



Arrow Energy Ltd.

Q3 2008 Management's Discussion and Analysis

Management Discussion and Analysis

This Management Discussion and Analysis (“MD&A”), compared to the results for the nine months ended September 30, 2007 is management’s assessment of financial condition and results of operations of Arrow Energy Ltd. (“Arrow” or the “Company”) for the 9-months ended September 30, 2008, and should be read in conjunction with the audited financial statements for the year ended December 31, 2007 and unaudited financial statements for the period ending September 30, 2008. 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 overview of the audit committee, and is dated November 28, 2008.

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 “*funds flow*”, 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 leverage and liquidity. Funds flow 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. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding used in the calculation of income per share. Funds flow from operations represents cash flow from operating activities expressed before changes in non-cash working capital and asset retirement.

The following table reconciles funds flow to cash flow from operating activities, which is used in the MD&A:

	Q3 2008	Q3 2007	YTD 2008	YTD 2007
Cash flow from operating activities	162,011	(809,303)	339,061	(397,248)
Abandonment Expenses	43,042	–	43,042	–
Changes in non-cash working capital	(238,748)	1,304,776	(61,760)	1,027,044
Funds flow	(33,695)	495,473	320,343	629,796

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.

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

Forward Looking Statements

Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or our future performance. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements. We believe the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A, as the case may be.

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".

On September 12, 2008 Arrow Energy Ltd. and Discovery Drilling Funds 2005 Oil and Gas Limited Partnership (Dublin Resources Inc.) entered into a share sale and purchase agreement dated as of June 15, 2008, whereas the partnership transferred its common shares to Arrow Energy Ltd. for cash consideration of three hundred ninety eight thousand nine hundred and six dollars (\$398,906), resulting in Arrow owning 67.84% of Dublin Resources Inc.

On September 12, 2008 Arrow Energy Ltd. and Discovery Drilling Funds V Development Limited Partnership (1078287 Alberta Ltd.) entered into a share sale and purchase agreement dated as of June 15, 2008, whereas the partnership transferred all of its common shares to Arrow Energy Ltd. for cash consideration of eighty two thousand and twenty nine dollars (\$82,029).

On September 12, 2008 Arrow Energy Ltd. and Discovery Drilling Funds VI Limited Partnership (1125048 Alberta Ltd.) entered into a share sale and purchase agreement dated as of June 15, 2008, whereas the partnership transferred all of its common shares to Arrow Energy Ltd. for cash consideration of one hundred nine thousand three hundred and thirty six dollars (\$109,336).

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 (\$)	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Production revenue, net of royalties	1,439,503	1,750,701	747,575	555,981	1,179,571	946,886	649,392	402,351
Pipeline revenue	242,865	262,052	272,351	325,252	356,990	383,046	253,017	-
Funds flow ¹	(33,695)	616,465	(262,426)	(793,330)	495,473	267,101	(132,776)	(234,800)
Per share basic	(\$0.00)	\$0.02	(\$0.01)	(\$0.05)	\$0.03	\$0.02	(\$0.01)	(\$0.02)
Per share diluted ²	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash flow from operating activities	162,011	(502,496)	679,546	(282,975)	(809,303)	46,236	365,821	(761,669)
Per share basic	\$0.01	(\$0.02)	\$0.02	(\$0.02)	(\$0.06)	\$0.00	\$0.03	(\$0.05)
Per share diluted ²	\$0.01	(\$0.02)	\$0.02	(\$0.02)	(\$0.06)	\$0.00	\$0.03	(\$0.05)
Net income (loss)	(706,104)	(278,875)	(594,676)	(1,140,703)	(422,562)	(273,174)	(592,288)	(630,307)
Per share basic	(0.02)	(\$0.01)	(\$0.02)	(\$0.07)	(\$0.03)	(\$0.03)	(\$0.04)	(\$0.04)
Per share diluted ²	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) *Funds flow* and *funds 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 operating activities may not be comparable to other companies'. Arrow considers cash flow from operating activities a key measure of performance as it demonstrates Arrow's ability to generate the funds flow necessary to fund future capital investments.

