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ARROW ANNOUNCES 2023 AUDITED YEAR END AND Q4 2023 RESULTS, FILING OF AUDITED FINANCIAL STATEMENTS, MD&A AND RESERVES REPORT

Significant growth across key metrics including 79% increase in total revenue, increase in production of 61% and healthy cash position

CALGARY, April 29, 2024 - Arrow Exploration Corp. (AIM: AXL; TSXV: AXL) ("Arrow" or the "Company") the high-growth operator with a portfolio of assets across key Colombian hydrocarbon basins, announces the filing of its Annual Audited Financial Statements and Management's Discussion and Analysis ("MD&A") for the quarter and year ended December 31, 2023 and the filing of its 2023 year-end reserves report, which are available on SEDAR (www.sedar.com) and will also shortly be available on Arrow's website at www.arrowexploration.ca.

Full Year 2023 Highlights:

- Significant 79% growth in total oil and gas revenue to \$44.7 million, net of royalties (FY 2022: \$25.0 million).
- Net loss of \$1.1 million inclusive of an impairment loss of \$11.8 million (FY: 2022: net income of \$0.3 million)
- Adjusted EBITDA more than doubled to \$27 million (FY 2022: \$12.5 million), with Q4 2023 EBITDA of \$7.1 million compared to \$4.5 million in Q4 2022.
- Cash position of \$12 million at the end of 2023.
- Annual average corporate production up 61% to 2,167 boe/d (FY 2022: 1,345 boe/d) with Q4 2023 average corporate production of 2,335 boe/d compared to Q4 2022 1,736 boe/d.
- Realized corporate operating netbacks of \$45.17/boe, and \$40.49/boe in Q4 2023, due to increased production and better prices of crude oil.
- Funds flow from operations of \$19.9 million (FY 2022: \$9.5 million) with Q4 2023 funds flow from operations of \$3.8 million (FY 2022: \$2.0 million)
- Proved and probable reserves at year-end 2023 increased 54% to 11.8 MMboe; representing a reserve replacement ratio of 621%.
- Successfully drilled an exploration well at Carrizales Norte (CN), which added significant reserves to the Company, followed by drilling of two more CN wells
- Drilled six Rio Cravo Este (RCE) wells resulting in material production and reserves increases. Successfully completed two workovers in the RCE-1 and RCS-1 wells at Rio Cravo.
- Drilled two Oso Pardo (OP) wells in the Santa Isabel block, resulting in additional production.
- All operations delivered safely, with no accidents or environmental incidents.

Post Period End Highlights:

- So far in 2024, the Company has drilled six development wells on the Carrizales Norte field in the Tapir Block, which are all currently producing at restricted rates. Ramping production up slowly prevents early water breakthrough in each well.
- Currently mobilizing the drilling rig to the Carrizales Norte B (CNB) pad to start drilling the first horizontal well.

Outlook

- Arrow has a fully funded 2024 work program totaling \$45 million targeting up to 16 wells mainly in the Tapir block.
- Most development wells will be drilled in Carrizales Norte, including the Company's first horizontal wells and recently identified prospects in Baquiano and Mateguafa Attic.

Marshall Abbott, CEO of Arrow Exploration Corp., commented:

"2023 was a great year for the Company on all fronts. We saw substantial growth in production, revenue and EBITDA and our healthy balance sheet supports the aggressive capital program planned for 2024.

So far in 2024, Arrow has completed drilling of CN-4 through CN-8 and all wells are currently on production. CN-8 was a long reach well targeting the C7 formation. The well was successful in an area that before was not considered prospective and supports the stratigraphic play thesis as well as additional reserves additions. Arrow is considering a 2024 mid-year reserve report to give investors an indication of the reserves additions discovered by the CN-5 and CN-8 wells.

Arrow is now moving the drilling rig to the Carrizales Norte B (CNB) pad where the first horizontal well is expected to be spud in May and on production in June. Arrow then plans to drill up to three or four additional horizontal wells at the CNB pad and one water disposal well. Additionally, Arrow plans to convert one of the Carrizales Norte wells into a water disposal well.

Following work at the CNB pad, Arrow plans to move the drilling rig to the Baquiano pad to drill the first exploration well at Baquiano. With success, two additional Baquiano wells are planned to be drilled. Arrow expects the first horizontal well at Carrizales Norte to have a significant impact on the Company's production and the Baquiano exploration well to have further significant impact to both the Company's production and reserves. The Arrow team continues to strive towards operational excellence and increasing shareholder value."

CN-7

The CN-7 well was spud on March 19th, 2024, and reached target depth on March 26th, 2024. The well was drilled to a total measured depth of 9730 feet (8710 feet true vertical depth) and encountered multiple hydrocarbon-bearing intervals. Arrow has completed the CN-7 well in the Carbonera formation which has approximately 19 feet of net oil pay. The pay zone is a clean sandstone exhibiting consistent 28% porosity and high resistivities. An electric submersible pump (ESP) has been inserted in the well after perforating. The well has been put on production and is currently producing at 320 BOPD gross (160 BOPD net). The testing results indicate the well is capable of higher rates and the ultimate flow rate will be determined in the first few weeks of production.

CN-8

The CN-8 well was spud on April 5th, 2024, and reached target depth on April 12th, 2024. The well was drilled to a total measured depth of 10320 feet (8664 feet true vertical depth) and encountered multiple hydrocarbon-bearing intervals. Arrow has completed the CN-8 well in the Carbonera formation which has approximately 14 feet of net oil pay. The pay zone is a clean sandstone exhibiting consistent 25% porosity and high resistivities. An electric submersible pump (ESP) has been inserted in the well after perforating. The well has been put on production, is in the process of cleaning up and stabilizing, and is currently producing at 330 BOPD gross (165 BOPD net). The testing results indicate the well is capable of higher rates and the ultimate flow rate will be determined in the first few weeks of production.

Initial production results are not necessarily indicative of long-term performance or ultimate recovery.

FINANCIAL AND OPERATING HIGHLIGHTS

(in United States dollars, except as otherwise noted)	Three months ended December 31, 2023	Year ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2022
Total natural gas and crude oil revenues, net of royalties	13,406,513	44,670,006	8,931,562	24,973,464
Funds flow from operations ⁽¹⁾	3,781,033	19,990,584	1,960,289	9,493,208
Funds flow from operations ⁽¹⁾ per share -				
Basic (\$)	0.01	0.08	0.01	0.04
Diluted (\$)	0.01	0.07	0.01	0.03
Net (loss) income	(10,492,053)	(1,106,613)	2,968,117	346,524
Net (loss) income per share -				
Basic (\$)	(0.04)	(0.00)	0.01	0.00

Basic (\$)	(0.04)	(0.00)	0.01	0.00
Diluted (\$)	(0.04)	(0.00)	0.01	0.00
Adjusted EBITDA ⁽¹⁾	7,132,422	27,157,169	4,456,757	12,493,099
Weighted average shares outstanding:				
Basic	278,144,305	242,537,228	217,784,100	215,468,129
Diluted	291,404,032	289,903,094	288,239,348	279,288,480
Common shares end of period	285,864,348	285,864,348	218,401,931	218,401,931
Capital expenditures	10,471,447	27,084,959	2,106,463	7,668,988
Cash and cash equivalents	12,135,376	12,135,376	13,060,968	13,060,968
Current assets	21,629,198	21,629,198	17,504,225	17,504,225
Current liabilities	12,960,084	12,960,084	18,820,890	18,820,890
Adjusted working capital ⁽¹⁾	8,669,114	8,669,114	8,223,758	8,223,758
Restricted cash and deposits ⁽²⁾	854,834	854,834	765,586	765,586
Total assets	62,275,023	62,275,023	53,190,248	53,190,248

Operating

Natural gas and crude oil production, before royalties

Natural gas (Mcf/d)	1,819	2,150	3,270	2,958
Natural gas liquids (bbl/d)	4	4	6	5
Crude oil (bbl/d)	2,027	1,805	1,185	847
Total (boe/d)	2,335	2,167	1,736	1,345

Operating netbacks (\$/boe) ⁽¹⁾

Natural gas (\$/Mcf)	(\$0.21)	(\$0.13)	\$0.57	\$1.01
Crude oil (\$/bbl)	\$45.91	\$53.97	\$57.88	\$65.06
Total (\$/boe)	\$40.49	\$45.17	\$41.95	\$42.40

⁽¹⁾Non-IFRS measures - see "Non-IFRS Measures" section within this MD&A

⁽²⁾Long term restricted cash not included in working capital

2023 YEAR-END RESERVES

Arrow has also filed on SEDAR, the Company's Statement of Reserves Data and Other Oil and Gas Information, Report on Reserves Data by Independent Qualified Reserves Evaluator, and Report of Management and Directors on Oil and Gas Disclosure for the year ended December 31, 2023, as required by section 2.1 of National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* (together, the "Reserve Report").

To recap, the Company's Year-End 2023 Company Working Interest Gross Reserves Highlights include:

- 5,292 Mboe of Proved Reserves ("1P Reserves");
- 11,847 Mboe of Proved plus Probable Reserves ("2P Reserves");
- 17,805 Mboe of Proved plus Probable plus Possible Reserves ("3P Reserves")¹;
- 1P Reserves estimated net present value before income taxes of US\$135 million calculated at a 10% discount rate;
- 2P Reserves estimated net present value before income taxes of US\$280 million calculated at a 10% discount rate; and
- 3P Reserves estimated net present value before income taxes of US\$445 million calculated at a 10% discount rate.

Arrow refers readers to the Company's press release of March 28, 2024 for additional details, as well as to the Reserve Report filed on SEDAR.

DISCUSSION OF OPERATING RESULTS

The Company increased its production from new wells at both Rio Cravo Este and Carrizales Norte fields in the Tapir block. These have allowed the Company to continue to improve its operating results and EBITDA. There has also been a decrease in the Company's natural gas production in Canada due to natural declines.

Average Production by Property

Average Production Boe/d	YTD 2023	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Oso Pardo	110	80	93	130	138	115

Ombu (Capella)	20	-	-	-	80	238
Rio Cravo Este (Tapir)	1,342	1,326	1,443	1,592	1,004	832
Carrizales Norte (Tapir)	332	621	642	57	-	-
Total Colombia	1,805	2,027	2,178	1,779	1,222	1,185
Fir, Alberta	78	80	81	77	74	79
Pepper, Alberta	284	228	259	313	340	472
TOTAL (Boe/d)	2,167	2,335	2,518	2,169	1,635	1,736

The Company's average production for the year and the three months ended December 31, 2023 was 2,167 boe/d and 2,335 boe/d, respectively, which consisted of crude oil production in Colombia of 1,805 bbl/d and 2,027 bbl/d, natural gas production of 2,150 Mcf/d and 1,819 Mcf/d, respectively, and minor amounts of natural gas liquids from the Company's Canadian properties. The Company's total 2023 production was 67% higher than its total 2022 production.

