

ARROW EXPLORATION CORP.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2024 AND 2023
IN UNITED STATES DOLLARS
(UNAUDITED)**



**Notice of No Auditor Review of the Interim Condensed Consolidated Financial Statements
as at and for the three and six months ended June 30, 2024**

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 Consolidated Statements of Financial Position
In United States Dollars
(Unaudited)

| As at | Notes | June 30, 2024 | December 31, 2023 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | \$ 10,826,380 | \$ 12,135,376 |
| Restricted cash and deposits | 3 | 253,132 | 611,753 |
| Trade and other receivables | 4 | 3,948,253 | 3,536,936 |
| Taxes receivable | 5 | 4,588,947 | 4,655,399 |
| Deposits and prepaid expenses | | 312,374 | 197,402 |
| Inventory | | 46,547 | 492,332 |
| | | 19,975,633 | 21,629,198 |
| Non-current assets | | | |
| Deferred income taxes | | 1,832,995 | 2,031,383 |
| Restricted cash and deposits | 3 | 174,190 | 243,081 |
| Exploration and evaluation assets | 6 | 1,059,825 | - |
| Property and equipment | 7 | 44,821,990 | 38,371,361 |
| Total Assets | | \$ 67,864,633 | \$ 62,275,023 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | | \$ 8,418,067 | \$ 9,747,906 |
| Lease obligation | 8 | 49,313 | 103,674 |
| Income taxes | | 4,851,136 | 3,108,504 |
| | | 13,318,516 | 12,960,084 |
| Non-current liabilities | | | |
| Lease obligations | 8 | 184,072 | 216,919 |
| Other liabilities | | 375,448 | 345,528 |
| Deferred income taxes | | 3,182,607 | 3,269,894 |
| Decommissioning liability | 9 | 4,684,718 | 3,973,075 |
| Total liabilities | | 21,745,361 | 20,765,500 |
| Shareholders' equity | | | |
| Share capital | 10 | 73,829,795 | 73,829,795 |
| Contributed surplus | | 2,573,068 | 2,161,945 |
| Deficit | | (29,521,344) | (33,945,895) |
| Accumulated other comprehensive loss | | (762,247) | (536,322) |
| Total shareholders' equity | | 46,119,272 | 41,509,523 |
| Total liabilities and shareholders' equity | | \$ 67,864,633 | \$ 62,275,023 |

Commitments and contingencies (Note 11)

The accompanying notes are an integral part of these interim 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
In United States Dollars
(Unaudited)

| | Notes | For the three months ended June 30 | | For the six months ended June 30 | |
|---|-------|------------------------------------|---------------------|----------------------------------|---------------------|
| | | 2024 | 2023 | 2024 | 2023 |
| Revenue | | | | | |
| Oil and natural gas | | \$ 17,167,143 | \$ 11,637,968 | \$ 33,560,785 | \$ 19,602,826 |
| Royalties | | (2,020,777) | (1,357,688) | (4,009,498) | (2,329,686) |
| | | <u>15,146,366</u> | <u>10,280,280</u> | <u>29,551,287</u> | <u>17,273,140</u> |
| Expenses | | | | | |
| Operating | | 2,475,582 | 1,391,490 | 4,544,593 | 2,509,080 |
| Administrative | | 3,713,577 | 3,247,405 | 6,395,499 | 4,866,875 |
| Share based payments | 10 | 309,845 | 159,018 | 411,123 | 291,259 |
| Financing costs: | | | | | |
| Accretion | 9 | 41,363 | 32,139 | 78,739 | 61,295 |
| Interest | | 7,501 | 61,349 | 17,271 | 122,237 |
| Other | | 108,773 | 103,172 | 307,837 | 148,854 |
| Derivative loss | | - | 2,436,047 | - | 1,081,772 |
| Foreign exchange (gain) loss | | 161,351 | (41,141) | (127,387) | (81,956) |
| Depletion and depreciation | 7 | 3,261,894 | 3,640,189 | 6,793,668 | 6,094,553 |
| Impairment loss | 7 | 1,542,000 | - | 1,542,000 | - |
| Other income | | (88,243) | (157,434) | (166,658) | (218,610) |
| | | <u>11,533,643</u> | <u>10,872,234</u> | <u>19,796,685</u> | <u>14,875,359</u> |
| Income (loss) before taxes | | 3,612,723 | (591,954) | 9,754,602 | 2,397,781 |
| Income taxes | | | | | |
| Current | | 2,713,664 | 2,387,868 | 5,218,949 | 2,387,868 |
| Deferred | | (348,766) | (2,222,406) | 111,102 | (2,222,406) |
| | | <u>2,364,898</u> | <u>165,462</u> | <u>5,330,051</u> | <u>165,462</u> |
| Net income (loss) for the period | | 1,247,825 | (757,416) | 4,424,551 | 2,232,319 |
| Other comprehensive loss | | | | | |
| Foreign exchange | | (82,608) | (93,164) | (225,925) | (111,584) |
| Total other comprehensive loss | | (82,608) | (93,164) | (225,925) | (111,584) |
| Total comprehensive income (loss) for the period | | \$ 1,165,217 | \$ (850,580) | \$ 4,198,626 | \$ 2,120,735 |
| Net income (loss) per share | | | | | |
| - basic | | \$ 0.00 | \$ (0.00) | \$ 0.02 | \$ 0.01 |
| - Diluted | | \$ 0.00 | \$ (0.00) | \$ 0.02 | \$ 0.01 |
| Weighted average shares outstanding | | | | | |
| - basic | | 285,864,348 | 230,808,547 | 285,864,348 | 226,785,547 |
| - Diluted | | 292,536,147 | 295,446,047 | 292,867,527 | 294,694,399 |