(2) A diluted per-share calculation would be anti-dilutive and is therefore not applicable.

Revenues:

- Pipeline revenues have been in decline since Q2 of 2007 due to decrease in shipper volumes relating to natural declines in the area. Q1 of 2007 contained only 2 months of pipelines revenues.
- Production revenues increased from Q4, 2006 to Q1, 2007 primarily due to the Tirmoil acquisition. Q1 of 2007 contains two months of production. Q2 and Q3 of 2007 saw an increase in production revenues primarily due to a successful workover at our Peavine 16-31-79-16W5 well, stabilized production rates at the well drilled at Peavine 11-32-79-16W5 and the Bluesky gas well drilled on Peavine midway through Q2, 2007. In Q4 of 2007, revenues decreased as a result of three wells being temporarily shut in due to workovers and due to adjustments to royalty expense. The increase in Q4 2007 royalty expense is primarily due to the recording of royalty expenses related to 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 2007 royalty expense to be indicative of performance in future quarters.
- Q1 of 2008 saw a slight recovery as the workover wells in Q4 2007 came back on stream; however, this was partially offset by the shutting in of Westlock 14-01-59-27W/0 by the operator.
- For the second quarter of 2008, production revenues increased due to the Gift Lake acquisition and the resumption of gas production for the month of June from the Westlock 14-01-59-27W/0. In addition, commodity prices received for oil and gas for the quarter ended June 30, 2008, increased 69% and 39% respectively.

Revenues - continued

- For the third quarter of 2008, production revenues were \$1,858,420, versus \$2,176,631 for the second quarter of 2008. This decrease of 17% is mainly attributed to the 19% decrease in sales volumes from Q2 2008, as the company divested its interest in the Hotchkiss properties with daily sales of \$17boe/d and, in addition, the company is experiencing an 18% quarterly decline in its production. The decline was only marginal in the realized average price per boe for Q3, which was \$93.46/boe versus \$93.69/boe in Q2 of 2008.

Corporate Developments

- On April 2, 2008, Arrow acquired a producing property 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 adjustments to Arrow at closing was \$918,731. 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 lender to increase its credit facility from \$3.5MM to \$6.0MM. On May 29, 2008, the facility was again increased to \$6.5MM.
- 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.
- On May 2, 2008, the Company entered into an agreement relating to the disposition of certain oil and gas properties within the Hays Grand Forks area. The consideration received after adjustments totaled \$453,701.
- On August 1, 2008, Mr. Richard Edgar was appointed Executive Director overseeing all the affairs of Arrow to replace Mr. Chris Tesarski who resigned as President and Chief Executive Officer of Arrow effective July 31, 2008. On that same date, Mr. Sandford Gauchier, a Director of Arrow, was appointed Vice President of Surface Operations of Arrow. As part of Mr. Gauchier's employment package, he will receive 100,000 stock options to purchase common shares of Arrow at an exercise price of \$0.17 per common share effective August 1st, 2008.
- On September 12, 2008 Mr. Robyn Lore was appointed President and a Director of Arrow; and Mr. Ross Clark was appointed Executive Vice-President. As part of their employment packages each of them received 1,000,000 stock options to purchase common shares of Arrow at an exercise price of \$0.20 per common share effective September 12, 2008 pursuant to Arrow's stock option plan. The stock options expire September 10, 2013 and vest over a period of three years.
- On September 12, 2008 Arrow announced that, following regulatory approval, the company completed a private placement of \$650,000 through the sale of 3,250,000 units at a price \$0.20 per unit. Each unit is comprised of one (1) flow-through common share and one (1) common share purchase warrant. Each warrant entitles the holder to purchase one (1) additional common share of Arrow at a price of \$0.30 per common share for a period of two (2) years following the date of closing.
- On September 23, 2008 Mr. David Sakal accepted the position of Vice-President of Production at Arrow Energy Ltd.
- On September 30, 2008 Mr. Richard Edgar resigned as Executive Director of Arrow.
- On August 29, 2008 the Company entered into a letter of intent agreement, to divest of its interest in oil and gas properties within Hotchkiss area. The consideration received after adjustments totaled \$497,890.