DISCUSSION OF FINANCIAL RESULTS

During Q4 2023 the Company continued to realize strong oil and gas prices, as summarized below.

	Three months ended December 31		
	2023	2022	Change
Benchmark Prices			
AECO (C\$/Mcf)	\$2.34	\$4.42	(47%)
Brent (\$/bbl)	\$77.32	\$88.59	(13%)
West Texas Intermediate (\$/bbl)	\$78.35	\$82.65	(5%)
Realized Prices			
Natural gas, net of transportation (\$/Mcf)	\$1.68	\$3.66	(54%)
Natural gas liquids (\$/bbl)	\$68.30	\$68.28	0%
Crude oil, net of transportation (\$/bbl)	\$69.61	\$72.29	(4%)
Corporate average, net of transport (\$/boe)⁽¹⁾	\$62.72	\$57.53	9%

⁽¹⁾Non-IFRS measure

As at December 31, 2023, the Company reviewed its cash-generating units ("CGU") for property and equipment and determined that there were indicators of impairment loss in its Canada CGU and its Capella block in Colombia and recognized a loss of \$11,799,740.

OPERATING NETBACKS

The Company also continued to realize positive operating netbacks, as summarized below.

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Natural Gas (\$/Mcf)				
Revenue, net of transportation expense	\$1.68	\$3.66	\$1.94	\$3.94
Royalties	(0.05)	(0.50)	(0.02)	(0.60)
Operating expenses	(1.84)	(2.59)	(2.05)	(2.34)
Natural Gas operating netback⁽¹⁾	(\$0.21)	\$0.57	(\$0.13)	\$1.01
Crude oil (\$/bbl)				
Revenue, net of transportation expense	\$69.61	\$72.29	\$72.05	\$83.10
Royalties	(7.97)	(6.33)	(8.69)	(8.81)
Operating expenses	(15.73)	(8.08)	(9.39)	(9.24)
Crude Oil operating netback⁽¹⁾	\$45.91	\$57.88	\$53.97	\$65.06
Corporate (\$/boe)				
Revenue, net of transportation expense	\$62.72	\$57.53	\$62.31	\$60.20
Royalties	(7.07)	(5.34)	(7.30)	(6.77)
Operating expenses	(15.16)	(10.24)	(9.84)	(11.04)
Corporate Operating netback⁽¹⁾	\$40.49	\$41.95	\$45.17	\$42.40

⁽¹⁾Non-IFRS measure

The operating netbacks of the Company maintained healthy levels during 2023 due to increased production from its Colombian assets, notwithstanding lower crude oil prices, which was offset by decreases in natural gas prices and higher operating expenses for natural gas.

During 2023, the Company invested \$27 million of capital expenditures, primarily in connection with the drilling of 9 wells in the Tapir Block (6 RCE and 3 CN), two Oso Pardo wells, and acquisition of 100 km² of 3D seismic in the Tapir block to highlight existing leads and prospects for drilling. This acceleration in operational tempo is expected to continue in 2024, funded by cash on hand and cashflow.

For further information, contact:

Arrow Exploration

Marshall Abbott, CEO

+1 403 651 5995

Joe McFarlane, CFO

+1 403 818 1033

Brookline Public Relations, Inc.

Shauna MacDonald

+1 403 538 5645

**Canaccord Genuity (Nominated Advisor
and Joint Broker)**

Henry Fitzgerald-O'Connor

+44 (0)20 7523 8000

James Asensio

George Grainger

Auctus Advisors (Joint Broker)

Jonathan Wright (Corporate)

+44 (0)7711 627449

Rupert Holdsworth Hunt (Broking)

Camarco (Financial PR)

Andrew Turner

+44 (0)20 3781 8331

Rebecca Waterworth

About Arrow Exploration Corp.

Arrow Exploration Corp. (operating in Colombia via a branch of its 100% owned subsidiary Carrao Energy S.A.) is a publicly traded company with a portfolio of premier Colombian oil assets that are underexploited, under-explored and offer high potential growth. The Company's business plan is to expand oil production from some of Colombia's most active basins, including the Llanos, Middle Magdalena Valley (MMV) and Putumayo Basin. The asset base is predominantly operated with high working interests, and the Brent-linked light oil pricing exposure combines with low royalties to yield attractive potential operating margins. Arrow's 50% interest in the Tapir Block is contingent on the assignment by Ecopetrol SA of such interest to Arrow. Arrow's seasoned team is led by a hands-on executive team supported by an experienced board. Arrow is listed on the AIM market of the London Stock Exchange and on TSX Venture Exchange under the symbol "AXL".

Forward-looking Statements

This news release contains certain statements or disclosures relating to Arrow that are based on the expectations of its management as well as assumptions made by and information currently available to Arrow which may constitute forward-looking statements or information ("forward-looking statements") under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that Arrow anticipates or expects may, could or will occur in the future (in whole or in part) should be considered forward-looking statements. In some cases, forward-looking statements can be identified by the use of the words "continue", "expect", "opportunity", "plan", "potential" and "will" and similar expressions. The forward-looking statements contained in this news release reflect several material factors and expectations and assumptions of Arrow, including without limitation, Arrow's evaluation of the impacts of COVID-19, the potential of Arrow's Colombian and/or Canadian assets (or any of them individually), the prices of oil and/or natural gas, and Arrow's business plan to expand oil and gas production and achieve attractive potential operating margins. Arrow believes the expectations and assumptions reflected in the forward-looking statements are reasonable at this time, but no assurance can be given that these factors, expectations, and assumptions will prove to be correct.

The forward-looking statements included in this news release are not guarantees of future performance and should not be unduly relied upon. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The forward-looking statements contained in this news release are made as of the date hereof and the Company undertakes no obligations to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Glossary

Bbl/d or bop/d: Barrels per day

\$/Bbl: Dollars per barrel

Mcf/d: Thousand cubic feet of gas per day

Mmcf/d: Million cubic feet of gas per day

\$/Mcf: Dollars per thousand cubic feet of gas

Mboe: Thousands of barrels of oil equivalent

Boe/d: Barrels of oil equivalent per day

\$/Boe: Dollars per barrel of oil equivalent

BOE's may be misleading particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Non-IFRS Measures

The Company uses non-IFRS measures to evaluate its performance which are measures not defined in IFRS. Working capital, funds flow from operations, realized prices, operating netback, adjusted EBITDA, and net debt as presented do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The Company considers these measures as key measures to demonstrate its ability to generate the cash flow necessary to fund future growth through capital investment, and to repay its debt, as the case may be. These measures should not be considered as an alternative to, or more meaningful than net income (loss) or cash provided by

operating activities or net loss and comprehensive loss as determined in accordance with IFRS as an indicator of the Company's performance. The Company's determination of these measures may not be comparable to that reported by other companies.

This Announcement contains inside information for the purposes of the UK version of the market abuse regulation (EU No. 596/2014) as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018 ("UK MAR").

ARROW EXPLORATION CORP.

CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2023 AND 2022 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, 2023 and 2022, and the consolidated statement of operations and comprehensive (loss) 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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of

our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. 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

Recoverable amount of property and equipment in the Canada cash generating unit ("CGU")

For the year ended December 31, 2023, impairment of \$1,248,400 was recorded with respect to property and equipment in the Canada CGU. The Company's disclosures related to property and equipment and impairment are included in notes 2, 3, and 8 of the consolidated financial statements. An assessment is made at each reporting date as to whether there are any indicators for impairment. If such indicators exist, impairment charges are recognized. The recoverable amount of the Canada CGU was determined utilizing a fair value less costs of disposal model based on the net present value of future cash flows based on an independent reserve evaluation in addition to an internal valuation of undeveloped land.

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

To test the Company's estimated recoverable amount for its Canada CGU, we performed the following procedures, among others:

- Evaluated the Company's independent reserve evaluator's and internal specialist determining the value of undeveloped land's competence, capability, and objectivity, as well as obtained an understanding of the work they performed.
- Involved our internal valuation specialists to assess the methodology applied, and the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums.
- Compared forecasted benchmark commodity pricing and foreign exchange rates against other third-party price forecasts.
- Assessed forecasted production, royalties, operating costs, and future development costs by comparing them to historical results.
- Assessed the completeness and accuracy of comparable land transaction metrics utilized.
- Assessed the existence and ownership of undeveloped land included in the valuation.
- Evaluated the adequacy of the relevant note disclosures included in the consolidated financial statements in relation to this matter.

Other information

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

- Management's Discussion and Analysis

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

misrepresentations, or the exercise of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

EY

Chartered Professional Accountants

Calgary, Canada

April 28, 2024

Arrow Exploration Corp.

Consolidated Statements of Financial Position

In United States Dollars

As at	Notes	December 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		\$ 12,135,376	\$ 13,060,968
Restricted cash and deposits	4	611,753	210,654
Trade and other receivables	5	3,536,936	2,568,290
Taxes receivable	6	4,655,399	801,177
Deposits and prepaid expenses		197,402	157,459
Inventory		492,332	705,677
		21,629,198	17,504,225
Non-current assets			
Deferred income taxes	14	2,031,383	872,286
Restricted cash and deposits	4	243,081	608,127
Property and equipment	8	38,371,361	34,205,610
Total Assets		\$ 62,275,023	\$ 53,190,248

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities			
Accounts payable and accrued liabilities		\$ 9,747,906	\$ 5,850,823
Lease obligation	10	103,674	41,434
Promissory note	9	-	1,899,294
Derivative liability	12	-	9,540,423
Income taxes	14	3,108,504	1,488,916
		12,960,084	18,820,890
Non-current liabilities			
Lease obligations	10	216,919	22,317
Other liabilities		345,528	80,484
Deferred income taxes	14	3,269,894	5,066,684
Decommissioning liability	11	3,973,075	3,303,301
Total liabilities		20,765,500	27,293,676
Shareholders' equity			
Share capital	13	73,829,795	57,810,735
Contributed surplus		2,161,945	1,570,491
Deficit		(33,945,895)	(32,839,282)
Accumulated other comprehensive loss		(536,322)	(645,372)
Total shareholders' equity		41,509,523	25,896,572
Total liabilities and shareholders' equity		\$ 62,275,023	\$ 53,190,248

Commitments and contingencies (Note 15)

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

On behalf of the Board:

signed "Gage Jull" Director
Gage Jull

signed "Ian Langley" Director
Ian Langley

Arrow Exploration Corp.

