Arrow Exploration Corp.
Consolidated Financial Statements
December 31, 2019
In United States Dollars

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Consolidated Financial Statements

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Independent Auditor's Report

To the Shareholders of Arrow Exploration Corp.

Opinion
We have audited the consolidated financial statements of Arrow Exploration Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 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.

Material Uncertainty related to Going Concern
We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of $5,976,895 during the year ended December 31, 2019 and had a working capital deficit of $2,863,641. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information
Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, 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 Financial Statements

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 financial statements.

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

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

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

Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
June 1, 2020

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

As at	Notes		December 31, 2019		December 31, 2018
Assets					
Current					
Cash		**$**	**1,085,655**	$	1,994,233
Trade and other receivables	**6**		**3,927,724**		3,941,995
Taxes receivable	**7**		**2,349,543**		223,598
Deposits and prepaid expenses			**271,197**		1,884,331
Inventory			**177,770**		555,003
			7,811,889		8,599,160
Non-current assets					
Trade and other receivables	**6**		**784,056**		-
Restricted cash	**5**		**449,288**		3,154,839
Exploration and evaluation	**8**		**6,961,667**		10,547,118
Property and equipment	**9**		**56,743,806**		54,661,198
Total Assets		**$**	**72,750,706**	$	76,962,315

	Notes		December 31, 2019		December 31, 2018
Liabilities					
Current					
Accounts payable and accrued liabilities		**$**	**10,614,821**	$	12,157,942
Promissory note	**10**		**-**		5,000,000
Lease obligation	**11**		**60,709**		-
			10,675,530		17,157,942
Non-current liabilities					
Derivative liability	**12**		**100**		100
Lease obligation	**11**		**199,488**		-
Other liabilities	**13**		**1,007,849**		1,096,559
Decommissioning liability	**14**		**8,173,222**		5,833,563
Promissory note	**10**		**5,714,076**		-
Deferred income taxes	**16**		**1,824,000**		2,326,000
Total liabilities			**27,594,265**		26,414,164
Shareholders' equity					
Share capital	**15**		**50,740,292**		50,740,292
Contributed surplus			**1,603,788**		800,787
Deficit			**(6,646,246)**		(669,351)
Accumulated other comprehensive loss			**(541,393)**		(323,577)
			45,156,141		50,548,151
Total liabilities and shareholders' equity		**$**	**72,750,706**	$	76,962,315

Nature of operations and going concern (Note1)

Commitments and contingencies (Note 17)

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

On behalf of the Board:

signed "Gage Jull" Director
Gage Jull

signed "Brian Hearst" Director
Brian Hearst

Arrow Exploration Corp.
Consolidated Statements of Operations and Comprehensive Loss

In United States Dollars

For the years ended December 31,	Notes	2019	2018
Revenue			
Oil and natural gas	21	$ 28,180,077	$ 6,791,778
Other		43,844	10,877
Royalties		(2,739,707)	(725,232)
		25,484,214	6,077,423
Expenses			
Operating		12,821,851	3,510,757
Administrative		7,154,630	3,832,430
Share based payments	15	803,001	256,987
Financing costs:			
Accretion	14	379,064	86,621
Interest		968,162	252,508
Other		1,003,700	-
Transaction costs		-	1,073,656
Derivative gain	12	-	(1,612,800)
Foreign exchange (gain) loss		301,167	54,267
Depletion and depreciation		8,501,983	2,044,120
Impairment of oil and gas properties	9	1,531,000	-
Bargain purchase gain	4	-	(1,700,000)
Gain on the disposal of oil and gas properties	9	(1,632,174)	(1,131,000)
		31,832,385	6,667,546
Loss before income tax		(6,348,170)	(590,123)
Income tax expense (recovery)	16		
Current		130,725	1,126,307
Deferred		(502,000)	(1,051,307)
		(371,275)	75,000
Net loss for the period		(5,976,895)	(665,123)
Other comprehensive loss			
Foreign exchange		(217,816)	(323,818)
Net loss and comprehensive loss for the period		$ (6,194,711)	$ (988,941)
Loss per share			
- basic and diluted		$ (0.09)	$ (0.01)
Weighted average shares outstanding			
- basic and diluted [(1)]		68,674,602	64,056,032

(1) The options and warrants have been excluded from the diluted net income per share computation as they are anti-dilutive.

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

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

		Share Capital		Contributed Surplus		Accumulated other comprehensive loss		Deficit		Total Equity
Balance January 1, 2019	$	50,740,292	$	800,787	$	(323,577)	$	(669,351)	$	50,548,151
Net loss for the year		-		-		-		(5,976,895)		(5,976,895)
Comprehensive loss for the year		-		-		(217,816)		-		(217,816)
Share based payments		-		803,001		-		-		803,001
Balance December 31, 2019	$	50,740,292	$	1,603,788	$	(541,393)	$	(6,646,246)	$	45,156,441

		Share Capital		Contributed Surplus		Accumulated other comprehensive income (loss)		Deficit		Total Equity
Balance January 1, 2018	$	7,585	$	-	$	241	$	(4,228)	$	3,598
Net loss for the year		-		-				(665,123)		(665,123)
Comprehensive income (loss) for the year						(323,818)				(323,818)
Share based payments		-		256,987		-		-		256,987
Issuance of common shares net of issue costs		14,393,277		171,800		-		-		14,565,077
Shares issued in the reverse acquisition of Front Range		6,268,930		-		-		-		6,268,930
Shares issued in the acquisition of Carrao		20,000,000		-		-		-		20,000,000
Shares issued in the acquisition of Samaria		10,442,500		-		-		-		10,442,500
Cancellation of common shares		(372,000)		372,000		-		-		-
Balance December 31, 2018	$	50,740,292	$	800,787	$	(323,577)	$	(669,351)	$	50,548,151