The accompanying notes are an integral part of these interim 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, 2024 | \$ 73,829,795 | \$ 2,161,945 | \$ (536,322) | \$ (33,945,895) | \$ 41,509,523 |
| Net income for the period | - | - | - | 4,424,551 | 4,424,551 |
| Other comprehensive loss | - | - | (225,925) | - | (225,925) |
| Total comprehensive income | - | - | (225,925) | 4,424,551 | 4,198,626 |
| Share-based compensation | - | 411,123 | - | - | 411,123 |
| Balance June 30, 2024 | \$ 73,829,795 | \$ 2,573,068 | \$ (762,247) | \$ (29,521,344) | \$ 46,119,272 |

| | 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 |
| Net income for the period | - | - | - | 2,232,319 | 2,232,319 |
| Other comprehensive loss | - | - | (111,584) | - | (111,584) |
| Total comprehensive income | - | - | (111,584) | 2,232,319 | 2,120,735 |
| Issuances of common shares, net | 3,887,661 | - | - | - | 3,887,661 |
| Share-based compensation | - | 291,259 | - | - | 291,259 |
| Balance June 30, 2023 | \$ 61,698,396 | \$ 1,861,750 | \$ (756,956) | \$ (30,606,963) | \$ 32,196,227 |

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

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

| For six months ended June 30 | Notes | 2024 | 2023 |
|---|--------------|--------------------------|--------------------|
| Cash flows provided by operating activities | | | |
| Net income | | \$ 4,424,551 | \$ 2,232,319 |
| Items not involving cash: | | | |
| Share based payment | 10 | 411,123 | 291,259 |
| Deferred income tax | | 111,102 | (2,222,406) |
| Depletion and depreciation | 7 | 6,793,668 | 6,094,553 |
| Interest on leases | | 17,271 | 2,954 |
| Interest on promissory note, net of forgiveness | | - | 119,283 |
| Accretion | 9 | 78,739 | 61,295 |
| Foreign exchange loss (gain) | | 593,659 | (138,235) |
| Loss on derivative liability | | - | 1,081,772 |
| Impairment loss | 7 | 1,542,000 | - |
| Changes in non-cash working capital balances: | | | |
| Restricted cash | | 427,512 | (103,080) |
| Trade and other receivables | | (411,317) | 468,003 |
| Taxes receivable | | 66,453 | (168,689) |
| Deposits and prepaid expenses | | (114,972) | (35,548) |
| Inventory | | 445,785 | (170,814) |
| Accounts payable and accrued liabilities | | (305,814) | 537,898 |
| Income tax payable | | 1,742,632 | (675,281) |
| Settlement of decommissioning obligations | 9 | (105,734) | (4,150) |
| Cash provided by operating activities | | <u>15,716,658</u> | <u>7,371,133</u> |
| Cash flows used in investing activities | | | |
| Additions to exploration and evaluation assets | 6 | (1,059,825) | (2,849,427) |
| Additions to property and equipment | 10 | (14,186,910) | (8,292,524) |
| Changes in non-cash working capital | | (1,024,027) | 1,740,101 |
| Cash flows used in investing activities | | <u>(16,270,762)</u> | <u>(9,401,850)</u> |
| Cash flows used in financing activities | | | |
| Common shares issued | | - | 1,775,003 |
| Payment of promissory note | | - | (2,018,577) |
| Lease payments | 8 | (55,266) | (23,259) |
| Cash flows used in financing activities | | <u>(55,266)</u> | <u>(266,833)</u> |
| Effect of changes in the exchange rate on cash | | (699,627) | 38,075 |
| Decrease in cash | | (1,308,997) | (2,259,475) |
| Cash, beginning of period | | <u>12,135,377</u> | 13,060,969 |
| Cash, end of period | | <u><u>10,826,380</u></u> | <u>10,801,494</u> |
| Supplemental information | | | |
| Interest paid | | \$ - | \$ 415,026 |
| Taxes paid | | \$ 1,430,337 | \$ 1,119,208 |

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

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