Consolidated Statements of Operations and Comprehensive (Loss) Income In United States Dollars

For the years ended December 31,	Notes	2023	2022
Revenue			
Oil and natural gas	18	50,596,786	\$ 28,135,254
Royalties	18	(5,926,780)	(3,161,790)
Total oil and natural gas revenue, net of royalties		44,670,006	24,973,464
Expenses			
Operating		7,991,172	5,159,068
Environmental		113,991	-
Administrative		9,941,864	6,723,201
Listing costs		-	171,328
Share-based compensation expense	13	591,454	582,405
Financing costs:			
Accretion	11	127,478	199,521
Interest	9, 10	141,117	460,233
Other		317,676	330,797
Foreign exchange (gain) loss		(640,941)	590,034
Depletion and depreciation	8	12,186,777	5,528,489
Impairment (reversal) of oil and gas properties, net	8	11,799,740	(9,020,654)
(Gain) loss on derivative liability	12	(1,041,992)	5,974,674
Other expenses (income)		106,751	(163,266)
Total expenses, net		41,635,087	16,535,830
Income before income tax		3,034,919	8,437,634
Income tax expense (recovery)			
Current	14	7,097,419	2,428,862

Deferred	14	(2,955,887)	5,662,248
		<u>4,141,532</u>	<u>8,091,110</u>
Net (loss) income		(1,106,613)	346,524
Other comprehensive income			
Foreign exchange		<u>109,050</u>	158,364
Total other comprehensive income		<u>109,050</u>	<u>158,364</u>
Total comprehensive (loss) income		(997,563)	\$ 504,888
Net (loss) income per share:			
Basic		\$ (0.00)	\$ 0.00
Diluted		\$ (0.00)	\$ 0.00
Weighted average shares outstanding			
Basic		242,537,228	215,468,129
Diluted		289,903,094	279,288,480

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, 2023	\$ 57,810,735	\$ 1,570,491	\$ (645,372)	\$ (32,839,282)	\$ 25,896,572
Net loss	-	-	-	(1,106,613)	(1,106,613)
Other comprehensive income	-	-	109,050	-	109,050
Total comprehensive loss	-	-	109,050	(1,106,613)	(997,563)
Issuances of common shares, net	16,019,060	-	-	-	16,019,060
Share-based compensation	-	591,454	-	-	591,454
Balance December 31, 2023	\$ 73,829,795	\$ 2,161,945	\$ (536,322)	\$ (33,945,895)	\$ 41,509,523

	Share Capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance January 1, 2022	\$ 56,698,237	\$ 1,249,418	\$ (803,736)	\$ (33,185,806)	\$ 23,958,113
Net income	-	-	-	346,524	346,524
Other comprehensive income	-	-	158,364	-	158,364
Total comprehensive income	-	-	158,364	346,524	504,888
Issuances of common shares, net	1,112,498	-	-	-	1,112,498
Options settled in cash	-	(6,621)	-	-	(6,621)
Share-based compensation	-	327,694	-	-	327,694
Balance December 31, 2022	\$ 57,810,735	\$ 1,570,491	\$ (645,372)	\$ (32,839,282)	\$ 25,896,572

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

Consolidated Statements of Cash Flows
In United States Dollars

For the year ended December 31,	Notes	2023	2022
Cash flows provided by operating activities:			
Net (loss) income		\$ (1,106,613)	\$ 346,524
Items not involving cash:			
Deferred taxes	14	(2,955,887)	5,662,248
Share-based compensation	13	591,454	327,694
Depletion and depreciation	8	12,186,777	5,528,489
Impairment loss (reversal) of oil and gas properties	8	11,799,740	(9,020,654)
Interest on leases	10	22,011	9,696
Interest on promissory note	9	119,106	469,258
Accretion	11	127,478	199,521
Unrealized foreign exchange loss		154,064	79,581
(Gain) loss on derivative liability	12	(1,041,992)	5,974,674
Long-term debt forgiveness		-	(7,692)
Environmental		113,991	-
Payment of asset decommissioning obligations	11	(19,545)	(76,131)
Changes in non cash working capital balances:			
Restricted cash and deposits		(36,052)	(86,228)
Trade and other receivables		(1,001,992)	(1,928,707)
Taxes receivable		(3,854,222)	(82,129)
Deposits and prepaid expenses		(39,943)	164,840
Inventory		213,345	(458,613)
Income tax payable		1,619,588	1,488,916
Accounts payable and accrued liabilities		(414,757)	3,445,263
Cash provided by operating activities		16,476,551	12,036,550
Cash flows used in investing activities:			
Additions to exploration and evaluation assets	7	(3,212,808)	-
Additions to property and equipment	8	(23,872,151)	(7,668,988)
Changes in non-cash working capital		4,500,093	(715,217)
Cash flows used in investing activities		(22,584,866)	(8,384,205)
Cash flows provided by (used in) financing activities:			
Issuances of common shares	13	7,479,802	510,786
Payment of promissory note	9	(2,018,577)	(1,888,750)
Lease payments	10	(74,211)	(39,697)
Payment of long-term debt		-	(23,076)
Cash flows provided by (used in) financing activities		5,387,014	(1,440,737)
Effect of changes in the exchange rate on cash		(204,291)	(29,148)
(Decrease) increase in cash		(925,592)	2,182,460
Cash, beginning of period		13,060,968	10,878,508
Cash, end of period		12,135,376	13,060,968
Supplemental information			
Interest paid		\$ 415,026	\$ 285,205
Taxes paid		\$ 2,454,658	\$ -

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

1. Corporate Information

Arrow Exploration Corp. ("Arrow" or "the Company") is a public junior oil and gas company engaged in the acquisition, exploration and development of oil and gas properties in Colombia and in Western Canada. The Company's shares trade on the TSX Venture Exchange and the AIM Market of the London Stock Exchange plc under the symbol AXL. The head office of Arrow is located at 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") 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, 2024.

Basis of measurement

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

Functional and presentation currency

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

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

Use of estimates and judgments

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

Exploration and evaluation assets

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

Depletion and depreciation

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

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

Cash Generating Unit ("CGU")

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

Impairment of Property, plant and equipment and exploration and evaluation assets

Indicators of impairment are assessed by management using judgment, considering future plans, market conditions and commodity prices. In assessing the recoverability, each CGU's carrying amount is compared to its recoverable amount, defined as the greater of its fair value less costs of

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

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 fair value

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

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;
- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

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

Financial liabilities

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

Derivative liability

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

Exploration and evaluation assets

Pre-license costs are recognized in the statement of operations and comprehensive (loss) 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 (loss) income as pre-license expense.

Property and equipment

Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment

losses, net of reversals. The cost of development and production assets includes: transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads. Development and production assets are grouped into CGU's for impairment testing. Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the statement of operations and comprehensive (loss) income.

Subsequent costs:

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

Depletion and depreciation:

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

Impairment

Financial assets

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. 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

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.

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

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive (loss) 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.

Provisions

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

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision.

Revenue

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

Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations and comprehensive (loss) 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.

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.

Adopted Accounting Standards

The Company has adopted the following amendments to accounting standards, issued by the IASB, that were effective for annual periods beginning on or after January 1, 2023, and did not have a material impact on the Company's consolidated financial statements.

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

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

Future Accounting Standards

The Company plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2024. The pronouncements will be adopted on their respective effective dates and their impact to the financial statements is currently under assessment.

Amendments to IAS 1 Presentation of Financial Statements: In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statements of financial position. In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. These will be effective on January 1, 2024 and its impact is not considered material to the Company's consolidated financial statements.

	December 31, 2023	December 31, 2022
Colombia (i)	\$ 312,530	\$ 248,462
Canada (ii)	542,304	570,319
Sub-total	854,834	818,781
Long-term portion	(243,081)	(608,127)
Current portion of restricted cash and deposits	\$ 611,753	\$ 210,654

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

(i i) Pursuant to Alberta government regulations, the Company was required to keep a \$337,031 (CAD \$445,749; 2022: \$424,398) deposit with respect to the Company's liability rating management ("LMR"). The deposit is held by a Canadian chartered bank with interest paid to the Company on a monthly basis based on the bank's deposit rate. The remaining \$205,273 (2022: \$256,986) pertain to commercial deposits with customers, lease and other deposits held in Canada.

5. Trade and other receivables

	December 31, 2023	December 31, 2022
Trade receivables, net of advances	\$ 2,238,918	\$ 847,432
Other accounts receivable	1,298,018	1,720,858
	\$ 3,536,936	\$ 2,568,290

As at December 31, 2023, other accounts receivable include a \$682,197 (December 31, 2022 - nil) receivable from on demand loans with executives and directors (see Note 17). As at December 31, 2022, other accounts receivable includes a \$1,070,825 receivable from its partner in the Tapir block corresponding to reimbursable capital expenditures.

6. Taxes receivable

	December 31, 2023	December 31, 2022
Value-added tax (VAT) credits recoverable	\$ 1,703,260	\$ -
Income tax withholdings and advances, net	2,952,139	801,177
	\$ 4,655,399	\$ 801,177

The VAT recoverable balance in 2023 pertains to non-compensated value-added tax credits originated in Colombia as operational and capital expenditures are incurred. The Company is entitled to compensate or claim for the reimbursement of these VAT credits.

7. Exploration and Evaluation

	December 31, 2023	December 31, 2022
Balance, beginning of the period	\$ -	\$ 6,964,506
Additions, net	3,212,808	-
Reclassification to Property and Equipment (Note 8)	(3,212,808)	(6,964,506)
Balance, end of the period	\$ -	\$ -

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

8. Property and Equipment

Cost	Oil and Gas Properties	Right of Use and Other Assets	Total
Balance, December 31, 2021	\$ 32,160,917	\$ 183,485	\$ 32,344,402
Additions	7,663,062	50,671	7,713,733
Transfers from exploration and evaluation assets	6,964,506	-	6,964,506
Decommissioning adjustment	756,541	-	756,541
Balance, December 31, 2022	\$ 47,545,026	\$ 234,156	\$ 47,779,182
Additions	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

Accumulated depletion and depreciation and impairment

Balance, December 31, 2021	\$ 16,692,145	\$ 114,965	\$ 16,807,110
Depletion and depreciation	5,482,218	46,271	5,528,489
Reversal of impairment losses of oil and gas properties	(9,020,654)	-	(9,020,654)
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	\$ 37,301,461

Foreign exchange

Balance December 31, 2021	\$ 318,617	\$ (3,457)	\$ 315,160
Effects of movements in foreign exchange rates	(568,525)	(5,262)	(573,787)
Balance December 31, 2022	\$ (249,908)	\$ (8,719)	\$ (258,627)
Effects of movements in foreign exchange rates	88,671	5,697	94,368
Balance December 31, 2023	\$ (161,237)	\$ (3,022)	\$ (164,259)

Net Book Value

Balance December 31, 2022	\$ 34,141,409	\$ 64,201	\$ 34,205,610
Balance December 31, 2023	\$ 38,057,308	\$ 314,053	\$ 37,371,361

Canada

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 (loss) income for the year ended December 31, 2023. The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2023:

Year	Exchange rate \$US / \$Cdn	AECO Spot Gas C\$/MMBtu
2024	0.75	2.08
2025	0.75	3.30
2026	0.75	4.27

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 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% (2022: 15%) 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 December 31, 2023.

