

# **ARROW EXPLORATION CORP.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022  
IN UNITED STATES DOLLARS  
(UNAUDITED)**



**Notice of No Auditor Review of the Interim Condensed Consolidated Financial Statements  
as at and for the three and nine months ended September 30, 2023**

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

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

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

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

As at	Notes	September 30, 2023	December 31, 2022
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 12,891,190	\$ 13,060,968
Restricted cash and deposits	3	218,178	210,654
Trade and other receivables	4	2,797,577	2,568,290
Taxes receivable	5	1,735,143	801,177
Deposits and prepaid expenses		124,899	157,459
Inventory		885,517	705,677
		<b>18,652,504</b>	<b>17,504,225</b>
<b>Non-current assets</b>			
Deferred income taxes		1,933,639	872,286
Restricted cash and deposits	3	637,793	608,127
Exploration and evaluation	6	3,182,010	-
Property and equipment	7	38,349,304	34,205,610
<b>Total Assets</b>		<b>\$ 62,755,250</b>	<b>\$ 53,190,248</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 6,549,995	\$ 5,850,823
Lease obligation	9	103,718	41,434
Promissory note	8	-	1,899,294
Derivative liability	11	5,491,495	9,540,423
Income taxes		1,176,316	1,488,916
		<b>13,321,524</b>	<b>18,820,890</b>
<b>Non-current liabilities</b>			
Lease obligations	9	219,611	22,317
Other liabilities		588,393	80,484
Deferred income taxes		2,198,419	5,066,684
Decommissioning liability	10	3,759,347	3,303,301
<b>Total liabilities</b>		<b>20,087,294</b>	<b>27,293,676</b>
<b>Shareholders' equity</b>			
Share capital	12	64,833,800	57,810,735
Contributed surplus		2,010,851	1,570,491
Deficit		(23,453,842)	(32,839,282)
Accumulated other comprehensive loss		(722,853)	(645,372)
<b>Total shareholders' equity</b>		<b>42,667,956</b>	<b>25,896,572</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 62,755,250</b>	<b>\$ 53,190,248</b>

Commitments and contingencies (Note 13)

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

On behalf of the Board:

signed "Gage Jull" Director  
Gage Jull

signed "Ian Langley" Director  
Ian Langley

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

		For the three months ended September 30		For the nine months ended September 30	
	Notes	2023	2022	2023	2022
<b>Revenue</b>					
Oil and natural gas		\$ 15,884,660	\$ 8,647,846	\$ 35,487,485	\$ 18,290,284
Royalties		(1,894,307)	(1,033,510)	(4,223,991)	(2,248,382)
		<u>13,990,353</u>	<u>7,614,336</u>	<u>31,263,494</u>	<u>16,041,902</u>
<b>Expenses</b>					
Operating		1,829,833	894,160	4,338,913	3,407,076
Administrative		1,924,089	2,322,291	6,790,964	4,880,605
Environmental		356,857	-	356,857	-
Share based payments	12	149,102	110,876	440,360	214,712
Financing costs:					
Accretion	10	34,343	54,272	95,638	144,247
Interest		9,461	123,394	131,697	367,913
Other		89,281	41,075	238,135	285,104
Derivative loss (gain)	11	(1,191,385)	(543,659)	(109,613)	4,968,934
Foreign exchange gain		(28,003)	(234,068)	(109,959)	(229,526)
Depletion and depreciation		3,972,850	1,809,340	10,067,403	3,649,932
Other expense (income)		(99,595)	(32,393)	(318,203)	(52,595)
Transaction costs		180,175	-	180,175	-
		<u>7,227,008</u>	<u>4,545,288</u>	<u>22,102,367</u>	<u>17,636,402</u>
<b>Income (loss) before taxes</b>		<b>6,763,345</b>	<b>3,069,048</b>	<b>9,161,127</b>	<b>(1,594,500)</b>
<b>Income taxes (recovery)</b>					
Current		1,317,437	1,027,093	3,705,305	1,027,093
Deferred		(1,707,212)	-	(3,929,618)	-
		<u>(389,775)</u>	<u>1,027,093</u>	<u>(224,313)</u>	<u>1,027,093</u>
<b>Net income (loss) for the period</b>		<b>7,153,120</b>	<b>2,041,955</b>	<b>9,385,440</b>	<b>(2,621,593)</b>
<b>Other comprehensive income (loss)</b>					
Foreign exchange		34,103	173,067	(77,481)	253,645
<b>Net income (loss) and comprehensive income (loss) for the period</b>		<b>\$ 7,187,223</b>	<b>\$ 2,215,022</b>	<b>\$ 9,307,959</b>	<b>\$ (2,367,948)</b>
<b>Net income (loss) per share</b>					
- basic		\$ 0.03	\$ 0.01	\$ 0.04	\$ (0.01)
- diluted		\$ 0.02	\$ 0.01	\$ 0.03	\$ (0.01)
<b>Weighted average shares outstanding</b>					
- basic		237,919,872	215,967,143	230,537,774	214,687,656
- diluted		295,875,232	288,235,624	295,092,336	276,272,070

