Arrow Energy Ltd.

2007 Management's Discussion and Analysis

To our valued shareholders,

2007 has been both an exciting and a challenging year for Arrow Energy. We have experienced significant growth in terms of production, sales revenue and reserves. We have had a tremendous year in terms of drilling and completions. We believe we have made accretive and valuable choices for our shareholders in terms of our acquisitions. However, we have also had to deal with the significant costs of restructuring and reshaping the company into the emerging junior oil and gas company that Arrow has become. Together, though, we have made great strides. Our cash flow from operations in 2006 of over $900k of loss has been dramatically reduced to a loss of $167k in 2007. We experienced two quarters of positive cash flow from operations for the first time since early 2005. We will continue to strive to improve our financial position. I will outline below the steps that we are taking and have taken that will help to ensure Arrow's future profitability.

2008 brings with it an opportunity to focus Arrow to take advantage of one of Alberta's greatest sources of unexplored resources, its eight Métis Settlements and numerous aboriginal communities.

Focussed on our Commitment to Growth – Defining Arrow's Core Areas
Peavine Métis Settlement

The acquisition of Tirmoil Energy's assets on and off Peavine Métis Settlement has been the catalyst for Arrow's dramatic growth. One of the most important benefits of this transaction has been the addition of crude oil production to Arrow's asset mix for the first time in the company's history, which has come at a time of unprecedented oil prices. Arrow along with its partners have added to our Peavine/Dawson production base by drilling 2 producing wells, the 11-32-79-16W5 oil well and 102/16-32-79-16W5 gas well. The 11-32 has been a stable producer for the company since its tie-in. The 16-32 despite significant operational difficulties which led to shut in of production and delay of revenue for the entirety of Q4 has now been stabilized. Arrow remains committed to growing our asset base on Peavine. We have aggressive plans for exploration and development in 2008. Plans are in place for a water injection scheme on Peavine that we believe will have a positive impact on our production base. We are working with all of our partners at Peavine to actively seek out opportunities to continue to grow our oil and gas assets in and around the settlement.

Gift Lake Area/Gift Lake Métis Settlement

In addition to our assets on Peavine, we have extended our corporate focus of building our asset base in and around Alberta's Métis Settlements to Gift Lake Métis Settlement. April 1st, 2008 saw the closing of a strategic and highly accretive acquisition immediately adjacent to settlement with a negotiated effective date of October 1st, 2007. We saw this complementary acquisition as being critical for us for the future, but also to replace the Peavine production and revenue that we temporarily lost in Q4. The Gift Lake assets averaged approximately 100 boe/d production during Q4 and made close to $500k in net revenue during the period. At closing, Arrow's effective cost of the acquisition, after adjustments for revenue from October 1st, 2007 until closing, was approximately $3.1MM. The revenues from this acquisition are not accounted for in the audited financial statements and MD&A for the year ended December 31, 2007 because they are treated as an adjustment to the acquisition purchase price. They will begin to be accounted for as revenue in Q2 2008. If we were to include the results for 2007 for Gift Lake as being part of our results for 2007, Arrow would have had positive cash flow from operations for the year. We look forward to being able to present a far more positive financial statement to our shareholders once this acquisition becomes evidenced in our reporting in the 2nd Quarter of 2008.

We believe the Gift Lake acquisition is crucial for us as a company. It solidifies our commitment to our shareholders that a strategy of building an asset base which includes Alberta's Métis and aboriginal communities as an influential part of our business operations is a strategy that will serve us well as we strive for future growth and maturity as a company.

Westlock

Arrow's plan for growth involves a strategy of combining high impact growth which often carries with it increased risk, with assets that provide lower risk stable production and income. For Arrow, our Westlock shallow gas assets do just that. Westlock has been and continues to be a source of accessible, low risk production for the company. In 2007, our Westlock program has led to 2 successful gas wells that have brought stabilized shallow gas production to the company's asset base.

We continue to receive decent value for our reserves at Westlock and management believes that at this time in the company's evolution that these assets continue to play an important part in our corporate growth strategy. We definitely see upside in this area especially in gaining more control over the area's gas infrastructure. We are assessing our options for better well and pipeline control and will continue to keep you updated with any new developments in this core area.

Focused on our Commitment to Growth – Arrow's Acquisition Strategy

Arrow has had a busy year in terms of acquisition. In addition to our key acquisitions at Peavine and Gift Lake above, in the summer of 2007 we completed the acquisition of the shares of Castle Rock Petroleum. That acquisition has led to an increased presence for the company in Southern Alberta.

We had drilling success with our partners in the Hays/Grand Forks area as we previously press released. To continue with our program in this area would require an extensive seismic program and a significantly increased capital budget for 2008 that would divert our attention from our core areas. I can report to you that management is assessing our options in this area.

As far as potential for the future, we see the Pearce area of Southern Alberta, which we acquired in the Castle Rock acquisition, as holding real promise for Arrow as we head into 2008. Arrow, along with our partners, has recently completed a detailed engineering analysis of the area and our potential drilling prospects. We are quite encouraged by the results of the study as far as the economics for this play in the future are concerned. There is a potential negative impact of the Alberta Government's royalty decision on activity in the province; we are currently seeking relief on this project, which will definitely impact on the outlook for the Pearce play economically. I look forward to updating you with positive news about Arrow's plans for the future in the Pearce Area.

