

ARROW EXPLORATION CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2025 AND 2024
IN UNITED STATES DOLLARS**



INDEPENDENT AUDITOR'S REPORT

To the shareholders of Arrow Exploration Corp.

Opinion

We have audited the consolidated financial statements of Arrow Exploration Corp. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2025 and 2024, and the consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

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, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards).

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. These matters were 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

The impact of estimated oil and gas reserves on property & equipment

We draw attention to notes 2, 3 and 8 of the consolidated financial statements. The Company uses oil and gas reserves to deplete its development and production assets included in property and equipment, and to assess for indicators of impairment or impairment reversal in the Company's cash generating units ("CGUs"). If any such indicators exist, the Company uses oil and gas reserves to estimate the recoverable amount of the CGU.

The Company had \$67.8 million of property and equipment at December 31, 2025. Depletion and depreciation expense was \$20.6 million for the year ended December 31, 2025. For the year ended December 31, 2025, impairment of \$7.6 million was recorded.

Reserves are evaluated by the Company's independent petroleum engineers (management's expert). Key assumptions developed by management used to determine reserves include forward price estimates, expected future rates of production, future production costs and the timing and amount of future development expenditures.

We considered this a key audit matter due to the judgments by management, including the use of management's expert

Our approach to addressing the matter included the following procedures:

- Tested how management determined reserves, which included the following:
 - The competence, capabilities and objectivity of management's expert was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated.
 - The procedures performed also included evaluation of the methods and assumptions used by management's expert, tests of data used by management's expert and an evaluation of their findings.
 - Evaluated the reasonableness of key assumptions used, including expected future rates of production, future production costs and the timing and amount of future development expenditures by considering

and a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the key assumptions.

current and past performance of the Company and whether these assumptions were consistent with evidence obtained in other areas of the audit, as applicable.

- Evaluated the reasonableness of forward price estimates by comparing those forecasts with third party industry forecasts.
- Recalculated depletion and depreciation expense.
- Evaluated the adequacy of the disclosures in the accompanying consolidated financial statements in relation to this matter.

Other information

Management is responsible for the other information. The other information is comprised of 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 IFRS Accounting Standards, 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the work performed for the purposes 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 Kim Wiggins.

The logo for Ernst & Young LLP is written in a black, cursive script font. The letters are fluid and connected, with a prominent 'E' and 'Y'.

Chartered Professional Accountants
Calgary, Canada
April 28, 2026

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

As at	Notes	December 31, 2025	December 31, 2024
ASSETS			
Current assets			
Cash		\$ 11,208,824	\$ 18,837,784
Restricted cash and deposits	4	258,006	238,141
Trade and other receivables	5	14,533,377	3,830,215
Taxes receivable	6	7,637,342	2,656,926
Deposits and prepaid expenses		135,221	232,730
Inventory		108,533	177,400
		33,881,303	25,973,196
Non-current assets			
Restricted cash and deposits	4	273,257	167,545
Exploration and evaluation assets	7	3,437,965	142,995
Property and equipment	8	67,810,032	54,984,998
Total Assets		\$ 105,402,557	\$ 81,268,734
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 31,494,615	\$ 8,504,332
Lease obligation	9	67,734	44,639
Income taxes	12	-	4,294,109
Stock based compensation liability	11	495,619	1,324,539
		32,057,968	14,167,619
Non-current liabilities			
Lease obligations	9	132,952	174,767
Stock based compensation liability	11	116,350	159,408
Other liabilities		855,363	610,059
Deferred income taxes	12	7,930,871	6,832,229
Decommissioning liability	10	9,863,781	6,307,659
Total liabilities		50,957,285	28,251,741
Shareholders' equity			
Share capital	11	73,829,795	73,829,795
Contributed surplus		856,093	856,093
Deficit		(19,328,296)	(20,770,894)
Accumulated other comprehensive loss		(912,320)	(898,001)
Total shareholders' equity		54,445,272	53,016,993
Total liabilities and shareholders' equity		\$ 105,402,557	\$ 81,268,734

