ 2,470,239**	$ 2,584,907
Change in estimated cash flows	**756,541**	(10,173)
Payments or settlements	**(76,131)**	(237,826)
Accretion expense	**199,521**	132,807
Effects of movements in foreign exchange rates	**(46,869)**	524
Obligation, end of the year	**$ 3,303,301**	$ 2,470,239

In United States Dollars

The obligation was calculated using a risk-free discount rate range of 2.50% to 3.75% in Canada (2021: 1.00% to 2.00%) and between 3.55% and 4.13% in Colombia (2021: 8.46%) with an inflation rate of 3.0% and 3.5%, respectively (2021: 2.0% and 4.5%). 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 $4,480,074 (2021: $4,222,717).

12. Derivative liability

Derivative liability includes warrants issued and outstanding as follows:

	December 31, 2022		December 31, 2021	
Warrants	**Number**	**Amounts**	Number	Amounts
Balance beginning of the period	**72,474,706**	**$ 4,692,303**	-	$ -
Issued in AIM financing (Note 13)	**-**	**-**	70,474,768	5,124,985
Issues in private placement (Note 13)	**-**	**-**	1,999,938	149,543
Exercised	**(4,637,288)**	**(598,509)**	-	-
Fair value adjustment	**-**	**5,974,674**	-	(467,507)
Foreign exchange	**-**	**(528,045)**		(114,818)
Balance end of the period	**67,837,418**	**$ 9,540,423**	72,474,706	$ 4,692,203

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

	December 31, 2022	December 31, 2021
Number outstanding re-valued warrants	**67,837,418**	72,474,706
Fair value of warrants outstanding	**£0.1157**	£0.048
Risk free interest rate	**3.41%**	0.50%
Expected life	**0.82 years**	1.82 years
Expected volatility	**147%**	160%

The following table summarizes the warrants outstanding and exercisable at December 31, 2022:

Number of warrants	**Exercise price**	**Expiry date**
67,184,769	£0.09	October 24, 2023
652,649	£0.09	November 22, 2023
67,837,418		

13. Share Capital

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

In United States Dollars

(b) Issued:

Common shares	2022 Shares	2022 Amounts	2021 Shares	2021 Amounts
Balance beginning of the year	**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 12)	**-**	**-**	-	(5,274,528)
Share issue costs (iii)	**-**	**-**	-	(1,162,451)
Issued from warrants exercised	**4,637,288**	**1,094,574**	-	-
Issued from options exercised	**375,000**	**17,924**	-	-
Balance at end of the year	**218,401,931**	**57,810,735**	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 (a related party), 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).

(ii) On November 24, 2021, the Company announced that it closed a private placement of C$395,375 for issuance of 3,765,476 new common shares and 1,999,938 warrants (see Note 14).

(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, 2022 and 2021 and changes during the respective periods ended on those dates is presented below:

Stock Options	December 31, 2022 Number of options	December 31, 2022 Weighted average exercise Price (CAD $)	December 31, 2021 Number of options	December 31, 2021 Weighted average exercise price (CAD $)
Beginning of period	**17,114,000**	**$0.18**	6,859,000	$0.40
Granted	**10,028,332**	**$0.27**	11,400,000	$0.13
Expired/Forfeited	**(2,794,000)**	**$0.12**	(1,145,000)	$1.04
Exercised	**(3,758,332)**	**$0.11**	-	-
End of period	**20,590,000**	**$0.24**	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 December 31, 2022
October 22, 2018	1,050,000	$1.15		Oct. 22, 2028	1,050,000
May 3, 2019	345,000	$0.31		May 3, 2029	345,000

In United States Dollars

March 20, 2020	1,200,000	$0.05		March 20, 2030	800,000
April 13, 2020	2,000,000	$0.05		April 13, 2030	1,200,000
December 13, 2021	2,983,332	$0.13		June 13, 2024	-
December 13, 2021	2,983,336	$0.13		June 13, 2025	-
June 9, 2022	766,665	$0.28		December 9, 2023	-
June 9, 2022	766,667	$0.28		December 9, 2024	-
June 9, 2022	766,668	$0.28		December 9, 2025	-
September 7, 2022	749,999	$0.26		March 7, 2024	-
September 7, 2022	749,999	$0.26		March 7, 2025	-
September 7, 2022	750,002	$0.26		March 7, 2026	-
December 21, 2022	1,826,110	$0.28		June 13, 2023	-
December 21, 2022	1,826,111	$0.28		June 13, 2024	-
December 21, 2022	1,826,111	$0.28		June 13, 2025	-
Total	**20,590,000**	**$0.24**	**3.21 years**		**3,395,000**

During 2022, the Company recognized $327,694 as share-based compensation expense (2021 – recovery of $272,427), with a corresponding effect in the contributed surplus account.

(c) Phantom shares:
During 2020, the Company adopted a phantom share program for compensation of its Directors and executives and granted 13,000,000 phantom common shares of the Company which are vested immediately at CAD $0.00 per share. During 2021, the Company recognized $259,527 as share-based compensation expense and a total $1,761,667 were used entirely as part of management's subscription of shares issued in the AIM financing (see Common Shares section).

(d) Phantom stock options:
During 2020, the Company adopted a phantom stock option program for compensation of its executives and granted 1,681,000 phantom stock options of the Company which are vested in equal parts over the three following years after granted. During 2021, the Company recognized $34,450 as share-based compensation expense and a total $151,290 were used entirely as part of management's subscription of shares issued in the AIM financing (see Common Shares section).

14. Income taxes

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income loss before income taxes. The principal reasons for differences between such expected income tax expense and the amount actually recorded are as follows:

	2022	2021
Income before income taxes	**$ 8,437,634**	$ 4,374,722
Corporate income tax rate	**23%**	23%
Computed expected tax expense	**1,940,656**	$ 1,006,186
Increase (decrease) in income taxes resulting from:		
Share-based compensation	**133,953**	19,474
(Recognized)/unrecognized deferred tax benefits	**1,144,776**	(3,871,436)
Tax rate difference on foreign jurisdictions	**2,396,640**	783,741
Other permanent difference	**1,601,222**	(332,528)
Change in deferred tax asset	**932,088**	-
Foreign exchange and others	**(58,225)**	1,075,753
Income tax expense (recovery)	**$ 8,091,110**	$ (1,318,810)

In United States Dollars

As at December 31, 2022, the Company recognized a deferred income tax asset of $872,286 and a deferred tax liability of $5,066,684 which represents the tax impact of temporary differences and management's estimation of current tax benefits that would be realized to compensate future taxable income, due to an increase in forecast commodity prices, at substantially enacted tax rates. In Colombia, the enacted tax rate is 35% for 2022, and at the beginning on January 1, 2023, the Colombian government mandated an additional tax rate of 5%, 10% or 15% for oil producers, subject to international oil prices. The components of the Company's deferred income tax assets and liabilities are as follows:

As at December 31	2022	2021
Property and equipment	**$ (9,089,462)**	$ (2,421,172)
Decommissioning liabilities and other provisions	**1,285,642**	637,785
Carryforward non-capital losses	**3,609,422**	3,251,237
Net change in deferred tax	**$ (4,194,398)**	$ 1,467,850
Deferred tax liability	**5,066,684**	3,371,935
Deferred tax asset	**$ 872,286**	$ 4,839,785

At December 31, 2022, the Company had non-capital losses carried forward of approximately $47,846,426 (2021 - $63,875,000) available to reduce future years taxable income. These losses commence expiring in 2029. At December 31, 2022, the Company had income tax credits and benefits, including non-capital losses, of approximately $53,664,028 (2021 - $54,586,346) related to Canada that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

15. 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 at December 31, 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 December 31, 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
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.