June 30, 2024

1. Corporate Information

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

2. Basis of Presentation

Statement of compliance

These interim condensed consolidated financial statements (the “Financial Statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. These Financial Statements were authorized for issue by the board of directors of the Company on August 28, 2024. 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, 2023.

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, 2023, except for the adoption of new accounting standards effective January 1, 2024. In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2023.

Adoption of New Accounting Standards

The Company adopted amendments to IAS 1 Presentation of Financial Statements, issued by the IASB, related to the presentation of liabilities as current or non-current and classification and disclosure of liabilities with covenants. These amendments were adopted by the Company from January 1, 2024 but they did not have a material impact on the interim consolidated financial statements.

3. Restricted Cash and deposits

| | June 30, 2024 | December 31, 2023 |
|---|--------------------------|------------------------------|
| Colombia (i) | \$ 290,940 | \$ 312,530 |
| Canada (ii) | 136,382 | 542,304 |
| Sub-total | <u>427,322</u> | 854,834 |
| Long-term portion | <u>(174,190)</u> | (243,081) |
| Current portion of restricted cash and deposits | <u>\$ 253,132</u> | <u>\$ 611,753</u> |

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

(ii) During 2024, the Company was able to recover its \$337,031 (CAD \$445,749) deposit related to the Company’s liability rating management (“LMR”). The remaining \$136,382 (2023: \$205,273) pertain to other deposits held in Canada.

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

June 30, 2024

4. Trade and other receivables

| | June 30, 2024 | December 31, 2023 |
|------------------------------------|---------------------|----------------------|
| Trade receivables, net of advances | \$ 2,840,134 | \$ 2,238,918 |
| Other accounts receivable | 1,108,119 | 1,298,018 |
| | <u>\$ 3,948,253</u> | <u>\$ 3,536,936</u> |

As at June 30, 2024, other accounts receivable include \$699,835 (December 31, 2023 – \$682,197) receivable from on demand loans with executives and directors.

5. Taxes receivable

| | June 30, 2024 | December 31, 2023 |
|---|---------------------|----------------------|
| Value-added tax (VAT) credits recoverable | \$ 1,914,220 | \$ 1,703,260 |
| Income tax withholdings and advances, net | 2,674,727 | 2,952,139 |
| | <u>\$ 4,588,947</u> | <u>\$ 4,655,399</u> |

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

6. Exploration and Evaluation

| | June 30, 2024 | December 31, 2023 |
|---|---------------------|----------------------|
| Balance, beginning of the period | \$ - | \$ - |
| Additions, net | 1,059,825 | 3,212,808 |
| Reclassification to Property and Equipment (Note 7) | - | (3,212,808) |
| Balance, end of the period | <u>\$ 1,059,825</u> | <u>\$ -</u> |

During 2024, the Company incurred in exploration and development costs associated to its Baquiano prospect in the Tapir block. During 2023, the Company incurred in geological and geophysical costs in its Carrizales Norte prospect located in its Tapir block, and determined the technical feasibility and commercial viability of these assets, transferring \$3,212,808 to its property and equipment. An impairment test on these assets was prepared and no losses were identified as a result of such tests.