Commitments and contingencies (Note 13)

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

On behalf of the Board:

signed "Gage Jull" Director
Gage Jull

signed "Ian Langley" Director
Ian Langley

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

For the years ended December 31,	Notes	2025	2024
Revenue			
Oil and natural gas	16	79,429,056	81,559,184
Royalties	16	(8,974,437)	(7,834,156)
Total oil and natural gas revenue, net of royalties		70,454,619	73,725,028
Expenses			
Operating		21,218,759	11,878,177
Exploration	7	3,008,415	-
Environmental		-	127,890
Administrative		11,935,167	12,884,499
Share-based compensation expense	11	156,461	1,480,664
Financing costs:			
Accretion	10	274,423	178,296
Interest	9	28,676	31,846
Other		530,401	330,450
Foreign exchange (gain) loss		(971,531)	690,281
Depletion and depreciation	8	20,613,150	17,535,815
Finance and other income		(9,912)	-
Transaction costs		304,985	-
Impairment (reversal) of oil and gas properties, net	8	7,633,523	(662,753)
Total expenses, net		64,722,517	44,475,165
Income before income tax		5,732,102	29,249,863
Income tax expense			
Current	12	3,190,862	10,481,144
Deferred	12	1,098,642	5,593,718
		4,289,504	16,074,862
Net income		1,442,598	13,175,001
Other comprehensive loss			
Foreign exchange		(14,319)	(361,679)
Total other comprehensive loss		(14,319)	(361,679)
Total comprehensive income		1,428,279	12,813,322
Net income per share:			
Basic		\$ 0.01	\$ 0.05
Diluted		\$ 0.00	\$ 0.05
Weighted average shares outstanding			
Basic		285,864,348	285,864,348
Diluted		291,754,093	291,226,740

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, 2025	\$ 73,829,795	\$ 856,093	\$ (898,001)	\$ (20,770,894)	\$ 53,016,993
Net income	-	-	-	1,442,598	1,442,598
Other comprehensive loss	-	-	(14,319)	-	(14,319)
Total comprehensive income	-	-	(14,319)	1,442,598	1,428,279
Balance December 31, 2025	\$ 73,829,795	856,093	(912,320)	(19,328,296)	54,445,272

	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	-	-	-	13,175,001	13,175,001
Other comprehensive loss	-	-	(361,679)	-	(361,679)
Total comprehensive income	-	-	(361,679)	13,175,001	12,813,322
Share-based compensation	-	136,752	-	-	136,752
Reclassification of share-based compensation (Note 11)	-	(1,442,604)	-	-	(1,442,604)
Balance December 31, 2024	\$ 73,829,795	856,093	(898,001)	(20,770,894)	53,016,993

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	2025	2024
Cash flows provided by operating activities:			
Net income		\$ 1,442,598	\$ 13,175,001
Items not involving cash:			
Deferred taxes	12	1,098,642	5,593,718
Share-based compensation	11	156,461	1,480,664
Depletion and depreciation	8	20,613,150	17,535,815
Impairment (reversal) of oil and gas properties	8	7,633,523	(662,753)
Interest on leases	9	28,676	31,846
Exploration expense		3,008,415	-
Accretion	10	274,423	178,296
Unrealized foreign exchange (gain) loss		(152,085)	(439,079)
Environmental		-	127,890
Payment of asset decommissioning obligations	10	(536,919)	(110,263)
Payment of other liabilities		(112,665)	(69,754)
Payment of share-based compensation	11	(1,094,480)	(1,221,565)
Changes in non-cash working capital balances:			
Restricted cash and deposits		(125,577)	449,148
Trade and other receivables		(10,703,164)	(293,278)
Taxes receivable		(4,980,416)	1,998,473
Deposits and prepaid expenses		97,509	(35,328)
Inventory		68,867	314,932
Income tax payable		(4,294,109)	1,185,605
Accounts payable and accrued liabilities		14,380,215	285,221
Cash flows provided by operating activities		26,803,064	39,524,589
Cash flows used in investing activities:			
Additions to exploration and evaluation assets	7	(13,172,883)	(3,818,279)
Additions to property and equipment	8	(30,017,313)	(27,302,961)
Changes in non-cash working capital		8,610,070	(1,528,797)
Cash flows used in investing activities		(34,580,126)	(32,650,037)
Cash flows used in financing activities:			
Lease payments	9	(76,048)	(57,807)
Cash flows used in financing activities		(76,048)	(57,807)
Effect of changes in the exchange rate on cash		224,150	(114,337)
(Decrease) increase in cash		(7,628,960)	6,702,408
Cash, beginning of year		18,837,784	12,135,376
Cash, end of year		11,208,824	18,837,784
Supplemental information			
Interest paid		\$ -	\$ -
Taxes paid		\$ 7,843,804	\$ 6,065,043

