



NEWS RELEASE
TSX-V: AOF

ARROW ENERGY LTD. ANNOUNCES THIRD QUARTER 2007 FINANCIAL AND OPERATING RESULTS

Calgary, Alberta, November 29, 2007/CNW/Arrow Energy Ltd. today announced its financial and operating results for the third quarter of 2007.

HIGHLIGHTS

- Cash flows from operations totalled \$495,472, almost twice the cash flows of \$267,101 reported in the second quarter of 2007;
- Production volumes averaged 320 boe/d compared with 246 boe/d in the prior quarter;
- Acquisition of Castle Rock Petroleum Ltd. closed in August 2007, adding significant land holdings and extensive upside potential to Arrow's inventory of opportunities;
- Expansion of Arrow team with the addition of several experienced and talented individuals.

Note:

"BOE" means a barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

LETTER TO SHAREHOLDERS

Fellow Shareholders

The third quarter 2007 was marked by a number of key events, which all had a positive impact on Arrow and clearly demonstrate that we are well on our way to becoming an emerging, growth-oriented oil and gas producer:

- The addition of several key staff members who bring great experience in their respective fields to Arrow;
- Record, positive cash flows of \$495,472, nearly doubling the prior quarter's cash flows that had already set a new bar for the company;
- With no new drilling, we were successful in offsetting natural production declines and thus essentially maintaining production levels from the prior quarter.

Recognizing Arrow's potential, a limited market dealer from Toronto and Arrow have forged a strategic partnership to increase Arrow's market presence. I am very pleased that we were able to successfully raise \$2.0 million together in the quarter. This was the first step in making investor relations and market awareness of our company a key priority. We will continue to enhance our communications with the markets going forward. Arrow is an exciting company with great potential, and we will strive to make the markets understand what sets us apart and how we will succeed by taking a number of proactive initiatives.

On the operational side, we are very pleased with the acquisition of Castle Rock Petroleum that closed in late summer. The acquisition brought a number of new, highly motivated shareholders to Arrow as well as several exciting operating areas. In particular, the southern Alberta area acquired through Castle Rock recently saw two successful multi-zonal wells drilled by Arrow and its partners. As well, our land position in the area has become quite significant through this acquisition, and we are confident that we will continue to see successful wells drilled in 2008 and beyond. We also continue to increase our land holdings in our northern and central core areas through strategic land acquisitions and extensive development work. Plans call for an aggressive development program this winter in the Hotchkiss area where we will deploy a majority of our available capital and tie in proved reserves.

Additionally, we have given greater attention to the Company's accounting. As a result, we have seen a general decrease in operational expenditures and general and administrative costs, which is further proof of our evolution into an efficient, well-structured organization.

With a new hard-working and talented team in place and great upside potential in both our legacy and newly acquired operating areas, we look forward to further imminent growth for Arrow. It remains a top priority to increase the value of your shares in this exciting company.

Chris Tesarski

President and Chief Executive Officer

November 29, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis, prepared effective November 29, 2007, is management's assessment of the operating results, current financial condition and outlook for Arrow Energy Ltd. ("Arrow" or the "Company") for the periods ended September 30, 2007 and 2006. All financial information is reported in Canadian dollars. This Management Discussion and Analysis ("MD&A") has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and with Canadian Securities Association National Instrument 51-101 Standards of Disclosure for Oil & Gas Activities ("NI 51-101"). The MD&A has been approved by the board of directors and prepared with the oversight of the audit committee. This discussion and analysis should be read in conjunction with the audited financial statements as at and for the year ended December 31, 2006 and the unaudited interim financial statements for the three months and nine months ended September 30, 2007.

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.

Notes on Abbreviations

"BOE" means a barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

"BOE/d" means a barrel of oil equivalent per day;

"Mcf" means a thousand cubic feet of natural gas. Mcf/d means Mcf per day;

"MMcf" means a million cubic feet of natural gas. MMcf/d means MMcf per day;

"Bbl" means barrel of oil;

"Bbl/d" means barrel of oil per day;

"W.I." means working interest;

"PV" means present value.

Overview

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 under the trading symbol "AOF".

Property Acquisition

On February 1, 2007, the Company acquired the oil and gas assets of Tirmoil Energy Ltd. ("Tirmoil"), a related party. The acquisition balanced the Company's production mix to 50% oil and 50% natural gas by adding approximately 100 boe/d of oil to the Company's production base. The consideration paid for the acquisition included the assumption of Tirmoil's operating line of credit of \$450,172 (retired February 2, 2007), payables of \$443,590 and a 12.5% share of Arrow's working interest in "on-settlement-production" (output produced on Peavine Métis-held lands). The Company commenced reporting production from the acquisition date on February 1, 2007. The transaction was accounted for as a related-party transaction and measured in the September 30, 2007 interim financial statements at the carrying amount of the oil and gas assets as previously recognized in the accounts of Tirmoil.

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. Arrow issued 4,180,325 common shares valued at \$1,755,736 before transaction costs. Arrow exchanged one Arrow Common Share for every five Castle Rock A Shares and one Arrow Common Share for each one-half of a Castle Rock B Share.