Results of Operations

	Q3 2008	Q3 2007	YTD 2008	YTD 2007
REVENUES				
Petroleum and natural gas revenue	\$ 1,858,420	\$ 1,370,492	\$ 5,020,773	\$ 3,543,113
Royalties	(418,917)	(190,921)	(1,082,994)	(767,264)
Pipeline revenue	242,865	356,990	777,268	993,053
Other income	41,648	25,532	48,642	49,191
	1,724,016	1,562,093	4,763,689	3,818,093
EXPENSES				
Operating expense	522,229	208,333	1,361,740	560,005
Transportation expense	37,589	10,674	51,867	28,924
Pipeline expense	267,803	246,598	673,982	657,352
General and administrative expense	853,436	540,136	2,094,165	1,791,583
Depletion, depreciation and accretion expense	667,910	895,981	1,969,447	2,255,468
Interest	76,654	60,880	261,591	150,433
Stock-based compensation expense	180,986	195,949	384,979	235,529
	2,606,607	2,158,551	6,797,771	5,679,294
Loss from operations	(882,591)	(596,458)	(2,034,082)	(1,861,201)
Net loss before taxes	(882,591)	(596,458)	(2,034,082)	(1,861,201)
Future income tax recovery	(176,487)	(173,896)	(454,427)	(567,176)
Net loss	(706,104)	(422,562)	(1,579,655)	(1,294,025)
Net loss per share, basic and diluted	\$ (0.03)	\$ (0.03)	\$ (0.06)	\$ (0.09)

Netbacks

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Realized price	\$ 93.46	\$ 52.88	\$ 88.44	\$ 53.22
Royalties	21.06	6.49	19.08	11.47
Transportation expense	1.89	0.36	0.91	0.43
Operating expense	26.26	7.08	23.99	8.37
Operating netback	44.25	38.95	44.46	32.95
Other income	(2.09)	(0.87)	(0.86)	(0.74)
G&A expense	42.92	18.35	36.89	26.79
Interest expense	3.86	2.07	4.61	2.50
Netback (\$/boe)	\$ (0.44)	\$ 19.40	\$ 3.82	\$ 4.40

Drilling Activity

The following table summarizes the results of the wells that Arrow drilled or participated in drilling for the periods:

	Nine Months ended September 30, 2008		Nine Months ended September 30, 2007	
	Gross	Net	Gross	Net
Natural gas	–	–	3.00	0.86
Oil	–	–	1.00	0.25
Dry & abandoned	–	–	–	–
Total	–	–	4.00	1.11

Oil and Natural Gas Wells

The following table summarizes Arrow's interest, as at September 30, 2008, in wells that are producing or which Arrow considers to be capable of production:

Producing Oil		Non Producing Oil		Producing Natural Gas		Non Producing Natural Gas	
Gross	Net	Gross	Net	Gross	Net	Gross	Net
14.00	4.57	7.00	0.77	9.00	4.10	9.00	4.10

Undeveloped Land Holdings

The undeveloped land holdings of Arrow as at September 30, 2008 and 2007, respectively, are set forth in the following table:

	Undeveloped Land			
	Gross Acres		Net Acres	
	2008	2007	2008	2007
Total	32,646	18,240	18,610	10,952

Production

Production for Q3 2008 averaged 216 boe/d; an 18.5% decrease from Q2 2008 and a 48.1% decrease from Q3 2007. The Westlock 14-01-59-27W4 well, which was shut-in from February to June 4 of 2008, averaged 465 mcf/d for the remainder of June, 2008. For Q3, the 14-01-59-27W4 well averaged 276 mcf/d, with a 17% month to month decline in production.