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

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2025

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

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) 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, 2026.

Consolidated financial statements

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies to obtain benefits from its activities. All inter-entity transactions have been eliminated upon consolidation.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments (when applicable) that are 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 owned subsidiary Arrow Holdings Ltd. (AHL). The functional currency of the Company’s subsidiaries operating in Colombia and Switzerland 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 arising from translation into the functional currency are included in the determination of net income or loss in the consolidated statements of operations and comprehensive income. Exchange gains or losses arising from translation into the presentation currency (USD) from each entity’s functional currency are included in other comprehensive income (loss).

Material accounting 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. Material estimates and judgments made by management in the preparation of these financial statements are as follows:

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2025

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") and Impairment of Long-lived Assets

IFRS requires that the Company's long-lived assets, represented by 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. Indicators of impairment or reversal 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. In addition, the Company may identify value associated with undeveloped land with recoverable amounts calculated based on precedent land transactions as well as the application of a premium or discount to these precedent transactions and assumptions regarding the ability to obtain extensions on such land. 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's income tax provisions and income tax assets and liabilities are based on interpretations of applicable tax laws, including income tax treaties between various countries in which the Company operates, as well as underlying rules and regulations with respect to transfer pricing. These interpretations involve judgments and estimates and may be challenged through government taxation audits that the Company is regularly subject to new information may become available that causes the Company to change its judgment regarding the Company's income of applicable the adequacy of existing income tax assets and liabilities, such changes will impact net earnings in the period that such a determination is made. 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

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2025

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.

3. Material Accounting Policies

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.

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 amortized cost. Trade and other receivables and deposits are classified and measured at amortized cost, 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 two 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 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.

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. These are classified and measured at amortized cost using the effective interest method.

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2025

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 exploration expenses.

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. 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.

Arrow Exploration Corp.
Notes to the Consolidated Financial Statements
In United States Dollars

December 31, 2025

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. 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. In addition, the Company considers whether any value may be separately attributed to undeveloped land.

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 that is accounted for as a liability given that it allows holders to exercise stock options in either common shares or cash, at the holder's discretion. The compensation cost attributed to stock options granted is measured at the fair value at the grant date, and expensed over the vesting period. Subsequent to initial recognition, the stock-based compensation liability is measured at fair value through profit and loss using the Black-Scholes model using updated estimates and assumptions at each period end. Upon the settlement of the stock options in common shares, the previously recognized liability is recorded as an increase to share capital.

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.

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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.

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. The total oil and natural gas revenue, net of royalties represents the Company total revenue from customers as defined by IFRS 15 – Revenue from Contracts with Customers.

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.

Net Income per share

Basic net income per share is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing the net income by the number of shares for the effects of dilutive potential shares. The effects of anti-dilutive potential shares are not considered in calculating diluted earnings per share.

Future Accounting Standards

The Company plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective in future periods. The pronouncements will be adopted on their respective effective dates and their impact to the consolidated financial statements is currently under assessment.

In April 2024, the IASB issued new IFRS 18 - Presentation and Disclosure in Financial Statements ("IFRS 18") replacing IAS 1. The new guidance is expected to improve the usefulness of information presented and

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disclosed in the financial statements of companies. IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted. The Company is currently assessing the impact of this new IFRS accounting standard on its consolidated financial statements.

