ARROW EXPLORATION CORP.

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022
IN UNITED STATES DOLLARS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Arrow Exploration Corp.

Opinion

We have audited the consolidated financial statements of Arrow Exploration Corp. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statement of operations and comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Recoverable amount of property and equipment in the Canada cash generating unit ("CGU")	
For the year ended December 31, 2023, impairment of $1,248,400 was recorded with respect to property and equipment in the Canada CGU. The Company's disclosures related to property and equipment and impairment are included in notes 2, 3, and 8 of the consolidated financial statements. An assessment is made at each reporting date as to whether there are any indicators for impairment. If such indicators exist, impairment charges are recognized. The recoverable amount of the Canada CGU was determined utilizing a fair value less costs of disposal model based on the net present value of future cash flows based on an independent reserve evaluation in addition to an internal valuation of undeveloped land. Auditing the Company's estimated recoverable amounts for its Canada CGU was complex due to the subjective nature of the underlying inputs and assumptions and the significant effect changes in these would have on the recoverable amount. Additionally, the evaluation of this estimate required specialized skills and knowledge. The primary inputs noted in the determination of the recoverable amount were expected production volumes, forecasted benchmark prices, forecasted exchange rates, royalties, operating costs, future development costs, discount rate and comparable land transaction metrics.	To test the Company's estimated recoverable amount for its Canada CGU, we performed the following procedures, among others: • Evaluated the Company's independent reserve evaluator's and internal specialist determining the value of undeveloped land's competence, capability, and objectivity, as well as obtained an understanding of the work they performed. • Involved our internal valuation specialists to assess the methodology applied, and the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums. • Compared forecasted benchmark commodity pricing and foreign exchange rates against other third-party price forecasts. • Assessed forecasted production, royalties, operating costs, and future development costs by comparing them to historical results. • Assessed the completeness and accuracy of comparable land transaction metrics utilized. • Assessed the existence and ownership of undeveloped land included in the valuation.

- Evaluated the adequacy of the relevant note disclosures included in the consolidated financial statements in relation to this matter.

Other information

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

- Management's Discussion and Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
April 28, 2024

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

As at	Notes	December 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		**$ 12,135,376**	$ 13,060,968
Restricted cash and deposits	**4**	**611,753**	210,654
Trade and other receivables	**5**	**3,536,936**	2,568,290
Taxes receivable	**6**	**4,655,399**	801,177
Deposits and prepaid expenses		**197,402**	157,459
Inventory		**492,332**	705,677
		21,629,198	17,504,225
Non-current assets			
Deferred income taxes	**14**	**2,031,383**	872,286
Restricted cash and deposits	**4**	**243,081**	608,127
Property and equipment	**8**	**38,371,361**	34,205,610
Total Assets		**$ 62,275,023**	$ 53,190,248
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 9,747,906**	$ 5,850,823
Lease obligation	**10**	**103,674**	41,434
Promissory note	**9**	**-**	1,899,294
Derivative liability	**12**	**-**	9,540,423
Income taxes	**14**	**3,108,504**	1,488,916
		12,960,084	18,820,890
Non-current liabilities			
Lease obligations	**10**	**216,919**	22,317
Other liabilities		**345,528**	80,484
Deferred income taxes	**14**	**3,269,894**	5,066,684
Decommissioning liability	**11**	**3,973,075**	3,303,301
Total liabilities		**20,765,500**	27,293,676
Shareholders' equity			
Share capital	**13**	**73,829,795**	57,810,735
Contributed surplus		**2,161,945**	1,570,491
Deficit		**(33,945,895)**	(32,839,282)
Accumulated other comprehensive loss		**(536,322)**	(645,372)
Total shareholders' equity		**41,509,523**	25,896,572
Total liabilities and shareholders' equity		**$ 62,275,023**	$ 53,190,248

Commitments and contingencies (Note 15)

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

On behalf of the Board:

signed "Gage Jull" Director
Gage Jull

signed "Ian Langley" Director
Ian Langley

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

For the years ended December 31,	Notes	2023	2022
Revenue			
Oil and natural gas	18	50,596,786	$ 28,135,254
Royalties	18	(5,926,780)	(3,161,790)
Total oil and natural gas revenue, net of royalties		44,670,006	24,973,464
Expenses			
Operating		7,991,172	5,159,068
Environmental		113,991	-
Administrative		9,941,864	6,723,201
Listing costs		-	171,328
Share-based compensation expense	13	591,454	582,405
Financing costs:			
Accretion	11	127,478	199,521
Interest	9, 10	141,117	460,233
Other		317,676	330,797
Foreign exchange (gain) loss		(640,941)	590,034
Depletion and depreciation	8	12,186,777	5,528,489
Impairment (reversal) of oil and gas properties, net	8	11,799,740	(9,020,654)
(Gain) loss on derivative liability	12	(1,041,992)	5,974,674
Other expenses (income)		106,751	(163,266)
Total expenses, net		41,635,087	16,535,830
Income before income tax		3,034,919	8,437,634
Income tax expense (recovery)			
Current	14	7,097,419	2,428,862
Deferred	14	(2,955,887)	5,662,248
		4,141,532	8,091,110
Net (loss) income		(1,106,613)	346,524
Other comprehensive income			
Foreign exchange		109,050	158,364
Total other comprehensive income		109,050	158,364
Total comprehensive (loss) income		(997,563)	$ 504,888
Net (loss) income per share:			
Basic		$ (0.00)	$ 0.00
Diluted		$ (0.00)	$ 0.00
Weighted average shares outstanding			
Basic		242,537,228	215,468,129
Diluted		289,903,094	279,288,480

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

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

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

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

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

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

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

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

1. Corporate Information

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

2. Basis of Presentation

Statement of compliance
The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been approved and authorized for issuance by the Board of Directors ("the Board") on April 28, 2024.

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

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

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

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

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

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

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

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

Impairment of Property, plant and equipment and exploration and evaluation assets
Indicators of impairment are assessed by management using judgment, considering future plans, market conditions and commodity prices. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less costs of disposal and value in use. Recoverable amounts calculated for impairment testing are based on estimates of future commodity prices, expected volumes, quantity of reserves and discount rates as well as future development costs, royalties, and operating costs. In addition, the Company may identify value associated with undeveloped land with recoverable amounts calculated based on precedent land transactions as well as the application of a premium or discount to these precedent transactions and assumptions regarding the ability to obtain extensions on such land. These calculations require the use of estimates and assumptions, which by their nature, are subject to measurement uncertainty. In addition, judgment is exercised by management as to whether there have been indicators of impairment or of impairment reversal. Indicators of impairment or impairment reversal may include, but are not limited to a changes in: market value of assets, asset performance, estimate of future prices, royalties and costs, estimated quantity of reserves and appropriate discount rates.

Decommissioning obligations
Measurement of the Company's decommissioning liability involves estimates as to the cost and timing of incurrence of future decommissioning programs. It also involves assessment of appropriate discount rates, rates of inflation applicable to future costs and the rate used to measure the accretion charge for each reporting period. Measurement of the liability also reflects current engineering methodologies as well as current environmental legislation and standards.

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

3. Material Accounting Policies

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

Financial instruments

The Company considers whether a contract contains an embedded derivative when it first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets

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

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;

- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

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

Financial liabilities

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

Derivative liability

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

Exploration and evaluation assets

Pre-license costs are recognized in the statement of operations and comprehensive (loss) income as incurred. Exploration and evaluation costs include the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist.

If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property and equipment after performing an impairment assessment. When exploration and evaluation assets are determined not to be technically feasible and commercially viable, or the Company decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive (loss) income as pre-license expense.

Property and equipment

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

Subsequent costs:

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

Depletion and depreciation:

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

Impairment

Financial assets

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Fair value less cost to dispose is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. In addition, the Company considers whether any value may be separately attributed to undeveloped land.

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

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive (loss) income. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. Impairment losses recognized in prior years are assessed at each reporting date to determine if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

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

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

Revenue

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

Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations and comprehensive (loss) income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Company's income tax provisions and income tax assets and liabilities are based on interpretations of applicable tax laws, including income tax treaties between various countries in which the Company operates, as well as underlying rules and regulations with respect to transfer pricing. These interpretations involve judgments and estimates and may be challenged through government taxation audits that the Company is regularly subject to. New information may become available that causes the Company to change its judgment regarding. The Company's income of applicable the adequacy of existing income tax assets and liabilities, such changes will impact net earnings in the period that such a determination is made.

Adopted Accounting Standards

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

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

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

In United States Dollars

Future Accounting Standards

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

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

4. Restricted Cash and deposits

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

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

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

5. Trade and other receivables

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

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

In United States Dollars

6. Taxes receivable

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

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

7. Exploration and Evaluation

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

During 2023, the Company incurred in geological and geophysical costs in its Carrizales Norte prospect located in its Tapir block, and determined the technical feasibility and commercial viability of these assets, transferring $3,212,808 to its property and equipment. During 2022, the Company determined the technical feasibility and commercial viability of its Tapir assets related to the Rio Cravo Sur-1 discovery and transferred $6,964,506 to its property and equipment. An impairment test on these assets was prepared and no losses were identified as a result of such tests.