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

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

For the year ended December 31,	2019	2018
Cash flows from (used in) operating activities		
Net loss for the period	**$ (5,976,895)**	$ (665,123)
Items not involving cash:		
Deferred taxes	**(502,000)**	75,000
Share based payment	**803,001**	256,987
Bargain purchase gain	**-**	(1,700,000)
Depletion and depreciation	**8,501,983**	2,044,120
Impairment of oil and gas properties	**1,531,000**	-
Interest	**806,560**	-
Accretion	**379,064**	86,621
Foreign exchange	**(629,323)**	(25,791)
Risk management activities	**-**	(1,612,800)
Gain on the disposal of oil and gas properties	**(1,632,174)**	(1,131,000)
Changes in non-cash working capital balances:		
Trade and other receivables	**(769,785)**	(1,277,750)
Taxes receivable	**(2,125,945)**	740,402
Deposits and prepaid expenses	**1,613,135**	(1,152,502)
Inventory	**377,233**	(419,860)
Accounts payable and accrued liabilities	**1,481,597**	7,636,835
Cash provided by operating activities	**3,857,450**	2,855,139
Cash flows provided by (used in) investing activities		
Additions to exploration and evaluation assets	**(7,292,514)**	-
Additions to property and equipment	**(1,501,848)**	(7,007,580)
Business acquisitions	**-**	(11,993,461)
Proceeds on the sale of property and equipment	**4,475,706**	4,875,106
Changes in restricted cash	**2,705,551**	(2,848,514)
Changes in non-cash working capital	**(3,024,718)**	-
Cash flows used in investing activities	**(4,637,823)**	(16,974,449)
Cash flows used in financing activities		
Lease payments	**(71,468)**	-
Issue of common shares and warrants, net of issue costs	**-**	16,105,577
Cash flows (used in) provided by financing activities	**(71,468)**	16,105,577
Effect of changes in the exchange rate on cash and cash equivalents	**(56,737)**	-
(Decrease) increase in cash	**(908,578)**	1,986,267
Cash, beginning of period	**1,994,233**	7,966
Cash, end of period	**$ 1,085,655**	$ 1,994,233
Supplemental information		
Interest paid	**$ 314,384**	$ -
Taxes paid	**$ -**	$ -

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

1. Corporate Information

Arrow Exploration Corp. (formerly Front Range Resources Ltd.) (“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 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. was incorporated under the ABCA on December 12, 2016 as 2010461 Alberta Ltd. and on January 24, 2018 changed its name to Arrow Exploration Ltd. by way of articles and a certificate of amendment. Arrow Exploration Ltd. and Front Range Resources Ltd.’s then wholly owned subsidiary, 2118295 Alberta Ltd., were amalgamated on September 28, 2018 pursuant to the arrangement agreement to form Arrow Holdings Ltd., a wholly owned subsidiary of the Company (the “Arrangement”).

For accounting and presentation purposes, the consolidated financial statements reflect the results of operations of Arrow Exploration Ltd., the accounting acquirer, with the exception of the number of shares which were retroactively adjusted to reflect the legal capital of the Company.

The head office of Arrow is located at 920, 150 – 9th Avenue SW, Calgary, Alberta, Canada, T2P 3H9 and the registered office is located at Suite 1600, 421 – 7th Avenue SW, Calgary, Alberta, Canada, T2P 4K9.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company had a net loss of $5,976,895 for the year ended December 31, 2019 and had a working capital deficit of $2,863,641 as at December 31, 2019. Subsequent to December 31, 2019, oil and gas prices have been significantly depressed and the global impact of the COVID-19 pandemic has fostered a great deal of uncertainty for the future operations of the Company. The Company’s ability to continue as a going concern is dependent on management’s ability to identify additional sources of capital and to raise sufficient resources to fund ongoing operating expenses and commitments. There is no assurance these initiatives will be successful in the future. These conditions indicate the existence of material uncertainties that may cast significant doubt regarding the applicability of the going concern assumption. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. These adjustments could be material.

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 June 1, 2020.

Basis of measurement

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

Functional and presentation currency

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

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

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 judgement, considering future plans, market conditions and commodity prices. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less costs of disposal and value in use. 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.

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 and expected future environmental legislation and standards.

Share-based compensation and warrants
Grants of stock options and warrants require an estimate of the fair value of those instruments at time of issue. The estimate involves assumptions regarding the life of the option or warrant, dividend yields, interest rates, and volatility of the Company's common shares. The charge is measured using the Black-Scholes option pricing model.

Business combinations
Judgement is required when assessing i) whether or not the acquisition of assets meets the criteria of a business combination; ii) the value of the consideration transferred and the net identifiable assets acquired and liabilities assumed in connection with business combinations and iii) determining goodwill or bargain purchase gain.

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

Provisions and contingencies
The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

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

3. Summary of Significant Accounting Policies

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

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

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

Business combinations
Business combinations are accounted for at fair value using the acquisition method of accounting. The fair value of the net assets acquired and the consideration transferred is measured at the acquisition date. Transaction costs are expensed when incurred. Any excess of the cost of an acquisition over the net fair value of the net identifiable assets acquired is recognized as goodwill.

If the consideration is less than the fair value of the net identifiable assets acquired, the difference is recognized as a bargain purchase gain in the statement of operations and comprehensive loss. Transaction costs are expensed as incurred.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed annually for impairment. Impairment losses on goodwill are not reversed.

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
Financial assets are classified as financial assets at fair value through profit or loss or amortized cost, as appropriate. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date. The Company's financial assets are comprised of cash, restricted cash, trade and other receivables, taxes receivable, 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.

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, derivative liability, lease obligation and promissory note. Accounts payable and accrued liabilities, lease obligation and promissory note are classified and measured at amortized cost using the effective interest method.

Derivative liability - Warrants

The non-compensation based warrants entitle the holder to acquire a fixed number of common shares for a fixed United States Dollar 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 as they arise. The Company has recorded these changes as derivative gain (loss) in the statement of operations and comprehensive loss. The transaction costs associated with the issuance of the warrants are expensed when incurred.

Fair value hierarchy

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

  Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Share capital

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

Exploration and evaluation assets

Pre-license costs are recognized in the statement of operations and comprehensive loss 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.

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 as pre-license expense when occurs.

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. 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.

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
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the statement of operations and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of operations and comprehensive loss.

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of

other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

Fair value less cost to dispose is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved 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. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date to determine if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Share based compensation

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

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

Provisions

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

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Leases

The Company holds leases related to office leases. The lease arrangements are assessed based on whether they meet the following definition of a lease under IFRS 16:

i) Identified asset - The Company has access to the use of a physically distinct asset and the counterparty does not hold the right to substitute an alternative asset for use;

ii) Right to direct the use of an asset - The Company has relevant operational decision-making rights for the use and purpose of the underlying asset; and

iii) Substantially all of the economic rights and benefits - The Company obtains sole and exclusive benefit from the use of the asset throughout the duration of the lease term.

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

Revenue

The Company's revenues are primarily derived from the production of petroleum and natural gas. Revenue from contracts with customers is recognized when the Company satisfies a performance obligation by physically transferring the product and control to a customer. The Company satisfies its performance obligations at the point of delivery of the product and not over a period of time. Revenue is measured based on the consideration specified in contracts with customers.