At December 31, 2023, a one percent increase in the discount rate would have resulted in a \$102,320 change in the impairment expense, a five percent decrease in the value/acre assigned would have resulted in a \$61,100 change in the impairment expense and a five percent decrease in the forecasted cash flows from reserves would have resulted in a \$61,200 change in the impairment expense.

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

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. At December 31, 2023, the Company determined there were indicators of impairment in the Capella CGU based on updates from the operator once access to the field was restored in late 2023 causing uncertainty in timing and resources required to resume operations, as well as the extent of which operations may be able to be resumed. The Company has recorded an impairment loss of \$10,551,340 corresponding to the full carrying value of the Capella CGU as at December 31, 2023.

As at December 31, 2022, the Company determined that there were indicators of impairment reversal previously recognized in its Capella block in Colombia, mostly driven by the recovery in energy commodity prices. The Company prepared estimates of fair value less costs of disposal of its Capella and determined that recoverable amount of the Capella field exceeded its carrying value and, therefore, recognized an impairment loss reversal of \$10,409,615. The recoverable amounts of property and equipment and impairment losses (reversals) recorded during 2023 and 2022 are summarized as follows:

CGU	2023		2022	
	Recoverable Amount	Impairment Loss	Recoverable Amount	Impairment Loss (Reversal)
Canada	2,108,166	1,248,400	4,092,254	1,388,961
Capella	-	10,551,340	33,876,730	(10,409,615)
		<u>11,799,740</u>		<u>(9,020,654)</u>

9. Promissory Note

The promissory note was issued to Canacol Energy Ltd. ("Canacol"), a related party to the Company, as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The

promissory note bore interest at 15% per annum, and, on October 18, 2021, Arrow and Canacol entered into a Seventh Amended and Restated Promissory Note agreement. During December 2022, the Company made a payment of \$1,888,750 to Canacol equivalent to 50% of the outstanding balance of the promissory note, and on June 30, 2023, the Company paid the remaining balance of \$2,018,577, including interest.

10. Lease Obligations

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

	2023	2022
Obligation, beginning of the year	\$ 63,751	\$ 54,692
Additions	302,930	-
Changes in existing lease	-	44,701
Lease payments	(74,211)	(39,697)
Interest	22,011	9,696
Effects of movements in foreign exchange rates	6,112	(5,641)
Obligation, end of the year	320,593	\$ 63,751
Current portion	(103,674)	(41,434)
Long-term portion	216,919	\$ 22,317

As at December 31, 2023, the Company has the following future lease obligations:

Less than one year	\$ 104,345
2 - 5 years	326,944
Total lease payments	431,289
Amounts representing interest over the term	(110,696)
Present value of the net obligation	<u>\$ 320,593</u>

11. Decommissioning Liability

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

	December 31, 2023	December 31, 2022
Obligation, beginning of the year	\$ 3,303,301	\$ 2,470,239
Additions	1,000,889	557,845
Change in estimated cash flows	(262,066)	198,696
Payments or settlements	(19,545)	(76,131)
Dispositions	(191,081)	-
Accretion expense	127,478	199,521
Effects of movements in foreign exchange rates	14,099	(46,869)
Obligation, end of the year	<u>3,973,075</u>	<u>\$ 3,303,301</u>

The obligation was calculated using a risk-free discount rate range of 1.25% to 4.50% in Canada (2022: 2.50% to 3.75%) and between 4.00% and 4.29% in Colombia (2022: 3.55% and 4.13%) with an inflation rate of 2.5% and 2.6%, respectively (2021: 3.0% and 3.5%). 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 \$5,686,938 (2022: \$4,480,074).

12. Derivative liability

Derivative liability includes warrants issued and outstanding as follows:

	December 31, 2023		December 31, 2022	
	Number	Amounts	Number	Amounts
Warrants				
Balance beginning of the period	67,837,418	\$ 9,540,423	72,474,706	\$ 4,692,303
Exercised	(67,462,418)	(8,539,257)	(4,637,288)	(598,509)
Expired	(375,000)	(50,589)		
Fair value adjustment	-	(1,041,992)	-	5,974,674
Foreign exchange	-	91,415	-	(528,045)
Balance end of the period	-	\$ -	67,837,418	\$ 9,540,423

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

	December 31, 2022
Number outstanding re-valued warrants	67,837,418
Fair value of warrants outstanding	£0.1157
Risk free interest rate	3.41%
Expected life	0.82 years
Expected volatility	147%

There are no warrants outstanding nor exercisable at December 31, 2023.

13. Share Capital

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

(b) Issued:

	2023		2022	
	Shares	Amounts	Shares	Amounts
Common shares				
Balance beginning of the year	218,401,931	57,810,735	213,389,643	56,698,237
Issued from warrants exercised	67,462,417	16,019,060	4,637,288	1,094,574
Issued from options exercised	-	-	375,000	17,924
Balance at end of the year	285,864,348	73,829,795	218,401,931	57,810,735

(b) Stock options:

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase a number of non-transferable common shares not exceeding 10% of the common shares that are outstanding. The exercise price is based on the closing price of the Company's common shares on the day prior to the day of the grant. A summary of the Company stock option plan as at December 31, 2023 and 2022 and changes during the years ended on those dates is presented below:

	December 31, 2023		December 31, 2022	
	Number of options	Weighted average exercise price (CAD \$)	Number of options	Weighted average exercise price (CAD \$)
Stock Options				
Beginning of period	20,590,000	\$0.24	17,114,000	\$0.18
Granted	1,650,000	\$0.33	10,028,332	\$0.27
Expired/Forfeited	(1,375,000)	\$0.46	(2,794,000)	\$0.12
Exercised	(333,332)	\$0.28	(3,758,332)	\$0.11
End of period	20,531,668	\$0.24	20,590,000	\$0.24
Exercisable, end of period	9,879,441	\$0.23	3,395,000	\$0.42

	Number Outstanding	Exercise Price (CAD \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2023
October 22, 2018	750,000	\$1.15		Oct. 22, 2028	750,000
May 3, 2019	270,000	\$0.31		May 3, 2029	270,000
March 20, 2020	1,200,000	\$0.05		Mar. 20, 2030	1,200,000
April 13, 2020	2,000,000	\$0.05		April 13, 2030	2,000,000
December 13, 2021	5,966,668	\$0.13		June 13, 2024 and 2025	2,983,332
June 9, 2022	1,966,668	\$0.28		Dec. 9, 2023, 2024 and 2025	433,333
September 7, 2022	1,250,000	\$0.26		Mar. 7, 2024, 2025 and 2026	416,666
December 21,	5,478,332	\$0.28		June 21, 2024, 2025 and	1,826,110

2022			2026		
January 23, 2023	650,000	\$0.32	July 23, 2024, 2025 and 2026		-
September 21, 2023	1,000,000	\$0.33	Mar. 21, 2025, 2026 and 2027		-
Total	20,531,668	\$0.23	2.23 years		9,879,441

During 2023, the Company recognized \$591,454 as share-based compensation expense (2022 - \$582,405), with a corresponding effect in the contributed surplus account.

14. Income taxes

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

	2023	2022
Income before income taxes	\$ 3,034,919	\$ 8,437,634
Corporate income tax rate	23%	23%
Computed expected tax expense	698,031	1,940,656
Increase (decrease) in income taxes resulting from:		
Share-based compensation	136,034	133,953
(Recognized)/unrecognized deferred tax benefits	1,062,373	1,144,776
Tax rate difference on foreign jurisdictions	2,776,675	2,396,640
Other permanent difference	235,092	1,601,222
Change in deferred tax asset	-	932,088
Foreign exchange and others	(766,673)	(58,225)
Income tax expense (recovery)	\$ 4,141,532	\$ 8,091,110

As at December 31, 2023, the Company recognized a deferred income tax asset of \$2,031,383 (2022: \$872,286) as it was probable that the Company met the recognition criterion in a legal entity in Colombia based on management's projection of future taxable profit. The Company did not recognize \$1,003,769 (2022: nil) of deferred tax assets relating to temporary differences in this legal entity.

As at December 31, 2023, the Company recognized a deferred tax liability of \$3,269,894 (2022: \$5,066,684) 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 45% in 2023 (2022: 35% and 45% respectively). The components of the Company's deferred income tax assets and liabilities are as follows:

As at December 31	2023	2022
Property and equipment	\$ (2,784,879)	\$ (9,089,462)
Decommissioning liabilities and other provisions	1,530,755	1,285,642
Carryforward non-capital losses	1,019,383	3,609,422
Net change in deferred tax	\$ (234,741)	\$ (4,194,398)
Deferred tax liability	3,269,894	5,066,684
Unrecognized deferred tax asset	(1,003,770)	-
Deferred tax asset	\$ 2,031,383	\$ 872,286

At December 31, 2023, the Company had non-capital losses carried forward of approximately \$48,458,462 (2022 - \$47,846,426) available to reduce future years taxable income. These losses commence expiring in 2029. At December 31, 2023, the Company had income tax credits and benefits, including non-capital losses, of approximately \$59,964,309 (2022 - \$53,664,028) related to Canada that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

15. Commitments and Contingencies

The Company has entered into a number of exploration contracts in Colombia which require the Company to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Company has outstanding exploration commitments at December 31, 2023 of \$12 million. During 2023, the ANH approved to cancel the Macaya and Los Picachos blocks contracts by mutual agreement, cancelling \$5.8 million in commitments for the Company. 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 December 31, 2023:

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

Contingencies

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

Letters of Credit

At December 31, 2023, the Company had obligations under Letters of Credit ("LC's") outstanding totaling \$2.8 million to guarantee work commitments on exploration blocks and other contractual commitments. In the event the Company fails to secure the renewal of the letters of credit underlying the ANH guarantees, or any of them, the ANH could decide to cancel the underlying exploration and production contract for a particular block, as applicable.