Oleoducto Bicentenario de Colombia ("OBC") Pipeline

The Company was party to an agreement with Canacol (a related party) that entitled it to a 0.5% interest in OBC, which owns a pipeline system intended to link Llanos basin oil production to the Caño Limon oil pipeline system in Colombia.

In United States Dollars

Additionally, Canacol was in litigation with OBC in relation to ship or pay obligations that were terminated by Canacol in July 2018 under force majeure. During 2021, negotiations between the parties involved were finally settled and approved by the courts and the Company does not have any further interest nor any past and future ship or pay obligations associated with OBC.

Letters of Credit

At December 31, 2022, the Company had obligations under Letters of Credit ("LC's") outstanding totaling $2.8 million to guarantee work commitments on exploration blocks and other contractual commitments. In the event the Company fails to secure the renewal of the letters of credit underlying the ANH guarantees, or any of them, the ANH could decide to cancel the underlying exploration and production contract for a particular block, as applicable.

Current Outstanding Letters of Credit

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

16. Risk Management

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price, credit and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity price risk
Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Company's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. There were no derivative contracts during 2022 and 2021.

(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 join 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 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 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:

	December 31, 2022	December 31, 2021
Working capital	**$ (1,316,665)**	$ 8,006,074
Derivative liability	**9,540,423**	-
Non-Current portion of promissory note	**-**	(1,659,393)
	$ 8,223,758	$ 6,346,681

In United States Dollars

17. Key Management Personnel

The Company has determined that key management personnel consists of its executive management and its Board of Directors. In addition to the salaries and fees paid to key management, the Company also provides compensation to both groups under its share-based compensation plans. Compensation expenses paid to key management personnel were as follows:

	Years ended December 31	
	2022	2021
Salaries, severances and director fees	**$ 2,389,033**	$ 2,410,920
Share-based compensation	**568,565**	227,659
	$ 2,957,598	$ 2,638,579

18. 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 years ended and as at December 31:

Year ended December 31, 2022	**Colombia**	**Canada**	**Total**
Revenue:			
Oil Sales	$ 23,723,228	$ -	$ 23,723,228
Natural gas and liquid sales	-	4,412,026	4,412,026
Royalties	(2,513,730)	(648,060)	(3,161,790)
Expenses	(11,984,561)	(13,571,923)	(25,556,484)
Impairment reversal (loss) of oil and gas properties	10,409,615	(1,388,961)	9,020,654
Taxes	(8,091,110)	-	(8,091,110)
Net income (loss)	**$ 11,543,442**	**$ (11,196,918)**	**$ 346,524**

As at December 31, 2022	**Colombia**	**Canada**	**Total**
Current assets	**$ 14,679,159**	**$ 2,825,066**	**$ 17,504,225**
Non-current:			
Deferred income taxes	872,286	-	872,286
Restricted cash	37,808	570,319	608,127
Exploration and evaluation	-	-	-
Property, plant and equipment	29,270,430	4,935,180	34,205,610
Total Assets	**$ 44,859,683**	**$ 8,330,565**	**$ 53,190,248**
Current liabilities	**$ 5,474,361**	**$ 13,346,529**	**$ 18,820,890**
Non-current liabilities:			
Deferred income taxes	5,066,684	-	5,066,684
Other liabilities	80,484	-	80,484
Lease obligation	-	22,317	22,317
Decommissioning liability	2,568,141	735,160	3,303,301
Total liabilities	**$ 13,189,670**	**$ 14,104,006**	**$ 27,293,676**

In United States Dollars

Year ended December 31, 2021		**Colombia**		**Canada**		**Total**
Revenue:						
Oil Sales	$	6,199,231	$	-	$	6,199,231
Natural gas and liquid sales		-		965,449		965,449
Royalties		(567,633)		(84,554)		(652,187)
Expenses		(3,282,997)		(4,472,550)		(7,755,547)
Impairment reversal of oil and gas properties		4,182,575		1,435,201		5,617,776
Taxes		1,318,810		-		1,318,810
Net income (loss)	**$**	**7,849,986**	**$**	**(2,156,454)**	**$**	**5,693,532**

As at December 31, 2021		**Colombia**		**Canada**		**Total**
Current assets	**$**	**5,198,545**	**$**	**7,607,957**	**$**	**12,806,502**
Non-current:						
Deferred income taxes		4,839,785		-		4,839,785
Restricted cash		53,726		678,827		732,553
Exploration and evaluation		6,964,506		-		6,964,506
Property, plant and equipment		9,876,172		5,976,280		15,852,452
Total Assets	**$**	**26,932,734**	**$**	**14,263,064**	**$**	**41,195,798**
Current liabilities	**$**	**1,550,665**	**$**	**3,249,763**	**$**	**4,800,428**
Non-current liabilities:						
Long-term debt		-		31,552		31,552
Lease obligation		-		34,434		34,434
Other liabilities		177,500		-		177,500
Deferred income taxes		3,371,935		-		3,371,935
Decommissioning liability		1,822,244		647,996		2,470,240
Promissory note		-		1,659,393		1,659,393
Derivative liability		-		4,692,203		4,692,203
Total liabilities	**$**	**6,922,344**	**$**	**10,315,341**	**$**	**17,237,685**

ARROW EXPLORATION CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 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 April 28, 2023 and should be read in conjunction with Arrow's annual consolidated financial statements and related notes for the year ended December 31, 2022 and 2021. Additional information relating to Arrow is available under Arrow's profile on www.sedar.com.

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;; 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 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; changes in income tax laws or changes in tax laws and incentive programs; 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 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 or cash provided by (used in) operating activities or net income and comprehensive income 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.

Adjusted working capital is calculated as current assets minus current liabilities, excluding non-cash liabilities; funds from operations is calculated as cash flows from (used in) operating activities adjusted to exclude 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 income 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 excluding non-cash liabilities.

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 income per share.