Selected Financial Information

The table below sets out selected financial information for Arrow for the three and nine months ended September 30, 2007 and 2006:

(\$)	Three months ended		Nine months ended	
	September 30 2007	2006	September 30 2007	2006
Production revenue	1,370,492	567,869	3,543,113	1,939,244
Pipeline revenue	356,990	-	993,053	-
	1,727,482	567,869	4,536,166	1,939,244
Working capital (deficit)	(1,494,945)	(1,684,612)	(1,494,945)	(1,684,612)
Shareholders' equity	14,553,975	7,095,438	14,553,975	7,095,438
Cash flow from operations ⁽¹⁾	495,472	(778,474)	629,796	(673,113)
Per share, basic	0.03	(0.06)	0.04	(0.05)
Per share, diluted ⁽²⁾	0.03	N/A	0.04	N/A
Net income (loss) ⁽²⁾	(422,561)	(806,002)	(1,294,025)	(1,090,342)
Per share, basic	(0.03)	(0.06)	(0.09)	(0.08)
Per share, diluted ⁽²⁾	(0.03)	N/A	(0.08)	N/A
Capital assets	17,162,487	10,444,123	17,162,487	10,444,123
Long-term liabilities	0	1,664,072	0	1,664,072

- (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.

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 Financial Data (\$)	2007			2006				2005
	Sep 30	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Production revenue, net of royalties	1,179,571	946,886	649,392	402,351	465,293	490,545	596,285	1,020,255
Pipeline revenue	356,990	383,046	253,017	-	-	-	-	-
Cash flow from operations ⁽¹⁾	495,472	267,101	(132,776)	(234,800)	(778,474)	(44,748)	150,109	464,932
Per share basic	\$0.03	\$0.02	(\$0.01)	(\$0.02)	(\$0.06)	\$0.00	\$0.01	\$0.01
Per share, diluted ⁽²⁾	0.03	N/A	N/A	N/A	N/A	\$0.00	\$0.01	\$0.01
Net income (loss)	(422,561)	(273,174)	(592,288)	(630,307)	(802,002)	(149,307)	(135,033)	71,453
Per share basic	(\$0.03)	(\$0.03)	(\$0.04)	(\$0.04)	(\$0.06)	(\$0.01)	(\$0.01)	\$0.01
Per share, diluted ⁽²⁾	(0.03)	N/A	N/A	N/A	N/A	N/A	N/A	\$0.00

- (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.

Operational Review

Average daily sales volumes for the third quarter 2007 amounted to 320 boe/d compared with 246 boe/d for the second quarter of this year. Included in the average production for the third quarter are 38 boe/d, which were sales volumes attributable to the second quarter of this year that were under-accrued for in the prior reporting period. With actual production at 282 boe/d and no new drilling occurring in the third quarter, declines were successfully offset by keeping output levels essentially flat quarter-over-quarter. Year-over-year for the nine-month period ended September 30, production increased to 245 boe/d from 179 boe/d, largely as a result of the acquisition of Tirmoil early in 2007.

Compared with prior-quarter reporting, production revenue increased seven percent for the third quarter of 2007 to \$1,370,492 from \$1,280,783. Production revenue of \$3,543,113 for the nine months ended September 30, 2007 was 83 percent higher than the \$1,939,244 reported in the same period in 2006. The main reason for both increases in production revenue was higher production as a result of the Tirmoil acquisition and two successful wells drilled in the second quarter. Additional revenue from Arrow's pipeline operations amounted to \$356,990 for the quarter and \$993,053 for the nine months ended September 30, 2007. No pipeline revenue was recorded in 2006 as the pipeline was acquired through the acquisition of Tirmoil's assets in early 2007. The natural gas price realized by Arrow during the nine-month period ending September 30, 2007 of \$6.56/Mcf was essentially unchanged from the same period in the prior year, when it was \$6.55/Mcf. Oil prices realized for the third quarter of 2007 were \$77.64/boe; in the comparative period of 2006, Arrow did not have any oil production.

Arrow's royalty expenses for the nine-month period ending September 30, 2007 amounted to \$767,264 compared with \$387,140 for the prior-year period. This represents a 98-percent increase year-over-year, mainly due to almost double the amount of revenue year-over-year as well as Alberta Royalty Tax Credit ("ARTC") received in 2006, which was not received in 2007 as the program was discontinued effective January 1, 2007.

For the nine-month period ended September 30, 2007 royalties averaged 21.7 percent of revenue as compared to 20.0 percent for the corresponding period in 2006.

Operating costs, including transportation costs, for the first three quarters of 2007 averaged \$7.43/boe, compared with the prior-year's operating costs of \$12.80/boe. The lower operating costs for the nine months ended September 30, 2007 are a result of the exclusion of the pipeline transportation expenses which had previously been included in the production expenses as well as higher operational efficiencies applied throughout 2007. Beginning in the third quarter of 2007, pipeline-related expenses were also excluded from transportation costs.

The increase in transportation costs is due to the acquisition of the pipeline from Tirmoil in early 2007.

Operating Expenses and Pipeline Costs

	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
Operating expenses (\$000s) ¹⁾	219.0	208.6	5.0	588.9	608.3	(3.2)
Operating expenses (\$/boe) ¹⁾	7.43	12.80	(42)	8.79	12.4	(29.1)
Pipeline costs (\$000s)	246.6	-	N/A	657.4	-	N/A

¹⁾ includes transportation costs

The general and administrative (“G&A”) expenses for the nine months ended September 30, 2007 totaled \$1,791,583 (\$26.74/boe) compared with \$699,500 (\$14.29/boe) for the nine months ended September 30, 2006. The significant year-over-year increase in G&A costs is mainly attributable to expenses associated with integration of Tirmoil operations, growth in the administration of the Company and extraordinary legal fees associated with a disputed agreement. Comparing the third quarter 2007 G&A costs per boe of \$18.33 with G&A costs per boe of \$30.08 for the prior quarter, steps for increased operational efficiencies are beginning to show results, and management expects further reductions in G&A expenses going forward. As well, Arrow has placed greater focus on its capitalization determinations at the onset of the third quarter, which means that larger portions of expenses incurred are now being capitalized. This is in accordance with general practices applied in the oil and gas industry.