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

June 30, 2024

7. Property and Equipment

| Cost | Oil and Gas Properties | Right of Use and Other Assets | Total |
|--|-------------------------------|--------------------------------------|---------------|
| Balance, December 31, 2022 | \$ 47,545,026 | \$ 234,156 | \$ 47,779,182 |
| Additions | 23,907,357 | 310,061 | 24,217,418 |
| Dispositions | (111,151) | - | (111,151) |
| Transfers from exploration and evaluation assets | 3,212,808 | - | 3,212,808 |
| Decommissioning adjustment | 738,825 | - | 738,825 |
| Balance, December 31, 2023 | \$ 75,292,865 | \$ 544,217 | \$ 75,837,082 |
| Additions | 14,179,895 | 6,917 | 14,186,812 |
| Adjustment to ROU assets | - | (53,543) | (53,543) |
| Decommissioning additions | 760,060 | - | 760,060 |
| Balance, June 30, 2024 | \$ 90,232,820 | \$ 497,591 | \$ 90,730,411 |
| Accumulated depletion and depreciation and impairment | | | |
| Balance, December 31, 2022 | \$ 13,153,709 | \$ 161,236 | \$ 13,314,945 |
| Depletion and depreciation | 12,120,871 | 65,906 | 12,186,777 |
| Impairment loss of oil and gas properties | 11,799,740 | - | 11,799,740 |
| Balance, December 31, 2023 | \$ 37,074,320 | \$ 227,142 | \$ 37,301,462 |
| Depletion and depreciation | 6,739,870 | 53,798 | 6,793,668 |
| Impairment loss | 1,542,000 | - | 1,542,000 |
| Balance, June 30, 2024 | \$ 45,356,190 | \$ 280,940 | \$ 45,637,130 |
| Foreign exchange | | | |
| Balance December 31, 2022 | \$ (249,908) | \$ (8,719) | \$ (258,627) |
| Effects of movements in foreign exchange rates | 88,671 | 5,697 | 94,368 |
| Balance December 31, 2023 | \$ (161,237) | \$ (3,022) | \$ (164,259) |
| Effects of movements in foreign exchange rates | (97,584) | (9,448) | (107,032) |
| Balance June 30, 2024 | \$ (258,821) | \$ (12,470) | \$ (271,088) |
| Net Book Value | | | |
| Balance December 31, 2023 | \$ 38,057,308 | \$ 314,053 | \$ 37,371,361 |
| Balance June 30, 2024 | \$ 44,617,809 | \$ 204,181 | \$ 45,821,990 |

Canada

As at June 30, 2024, the Company determined there were indicators of impairment in its Canada CGU, mainly due to decreases in current and forward gas prices, and prepared estimates of its 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 \$1,542,000 was included in the interim consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2024. The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at June 30, 2024:

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

June 30, 2024

| Year | Exchange rate \$US / \$Cdn | AECO Spot Gas C\$/MMBtu |
|--------------------------|-------------------------------|----------------------------|
| 2024 | 0.75 | 2.24 |
| 2025 | 0.75 | 2.90 |
| 2026 | 0.75 | 4.33 |
| 2027 | 0.75 | 4.34 |
| 2028 | 0.75 | 4.30 |
| Thereafter (inflation %) | | 2.0%/yr |

The recoverable amount was 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, 2023, updated to reflect changes in prices forecast, and an internal valuation of undeveloped land. 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 18.3% (2023: 18.3%) pre-tax discount rate, which took into account risks specific to the Canada CGU. The key assumptions in the internal valuation of undeveloped land were the determination of the transactions considered precedent, the discount applied to the Company's lands and the probability of obtaining extensions on related lands. The Company utilized an average value per acre of \$89.63 in the impairment test as at June 30, 2024.