A reconciliation of the non-IFRS measures is included as follows:

(in United States dollars)	**Three months ended December 31, 2022**	**Year ended December 31, 2022**	Three months ended December 31, 2021	Year ended December 31, 2021
Net income	**2,968,117**	**346,524**	6,960,035	5,693,532
Add/(subtract):				
Share based payments	**367,693**	**582,405**	241,438	(84,668)
Financing costs:				
Accretion on decommissioning obligations	**55,274**	**199,521**	34,160	132,807
Interest	**92,320**	**460,233**	246,449	797,943
Other	**45,693**	**330,797**	(76,358)	46,216
Depreciation and depletion	**1,878,557**	**5,528,489**	511,813	1,622,937
Derivative income	**1,005,740**	**5,974,674**	(467,507)	(467,507)
Impairment reversal of oil and gas properties	**(9,020,654)**	**(9,020,654)**	(5,617,776)	(5,617,776)
Income tax expense (recovery) , current and deferred	**7,064,017**	**8,091,110**	(1,291,612)	(1,318,810)
Adjusted EBITDA [(1)]	**4,456,757**	**12,493,099**	540,642	804,674
Cash flows provided by (used in) operating activities	**7,011,946**	**12,036,550**	(922,307)	(4,506,160)
Minus - Changes in non-cash working capital balances:				
Trade and other receivables	**(1,519,574)**	**1,928,707**	(327,190)	(1,817,008)
Restricted cash	**220,588**	**86,228**	-	(262,489)
Taxes receivable	**(279,138)**	**82,129**	(900,017)	(940,634)
Deposits and prepaid expenses	**(4,412)**	**(164,840)**	113,602	244,917
Inventory	**38**	**458,613**	(137,252)	217,759
Accounts payable and accrued liabilities	**(1,980,243)**	**(3,445,263)**	1,770,157	6,918,112
Income tax payable	**(1,488,916)**	**(1,488,916)**	-	-
Funds flow from (used in) operations [(1)]	**1,960,289**	**9,493,208**	(403,007)	(145,503)

[(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 December 31, 2022**	**Year ended December 31, 2022**	Three months ended December 31, 2021	Year ended December 31, 2021
Total natural gas and crude oil revenues, net of royalties	**8,931,562**	**24,973,464**	3,038,832	6,512,493
Funds flow from (used in) operations [(1)]	**1,960,289**	**9,493,208**	(403,007)	(145,503)
Funds flow from (used in) operations [(1)] per share –				
Basic($)	**0.01**	**0.04**	(0.00)	(0.00)
Diluted ($)	**0.01**	**0.03**	(0.00)	(0.00)
Net income	**2,968,117**	**346,524**	6,960,035	5,693,532
Net income per share –				
Basic ($)	**0.01**	**0.00**	0.04	0.06
Diluted ($)	**0.01**	**0.00**	0.04	0.06
Adjusted EBITDA [(1)]	**4,456,757**	**12,493,099**	540,642	804,674
Weighted average shares outstanding:				
Basic	**217,784,100**	**215,468,129**	171,345,885	94,553,391
Diluted	**288,239,348**	**279,288,480**	173,035,572	96,243,078
Common shares end of period	**218,401,931**	**218,401,931**	213,389,623	213,389,623
Capital expenditures	**2,106,463**	**7,668,988**	1,991,163	2,221,643
Cash and cash equivalents	**13,060,968**	**13,060,968**	10,878,508	10,878,508
Current assets	**17,504,225**	**17,504,225**	12,806,502	12,806,502
Current liabilities	**18,820,890**	**18,820,890**	4,800,428	4,800,428
Adjusted working capital[(1)]	**8,223,758**	**8,223,758**	8,006,074	8,006,074
Long-term portion of restricted cash and deposits[(2)]	**608,127**	**608,127**	-	-
Total assets	**53,190,248**	**53,190,248**	41,195,798	41,195,798
Operating				
Natural gas and crude oil production, before royalties				
Natural gas (Mcf/d)	**3,270**	**2,958**	442	530
Natural gas liquids (bbl/d)	**6**	**5**	5	6
Crude oil (bbl/d)	**1,185**	**847**	62	367
Total (boe/d)	**1,736**	**1,345**	140	461
Operating netbacks ($/boe) [(1)]				
Natural gas ($/Mcf)	**$0.57**	**$1.01**	$1.05	$0.51
Crude oil ($/bbl)	**$57.88**	**$65.06**	($98.26)	$2.85
Total ($/boe)	**$41.95**	**$42.40**	($39.03)	$3.16

[(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 December 31, 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	23,680	100%	23,680
Wapiti	Non-operated	1,280	13%	160
Total Canada		**33,760**		**26,998**
TOTAL		**499,177**		**254,003**

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 licensed 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 Montney P&NG rights on its Pepper asset in West Central Alberta. The 6-26-53-23W5M Montney gas well (West Pepper) is tied into the Galloway gas plant for processing. The 3-21-52-22W5M Montney gas well (East Pepper) is currently tied into the Sundance gas plant for processing. The majority of lands have tenure extending into 2025.

Year ended December 31, 2022 Financial and Operational Highlights

- For the year ended December 31, 2022, Arrow recorded $24,973,464 in revenues, net of royalties, on crude oil sales of 285,465 bbls, 1,946 bbls of natural gas liquids ("NGL's") and 1,079,620 Mcf of natural gas sales;
- Funds flow from operations of $9,493,208;
- Adjusted EBITDA was $12,493,099;

- Net income of $346,524;
- Drilled two wells in the Tapir block, increasing its production significantly
- Brought on production stream the East Pepper well.

Three Months Ended December 31, 2022 Financial and Operational Highlights

- For the three months ended December 31, 2022, Arrow recorded $8,931,562 in revenues, net of royalties, on crude oil sales of 120,486 bbls, 512 bbls of natural gas liquids ("NGL's") and 300,802 Mcf of natural gas sales;
- Funds used in operations of $1,960,289;
- Adjusted EBITDA for the three months was $4,456,757;
- Net income of $2,968,117

Annual 2022 Reserve Highlights

- 3,376 Mboe of Proved Reserves, net increase of 11% when compared to 2021;
- 7,691 Mboe of Proved plus Probable Reserves, net decrease of 4% when compared to 2021;
- Proved reserves estimated net present value, before income taxes, of US$58 million using a 10% discount rate;
- Proved plus Probable Reserves estimated net present value, before income taxes, of US$127 million using a 10% discount rate

RESULTS OF OPERATIONS

The Company has increased its production and improved its operations combined with improved pricing of energy commodities. These have allowed the Company to continue improving its balance sheet and its business profile. During 2022, the Company increased its production in its Tapir block, from the drilling of the RCE-2 and RCS-1 wells, and Oso Pardo blocks, with its Ombu block maintaining a steady production. Also, the West Pepper well was consistently producing throughout 2022 and the East Pepper Well was brought on stream, increasing the Company's natural gas production in Canada.