In May 2024, the IASB issued amendments to IFRS 9 - Financial Instruments and IFRS - 7 Financial Instruments: Disclosures related to settling financial liabilities using an electronic payment system and assessing contractual cash flow characteristics of financial assets. The amendments will be effective January 1, 2026. The Company has assessed the impact of this new IFRS accounting standard on its consolidated financial statements and does not anticipate any material impact.

4. Restricted cash and deposits

	December 31, 2025	December 31, 2024
Colombia (i)	\$ 399,174	\$ 275,949
Canada (ii)	132,089	129,737
Sub-total	<u>531,263</u>	405,686
Long-term portion	<u>(273,257)</u>	(167,545)
Current portion of restricted cash and deposits	<u>\$ 258,006</u>	<u>\$ 238,141</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) This balance pertains to other deposits held in Canada.

5. Trade and other receivables

	December 31, 2025	December 31, 2024
Trade receivables, net of advances	\$ 190,485	\$ 1,926,176
Joint venture receivable	12,237,489	-
Other accounts receivable	<u>2,105,403</u>	1,904,039
	<u>\$ 14,533,377</u>	<u>\$ 3,830,215</u>

As at December 31, 2025, other accounts receivable includes \$733,990 (December 31, 2024 – \$699,880) receivable from on demand loans with executives and directors (Note 15).

6. Taxes receivable

	December 31, 2025	December 31, 2024
Value-added tax (VAT) credits recoverable	\$ 3,727,152	\$ 1,738,536
Income tax withholdings and advances, net	<u>3,910,190</u>	918,390
	<u>\$ 7,637,342</u>	<u>\$ 2,656,926</u>

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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.

7. Exploration and evaluation assets

	December 31, 2025	December 31, 2024
Balance, beginning of the year	\$ 142,995	\$ -
Additions, net	12,986,203	3,818,279
Reclassification to Property and equipment (Note 8)	(6,775,054)	(3,675,284)
Exploration expense and abandonment costs	(2,916,179)	-
Balance, end of the year	<u>\$ 3,437,965</u>	<u>\$ 142,995</u>

During 2025, the Company incurred exploration and development costs associated with its Mateguafa Oeste, Mateguafa Attic, Ardea and Capullo prospects, including seismic studies for other prospects in the Tapir block (2024: Alberta and Carrizales Norte prospects). Technical feasibility and commercial viability was determined on the Mateguafa Attic area, transferring \$6,775,054 (2024: \$3,675,284) to its property and equipment. Likewise, no technical feasibility nor commercial viability was determined for the Mateguafa Oeste area and an exploration expense of \$2,916,179 was recognized in the statement of operations and comprehensive income.

8. Property and equipment

Cost	Oil and Gas Properties	Right of Use and Other Assets	Total
Balance, December 31, 2023	\$ 75,292,865	\$ 544,217	\$ 75,837,082
Additions	27,295,956	6,908	27,302,864
Adjustment to ROU assets	-	(53,543)	(53,543)
Transfers from exploration of evaluation assets	3,675,284	-	3,675,284
Decommissioning adjustment	2,702,058	-	2,702,058
Balance, December 31, 2024	<u>\$108,966,163</u>	<u>\$ 497,582</u>	<u>\$ 109,463,745</u>
Additions	30,017,313	25,147	30,042,460
Decommissioning adjustment	4,112,985	-	4,112,985
Transfers from exploration of evaluation assets	6,775,054	-	6,775,054
Balance, December 31, 2025	<u>\$149,871,515</u>	<u>\$ 522,729</u>	<u>\$150,394,244</u>
Accumulated depletion and depreciation and impairment	Oil and Gas Properties	Right of Use and Other Assets	Total
Balance, December 31, 2023	\$ 37,074,320	\$ 227,142	\$ 37,301,462
Depletion and depreciation	17,448,880	86,935	17,535,815
Impairment reversal	(662,753)	-	(662,753)
Balance, December 31, 2024	<u>\$ 53,860,447</u>	<u>\$ 314,077</u>	<u>\$ 54,174,524</u>
Depletion and depreciation	20,549,872	63,278	20,613,150
Impairment	7,633,523	-	7,633,523
Balance, December 31, 2025	<u>\$ 82,043,842</u>	<u>\$ 377,355</u>	<u>\$ 82,421,197</u>