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

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

	Share Capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance January 1, 2023	\$ 57,810,735	\$ 1,570,491	\$ (645,372)	\$ (32,839,282)	\$ 25,896,572
Issuances of common shares, net	7,023,065	-	-	-	7,023,065
Net income for the period	-	-	-	9,385,440	9,385,440
Other comprehensive loss for the period	-	-	(77,481)	-	(77,481)
Share-based compensation	-	440,360	-	-	440,360
Balance September 30, 2023	\$ 64,833,800	\$ 2,010,851	\$ (722,853)	\$ (23,453,842)	\$ 42,667,956

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

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

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

<b>For nine months ended September 30,</b>	<b>2023</b>	<b>2022</b>
<b>Cash flows provided by operating activities</b>		
Net income (loss)	\$ 9,385,440	\$ (2,621,593)
Items not involving cash:		
Share based payment	440,360	214,712
Deferred income tax	(3,929,618)	-
Depletion and depreciation	10,067,403	3,649,932
Interest on leases	12,237	7,932
Interest on promissory note, net of forgiveness	119,460	359,981
Accretion	95,638	144,247
Foreign exchange gain	(224,264)	(133,342)
(Gain) loss on derivative liability	(109,613)	4,968,934
Environmental provision	356,857	-
Gain in long-term debt forgiveness	-	(7,798)
Changes in non-cash working capital balances:		
Restricted cash	(37,190)	134,360
Trade and other receivables	(229,288)	(3,448,281)
Taxes receivable	(933,966)	(361,267)
Deposits and prepaid expenses	32,561	160,428
Inventory	(179,840)	(458,575)
Accounts payable and accrued liabilities	(654,363)	1,465,021
Income tax payable	(312,600)	1,027,093
Settlement of decommissioning obligations	(4,349)	(77,180)
Cash provided by operating activities	<u>13,894,865</u>	<u>5,024,604</u>
<b>Cash flows used in investing activities</b>		
Additions to exploration and evaluation assets	(3,182,010)	-
Additions to property and equipment	(13,431,502)	(5,562,525)
Changes in non-cash working capital	1,538,033	691,963
Cash flows used in investing activities	<u>(15,075,479)</u>	<u>(4,870,562)</u>
<b>Cash flows provided by financing activities</b>		
Common shares issued	3,025,568	280,072
Payment of promissory note, principal and interests	(2,018,577)	(23,394)
Lease payments	(54,813)	(29,774)
Cash flows provided by financing activities	<u>952,178</u>	<u>226,904</u>
<b>Effect of changes in the exchange rate on cash</b>	<b>58,658</b>	<b>117,248</b>
<b>(Decrease) increase in cash</b>	<b>(169,778)</b>	<b>498,194</b>
Cash, beginning of period	<u>13,060,968</u>	<u>10,878,508</u>
<b>Cash, end of period</b>	<b><u>12,891,190</u></b>	<b><u>11,376,702</u></b>
<b>Supplemental information</b>		
Interest paid	\$ 415,026	\$ -
Taxes paid	\$ 1,119,208	\$ -

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

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

**September 30, 2023**

**1. Corporate Information**

Arrow Exploration Corp. (“Arrow” or “the Company”) is a public junior oil and gas company engaged in the acquisition, exploration and development of oil and gas properties in Colombia and in Western Canada. The Company’s shares trade on the TSX Venture Exchange and the AIM Market of the London Stock Exchange plc under the symbol AXL. The head office of Arrow is located at 203, 2303 – 4th Street SW, Calgary, Alberta, Canada, T2S 2S7 and the registered office is located at 600, 815 – 8th Avenue SW, Calgary, Alberta, Canada, T2P 3P2.

**2. Basis of Presentation**

**Statement of compliance**

These interim condensed consolidated financial statements (the “Financial Statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. These Financial Statements were authorized for issue by the board of directors of the Company on November 27, 2023. They do not contain all disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements as at December 31, 2022.

