

Media Release

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FOR IMMEDIATE RELEASE

Shell to pay up to A\$776 million for interest in Arrow projects.

Arrow Energy's plans to become Asia's leading coal seam gas (CSG) company received a major boost today after the company announced a major alliance with global energy giant Shell.

Arrow Energy Chief Executive Officer, Mr Nick 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. Shell will have the right to off-take LNG produced utilizing gas from the Arrow/Shell upstream tenements, subject to the execution of a binding agreement for such off-take, on market based terms with the LNG sellers.

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.

Shell intends to take a 30 percent interest in Arrow's Australian upstream tenements for up to A\$644 million and a 10 percent stake of Arrow International Pte Ltd which holds all of Arrow's international assets for up to A\$132 million.

The Australian acquisition consists of an A\$435 million upfront payment, an A\$140 million payment upon final investment decision of an LNG project; and a further A\$70 million payment when the LNG project is producing an annualised equivalent of one million tonnes per annum of LNG.

The international acquisition is made up of a A\$53 million up front payment, a A\$27 million payment upon signing of a further License/Production Sharing Contract, a A\$53 million payment for certifying 5 TCF in 2P reserves prior to 31 December 2015, (reduced pro rata to A\$27 million if only half this amount is certified), and a 5 year option for Shell to back into any Arrow International project for 50 percent of Arrow's interest, by payment of 50 percent of back costs from 1 January 2008. This option excludes the three currently held coal bed methane licenses in India.

The transaction excludes all of Arrow's downstream assets, such as pipelines and generation assets and also excludes Arrow's corporate shareholdings.

Under the terms of the deal, Shell will join forces with Arrow to develop the company's vast CSG resources and acreage by supplying a secondment of a number of senior management personnel and leading a broad-ranging research and development program, utilizing Shell's extensive research facilities and capabilities.

"This alliance will significantly advance Arrow's development plans, deliver exceptional value to our shareholders, create hundreds of jobs in Queensland, and position the company as a dominant player in the global CSG marketplace," Mr Davies said.

"The deal will propel us through our steep growth curve of the next six years by providing funding, technical expertise, and broad geographical experience," 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 80,000 square kilometers across the Bowen and Surat Basins," Mr Davies said.

"Our international business will benefit in the short-term from having a clear and early valuation and in the long term from having a strategic partner with excellent global contacts and capabilities.

"This announcement closes another outstanding financial year for Arrow which began with the signing of agreements with major energy players in China and Indonesia and was highlighted by reserves, production and earnings increases in Australia, our acquisition of the Enertrade merchant gas and pipeline businesses, the 450MW Braemar 2 power station development and the drilling of our first well in India," he said.

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Note Contract payments are in US dollars, and all Australian dollar amounts quoted in this release have been converted at the applicable exchange rates of A\$0.95 to US\$ 1.000

The Shell Group:

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