Revenue is recorded net of any royalties when the amount of revenue can be reliably measured and the costs incurred in respect of the transaction can be measured reliably.

Finance expenses

Finance expense comprises interest expense on borrowings and accretion of the discount on decommissioning obligations.

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 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.

Loss per share

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

Accounting Pronouncements Adopted

On January 1, 2019, Arrow adopted IFRS 16: Leases (“IFRS 16”) to replace IAS 17: Leases and IFRIC 4: Determining whether an Arrangement contains a Lease. IFRS 16 requires the recognition of a right-of-use asset and a lease obligation on the statements of financial position for all leases, where Arrow is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases as either a finance or an operating lease. Arrow is the lessee in all of its lease arrangements effective January 1, 2019. The Company adopted IFRS 16 using the modified retrospective approach, which does not require restatement of prior period financial information and applies the standard prospectively.

On initial adoption, Arrow had the following optional practical expedients available under IFRS 16: certain short-term leases and leases of low value assets that have been identified as a lease under IFRS 16 at January 1, 2019 have been excluded from recognition on the statements of financial position. Arrow has excluded certain low value leases such as information technology, office equipment and other minor operating and capital assets used in its operations. Short-term and low value leases are expensed in profit or loss in the period incurred. Certain classes of lease arrangements that transfer a separate good or service under the same contract that have been identified for recognition at January 1, 2019 can be recognized as a single lease component rather than separating between their lease and non-lease components. Arrow did not apply this practical expedient on initial adoption of IFRS 16. Non-lease components such as operating costs and payment for services were separated from their lease component under the same contract and

expensed in profit or loss in the period incurred. For leases having similar characteristics, a portfolio approach can be used by applying a single discount rate. Arrow has applied this practical expedient for leases having similar characteristic on recognition.

On initial adoption of IFRS 16, Arrow recognized a lease liability, herein referred to as a “lease obligation”, and corresponding right-of-use asset, herein referred to as a “lease asset”, for each identified lease effective January 1, 2019. The effect of initially applying the standard was recognized as a $45,377 increase to right-of-use assets (included in "Property and Equipment") with a corresponding increase to lease obligations (the non-current portion of $15,885 is recorded in "Lease Obligation" and the current portion of the lease obligation is $29,492). The lease obligation was determined by discounting the remaining lease term payments using the interest rate implicit in the lease, or the Company’s incremental borrowing rate. The lease obligation is reduced by actual cash lease payments made during the period. Lease obligations are presented on the statements of financial position and the lease assets are included in “Property and Equipment” on the statements of financial position. Lease assets are depreciated over the remaining term of the lease and included in depreciation expense the statement of operations and comprehensive income. The unwinding of the present value of the lease obligation is recorded as accretion (interest) and included in finance expense in the statement of operations. Cash lease payments are classified as a financing activity and accretion expense classified as an operating activity in the statements of cash flows. Any remeasurements based on changes in lease term, payment or discount rate will increase or decrease the present value of the lease obligation and corresponding lease asset. Such changes will be accounted for through statement of operations. See Note 11 to these Financial Statements for further details on the financial effects of IFRS 16 on initial adoption.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16 and the application of an incremental borrowing rate. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Lease obligations that are recognized have been estimated using a discount rate equal to Arrow’s incremental borrowing rate. This rate represents the rate that Arrow would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

The following reconciliation of the Company’s commitments as at December 31, 2018 to the Company’s opening lease liability as at January 1, 2019:

Commitments disclosed on December 31, 2018	$	549,996
Relief for short term and low value lease		(151,943)
Lease obligation that commenced in 2019		(326,385)
Other		(22,614)
Gross lease liabilities as at January 1, 2019		49,054
Discounting		(3,677)
Present value of lease liabilities as at January 1, 2019	$	45,377

4. Acquisitions

(a) On September 28, 2018, Arrow Exploration Ltd. completed the reverse takeover acquisition of all outstanding shares of the Company, then called Front Range Resources Ltd. ("Front Range"), by way of a Plan of Arrangement for a purchase price of $6,268,930. Front Range was an oil and gas company engaged in the evaluation, acquisition, exploration and development of oil and gas properties in Western Canada and considered a business in accordance with IFRS.

As a result of the terms of the agreement: i) the former shareholders of Arrow Exploration Ltd. owned the majority of shares (90%) and control the majority of votes of the Company; and ii) Board of Directors and Management of Arrow Exploration Ltd. took over the governance and Management of the Company. Therefore, for accounting purposes, Arrow Exploration Ltd., was identified as the accounting acquirer in the transaction, and as such, the fair values of the identifiable assets acquired and liabilities assumed from Front Range, as well as the purchase consideration transferred, are presented below:

Net assets acquired:	
Cash	$ 1,979,296
Working capital deficiency	(630,071)
Restricted cash	322,096
Property and equipment	5,154,587
Derivative liability	(72,400)
Decommissioning obligations	(484,578)
Fair value of the net assets acquired	$ 6,268,930

The consideration transferred has been measured based on the fair value of the notional number of shares that Arrow Exploration Ltd., would have had to issue to Front Range to give the owners of Front Range the same percentage ownership in the combined entity, resulting in a notional amount of 7,083,537 shares at a fair value of $0.885/share. The transaction is accounted for using the acquisition method. Allocation of the purchase price is based on the assessment of the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date.

The acquisition contributed revenue of $122,200 and $104,123 of a loss before tax from the date of acquisition to December 31, 2018. The Company estimates that had the acquisition occurred on January 1, 2018, the increase in revenue would be approximately $431,238 and the operating profit would have increased by approximately $175,122 for the year ended December 31, 2018.

(b) On September 27, 2018, Arrow Exploration Ltd. completed the acquisition of all outstanding shares of Carrao Energy S.A. ("Carrao") for a purchase price of $38,000,000, plus subsequent working capital adjustments of approximately $2,017,000. Carrao is an oil and gas company engaged in the evaluation, acquisition, exploration and development of oil and gas properties in Colombia. The fair values of the identifiable assets acquired and liabilities assumed as well as the purchase consideration transferred are presented below.

Net assets acquired:	
Cash	$ 1,029,985
Working capital	676,223
Property and equipment	47,020,686
Other liabilities	(1,093,713)
Decommissioning obligations	(3,664,471)
Deferred income taxes	(2,251,000)
Fair value of the net assets acquired	$ 41,717,710
Consideration:	
22,598,870 Common Shares issued	$ 20,000,000
Cash	15,017,710
Promissory Note	5,000,000
	$ 40,017,710

The acquisition of this business resulted in a gain on acquisition of $1,700,000 as a consequence of buying the business from a seller intending to leave the oil space. The gain on bargain purchase was separately presented in the consolidated statement of comprehensive income for the year ended December 31, 2018.