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

**Adoption of New Accounting Standards**

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

**3. Restricted Cash and deposits**

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Colombia (i)	\$ 255,986	\$ 248,462
Canada (ii)	<u>599,985</u>	<u>570,319</u>
Sub-total	<u>855,971</u>	<u>818,781</u>
Long-term portion	<u>(637,793)</u>	<u>(608,127)</u>
Current portion of restricted cash and deposits	<u>\$ 218,178</u>	<u>\$ 210,654</u>

- (i) Balance comprised of deposits held as collateral to guarantee abandonment expenditures in the Tapir and Santa Isabel blocks.  
(ii) Pursuant to Alberta government regulations, the Company was required to keep a \$325,399 (CAD \$439,966; 2022: \$424,398) deposit for the Company’s liability rating management (“LMR”), which is held by a bank with interest paid to the Company. The remaining \$337,818 pertain to commercial deposits with customers, lease and other deposits held in Canada.

**Arrow Exploration Corp.**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
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**September 30, 2023**

**4. Trade and other receivables**

	<b>September 30, 2023</b>	December 31, 2022
Trade receivables, net of advances	\$ 2,402,045	\$ 847,432
Other accounts receivable	<u>395,532</u>	<u>1,720,858</u>
	<u>\$ 2,797,577</u>	<u>\$ 2,568,290</u>

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

**5. Taxes receivable**

	<b>September 30, 2023</b>	December 31, 2022
Value-added tax (VAT) credits recoverable	\$ 175,217	\$ -
Income tax withholdings and advances, net	<u>1,559,926</u>	<u>801,177</u>
	<u>\$ 1,735,143</u>	<u>\$ 801,177</u>

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

**6. Exploration and Evaluation**

	<b>September 30, 2023</b>	December 31, 2022
Balance, beginning of the period	\$ -	\$ 6,964,506
Additions, net	<u>3,182,010</u>	-
Reclassification to Property and Equipment	-	<u>(6,964,506)</u>
Balance, end of the period	<u>\$ 3,182,010</u>	<u>\$ -</u>

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



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

**September 30, 2023**

**7. Property and Equipment**

<b>Cost</b>	<b>Oil and Gas Properties</b>	<b>Right of Use and Other Assets</b>	<b>Total</b>
Balance, December 31, 2021	\$ 32,160,917	\$ 183,485	\$ 32,344,402
Additions	7,663,062	50,671	7,713,733
Transfers from exploration and evaluation assets	6,964,506	-	6,964,506
Decommissioning adjustment	756,541	-	756,541
Balance, December 31, 2022	\$ 47,545,026	\$ 234,156	\$ 47,779,182
Additions	13,446,292	310,061	13,756,353
Decommissioning adjustment	442,757	-	442,757
Balance, September 30, 2023	\$ 61,434,075	\$ 544,217	\$ 61,978,292

**Accumulated depletion and depreciation and impairment**

Balance, December 31, 2021	\$ 16,692,145	\$ 114,965	\$ 16,807,110
Depletion and depreciation	5,482,218	46,271	5,528,489
Reversals net of impairment loss	(9,020,654)	-	(9,020,654)
Balance, December 31, 2022	\$ 13,153,709	\$ 161,236	\$ 13,314,945
Depletion and depreciation	10,017,547	49,856	10,067,403
Balance, September 30, 2023	\$ 23,171,256	\$ 211,092	\$ 23,382,348

**Foreign exchange**

Balance December 31, 2021	\$ 318,617	\$ (3,457)	\$ 315,160
Effects of movements in foreign exchange rates	(568,525)	(5,262)	(573,787)
Balance December 31, 2022	\$ (249,908)	\$ (8,719)	\$ (258,627)
Effects of movements in foreign exchange rates	12,771	(784)	11,987
Balance, September 30, 2023	\$ (237,137)	\$ (9,503)	\$ (246,640)

**Net Book Value**

Balance December 31, 2022	\$ 34,141,409	\$ 64,201	\$ 34,205,610
Balance, September 30, 2023	\$ 38,025,682	\$ 323,622	\$ 38,349,304

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

During 2023, the Company entered in a new office and vehicles leases for its corporate offices for \$302,930 and has been recognized as a right-of-use assets (see note 9).