As at December 31, 2023, the Company determined there were indicators of impairment in its Canada CGU, mainly due to decreases in forward gas prices and revision of reserves, and prepared estimates of its 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 \$1,248,400 was included in the consolidated statements of operations and comprehensive income for the year ended December 31, 2023.

Colombia

During 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 and has been extended until August 2024. The Company determined there were indicators of impairment in the Capella CGU and recorded an impairment loss of \$10,551,340 corresponding to the full carrying value of the Capella CGU as at December 31, 2023.

8. Lease Obligations

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

| | 2024 | 2023 |
|--|----------|-----------|
| Obligation, beginning of the period | 320,593 | \$ 63,751 |
| Additions | - | 302,930 |
| Changes to leases | (53,543) | - |
| Lease payments | (40,461) | (74,211) |
| Interest | 17,254 | 22,011 |
| Effects of movements in foreign exchange rates | (10,458) | 6,112 |
| Obligation, end of the period | 233,385 | 320,593 |
| Current portion | (49,313) | (103,674) |
| Long-term portion | 184,072 | 216,919 |

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

June 30, 2024

During 2024, the Company recognized the impact of a change in payment terms of its office lease and recognized a decrease in lease liabilities and ROU assets for \$ 53,543. As at June 30, 2024, the Company has the following future lease obligations:

| | |
|---|-----------------|
| Less than one year | 49,313 |
| 2 – 5 years | 269,676 |
| Total lease payments | 318,989 |
| Amounts representing interest over the term | (85,604) |
| Present value of the net obligation | 233,385 |

9. Decommissioning Liability

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

| | June 30, 2024 | December 31, 2023 |
|--|--------------------------|------------------------------|
| Obligation, beginning of the period | 3,973,075 | \$ 3,303,301 |
| Additions | 760,060 | 1,000,889 |
| Change in estimated cash flows | - | (262,066) |
| Payments or settlements | (105,734) | (19,545) |
| Dispositions | - | (191,081) |
| Accretion expense | 78,739 | 127,478 |
| Effects of movements in foreign exchange rates | (21,422) | 14,099 |
| Obligation, end of the period | 4,684,718 | 3,973,075 |

The obligation was calculated using a risk-free discount rate range of 1.25% to 4.50% in Canada (2023: 1.25% to 4.50%) and between 4.00% and 4.29% in Colombia (2022: 4.00% and 4.29%) with an inflation rate of 2.5% and 2.6%, respectively (2023: 2.5% and 2.6%). The majority of costs are expected to occur between 2024 and 2038. 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 \$6,396,370 (2023: \$5,686,938).

10. Share Capital

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

(b) Issued:

| | June 30, 2024 | | December 31, 2023 | |
|---------------------------------|----------------------|-------------------|-------------------|------------|
| | Shares | Amounts | Shares | Amounts |
| Common shares | | | | |
| Balance beginning of the period | 285,864,348 | 73,829,795 | 218,401,931 | 57,810,735 |
| Issued from warrants exercised | - | - | 67,462,417 | 16,019,060 |
| Balance at end of the period | 285,864,348 | 73,829,795 | 285,864,348 | 73,829,795 |

(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.

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

June 30, 2024

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 Company stock option plan as at June 30, 2024 and December 31, 2023 and changes during the periods ended on those dates is presented below:

| Stock Options | June 30, 2024 | | December 31, 2023 | |
|----------------------------|-------------------|--|-------------------|--|
| | Number of options | Weighted average exercise price (CAD \$) | Number of options | Weighted average exercise price (CAD \$) |
| Beginning of period | 20,531,668 | \$0.24 | 20,590,000 | \$0.18 |
| Granted | 9,843,887 | \$0.38 | 1,650,000 | \$0.27 |
| Expired/Forfeited | - | - | (1,375,000) | \$0.12 |
| Exercised | (3,545,555) | \$0.19 | (333,332) | \$0.11 |
| End of period | 26,830,000 | \$0.29 | 20,531,668 | \$0.24 |
| Exercisable, end of period | 7,317,220 | \$0.25 | 9,879,441 | \$0.42 |