In the event the Company doubles the proved plus probable reserves from approximately 9.0 million barrels equivalent on the assets acquired within five years, a further $5,000,000 payment will have to be made to the vendor. The contingent consideration has been estimated to be $Nil based on the information and current independent reserve report.

The transaction is accounted for using the acquisition method. Allocation of the purchase price is based on the assessment of the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date.

The acquisition contributed revenue of $6,669,791 and $863,000 in net income before tax from the date of acquisition to December 31, 2018. The Company estimates that had the acquisition occurred on January 1, 2018, the increase in revenue would be approximately $23,393,000 and operating profit would have increased by approximately $4,900,000 for the year ended December 31, 2018.

(c) On September 27, 2018, pursuant to the purchase and sale agreement between Arrow Exploration Ltd. and Samaria Exploration and Production S.A. ("Samaria") dated May 31, 2018, Arrow Exploration Ltd. closed on its purchase of a fifty percent working interest in the Tapir Association Contract by the purchase of Samaria Llanos Exploration S.A. in exchange for 11,799,435 Common Shares. The assets acquired were non-producing therefore the acquisition is not considered a business acquisition. The Company allocated $10,547,118 to the exploration and evaluation assets and recorded a decommissioning obligation of $104,618.

5. Restricted Cash

		December 31, 2019		December 31, 2018
Colombia *(i)*	**$**	**53,726**	$	2,848,514
Canada *(ii)*		**395,562**		306,325
	$	**449,288**	$	3,154,839

(i) *As part of the purchase and sale agreement with Samaria Exploration and Production S.A. ("Samaria"), Arrow agreed to reimburse $3,200,000 for funds historically contributed by Samaria and held in trust in respect of certain obligations. The funds advanced were held in trust for the purpose of funding Ecopetrol (the Colombian National Oil Company) approved expenditures on the Tapir Block. As of December 31, 2019, the trust have been fully released. Current restricted cash is comprised by a deposit held as collateral to guarantee abandonment expenditures related to the Mateguafa well in the Tapir block.*

(ii) *At December 31, 2019, pursuant to Alberta government regulations, the Company was required to pay a $316,149 (CAD $410,637) 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 $79,412 pertain to lease and other deposits held in Canada.*

6. Trade and other receivables

		December 31, 2019		December 31, 2018
Trade receivables, net of advances	**$**	**774,740**	$	3,799,995
Other accounts receivable		**3,937,041**		142,000
		4,711,781		3,941,995
Long-term portion of trade and other receivables		**(784,057)**		-
	$	**3,927,725**	$	3,941,995

As at December 31, 2019, other accounts receivable include $3,016,367 (2018 – nil) receivable from a partner in the Tapir block and corresponds to technical services, overhead, and reimbursable capital expenditures incurred by the Company on the Tapir block, of which $2,287,449 million will be recovered through future production. The Company estimates that $1,503,392 will be recovered in the next 12 months, therefore $784,057 were classified as non-current. The remaining $728,918 will be collected in cash within the next 12 months.

7. Taxes receivable

		December 31, 2019		December 31, 2018
Value-added tax (VAT) credits recoverable	**$**	**1,776,582**	$	223,598
Income tax withholdings and advances, net		**572,961**		-
	$	**2,349,543**	$	223,598

The VAT recoverable pertains to non-compensated value-added tax credits originated in Colombia as operational and capital expenditures are incurred. Most of the Company's sales are considered exports, which are not subject to VAT. The Company is entitled to claim for the reimbursement of these VAT credits.

8. Exploration and Evaluation

		December 31, 2019		December 31, 2018
Balance, beginning of the period	**$**	**10,547,118**	$	-
Acquisition of Samaria assets		**-**		10,547,118
Additions, net		**7,062,638**		-
Capitalized administrative costs		**423,750**		-
Transfers to oil and gas properties		**(11,071,839)**		
Balance, end of the period	**$**	**6,961,667**	$	10,547,118

In 2019, the Company capitalized $423,750 of general and administrative costs inclusive of costs related to technical personnel directly related to exploration and evaluation activities on the Tapir block. The exploration and evaluation assets additions, net include $500,000 of success fee payable to the former owner of the Tapir block and a credit of $3 million recoverable from its partner in the same block (see Note 6).

During 2019, the Company determined the technical feasibility and commercial viability of its Tapir assets related to the Rio Cravo Este-1 discovery and transfered $11,071,839 to its property and equipment.

9. Property and Equipment

Cost		**Oil and Gas Properties**		**Right of Use and Other Assets**		**Total**
Balance, December 31, 2018	$	56,622,566	$	30,443	$	56,653,009
Right of use assets (Note 3)		-		45,377		45,377
Additions		3,382,978		298,606		3,681,584
Transfers from exploration and evaluation assets		11,071,839		-		11,071,839
Oil and gas properties disposed		(3,403,532)		-		(3,403,532)
Balance, December 31, 2019	$	67,673,851	$	374,426	$	68,048,277

Accumulated depletion and depreciation and impairment		**Oil and Gas Properties**		**Right of Use and Other Assets**		**Total**
Balance, December 31, 2018	$	2,041,962	$	2,158	$	2,044,120
Depletion and depreciation		8,410,398		91,854		8,501,983
Impairment of oil and gas properties		1,531,000		-		1,531,000
Accumulated depletion associated with oil and gas properties disposed		(560,000)		-		(560,000)
Balance, December 31, 2019	$	11,423,360	$	93,742	$	11,517,103
Foreign exchange						
Balance December 31, 2018	$	52,998	$	(689)	$	52,309
Effects of movements in foreign exchange rates		168,324		(8,001)		160,323
Balance December 31, 2019	$	221,322	$	(8,690)	$	212,632
Net Book Value						
Balance December 31, 2018	$	54,633,602	$	27,596	$	54,661,198
Balance December 31, 2019	$	56,471,813	$	271,994	$	56,743,806

Right of use and other assets include $45,377 related to right of use additions on initial adoption of IFRS 16 as at January 1, 2019 and $298,606 in current period additions (see Notes 3 and 11). The net carrying amount of right of use assets at December 31, 2019 is $271,994.