8. Property and Equipment

Cost	**Oil and Gas Properties**	**Right of Use and Other Assets**	**Total**
Balance, December 31, 2021	$ 32,160,917	$ 183,485	$ 32,344,402
Additions	7,663,062	50,671	7,713,733
Transfers from exploration and evaluation assets	6,964,506	-	6,964,506
Decommissioning adjustment	756,541	-	756,541
Balance, December 31, 2022	$ 47,545,026	$ 234,156	$ 47,779,182
Additions	23,907,357	310,061	24,217,418
Dispositions	(111,151)	-	(111,151)
Transfers from exploration and evaluation assets	3,212,808	-	3,212,808
Decommissioning adjustment	738,825	-	738,825
Balance, December 31, 2023	$ 75,292,865	$ 544,217	$ 75,837,082

In United States Dollars

Accumulated depletion and depreciation and impairment			
Balance, December 31, 2021	$ 16,692,145	$ 114,965	$ 16,807,110
Depletion and depreciation	5,482,218	46,271	5,528,489
Reversal of impairment losses of oil and gas properties	(9,020,654)	-	(9,020,654)
Balance, December 31, 2022	$ 13,153,709	$ 161,236	$ 13,314,945
Depletion and depreciation	12,120,871	65,906	12,186,777
Impairment loss of oil and gas properties	11,799,740	-	11,799,740
Balance, December 31, 2023	$ 37,074,320	$ 227,142	$ 37,301,461
Foreign exchange			
Balance December 31, 2021	$ 318,617	$ (3,457)	$ 315,160
Effects of movements in foreign exchange rates	(568,525)	(5,262)	(573,787)
Balance December 31, 2022	$ (249,908)	$ (8,719)	$ (258,627)
Effects of movements in foreign exchange rates	88,671	5,697	94,368
Balance December 31, 2023	$ (161,237)	$ (3,022)	$ (164,259)
Net Book Value			
Balance December 31, 2022	$ 34,141,409	$ 64,201	$ 34,205,610
Balance December 31, 2023	$ 38,057,308	$ 314,053	$ 37,371,361

Canada

As at December 31, 2023, the Company determined there were indicators of impairment in its Canada CGU, mainly due to decreases in forward gas prices and revision of reserves, and prepared estimates of its fair value less costs of disposal of its Canada CGU. It was determined that carrying value of its Canada CGU exceeded its recoverable amount and, therefore, an impairment loss of $1,248,400 was included in the consolidated statements of operations and comprehensive (loss) income for the year ended December 31, 2023. The following table outlines forecast benchmark prices and exchange rates used in the Company's impairment test as at December 31, 2023:

Year	**Exchange rate $US / $Cdn**	**AECO Spot Gas C$/MMBtu**
2024	0.75	2.08
2025	0.75	3.30
2026	0.75	4.27
2027	0.75	4.34
2028	0.75	4.30
Thereafter (inflation %)		2.0%/yr

The recoverable amount was estimated at their fair value less costs of disposal, based on the net present value of the future cash flows from oil and gas reserves as estimated by the Company's independent reserve evaluator at December 31, 2023 and an internal valuation of undeveloped land. The fair value less costs of disposal used to determine the recoverable amounts are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data but rather, the Company's best estimate. The Company used a 18.3% (2022: 15%) pre-tax discount rate, which took into account risks specific to the Canada CGU. The key assumptions in the internal valuation of undeveloped land were the determination of the transactions considered precedent, the discount applied to the Company's lands and the probability of obtaining extensions on related lands. The Company utilized an average value per acre of $89.63 in the impairment test as at December 31, 2023.

In United States Dollars

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

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

Colombia

During 2023, the Agencia Nacional de Hidrocarburos ("ANH") approved the suspension of the obligations and operations of the OMBU contract due to *force majeure* circumstances generated by the blockades and social unrest around the Capella field. The suspension was for an initial term of three months and has been extended until August 2024. At December 31, 2023, the Company determined there were indicators of impairment in the Capella CGU based on updates from the operator once access to the field was restored in late 2023 causing uncertainty in timing and resources required to resume operations, as well as the extent of which operations may be able to be resumed. The Company has recorded an impairment loss of $10,551,340 corresponding to the full carrying value of the Capella CGU as at December 31, 2023.

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

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

9. Promissory Note

The promissory note was issued to Canacol Energy Ltd. ("Canacol"), a related party to the Company, as partial consideration in the acquisition of Carrao Energy S.A. from Canacol. The promissory note bore interest at 15% per annum, and, on October 18, 2021, Arrow and Canacol entered into a Seventh Amended and Restated Promissory Note agreement. During December 2022, the Company made a payment of $1,888,750 to Canacol equivalent to 50% of the outstanding balance of the promissory note, and on June 30, 2023, the Company paid the remaining balance of $2,018,577, including interest.