Average Production by Property

Average Production Boe/d	YTD 2022	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Oso Pardo	113	115	104	112	121	123
Ombu (Capella)	182	238	215	97	177	190
Rio Cravo Este (Tapir)	551	832	860	366	136	142
Total Colombia	847	1,185	1,179	575	434	455
Fir, Alberta	82	79	82	86	73	82
Pepper, Alberta	416	472	242	319	636	181
TOTAL (Boe/d)	1,345	1,736	1,503	980	1,144	719

For the three months and year ended December 31, 2022, the Company's average production was 1,736 and 1,345 boe/d, respectively, which consisted of crude oil production in Colombia at 1,185 and 847 bbl/d, natural gas production of 3,270 and 2,958 Mcf/d, respectively, and minor amounts of natural gas liquids from the Company's Canadian properties. The Company's Q4 2022 total production was 142% higher than its total production for the same period in 2021.

Average Daily Natural Gas and Oil Production and Sales Volumes

	Three months ended December 31		Year ended December 31	
	2022	2021	**2022**	2021
Natural Gas (Mcf/d)				
Natural gas production	**3,270**	1,550	**2,958**	704
Natural gas sales	**3,270**	1,550	**2,958**	704
Realized Contractual Natural Gas Sales	**3,270**	1,550	**2,958**	704
Crude Oil (bbl/d)				
Crude oil production	**1,185**	455	**847**	344
Inventory movements and other	**238**	78	**(64)**	(54)
Crude Oil Sales	**1,424**	533	**782**	290
Corporate				
Natural gas production (boe/d)	**545**	256	**493**	117
Natural Gas Liquids(bbl/d)	**6**	0	**5**	7
Crude oil production (bbl/d)	**1,185**	455	**847**	344
Total production (boe/d)	**1,736**	712	**1,345**	468
Inventory movements and other (boe/d)	**238**	78	**(64)**	(54)
Total Corporate Sales (boe/d)	**1,974**	789	**1,280**	414

During the year and three months ended December 31, 2022 the majority of production was attributed to Colombia, where all of Company's blocks were producing. In Canada, the Company has two operated and two non-operated properties located in the province of Alberta at Fir, Pepper, Harley and Wapiti.

Natural Gas and Oil Revenues

	Three months ended December 31		Year ended December 31	
	2022	2021	**2022**	2021
Natural Gas				
Natural gas revenues	**1,099,986**	479,232	**4,257,282**	820,430
NGL revenues	**34,978**	56,657	**154,744**	145,019
Royalties	**(150,638)**	(41,568)	**(648,060)**	(84,554)
Revenues, net of royalties	**984,327**	494,321	**3,763,966**	880,895
Crude Oil				
Crude Oil revenues	**8,710,005**	2,720,772	**23,723,228**	6,199,231
Royalties	**(762,770)**	(176,261)	**(2,513,730)**	(567,633)
Revenues, net of royalties	**7,947,235**	2,544,511	**21,209,498**	5,631,598
Corporate				
Natural gas revenues	**1,099,986**	479,232	**4,257,282**	820,430
NGL revenues	**34,978**	56,657	**154,744**	145,019
Oil revenues	**8,710,005**	2,720,772	**23,723,228**	6,199,231
Total revenues	**9,844,970**	3,256,661	**28,135,254**	7,164,679
Royalties	**(913,408)**	(217,829)	**(3,161,790)**	(652,187)
Natural gas and crude oil revenues, net of royalties	**8,931,562**	3,038,832	**24,973,464**	6,512,493

Natural gas and crude oil revenues, net of royalties, for the three months and the year ended December 31, 2022 was $8,931,562 and $24,973,464, respectively (2021: $3,038,832 and $6,512,493, respectively), which represent an increase of 194% and 283%, respectively. This significant increase is mainly due to increased production in both segments, Colombia and Canada, combined with improved pricing for energy commodities.

Average Benchmark and Realized Prices

	Three months ended December 31			Years ended December 31		
	2022	2021	Change	**2022**	2021	Change
Benchmark Prices						
AECO ($/Mcf)	**$4.42**	$3.89	14%	**$4.34**	$2.91	49%
Brent ($/bbl)	**$88.59**	$79.80	11%	**$98.89**	$70.78	40%
West Texas Intermediate ($/bbl)	**$82.65**	$77.31	7%	**$94.25**	$68.09	38%
Realized Prices						
Natural gas, net of transportation ($/Mcf)	**$3.66**	$3.37	9%	**$3.94**	$3.19	23%
Natural gas liquids ($/bbl)	**$68.28**	$56.43	21%	**$79.52**	$54.01	47%
Crude oil, net of transportation ($/bbl)	**$72.29**	$55.50	30%	**$83.10**	$58.62	42%
Corporate average, net of transport ($/boe)(1)	**$57.53**	$44.15	30%	**$60.20**	$47.37	27%

(1)Non-IFRS measure

The Company realized a price of $57.53 and $60.20 per boe during the three months and year ended December 31, 2022, respectively (2021: $44.15 and $47.37, respectively) as commodity prices improved during 2022.

Operating Expenses

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
Natural gas & NGL's	**778,767**	218,557	**2,521,700**	347,421
Crude oil	**973,224**	1,392,310	**2,637,368**	1,998,618
Total operating expenses	**1,751,991**	1,610,867	**5,159,068**	2,346,039
Natural gas ($/Mcf)	**$2.59**	$1.15	**$2.34**	$1.35
Crude oil ($/bbl)	**$8.08**	$17.48	**$9.24**	$18.90
Corporate ($/boe)(1)	**$10.24**	$13.85	**$11.04**	$15.51

(1)Non-IFRS measure

During the three months and year ended December 31, 2022, Arrow incurred operating expenses of $1,751,991 and $5,159,068, respectively (2021: $1,610,867 and $2,346,039, respectively), at an average cost of $10.24 and $11.04 per boe (2021: $13.85 and $15.51, respectively) which is reflective of the Company's increase in production volumes and decrease on a per barrel basis when compared to 2021 levels.