| Date of Grant | Number Outstanding | Exercise Price (CAD \$) | Weighted Average Remaining Contractual Life | Date of Expiry | Number Exercisable June 30, 2024 |
|--------------------|--------------------|-------------------------|---|------------------------------|----------------------------------|
| October 22, 2018 | 750,000 | \$1.15 | | Oct. 22, 2028 | 750,000 |
| May 3, 2019 | 235,000 | \$0.31 | | May 3, 2029 | 235,000 |
| March 20, 2020 | 1,200,000 | \$0.05 | | Mar. 20, 2030 | 1,200,000 |
| April 13, 2020 | 1,200,000 | \$0.05 | | April 13, 2030 | 1,200,000 |
| December 13, 2021 | 5,150,002 | \$0.13 | | June 13, 2024 and 2025 | 2,166,666 |
| June 9, 2022 | 1,200,001 | \$0.28 | | Dec. 9, 2023, 2024 and 2025 | 433,333 |
| September 7, 2022 | 833,334 | \$0.26 | | Mar. 7, 2024, 2025 and 2026 | - |
| December 21, 2022 | 4,951,110 | \$0.28 | | June 21, 2024, 2025 and 2026 | 1,298,888 |
| January 23, 2023 | 466,666 | \$0.32 | | July 23, 2024, 2025 and 2026 | 33,333 |
| September 21, 2023 | 1,000,000 | \$0.33 | | Mar. 21, 2025, 2026 and 2027 | - |
| April 29, 2024 | 9,843,887 | \$0.38 | | Oct.29 2025, 2026 and 2027 | - |
| Total | 26,830,000 | \$0.23 | 2.38 years | | 7,317,220 |

During the three and six months ended June 30, 2024, the Company recognized \$309,845 and \$411,123, respectively (2023: \$159,018 and \$291,259) as share-based compensation expense, with a corresponding effect in the contributed surplus account.

11. 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 June 30, 2024 of \$12 million. The Company has made an application to the ANH to mutually cancel its COR-39 contract. Presented below are the Company's exploration and production contractual commitments at June 30, 2024:

| Block | Less than 1 year | 1-3 years | Thereafter | Total |
|--------------|------------------|-------------------|------------|-------------------|
| COR-39 | - | 12,000,000 | - | 12,000,000 |
| Total | - | 12,000,000 | - | 12,000,000 |

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

June 30, 2024

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 those individuals.

Letters of Credit

At June 30, 2024, 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, 2025 |
| | ANH | Carrao Energy | Financial Capacity | \$1,672,162 | December 30, 2024 |
| CORE – 39 | ANH | Carrao Energy | Compliance | \$100,000 | December 30, 2024 |
| OMBU | ANH | Carrao Energy | Financial Capacity | \$436,300 | October 14, 2024 |
| Total | | | | \$2,772,356 | |

12. 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. There were no derivative contracts during 2024.

(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. 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 and a commodities trader under existing sale/offtake agreements 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 Colombia) after 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.

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

June 30, 2024

(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, British Pounds 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.

(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. 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 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. The Company prepares annual budgets, which are updated as necessary 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. The Company's capital includes the following:

| | <u>June 30, 2024</u> | <u>December 31, 2023</u> |
|-----------------|----------------------|--------------------------|
| Working capital | <u>\$ 6,657,117</u> | <u>\$ 8,669,114</u> |

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

June 30, 2024

13. 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 six months ended and as at June 30:

| Three months ended June 30, 2024 | Colombia | Canada | Total |
|----------------------------------|---------------------|-----------------------|---------------------|
| Revenue: | | | |
| Oil Sales | \$ 17,062,022 | \$ - | \$ 17,062,022 |
| Natural gas and liquid sales | - | 105,121 | 105,121 |
| Royalties | (2,040,580) | 19,803 | (2,020,777) |
| Expenses | (6,258,927) | (3,732,716) | (9,991,643) |
| Impairment loss | - | (1,542,000) | (1,542,000) |
| Income taxes | (2,364,898) | - | (2,364,898) |
| Net income (loss) | \$ 6,397,617 | \$ (5,149,792) | \$ 1,247,825 |