The Hotchkiss Area acquired from Castle Rock as well should bring us positive results this year as well. At the time of this letter, we are looking at getting three of our wells back on production, as there is now increased and consistent plant capacity in the area. In addition, we are currently looking at completing our drilling in the Deadwood area by the summer of 2008. We are also actively negotiating an improved Farm-in agreement for the company as the old Castle Rock agreement was no longer appropriate to the changed operating conditions in the area subsequent to the divestiture of Primewest/Taqa North's Hotchkiss/Stowe assets in late 2007. I look forward to providing an operational update on this area in the coming quarters as we still believe that the Hotchkiss Area will be a positive and accretive addition to Arrow's Peace River Arch asset base.

The company's other 2007 acquisitions form the basis of a suite of assets we believe can be monetized to provide funds to be used to directly pay down the company's debt. Additionally these proceeds will provide additional working capital for building on Arrow's asset base in its emerging core areas.

Focussed on our Commitment to Value Creation

The company's 2007 activity, while creating a strong emerging junior energy producer took a toll on our balance sheet. Our costs were very high. With a negative cash flow from operations of just $167k for 2007, the elimination of any of our major G&A items could have led to a positive cash flow from operations for the year. We believe that by taking a critical view of our cost base,

focusing our energies on eliminating expensive one time events, and by bringing consulting work in house to be handled by our new staff team that the Company can reduce G&A expenses in 2008.

For the year ended December 31, 2007, the company took a very conservative approach to capitalizing G&A expenses. There were several items booked to G&A that could have been capitalized, but were not.

In early 2007 Arrow embarked on a legal process to deal with a failed acquisition attempt, the overall cost of which was approximately $300k in consulting and legal fees. Only a fraction of these expenditures were capitalized. If we took no further steps to reduce our G&A, the elimination of this item alone would represent a 12% reduction in the company's total G&A expense for 2007.

Another factor in the above failed transaction was the acquisition of future space to handle the anticipated increase in staffing which would ultimately be a result of a successful acquisition. In early 2007, Arrow worked with its landlord at the time to acquire additional office space. When the acquisition did not go through, we were not able to negotiate a favourable exit for the company with regards to this lease commitment and the resultant cost to the company was a resultant $196k for the year ended December 31, 2008. We have now exited all other lease obligations except for our current space at 350, 703-6th Avenue SW. We see this space as being a suitable base from which the company can grow and expand its operations. We have a favourable lease rate, a building management team dedicated to controlling operating costs and room to expand our operations. We look forward to not having to deal with Calgary's volatile office space environment any time soon. The net effect of unoccupied lease space on our 2007 G&A costs would be approximately 8%.

Acquisitions cost money, we all know at closing the cheque needs to be cut or the property doesn't get transferred, but what about the "internal cheque" that needs to be cut? It is easy to forget about the costs internally to the company for making the acquisition. When a company is small, the decision is often made to bring on "qualified experts" who can get the job done and do it effectively. Unfortunately, in the case of Arrow, our acquisitions in 2007 were not always straightforward and required a lot of background work in accounting and land. Without internal staff to handle this, we turned to outside help. The legal, accounting, engineering and administrative fees to handle various transactions were extensive. Our estimate for G&A expenses which could have been capitalized to acquisition AFEs but were put into G&A expenses was at least $150k or another 6%.

On top of this, there was significant clean up and organization of our accounting department and systems subsequent to the departure of our former CFO which we estimate cost the company an additional $100k in one time professional fees to accounting consultants and significantly increased audit and professional fees.

I am pleased to report that with the addition of qualified, full time staff in accounting and land we are determined to bring our deal costs under control. For instance, under our new process, our costs on the recent Gift Lake acquisition have been dramatically reduced from what they might have been under our previous process using outside consultants. A staff of full time individuals, as opposed to an office full of consultants, will also have a dramatic effect on the company's cost control and cost base and is leading to increased morale and dedication to seeing Arrow continue to thrive and prosper.

With the elimination of these costly one time items and increased diligence with regard to capitalizing eligible G&A expenses, we believe we can cut at least $500k from 2007's $2.6MM G&A expense. In fact, we have set the budget for 2008 at $1.8MM. We believe that with extra effort we can strive to reduce our costs further than just elimination of one time charges. Any increase in G&A for 2008 certainly means an increase in our sales revenue and production to justify an amount of this magnitude.

Focussed on our Commitment to the Future

We are facing an interesting time in our industry. The government seems undecided on the path they need to take with regard to “fair royalties” in the province that benefit all of us as citizens, but do not suffocate the energy industry. We are living in a time of unprecedented pricing for natural resources, while at the same time unprecedented bad judgement with regard to debt in the United States has led our primary source of energy exports to declare they may be or are headed for recession. This is incredibly hard to believe when we have just come out of a time of colossal global M&A deals being done. At the same time emerging global economic powers such as China, India and Russia appear to be headed for energy consumption at levels never before seen. Latest reports tell us that the mad dash globally to alternative sources of energy such as bio-diesel have already led to and certainly will lead to massive problems in terms of food shortages and burgeoning food prices. Unprecedented commodity prices, unprecedented global demand, unproven energy sources are not an economically viable alternative to drastically reducing oil and gas activity?