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Foreign exchange	Oil and Gas Properties	Right of Use and Other Assets	Total
Balance December 31, 2023	\$ (161,237)	\$ (3,022)	\$ (164,259)
Effects of movements in foreign exchange rates	(122,332)	(17,632)	(139,964)
Balance, December 31, 2024	\$ (283,569)	\$ (20,654)	\$ (304,223)
Effects of movements in foreign exchange rates	134,573	6,635	141,208
Balance, December 31, 2025	\$ (148,996)	\$ (14,019)	\$ (163,015)
Net Book Value			
Balance December 31, 2025	\$ 67,678,677	\$ 131,355	\$ 67,810,032
Balance December 31, 2024	\$ 54,822,147	\$ 162,851	\$ 54,984,998

Canada

As at December 31, 2025, the Company determined there were indicators of impairment in its Keho CGU, mainly due to unsuccessful drilling, and recognized an impairment loss of \$1,781,467 was included in the consolidated statements of operations and comprehensive income for the year ended December 31, 2025 corresponding to the totality of costs incurred on this Keho CGU.

As at December 31, 2025, the Company determined there were no indicators of impairment on its Canada CGU. As at December 31, 2024, the Company determined there were indicators of impairment reversal in its Canada CGU, mainly due to increased reserve quantities arising as a result of an increase in future development capital expenditures. Management determined the recoverable amount of its Canada CGU using the fair value less costs of disposal approach. As the recoverable amount exceeded the carrying value of the CGU, an impairment reversal of \$662,753 was included in the consolidated statements of operations for the year ended December 31, 2024.

Colombia

As at December 31, 2025, the Company determined there were indicators of impairment in its Santa Isabel CGU, mainly due to negative reserves revision primarily arising from declines in forecast commodity prices, and prepared an estimate of the fair value less costs of disposal of this CGU. It was determined that carrying value of its Santa Isabel CGU exceeded its recoverable amount and, therefore, an impairment loss of \$5,852,056, corresponding to the full carrying value of this CGU, was included in the consolidated statements of operations and comprehensive income for the year ended December 31, 2025. The following table outlines forecast benchmark prices used in the Company's impairment test as at December 31, 2025:

Year	Brent US\$/barrel
2026	67.0
2027	68.5
2028	73.5
2029	75.5
2030	77.0
Thereafter (inflation %)	2.0%/yr

The recoverable amount was estimated as the 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, 2025. 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.

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9. Lease Obligations

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

	2025	2024
Obligation, beginning of the year	\$ 219,406	\$ 320,593
Additions	17,484	-
Changes to leases	-	(53,543)
Lease payments	(76,048)	(57,807)
Interest	28,676	31,846
Effects of movements in foreign exchange rates	11,168	(21,683)
Obligation, end of the year	<u>200,686</u>	219,406
Current portion	<u>(67,734)</u>	(44,639)
Long-term portion	<u>132,952</u>	174,767

In 2025, the Company recorded \$17,484 in additions for a new vehicle lease. During 2024, the Company recognized the impact of a change in payment terms of its office as a decrease in lease liabilities and ROU assets for \$ 53,543. As at December 31, 2025, the Company has the following future lease obligations:

Less than one year	\$ 81,674
2 – 5 years	<u>257,723</u>
Total lease payments	339,397
Amounts representing interest over the term	<u>(138,711)</u>
Present value of the net obligation	<u>\$ 200,686</u>

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:

	December 31, 2025	December 31, 2024
Obligation, beginning of the year	6,307,659	3,973,075
Additions	1,999,904	1,467,282
Change in estimated cash flows	1,791,305	843,978
Payments or settlements	(536,919)	(110,263)
Accretion expense	274,423	178,296
Effects of movements in foreign exchange rates	27,409	(44,709)
Obligation, end of the year	<u>9,863,781</u>	6,307,659

The obligation was calculated using a risk-free discount rate range of 2.50% to 3.75% in Canada (2024: 1.25% to 4.50%) and between 3.52% and 4.16% in Colombia (2024: 4.30% and 4.60%) with an inflation rate of 2.0% and 1.90%, respectively (2024: 2.0% and 1.9%). The increase in estimated cash flows during the year ended December 31, 2025 was primarily due to increase in cost estimate. The majority of costs are expected to occur between 2026 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 \$12,033,788 (2024: \$8,155,704).

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11. Share Capital

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

(b) Issued:

	December 31, 2025		December 31, 2024	
	Shares	Amounts	Shares	Amounts
Common shares				
Balance at beginning and end of the year	285,864,348	73,829,795	285,864,348	73,829,795

On June 13, 2025, the Company commenced a Normal Course Issuer Bid (NCIB) under which the Company was authorized to purchase up to a maximum of 14,293,217 outstanding common shares. This NCIB will terminate on the earlier of June 13, 2026 and such earlier date as the maximum number of common shares are purchased or the NCIB is completed or terminated by the Company. For the year ended December 31, 2025, no common shares have been purchased by the Company under this NCIB.

The calculation of basic net income per share was based on net income available to holders of common shares and the weighted average number of common shares outstanding for 2025 of 285,864,348 (2024: 285,864,348). Diluted net income per share was calculated by adjusting the number of outstanding common shares for the effects of potential dilution attributed to stock options granted to executives and employees. For the year 2025, there were 18,297,038 (2024: 16,602,224) stock options that were anti-dilutive and, therefore, excluded from the diluted number of common shares calculation.

(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 outstanding common shares. 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 and one third of each grant vest after every anniversary over three years. A summary of the Company's stock option plan as at December 31, 2025 and December 31, 2024 and changes during the years ended on those dates is presented below:

Stock Options	December 31, 2025		December 31, 2024	
	Number of options	Weighted average exercise price (CAD \$)	Number of options	Weighted average exercise price (CAD \$)
Beginning of year	24,795,002	\$0.32	20,531,668	\$0.24
Granted	6,198,334	\$0.23	14,176,108	\$0.41
Expired/Forfeited	(3,803,518)	-	(2,433,333)	-
Exercised	(6,676,112)	\$0.19	(7,479,441)	\$0.20
End of year	20,513,706	\$0.32	24,795,002	\$0.32
Exercisable, end of year	5,866,486	\$0.19	8,442,778	\$0.19

Date of Grant	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2025
October 22, 2018	250,000	\$1.15	2.81	Oct. 22, 2028	250,000
May 3, 2019	100,000	\$0.31	3.34	May 3, 2029	100,000
March 20, 2020	900,000	\$0.05	4.22	Mar. 20, 2030	900,000
April 13, 2020	900,000	\$0.05	4.28	April 13, 2030	900,000

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Date of Grant	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2025
September 7, 2022	416,668	\$0.26	0.18	Mar. 7, 2024, 2025 and 2026	416,668
December 21, 2022	1,681,667	\$0.28	0.47	June 21, 2024, 2025 and 2026	1,681,667
January 23, 2023	50,000	\$0.32	0.56	July 23, 2024, 2025 and 2026	-
September 21, 2023	666,667	\$0.33	1.22	Mar. 21, 2025, 2026 and 2027	333,333
April 29, 2024	5,495,926	\$0.38	1.83	Oct.29 2025, 2026 and 2027	-
September 11, 2024	3,854,444	\$0.48	2.19	Mar.11 2026, 2027 and 2028	1,284,818
October 8, 2025	6,198,334	\$0.23	3.33	Apr. 8, 2027, 2028 and 2029	-
Total	20,513,706	\$0.32	1.76 years		5,866,486