In March 2019, the Company decided to dispose of two non-core properties in Colombia (VMM-2 and Coati) and on April 26, 2019, the Company entered into definitive agreements to sell the two non-core interests for an aggregate sale price of $5 million. The first sale, for $3.5 million, closed on April 29, 2019, with the formal legal transfer of ownership of working interests subject to ultimate approval by the Agencia Nacional de Hidrocarburos ("ANH"). The second transaction, for $1.5 million, closed on May 22, 2019. These transactions eliminated approximately $6.95 million from Arrow's future commitments (see Note 17). The purchaser assumed the decommissioning obligations (Note 14). As a result of these transactions, the Company recognized a gain in the disposal of its oil and gas properties for $1,632,174 in its consolidated statements of operations and comprehensive loss for the year ended December 31, 2019.

As at December 31, 2019, the Company reviewed its cash-generating unit's ("CGU") property and equipment and determined that there were indicators of impairment present related to the decline in reserves. The company prepared estimates of both the value in use and fair value less costs of disposal of its CGUs and it was determined that carrying value of each CGU did not exceed its

recoverable amount and, therefore, no additional impairment provisions were required. The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2019:

Year	Exchange rate $US / $Cdn	AECO Spot Gas CDN$/MCF	Brent $US/Bbl
2020	0.76	2.04	66.00
2021	0.77	2.30	68.00
2022	0.78	2.70	70.00
2023	0.78	2.80	73.00
2024	0.78	2.90	73.00
2025	0.80	3.00	75.00
Thereafter (inflation %)	0.80	2.0%/yr	2.0%/yr

These benchmark prices reflect the average of three consultant price forecasts, effective December 31, 2019 (McDaniel, GLJ Petroleum Consultants and Sproule Associates Limited).

The Company used a 12.5% discount rate in Canada, and 14% in Colombia for the December 31, 2019 impairment test, which took into account risks specific to each CGU and inherent in the oil and gas business. As a result of the impairment tests performed, no further impairments were required. As at December 31, 2019, a 0.5% decrease in the discount rate applied or 2% change in the forecast benchmark prices would not have resulted in additional impairment.

As at June 30, 2019, the Company reviewed its property and equipment Cash-Generating Unit's ("CGU") for indicators of impairment and determined that an indicator related to the decrease in future commodity prices for natural gas in Canada was present. The Company prepared estimates of both the value in use and fair value less costs of disposal of its Canadian CGU. When it is determined that any CGU carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at June 30, 2019:

Year	Exchange rate $US / $Cdn	AECO Spot Gas CDN$/MCF
2019 (six months)	0.76	1.39
2020	0.78	1.91
2021	0.80	2.37
2022	0.80	2.66
2023	0.80	2.79
2024	0.80	2.92
Thereafter (inflation %)	0.80	2.0%/yr

These benchmark prices reflect the average of three consultant price forecasts, effective July 1, 2019 (McDaniel, GLJ Petroleum Consultants and Sproule Associates Limited). The recoverable amounts of the Canadian CGU at June 30, 2019 were estimated at their fair value less costs of disposal, based on the net present value of the future cash flows from oil and gas reserves as estimated by the Company's independent reserve evaluator at December 31, 2018 adjusted for production and future pricing changes during the six months ended June 30, 2019. 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 12.5% discount rate for the June 30, 2019 impairment test which took into account risks specific to the Canadian CGU and inherent in the oil and gas business to arrive at a recoverable value of $3,281,000 and recognize a loss for impairment of its oil and gas properties of $1,531,000.

10. Promissory Note

The promissory note was issued to Canacol Energy Ltd. ("Canacol") as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The promissory note bears interest at 15% per annum, was initially due on January 28, 2019 and subsequently extended to April 30, 2019 and October 1, 2020. On July 31, 2019, Arrow and Canacol entered into a second amended and restated promissory note (the "Note") to revise the terms of the April 29, 2019 note. The amendments provide a deferral of principal payments to commence on October 1, 2020, and which shall be paid in six monthly instalments such that all note obligations are paid in full on or before March 1, 2021. The amendments also provide that Arrow will repay all interest accrued to July 31, 2019, by December 31, 2019, and that commencing on September 1, 2019, the company will make monthly interest-only payments on the principal sum then outstanding plus the outstanding accrued interest balance. The interest payable on the Note remains unchanged at 15%, and the Note continues to be repayable at any time without penalty.

On December 31, 2019, Arrow and Canacol entered into a Third Amended and Restated Promissory note to revise the terms of the July 31, 2019, Amended and Restated Promissory Note. The principal amendments are the following:

- On or before April 1, 2021, the Company shall pay in full all accrued and outstanding interest owed until July 31, 2019 of $628,767 (the "Interim Interest") plus interest on such sum at a rate of 15% from December 31, 2019 until the date of payment;
- Commencing September 1, 2019, and on the first day of each month thereafter, the Company shall make interest-only monthly payments equal to the total amount of interest on the principal sum plus interest on the interim interest sum, until paid in full; and
- Commencing April 1, 2021, and on the first day of each of the following six months thereafter, the Company shall make equal monthly payments of the balance of the principal sum outstanding as of April 1, 2021 such that all remaining obligations are paid in full on or before September 1, 2021.

As at December 31, 2019, the Company is in compliance with the provisions of the amended and restated promissory note. The amendments also provide that all obligation related to the restated and amended promissory note shall be due immediately in case of a change in control, as defined therein, and the Arrow shall arrange to appoint two Canacol employees to sit in the Company's Board of Directors.

Subsequently, on March 19, 2020, a fourth amended and restated promissory note was agreed by the parties removing the two Canacol Directors requirement and temporarily waiving the change in control provision set forth in the third amendment, leaving all other amendments unchanged.

The Company has granted a general security interest to Canacol for the obligations under the Note which will be subordinated to second position in the event the Company secures additional financing.

11. Lease Obligations

Effective January 1, 2019, Arrow recognized a discounted lease obligation of $45,377 on initial adoption of IFRS 16. The Corporation's total undiscounted (inflated) amount of cash flow required to settle its lease obligations is approximately $409,400 at December 31, 2019. A reconciliation of the discounted lease obligation is set forth below:

	2019
Obligation, beginning of the period	$ 45,377
Additions	253,152
Lease payments	(71,468)
Accretion	26,526

Effects of movements in foreign exchange rates		6,610
Obligation, end of the period	$	260,197
Current portion	$	60,709
Long-term portion		199,488
	$	260,197

As at December 31, 2019, the Company has the following future commitments associated with its office lease obligations:

Less than one year	$	118,642
2 – 5 years		184,847
Total lease payments		303,489
Amounts representing interest over the term		(43,292)
Present value of the net obligation	$	260,197

The Corporation utilized certain IFRS 16 exemptions to exclude low-value right-of-use assets and short-term lease arrangements as leases. There were no lease arrangements subject to variable lease payments. These types of lease arrangements were recognized as operating leases payments totalling $165,611 and were recognized in the general and administrative expenses in the consolidated statement of operations and comprehensive loss on a straight-line basis during the year ended December 31, 2019.