At Arrow, we believe that despite all of the uncertainty there is one thing that is certain, in the near future the world needs Canada and especially Alberta to look for ways to provide it with oil and natural gas effectively, efficiently and in a way which is environmentally responsible. This is Arrow’s strategy for future growth. We believe we have the people, assets and vision needed to help to be viable and important part of Alberta’s energy industry. We believe in a working partnership with the communities where we have our operations, a partnership that creates an economic climate locally that results in better infrastructure and life for their constituents. This we believe is part of ensuring ongoing relationships which are so critical to continuing successful operations.

We believe 2008 and the future will afford Arrow the opportunity to grow and thrive in the areas which are core to our operations. We will remain stalwart in our commitment to providing value for our shareholders by constantly seeking to do a better job of operating our company. We all have a vested interest in ensuring our costs are constantly monitored, our acquisitions are accretive and strategic, and our drilling is based on strong science and defined reserves. Focussing on these things instead of listening to the clamour and trying to “read the market” will continue to allow Arrow to emerge as a growing, exciting energy company, dedicated to being part of the energy industry for years to come.

Respectfully submitted on behalf of the Board of Directors,
Chris D. Tesarski, President & CEO

Management Discussion and Analysis

This Management Discussion and Analysis ("MD&A"), prepared effective April 29, 2008 is management's assessment of financial condition and results of operations of Arrow Energy Ltd. ("Arrow" or the "Company") for the 3-months and year ended December 31, 2007, and should be read in conjunction with the audited financial statements for the years ended December 31, 2007 and December 31, 2006. These documents, along with other statutory filings, are available on SEDAR at www.sedar.com and at the Company's Web site at www.arrow-energy.com. This MD&A has been approved by the Board of Directors and has been prepared with the oversight of the audit committee.

Basis of Presentation

The financial data presented in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Non-GAAP Measurements

This MD&A may contain the term "cash flow from operations", which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP; it is used by Arrow to analyze operating performance, leverage and liquidity. Cash flow from operations as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other entities. Cash flow from operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of income per share. Cash flow from operations represents cash flow from operating activities expressed before changes in non-cash working capital and asset retirement costs and is reconciled to net loss on the Statement of Cash Flows.

Arrow also uses "operating netbacks" as a key performance indicator of field results by commodity. Operating netbacks do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Operating netbacks are determined by deducting royalties and operating, processing and transportation expenses from petroleum and natural gas sales.

Cash flow from operations and operating netbacks are not intended to represent operating profits, nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP.

Total BOEs are calculated by multiplying the daily production by the number of days in the period.

Forward Looking Statements

This disclosure includes forward-looking statements and assumptions respecting the Company's strategies, future operations, expected financial results, financing sources, commodity prices, costs of production and quantum of oil and natural gas reserves and discusses certain issues, risks and uncertainties that can be expected to impact on any of such matters. By their nature, forward-looking statements are subject to numerous risks and uncertainties that can significantly affect future results. Actual future results may differ materially from those assumed or described in such forward-looking statements as a result of the impact of issues, risks and uncertainties whether described herein or not, which the Company may not be able to control. The reader is therefore cautioned not to place undue reliance on such forward-looking statements. The Company disclaims

any intention or obligation to update or revise these forward-looking statements, as a result of new information, future events or otherwise.

BOE Presentation

All barrels of oil equivalent (“BOE”) conversions are based on the widely used conversion ratio of six thousand cubic feet (“Mcf”) of natural gas to one barrel (“bbl”) of oil. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 bbl is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Description of Business

Arrow Energy Ltd. was incorporated August 21, 2001. On May 3, 2004 Arrow Energy Ltd. amalgamated with 1095862 Alberta Ltd. and then with Red Chip Inc. Throughout these amalgamations, the Company retained the name Arrow Energy Ltd.

Tirmoil Energy Ltd., through a successful takeover bid, succeeded in acquiring control of Arrow Energy Ltd. effective September 1, 2006.

On September 28, 2007, by way of a Plan of Arrangement, Castle Rock Petroleum Ltd. became a wholly owned subsidiary of Arrow Energy Ltd.

Arrow is a Calgary, Alberta based public company engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in Alberta. The Company's common shares are listed on the TSX Venture Exchange “TSX-V” under the trading symbol "AOF".

Quarterly Information

The following table summarizes revenue from petroleum and natural gas sales, net of royalties, cash flow from operations and net income for Arrow for the periods indicated.

Quarterly	2007				2006			
Financial Data ($)	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Production revenue, net of royalties	555,981	1,179,571	946,886	649,392	402,351	465,293	490,545	596, 258
Pipeline revenue	325,252	356,990	383,046	253,017	-	-	-	-
Cash flow from operations[1]	(793,330)	495,472	267,101	(132,776)	(234,800)	(778,474)	(44,748)	150,109
Per share basic	($0.05)	$0.03	$0.02	($0.01)	($0.02)	($0.06)	$0.00	$0.01
Per share diluted[2]	N/A	N/A	N/A	N/A	N/A	N/A	$0.00	$0.01
Net income (loss)	(1,140,703)	(428,561)	(273,174)	(592,288)	(630,307)	(806,002)	(149,307)	(135,033)
Per share basic	($0.07)	($0.03)	($0.03)	($0.04)	($0.04)	($0.06)	($0.02)	($0.01)
Per share diluted[2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Cash flow from operations and cash flow per share are non-GAAP terms that represent cash generated from operating activities before changes in non-cash working capital and other operating items. Arrow’s cash flow from operations may not be comparable to other companies’. Arrow considers cash flow a key measure of performance as it demonstrates Arrow’s ability to generate the cash flow necessary to fund future capital investments.
(2) A diluted per-share calculation would be anti-dilutive and is therefore not applicable.