General and Administrative Expenses

(\$000s, except per BOE amounts)	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
G&A expense, gross	545.2	238.0	122.5	1,807.6	776.4	126.7
Capitalized overhead	(5.1)	(15.1)	(66.2)	(16.0)	(98.0)	(83.6)
G&A expense, net	540.1	222.9	142.3	1,791.6	678.4	164.1
G&A expense per BOE, net	18.33	13.76	33.2	26.74	14.29	92.9

Stock-based compensation measures the implicit cost of compensating key personnel through the issuance of stock options.

For the nine months ended September 30, 2007, the Company incurred stock-based compensation expense of \$235,529 compared with \$21,123 for the same period in 2006. The increased stock-based compensation expense is the result of an increased number of stock options issued in the third quarter of 2007 mainly in conjunction with the issuance of new options to directors and employees. Stock options issued to directors have an immediate vesting period and the expense was taken entirely in the third quarter.

Interest expense for the nine-month period ended September 30, 2007 was \$150,433 compared with \$41,949 for the prior-year period. The higher expenses incurred are primarily due to the increase in debt resulting from the acquisition of the Tirmoil oil and gas assets and the additional debt taken on to fund the 2007 capital program.

Arrow’s depletion, depreciation and accretion for first nine months of 2007 totaled \$2,255,468, compared with the amount of \$972,495 reported for the same period in 2006. The increase is mainly a result of the Tirmoil property and pipeline acquisition in February of this year. The current period provision includes the depreciation of the major assets acquired from Tirmoil. The oil pipeline, which is a considerable asset, is being depreciated over a twenty-five-year term.

Outstanding Share Capital

Arrow is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, in series. The following securities of Arrow were outstanding as at September 30, 2007:

- 23,983,727 common shares;
- 2,400,178 options to purchase common shares at a weighted average exercise price of \$0.40 per share.

Results of Operations

Production Summary

The following tables summarize Arrow's production and prices received for the periods ended September 30, 2007 and 2006:

Average Daily Sales Volumes	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Natural gas (Mcf/d)	1,208	1,057	877	1,076
Oil (Bbl/d)	119	0	99	0
Total (BOE/d)	320	176	245	179

Average selling price	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Natural gas (\$/Mcf)	5.54	5.84	6.56	6.55
Oil (\$/Bbl)	77.64	-	72.52	-
Total average selling price - \$/boe	52.88	37.61	53.22	42.09

Drilling Activity

The following table summarizes the results of the wells that Arrow drilled or participated in drilling for the periods ended September 30, 2007 and 2006, respectively:

	Three months ended September 30				Nine months ended September 30			
	2007		2006		2007		2006	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Natural gas	-	-	-	-	3.00	0.86	1.00	0.31
Oil	-	-	-	-	1.00	0.25	-	-
Dry & abandoned	-	-	-	-	-	-	-	-
Total	-	-	-	-	4.00	1.11	1.00	0.31

Oil and Natural Gas Wells

The following table summarizes Arrow's interest, as at September 30, 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 September 30, 2007 and 2006, respectively, are set forth in the following table:

	Undeveloped Land			
	Gross Acres		Net Acres	
	2007	2006	2007	2006
Total	17,600	18,240	10,856	10,952

Working Capital, Liquidity and Capital Resources

At September 30, 2007, Arrow had a working capital deficiency of \$1,494,945. The primary source of capital was through the use of the Company's term facility. Arrow expects that its future capital expenditures will be funded by a combination of cash flow from operations, debt and new equity.

During the third quarter of 2007, Arrow re-negotiated its loan facility from \$4,200,00 to \$3,500,000 with an institutional bank. The formal agreement has recently been executed. However, the agreement is subject to immediate review based on Arrow's new reserves evaluated following its recent acquisitions. The facility bears interest at the bank's prime lending rate plus 50 basis points, payable monthly and is secured by a fixed and floating charge on the assets of the Company. The credit facility is subject to annual review. As at November 28, 2007, the Company has approximately \$2.5 million drawn on its demand loan facility.

Commitments and Contingencies

- (a) The Company has remaining lease commitments for office space of \$33,750, \$179,143 and \$144,327 expiring on December 31, 2007, August 31, 2008 and July 1, 2012 respectively.
- (b) The Company is involved in a legal claim associated with the normal course of business. At this time, in the opinion of management, this matter is not reasonably expected to result in a material adverse effect on the Company's financial position.

Share Issuance

On September 28, 2007 Arrow issued 5,714,461 units ("Units") at a price of \$0.35 per Unit for proceeds of approximately \$2,000,000. Each Unit is comprised of one (1) common share ("Common Share") and one-half (½) Common Share purchase warrant. Each whole warrant entitles the holder to purchase one (1) additional Common Share at a price of \$0.50 per Common Share for a period of twenty-four (24) months following the date of closing, however, if after four months and one day following the closing date, the closing price of the Common Shares is equal to or exceeds \$0.75 for 20 consecutive days, then the warrants shall automatically accelerate to expire on the date which is 30 days after the 20 days. The securities issued have a four (4) month hold period which expires on January 29, 2008.

In connection with the private placement, Arrow paid fees totaling \$160,000 and issued Broker Options exercisable for a total of 571,428 Units ("Broker Unit") at a price of \$0.35 for a period of twenty-four (24) months from the closing date. Each Broker Unit is exercisable at the same price and on the same terms and conditions as the Units. The fair value of the warrants and broker units have been calculated using the Black Scholes pricing model based on the following assumptions: risk-free rate of 4.5%, expected life of two years, no dividends and expected volatility of 90%.