During the year ended December 31, 2025, the Company recognized \$156,461 (2024 - \$1,480,664) in share-based compensation expense. During 2024, due to an amendment in the stock option plan that allows stock option holders to select an equity or cash settlement, the Company started recognition of its share-based compensation plan as a liability plan, with no equity component, and reclassified \$1,442,604 from contributed surplus to share-based compensation liability to recognize the opening balance of this liability. The Company fair values its stock based compensation liability on every balance sheet date using the assumptions summarized in the following table, and the Black-Scholes valuation model for the years ended December 31, 2025 and 2024:

	2025	2024
Weighted-average risk free interest rate (%)	2.46	3.78
Weighted-average expected life (years)	2.50	2.50
Weighted-average volatility (%)	60.53	81.06
Forfeiture rate (%)	7.40	5.69

12. Income taxes

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

	2025	2024
Income before income taxes	\$ 5,732,102	\$ 29,249,864
Corporate income tax rate	23%	23%
Computed expected tax expense	1,318,383	6,727,469
Increase (decrease) in income taxes resulting from:		
Share-based compensation	35,986	340,553
(Recognized)/unrecognized deferred tax benefits	3,070,574	1,292,303
Tax rate difference on foreign jurisdictions	1,239,550	7,799,540
Changes in income tax rate	(1,518,192)	-
Other permanent differences	788,257	110,146
Foreign exchange and others	(645,054)	(195,149)
Income tax expense	\$ 4,289,504	\$ 16,074,862

As at December 31, 2025, the Company recognized a deferred tax liability of \$7,930,871 (2024: \$6,832,229) which represents the tax impact of temporary differences in another Colombian legal entity. In Colombia, the enacted tax rate is 35% with an additional tax rate of 5%, 10% or 15% for oil producers, subject to international oil prices. The current and deferred tax rate applied in Colombia was 35% in 2025 (2024: 45%).

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The components of the Company's deferred income tax assets and liabilities are as follows:

As at December 31	2025	2024
Property and equipment	\$ (8,151,197)	\$ (8,166,457)
Decommissioning liabilities and other provisions	3,479,676	2,544,440
Net deferred tax balance	\$ (4,671,521)	\$ (5,622,017)
Deferred tax liability	7,930,871	6,832,229
Unrecognized deferred tax asset	(3,259,350)	(1,210,212)
Deferred tax asset balance	\$ -	\$ -

At December 31, 2025, the Company had non-capital losses carried forward of approximately \$56,463,789 (2024: \$50,241,304) available to reduce future years taxable income. These losses commence expiring in 2029. At December 31, 2025, the Company had income tax credits and benefits, including non-capital losses, of approximately \$67,983,394 (2024: \$60,093,726) related to Canada. Non-capital losses, tax credits and benefits have not been recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

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 (see Letters of Credit section below). Subsequent to 2025, the Company received confirmation that its COR-39 exploration and production contract has been terminated by mutual agreement with the ANH and, therefore, its \$12,000,000 exploration commitment related to this contract has been canceled at no additional costs to the Company. As a result, the Company has no outstanding exploration commitments.

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 December 31, 2025, the Company had obligations under Letters of Credit ("LC's") outstanding totaling \$3.6 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, the ANH could decide to cancel the underlying exploration and production contract, as applicable.

Current Outstanding Letters of Credit					
Contract	Beneficiary	Issuer	Type	Amount (US \$)	Renewal Date
SANTA ISABEL	ANH	Carrao Energy	Abandonment	685,296	April 14, 2027
	ANH	Carrao Energy	Financial Capacity	1,672,162	June 30, 2026
COR – 39	ANH	Carrao Energy	Compliance	100,000	June 30, 2026
OMBU	ANH	Carrao Energy	Financial Capacity	436,300	October 14, 2026
	ANH	Carrao Energy	Abandonment	708,119	August 28, 2026
Total				3,601,878	

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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

The Company's principal operation is the production and sale of crude oil and natural gas. Fluctuations in prices of these commodities directly impact the Company's financial performance. 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 commodity derivative contracts during 2025 or 2024.