Selected Annual Information

Set out below is selected annual information for the last three years:

$	**2007**	2006	2005
Petroleum and natural gas sales	**4,532,810**	2,405,769	4,381,363
Pipeline revenue	**1,318,305**	-	-
Shareholders' equity	**14,738,683**	6,627,588	8,075,332
Cash flow from operations[1]	**(163,533)**	(907,718)	1,544,797
Per share, basic	**($0.01)**	($0.06)	$0.11
Per share, diluted[2]	**N/A**	N/A	N/A
Net loss	**(2,434,726)**	(1,720,649)	(140,905)
Per share, basic	**($0.14)**	($0.12)	($0.01)
Per share, diluted[2]	**N/A**	N/A	N/A
Capital assets	**20,081,782**	10,328,370	10,225,817
Long-term liabilities	**1,406,367**	1,478,510	2,233,946
Shares outstanding			
Basic	**17,079,862**	14,138,914	14,098,525

(1) Cash flow from operations and cash flow per share are non-GAAP terms that represent cash generated from operating activities before changes in non-cash working capital and other operating items. Arrow's cash flow from operations may not be comparable to other companies'. Arrow considers cash flow a key measure of performance as it demonstrates Arrow's ability to generate the cash flow necessary to fund future capital investments.
(2) A diluted per-share calculation would be anti-dilutive and is therefore not applicable.

Corporate Developments

On February 1, 2007, the Company acquired the oil and gas assets of Tirmoil, a related party. Tirmoil owned at the time of acquisition approximately 65% of all the outstanding common shares of Arrow Energy Ltd. The Company commenced reporting production from the acquisition date on February 1, 2007. The acquisition of the oil and gas assets and oil transportation pipeline represented the start of a new core operating area in Peavine/Dawson.

On September 28, 2007 Arrow acquired all the outstanding shares of Castle Rock Petroleum Ltd. ("Castle Rock"), a public company trading on the TSX Venture Exchange. The acquisition brought a number of new, highly motivated shareholders to Arrow as well as several exciting operating areas.

On September 28, 2007 Arrow issued 5,714,461 units ("Units") at a price of $0.35 per Unit for cash proceeds, net of fees, of $1,803,291. This private placement represented the start of Arrow's strategic partnership with a limited market dealer in Toronto, to make investor relations and market awareness a key priority for our company.

On October 25, 2007, the Company entered into an agreement whereby the Company acquired from two private vendors (the "Vendors") 100% of their jointly owned petroleum and natural gas interests in the vicinity of Carstairs, Alberta.

On December 31, 2007, Arrow issued 1,250,000 shares on a flow-through basis for cash proceeds, net of fees of $480,000.

On April 1, 2008, Arrow acquired a producing property near its Peavine core area in northern Alberta (Gift Lake area) from a private company for a total consideration of $4.1 million. As the

transaction was made effective October 1, 2007, the cash back to Arrow after adjustments at closing was approximately $1.0MM. At the time of acquisition, production from the properties was approximately 97 barrels of oil equivalent per day, consisting of 94 percent oil and 6 percent natural gas. The acquisition represented development of the company's asset base in and around another one of Alberta's major Métis Settlements, Gift Lake Métis Settlement.

On April 2, 2008, Arrow reached an agreement with its bankers, Alberta Treasury Branch, to extend its credit facility from $3.5MM to $6.0MM.

On April 16, 2008, Arrow announced the appointment of Richard Edgar, P. Geol. to the position of Executive Chairman, Richard Ballak, CGA to the position of Corporate Controller, and Jorge Aviles to the position of Coordinator of Corporate Affairs.

Results of Operations

	Three months ended		Years ended	
$	**December 31, 2007**	December 31, 2006	**December 31, 2007**	December 31, 2006
REVENUES				
Petroleum and natural gas revenue	**989,697**	466,525	**4,532,810**	2,405,769
Royalties	**(433,716)**	(64,174)	**(1,200,980)**	(451,322)
Pipeline revenue	**325,252**		**1,318,305**	
Other income	**(5,838)**	19,313	**43,352**	42,523
	875,395	421,664	**4,693,488**	1,996,970
EXPENSES				
Operating expense	**550,452**	190,693	**1,110,315**	740,183
Transportation expense	**28,802**	8,521	**57,868**	67,301
Pipeline expense	**203,159**	-	**860,511**	-
General and administrative expense	**803,638**	375,432	**2,595,221**	1,053,772
Reorganization costs	**-**	21,846	**-**	941,706
Depletion, depreciation and accretion expense	**646,862**	424,119	**2,902,330**	1,396,614
Interest and Part XII.6 tax	**82,673**	27,777	**233,106**	69,726
Stock-based compensation expense	**53,304**	162,456	**288,833**	183,579
	2,368,890	1,210,844	**8,048,184**	4,452,881
Loss from operations	**(1,493,495)**	(789,180)	**(3,354,696)**	(2,455,911)
Loss on disposal of office equipment	**-**	-	**-**	(8,388)
Net loss before taxes	**(1,493,495)**	(789,180)	**(3,354,696)**	(2,464,299)
Future income tax recovery	**(352,792)**	(158,873)	**(919,970)**	(743,650)
Net loss	**(1,140,703)**	(630,307)	**(2,434,726)**	(1,720,649)
Net loss per share, basic and diluted	**(0.07)**	(0.04)	**(0.14)**	(0.12)

All references to the fourth quarter or Q4 throughout this document are to the three-month period ended December 31, 2007, and all references to the twelve month period are to the year ended December 31, 2007, unless specified otherwise.