The Gift Lake acquisition, effective October 1, 2007 and closed April 2, 2008 averaged 76 boe/d for the second quarter. For the third quarter of 2008, Gift Lake averaged 74 boe/d, with production curtailed due to a workover on the 02-05-078-11W5 well.

Production for the nine months ended September 30, 2008 averaged 207 boe/d; an 18.3% decrease from the nine months ended September 30, 2007.

The company has not drilled any wells in 2008, and is experiencing an 18% quarterly decline in its production.

(Production – continued)

Volumes	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Oil (bbl/d)	128	119	120	99
Natural gas (mcf/d)	543	1,208	523	877
Total (boe/d)	216	320	207	245

Commodity Prices

For the third quarter of 2008, the Company's average realized prices on natural gas decreased by 17 percent from the second quarter of 2008 to \$8.42/Mcf of natural gas from \$9.86/Mcf. The average natural gas price received year-to-date for 2008 was \$8.90/Mcf compared to \$6.56/Mcf, received for the year-to-date 2007.

The average price per barrel of oil received in Q3 was \$124.73/Boe, compared with \$77.64/Boe in the prior-year period. The Edmonton par oil price per barrel rose to an average of \$115.83 in 2008 from \$73.65 for the 9-month period in 2007. Arrow's oil is light sweet crude, which demands a strong price and has tracked appropriately to the Edmonton par benchmark.

Arrow's Realized Price	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Oil (\$/bbl)	124.73	77.64	114.70	72.52
Natural gas (\$/mcf)	8.42	5.54	8.90	6.56
Average (\$/boe)	93.46	52.88	88.44	53.22
Benchmark Prices				
WTI (US\$/bbl)	118.23	75.22	113.54	66.22
Cdn/US average exchange rate	0.961	0.956	0.971	0.907
Edmonton Par (\$/boe)	122.74	80.67	115.83	73.65
Alberta spot (\$/mcf)	7.69	5.07	8.50	6.42

Revenue

Revenue from Arrow's oil and natural gas sales increased in the third quarter to \$1,858,420 compared to \$1,370,492 in the same quarter of last year. For the nine month period, revenue grew to \$5,020,773 compared to \$3,543,113 in 2007.

Petroleum and Natural Gas Sales	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Natural gas sales	\$ 403,680	\$ 617,754	\$ 1,275,230	\$ 1,534,129
Crude oil sales	1,426,715	749,260	3,669,753	1,961,470
Natural gas liquids	28,025	3,478	75,790	47,514
Petroleum & Natural Gas revenue	\$ 1,858,420	\$ 1,370,492	\$ 5,020,773	\$ 3,543,113

Pipeline revenue for the third quarter of 2008 totaled \$242,865 versus \$356,990 for the comparable quarter of 2007. For the nine months ended September 30, 2008, revenue was \$777,268 versus \$993,053 for the period February through September 2007. Pipeline revenues have been in decline since Q2 of 2007 due to decrease in shipper volumes relating to natural declines in the area.

Royalties

Q3 2008 royalties averaged 22.5% of revenue compared to 14.0% of revenue in Q3 2007. The low royalty rate for Q3 of 2007 is due to unrecorded gross overriding expenses, which were subsequently recognized in Q4 of 2007. YTD 2008 royalties averaged 21.6% of revenue compared to 21.7% of revenue for YTD 2007.