Current Outstanding Letters of Credit

Contract	Beneficiary	Issuer	Type	Amount (US \$)	Renewal Date
SANTA ISABEL	ANH	Carrao Energy	Abandonment	\$563,894	April 14, 2025
		Carrao Energy	Financial Capacity	\$1,672,162	June 30, 2024
CORE - 39	ANH	Carrao Energy	Compliance	\$100,000	June 30, 2024
OMBU	ANH	Carrao Energy	Financial Capacity	\$436,300	October 14, 2024
Total				\$2,772,356	

16. Risk Management

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

(a) Commodity price risk

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

(b) Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Company's account receivable balances relate to petroleum and natural gas sales. 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.

(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

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:

	December 31, 2023	December 31, 2022
Working capital	\$ 8,669,114	\$ (1,316,665)
Derivative liability	-	9,540,423
	<u>\$ 8,669,114</u>	<u>\$ 8,223,758</u>

17. Key Management Personnel

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

	Years ended December 31	
	2023	2022
Salaries, severances and director fees	\$ 2,945,303	\$ 2,389,033
Share-based compensation	373,093	568,565
	<u>\$ 3,318,396</u>	<u>\$ 2,957,598</u>

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%). The current aggregate balance receivable of these loans is \$682,197, including interest of \$9,650, and is included as other account receivables.

18. Segmented Information

The Company has two reportable operating segments: Colombia and Canada. The Company, through its operating segments, is engaged primarily in oil exploration, development and production, and the acquisition of oil and gas properties. The Canada segment is also considered the corporate segment. The following tables show information regarding the Company's segments for the years ended and as at December 31:

Year ended December 31, 2023	Colombia	Canada	Total
Revenue:			
Oil Sales	\$ 48,979,764	\$ -	\$ 48,979,764
Natural gas and liquid sales	-	1,617,022	1,617,022
Royalties	(5,909,659)	(17,121)	(5,926,780)
Expenses	(23,278,021)	(6,557,326)	(29,835,347)
Impairment loss of oil and gas properties	(10,551,340)	(1,248,400)	(11,799,740)
Income taxes	(4,141,532)	-	(4,141,532)
Net income (loss)	\$ 5,099,212	\$ (6,205,825)	\$ (1,106,613)

As at December 31, 2023	Colombia	Canada	Total
Current assets	\$ 16,704,873	\$ 4,924,325	\$ 21,629,198
Non-current:			
Deferred income taxes	2,031,383	-	2,031,383
Restricted cash	37,808	205,273	243,081
Exploration and evaluation	-	-	-
Property, plant and equipment	35,321,510	3,049,851	38,371,361
Total Assets	\$ 54,095,574	\$ 8,179,449	\$ 62,275,023
Current liabilities	\$ 11,507,227	\$ 1,452,857	\$ 12,960,084
Non-current liabilities:			
Deferred income taxes	3,269,894	-	3,269,894
Other liabilities	345,528	-	345,528
Lease obligation	-	216,919	216,919
Decommissioning liability	3,316,026	657,049	3,973,075
Total liabilities	\$ 18,438,675	\$ 2,326,825	\$ 20,765,500

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

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

ARROW EXPLORATION CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") as provided by the management of Arrow Exploration Corp. ("Arrow" or the "Company"), is dated as of April 28, 2024 and should be read in conjunction with Arrow's annual consolidated financial statements and related notes for the year ended December 31, 2023 and 2022. Additional information relating to Arrow is available under Arrow's profile on www.sedar.com.

Advisories

Basis of Presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in United States dollars, unless otherwise noted. Additional information for the Company may be found on SEDAR at www.sedar.com.

Advisory Regarding Forward-Looking Statements

This MD&A contains certain statements or disclosures relating to Arrow that are based on the expectations of its management as well as assumptions made by and information currently available to Arrow which may constitute forward-looking statements or information ("forward-looking statements") under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that Arrow anticipates or expects may, could or will occur in the future (in whole or in part) should be considered forward-looking statements. In some cases, forward-looking statements can be identified by the use of the words "believe", "continue", "could", "expect", "likely", "may", "outlook", "plan", "potential", "will", "would" and similar expressions. In particular, but without limiting the foregoing, this MD&A contains forward-looking statements pertaining to the following: the COVID-19 pandemic and its impact; tax liability; capital management strategy; capital structure; credit facilities and other debt; performance by Canacol (as defined herein) and the Company in connection with the Note (as defined herein) and letters of credit; Arrow's costless collar structure;; cost reduction initiatives; potential drilling on the Tapir block; capital requirements; expenditures associated with asset retirement obligations; future drilling activity and the development of the Rio Cravo Este structure on the Tapir Block. Statements relating to "reserves" and "resources" are deemed to be forward-looking information, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future.

The forward-looking statements contained in this MD&A reflect several material factors and expectations and assumptions of Arrow including, without limitation: current and anticipated commodity prices and royalty regimes; the impact of the COVID-19 pandemic; the financial impact of Arrow's costless collar structure; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; commodity prices; the impact of increasing competition; general economic conditions; availability of drilling and related equipment; receipt of partner, regulatory and community approvals; royalty rates; changes in income tax laws or changes in tax laws and incentive programs; future operating costs; effects of regulation by governmental agencies; uninterrupted access to areas of Arrow's operations and infrastructure; recoverability of reserves; future production rates; timing of drilling and completion of wells; pipeline capacity; that Arrow will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that Arrow's conduct and results of operations will be consistent with its expectations; that Arrow will have the ability to develop its oil and gas properties in the manner currently contemplated; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated: that the estimates of Arrow's reserves and production volumes and the assumptions related

object or as anticipated, that the estimates of Arrow's reserves and production volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; that Arrow will be able to obtain contract extensions or fulfil the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; and other matters.

Arrow believes the material factors, expectations and assumptions reflected in the forward-looking statements are reasonable at this time but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation: the impact of general economic conditions; volatility in commodity prices; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; obtaining required approvals of regulatory authorities; counterparty risk; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; commodity price volatility; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs; changes to pipeline capacity; ability to secure a credit facility; ability to access sufficient capital from internal and external sources; risk that Arrow's evaluation of its existing portfolio of development and exploration opportunities is not consistent with future results; that production may not necessarily be indicative of long term performance or of ultimate recovery; and certain other risks detailed from time to time in Arrow's public disclosure documents including, without limitation, those risks identified in Arrow's 2018 AIF, a copy of which is available on Arrow's SEDAR profile at www.sedar.com. Readers are cautioned that the foregoing list of factors is not exhaustive and are cautioned not to place undue reliance on these forward-looking statements.

Non-IFRS Measures

The Company uses non-IFRS measures to evaluate its performance which are measures not defined in IFRS. Working capital, funds flow from operations, realized prices, operating netback, adjusted EBITDA, and net debt as presented do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The Company considers these measures as key measures to demonstrate its ability to generate the cash flow necessary to fund future growth through capital investment, and to repay its debt, as the case may be. These measures should not be considered as an alternative to, or more meaningful than net income or cash provided by (used in) operating activities or net income and comprehensive income as determined in accordance with IFRS as an indicator of the Company's performance. The Company's determination of these measures may not be comparable to that reported by other companies.

Adjusted working capital is calculated as current assets minus current liabilities, excluding non-cash liabilities; funds from operations is calculated as cash flows provided by operating activities adjusted to exclude changes in non-cash working capital balances; realized price is calculated by dividing gross revenue by gross production, by product, in the applicable period; operating netback is calculated as total natural gas and crude revenues minus royalties, transportation costs and operating expenditures; adjusted EBITDA is calculated as net income adjusted for interest, income taxes, depreciation, depletion, amortization and other similar non-recurring or non-cash charges; and net debt (net cash) is defined as the principal amount of its outstanding debt, less working capital items excluding non-cash liabilities.

The Company also presents funds from operations per share, whereby per share amounts are calculated using weighted-average shares outstanding consistent with the calculation of net income per share.

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

(in United States dollars)	Three months ended December 31, 2023	Year ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2022
Net (loss) income	(10,492,053)	(1,106,613)	2,968,117	346,524
Add/(subtract):				
Share based payments	151,094	591,454	367,693	582,405
Financing costs:				
Accretion on decommissioning obligations	31,840	127,478	55,274	199,521
Interest	9,420	141,117	92,320	460,233
Other	79,540	317,676	45,693	330,797
Depreciation and depletion	2,119,374	12,186,777	1,878,557	5,528,489
(Gain) loss on derivative liability	(932,379)	(1,041,992)	1,005,740	5,974,674
Impairment (reversal) of oil and gas properties	11,799,740	11,799,740	(9,020,654)	(9,020,654)
Income tax expense, current and deferred	4,365,846	4,141,532	7,064,017	8,091,110
Adjusted EBITDA ⁽¹⁾	7,132,422	27,157,169	4,456,757	12,493,099
Cash flows provided by operating activities	2,581,686	16,476,551	7,011,946	12,036,550
Minus - Changes in non cash working capital balances:				
Trade and other receivables	772,704	1,001,992	(1,519,574)	1,928,707
Restricted cash	(1,138)	36,052	220,588	86,228
Taxes receivable	2,920,256	3,854,222	(279,138)	82,129
Deposits and prepaid expenses	72,504	39,943	(4,412)	(164,840)
Inventory	(393,185)	(213,345)	38	458,613
Accounts payable and accrued liabilities	(239,606)	414,757	(1,980,243)	(3,445,263)

Income tax payable	(1,932,188)	(1,619,588)	(1,488,916)	(1,488,916)
Funds flow from operations ⁽¹⁾	3,781,033	19,990,584	1,960,289	9,493,208

⁽¹⁾Non-IFRS measures

The term barrel of oil equivalent ("boe") is used in this MD&A. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 thousand cubic feet ("Mcf") of natural gas to one barrel of oil ("bbl") is used in the MD&A. This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