Drilling Activity

The following table summarizes the results of the wells that Arrow drilled or participated in drilling for the year ended December 31, 2007 and 2006, respectively:

	Year ended December 31 2007		Year ended December 31 2006	
	Gross	**Net**	Gross	Net
Natural gas	**3.00**	**1.06**	1.00	0.31
Oil	**3.00**	**0.68**	-	-
Dry & abandoned	**-**	**-**	-	-
Total	**6.00**	**1.74**	1.00	0.31

Oil and Natural Gas Wells

The following table summarizes Arrow's interest, as at December 31, 2007, in wells that are producing or which Arrow considers to be capable of production:

Producing Oil		**Producing Natural Gas**		**Non Producing Natural Gas**	
Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
5.00	1.45	9.00	4.10	9.00	4.10

Undeveloped Land Holdings

The undeveloped land holdings of Arrow as at December 31, 2007 and 2006, respectively, are set forth in the following table:

	Undeveloped Land			
	Gross Acres		**Net Acres**	
	2007	2006	**2007**	2006
Total	32,646	18,240	18,610	10,952

Production

Arrow's average production in the fourth quarter was 183 BOE/d, compared with 119 BOE/d in the three months ended December 31, 2006. The increase is mainly due to the acquisition of the assets of Tirmoil Energy that closed in early 2007 (the "Tirmoil Acquisition"). For the full year, Arrow's production averaged 229 BOE/d, compared with 164 BOE/d in 2006. In addition to the production growth resulting from the Tirmoil Acquisition, the higher production rate for the full year is also attributable to six successful wells drilled in 2007.

The current production rate is approximately 300 BOE/d of which approximately 100 BOE/d is reflective of the Gift Lake acquisition from a private company which closed April 2, 2008. The Company has a production mix of 57 percent natural gas and 43 percent oil.

	Three months ended December 31		Years ended December 31	
Volumes	**2007**	2006	**2007**	2006
Oil (bbl/d)	**86**	-	**98**	-
Natural gas (Mcf/d)	**585**	698	**786**	981
Total (BOE/d at 6:1)	**184**	116	**229**	164

Commodity Prices

For the fourth quarter, the Company's average realized prices on natural gas decreased by 15 percent from the prior-year period from $7.26/Mcf of natural gas to $6.17/Mcf; the average natural gas price received during the full year was $6.46/Mcf compared to $6.63/Mcf received in 2006.

The average price per barrel of oil received in Q4 was $85.79/BOE, compared with $0.00/BOE in the prior-year period when Arrow had no oil production. The West Texas Intermediate ("WTI") oil price per barrel rose to an average of US$72.33 in 2007 from US$66.09 in 2006. Part of this significant year-over-year increase in oil prices, however, was offset by the stronger Canadian dollar.

	Three months ended December 31		Years ended December 31	
Prices received	**2007**	2006	**2007**	2006
Oil ($/bbl)	**85.79**	-	**74.48**	-
Natural gas ($/Mcf)	**6.17**	7.26	**6.46**	6.63
Average ($/BOE)	**62.30**	45.67	**54.05**	41.72
Benchmark prices				
WTI (US$/bbl)	**90.57**	59.96	**72.33**	66.09
Cdn/US average exchange rate	**1.02**	0.878	**0.936**	0.882
Edmonton Par ($/BOE)	**86.89**	64.94	**77.00**	73.25
Alberta spot ($/Mcf)	**6.01**	6.77	**6.32**	6.38

Revenue

Revenue from Arrow's oil and natural gas sales increased in the fourth quarter to $989,697 compared to $466,525 in the same quarter of last year. For the full year, revenue grew to $4,532,810 compared to $2,405,769 in 2006. The revenue increases for both comparable periods are mainly a result of higher production volumes and prices. Revenue of $989,697 for Q4 of 2007 decreased 28% from $1,370,492 for Q3 of 2007. This decrease was the result of three wells being temporarily shut-in due to workovers and have since been producing at expected rates.

Pipeline income for the fourth quarter of 2007 totaled $325,252 and for the total year was $1,318,305. The oil pipeline was part of the Tirmoil Acquisition in 2007 and therefore there are no comparable numbers. On March 26, 2008, the company announced that it had received approval from Alberta Sustainable Resource Development, subject to filing normal course regulatory documentation to begin construction of the "Peavine Connector Road". The Arrow owned and operated oil pipeline on Peavine is currently operating at 25% capacity and will directly benefit from oil being able to be transported to and processed at its pipeline battery. Arrow intends to add infrastructure to its current facility to handle significantly more volume from the oilfields directly north of Peavine that would be easily accessed from the connector road. The total volume of oil that passed through the pipeline was 102,642 m^3, at an average tariff of $11.75 per m^3.