As at September 30, 2007, Arrow had received \$80,000 of the total expected \$2.0 million in funds raised through these efforts, with the balance held in escrow and recorded in accounts receivable in the financial statements. Subsequent to period-end, the balance held in escrow was received.

Subsequent Events

Arrow has entered into an agreement whereby Arrow will acquire from two private vendors (the "Vendors") 100% of their jointly owned petroleum and natural gas interests in the vicinity of Carstairs, Alberta. In consideration for this acquisition, Arrow will pay to the Vendors a total of \$1,800,000 as follows: (a) \$700,000 paid by cash (\$350,000 on closing and \$350,000 plus interest at 8% six months from closing); and (b) \$1,100,000 by issuance of 2,000,000 units of Arrow at a price of \$0.55 per unit. Each unit is comprised of one (1) common share and one (1) warrant entitling the holder to purchase one flow-through common share at a price of \$0.70 per common share exercisable until June 30, 2008.

On November 16, 2007, Arrow announced the successful drilling, along with its partners, of two successful wells in its southern Alberta core area. One well achieved initial flow rates of up to 4m³ of fluid per hour, with up to 99 percent (average: 60 – 70 percent) oil cut (Arrow's net W.I. is 50 percent BPO, 35 percent APO), while the other well saw over 1.0 MMcf/d of dry gas (Arrow's net W.I. is 12.5 percent).

Business Risks

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. There is substantial risk that the manpower and capital employed will not result in the finding of new reserves in economic quantities. There is a risk that the sale of reserves may be delayed indefinitely due to processing constraints, lack of pipeline capacity or lack of markets. Financial risks include fluctuations in commodity prices, interest rates and exchanges rates, which are largely beyond the Company's control. Arrow is also subject to operational risks associated with owning oil and natural gas properties, including environmental risks and regulations; regulatory constraints and legislation; competition against entities that may have greater technical and financial resources; and uncertainties in estimating Arrow's reserve base due to the complexities in estimating the magnitude and timing of future production, revenue, expenses and capital. Arrow's growth is dependent upon external sources of financing which may not be available on acceptable terms.

Arrow mitigates these risks by diligent management of those factors that it can control; including the engagement of highly qualified and experienced professionals, the latest technology and a focus on low cost reserves.

Arrow carries insurance coverage to protect itself against potential losses due to accidental destruction of assets, well blowouts and environmental damages. Arrow also follows all government regulations and has in place an emergency response plan.

Related-Party Transactions

For the three month and nine months ended September 30, 2007, the Company has \$27,910 and \$168,823 (September 30, 2006 nil and nil) included in legal fees and accounts payable to a law firm of which a director of Arrow is a partner. Transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

At September 30, 2007 the Company has \$162,166 (September 30, 2006: nil) included in accounts payable due to a major shareholder.

Critical Accounting Estimates

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following is included in the MD&A to aid the reader in assessing the critical accounting policies and practices of the Company. The information will also aid in assessing the likelihood of materially different results being reported depending on management's assumptions and changes in prevailing conditions which affect the application of these policies and practices.

Oil and Gas Reserves Determination

The process of estimating reserves is complex. It requires significant judgment 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 gas prices and costs. All of the Company's properties are evaluated by independent petroleum engineering consultants.

Full-Cost Accounting for Oil and Gas Activities

Asset Retirement Obligation

The present value of expected future abandonment and reclamation costs is recorded on the balance sheet as a liability with a corresponding increase in the amount of the related asset. The capitalized amount is depleted over the life of the reserves using the unit of production method. The amount of the liability increases with the passage of time and the amount of the accretion is charged to earnings in the period. Revisions resulting from changes to estimates or timing of future cash flows may increase or decrease the liability. Actual abandonment and reclamation costs incurred are recorded as a reduction of the liability on the balance sheet.

The total future asset retirement obligations were estimated by management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company's credit adjusted risk free rate of 8.0% and an inflation rate of 2.0% were used to calculate the present value of the asset retirement obligations.

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 is capitalized whether successful or not. The aggregate of net capitalized costs, estimated future development costs less estimated salvage values is amortized using the unit of production method based on estimated proved oil and gas reserves.

An increase in estimated proved oil and gas reserves will result in a corresponding reduction in depletion and depreciation expense. A decrease in estimated future development costs will result in a corresponding reduction in depletion and depreciation expense.

Unproved Properties

Costs related to unproved properties are excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted.

Impairment of Oil and Natural Gas Properties

Under AcG-16, impairment is recognized if the carrying amount of the petroleum and natural gas assets exceed the sum of the undiscounted cash flows expected to result from the Company's proved reserves. If the carrying value is not fully recoverable, the amount of the impairment is measured by comparing the carrying amounts of the petroleum and natural gas assets to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves. This calculation incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk-free rate. Any excess carrying value above the net present value of the future estimated cash flows would be recorded as a permanent impairment and charged to earnings.

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 reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Off-Balance-Sheet Arrangements and other Financial Instruments

Arrow does not, at present, have any commitments under oil and gas forward sales contracts or other types of hedging arrangements, which might expose it to commodity price or production volume risks. The Company does not have in place any off-balance sheet financing type commitments.