Operating Netbacks

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
Natural Gas ($/Mcf)				
Revenue, net of transportation expense	**$3.66**	$3.37	**$3.94**	$3.19
Royalties	**(0.50)**	(0.34)	**(0.60)**	(0.33)
Operating expenses	**(2.59)**	(1.15)	**(2.34)**	(1.35)
Natural Gas Operating netback[(1)]	**$0.57**	$1.87	**$1.01**	$1.51
Crude oil ($/bbl)				
Revenue, net of transportation expense	**$72.29**	$55.50	**$83.10**	$58.62
Royalties	**(6.33)**	(3.60)	**(8.81)**	(5.37)
Operating expenses	**(8.08)**	(17.48)	**(9.24)**	(18.90)
Crude Oil Operating netback[(1)]	**$57.88**	$34.42	**$65.06**	$34.35
Corporate ($/boe)				
Revenue, net of transportation expense	**$57.53**	$44.15	**$60.20**	$47.37
Royalties	**(5.34)**	(2.95)	**(6.77)**	(4.31)
Operating expenses	**(10.24)**	(13.85)	**(11.04)**	(15.51)
Corporate Operating netback[(1)]	**$41.95**	$27.35	**$42.40**	$27.55

[(1)]Non-IFRS measure

The operating netbacks of the Company continued improving during 2022 due to several factors, such as increasing production from both its Colombian and Canadian assets, and improved crude oil and natural gas prices, which were offset by increases in royalties and operating expenses for natural gas.

General and Administrative Expenses (G&A)

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
General & administrative expenses	**2,146,000**	1,840,646	**7,285,135**	4,972,290
G&A recovered from 3rd parties	**(172,169)**	(91,177)	**(561,934)**	(91,177)
Total G&A	**1,973,831**	1,749,469	**6,723,201**	4,881,113
G&A per boe	**$11.53**	$23.72	**$14.39**	$32.27

For the three months and year ended December 31, 2022, G&A expenses, before recoveries totaled $2,146,000 and $7,285,135, respectively (2021: $1,840,646 and $4,972,290, respectively), which represents an increase when compared to the same periods in 2021. This increase is mainly due to increased salaries and performance bonuses paid to personnel and legal fees during 2022, as well as increase in regulatory and marketing expenses associated with the Company's dual listing in the London and Canadian markets. Despite these increased expenses, and due to the Company's increased production, there is a decrease in G&A expenses on a per barrel basis, when compared versus 2021.

Share-based Compensation

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
Share-based compensation expense (recovery)	**367,693**	241,438	**582,405**	(84,668)

Share-based payments compensation expense for the three months and year ended December 31, 2022 totaled $367,693 and $582,405, respectively (2021: $241,438 and recovery of $84,668, respectively). During 2022, the Company granted 10,028,332 options (2021: 11,400,000) to its personnel, which were offset by reversal of expenses from cancelled options due to resignations of option holders. The share-based compensation expense is the result of the progressive vesting of the options granted to the Company's employees, plus the effect of cashless exercising, and net of cancellations and forfeitures, according to the company's stock-based compensation plan.

Financing Costs

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
Financing expense paid or payable	**138,013**	170,091	**791,030**	844,159
Non-cash financing costs	**55,274**	34,160	**199,521**	132,807
Net financing costs	**193,287**	204,251	**990,551**	$976,966

The finance expense paid or payable represents mostly interest on the promissory note due to Canacol, as partial payment for the acquisition of Carrao Energy SA and have decreased due to partial payment of the outstanding balance. In addition, financing expense includes fees and interest associated with financing of 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. The amount of this expense will fluctuate commensurate with the asset retirement obligation as new wells are drilled or properties are acquired or disposed.

Depletion and Depreciation

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
Depletion and depreciation	**1,878,557**	511,813	**5,528,489**	1,662,937

Depletion and depreciation expense for the three months and year ended December 31, 2022 totaled $1,878,557 and $5,528,489, respectively (2021: $511,813 and $1,662,937, respectively). The Company uses the unit of production method and proved plus probable reserves to calculate depletion expense and this change is directly related with the increases in units produced and reversals of impairment recognized during 2021, which increased the depletable base for 2022.

Impairment reversal of oil and gas properties, net

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
Impairment (reversal) of oil and gas properties	**(9,020,654)**	(5,617,776)	**(9,020,654)**	(5,617,776)

As at December 31, 2022, 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 Capella block in Colombia. The company prepared estimates of fair value less costs of disposal of its Capella CGUs and determined that recoverable amounts exceeded their carrying value for $10,409,615, which was offset by an impairment loss of$1,388,961 determined in its Canada CGU which was mainly originated from a revision of reserves. As at December 31, 2021, the Company recognized an impairment reversal of $5,617,776 related to its Tapir and Canada CGUs.

Loss (gain) on Derivative Liability

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
Loss (gain) on Derivative Liability	**1,005,740**	(467,507)	**5,974,674**	(467,507)

During the three months and the year ended December 31, 2022, the Company recorded a loss in derivative liability of $1,005,740 and $5,974,674, respectively (2021: gain of $467,507) 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 income.

Other income

	Three months ended December 31		Years ended December 31	
	2022	2021	**2022**	2021
Other income	**(110,669)**	(756,242)	**(163,266)**	(2,018,382)

The Company reported other income of $110,669 and $163,266 for the three months and year ended December 31, 2022, respectively (2021: $756,242 and $2,018,382, respectively). During 2021, the Company's recognized other income from 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, including a reversal of liabilities associated with the OBC settlement.

Income Taxes

	Three months ended December 31		Years ended December 31	
	2022	2021	**2021**	2021
Current income tax expense	**1,401,769**	176,238	**2,428,862**	149,040
Deferred income tax expense (recovery)	**5,662,248**	(1,467,850)	**5,662,248**	(1,467,850)
Total income tax expense (recovery)	**7,064,017**	(1,291,612)	**8,091,110**	(1,318,810)

During 2022, the Company recognized a total income tax expense of $8,091,110 (2021: recovery of $1,318,810) which consisted on $2,428,862 of current income tax expense (2021: $149,940) and $5,662,248 of deferred income tax expense (2021: recovery of $1,467,850). This increase is mainly caused by the significant improvement of the Company's net taxable income, especially in Colombia, when compared versus 2021. During 2022, the Company has recognized a deferred income tax asset balance of $872,286 (2021: $4,839,785) and a deferred tax liability balance of $5,066,684 (2021: $3,371,936) which represents the tax impact of temporary differences and management's estimation of current tax benefits that would be realized to compensate future taxable income.

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 adjusted working capital. 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.

As at December 31, 2022, the Company has an adjusted working capital of $8,223,758. The Company has continued improving its working capital, using its operational cash flows to continue growing its operations. The overall improvement in energy commodity prices has also positively impacted the Company's capacity to generate sufficient financial resources to sustain its operations and growth.

As at December 31, 2022 the Company's net debt was calculated as follows:

		December 31, 2022
Current assets	$	17,504,225
Less:		
Accounts payable and accrued liabilities		5,850,823
Promissory Note		1,899,294
Income taxes		1,488,916
Net debt (1)	**$**	**8,265,192**

(1) *Non-IFRS measure*

Adjusted Working Capital

As at December 31, 2022 the Company's adjusted working capital was calculated as follows:

		December 31, 2021
Current assets:		
Cash and restricted cash	$	13,060,968
Restricted cash and deposits		210,654
Trade and other receivables		2,568,290
Taxes receivable		801,177
Other current assets		863,136
Less:		
Accounts payable and accrued liabilities		5,850,823
Lease obligation		41,434
Promissory note		1,899,294
Income tax payable		1,488,916
Working capital[1]	**$**	**8,223,758**

[1]Non-IFRS measure

Debt Capital

As of December 31, 2022, the Company currently has $1.9 million in outstanding debt in the form of a promissory note payable to Canacol and its final payment is due no later than June 30, 2023.