Royalties

Royalty expenses increased 576 percent from $64,174 ($6.01/BOE) in the fourth quarter of 2006 to $433,716 ($25.62/BOE) in the fourth quarter of 2007. For the full year, royalty expenses in 2007 amounted to $1,200,980 ($13.24/BOE) as compared to $451,322 ($12.36/BOE) for the prior year. Year-over-year, royalty expenses grew by 166 percent mainly due to additional wells being drilled and the ten percent gross overriding royalty ("GORR") payable on production related to the Peavine Métis Settlement lands.

This increase in Q4 2007 royalty expense is primarily due to the recording of royalty expenses related to late joint venture billings remitted on partner operated wells and an adjustment to the GORR expense for a period prior to October 1, 2007. As a result, Management does not consider the Q4 royalty expense to be indicative of performance in future quarters.

As a percentage of revenue, the royalty rate in Q4 increased to 44 percent from 14 percent in the prior-year period. For the full year, the royalty rate was 26 percent of revenue, compared with 19 percent in 2006.

On October 25, 2007, the Government of Alberta announced significant changes to the oil and natural gas royalty structure to be implemented on January 1, 2009. Arrow is currently analyzing the potential impact of the proposed changes to the Company.

	Three months ended December 31		Years ended December 31	
$	**2007**	2006	**2007**	2006
Total	**433,716**	64,172	**1,200,980**	451,320
Per BOE	**25.62**	6.01	**14.33**	7.54
As a percent of revenue	**44%**	14%	**26%**	19%

Interest and Other Income

The Company earned other income, primarily from royalty revenue. Other income for the full year amounted to $43,352, with $42,523 reported for 2006.

Operating and Transportation Expense and Pipeline Costs

Operating expenses for the fourth quarter increased to $550,452 ($32.51/BOE) from $190,693 ($17.86/BOE) in the fourth quarter of 2006. Total operating expenses for the full year were $1,110,315 ($13.28/BOE), 85 percent higher than the $740,183 ($12.36/BOE) reported for 2006. The increases are primarily due to increased volumes. On a BOE basis, the increase was 7%. The year-over-year rise in production costs on a BOE basis is mainly a result of industry-wide increases in service and processing fees. Q4 2007 operating costs increased by $331,445 from $219,007 in Q3, 2007 to $550,452 for Q4, 2007. This increase in expenses is due to joint venture billings received from partner operated wells for costs realized prior to October, 2007 being recorded in Q4 of 2007. As a result, Management does not consider the Q4 operating expense to be indicative of performance in future quarters. With the activity levels in Alberta's conventional oil and gas production decreasing and expected future growth in Arrow's production, Management expects operating costs on a BOE basis to decrease over time.

Transportation costs were $28,802 ($1.70/BOE) in the fourth quarter, compared with $8,521 ($0.80/BOE) in the prior-year period. Year-over-year, transportation costs decreased from $67,301 ($1.12/BOE) in 2006 to $57,868 ($0.69/BOE) in 2007, mainly as a result of lower natural gas sales. On a BOE basis, the decrease in transportation costs primarily relates to a shift in our mix of revenue stream from predominantly gas in 2006 to a mix of oil and gas in 2007.

	Three months ended December 31		Years ended December 31	
$	**2007**	2006	**2007**	2006
Operating expense per BOE[1]	**34.22**	18.67	**13.98**	13.48

1) includes transportation costs

Pipeline expenses were $203,159 for the fourth quarter of 2007 and $860,511 for the full year. As Arrow acquired the pipeline from Tirmoil in early 2007, there are no comparative numbers available for 2006.

General and Administrative ("G&A") Expense

In the fourth quarter, G&A expenses amounted to $803,638 as compared to the $375,436 reported in the fourth quarter of 2006. G&A expenses for the full year were $2,595,221 compared with $1,053,772 for 2006. General and administrative costs for 2007 include $485,441 related to non-reoccurring expenses. This amount consisted of $212,859 for legal costs associated with unsuccessful acquisitions and a legal claim associate with the normal course of business, rent expense of $196,997 on unused office space, and consulting fees of $75,585. In addition, the Company experienced higher auditing, legal and consulting costs due to the departure of the Company's former CFO. Management expects to reduce G&A expenses and to be able to grow revenues significantly while maintaining the current infrastructure and staffing levels.

	Three months ended December 31		Years ended December 31	
$	**2007**	2006	**2007**	2006
G&A expense, gross	**817,290**	390,192	**2,636,921**	1,166,572
Capitalized overhead	**(13,652)**	(14,760)	**(41,700)**	(112,800)
G&A expense, net	**803,638**	375,432	**2,595,221**	1,053,772
G&A expense, per BOE, net	**47.47**	35.18	**31.05**	17.60

Stock-Based Compensation

During the fourth quarter, stock-based compensation expense amounted to $53,304, while Arrow reported $162,456 for the fourth quarter of 2006. The Company incurred stock-based compensation expense of $288,833 for the full year, compared with $183,579 for 2006. The higher stock-based compensation expense for 2007 over 2006 was the result of a larger number of stock options issued during the year, mainly to directors and key staff members.

Arrow granted a total of 1,043,750 options in the year ended December 31, 2007.