Royalties by Commodity	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Oil	\$ 282,880	\$ 150,961	\$ 752,166	\$ 531,328
Natural Gas	119,864	39,293	292,672	220,884
NGLs	16,173	667	38,156	15,052
Totals	\$ 418,917	\$ 190,921	\$ 1,082,994	\$ 767,264

Royalties by Type	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Crown	\$ 276,021	\$ 106,632	\$ 829,029	\$ 588,807
Gross overriding	142,896	84,289	253,965	178,457
Totals	\$ 418,917	\$ 190,921	\$ 1,082,994	\$ 767,264
\$/boe	\$ 21.06	\$ 6.49	\$ 19.08	\$ 11.47
As a % of Revenue	22.5%	14.00%	21.6%	21.70%

Operating and Transportation Expense and Pipeline Costs

The operating cost for the quarter ended September 30, 2008 amounted to \$522,229 or \$26.26/Boe, compared to \$208,333 or \$7.08/Boe during the quarter ending September 30, 2007. For the nine months ending September 30, 2008, operating costs were \$1,361,740 or \$23.99/Boe compared to \$560,005 or \$8.37/Boe for the period ending September 30, 2007.

The current quarter of 2008 recorded a 27.5% increase in operating costs when compared to Q2 of 2008. This increase was incurred due to the recording in Q3, 2008 of non-operated joint-venture billings and audit adjustments related to the following: Geocan 2006 and 2007 billings and audit adjustments in the amount of \$102,764, Gift Lake wells prior period charges recorded in Q3 for \$26,942, and the Westlock 14-01-59-27W4 well billings in the amount of \$45,232.

Transportation costs were \$37,589 (\$1.89/Boe) in Q3 2008, compared with \$10,674 (\$0.36/Boe) in Q3 2007. Year-to-date transportation costs for 2008 are \$51,867 (\$0.91/Boe) versus \$28,924 (\$0.43/Boe) for the comparable period ended September 30, 2007.

Included in the third quarter of 2008 transportation costs are gas transportation expenses of \$27,853 for the Westlock 14-01-59-27W4 well. These costs pertain to the activity period June through September 2008.

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Operating costs	\$ 559,818	\$ 219,007	\$ 1,413,607	\$ 588,929
Per boe ¹	\$ 28.15	\$ 7.44	\$ 24.90	\$ 8.80

(1) includes transportation costs

Pipeline expenses were \$267,803 (\$2.06/Boe) for the third quarter of 2008, compared to \$246,598 (\$1.29/Boe) for the third quarter of 2007. For the nine months ended September 30, 2008, pipeline expenses were \$673,982 (\$1.62/Boe) compared to \$657,352 (\$1.24/Boe) for the comparable period ended September 30, 2007. This increase in costs per Boe for 2008 is due to a decline in oil production within the Peavine area and field costs remaining fixed.

Operating and Transportation Expense and Pipeline Costs - continued

The pipeline was constructed in March, 2003 and was acquired by Arrow Energy Ltd. from Tirmoil Energy Ltd. in November of 2006. The pipeline is 8" in diameter and is 24.95 miles in length. This is a non-regulated pipeline. A large oil and gas operator within the Peavine area contracts through Arrow for the delivery of its production. A tariff of \$1.87 per Boe is charged by Arrow.

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Pipeline expenses	\$ 267,803	\$ 246,598	\$ 673,982	\$ 657,352
Through-put in boe	130,076	191,191	416,277	531,746
Pipeline expenses per boe	\$ 2.06	\$ 1.29	\$ 1.62	\$ 1.24

General and Administrative ("G&A") Expense

Total general and administrative expense during the third quarter of 2008 amounted to \$853,436, compared to \$540,137 during the equivalent period of 2007. Included in salaries and benefits for the third quarter of 2008 is a severance payment expense of \$210,000 made to the former president of Arrow.

The year-to-date general and administrative expenses totaled \$2,094,165, compared to \$1,791,583 for the nine-month period ending September 30, 2007.