Changes in Accounting Policies

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") section 3855 – "Financial Instruments – Recognition and Measurement", section 3865 – "Hedges", section 1530 – "Comprehensive Income", section 3861 – "Financial Instruments - Disclosure and Presentation" and section 1506 – "Accounting Changes". For a discussion of the change in accounting policies, refer to Note 3 to the interim financial statements for the period ended September 30, 2007.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer who has assumed the duties of the Chief Financial Officer on an interim basis, as appropriate to permit timely decisions regarding public disclosure.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at the interim period ended September 30, 2007. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that the design and operation of these disclosure controls and procedures were effective as at September 30, 2007 to provide reasonable assurance that the material information relating to the Company is made known to him by others within the entity.

During the nine-month period ended September 30, a lapse in the disclosure controls and procedures was identified. In order to meet the deadline of April 17, 2007, a Business Acquisition Report ("BAR") and other documents were filed on SEDAR that did not contain all of the required information as set out by NI 51-102 *Continuous Disclosure Obligations*. An amended BAR will be refiled on SEDAR to meet the requirements of NI 51-102 *Continuous Disclosure Obligations*.

Internal Control Over Financial Reporting

As at the interim period ended September 30, 2007, the Chief Executive Officer, currently also Chief Financial Officer ad interim, evaluated the design of the Company's internal control over financial reporting. Based on that evaluation the Chief Executive Officer and interim Chief Financial Officer concluded that the internal controls over financial reporting were effective as at September 30, 2007 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Generally Accepted Accounting Principles.

During this evaluation the Company identified two significant internal control weaknesses as a result of minimal staffing within a small company. These internal control weaknesses include a lack of segregation of duties and a lack of in-house technical expertise. Due to the small nature of the Company complete segregation of incompatible duties is not feasible; and the Company is very dependent upon its advisors and consultants (principally its legal counsel) to assist in recognizing, interpreting, understanding, and complying with the securities regulations disclosure requirements. Mitigating factors are that the Chief Executive Officer and interim Chief Financial Officer is aware of and actively involved in the Company's operational and financial activities; the Company seeks outside expertise for knowledge and guidance; and board of director review over significant operational and financial matters.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Although the Company has concluded that these internal controls and procedures over financial reporting are effective at September 30, 2007, lapses in these controls could occur. Should such occur, the Company intends to take whatever steps it deems necessary to minimize the consequences thereof. The Company does not expect that these internal controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Consolidated Statements of Loss and Comprehensive Loss and Deficit
For the Periods Ended September 30 (Unaudited)

	<u>Three Months 2007</u>	Three Months 2006	Nine Months 2007	Nine Months 2006
REVENUE				
Petroleum and natural gas sales	\$ 1,370,492	\$ 567,869	\$ 3,543,113	1,939,244
Royalties	(190,921)	(102,576)	(767,264)	(387,148)
	1,179,571	465,293	2,775,849	1,552,096
Pipeline income	356,990	-	993,053	-
Other income	25,532	6,010	49,191	23,210
	1,562,093	471,303	3,818,093	1,575,306
EXPENSES				
Production	219,007	208,585	588,929	608,270
Pipeline (Note 14)	246,598	-	657,352	-
General and administrative	540,136	229,899	1,791,583	699,463
Reorganisation costs	-	794,860	-	919,860
Interest	60,880	16,433	150,433	20,826
Stock based compensation (Note 7(a))	195,949	7,076	235,529	21,123
Depletion, depreciation and accretion (Notes 5 and 6)	895,981	320,391	2,255,468	972,499
	2,158,550	1,577,244	5,679,294	3,242,041
LOSS FROM OPERATIONS	(596,457)	(1,105,941)	(1,861,201)	(1,666,735)
Loss on disposal of office equipment	-	8,388	-	8,388
LOSS BEFORE INCOME TAXES	(596,457)	(1,114,329)	(1,861,201)	(1,675,119)
INCOME TAX RECOVERY				
Future	(173,896)	(308,327)	(567,176)	(584,777)
NET LOSS AND COMPREHENSIVE LOSS	(422,561)	(806,002)	(1,294,025)	(1,090,342)
DEFICIT, BEGINNING OF PERIOD	(4,470,140)	(2,163,132)	(3,598,677)	(1,880,885)
INTEREST RECEIVABLE ON SHARE				
PURCHASE LOANS	-	764	-	2,857
DEFICIT, END OF PERIOD	\$ (4,892,702)	\$ (2,968,370)	\$ (4,892,702)	\$ (2,968,370)
NET LOSS PER SHARE				
Basic and diluted	\$ (0.03)	\$ (0.06)	\$ (0.09)	\$ (0.08)
WEIGHTED AVERAGE COMMON SHARES				
Basic and diluted	14,304,019	14,098,525	14,162,686	14,098,525

See accompanying notes to the financial statements

Consolidated Balance Sheets

(Unaudited)

	September 30 2007	December 31 2006
ASSETS		
CURRENT		
Cash	\$ 384,090	\$ -
Accounts receivable (Note 4)	3,707,335	399,795
Deposits and prepaid expenses	178,031	127,596
	<u>4,269,456</u>	<u>527,391</u>
Capital assets (Note 5 and 6)	17,162,487	10,328,370
	<u><u>\$ 21,431,943</u></u>	<u><u>10,855,761</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	1,798,271	1,081,688
Bank loan (Note 8)	3,966,131	1,667,975
	<u>5,764,402</u>	<u>2,749,663</u>
Future income taxes (Note 9)	677,284	1,244,460
Asset retirement obligation (Note 6)	436,283	234,050
	<u>6,877,969</u>	<u>4,228,173</u>
Basis of presentation – going concern (Note 2)		
Commitments and contingencies (Note 10)		
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	13,193,155	9,743,897
Contributed surplus (Note 7(b))	6,253,522	482,368
Deficit	(4,892,702)	(3,598,677)
	<u>14,553,975</u>	<u>6,627,588</u>
	<u><u>\$ 21,431,943</u></u>	<u><u>\$ 10,855,761</u></u>