FINANCIAL AND OPERATING HIGHLIGHTS

(in United States dollars, except as otherwise noted)	Three months ended December 31, 2023	Year ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2022
Total natural gas and crude oil revenues, net of royalties	13,406,513	44,670,006	8,931,562	24,973,464
Funds flow from operations ⁽¹⁾	3,781,033	19,990,584	1,960,289	9,493,208
Funds flow from operations ⁽¹⁾ per share -				
Basic(\$)	0.01	0.08	0.01	0.04
Diluted (\$)	0.01	0.07	0.01	0.03
Net (loss) income	(10,492,053)	(1,106,613)	2,968,117	346,524
Net (loss) income per share -				
Basic (\$)	(0.04)	(0.00)	0.01	0.00
Diluted (\$)	(0.04)	(0.00)	0.01	0.00
Adjusted EBITDA ⁽¹⁾	7,132,422	27,157,169	4,456,757	12,493,099
Weighted average shares outstanding:				
Basic	278,144,305	242,537,228	217,784,100	215,468,129
Diluted	291,404,032	289,903,094	288,239,348	279,288,480
Common shares end of period	285,864,348	285,864,348	218,401,931	218,401,931
Capital expenditures	10,471,447	27,084,959	2,106,463	7,668,988
Cash and cash equivalents	12,135,376	12,135,376	13,060,968	13,060,968
Current assets	21,629,198	21,629,198	17,504,225	17,504,225
Current liabilities	12,960,084	12,960,084	18,820,890	18,820,890
Adjusted working capital ⁽¹⁾	8,669,114	8,669,114	8,223,758	8,223,758
Restricted cash and deposits ⁽²⁾	854,834	854,834	765,586	765,586
Total assets	62,275,023	62,275,023	53,190,248	53,190,248
Operating				
Natural gas and crude oil production, before royalties				
Natural gas (Mcf/d)	1,819	2,150	3,270	2,958
Natural gas liquids (bbl/d)	4	4	6	5
Crude oil (bbl/d)	2,027	1,805	1,185	847
Total (boe/d)	2,335	2,167	1,736	1,345
Operating netbacks (\$/boe) ⁽¹⁾				
Natural gas (\$/Mcf)	(\$0.21)	(\$0.13)	\$0.57	\$1.01
Crude oil (\$/bbl)	\$45.91	\$53.97	\$57.88	\$65.06
Total (\$/boe)	\$40.49	\$45.17	\$41.95	\$42.40

⁽¹⁾Non-IFRS measures - see "Non-IFRS Measures" section within this MD&A

⁽²⁾Long term restricted cash not included in working capital

The Company

Arrow is a junior oil and gas company engaged in the acquisition, exploration and development of oil and gas properties in Colombia and Western Canada. The Company's shares trade on the TSX Venture Exchange and the London AIM exchange under the symbol AXL.

The Company and Arrow Exploration Ltd. entered into an arrangement agreement dated June 1, 2018, as amended, whereby the parties completed a business combination pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) ("ABCA") on September 28, 2018. Arrow Exploration Ltd. and Front Range's then wholly-owned subsidiary, 2118295 Alberta Ltd., were amalgamated to form Arrow Holdings Ltd., a wholly-owned subsidiary

of the Company (the "Arrangement"). On May 31, 2018, Arrow Exploration Ltd. entered in a share purchase agreement, as amended, with Canacol Energy Ltd. ("Canacol"), to acquire Canacol's Colombian oil properties held by its wholly-owned subsidiary Carrao Energy S.A. ("Carrao"). On September 27, 2018, Arrow Exploration Ltd. closed the agreement with Canacol.

On May 31, 2018, Arrow Exploration Ltd., entered into a purchase and sale agreement to acquire a 50% beneficial interest in a contract entered into with Ecopetrol S.A. pertaining to the exploration and production of hydrocarbons in the Tapir block from Samaria Exploration & Production S.A. ("Samaria"). On September 27, 2018, Arrow Exploration Ltd. closed the agreement with Samaria. As at December 31, 2023 the Company held an interest in four oil blocks in Colombia and oil and natural gas leases in five areas in Canada as follows:

		Gross Acres	Working Interest	Net Acres
COLOMBIA				
Tapir	Operated ¹	65,125	50%	32,563
Oso Pardo	Operated	672	100%	672
Ombu	Non-operated	56,482	10%	5,648
COR-39	Operated	95,111	100%	95,111
Total Colombia		217,390		133,994
CANADA				
Ansell	Operated	640	100%	640
Fir	Non operated	7,680	32%	2,458
Penhold	Non-operated	480	13%	61
Pepper	Operated	19,200	100%	19,200
Wapiti	Non-operated	1,280	13%	160
Total Canada		29,280		22,519
TOTAL		246,670		156,513

The Company's primary producing assets are located in Colombia in the Tapir, Oso Pardo and Ombu blocks, with natural gas production in Canada at Fir and Pepper, Alberta.

Llanos Basin

Within the Llanos Basin, the Company is engaged in the exploration, development and production of oil within the Tapir block. In the Llanos Basin most oil accumulations are associated with three-way dip closure against NNE-SSW trending normal faults and can have pay within multiple reservoirs. The Tapir block contain large areas not yet covered by 3D seismic, and in Management's opinion offer substantial exploration upside.

¹The Company's interest in the Tapir block is held through a private contract with Petrolco, who holds a 50% participating interest in, and is the named operator of, the Tapir contract with Ecopetrol. The formal assignment to the Company is subject to Ecopetrol's consent. The Company is the *de facto* operator pursuant to certain agreements with Petrolco (details of which are set out in Paragraph 16.13 of the Company's AIM Admission Document dated October 20, 2021).

Middle Magdalena Valley ("MMV") Basin

Oso Pardo Field

The Oso Pardo Field is located in the Santa Isabel Block in the MMV Basin. It is a 100% owned property operated by the Company. The Oso Pardo field is located within a Production Licence covering 672 acres. Three wells have been drilled to date within the licensed area.

Ombu E&P Contract - Capella Conventional Heavy Oil Discovery

The Caguan Basin covers an area of approximately 60,000 km² and lies between the Putumayo and Llanos Basins. The primary reservoir target is the Upper Eocene aged Mirador formation. The Capella structure is a large, elongated northeast-southwest fault-related anticline, with approximately 17,500 acres in closure at the Mirador level. The field is located approximately 250 km away from the nearest offloading station at Neiva, where production from Capella is trucked.

The Capella No. 1 discovery well was drilled in July 2008 and was followed by a series of development wells. The Company earned a 10% working interest in the Ombu E&P Contract by paying 100% of all activities associated with the drilling, completion, and testing of the Capella No. 1 well. The Capella field is currently suspended and temporarily shut in.

Fir, Alberta

The Company has an average non-operated 32% WI in 12 gross (3.84 net) sections of oil and natural gas rights and 17 gross (4.5 net) producing natural gas wells at Fir. The wells produce raw natural gas into the Cecilia natural gas plant where it is processed.

Pepper, Alberta

The Company holds a 100% operated WI in 27 sections of Montney B&MG rights on its Banner asset in West Central

The Company holds a 100% operated well in 37 sections of Montney P&NG rights on its Pepper asset in west Central Alberta. The 6-26-53-23W5M Montney gas well (West Pepper) is tied into the Galloway gas plant for processing. The 3-21-52-22W5M Montney gas well (East Pepper) is currently tied into the Sundance gas plant for processing. The majority of lands have tenure extending into 2025.

Year ended December 31, 2023 Financial and Operational Highlights

- For the year ended December 31, 2023, Arrow recorded \$44,670,006 in revenues, net of royalties, on crude oil sales of 679,769 bbls, 1,445 bbls of natural gas liquids ("NGL's") and 784,717 Mcf of natural gas sales;
- Funds flow from operations of \$19,990,584;
- Net loss of \$1,106,613 and adjusted EBITDA was \$27,157,169;

Three Months Ended December 31, 2023 Financial and Operational Highlights

- Arrow recorded \$13,406,513 in revenues, net of royalties, on crude oil sales of 212,635 bbls, 380 bbls of natural gas liquids ("NGL's") and 167,360 Mcf of natural gas sales;
- Funds flow from operations of \$3,781,033;
- Net loss of \$10,492,053 and adjusted EBITDA was \$7,132,422;

Annual 2023 Reserve Highlights

- 5,292 Mboe of Proved Reserves, net increase of 57% when compared to 2022;
- 11,847 Mboe of Proved plus Probable Reserves, net increase of 54% when compared to 2022;
- Proved reserves estimated net present value, before income taxes, of US\$135 million using a 10% discount rate;
- Proved plus Probable Reserves estimated net present value, before income taxes, of US\$280 million using a 10% discount rate

RESULTS OF OPERATIONS

The Company increased its production from new wells at both Rio Cravo Este and Carrizales Norte fields in the Tapir block. These have allowed the Company to continue to improve its operating results and EBITDA. There has also been a decrease in the Company's natural gas production in Canada due to natural declines.

Average Production by Property

Average Production Boe/d	YTD 2023	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Oso Pardo	110	80	93	130	138	115
Ombu (Capella)	20	-	-	-	80	238
Rio Cravo Este (Tapir)	1,342	1,326	1,443	1,592	1,004	832
Carrizales Norte (Tapir)	332	621	642	57	-	-
Total Colombia	1,805	2,027	2,178	1,779	1,222	1,185
Fir, Alberta	78	80	81	77	74	79
Pepper, Alberta	284	228	259	313	340	472
TOTAL (Boe/d)	2,167	2,335	2,518	2,169	1,635	1,736

The Company's average production for the year and the three months ended December 31, 2023 was 2,167 boe/d and 2,335 boe/d, respectively, which consisted of crude oil production in Colombia of 1,805 bbl/d and 2,027 bbl/d, natural gas production of 2,150 Mcf/d and 1,819 Mcf/d, respectively, and minor amounts of natural gas liquids from the Company's Canadian properties. The Company's total 2023 production was 67% higher than its total 2022 production.

Average Daily Natural Gas and Oil Production and Sales Volumes

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Natural Gas (Mcf/d)				
Natural gas production	1,819	3,270	2,150	2,958
Natural gas sales	1,819	3,270	2,150	2,958
Realized Contractual Natural Gas Sales	1,819	3,270	2,150	2,958
Crude Oil (bbl/d)				
Crude oil production	2,027	1,185	1,805	847
Inventory movements and other	284	238	58	(64)
Crude Oil Sales	2,311	1,424	1,862	782
Corporate				
Natural gas production (boe/d)	303	545	358	493
Natural gas liquids(bbl/d)	4	6	4	5
Crude oil production (bbl/d)	2,027	1,185	1,805	847
Total production (boe/d)	2,335	1,736	2,167	1,345
Inventory movements and other (boe/d)	284	238	58	(64)
Total Corporate Sales (boe/d)	2,619	1,974	2,225	1,280

During the three months and year ended December 31, 2023 the majority of production was attributed to Colombia, where most of Company's blocks were producing. In Canada, the Company has two operated and two non-operated properties located in the province of Alberta at Fir, Pepper, Harley and Wapiti.