**8. Promissory Note**

The promissory note was issued to Canacol Energy Ltd. (“Canacol”), a related party to the Company, as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The promissory note bore interest at 15% per annum, and, on October 18, 2021, Arrow and Canacol entered into a Seventh Amended and Restated

**Arrow Exploration Corp.**  
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**September 30, 2023**

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

**9. Lease Obligations**

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

	<b>September 30, 2023</b>	December 31, 2022
Obligation, beginning of the period	\$ 63,751	\$ 54,692
Additions	<b>302,930</b>	-
Changes in existing lease	-	44,701
Lease payments	<b>(54,813)</b>	(39,697)
Interest	<b>12,237</b>	9,696
Effects of movements in foreign exchange rates	<b>(776)</b>	(5,641)
Obligation, end of the period	<b>\$ 323,329</b>	\$ 63,751
Current portion	<b>(103,718)</b>	(41,434)
Long-term portion	<b>\$ 219,611</b>	\$ 22,317

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

Less than one year	\$ 105,113
2 – 5 years	336,198
Total lease payments	441,311
Amounts representing interest over the term	(117,982)
Present value of the net obligation	<b>\$ 323,329</b>

**10. Decommissioning Liability**

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the decommissioning of oil and gas properties.

	<b>September 30, 2023</b>	December 31, 2022
Obligation, beginning of the period	\$ 3,303,301	\$ 2,470,239
Change in estimated cash flows	<b>554,238</b>	756,541
Payments or settlements	<b>(4,349)</b>	(76,131)
Accretion expense	<b>95,638</b>	199,521
Disposals	<b>(191,648)</b>	-
Effects of movements in foreign exchange rates	<b>2,167</b>	(46,869)
Obligation, end of the period	<b>\$ 3,759,347</b>	\$ 3,303,301

The obligation was calculated using a risk-free discount rate range of 2.50% to 3.75% in Canada (2022: 2.50% to 3.75%) and between 3.55% and 4.13% in Colombia (2022: 3.55% and 4.13%) with an inflation rate of 3.0% and 3.5%, respectively (2022: 3.0% and 3.5%). The majority of costs are expected to occur between 2023 and 2033. The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$4,943,923 (2022: \$4,480,074).

**Arrow Exploration Corp.**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
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**September 30, 2023**

**11. Derivative liability**

Derivative liability includes warrants issued and outstanding as follows:

	September 30, 2023		December 31, 2022	
	Number	Amounts	Number	Amounts
<b>Warrants</b>				
Balance beginning of the period	67,837,418	\$ 9,540,423	72,474,706	\$ 4,692,303
Exercised	(27,124,110)	(3,997,497)	(4,637,288)	(598,509)
Fair value adjustment	-	(109,613)	-	5,974,674
Foreign exchange	-	58,182	-	(528,045)
Balance end of the period	40,713,308	\$ 5,491,495	67,837,418	\$ 9,540,423

Each warrant is exercisable at £0.09 per new common share for 24 months from the issuance date and are measured at fair value quarterly using the Black-Scholes options pricing model. The fair value of warrants at September 30, 2023 and December 31, 2022 was estimated using the following assumptions:

	September 30, 2023	December 31, 2022
Number outstanding re-valued warrants	40,713,308	67,837,418
Fair value of warrants outstanding	£0.1104	£0.1157
Risk free interest rate	4.82%	3.41%
Expected life	0.07 years	0.82 years
Expected volatility	133%	147%

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

Number of warrants	Exercise price	Expiry date
40,219,260	£0.09	October 24, 2023
494,048	£0.09	November 22, 2023
<b>40,713,308</b>		

**12. Share Capital**

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

(b) Issued:

	September 30, 2023		December 31, 2022	
	Shares	Amounts	Shares	Amounts
<b>Common shares</b>				
Balance beginning of the year	218,401,931	57,810,735	213,389,643	56,698,237
Issued from warrants exercised	27,124,110	7,023,065	4,637,288	1,094,574
Issued from options exercised	-	-	375,000	17,924
Balance at end of the period	245,526,041	64,833,800	218,401,931	57,810,735

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

**September 30, 2023**

(c) Stock options:

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase a number of non-transferable common shares not exceeding 10% of the common shares that are outstanding. The exercise price is based on the closing price of the Company's common shares on the day prior to the day of the grant. A summary of the status and changes of the Company stock option plan is presented below:

Stock Options	September 30, 2023		December 31, 2022	
	Number of options	Weighted average exercise Price (CAD \$)	Number of options	Weighted average exercise price (CAD \$)
Beginning of period	20,590,000	\$0.24	17,114,000	\$0.18
Granted	1,650,000	\$0.33	10,028,332	\$0.27
Expired/Forfeited	(1,375,000)	\$0.46	(2,794,000)	\$0.12
Exercised	-	-	(3,758,332)	\$0.11
End of period	20,865,000	\$0.24	20,590,000	\$0.24
Exercisable, end of period	5,403,331	\$0.26	3,395,000	\$0.42

Date of Grant	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable September 30, 2023
October 22, 2018	750,000	\$1.15		Oct. 22, 2028	750,000
May 3, 2019	270,000	\$0.31		May 3, 2029	270,000
March 20, 2020	1,200,000	\$0.05		Mar. 20, 2030	1,200,000
April 13, 2020	2,000,000	\$0.05		April 13, 2030	2,000,000
December 13, 2021	5,966,668	\$0.13		June 13, 2024 and 2025	-
June 9, 2022	2,300,000	\$0.28		Dec. 9, 2023, 2024 and 2025	766,665
September 7, 2022	1,250,000	\$0.26		Mar. 7, 2024, 2025 and 2026	416,666
December 21, 2022	5,478,332	\$0.28		June 21, 2024, 2025 and 2026	-
January 23, 2023	650,000	\$0.32		July 23, 2024, 2025 and 2026	-
September 21, 2023	1,000,000	\$0.33		Mar. 21, 2025, 2026 and 2027	-
<b>Total</b>	<b>20,865,000</b>	<b>\$0.23</b>	<b>2.44 years</b>		<b>5,403,331</b>

The Company recognized \$149,102 and \$440,360 as share-based compensation expense for the three and nine months ended September 30, 2023 (2022: \$110,876 and \$214,712), with a corresponding effect in the contributed surplus account.

**13. Commitments and Contingencies**

**Exploration and Production Contracts**

The Company has entered into a number of exploration contracts in Colombia which require the Company to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Company has outstanding exploration commitments of \$17.8 million as at September 30, 2023. The Company have made applications to cancel its commitments on the COR-39, Macaya and Los Picachos blocks.

Block	Less than 1 year	1-3 years	Thereafter	Total
COR-39	-	12,000,000	-	12,000,000
Los Picachos	-	1,970,000	-	1,970,000
Macaya	-	3,830,000	-	3,830,000
<b>Total</b>	<b>-</b>	<b>17,800,000</b>	<b>-</b>	<b>17,800,000</b>

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**Contingencies**

From time to time, the Company may be involved in litigation or has claims sought against it in the normal course of business operations. Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations. Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service.

**Letters of Credit**

At September 30, 2023, the Company had obligations under Letters of Credit ("LC's") outstanding totaling \$2.8 million to guarantee work commitments on exploration blocks and other contractual commitments. In the event the Company fails to secure the renewal of the letters of credit underlying the ANH guarantees, or any of them, the ANH could decide to cancel the underlying exploration and production contract for a particular block, as applicable.

**Current Outstanding Letters of Credit**

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

**14. Risk Management**

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

(a) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Company's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. There were no derivative contracts during 2023 and 2022.

(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

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within 25 days (in Canada) and up to 15 days in advance (in Colombia) of the month of production. Other accounts receivable mainly relate to balances owed by the Company's partner in one of its blocks, and are mainly recoverable through joint billings. The Company has historically not experienced any collection issues with its customers and partners.

(c) Market Risk

Market risk is comprised of two components: foreign currency exchange risk and interest rate risk.

i) Foreign Currency Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currencies other than the United States dollar. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in exploration and evaluation and administrative costs in foreign currencies. The Company incurs expenditures in Canadian dollars, United States dollars and the Colombian peso and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place.

ii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as it borrows funds at a fixed coupon rate of 15% on the promissory notes.

(d) Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value less than market value; or
- The Company may be unable to settle or recover a financial asset.

The Company's approach to managing its liquidity risk is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. Any funding shortfall may be met in a number of ways, including, but not limited to, the issuance of new debt or equity instruments, further expenditure reductions and/or the introduction of joint venture partners.