12. Derivative liability

(a) Warrants issued and outstanding

	2019			2018		
Warrants	**Number**		**Amounts**	Number		Amounts
Balance beginning of the year	**18,322,760**	**$**	**100**	-	$	-
Issued in financing (Note 15)	**-**		**-**	17,692,760		1,540,500
Issued in the Front Range acquisition (Note 4)	**-**		**-**	630,000		72,400
Fair value adjustment	**-**		**-**	-		(1,612,800)
Balance end of the year	**18,322,760**	**$**	**100**	18,322,760	$	100

Only values related to non-compensatory warrants have been included in this table and do not include compensatory warrants included in equity. There were no compensatory warrants outstanding at December 31, 2019. Each non-compensatory warrant is measured at fair value quarterly using the Black-Scholes options pricing model. The fair value of warrants at December 31, 2019 and 2018 was estimated using the following assumptions:

	December 31, 2019	December 31, 2018
Number outstanding re-valued warrants, end of period	**18,322,760**	18,322,760
Fair value of warrants outstanding	**CAD$0.00**	CAD$0.00
Risk free interest rate	**1.73%**	1.73%
Expected life	**0.75 years**	1.74 years
Expected volatility	**35%**	35%

The following table summarizes the warrants outstanding and exercisable at December 31, 2019:

Number of warrants	Warrant Type	Exercise price (USD $)	Expiry date
17,692,760	Non-compensatory	$1.30	September 28, 2020
630,000	Non-compensatory	$1.30	September 24, 2020
18,322,760			

13. Other Liabilities

The other liabilities of the Company relate to an environmental fee in Colombia that is levied on capital projects such as the costs associated with wellsite preparation and drilling of a well. The fee is calculated as 1% of the project cost. The program is administered by the Colombian National Authority of Environmental Licences ("ANLA") and is levied on projects that utilize surface water or deep water wells that may have an impact on the environment. The funds are generally used in the affected communities for purposes of land purchases, biomechanic works (e.g. containment walls in rivers), reforestation, research projects and others. At December 31, 2019 the Company had provided for $1,007,849 (December 31, 2018 - $1,096,559) for the environmental fee.

14. 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, 2019	December 31, 2018
Obligation, beginning of the period	**$ 5,833,563**	$ -
Additions as a result of corporate acquisitions	**-**	4,030,456
Change in estimated cash flows	**1,946,607**	1,203,980
Obligations recognized	**104,618**	729,995
Liabilities disposed	**(116,191)**	(194,657)
Accretion expenses	**382,997**	86,621
Effects of movements in foreign exchange rates	**21,628**	(22,832)
Obligation, end of the period	**$ 8,173,222**	$ 5,833,563

The obligation was calculated using a risk-free discount rate range of 1.50% to 2.75% in Canada and 4.50% to 6.42% in Colombia with an inflation rate of 2.0% and 3.8%, respectively. It is expected that the majority of costs are expected to occur between 2021 and 2033. The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $18,154,528.

15. Share Capital

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

(b) Issued:

Common shares	Shares	Amounts
Balance as at January 1, 2018	6,453,537	$ 7,585
Private placement	17,692,760	16,152,260
Shares issued in the reverse takeover transaction of Front Range	10,630,000	6,268,930
Shares issued in the acquisition of Carrao	22,598,870	20,000,000
Shares issued in the Samaria acquisition	11,799,435	10,442,500

December 31, 2019

Shares returned to treasury	(500,000)		(372,000)
Share issue costs	-		(1,758,983)
Balance as at December 31, 2019 and 2018	**68,674,602**	**$**	**50,740,292**

Pursuant to the arrangement agreement with Arrow Exploration Ltd. and Front Range, the opening number of shares are reflective of the Front Range capital and have been consolidated on a 8.5-to-1 basis retroactively.

On September 17, 2018, Arrow Exploration Ltd. closed a private placement of 17,692,760 subscription receipts at $1.00 per subscription receipt. On September 28, 2018 each subscription receipt converted into a unit of Arrow Exploration Ltd. which consisted of one common share and one share purchase warrant with each warrant being exercisable at $1.30, expiring two years from the date of issuance. These warrants are considered non-compensatory warrants and are required to be fair valued at each reporting date (Note 12).

The Shares issued in the reverse takeover (RTO) transaction of Front Range includes 630,000 shares (on a post-consolidation basis) that were issued as part of the Company's private placement unit financing completed on September 24, 2018 following the private placement financing in Arrow Exploration Ltd. referred to above and in advance of closing the RTO. Each unit placed in Front Range consisted of, on a subsequent and post-consolidation basis, one common share and one share purchase warrant with each warrant being exercisable at $1.30, expiring two years from the date of issuance.

In order to consummate the acquisitions as disclosed in Note 4, certain Arrow Exploration Ltd. founders returned an aggregate of 500,000 shares to treasury. The value assigned to the shares returned was based on the Company's post transaction equity value.

Included in share issue costs is the value of $171,800 assigned to the 634,638 agents options Arrow Exploration Ltd. granted in conjunction with the private placement financing referred to above. Each agents option is exercisable for a period of 12 months at $1.00 into one common share and one share purchase warrant with each warrant exercisable at $1.30 for two years from the date of issuance. The fair value of the agents options was determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 35%, risk free rate of return 1.73%, weighted average life – 1.0 to 2.0 years.