Netbacks

	Three months ended December 31		Years ended December 31	
$	**2007**	2006	**2007**	2006
Realized price	**$ 62.30**	$ 45.67	**$ 54.05**	$ 41.72
Royalties	**25.62**	6.01	**13.24**	12.36
Transportation expense	**1.70**	0.80	**0.69**	1.12
Operating expense	**32.51**	17.86	**13.24**	12.36
Operating netback	**2.47**	23.47	**26.85**	15.88
Other income	**(0.34)**	1.81	**8.52**	0.71
G&A expense	**47.47**	35.18	**31.05**	17.60
Interest expense	**4.88**	2.60	**2.78**	1.16
Cash netback	**(50.22)**	(12.50)	**1.54**	(2.17)

Depletion, Depreciation and Accretion ("DD&A") Expense

Arrow's DD&A expense for the fourth quarter of 2007 totaled $646,862 compared with $424,119 for the fourth quarter of 2006. For the full year 2007, DD&A expense amounted to $2,902,330; in 2006, Arrow reported DD&A expense of $1,396,614 for the year. The higher DD&A costs in 2007 are primarily a result of the Tirmoil Acquisition in February, the Lone Pine acquisition in October and the capital costs required to bring proved reserves on production. The current-period provision includes the depreciation of the major assets acquired from Tirmoil. The oil pipeline, a considerable asset to the Company, is being depreciated over a twenty-five year term; starting February 1, 2007.

	Three months ended December 31		Years ended December 31	
$	**2007**	2006	**2007**	2006
DD&A expense, gross	**646,862**	424,119	**2,902,330**	1,396,614
DD&A expense, per BOE, net	**38.21**	39.74	**34.72**	23.33

Arrow uses the asset retirement obligation method to record the present value of estimated clean-up and restoration costs for its well sites, pipelines and facilities. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Arrow recorded $60,546 of accretion expense in 2007 (December 31, 2006 - $19,871) based on a total future liability of $1,081,877 (December 31, 2006 - $234,050). The increase in expense is due to additional wells drilled and the acquisition of Tirmoil properties. The future liability increased due to the Tirmoil and Castle Rock acquisitions.

Future Income Taxes

The future income tax recovery for the three months ended December 31, 2007 was $352,794 compared with $158,873 for the three months ended December 31, 2006. For the full year, future income tax recovery was $919,970, while for 2006, Arrow reported $743,650.

Under the flow-through share agreement entered into in fiscal 2007, Arrow is required to incur eligible expenditures for total gross proceeds of $500,000 prior to December 31, 2008. No expenditures have yet been incurred relating to this agreement.

Capital Expenditures

	Years ended December 31	
$	**2007**	2006
Land	**65,317**	31,432
Geological and geophysical	**201,616**	
Drilling and completions	**1,335,290**	767,149
Production equipment and facilities	**436,179**	660,400
Property acquisition	**1,542,393**	-
	3,580,795	1,458,981

Capital expenditures in the fourth quarter were $230,578 as Arrow completed various recompletions, equipping and tie-ins, and lease clean-ups.

During the year, Arrow continued to add lands and prospects. At the end of 2007, the Company's gross land position covered 32,646 acres (18,610 net). Upcoming Crown land sales and ongoing farm-in negotiations are expected to continue to enable the Company to increase its land base and drilling inventory, particularly in northern Alberta on Métis-controlled lands.

Share Capital and Option Activity

As at December 31, 2007, the Company has 27,233,727 shares outstanding, including 1,250,000 shares issued on a flow-through basis for gross proceeds of $500,000 on December 31, 2007 and for which Arrow paid fees totaling $20,000 to Northern Securities Inc.

There were 2,190,178 options to acquire common shares outstanding at December 31, 2007. The outstanding options of 725,000, 893,750, and 571,428 have an average exercise price of $0.45, $0.38 and $0.35 respectively and have been granted in such numbers and with such vesting provisions as the Board of Directors has determined pursuant to Arrow's stock option plan.

	Number of options	Weighted average exercise price
Balance at December 31, 2006	1,210,000	$ 0.45
Forfeited during the period	(635,000)	0.45
Granted during the period	1,043,750	0.38
Broker options issued for units	571,428	0.35
Balance at December 31, 2007	**2,190,178**	**0.40**

Share Information (000s)	**Q4 2007**	Q4 2006	**2007**	2006
Weighted average shares outstanding				
Basic and diluted	**25,475,575**	14,138,914	**17,079,862**	14,138,914

Working Capital, Liquidity, and Capital Resources

Arrow Energy Ltd. is listed as an issuer on the TSX-V, trading under the symbol "AOF". At December 31, 2007, the Company's market capitalization was $10,076,479.

Trading History on the TSX-V	**Q4 2007**	Q4 2006	Q3 2007	2007
High	**$0.46**	$0.65	$0.55	$0.55
Low	**$0.28**	$0.35	$0.35	$0.29
Close	**$0.37**	$0.45	$0.42	$0.37
Volume (000s)	**513,399**	370,076	318,615	1,055,161

At December 31, 2007, Arrow had a working capital deficiency of $3,663,308, which included bank indebtedness of $3,037,838.