Natural Gas and Oil Revenues

	Three months ended December 31	Year ended December 31
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	2023	2022	2023	2022
Natural Gas				
Natural gas revenues	280,797	1,099,986	1,523,686	4,257,282
NGL revenues	25,964	34,978	93,336	154,744
Royalties	(7,751)	(150,638)	(17,121)	(648,060)
Revenues, net of royalties	299,010	984,327	1,599,901	3,763,966
Oil				
Oil revenues	14,802,541	8,710,005	48,979,764	23,723,228
Royalties	(1,695,037)	(762,770)	(5,909,659)	(2,513,730)
Revenues, net of royalties	13,107,504	7,947,235	43,070,105	21,209,498
Corporate				
Natural gas revenues	280,797	1,099,986	1,523,686	4,257,282
NGL revenues	25,964	34,978	93,336	154,744
Oil revenues	14,802,541	8,710,005	48,979,764	23,723,228
Total revenues	15,109,301	9,844,970	50,596,786	28,135,254
Royalties	(1,702,788)	(913,408)	(5,926,780)	(3,161,790)
Natural gas and crude oil revenues, net of royalties	13,406,513	8,931,562	44,670,006	24,973,464

Natural gas and crude oil revenues, net of royalties, for the three months and year ended December 31, 2023 was \$13,406,513 (2022: \$8,931,562) and \$44,670,007 (2022: \$24,973,464), respectively, which represent increases of 50% and 79%, respectively. These significant increases are mainly due to increased oil production in Colombia, offset by decrease in oil prices and revenue in Canada.

Average Benchmark and Realized Prices

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	2023	2022	Change
Benchmark Prices						
AECO (C\$/Mcf)	\$2.34	\$4.42	(47%)	\$2.68	\$4.34	(38%)
Brent (\$/bbl)	\$77.32	\$88.59	(13%)	\$81.03	\$98.89	(18%)
West Texas Intermediate (\$/bbl)	\$78.35	\$82.65	(5%)	\$77.60	\$94.25	(18%)
Realized Prices						
Natural gas, net of transportation (\$/Mcf)	\$1.68	\$3.66	(54%)	\$1.94	\$3.94	(51%)
Natural gas liquids (\$/bbl)	\$68.30	\$68.28	0%	\$64.61	\$79.52	(19%)
Crude oil, net of transportation (\$/bbl)	\$69.61	\$72.29	(4%)	\$72.05	\$83.10	(13%)
Corporate average, net of transport (\$/boe)⁽¹⁾	\$62.72	\$57.53	9%	\$62.31	\$60.20	4%

⁽¹⁾Non-IFRS measure

The Company realized prices of \$62.72 and \$62.31 per boe during the three months and year ended December 31, 2023 (2022: \$57.53 and \$60.20), respectively, despite decreases in commodity prices during 2023, due to increased volumes of oil sold during 2023.

Operating Expenses

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Natural gas & NGL's	308,311	778,767	1,610,557	2,521,700
Crude oil	3,343,948	973,224	6,380,615	2,637,368
Total operating expenses	3,652,259	1,751,991	7,991,172	5,159,068
Natural gas (\$/Mcf)	\$1.84	\$2.59	\$2.05	\$2.34
Crude oil (\$/bbl)	\$15.73	\$8.08	\$9.39	\$9.24
Corporate (\$/boe)⁽¹⁾	\$15.16	\$10.24	\$9.84	\$11.04

⁽¹⁾Non-IFRS measure

During the three months and year ended December 31, 2023, Arrow incurred in operating expenses of \$3,652,259 and \$7,991,172 (2022: \$1,751,991 and \$5,159,068), respectively. This increase is mainly due to workovers completed during 2023 for \$1,575,121 and new operating expenses incurred in the Company's new Carrizales Norte field in the Tapir block.

Operating Netbacks

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Natural Gas (\$/Mcf)				
Revenue, net of transportation expense	\$1.68	\$3.66	\$1.94	\$3.94
Royalties	(0.05)	(0.50)	(0.02)	(0.60)

Operating expenses	(1.84)	(2.59)	(2.05)	(2.34)
Natural Gas operating netback⁽¹⁾	(\$0.21)	\$0.57	(\$0.13)	\$1.01
Crude oil (\$/bbl)				
Revenue, net of transportation expense	\$69.61	\$72.29	\$72.05	\$83.10
Royalties	(7.97)	(6.33)	(8.69)	(8.81)
Operating expenses	(15.73)	(8.08)	(9.39)	(9.24)
Crude Oil operating netback⁽¹⁾	\$45.91	\$57.88	\$53.97	\$65.06
Corporate (\$/boe)				
Revenue, net of transportation expense	\$62.72	\$57.53	\$62.31	\$60.20
Royalties	(7.07)	(5.34)	(7.30)	(6.77)
Operating expenses	(15.16)	(10.24)	(9.84)	(11.04)
Corporate Operating netback⁽¹⁾	\$40.49	\$41.95	\$45.17	\$42.40

⁽¹⁾ Non-IFRS measure

The operating netbacks of the Company continued within healthy levels during 2023 due to increasing production from its Colombian assets, even considering decreased crude oil prices, which were offset by decreases in natural gas prices and operating expenses for natural gas.

General and Administrative Expenses (G&A)

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
General & administrative expenses	3,347,336	2,146,000	10,607,275	7,285,135
G&A recovered from 3 rd parties	(196,436)	(172,169)	(665,411)	(561,934)
Total G&A	3,150,900	1,973,831	9,941,864	6,723,201
Cost per boe	\$13.08	\$11.53	\$12.24	\$16.03

For the three months and year ended December 31, 2023, G&A expenses before recoveries totaled \$3,150,900 and \$9,941,864 (2022: \$1,973,831 and \$6,723,201), respectively, which represent an increase when compared to the same periods in 2022. These variances are mainly due to additional personnel and legal services during 2023, and payment of performance bonuses to management and employees. Despite these increased expenses, due to the Company's increased production, annual G&A expenses were reduced, on a per barrel basis, when compared to 2022.

Share-based Compensation

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Share-based Payments	151,094	367,693	591,454	582,405

Share-based compensation expense for the three months and year ended December 31, 2023 totaled \$151,094 and \$591,454 (2022: \$367,693 and \$582,405), respectively. During 2023, the Company has granted 1,650,000 options to its personnel and Directors, which was offset by reversal of expenses from cancelled options due to resignations of option holders. The share-based compensation expense is the result of the progressive vesting of the options granted to the Company's employees and Directors, net of cancellations and forfeitures.

Financing Costs

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Financing expense paid or payable	88,960	138,013	458,793	791,030
Non-cash financing costs	31,840	55,274	127,478	199,521
Net financing costs	120,800	193,287	586,271	990,551

The finance expense paid or payable represents mostly interest on the promissory note due to Canacol, as partial payment for the acquisition of Carrao Energy SA, and have decreased due to repayment of the outstanding balance. The non-cash finance cost represents an increase in the present value of the decommissioning obligation for the current periods. The amount of this expense will fluctuate commensurate with the asset retirement obligation as new wells are drilled or properties are acquired or disposed.

Depletion and Depreciation

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Depletion and depreciation	2,119,374	1,878,557	12,186,777	5,528,489

Depletion and depreciation expense for the three months and year ended December 31, 2023 totaled \$2,119,374 and \$12,186,777 (2022: \$1,878,557 and \$5,528,489), respectively. The increase is due to higher carrying value of depletable property and equipment and increased production. The Company uses the unit of production method and proved plus probable reserves to calculate its depletion and depreciation expense.

Impairment loss (reversal) of oil and gas properties, net

	Three months ended December 31		Years ended December 31	
	2023	2022	2023	2022
Impairment loss (reversal) of oil and gas properties, net	11,799,740	(9,020,654)	11,799,740	(9,020,654)

As at December 31, 2023, the Company reviewed its cash-generating units ("CGU") for property and equipment and determined that there were indicators of impairment loss in its Canada CGU and its Capella block in Colombia and recognized a loss of \$11,799,740.

As at December 31, 2022, the Company reviewed its CGUs for property and equipment and determined that there were indicators of impairment reversal in its Capella block in Colombia. The company prepared estimates of fair value less costs of disposal of its Capella CGU and determined that recoverable amounts exceeded their carrying value for \$10,409,615, which was offset by an impairment loss of \$1,388,961 determined in its Canada CGU which was mainly originated from a revision of reserves.

(Gain) loss on Derivative Liability

	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
(Gain) loss on Derivative Liability	(932,379)	1,005,740	(1,041,992)	5,974,674

During the three months and year ended December 31, 2023, the Company recorded gains in derivative liability of \$932,379 and \$1,041,992 (2022: loss of \$1,005,740 and \$5,974,674), respectively, related to the valuation of its outstanding warrants issued during its AIM listing and private placement completed in 2021. These warrants provided the right to holders to convert them into common shares at a fixed price set in a currency different to the Company's functional currency and, therefore, they are considered a liability and measured at fair value with changes recognized in the statements of operations and comprehensive (loss) income. These warrants were settled or expired during 2023.

Income Taxes

	Three months ended December 31		Years ended December 31	
	2023	2022	2023	2022
Current income tax expense	3,392,115	1,401,769	7,097,419	2,428,862
Deferred income tax expense (recovery)	973,731	5,662,248	(2,955,887)	5,662,248
Total income tax expense	4,365,846	7,064,017	4,141,532	8,091,110

During 2023, the Company recognized a total income tax expense of \$4,141,532 (2022: \$8,091,110) which consisted on \$7,097,419 of current income tax expense (2022: \$2,428,862) and a recovery of \$2,955,887 of deferred income tax (2022: expense of \$5,662,248). This increase is mainly caused by the continuous improvement of the Company's net taxable income, especially in Colombia.

LIQUIDITY AND CAPITAL RESOURCES**Capital Management**

The Company's objective is to maintain a capital base sufficient to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include share capital, debt and adjusted working capital. In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

As at December 31, 2023 the Company has a working capital of \$8,332,083. The Company has continued improving its working capital, using its operational cash flows to settle its obligations and to continue growing its operations. The stability in energy commodity prices has allowed the Company's capacity to generate sufficient financial resources to sustain its operations and growth. As at December 31, 2023 the Company's net debt (net cash) was calculated as follows:

	December 31, 2023
Current assets	\$ 21,629,198
Less:	
Accounts payable and accrued liabilities	9,747,906
Income taxes payable	3,108,504
Net debt (Net cash) ⁽¹⁾	\$ (8,772,788)

⁽¹⁾ Non-IFRS measure

Working Capital

As at December 31, 2023 the Company's adjusted working capital was calculated as follows:

Current assets:		
Cash	\$	12,135,376
Restricted cash and deposits		611,753
Trade and other receivables		3,536,936
Taxes receivable		4,655,399
Other current assets		689,734
Less:		
Accounts payable and accrued liabilities		9,747,906
Lease obligation		103,674
Income tax payable		3,108,504
Working capital⁽¹⁾	\$	8,669,114

⁽¹⁾Non-IFRS measure

Debt Capital

As at December 31, 2023 the Company does not have any outstanding debt balance.