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Salaries & benefits	\$ 420,475	\$ 101,097	\$ 706,453	\$ 520,113
Office costs	42,366	56,441	105,755	122,095
Office rent	128,480	124,731	309,730	294,817
Legal	38,270	13,403	159,966	228,471
Audit	35,069	65,267	99,989	119,997
Consultants	133,304	116,069	482,012	373,815
Shareholder services	7,058	22,464	45,985	26,664
Environmental services	4,808	—	20,808	—
Insurance	17,715	10,608	56,185	31,925
Computer systems	9,124	9,738	42,797	19,234
Travel & promotions	16,767	20,319	64,484	54,452
	\$ 853,436	\$ 540,137	\$ 2,094,165	\$ 1,791,583
G&A per boe	\$ 42.92	\$ 18.35	\$ 36.89	\$ 26.79

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

Total depletion and depreciation for the quarter ended September 30, 2008 amounted to \$667,910 compared to \$895,981 for the quarter ended September 30, 2007. Total depletion on a year-to-date basis at September 30, 2008 was \$1,969,447, compared to \$2,255,468 for the nine months ended September 30, 2007.

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
DD&A expense	\$ 667,910	\$ 895,981	\$ 1,969,447	\$ 2,255,468
DD&A expense per boe	\$ 33.59	\$ 30.43	\$ 34.69	\$ 33.72

Future Income Taxes

The future income tax recovery for the three months ended September 30, 2008 was \$176,487 compared with \$173,896 for the three months ended September 30, 2007. Total future income tax recovery on a year-to-date basis at September 30, 2008 was \$454,427, compared to \$567,176 for the nine months ended September 30, 2007.

Capital Expenditures

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Land	\$ 33,505	\$ –	\$ 73,243	\$ 16,791
Geological and geophysical	4,018	–	78,789	–
Drilling and completions	210,710	(331,356)	515,333	725,906
Production equipment & facilities	126,149	63,374	131,424	525,075
Property acquisition	107,830	–	3,364,788	893,762
Property disposition	(497,890)	–	(924,296)	(120,000)
Furniture and Fixtures	(1,675)	40,052	34,436	40,052
	\$ (17,353)	\$ (227,930)	\$ 3,273,717	\$ 2,081,586

During the third quarter of 2008, the company disposed of its interests in the Hotchkiss area for a total consideration after adjustments of \$497,890.

Amounts reported in the table above do not include non-cash capital recorded for asset retirement obligations, which amount to \$(85,502) in the third quarter of 2008 (\$53,000 year-to-date), and \$(17,332) in the third quarter of 2007; \$(31,579) year-to-date, 2007.

Share Capital, Contributed Surplus, and Option Activity

Share Capital

	Number of Shares		Amount
Balance, December 31, 2007	27,233,727	\$	14,126,407
Share issue costs			(11,978)
Future income taxes on renunciation of flow through shares issued			(147,500)
Write off of shareholder's loan			100,000
Balance, September 30, 2008	27,233,727	\$	14,066,929

The issued and outstanding Common shares for Arrow Energy Ltd. are 30,483,727 as at November 28, 2008.

	Number of Warrants		Amount
Balance, December 31, 2007	5,142,958	\$	612,276
Expiry of warrants	(2,000,000)		(102,259)
Balance, September 30, 2008	3,142,958	\$	510,017

At November 28, 2008, there were 3,142,958 common shares reserved for outstanding warrants.

Working Capital, Liquidity, and Capital Resources

At September 30, 2008, the Company had a working capital deficiency of \$ 6,226,118, compared to a working capital deficiency of \$ 3,663,308 at December 31, 2007 and \$ 3,414,966 at September 30, 2007. The bank loan is classified as a current liability and is due on demand irrespective of the covenant breach. The Company currently would not have the available cash flow to settle the bank loan in the event payment was demanded. It is common in the industry to use demand facilities that are classified as current liabilities as a form of long-term financing as is supported by oil and gas reserve values.

On September 30, 2008, the company is in compliance with the covenant regarding working capital.