At December 31, 2007, the Company had established a demand loan facility in the amount of $3,500,000 with Alberta Treasury Branches. Interest on this facility is charged monthly at the bank's prime rate plus 50 basis points. The credit facility is secured by a fixed and floating charge on the assets of the Company and is subject to annual review. Arrow has recently completed the renegotiation with the Alberta Treasury Branch for an increase in the demand loan facility to $6,000,000.

Commitments and Contingencies

The Company has remaining lease commitments for office space of $128,000 and $973,674 which expire on August 31, 2008 and July 1, 2012, respectively.

Additionally, Arrow is involved in a legal claim associated with the normal course of business. At this time and in the opinion of management, this matter is not reasonably expected to result in a material adverse effect on the Company's financial position.

In 2007, the Company committed to renounce $500,000 of exploration expenses pursuant to a flow-through share issue completed December 31, 2007. Arrow has until December 31, 2008 to incur these exploration expenditures.

Related-Party Transactions

For the period ended December 31, 2007, Arrow has $13,574 (December 31, 2006: $37,906) included in legal fees and accounts payable to Parlee McLaws LLP of which a director of Arrow is a partner. Parlee McLaws is legal council for Arrow Energy Ltd.

At December 31, 2007, the Company entered into a loan agreement with the President of the Company to provide a loan in the amount of $100,000 for the purchase of flow-through shares of the Company. The loan agreement is secured by 250,000 common shares of the Company.

At December 31, 2007 the Company has a payable to the Peavine Métis Settlement in the amount of $71,899, to the Métis Settlement General Council in Trust for Peavine for $165,104 and $146,307 to Tirmoil Energy Ltd. These payables relate to revenues earned on land from participation in joint ventures. The Peavine Métis Settlement owns 100% of Tirmoil Energy Ltd. Tirmoil Energy Ltd. is the controlling shareholder of Arrow Energy Ltd.

Hedging

The Company had no hedges in place as at December 31, 2007 and does not anticipate entering into any hedging arrangements in the immediate future.

Future Accounting Pronouncements

As of January 1, 2008, Arrow has adopted two new Canadian Institute of Chartered Accountants ("CICA") standards:

- Section 3862, "Financial Instruments – Disclosures", and
- Section 3863, "Financial Instruments – Presentation"

These replace Section 3861, "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006, and the Company is assessing the impact on its financial statements.

AS of January 1, 2008, the Company has adopted CICA Section 1535, "Capital Disclosures", which requires additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006, and the Company is assessing the impact on its financial statements.

Critical Accounting Estimates

The Company's financial and operating results contain estimates made by management in the following areas:

1. capital expenditures are based on estimates on projects in various stages of completion;
2. revenues, royalties and operating costs are based on estimates for which revenue had not yet been received and costs had not yet been realized;
3. depletion, depreciation and accretion are based on estimates of oil and natural gas reserves that the Company expects to recover in the future;
4. asset retirement obligations are based on estimates of future costs and timing of expenditures; and
5. the future recoverable value of capital assets is also based on estimates that the Company expects to realize in the future.

Management's assumptions are based on factors that, in management's opinion, are relevant and appropriate. Management's assumptions may change over time as operating conditions change.

Oil and Natural Gas Reserves Determination

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. Reserve estimates are based on current production forecasts, prices and economic conditions. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact oil and natural gas prices and costs.

Depletion Expense

The Company uses the full-cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development activities, whether successful or not, are capitalized. The aggregate of net capitalized costs (less costs of unproved properties) and estimated future development costs (less estimated salvage values) is amortized using the unit-of-production method based on estimated proved oil and natural gas reserves. An increase in estimated proved oil and natural gas reserves or a decrease in estimated future development costs would each result in a corresponding reduction in depletion and depreciation expense.

Impairment of Petroleum and Natural Gas Assets

The Company is required to review the carrying value of all petroleum and natural gas assets for potential impairment. Impairment is indicated if the carrying amount of the oil and natural gas property and equipment is not recoverable by the future undiscounted funds flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the property and equipment is charged to earnings. The assessment of impairment is dependent on estimates of reserves, production rates, prices, future costs and other relevant assumptions.

Stock-Based Compensation

Under the fair-value method of accounting for stock options, compensation expense is determined on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Arrow's stock options are not transferable, cannot be traded and are subject to vesting restrictions that would tend to reduce value. The Black-Scholes model requires the input of several variables including estimated volatility of Arrow's stock price over the life of the option, estimated forfeitures and the estimated life of the option. Changes in these estimates would alter the option's fair value and the related expense as determined by the Black-Scholes model.

Asset Retirement Obligations

The Company is required to provide for future removal and restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. The fair value of the liability for the Company's asset retirement obligations is recorded in the period in which it is expected to be incurred, discounted to its present value using the Company's risk-adjusted interest rate and the expected inflation rate. The offset to the liability is recorded in the carrying amount of property and equipment. The liability amount is increased each reporting period due to the passage of time, and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential re-assessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Risk Factors

There are a number of risk factors facing companies that participate in the Canadian oil and gas industry. A summary of certain risk factors relating to our business are provided in the Risk Factors section of our Annual Information Form, filed on SEDAR.

Additional Information

Additional information regarding the Company is available on SEDAR at www.sedar.com or can be obtained by contacting Arrow Energy Ltd., Suite 350, 703 – 6th Avenue SW, Calgary, AB T2P 0T9 or on the Company's Web site at www.arrow-energy.com.