Letters of Credit

As at December 31, 2023, the Company had obligations under Letters of Credit ("LC's") outstanding totaling \$2.7 million to guarantee work commitments on exploration blocks and other contractual commitments. In the event the Company fails to secure the renewal of the letters of credit underlying the ANH guarantees, or any of them, the ANH could decide to cancel the underlying exploration and production contract for a particular block, as applicable. In this instance, the Company could risk losing its entire interest in the applicable block, including all capital expended to date and could possibly also incur additional abandonment and reclamation costs if applied by the ANH.

Current Outstanding Letters of Credit

Contract	Beneficiary	Issuer	Type	Amount (US \$)	Renewal Date
SANTA ISABEL	ANH	Carrao Energy	Abandonment	\$563,894	April 14, 2025
	ANH	Carrao Energy	Financial Capacity	\$1,672,162	June 30, 2024
CORE - 39	ANH	Carrao Energy	Compliance	\$100,000	June 30, 2024
OMBU	ANH	Carrao Energy	Financial Capacity	\$436,300	October 14, 2024
Total				\$2,772,356	

Share Capital

As at December 31, 2023, the Company had 285,864,348 common shares and 20,531,668 stock options outstanding.

RELATED PARTIES

The following table summarizes the Company's Director's compensation paid during the year ended December 31, 2023:

Director	Salary or Annual Fee	Bonus	Stock-Based Compensation	Loan	Total
G. Jull	379,500	490,000	110,231	225,000	1,204,731
M. Abbott	379,500	490,000	131,786	225,000	1,226,286
M. Charash	12,100	-	(16,793)	-	(4,693)
G. Carnie	72,600	-	44,538	-	117,138
R. Sharma	72,600	-	46,081	-	118,681
A. Zaidi	72,600	-	34,946	-	107,546
Ian Langley	30,250	-	22,099	-	52,349
Total	1,019,150	980,000	372,888	450,000	2,822,038

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%). The current aggregate balance receivable of these loans is \$682,197, including interest of \$9,650, and is included as other account receivables.

CONTRACTUAL OBLIGATIONS

The following table provides a summary of the Company's cash requirements to meet its financial liabilities and contractual obligations existing at December 31, 2023:

	Less than 1 year	1-3 years	Thereafter
Exploration and production contracts	-	12,000,000	-

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. In aggregate, the Company has outstanding commitments of \$12 million. The Company have made an application to cancel its commitments on the COR-39, and during 2023, the ANH approved to cancel the Macaya and Los Picachos blocks contracts by mutual agreement, cancelling \$5.8 million in commitments for the Company.

SUMMARY OF THREE MONTHS RESULTS

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas sales, net of royalties	13,406,513	13,990,353	11,637,968	6,992,860	8,931,562	7,614,336	5,024,604	3,911,329
Net income (loss)	(10,492,053)	7,153,120	(757,416)	2,989,735	2,968,117	2,041,955	768,318	(5,431,865)
Income (loss) per share - basic	(0.04)	0.03	(0.00)	0.01	0.01	0.02	0.00	(0.03)
diluted	(0.04)	0.02	(0.00)	0.01	0.01	0.00	0.00	(0.02)
Working capital (deficit)	8,669,114	10,822,475	(2,363,388)	2,619,715	(1,316,665)	7,392,310	5,594,027	7,657,938
Total assets	62,275,023	62,755,250	56,305,530	53,719,944	53,190,248	46,979,259	42,670,153	39,914,240
Net capital expenditures	10,471,447	5,471,561	6,870,258	4,271,693	2,106,463	4,836,860	2,777,611	725,665
Average daily production (boe/d)	2,666	2,518	2,169	1,635	1,736	1,503	980	1,144

The Company's oil and natural gas sales have increased 80% in 2023 when compared to 2022 due to increased production in its existing assets and good commodity prices. The Company's production levels in Colombia continue growing. Trends in the Company's net income are also impacted most significantly by operating expenses, financing costs, income taxes, depletion, depreciation and impairment of oil and gas properties, and other income.

OUTSTANDING SHARE DATA

At April 28, 2024 the Company had the following securities issued and outstanding:

	Number	Exercise Price	Expiry Date
Common shares	285,864,348	n/a	n/a
Stock options	750,000	CAD\$ 1.15	October 22, 2028
Stock options	270,000	CAD\$ 0.31	May 3, 2029
Stock options	1,200,000	CAD\$ 0.05	March 20, 2030
Stock options	1,200,000	CAD\$ 0.05	April 13, 2030
Stock options	5,150,002	GBP 0.07625	June 13, 2024 and 2025
Stock options	1,533,335	CAD\$0.28	Dec. 9, 2024 and 2025
Stock options	833,334	CAD\$0.26	Mar. 7, 2025 and 2026
Stock options	4,951,110	GBP 0.1675	June 21, 2024, 2025 and 2026
Stock options	466,666	GBP 0.1925	July 23, 2024, 2025 and 2026
Stock options	1,000,000	CAD \$0.33	Mar. 21, 2025, 2026 and 2027

OUTLOOK

The Company has deployed the capital raised at the time of the Admission to AIM on a successful drilling campaigns at Rio Cravo and Carrizales Norte on the Tapir Block. These successful campaigns have translated into production growth and in positive cashflows during 2023 and 2022, providing Arrow with the funds required to continue with its capital program for 2024.

During 2023, the Company drilled eleven wells (six at Rio Cravo, three at Carrizales Norte and two in Oso Pardo), which have increased overall production. To date, the Company has already drilled five wells in its Carrizales Norte field as part of its 2024 capital program, and expecting spudding of its first horizontal well in the following days. This confirms Arrow's commitment to increase production and shareholder value. The Company is able to support its 2024 capital program with current cash on hand and cash flow from operations.

CRITICAL ACCOUNTING ESTIMATES

A summary of the Company's critical accounting estimates is contained in Note 3 Annual Financial Statements. These accounting policies are subject to estimates and key judgements about future events, many of which are beyond Arrow's control. The following is a discussion of the accounting estimates that are critical to the consolidated financial statements.

Crude oil and natural gas assets - reserves estimates - Arrow retained independent third-party petroleum engineers to evaluate its crude oil and natural gas reserves, prepare an evaluation report, and report to the Reserves Committee of the Board of Directors. The process of estimating crude oil and natural gas reserves is subjective and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. These estimates will change over time as additional data from ongoing development and production activities becomes available and as economic conditions affecting crude oil and natural gas prices and costs change. Reserves can be classified as proved, probable or possible with decreasing levels of likelihood that the reserves will be ultimately produced. Reserve estimates are a key input to the Company's depletion calculations and impairment tests. Property, plant and equipment within each area are depleted using the unit-of-production method based on proved and probable reserves using estimated future prices and costs. In addition, the costs subject to depletion include an estimate of future costs to be incurred in developing proved and probable reserves. A revision in reserve estimates or future development costs could result in the recognition of higher depletion charged to net income.

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

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

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

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

SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

DERIVATIVE COMMODITY CONTRACTS

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price, credit and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. During 2023, the Company did not have any financial derivative contract in order to manage commodity price risks.

RISKS AND UNCERTAINTIES

The Company is subject to financial, business and other risks, many of which are beyond its control and which could have a material adverse effect on the business and operations of the Company. A summary of certain risk factors relating to our business are disclosed below.

Unstable Oil and Gas Industry

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

Prices, Markets and Marketing of Crude Oil and Natural Gas

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

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

Substantial Capital Requirements; Liquidity

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

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

Access to Capital

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

Risks of Foreign Operations Generally

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

Social risks

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

Russia-Ukraine Conflict

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

supply shortage of oil and natural gas and significantly impact pricing of oil and gas worldwide. A lack of supply and high prices of oil and natural gas could have a significant adverse impact on the world economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

Alternatives to/Changing Demand for Petroleum Products

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

Exploration, Development and Production Risks

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

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

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

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

Governmental Regulation

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

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Global Pandemic

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

Credit Exposure

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

Health, Safety and Environment

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

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

Foreign Exchange and Currency Risks

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

Competition

Arrow actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater

financial and personnel resources than Arrow. Arrow's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

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

Climate Change

There is growing international concern regarding climate change and there has been a significant increase in focus on the timing and pace of the transition to a lower-carbon economy. Governments, financial institutions, insurance companies, environmental and governance organizations, institutional investors, social and environmental activists, and individuals, are increasingly seeking to implement, among other things, regulatory and policy changes, changes in investment patterns, and modifications in energy consumption habits and trends which, individually and collectively are intended to or have the effect of accelerating the reduction in the global consumption of carbon based energy, the conversion of energy usage to less carbon-intensive forms and the general migration of energy usage away from carbon-based forms of energy. Climate change and its associated impacts may increase the Company's exposure to, and magnitude of, each of the risks identified in this MD&A. Overall, the Company is not able to estimate at this time the degree to which climate change related regulatory, climatic conditions, and climate-related transition risks could impact the Company's financial and operating results. The Company's business, financial condition, results of operations, cash flows, reputation, access to capital, access to insurance, cost of borrowing, access to liquidity and ability to fund business plans may, in particular, without limitation, be adversely impacted as a result of climate change and its associated impacts.

Social License to Operate

Heightened public monitoring and regulation of hydrocarbon resource producers, refiners, distributors and commercial/retail sellers, especially where their activities carry the potential for having negative impacts on communities and the environment, involves varying degrees of risk to the Company's reputation, relations with landowners and regulators, and in extreme cases even the ability to operate. Arrow maintains an active website that complies with Exchange requirements for timely disclosure and together with its press releases and other SEDAR filings, is the primary means of communicating to the general public.

While media attention and public perception remains largely beyond the control of Arrow's executive, employees, contractors and directors, the Company makes every effort in its corporate and field operations to engage all stakeholders in a respectful and transparent manner.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS. The Company's CEO and CFO, with support of management have assessed the design and operating effectiveness of the Corporation's ICFR as at December 31, 2023 based on criteria described in "Internal Control - Integrated Framework" issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, it was concluded that the design and operation of the Corporation's ICFR are effective as at December 31, 2023. During the three months ended December 31, 2023, there has been no change in the Corporation's ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

information, please contact ms@seg.com or visit www.ms.com.

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