At September 30, 2008 the bank indebtedness is significantly higher than at December 31, 2007 due to the Gift Lake acquisition. The purchase price less adjustments totaled \$3,364,788. The company has a flow through commitment to incur eligible expenditures of \$350,000 by December 31, 2008. To meet this commitment the company's working capital will decrease. Our future liquidity and ability to fund capital requirements are dependent upon operating cash flow and the disposition of non-core properties. Changes in commodity prices; particularly crude oil, as it represents 60% of our production, has impacted operating cash flow.

Components of the working capital deficiency are contained in the following table:

	September 30 2008	December 31 2007	September 30 2007
Cash and cash equivalents	\$ 113,343	\$ 155,692	\$ 384,090
Accounts receivable	1,136,960	1,765,956	1,787,314
Deposits and prepaid expenses	210,469	236,566	178,031
Bank indebtedness	(6,264,077)	(3,037,838)	(3,966,131)
Accounts payable and accrued liabilities	(1,422,813)	(2,783,684)	(1,798,270)
Total Working Capital Deficiency	\$ (6,226,118)	\$ (3,663,308)	\$ (3,414,966)

Deferred Subscriptions

On September 12, 2008 the Company announced, subject to regulatory approval, its intention to complete a private placement of \$650,000 through the sale of 3,250,000 units at a price of \$0.20 per unit. Each unit is comprised of one (1) flow-through common share and one (1) common share warrant. Each warrant entitles the holder to purchase one (1) additional common share of Arrow at a price of \$0.30 per common share for a period of two (2) years following the date of closing. The closing was completed on November 10, 2008.

Bank Loan

At September 30, 2008, Arrow was in compliance with its debt covenants relating to working capital.

Working Capital Ratio of 1.19:1 is calculated as follows:

Current Assets	\$ 1,460,772
+ undrawn availability under Facilities	\$ 224,809
	<hr/>
	\$ 1,685,581
	<hr/>
divided by Current Liabilities, excluding any amount drawn under Facilities:	\$ 1,422,813
	<hr/>

On April 2, 2008, the facility was increased from \$3,500,000 to \$6,000,000. On May 29, 2008, the facility was again renegotiated and revised from \$6,000,000 to \$6,500,000, due to additional reserves as evaluated by the external reserve engineers. Interest on this facility is charged monthly at the bank's prime rate plus 50 basis points. At September 30, 2008 the effective rate charged on the loan facility was 5.25%.

The Company is not subject to any externally imposed cash flow requirements other than covenants on its operating credit facility with its lender to maintain its working capital ratio at a 1 to 1 level, as defined in the credit agreement.

Convertible Debentures

During the quarter, Arrow issued \$200,000 principal amount of 8.0% Convertible Unsecured Debenture. The debenture may be converted to share capital at any time at \$0.25 per common share. The debenture, which matures on June 25, 2010, had \$49,173 reclassified to equity, due to the fair value under the Black-Scholes model using the following assumption:

Risk free rate	3.31
Estimated life	2 years
Volatility	60%

Commitments and Contingencies

(a) The Company has remaining lease commitments for office space of \$28,198 and \$811,395 which expire on February 28, 2010 and July 1, 2012. On September 12, 2008, the Company entered into a sub-lease agreement effective October 1, 2008 and expiring July 1, 2012. The premises to be subleased comprise 1,696 square feet at an annual rate of thirty dollars per square foot.

(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.

(c) 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. As at September 30, 2008, the Company expended \$148,698 relating to these commitments.

Commitments and Contingencies - continued

On September 12, 2008 the Company announced, subject to regulatory approval, its intention to complete a private placement of \$650,000 through the sale of 3,250,000 units at a price of \$0.20 per unit. Each unit is comprised of one (1) flow-through common share and one (1) common share warrant. Each warrant entitles the holder to purchase one (1) additional common share of Arrow at a price of \$0.30 per common share for a period of two (2) years following the date of closing. The closing was completed on November 10, 2008.

Related-Party Transactions

For the period ended September 30, 2008, Arrow incurred \$148,405 (December 31, 2007: \$13,574) in legal fees with a balance of \$23,672 still payable to Parlee McLaws LLP. Parlee McLaws is legal counsel to Arrow Energy Ltd, and a partner of that firm is also a Director of this company (Arrow Energy Ltd.)