10. Lease Obligations

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

In United States Dollars

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

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

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

11. Decommissioning Liability

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

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

The obligation was calculated using a risk-free discount rate range of 1.25% to 4.50% in Canada (2022: 2.50% to 3.75%) and between 4.00% and 4.29% in Colombia (2022: 3.55% and 4.13%) with an inflation rate of 2.5% and 2.6%, respectively (2021: 3.0% and 3.5%). The majority of costs are expected to occur between 2024 and 2038. The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $5,686,938 (2022: $4,480,074).

12. Derivative liability

Derivative liability includes warrants issued and outstanding as follows:

In United States Dollars

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

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

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

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

13. Share Capital

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

(b) Issued:

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

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

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

In United States Dollars

Date of Grant	Number Outstanding	Exercise Price (CAD $)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2023
October 22, 2018	750,000	$1.15		Oct. 22, 2028	750,000
May 3, 2019	270,000	$0.31		May 3, 2029	270,000
March 20, 2020	1,200,000	$0.05		Mar. 20, 2030	1,200,000
April 13, 2020	2,000,000	$0.05		April 13, 2030	2,000,000
December 13, 2021	5,966,668	$0.13		June 13, 2024 and 2025	2,983,332
June 9, 2022	1,966,668	$0.28		Dec. 9, 2023, 2024 and 2025	433,333
September 7, 2022	1,250,000	$0.26		Mar. 7, 2024, 2025 and 2026	416,666
December 21, 2022	5,478,332	$0.28		June 21, 2024, 2025 and 2026	1,826,110
January 23, 2023	650,000	$0.32		July 23, 2024, 2025 and 2026	-
September 21, 2023	1,000,000	$0.33		Mar. 21, 2025, 2026 and 2027	-
Total	**20,531,668**	**$0.23**	**2.23 years**		**9,879,441**

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

14. Income taxes

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

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

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

As at December 31, 2023, the Company recognized a deferred tax liability of $3,269,894 (2022: $5,066,684) which represents the tax impact of temporary differences in another Colombian legal entity. In Colombia, the enacted tax rate is 35% with an additional tax rate of 5%, 10% or 15% for oil producers, subject to international oil prices. The current and deferred tax rate applied in Colombia was 45% in 2023 (2022: 35% and 45% respectively). The components of the Company's deferred income tax assets and liabilities are as follows:

In United States Dollars

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

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

15. Commitments and Contingencies

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, 2023 of $12 million. During 2023, the ANH approved to cancel the Macaya and Los Picachos blocks contracts by mutual agreement, cancelling $5.8 million in commitments for the Company. The Company has made an application to the ANH to mutually cancel its COR-39 contract. Presented below are the Company’s exploration and production contractual commitments at December 31, 2023:

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

Contingencies

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

Letters of Credit

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

Current Outstanding Letters of Credit

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

16. Risk Management

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

(a) Commodity price risk

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

(b) Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Company's account receivable balances relate to petroleum and natural gas sales. The Company's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. In Colombia, a significant portion of the sales is with a producing company and a commodities trader under existing sale/offtake agreements with prepayment provisions and priced using the Brent benchmark. The Company's trade account receivables primarily relate to sales of crude oil and natural gas, which are normally collected within 25 days (in Canada) and up to 15 days (in Colombia) after the month of production. Other accounts receivable mainly relate to balances owed by the Company's partner in one of its blocks, and are mainly recoverable through join billings. The Company has historically not experienced any collection issues with its customers and partners.

(c) Market Risk

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

i) Foreign Currency Exchange Risk

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

ii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk.

In United States Dollars

(d) Liquidity Risk

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

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

The Company's approach to managing its liquidity risk is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Company's business objectives.

The Company prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Company utilizes authorizations for expenditures on projects to manage capital expenditures. Any funding shortfall may be met in a number of ways, including, but not limited to, the issuance of new debt or equity instruments, further expenditure reductions and/or the introduction of joint venture partners.

(e) Capital Management

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

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

17. Key Management Personnel

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

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

In United States Dollars

During 2023, the Company granted loans to some of its executives and Directors in the form of promissory notes, which are due on demand and bear interest at the average Bank of Canada Interbank Rate (currently 5%). The current aggregate balance receivable of these loans is $682,197, including interest of $9,650, and is included as other account receivables.

18. Segmented Information

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

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

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

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

In United States Dollars

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