See accompanying notes to the financial statements

APPROVED BY THE BOARD

(signed) "Jason Pack", Director

(signed) "Richard Edgar", Director

Consolidated Statements of Cash Flows
For the Periods Ended September 30 (Unaudited)

	Three Months 2007	Three Months 2006	Nine Months 2007	Nine Months 2006
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss	\$ (422,561)	\$ (806,002)	\$ (1,294,025)	\$ (1,090,342)
Items not involving cash:				
Loss on disposal of office equipment	-	8,388	-	8,388
Depletion, depreciation and accretion	895,981	320,391	2,255,468	972,495
Stock compensation expense	195,949	7,076	235,529	21,123
Future income tax recovery	(173,896)	(308,327)	(567,176)	(584,777)
	<u>495,473</u>	<u>(778,474)</u>	<u>629,796</u>	<u>(673,113)</u>
Changes in non-cash working capital (Note 11)	(1,304,776)	46,774	(1,027,044)	284,862
	<u>(809,303)</u>	<u>(731,700)</u>	<u>(397,248)</u>	<u>(388,251)</u>
FINANCING				
Increase in bank loan	566,131	469,083	2,298,156	1,620,353
Share purchase loan	-	17,163	-	17,163
Proceeds from issuance of share capital	80,000	-	80,000	-
Share issue costs	(160,000)	-	(160,000)	-
	<u>486,131</u>	<u>486,246</u>	<u>2,218,156</u>	<u>1,637,516</u>
INVESTING				
Additions to capital assets	107,929	44,669	(1,307,824)	(1,188,620)
Disposal of capital assets	-	4,335	120,000	4,335
Acquisition of oil & gas assets (Note 4)	-	-	(893,762)	-
Cash from acquisition of subsidiary (Note 5)	381,745	-	381,745	-
Changes in non-cash working capital (Note 11)	(202,316)	196,250	263,023	(878,680)
	<u>691,990</u>	<u>245,254</u>	<u>(1,436,817)</u>	<u>(2,062,965)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	368,818	(200)	384,091	(813,700)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,273	200	-	813,700
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 384,091	\$ -	\$ 384,091	\$ -

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

Arrow Energy Ltd. (the “Company” or “Arrow”) is incorporated under the laws of Alberta and listed on the TSX Venture Exchange (symbol “AOF”). The Company is engaged primarily in the exploration for and production of petroleum and natural gas reserves in Alberta.

2. ACCOUNTING POLICIES

Basis of presentation – Going Concern

The financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which assumes Arrow will continue operations in the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. While the Company had positive cash flow from operating activities, there is a working capital deficiency of \$1,494,946 as at September 30, 2007. Many of the Company’s oil and gas properties are still in the exploration and development stage and as such the Company’s ongoing ability to continue as a going concern is dependent on its ability to generate future profitable operations, secure additional sources of financing, and on the continued support of its lenders and creditors. The outcome of all of these matters cannot be predicted at this time. The financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue its operations.

The unaudited interim financial statements follow the same accounting policies as the most recent annual audited financial statements except for policies described in Note 3. The interim financial statement note disclosures do not include all of those disclosures required by Canadian generally accepted accounting principles (“GAAP”) applicable for annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the audited financial statements included in the Company's 2006 Annual Report.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted three new standards issued by the CICA relating to the accounting for and disclosure of financial instruments. Section 3855 – “Financial Instruments – Recognition and Measurement” prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet as well as its measurement amount depending on its classification. This Section also specifies how gains and losses on financial instruments are to be presented. Section 3865 – “Hedges” expands on and replaces Accounting Guideline 13 – “Hedging Relationships” by specifying how hedge accounting is to be applied and what disclosures are necessary when it is applied. Section 1530 – “Comprehensive Income” introduces new standards for reporting and disclosure of comprehensive income. Comprehensive income is the change in equity of the Company during that period from transactions and other events and circumstances from non-owner sources including changes in the fair value of financial instruments designated as cash flow hedges as well as foreign currency translation amounts related to self-sustaining foreign operations.

At January 1, 2007 and September 30, 2007 the Company's financial instruments included accounts receivable, bank loan, and accounts payable and accrued liabilities. Accounts receivable is measured at amortized cost consistent with "loan and receivable" classification. The financial liabilities are all measured at amortized cost consistent with the "other liabilities" classification. The fair value of these financial instruments approximate their carrying value due to their short-term maturity or, as with the bank loan, it bears interest at the prevailing interest rate.

The Company does not hold any derivative financial instruments or any embedded derivatives and does not apply hedge accounting under Section 3865.

In addition, the Company does not have any items related to comprehensive income for the nine months ended September 30, 2007; and accordingly, comprehensive loss is equivalent to net loss.

The Company adopted CICA Handbook Section 1506, Accounting Changes, the only effect of which is to provide disclosure and the resulting impact to the Company when an entity has not applied a new source of generally accepted accounting principles that has been issued but is not yet effective.

This applies to CICA Handbook Sections 3862, "Financial Instruments Disclosure," and 3863, "Financial Instruments Presentation," which are required to be adopted for fiscal years on or after October 1, 2007. The Company intends to adopt these standards January 1, 2008 and it is expected that the only effect on the Company's consolidated financial statements will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks to which the entity is exposed arising from financial instruments.

