

Media Release



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Oil & Gas Australia

Arrow soars to new heights in coal seam gas industry.

An Australian success story

Five years ago, the Australian coal seam gas industry hardly existed. It accounted for less than one percent of Australia's gas production and was seen by many as a niche industry that might top up Australia's energy mix if it ever proved viable. Look at it now. Today, it supplies more than 10 percent of Australia's and 70 percent of Queensland's domestic gas production.

Brisbane-based Arrow Energy has played a leading hand in moving coal seam gas out of the shadows over the past five years. The top 100 ASX company has the largest coal seam gas acreage position in Australia, and was the first to sell coal seam gas from the Surat Basin. CH4, the company Arrow merged with in August 2006 was the first company to sell coal seam gas from the Bowen Basin.

Arrow now has access to over 90,000 square kilometres of highly prospective exploration tenements close to Queensland's three key markets – Townsville, Gladstone, and Brisbane. The four producing projects the company operates account for more than 20 percent of Queensland's overall gas production.

Arrow is continuing to optimise production at these fields while advancing a long queue of development projects as it relentlessly pursues its growth strategy. Construction has now started on the Stratheden coal seam gas project in the Surat Basin while Arrow operated field gas deliverability has increased to a current rate of around 90 terajoules per day.

Continued strong production trends in the field during the half year resulted in a 2P reserves upgrade in January to 791 PJ. The company is targeting increasing its net 2P reserves to 2000 PJ by the end of calendar 2008 through an extensive exploration and appraisal program.

High margin strategy unlocks greater value

In the same way that Arrow has displayed technical leadership in the field to progress domestic production in quick time, the company is showing leadership in the boardroom. Arrow's high margin strategy, unveiled in August 2006, is to secure higher margin sales beyond wholesale gas sales for power generation through investment in both downstream projects, LNG export opportunities and international markets.

Arrow Energy Chief Executive Officer (Australia) Shaun Scott said the strategy has exceeded the company's expectations

"Arrow has already recognised a distinct movement in the level of gas pricing in eastern Australia and our operational EBITDA margin will continue to grow as our strategic push into downstream markets gains momentum," Mr Scott said.

"Much of this early growth in margins is due to our exposure to the downstream electricity market, through the Daandine and Townsville Power Stations" he said.

In December 2006, Arrow celebrated first electricity sales from the 30MW Daandine Power Station which is fired by coal seam gas supplied from the company's Daandine field.

Arrow's emergence as a major Australian integrated energy player was hastened by the company's acquisition of Enertrade from the Queensland Government in December last year which included the North

Queensland Gas Pipeline and the rights to dispatch power from the 230 MW Yabulu Power Station in Townsville.

“Enertrade was previously a middle man between the Moranbah Gas Project and the power station and was extracting considerable rent,” Mr Scott said.

“By removing that middle man, we now have direct exposure to a buoyant electricity market and with the large gas bottle that is the 400km pipeline we are able to deliver gas optimally at times of peak demand,” he said.

More recently, Arrow announced it would partner with ERM Power to jointly develop the 450MW Braemar 2 Power Station near Dalby. This generation project is also linked to an Arrow owned gas field. Arrow has signed a gas sales agreement with the Braemar 2 Partnership to supply 11.5 PJ per year of gas over a 12 year period using a pricing formula that will look through to the underlying electricity revenues.

“The Braemar 2 Partnership brings our total net generation capacity to 370MW of gas-fired generation thus increasing our exposure to the electricity market as well as the emerging carbon credit/emissions trading market,” Mr Scott said.

Arrow is also working to develop the world's first CSG to LNG project at Fisherman's Landing in Gladstone. The \$400 million project is being led by LNG Limited. Arrow has a 10 percent stake in LNG Limited with an option to take a 20 percent interest in the proposed plant. The company is to provide up to 150 PJ of gas per annum to the LNG plant at prices linked to crude oil.

Arrow aims to be Asia's number one coal seam gas player

Mr Scott was also pleased to see Arrow's international business presence growing throughout energy-hungry Asia.

Arrow Energy Chief Executive Officer Nick Davies has now based himself in Singapore as he oversees the company's efforts to strengthen its foothold in the area. Mr Davies knows the lie of the land well having spent much of his career in Asia working for oil giant BP.

“Strategic joint ventures with major industry players in China, India, Indonesia and Vietnam are providing Arrow with significant exposure to strong overseas energy markets, where gas pricing ranges from \$5 to \$10 per gigajoule (GJ) compared to around \$3/GJ in eastern Australia,” Mr Davies said.

“Each Asian country that we're targeting has the potential to be at least as large as our Australian operation within the next seven years,” he added.

Arrow has begun drilling on the first of its three exploration blocks in India in partnership with two key players in India's gas and downstream industry, GAIL (India) Limited and Tata Power. The company is exposed to a net exploration target of 700 million barrels of oil equivalent.

Arrow has also picked a large acreage block close to Hanoi and is working in partnership with a subsidiary of PetroVietnam.

Mr Davies said China was also shaping up as a lucrative market with estimates that the country has potential coal seam gas resources 10 times the size of Western Australia's North-West Shelf.

“China's energy consumption is accelerating so the country has set some very aggressive production targets,” Mr Davies said.

“We have signed agreements for eight potential projects ranging from large open area exploration to coal mine degassing and are working with substantial companies such as PetroChina and CNPC subsidiary Liaohe Petroleum,” he said.

Arrow forms alliance with Shell to advance projects

Arrow's plans to become Asia's leading coal seam gas company received a huge boost after the company announced a major alliance with global energy giant Shell on June 2.

Mr Davies, said Shell Exploration Company B.V. (Shell), a subsidiary of Royal Dutch Shell PLC, will join with Arrow to develop the company's Australian and international CSG projects.

The two companies have signed a preliminary agreement, which details a number of domestic and international transactions due for final execution by the end of August.

The A\$776 million deal represents a major step forward in the realisation of Arrow's CSG to LNG strategy.

Mr Davies said the deal was a company making event for Arrow.

"Arrow has the largest CSG acreage position in eastern Australia and a growing presence in four Asian countries. Working with a world leading energy player like Shell will serve to make the most of our world class assets and expertise and deliver tremendous value to shareholders. This is the most significant milestone in the company's history," Mr Davies said.

"Shell is extremely supportive of the potential for LNG development in Queensland. This transaction is a significant endorsement of and further step in the execution of our margin enhancement strategy and will facilitate Arrow's goal to connect its large onshore gas resources with high value and strongly growing international markets," he said.

The global demand for LNG is forecast to more than double from 150 million tonnes per annum (mtpa) in 2006 to 400 mtpa by 2015 as developing countries like China and India compete for energy resources with developed states.

"Shell's investment not only matures our LNG vision into reality but will fast-track the certification of additional reserves from our domestic land position which covers more than 90,000 square kilometers across the Bowen and Surat Basins," Mr Davies said.

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