Letters of Credit

At December 31, 2022, the Company had obligations under Letters of Credit ("LC's") outstanding totaling $2.7 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. 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, 2024
	ANH	Carrao Energy	Financial Capacity	$1,672,162	December 31, 2023
CORE - 39	ANH	Carrao Energy	Compliance	$100,000	June 30, 2023
OMBU	ANH	Carrao Energy	Financial Capacity	$436,300	April 14, 2024
Total				**$2,772,356**	

Share Capital

As at December 31, 2022, the Company had 218,401,931 common shares, 67,837,418 warrants and 20,590,000 stock options outstanding.

RELATED PARTIES

The following table provides a summary of the Company's Director's compensation paid during the year ended December 31, 2022:

Director	Salary or Annual Fee	Bonus	Stock-Based Compensation	Total
G. Jull	309,000	250,000	126,296	**685,296**
M. Abbott	309,000	250,000	149,785	**708,785**
M. Charash	66,000	109,500	25,546	**201,046**
G. Carnie	66,000	109,500	25,546	**201,046**
R. Sharma	66,000	-	61,610	**127,610**
A. Zaidi	66,000	-	55,224	**121,224**
Total	**882,000**	**719,000**	**444,007**	**2,045,007**

CONTRACTUAL OBLIGATIONS

The following table provides a summary of the Company's cash requirements to meet its financial liabilities and contractual obligations existing at December 31, 2022:

	Less than 1 year	1-3 years	Thereafter	Total
Promissory Note	$ 1,899,294	-	-	**1,899,294**
Exploration and production contracts	-	17,800,000	-	**17,800,000**
	$ 1,899,294	**17,800,000**	**-**	**19,699,294**

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 December 31, 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, and its $12 million commitment at its COR-39 block.

SUBSEQUENT EVENTS

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

SUMMARY OF THREE MONTHS RESULTS

	2022				2021			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Oil and natural gas sales, net of royalties	8,931,562	7,614,336	5,024,604	3,911,329	3,038,832	1,684,609	941,620	847,432
Net income (loss)	2,968,117	2,041,955	768,318	(5,431,865)	6,960,035	(21,782)	(734,317)	(510,405)
Income (loss) per share –								
basic	0.01	0.02	0.00	(0.03)	0.04	(0.00)	(0.01)	(0.01)
diluted	0.01	0.00	0.00	(0.02)	0.04	(0.00)	(0.01)	(0.01)
Working capital (deficit)	(1,316,665)	7,392,310	5,594,027	7,657,938	8,006,074	783,707	3,141,217	(2,659,690)
Total assets	53,190,248	46,979,259	42,670,153	39,914,240	41,195,798	25,362,323	25,948,551	27,684,920
Net capital expenditures	2,106,463	4,836,860	2,777,611	725,665	1,991,163	148,528	(15,378)	97,330
Average daily production (boe/d)	1,736	1,503	980	1,144	712	575	331	242

The Company's oil and natural gas sales have increased during 2022 due to increased production in its existing assets, improved in oil and gas prices and positive fluctuations in realized oil price differentials. The Company's production levels in Colombia have progressively improved during 2021 and 2022. Trends in the Company's net income are also impacted most significantly by operating expenses, financing costs, income taxes, depletion, depreciation and impairment of oil and gas properties, and other income.

OUTSTANDING SHARE DATA

At April 27, 2023, the Company had the following securities issued and outstanding:

	Number	Exercise Price	Expiry Date
Common shares	228,979,841	n/a	n/a
Warrants	57,259,507	GBP 0.09	Oct. and Nov, 2023
Stock options	750,000	CAD$ 1.15	October 22, 2028
Stock options	270,000	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, 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	416,666	CAD$0.26	March 7, 2024
Stock options	416,666	CAD$0.26	March 7, 2025
Stock options	416,668	CAD$0.26	March 7, 2026
Stock options	1,826,110	GBP 0.1675	June 13, 2023
Stock options	1,826,111	GBP 0.1675	June 13, 2024
Stock options	1,826,111	GBP 0.1675	June 13, 2025
Stock options	216,667	GBP 0.1925	July 23, 2024
Stock options	216,667	GBP 0.1925	July 23, 2025
Stock options	216,666	GBP 0.1925	July 23, 2026

OUTLOOK

During 2022, the Company deployed a portion of the capital raised at the time of the Admission to AIM on a successful two well drilling campaign at Rio Cravo on the Tapir Block. These results, and the subsequent generation of positive cashflows in Q3 and Q4 2022, provide Arrow with the funds required for its $32 million capital program for 2023, including drilling of 10 wells, seismic acquisition and the development of production facilities.

To date, the Company has already drilled three wells at Rio Cravo, which have added an additional 1,500 boe/d and is currently moving its drilling rig to the Carrizales Norte location on the Tapir Block, confirming Arrow's commitment to increase production and shareholder value. The Company is able to support the planned 2023 CAPEX program with current cash on hand 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 critical accounting estimates is contained in Note 3 Annual Financial Statements. These accounting policies are subject to estimates and key judgements about future events, many of which are beyond Arrow's control. The following is a discussion of the accounting estimates that are critical to the consolidated financial statements.

Crude oil and natural gas assets - reserves estimates – Arrow retained independent third-party petroleum engineers to evaluate its crude oil and natural gas reserves, prepare an evaluation report, and report to the Reserves Committee of the Board of Directors. The process of estimating crude oil and natural gas reserves is subjective and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. These estimates will change over time as additional data from ongoing development and production activities becomes available and as economic conditions affecting crude oil and natural gas prices and costs change. Reserves can be classified as proved, probable or possible with decreasing levels of likelihood that the reserves will be ultimately produced.

Reserve estimates are a key input to the Company's depletion calculations and impairment tests. Property, plant and equipment within each area are depleted using the unit-of-production method based on proved and probable reserves using estimated future prices and costs. In addition, the costs subject to depletion include an estimate of future costs to be incurred in developing proved and probable reserves. A revision in reserve estimates or future development costs could result in the recognition of higher depletion charged to net income.

Under the IFRS, the carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. Exploration and evaluation ("E&E") assets will be allocated to the related CGU's to assess for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment). An impairment loss is recognized in income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Reserve, revenue, royalty and operating cost estimates and the timing of future cash flows are all critical components of the impairment test. Revisions of these estimates could result in a write-down of the carrying amount of crude oil and natural gas properties.