As of January 1, 2008, the Company will be required to adopt CICA Handbook Section 1535, Capital Disclosures, which requires entities to disclose their objectives, policies, and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Company is assessing the impact of this new standard on its consolidated financial statements and anticipates that the main impact will be in terms of additional disclosures required

4. ACCOUNTS RECEIVABLE

			September 30, 2007	December 31, 2006
Trade account receivable		\$	1,787,314	399,795
Receivable from private placement		\$	1,920,021	-
Total		\$	3,707,335	399,795

5. PROPERTY ACQUISITION

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 of the outstanding common shares of Arrow Energy Ltd. The acquisition included \$450,172 of assumed debt and \$443,590 has been paid out to settle obligations on behalf of Tirmoil. The purchase equation remains open and an adjustment of \$2,324 was recorded in the third quarter as a reduction of the liabilities assumed. The Company commenced reporting production from the acquisition date on February 1, 2007. The acquisition was accounted for as a related party transaction and measured in these financial statements at the carrying amount of the oil and gas assets as previously recognized in the accounts of Tirmoil. The difference between the amount paid \$896,086 and the carrying amount \$6,285,211 has been credited to contributed surplus (Note 7(b)).

BUSINESS ACQUISITION

On September 28, 2007 Arrow acquired all the outstanding shares of Castle Rock Petroleum Ltd. a public company trading on the TSX Venture Exchange. Arrow issued 4,180,325 common shares valued at \$1,755,736 before transaction costs. Arrow exchanged one Arrow Common Share for every five Castle Rock A Shares and one Arrow Common Share for each one half of a Castle Rock B Share.

The acquisition has been accounted for using the purchase price method. Management has estimated the fair market value based on currently available information as follows:

Consideration:			
Common Shares		\$	1,755,737
Transaction costs			54,598
			1,810,335
Net Assets Received at Estimated Fair Value			
Cash			381,745
Accounts receivable			381,083
Prepaid			29,827
Property, plant & equipment			1,559,127
Accounts payable			(453,556)
Asset retirement obligation			(87,891)
			1,810,335

6. CAPITAL ASSETS

September 30, 2007			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	\$19,542,901	\$6,100,470	\$13,442,431
Pipeline	3,740,798	74,817	3,665,981
Office equipment and furniture	86,599	32,524	54,075
	<u>\$23,648,040</u>	<u>\$6,207,811</u>	<u>\$17,162,487</u>
December 31, 2006			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	\$14,253,636	\$3,944,999	\$10,308,637
Office equipment and furniture	45,575	25,842	19,733
	<u>\$14,299,211</u>	<u>\$3,970,841</u>	<u>\$10,328,370</u>

Petroleum and natural gas properties as at September 30, 2007 include costs of \$1,040,310 (December 31, 2006 - \$1,040,310) relating to undeveloped land, which has been excluded from the amounts subject to depletion. General and administrative costs capitalized for the three months ended September 30, 2007 were \$83,081 (September 30, 2006 - \$19,980) and for the nine months ended September 30, 2007 were \$137,542 (September 30, 2006 - \$82,922).

The Castle Rock acquisition included \$1,313,110 of undeveloped land. The Castle Rock petroleum and natural gas properties were not included in the depletion calculation at September 30, 2007.

The pipeline which was included in the February 2007 acquisition is not included in the full cost pool as it is amortized on a straight line basis over 25 years.

ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its total asset retirement obligation to be \$436,283 as at September 30, 2007 (December 31, 2006 - \$234,050) based on a total future liability of \$574,985 (December 31, 2006 - \$449,985). These payments are expected over the next 20 years with the majority of costs incurred between 2010 and 2026. The Company's credit adjusted risk free rate of 8.0% and an inflation rate of 2.0% were used to calculate the present value of the asset retirement obligation.

The following table reconciles the Company's total asset retirement obligation:

	Nine Months Ended September 30 2007	Year Ended December 31 2006
Carrying amount, beginning of period	\$ 234,050	\$ 245,836
Increase in obligations	95,845	6,468
Increase in obligations due to Castle Rock	87,891	-
Settlement of liabilities	-	(32,195)
Accretion expense	18,497	19,871
Change in estimate	-	(5,930)
Carrying amount, end of period	\$ 436,283	\$ 234,050

7. SHARE CAPITAL

	Number of Shares	Number of Warrants	Amount
Balance, December 31, 2006	14,138,914	-	\$9,743,897
Shares deposited into treasury	(50,000)	-	(34,500)
Shares issued for acquisition	4,180,352	-	1,755,737
Units issued for private placement			
Shares issued net of costs	5,714,461	-	1,264,290
Warrants	-	2,857,244	463,731
Balance, September 30, 2007	23,983,727	2,857,244	\$13,193,155

On September 28, 2007 Arrow issued 5,714,461 units (“Units”) at a price of \$0.35 per Unit for proceeds of approximately \$2,000,000. Each Unit is comprised of one (1) common share (“Common Share”) and one-half (½) Common Share purchase warrant. Each whole warrant entitles the holder to purchase one (1) additional Common Share at a price of \$0.50 per Common Share for a period of twenty-four (24) months following the date of closing, however, if after four months and one day following the closing date, the closing price of the Common Shares is equal to or exceeds \$0.75 for 20 consecutive days, then the warrants shall automatically accelerate to expire on the date which is 30 days after the 20 days. The securities issued have a four (4) month hold period which expires on January 29, 2008.