(e) Capital Management

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

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	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Working capital (deficit)	\$ 5,330,980	\$ (1,316,665)
Derivative liability	5,491,495	9,540,423
	<b>\$ 10,822,475</b>	<b>\$ 8,223,758</b>

**15. Segmented Information**

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

<b>Three months ended September 30, 2023</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
Revenue:			
Oil Sales	\$ 15,496,501	\$ -	\$ 15,496,501
Natural gas and liquid sales	-	388,159	388,159
Royalties	(1,885,968)	(8,339)	(1,894,307)
Expenses	(6,339,173)	(887,835)	(7,227,008)
Income tax recovery	389,775	-	389,775
<b>Net income (loss)</b>	<b>\$ 7,661,135</b>	<b>\$ (508,015)</b>	<b>\$ 7,153,120</b>

<b>Nine months ended September 30, 2023</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
Revenue:			
Oil Sales	\$ 34,177,223	\$ -	\$ 34,177,223
Natural gas and liquid sales	-	1,310,262	1,310,262
Royalties	(4,214,621)	(9,370)	(4,223,991)
Expenses	(14,799,562)	(7,302,805)	(22,102,367)
Income tax recovery	224,313	-	224,313
<b>Net income (loss)</b>	<b>\$ 15,387,353</b>	<b>\$ (6,001,913)</b>	<b>\$ 9,385,440</b>

<b>As at September 30, 2023</b>	<b>Colombia</b>	<b>Canada</b>	<b>Total</b>
<b>Current assets</b>	<b>\$ 17,392,681</b>	<b>\$ 1,259,823</b>	<b>\$ 18,652,504</b>
<b>Non-current:</b>			
Deferred income taxes	1,933,639	-	1,933,639
Restricted cash	37,808	599,985	637,793
Exploration and evaluation	3,182,010	-	3,182,010
Property, plant and equipment	34,003,518	4,345,786	38,349,304
<b>Total Assets</b>	<b>\$ 56,549,656</b>	<b>\$ 6,205,594</b>	<b>\$ 62,755,250</b>
<b>Current liabilities</b>	<b>\$ 7,137,935</b>	<b>\$ 6,183,589</b>	<b>\$ 13,321,524</b>
<b>Non-current liabilities:</b>			
Deferred income taxes	2,198,419	-	2,198,419
Other liabilities	588,393	-	588,393
Lease obligation	-	219,611	219,611
Decommissioning liability	3,202,198	557,149	3,759,347
<b>Total liabilities</b>	<b>\$ 13,126,945</b>	<b>\$ 6,960,349</b>	<b>\$ 20,087,294</b>

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Three months ended September 30, 2022	Colombia	Canada	Total
Revenue:			
Oil Sales	\$ 8,056,780	\$ -	\$ 8,056,780
Natural gas and liquid sales	-	591,066	591,066
Royalties	(972,243)	(61,267)	(1,033,510)
Expenses	(2,435,749)	(2,109,539)	(4,545,288)
Income tax	(1,027,093)	-	(1,027,093)
Net income (loss)	\$ 3,621,695	\$ (1,579,740)	\$ (2,041,955)
Nine months ended September 30, 2022	Colombia	Canada	Total
Revenue:			
Oil Sales	\$ 15,013,222	\$ -	\$ 15,013,222
Natural gas and liquid sales	-	3,277,062	3,277,062
Royalties	(1,750,960)	(497,422)	(2,248,382)
Expenses	(5,593,170)	(12,043,232)	(17,636,402)
Income tax	(1,027,093)	-	(1,027,093)
Net income (loss)	\$ 6,641,999	\$ (9,263,592)	\$ (2,621,593)
As at September 30, 2022	Colombia	Canada	Total
Current assets	\$ 12,900,256	\$ 3,970,439	\$ 16,870,695
Non-current:			
Deferred income taxes	4,839,785	-	4,839,785
Restricted cash	37,808	560,384	598,192
Exploration and evaluation	6,964,506	-	6,964,506
Property and equipment	12,378,156	5,327,924	17,706,080
Total Assets	\$ 37,120,511	\$ 9,858,747	\$ 46,979,258
Current liabilities	\$ 4,622,600	\$ 4,855,783	\$ 9,478,383
Non-current liabilities:			
Other liabilities	177,500	-	177,500
Deferred income taxes	3,371,935	-	3,371,935
Lease obligation	-	32,676	32,676
Decommissioning liability	2,296,091	535,310	2,831,401
Derivative liability	-	8,685,960	8,685,960
Total liabilities	\$ 10,468,126	\$ 14,109,729	\$ 24,577,855

**16. Subsequent events**

On November 17, 2023, the ANH confirmed the termination by mutual agreement of the Macaya block exploration and production contract. This contract included minimum work commitments for \$3,830,000 for the Company, which have been waived by the ANH according to the terms of termination.