Decommissioning obligations – The Company recognizes the estimated fair value of the decommission liability in the period in which it is incurred and records a corresponding increase in the carrying value of the related asset. The future asset retirement obligation is an estimate based on the Company's ownership interest in wells and facilities and reflects estimated costs to complete the abandonment and reclamation as well as the estimated timing of the costs to be incurred in future periods. Estimates of the costs associated with abandonment and reclamation activities require judgement concerning the method, timing and extent of future retirement activities. The capitalized amount is depleted on a unit-of-production method over the life of the proved and probable reserves. The liability amount is increased each reporting period due to the passage of time and this accretion amount is charged to earnings in the period, which is included as a financing expense. Actual costs incurred on settlement of the decommissioning liability are charged against the liability. Judgements affecting current and annual expense are subject to future revisions based on changes in technology, abandonment timing, costs, discount rates and the regulatory environment.

Share based payments – Stock options issued to employees and directors under the Company's stock option plan are accounted for using the fair value method of accounting for stock-based compensation. The fair value of the option is recognized as a share-based payment and contributed surplus over the vesting period of the option. Share based payment is determined on the date of an option grant using the Black-Scholes option pricing model. The Black-Scholes pricing model requires the estimation of several variables including estimated volatility of Arrow's stock price over the life of the option, estimated option forfeitures, estimated life of the option, estimated risk-free rate and estimated dividend rate. A change to these estimates would alter the valuation of the option and would result in a different related share-based payment.

Income taxes – Arrow follows the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Current tax is the expect tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting period, and any adjustment to tax payable in respect to previous periods. Tax interpretations and legislation in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty and interpretations can impact net income through current tax arising from the changes in the deferred income tax asset and liabilities.

Provisions and contingencies - The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated. The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies is included in Note 3 Annual Financial Statements. These accounting policies are consistent with those of the previous financial year as described in Note 3 of the Annual Financial Statements.

DERIVATIVE COMMODITY CONTRACTS

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. During 2022, the Company did not have any financial derivative contract in order to manage commodity price risks.

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. A summary of certain risk factors relating to our business are disclosed below.

Unstable Oil and Gas Industry

Recent market events and conditions, including demand destruction resulting from the COVID-19 pandemic, constant changes oil and natural gas supply, actions taken by the Organization of Petroleum Exporting Countries (OPEC), slowing growth in China and other emerging economies, market volatility and disruptions in Asia, and sovereign debt levels in various countries, have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant volatility in the valuation of oil and gas companies and a variable confidence in the oil and gas industry. Lower commodity prices may also affect the volume and value of the Company's reserves especially as certain reserves become uneconomic. In addition, in a low commodity prices environment might affect the Company's cash flow. As a result, the Company may not be able to replace its production with additional reserves and both the Company's production and reserves could be reduced on a year over year basis. Given the current market conditions, the Company may have difficulty raising additional funds or if it is able to do so, it may be on unfavourable and highly dilutive terms.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of Arrow. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of Arrow's oil and gas reserves. Arrow might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Arrow's future net production revenue, causing a reduction in its oil and gas acquisition and development activities.

In addition to establishing markets for its oil and natural gas, Arrow must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Arrow will be affected by numerous factors beyond its control. Arrow will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Arrow. The ability of Arrow to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Arrow will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Substantial Capital Requirements; Liquidity

Arrow's cash flow from its production and sales of petroleum and natural gas may not, at all times be sufficient to fund its ongoing activities. From time to time, Arrow may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Arrow to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Arrow's revenues from its production of petroleum and natural gas decrease as a result of lower oil and natural gas prices or otherwise, it may affect Arrow's ability to expend the necessary capital to replace its reserves or to maintain its production. If Arrow's funds from operations are not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional financing will be available to meet these requirements or available on terms acceptable to Arrow.

Arrow's lenders will be provided with security over substantially all of the assets of Arrow. If Arrow becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, these lenders may foreclose on or sell Arrow's properties. The proceeds of any such sale would be applied to satisfy amounts owed to Arrow's lenders and other creditors and only the remainder, if any, would be available to Arrow shareholders. Arrow monitors and updates its cash projection models on a regular basis which assists in the timing decision of capital expenditures. Farm-outs of projects may be arranged if capital constraints are an issue or if the risk profile dictates that the Company wishes to hold a lesser working interest position. Equity, if available and if on reasonable terms, may be utilized to help fund Arrow’s capital program.

Access to Capital

Access to capital has become limited during these times of economic uncertainty. To the extent the external sources of capital become limited or unavailable. Arrow’s ability to make the necessary capital investments to maintain or expand oil and gas reserves may be impaired.

Risks of Foreign Operations Generally

Most of Arrow’s oil and gas properties and operations are located in a foreign jurisdiction. As such, Arrow’s operations may be adversely affected by changes in foreign government policies and legislation or social instability and other factors which are not within the control of Arrow, including, but not limited to, nationalization, expropriation of property without fair compensation, renegotiation or nullification of existing concessions and contracts, the imposition of specific drilling obligations and the development and abandonment of fields, changes in energy policies or the personnel administering them, changes in oil and natural gas pricing policies, the actions of national labour unions, currency fluctuations and devaluations, exchange controls, economic sanctions and royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which Arrow’s operations are conducted, as well as risks of loss due to civil strife, acts of war, terrorism, guerrilla activities and insurrections. Arrow’s operations may also be adversely affected by laws and policies of Colombia and Canada affecting foreign trade, taxation and investment. If Arrow’s operations are disrupted and/or the economic integrity of its projects is threatened for unexpected reasons, its business may be harmed. Prolonged problems may threaten the commercial viability of its operations. In addition, there can be no assurance that contracts, licenses, license applications or other legal arrangements will not be adversely affected by changes in governments in foreign jurisdictions, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements. In the event of a dispute arising in connection with Arrow’s operations in Colombia, Arrow may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. Arrow may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, Arrow's exploration, development and production activities in Colombia could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on Arrow. Acquiring interests and conducting exploration and development operations in foreign jurisdictions often require compliance with numerous and extensive procedures and formalities. These procedures and formalities may result in unexpected or lengthy delays in commencing important business activities. In some cases, failure to follow such formalities or obtain relevant evidence may call into question the validity of the entity or the actions taken. Management is unable to predict the effect of additional corporate and regulatory formalities which may be adopted in the future including whether any such laws or regulations would materially increase Arrow's cost of doing business or affect its operations in any area. Arrow believes that management's experience operating both in Colombia and in other international jurisdictions helps reduce these risks. In Colombia, the government has a long history of democracy and an established legal framework that, in Arrow's opinion, minimizes political risks.