In connection with the private placement, Arrow paid fees totaling \$160,000 and issued Broker Options exercisable for a total of 571,428 Units (“Broker Unit”) at a price of \$0.35 for a period of twenty-four (24) months from the closing date. Each Broker Unit is exercisable at the same price and on the same terms and conditions as the Units. The fair value of the warrants and broker units have been calculated using the Black Scholes pricing model based on the following assumptions: risk-free rate of 4.5%, expected life of two years, no dividends and expected volatility of 90%.

a) *Stock Options*

Under the Company’s stock option plan, options may be granted in such numbers and with such vesting provisions as the Board of Directors may determine. At the time an option is granted, the Board will determine the exercise price of the option. The aggregate number of shares that may be available for issuance, from time to time, under the plan shall not exceed 15 percent of the outstanding shares, excluding broker options. In addition, the aggregate number of shares so available for issuance under the plan to any one person in any 12-month period shall not exceed 5% of the issued shares calculated at the time of grant of the option.

	September 30, 2007	
	Number of Options	Weighted average exercise price
Balance at December 31, 2006	1,210,000	\$ 0.45
Forfeited during the period	(425,000)	0.45
Granted during the period	1,043,750	0.38
Broker options issued for units	571,428	0.35
Balance at September 30, 2007	2,400,178	0.40

The following table summarized information about stock options outstanding as at September 30, 2007:

Exercise Price	Options Outstanding	Exercisable	Weighted Average Years to Expiry
\$0.45	785,000	410,000	1.7
\$0.38	1,043,750	625,000	1.9
\$0.35	571,428	-	2.0
Total	2,400,178	1,035,000	1.9

b) *Contributed Surplus*

A summary of the change in the Company's contributed surplus balance for the period ended September 30, 2007 is as follows:

Balance, December 31, 2006	\$ 482,368
Acquisition of oil and gas assets (Note 5)	5,389,125
Cancellation of shares	34,500
Stock-based compensation expense	235,529
Fair value of common shares included in broker units	112,000
<hr/>	
Balance September 30, 2007	6,253,522

8. BANK LOAN

During the third quarter of 2007, Arrow re-negotiated its loan facility from \$4,200,00 to \$3,500,000 with an institutional bank. The formal agreement has recently been executed. However, the agreement is subject to immediate review based on Arrow's new reserves evaluated following its recent acquisitions. The facility bears interest at the bank's prime lending rate plus 50 basis points, payable monthly and is secured by a fixed and floating charge on the assets of the Company. The credit facility is subject to annual review. As at November 28, 2007, the Company has approximately \$2.5 million drawn on its demand loan facility.

9. INCOME TAXES

The major components of the future income tax liability at September 30, 2007 and December 31, 2006 are as follows:

	<u>2007</u>	<u>2006</u>
	\$	\$
Property and equipment	(1,165,124)	(1,647,682)
Share issue costs deductible for tax purposes	75,778	59,117
Asset retirement obligation	140,134	73,660
Cumulative eligible capital	73,703	76,218
Non-capital losses carried forward	198,227	194,227
	<u>(677,282)</u>	<u>(1,244,460)</u>

10. COMMITMENTS AND CONTINGENCIES

(a) The Company has remaining lease commitments for office space of \$33,750, \$179,143 and 721,639 expiring in December 31, 2007, August 31, 2008 and July 1, 2012 respectively.

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

11. **SUPPLEMENTARY CASH FLOW INFORMATION**

The following table details the components of non-cash working capital provided by (used in) operations.

	Three Months September 30, 2007	Nine Months September 30 2007
Accounts receivable	(569,712)	(1,006,436)
Prepaid expenses	(57,775)	(20,608)
Accounts payable and accrued liabilities	(756,520)	(189,810)
	(1,555,295)	(1,216,854)
Operating	(1,304,776)	(1,027,044)
Investing	(250,516)	(189,810)

	Three Months September 30, 2006	Nine Months September 30, 2006
Accounts receivable	14,932	742,894
Prepaid expenses	(13,640)	(30,699)
Accounts payable and accrued liabilities	241,732	(1,306,013)
	243,024	(593,818)
Operating	46,774	284,862
Investing	196,250	(878,680)

	Three Months September 30, 2007	Nine Months September 30, 2007
Interest expense	60,880	150,433
Interest revenue	270	1,852
Current tax	-	-

	Three Months September 30, 2006	Nine Months September 30, 2006
Interest expense	23,509	41,949
Interest revenue	-	4,782
Current tax	-	-

12. RELATED-PARTY TRANSACTION

For the three month and nine months ended September 30, 2007, the Company has \$27,910 and \$168,823 (September 30, 2006 nil and nil) included in legal fees and accounts payable to a law firm of which a director of Arrow is a partner. Transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

At September 30, 2007 the Company has \$162,166 (September 30, 2006: nil) included in accounts payable due to a major shareholder.

13. SUBSEQUENT EVENTS

Arrow has entered into an agreement whereby Arrow will acquire from two private vendors (the "Vendors") 100% of their jointly owned petroleum and natural gas interests in the vicinity of Carstairs, Alberta. In consideration for this acquisition, Arrow will pay to the Vendors a total of \$1,800,000 as follows: (a) \$700,000 paid by cash (\$350,000 on closing and \$350,000 plus interest at 8% six months from closing); and (b) \$1,100,000 by issuance of 2,000,000 units of Arrow at a price of \$0.55 per unit. Each unit is comprised of one (1) common share and one (1) warrant entitling the holder to purchase one flow through common share at a price of \$0.70 per common share exercisable until June 30, 2008.

14. COMPARATIVE NUMBERS

Certain prior-period numbers have been re-classified to conform to the current presentation.

Additional Information

Additional information relating to Arrow, including an Annual Information Form, can also be found on SEDAR at www.sedar.com.

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