(c) Stock options:

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase a number of non-transferable common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. The exercise price is based on the closing price of the Company's common shares on the day prior to the day of the grant. A summary of the status of the Company stock option plan as at December 31, 2019 and December 31, 2018 and changes during the respective periods ended on those dates is presented below:

	December 31, 2019		December 31, 2018	
Stock Options	**Number of options**	**Weighted average exercise Price (CAD $)**	Number of options	Weighted average exercise price (CAD $)
Beginning of period	**6,350,000**	**$1.15**	480,659	$8.42
Granted	**1,665,000**	**$0.31**	6,350,000	1.15
Exercised	**-**	**-**	-	-
Expired/Forfeited	**(2,545,000)**	**$1.15**	(480,659)	(8.42)
End of period	**5,470,000**	**$0.99**	6,350,000	$1.15
Exercisable, end of period	**1,466,667**	**$1.15**	-	$ -

December 31, 2019

Date of Grant	Number Outstanding	Exercise Price (CAD $)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2019
October 22, 2018	4,400,000	$1.15	8.82 years	Oct. 22, 2028	1,466,667
May 3, 2019	1,070,000	$0.31	9.35 years	May 3, 2029	-
	5,470,000	$0.99	8.92 years		1,466,667

The weighted average fair market value per option granted in 2019 and 2018 was approximately CAD $0.21 and $0.45,respectively, and were estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield – nil, expected volatility 65%, risk free rate – 2.0%, expected life - 10 years, an estimated forfeiture rate – 5% and utilizing the graded option method. During the years ended December 31, 2019 and 2018, the Company recognized $803,001 and $256,987, respectively, as share based payments expense, with a corresponding increase in the contributed surplus account.

16. 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:

	2019	2018
Loss before income taxes	**$ (6,348,170)**	$ (590,123)
Corporate income tax rate	**26.50%**	27.00%
Computed expected tax expense (recovery)	**$ (1,682,265)**	$ (159,333)
Increase (decrease) in income taxes resulting from:		
Share based compensation	**212,795**	69,386
Unrecognized deferred tax benefits	**2,158,297**	1,051,307
Tax rate difference on foreign jurisdictions	**168,958**	68,018
Other permanent difference	**(347,474)**	(954,378)
True up adjustment from previous periods	**(964,000)**	-
Foreign exchange	**82,414**	-
Income tax (recovery) expense	**$ (371,275)**	$ 75,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's deferred income tax assets and liabilities are as follows:

As at December 31,	**2019**	2018
Property and equipment	**$ (4,377,158)**	$ (4,426,205)
Non-capital losses	**-**	316,391
Decommissioning liabilities and other provisions	**2,553,158**	1,783,814
Deferred tax liability	**$ 1,824,000**	$ 2,326,000

At December 31, 2019, the Company had non-capital losses carried forward of approximately $18,755,000 (2018 - $12,300,000) available to reduce future years taxable income. These losses commence expiring in 2029. At December 31, 2019, the Company had income tax credits and benefits of approximately $44.677,000 (2018 - $37,476,000) 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.

17. Commitments and Contingencies

Exploration and Production Contracts

The Company has entered into a number of exploration contracts in Colombia which require the Company to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Company has outstanding exploration commitments at December 31, 2019 of $23.8 million. During 2019, the Company completed its earning commitment on the Tapir block by drilling the Rio Cravo Este-1 ("RCE-1) well and with the sale of non-core assets (Note 9), the Company transferred to the purchaser $6.95 million in commitments on the Coati block that were scheduled for 2020. During the second quarter of this year the Company, in conjunction with its partners, made application to cancel a further $15.5 million ($5.79 million Arrow's share) in commitments on the Macaya and Los Picachos blocks. This request was subsequently denied by the ANH. The remaining commitments are expected to be satisfied by means of seismic work, exploration drilling and farm-outs. Presented below are the Company's exploration and production contractual commitments at December 31, 2019:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	-	23,790,000	-	23,790,000
	$ -	**$ 23,790,000**	**$ -**	**$ 23,790,000**

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, 2019, the Company had obligations under Letters of Credit ("LC's") outstanding totaling $12.3 million to guarantee work commitments on exploration blocks and other contractual commitments. Of the total, approximately $11.3 million has been guaranteed by Canacol. Under an agreement with Canacol, Canacol will continue to provide security for Arrow's Letters of Credit providing that Arrow uses all reasonable efforts to replace the LC's. In the case of the abandonment LC's on LLA-23, if the LC's have not been replaced by December 31, 2020, then Arrow will pay a 1% per annum fee, payable monthly until the LC's have been replaced. 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
LLA - 23	ANH	Canacol	Abandonment	$3,489,495	January 31, 2020
	ANH	Canacol and Carrao	Abandonment	$3,176,625	January 31, 2020
	ANH	Canacol and Carrao	Compliance	$600,000	January 31, 2020
Tapir	ECP	Samaria Llanos	Abandonment	$53,000	December 26, 2020
SANTA ISABEL	ANH	Carrao Energy SA Suc Col	Abandonment	$482,451	April 14, 2020
	ANH	Canacol and Carrao	Financial Capacity	$1,672,162	January 31, 2020
CORE - 39	ANH	Canacol	Compliance	$2,400,000	January 31, 2020
OMBU	ANH	Carrao Energy SA Suc Col	Financial Capacity	$436,300	April 14, 2020
Total				**$12,310,033**	

18. Financial Instruments

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

(a) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Company's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

i) Financial Derivative Contracts

During 2019, the Company had one financial derivative contract in order to manage commodity price risk. This instrument is not used for trading or speculative purposes. Arrow has not designated its financial derivative contract as effective accounting hedge, even though the Company considers the commodity contract to be an effective economic hedge. As a result, the financial derivative contract has been recorded on the statements of financial position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in the statement of operations and comprehensive loss.

The estimated fair value of the derivative financial instrument in Level 2 at each measurement date have been determined based on appropriate internal valuation methodologies and/or third party indications. Level 2 fair values determined using valuation models require the use of assumptions concerning the amount and timing of future cash flows and discount rates. In determining these assumptions, the Company primarily relied on external, readily-observable quoted market inputs as applicable, including crude oil forward benchmark commodity prices and volatility, and discounted to present value as appropriate. The resulting fair value estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and these differences may be material.

The gains on risk management activities for years ended December 31, 2019 are comprised as follows:

	For the year ended December 31	
	2019	2018
Realized risk management gain on commodity contract settled	**$ 192,420**	-
Unrealized gain on commodity contract outstanding	**-**	-
	$ 192,420	-

(b) Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Company's account receivable balances relate to petroleum and natural gas sales and balances receivables with partners in areas operated by the Company. The Company's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. In Colombia, a significant portion of the trade accounts receivable balance is with one commodity trader, which accounts for more than 65% of such balance, under an existing sale/offtake agreement with prepayment provisions and priced using the Brent benchmark. Other accounts receivable include a significant balance with a partner with an existing agreement to use 50% of its production entitlement to repay this balance.