Social risks

The Company's activities are subject to social risks, including protests or blockades by groups located near some of the Company's operations. Despite the fact that the Company is committed to operating in a socially responsible manner, the Company may face opposition from local communities and non-governmental organizations with respect to its current and future projects, which could adversely affect the Company's business, results of operations and financial condition. No certainty can be given that the Company will be able to reach an agreement with the different communities or special interest groups, such as environmentalists and ethnic communities. Reaching such an agreement may also incur unanticipated costs. The Company could also be exposed to similar delays due to opposition from local communities in other countries where the Company carries out its activities.

Russia-Ukraine Conflict

On February 24, 2022, Russian military forces launched a full-scale military invasion of Ukraine. In response, Ukrainian military personal and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("NATO") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide ranging consequences on the peace and stability of the region and the world economy. Certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia and such sanctions may have far reaching effects on the global economy. In addition, the German government paused the certification process for the 1,200 km Nord Stream 2 natural gas pipeline that was built to carry natural gas from Russia to Germany. As Russia is a major exporter of oil and natural gas, the disruption of supplies of oil and natural gas from Russia could cause a significant worldwide supply shortage of oil and natural gas and significantly impact pricing of oil and gas worldwide. A lack of supply and high prices of oil and natural gas could have a significant adverse impact on the world economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

Alternatives to/Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices will reduce the demand for crude oil, natural gas and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products and any major changes would have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, for which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Arrow will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Arrow will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Arrow will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Arrow may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and natural reservoir performance declines cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition. Arrow attempts to minimize exploration, development and production risks by utilizing a technical team with extensive experience to assure the highest probability of success in its drilling efforts. The collaboration of a team of seasoned veterans in the oil and gas business, each with a unique expertise in the various upstream to downstream technical disciplines of prospect generation to operations, provides the best assurance of competency, risk management and drilling success. A full cycle economic model is utilized to evaluate all hydrocarbon prospects. Detailed geological and geophysical techniques are regularly employed including 3D seismic, petrography, sedimentology, petrophysical log analysis and regional geological evaluation.

Governmental Regulation

The oil and gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights, as well as with respect to prices, taxes, export quotas, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for oil and natural gas, increase Arrow's costs and have a material adverse effect on Arrow.

Global Pandemic

Arrow's business, financial condition and results of operations could be materially and adversely affected by the outbreak of epidemics, pandemics and other public health crises in geographic areas in which we have operations, suppliers, customers or employees. The past COVID-19 pandemic, and actions that may be taken by governmental authorities in response thereto, has resulted, and may continue to result in, among other things: increased volatility in financial markets and foreign currency exchange rates; disruptions to global supply chains; labour shortages; reductions in trade volumes; temporary operational restrictions and restrictions on gatherings greater than a certain number of individuals, shelter-in-place declarations and quarantine orders, business closures and travel bans; an overall slowdown in the global economy; political and economic instability; and civil unrest. The COVID-19 pandemic has resulted in, and may continue to result in, a reduction in the demand for, and prices of, hydrocarbon and other commodities that are closely linked to Arrow's financial performance, and also increases the risk that storage for crude oil and refined petroleum products could reach capacity in geographic locations in which we operate. A prolonged period of decreased demand for, and prices of, these commodities, and any applicable storage constraints, could also result in us voluntarily curtailing or shutting in production and a decrease in our refined product volumes and refinery utilization rates, which could adversely impact our business, financial condition and results of operations. Arrow is also subject to risks relating to the health and safety of our people, as well as the potential for a slowdown or temporary suspension of our operations in locations impacted by an outbreak, increased labour and fuel costs, and regulatory changes. Such a suspension in operations could also be mandated by governmental authorities in response to a pandemic. This could negatively impact Arrow's production volumes and revenues for a sustained period of time, which would adversely impact our business, financial condition and results of operations.

Credit Exposure

Recent economic conditions have increased the risk that certain counterparties for the Company's oil and gas sales and our joint venture partners may fail to pay. Arrow mitigates these increased risks through diversification and a review process of the credit worthiness of our counterparties. Arrow's policy to mitigate credit risk associated with product sales is to maintain marketing relationships with large, established and reputable purchasers that are considered creditworthy. Arrow has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within two to three months of the joint venture bill being issued to the partner. Arrow attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners.

Health, Safety and Environment

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial/state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge.

There are potential risks to the environment inherent in the business activities of the Company. Arrow has developed and implemented policies and procedures to mitigate health, safety and environment (HS&E) risks. Arrow mitigates HS&E risks by maintaining its wells and complying with all regulations. Regular field inspections are also carried out to ensure that all field personnel and third party contractors comply with all company and regulatory guidelines. An action plan has been developed to ensure inactive wells are suspended properly and abandoned in a timely fashion. The above noted policies and procedures are designed to protect and maintain the environment and to ensure that the employees, contractors, subcontractors and the public at large are kept safe at all times.

Foreign Exchange and Currency Risks

The Company is exposed to foreign exchange and currency risk as a result of fluctuations in exchange rates between Colombian peso and the Canadian dollar. Most of the Corporation's revenues and funds from financing activities are expected to be received in reference to US dollar denominated prices while a portion of its operating, capital, and general and administrative costs are denominated in the Colombian peso and the Canadian dollar.

Widespread Pandemic

The Company's foreign operations are located in areas relatively remote from local towns and villages and represent a concentration of personnel working and residing in close proximity to one another. Should an employee or visitor become infected with a serious illness that has the potential to spread rapidly, this could place Arrow's workforce at risk. The 2020 outbreak of the novel coronavirus (COVID-19) in China and other countries around the world is one example of such an illness. The Corporation takes every precaution to strictly follow industrial hygiene and occupational health guidelines. There can be no assurance that this virus or another infectious illness will not impact the Corporation's personnel and ultimately its operations.

Competition

Arrow actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial and personnel resources than Arrow. Arrow's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Certain of Arrow's customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect Arrow's ability to sell or supply oil or gas to these customers in the future. Arrow's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Social License to Operate

Heightened public monitoring and regulation of hydrocarbon resource producers, refiners, distributors and commercial/retail sellers, especially where their activities carry the potential for having negative impacts on communities and the environment, involves varying degrees of risk to the Company's reputation, relations with landowners and regulators, and in extreme cases even the ability to operate. Arrow maintains an active website that complies with Exchange requirements for timely disclosure and together with its press releases and other SEDAR filings, is the primary means of communicating to the general public. While media attention and public perception remains largely beyond the control of Arrow's executive, employees, contractors and directors, the Company makes every effort in its corporate and field operations to engage all stakeholders in a respectful and transparent manner.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS. The Company's CEO and CFO, with support of management have assessed the design and operating effectiveness of the Corporation's ICFR as at December 31, 2022 based on criteria described in "Internal Control - Integrated Framework" issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, it was concluded that the design and operation of the Corporation's ICFR are effective as at December 31, 2022. During the three months ended December 31, 2022, there has been no change in the Corporation's ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.