(b) Credit Risk

Credit risk reflects the risk of financial loss to the Company if a customer or counterparty to a contract fails to fulfill their contractual obligations. It arises mostly from the Company's cash balances and accounts receivable. The Company's cash balances are held with five large reputable financial institutions, and management has therefore concluded that associated credit risk is low. The majority of the Company's trade accounts receivable balances relate to petroleum and natural gas sales, which are normally collected within 25 days (in Canada) and up to 15 days (in Colombia) after the month of production. The Company's policy is to enter into agreements with customers that are well established 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 group of producing companies, that accounts for around 73% (2024: 26%) of the revenue, and commodity trader under existing sale/offtake agreements with prepayment provisions and priced using the Brent benchmark. 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 significant 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, British Pounds and the Colombian peso and is exposed to fluctuations in exchange rates in these currencies. There were no exchange rate derivative contracts in place in 2025 or 2024.

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 on financial assets or liabilities.

(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.

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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. During 2025, the Company entered into a two-year crude oil prepayment agreement with an integrated energy major to market its oil production in Colombia. The agreement provides access to \$20 million in a revolving line of credit until June 2026 and \$15 million until June 2027. The interest rate is SOFR + 4% for the first \$10 million and SOFR + 5% for amounts exceeding \$10 million. As at December 31, 2025, no funds have been withdrawn from this line of credit.

(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), 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. 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:

	December 31, 2025	December 31, 2024
Working capital	1,823,335	11,805,577
Share capital	73,829,795	73,829,795
	75,653,130	85,635,372

15. 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	
	2025	2024
Salaries and director fees	\$ 4,333,844	\$ 5,291,118
Share-based compensation	1,056,651	854,605
	\$ 5,390,495	\$ 6,145,723

During 2023, the Company granted loans to some of its executives and Directors in the form of promissory notes, which are due on demand and bear interest at the average Bank of Canada Interbank Rate (currently 5%). As of December 31, 2025, the aggregate balance of these loans was \$733,990, including interest of \$59,395 (2024: \$57,413), and is included as other accounts receivable.

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16. Segmented Information

The Company has two reportable operating segments: Colombia and Canada. The Canada segment is also considered the corporate segment. The following tables show information regarding the Company's segments for the years ended as at December 31:

Year ended December 31, 2025	Colombia		Canada		Total
Revenue from oil and natural gas	\$	78,608,566	\$	820,490	\$ 79,429,056
Royalties		(8,935,952)		(38,485)	(8,974,437)
Expenses		(53,490,976)		(3,598,018)	(57,088,994)
Impairment		(5,852,056)		(1,781,467)	(7,633,523)
Income taxes		(4,289,504)		-	(4,289,504)
Net income (loss)	\$	6,040,078	\$	(4,597,480)	\$ 1,442,598
Capital expenditures for the year 2025	\$	41,414,780	\$	1,775,416	\$ 43,190,196
Total Assets as at December 31, 2025	\$	100,640,975	\$	4,761,582	\$ 105,402,557
Total liabilities as at December 31, 2025	\$	46,362,872	\$	4,594,413	\$ 50,957,285

Year ended December 31, 2024	Colombia		Canada		Total
Revenue from oil and natural gas	\$	80,899,199	\$	659,985	\$ 81,559,184
Royalties		(7,827,627)		(6,529)	(7,834,156)
Expenses		(37,619,118)		(7,518,800)	(45,137,918)
Impairment reversal		-		662,753	662,753
Income taxes		(16,074,862)		-	(16,074,862)
Net income (loss)	\$	19,377,592	\$	(6,202,591)	\$ 13,175,001
Capital expenditures for the year 2024	\$	31,085,161	\$	36,079	\$ 31,121,240
Total Assets as at December 31, 2024	\$	75,650,729	\$	5,618,005	\$ 81,268,734
Total liabilities as at December 31, 2024	\$	24,125,685	\$	4,126,056	\$ 28,251,741