| Six months ended June 30, 2024 | Colombia | Canada | Total |
|--------------------------------|----------------------|-----------------------|---------------------|
| Revenue: | | | |
| Oil Sales | \$ 33,129,313 | \$ - | \$ 33,129,313 |
| Natural gas and liquid sales | - | 431,472 | 431,472 |
| Royalties | (4,012,959) | 3,461 | (4,009,498) |
| Expenses | (11,845,635) | (6,409,050) | (18,254,685) |
| Impairment loss | - | (1,542,000) | (1,542,000) |
| Income taxes | (5,330,051) | - | (5,330,051) |
| Net income (loss) | \$ 11,940,668 | \$ (7,516,117) | \$ 4,424,551 |

| As at June 30, 2024 | Colombia | Canada | Total |
|-------------------------------|----------------------|---------------------|----------------------|
| Current assets | \$ 17,499,989 | \$ 2,475,644 | \$ 19,975,633 |
| Non-current: | | | |
| Deferred income taxes | 1,832,995 | - | 1,832,995 |
| Restricted cash | 37,808 | 136,382 | 174,190 |
| Exploration and evaluation | 1,059,825 | - | 1,059,825 |
| Property, plant and equipment | 43,859,733 | 962,257 | 44,821,990 |
| Total Assets | \$ 64,290,350 | \$ 3,574,283 | \$ 67,864,633 |

| | | | |
|---------------------------------|----------------------|---------------------|----------------------|
| Current liabilities | \$ 11,487,165 | \$ 1,831,351 | \$ 13,318,516 |
| Non-current liabilities: | | | |
| Deferred income taxes | 3,182,607 | - | 3,182,607 |
| Other liabilities | 375,448 | - | 375,448 |
| Lease obligation | - | 184,072 | 184,072 |
| Decommissioning liability | 4,147,564 | 537,154 | 4,684,718 |
| Total liabilities | \$ 19,192,784 | \$ 2,552,577 | \$ 21,745,361 |

| Three months ended June 30, 2023 | Colombia | Canada | Total |
|----------------------------------|---------------------|-----------------------|---------------------|
| Revenue: | | | |
| Oil Sales | \$ 11,206,886 | \$ - | \$ 11,206,886 |
| Natural gas and liquid sales | - | 431,082 | 431,082 |
| Royalties | (1,399,621) | 41,933 | (1,357,688) |
| Expenses | (5,270,072) | (5,502,162) | (10,872,234) |
| Income taxes | (165,462) | - | (165,462) |
| Net income (loss) | \$ 4,371,731 | \$ (5,129,147) | \$ (757,416) |

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

June 30, 2024

| Six months ended June 30, 2023 | Colombia | Canada | Total |
|--------------------------------|---------------|----------------|---------------|
| Revenue: | | | |
| Oil Sales | \$ 18,680,723 | \$ - | \$ 18,680,723 |
| Natural gas and liquid sales | - | 922,103 | 922,103 |
| Royalties | (2,328,654) | (1,032) | (2,329,686) |
| Expenses | (8,460,388) | (6,414,971) | (14,875,359) |
| Income taxes | (165,462) | - | (165,462) |
| Net income (loss) | \$ 7,726,219 | \$ (5,493,900) | \$ 2,232,319 |
| As at June 30, 2023 | Colombia | Canada | Total |
| Current assets | \$ 13,847,131 | \$ 1,312,191 | \$ 15,159,322 |
| Non-current: | | | |
| Deferred income taxes | 533,558 | - | 533,558 |
| Restricted cash | 37,808 | 665,875 | 703,683 |
| Exploration and evaluation | 2,849,427 | - | 2,849,427 |
| Property, plant and equipment | 32,495,634 | 4,563,906 | 37,059,540 |
| Total Assets | \$ 49,763,558 | \$ 6,541,972 | \$ 56,305,530 |
| Current liabilities | \$ 8,150,721 | \$ 9,371,989 | \$ 17,522,710 |
| Non-current liabilities: | | | |
| Deferred income taxes | 2,505,549 | - | 2,505,549 |
| Other liabilities | 264,881 | - | 264,881 |
| Lease obligation | - | 171,517 | 171,517 |
| Decommissioning liability | 3,080,832 | 563,814 | 3,644,646 |
| Total liabilities | \$ 14,001,983 | \$ 10,107,320 | \$ 24,109,303 |