At September 30, 2008 the Company has a payable to the Peavine Métis Settlement in the amount of \$40,567, to the Métis Settlement General Council in Trust for Peavine for \$27,723, and \$11,593 to the Métis Settlement General Council. These payables relate to revenues earned on land from participation in joint ventures. Tirmoil Energy Ltd, a shareholder of Arrow Energy Ltd, is controlled by the Peavine Métis Settlement.

At December 31, 2007, the Company entered into a loan agreement with the former 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 stipulates that the promissory note is payable on Demand, and interest is paid at the rate of 8% per annum calculated and compounded semi-annually. The Company has determined that this loan is uncollectable as at September 30, 2008, and therefore has been expensed in the current period. In addition to the loan, the company has an outstanding balance due from the former President in the amount of \$56,008.

During the quarter, the company issued a convertible debenture. The companies 383699 Alberta Ltd, which is controlled by the current President of Arrow Energy Ltd, and Agropyron Enterprises Ltd. were the initial holders of the convertible debenture. This convertible debenture was subsequently assigned to a related party. The debenture agreement replaced a \$200,000 liability due to the companies 383699 Alberta Ltd. and Agropyron Enterprises Ltd. from a previous sale of Petroleum Natural Gas Properties to Arrow in the fourth quarter of 2007.

Financial Instruments

Financial instruments comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Company's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

Adoption of New Policies

The Company adopted the following new CICA Handbook Sections, which were effective beginning January 1, 2008:

Section 3862 – “Financial Instruments – Disclosures”, describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, “Financial Instruments – Presentation” replaced Section 3861, “Financial Instruments – Disclosure and Presentation”.

Section 3863 – “Financial Instruments – Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives.

Section 1535 – “Capital Disclosures”, establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies, and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

Adoption of New Policies - continued

Section 3031 – “Inventories”, which replaces Section 3031. This section is harmonized with International Accounting Standards and provides additional guidance on the measurement and disclosure requirements for inventories. This new standard did not have an impact on the Company’s financial statements.

The CICA has amended Section 1400, “General Standards of Financial Statement Presentation”, which include requirements to assess and disclose the Company’s ability to continue as a going concern. The adoption of this new section did not have an impact on the financial statements.

Future Accounting Pronouncements

Section 3064 – “Goodwill and Intangible Assets”, will be adopted on January 1, 2009. These sections establish standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements but does not expect that the adoption of this new Section will have a material impact on its financial statements.

Recent Pronouncements

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. At this time, the impact of our future financial position and results of operations is not reasonably determinable or estimable.

The Company plans to conduct an initial diagnostic phase commencing in the fourth quarter of 2008 after engaging external expertise and upon organizing a cross functional steering committee for monitoring the IFRS project until its completion. Regular reporting will occur to Management and to the Audit Committee.

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.

Internal Control Reporting

Effective for periods ending on or after December 31, 2007, CSA issued blanket orders or similar allowing venture issues to file "Venture Issuer Basic Certificates."

On April 18, 2008, the CSA published the proposed new rule N52-109 that is intended to become effective December 15, 2008. Under this proposed new rule, venture issuers will not be required to certify the design or effectiveness of disclosure controls or internal control over financial reporting.

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 is provided in the following list:

Exploration, Development and Production Risks: Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves we may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in our reserves will depend not only on our ability to explore and develop any properties we may have from time to time, but also on our ability to select and acquire suitable producing properties or prospects.

No assurance can be given that we will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, our management may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by us.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents; shut ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, we may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to us.

In accordance with industry practice, we are not fully insured against all of these risks, nor are all such risks insurable. Although we maintain liability insurance in an amount that we consider consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event we could incur significant costs that could have a material adverse effect upon our financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on us.

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.