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

(c) Market Risk

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

i) Foreign Currency Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currencies other than the United States dollar. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in exploration and evaluation and administrative costs in foreign currencies. The Company incurs expenditures in Canadian dollars, United States dollars and the Colombian peso and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place at December 31, 2019 and December 31, 2018.

ii) Interest Rate Risk

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

(d) Liquidity Risk

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

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

The Company's approach to managing its liquidity risk is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions,

without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. Any funding shortfall may be met in a number of ways, including, but not limited to, the issuance of new debt or equity instruments, further expenditure reductions and/or the introduction of joint venture partners.

(e) Capital Management

The Company's objective is to maintain a capital base sufficient to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include share capital, bank debt (when available), promissory notes and working capital, defined as current assets less current liabilities. In order to maintain or adjust the capital structure, from time to time the Company may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels. The Company monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding debt, less working capital items. In order to facilitate the management of its net debt, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

The Company's capital includes the following:

		December 31, 2019		December 31, 2018
Working capital (deficit)		**(2,863,641)**	$	(3,558,782)
Promissory note		**(5,714,076)**		(5,000,000)
	$	**(8,577,717)**	$	(8,558,782)

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and its ability to generate income and cash flows in the future. At December 31, 2019, the Company remains in compliance with all terms of its debt and, based on current available information, management expects to comply with all terms during the subsequent 12 months period. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for recovery in such prices and the effect of the Covid-19 pandemic, the preparation of financial forecast is challenging.

19. Related parties

The Company paid legal and professional fees and reimbursements for year ended December 31, 2019 amounting to $84,000 (2018 - nil) to a law firm of which a director of the Company is a partner. As at December 31, 2019, the amount payable to the law firm were $7,200 (December 31, 2018 - nil).

20. 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	
	2019	2018
Salaries, severances and director fees	**$ 1,816,005**	$ 405,654
Share based payments	**803,001**	256,987
	$ 2,619,006	$ 662,641

21. 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. Previous to the September 27, 2018 acquisition of assets in Colombia, the Company had no active operations other than incurred costs to consummate the transactions and complete the equity financing. Arrow management will regularly review funds flow from operations generated by each of Arrow's operating segments. Funds flow from operations is a non-GAAP measure of profit or loss that provides Arrow's management with the ability to assess the operating segments' profitability and, correspondingly, the ability of each operating segment to sustain capital, enable future growth through capital investment and to repay debt. The funds flow from operations is computed prior to any changes in working capital balances. The Canadian 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, 2019 and 2018.

Year ended December 31, 2019	**Colombia**	**Canada**	**Total**
Revenue:			
Oil Sales	$ 27,773,161	$ -	$ 27,773,161
Natural gas and liquid sales	-	409,916	409,916
Other	35,987	7,857	43,844
Royalties	2,708,681	31,026	2,739,707
Expenses	24,133,977	7,799,581	31,933,558
Gain on disposition of oil and gas properties	(1,632,174)	-	(1,632,174)
Impairment of oil and gas properties	-	1,531,000	1,531,000
Taxes	(371,275)	-	(371,275)
Net income (loss)	$ 2,969,939	$ (8,946,834)	$ (5,976,895)

As at December 31, 2019	**Colombia**	**Canada**	**Total**
Current assets	$ 7,620,811	$ 191,078	$ 7,811,889
Non-current:			
Other receivables	784,056	-	784,056
Restricted cash	53,726	395,562	449,288
Exploration and evaluation	6,961,667	-	6,961,667
Property, plant and equipment	53,303,103	3,440,703	56,743,806
Total Assets	$ 68,723,363	$ 4,027,343	$ 72,750,706

December 31, 2019						
Current liabilities	$	7,623,708	$	3,051,822	$	10,675,530
Non-current liabilities:						
Derivative liability		-		100		100
Other liabilities		1,007,849		-		1,007,849
Lease obligation		-		199,488		199,488
Decommissioning liability		7,738,147		435,075		8,173,222
Promissory note		-		5,714,076		5,714,076
Deferred income taxes		1,824,000		-		1,824,000
Total liabilities	$	18,193,704	$	9,400,561	$	27,594,265

Year ended December 31, 2018		Colombia		Canada		Total
Revenues						
Oil Sales	$	6,669,558	$	-	$	6,669,558
Natural gas and liquid sales				122,220		122,220
Other		-		10,877		10,877
Royalties		719,298		5,934		725,232
Expenses		4,207,099		2,460,447		6,667,546
Taxes		75,000		-		75,000
Net income (loss)	$	1,668,161	$	(2,333,284)	$	(665,123)

As at December 31, 2018		Colombia		Canada		Total
Current assets	$	6,157,407	$	2,441,753	$	8,599,160
Non-current		-				-
Restricted cash		2,851,514		303,325		3,154,839
Exploration and evaluation		10,547,118		-		10,547,118
Property, plant and equipment		49,913,099		4,720,503		54,633,602
Total Assets	$	69,469,138	$	7,465,581	$	76,934,719
Current liabilities	$	14,996,317	$	2,161,625	$	17,157,942
Non-current liabilities						
Deferred income taxes		2,326,000		-		2,326,000
Derivative liability		-		100		100
Other liabilities		1,096,559		-		1,096,559
Decommissioning liability		5,405,528		428,035		5,833,563
Total liabilities	$	23,824,404	$	2,589,760	$	26,414,164

The Canadian segment is also considered the corporate segment.

22. Subsequent events

Subsequent to the year-end, on March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Company in future periods.

Subsequent to December 31, 2019, the Company reviewed its property and equipment Cash-Generating Unit’s (“CGU”) for indicators of impairment and determined that an indicator related to the decrease in future commodity prices due to the COVID-19 pandemic was present. The future

price deck to be used for the March 31, 2020 balance sheet is 50% lower in 2020, 36% lower in 2021 and 20% to 25% lower in remaining years than the future price deck used for the December 31, 2020 balance sheet. The Company has prepared some preliminary estimates of both the value in use of its CGUs and has determined that it is likely that impairment charges will be recorded in the first quarter 2020.

On May 23, 2020, the Company announced the completion of a proposed non-brokered private placement of 13,000,000 common shares of the Company at a price of CAD$0.025 per share for gross proceeds of CAD$325,000. The private placement will be subscribed for by certain insiders of the Company in an amount of $100,000 each, and a consultant to the Company in an amount of $25,000. The Company has agreed to provide a loan of $100,000 to each of the insiders and a loan of $25,000 to the consultant, pursuant to promissory notes secured by the shares issued in this private placement. The Company has also issued an aggregate 4,875,000 stock options to a director, officers and a consultant of the Company as part of Arrow's compensation arrangements.