



Arrow Energy N.L.

Quarterly Report

For the Quarter Ended
31 March 2007

Arrow Energy NL
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1 Introduction and Highlights

- **First Gas Sales From Tipton West Field** : First gas was sold from the Tipton West Field to the Braemar Power Project on 6 February 2007. Under the terms of the Gas Sales Agreement, first gas deliveries were required by 31 March 2007. In a tight market for labour and materials, the project development has been well executed with the total elapsed time from project development decision to first gas sales being approximately 13 months.
- **EIG Investment and Farm-In to Queensland CSM Acreage** : Arrow finalised the signing of a Letter of Intent with EIG Energy Infrastructure Group AB (“EIG”) of Sweden for a farm-in to a portfolio of predominantly exploration coal seam gas assets in the Eastern coastal region of Queensland. The assets to be subject to the 50:50 joint venture between Arrow and EIG include tenements in the Clarence Moreton and Coastal Queensland basins, and the Dundee Project. The PL 230 Area and the Daandine Generation Project will be included at a 30% equity for EIG. EIG will contribute \$150 million to the joint venture for the rapid exploration, appraisal and, potentially, development of the portfolio of assets. EIG will also pay up to \$115 million to Arrow by way of a series of milestone bonuses linked to reserve certification milestones and achievements.
- **Daandine 2P Reserves Upgrade** : Following a recently completed reserves re-certification on the Daandine Field, the Company’s net Proved and Probable (2P) gas reserves have increased from 498 PJ to 719 PJ. This is the first of four fields scheduled for additional reserves certification in 2007.
- **Agreement with Liquegas to Supply Daandine Gas for LNG Facility** : Arrow has reached agreement on the terms and conditions for the supply of gas from the Daandine field to AGR Group company, Liquegas Energy, for use as feedstock to their proposed LNG plant. The agreement establishes a commercial framework for Arrow to supply CSG from its Daandine field into the LNG plant. Arrow’s agreement with Liquegas is initially for 2 petajoules per annum over a period of 15 years with first gas supply expected to be during the first half of 2009. The LNG produced from this plant will target customers in Southern Queensland and Northern NSW.
- **Arrow’s Global March** : Arrow continued with its international expansion with the signing of an agreement with PT Medco for broad ranging co-operation in CSM in South Sumatra, Indonesia. The Agreement relates to an area of approximately 1,200 square kilometres, and will be the subject of a joint technical and commercial study over the area. It is intended to complete the study and to sign a Joint Venture Agreement. Arrow has also signed a broad ranging Letter of Intent with Orion Energy in relation to a joint technical and commercial study over acreage in China’s premiere CBM Basins of Ordos and Qinshu. Arrow will earn a 5% interest in each of these blocks for completing the study, and will have the opportunity to farm in to a further 25% based on funding a work program to be agreed.
- **Gas-To-Liquids Pre-Feasibility Study Confirms Exciting Opportunity** : Arrow and Alcan have completed their joint study, initially announced in September 2006, investigating the feasibility of a potential GTL plant. The results of the study, conducted by leading engineering company GHD, supports Arrow’s earlier work which showed that a plant, located on the Queensland central coast, is technically feasible and economically attractive.
- **Additional Gas Sales From Tipton West** : Tipton West Joint Venture (Arrow Energy – 60%) has executed a conditional Heads of Agreement with Braemar Power Partners to increase the firm supply of gas under the existing Gas Sale Agreement with Braemar from 6 PJ / annum to 10 PJ / annum for 15 years (total gas supply of 150PJ). The TWJV also has additional gas put option arrangements with BPP which allow the TWJV at their election to supply up to a further 7.3 PJ / annum to BPP.
- **Inclusion in S&P/ASX 200 Index**: On 19 April 2007, Standard and Poors announced that Arrow would be included in the S&P/ASX 200 Index with effect from 27 April 2007. The S&P/ASX 200 comprises the Top 200 Listed Companies in Australia, by a range of criteria.

2 Production, Development, and Operations



Production Field		Quarter to 31/03/07		YTD 31/03/07	
		Sales TJ	Sales MWh	Sales TJ	Sales MWh
Daandine (100%)		121	1,647	167	1,647
Kogan North (50%)		297	-	633	-
Moranbah (50%)		1,930	-	5,844	-
Tipton West (60%)		96	-	96	-
TOTAL AOE		2,444	1,647	6,740	1,647

Production Field		Quarter to 31/03/07		YTD 31/03/07	
		Sales TJ	Sales MWh	Sales TJ	Sales MWh
Daandine		121	1,647	167	1,647
Kogan North		533	-	1,204	-
Moranbah		3,860	-	11,689	-
Tipton West		159	-	159	-
TOTAL		4,673	1,647	13,219	1,647

Net attributable gas production at the time of this report has increased to around 34.2 TJ per day and over the quarter to 31 March 2007 averaged 29.08TJ/Day. This was an overall increase of 15% over the previous quarter.

Net attributable sales of gas averaged 27.15 TJ per day for the quarter, an increase of 14% over the previous quarter. In addition, continuous sales of electricity began in March at the Daandine Power station which realised 56.57 MWh/day generated on average for that month.

This quarter has seen some noteworthy advances in production from Arrow's operating fields. Whilst overall production is up by 15% over the previous quarter there have been some significant stand alone field improvements. The Daandine gas field has tripled production, the Tipton West field is already producing more than 9 mcf/d (well above contracted rate) with several wells now generating between 500 Mcfd and just over 1,000Mcf/d, and the Kogan North field has increased production by 12.5%.

These Surat basin operations are based on well spacings of between 120 acres and 160 acres which provides access to large long term reserves whilst producing at commercial rates. The wells drilled and completed in the Daandine, Kogan and Tipton fields are low capital, low maintenance, high yield wells designed to deliver robust, sustainable returns to the business.

Health Safety, Environment and Community

On 7 February 2007 the Dalby team (operators of the Daandine, Kogan North and Tipton West projects) achieved the milestone of 2 years Lost Time Injury ("LTI") free operations.

Regrettably, in March 2007 there was one LTI reported when a drilling offsider sprained his ankle. There were nil reportable environmental impacts or significant community issues recorded in the quarter.

Bowen Basin

Moranbah Gas Project

PL 191 / PL 196 / PLA 222 : Arrow 50% / AGL Energy 50%

Producing Wells:	74
Well Availability :	96%
Maximum single producing well flow rate:	2.2 TJ / day
Current Gross Field Production Rate:	45 mmcfd
Number of rigs drilling:	7
Estimated completion of current drilling campaign:	On-going to meet increased nominations
Total Gas Production for the quarter to 31/03/07	4.15 PJ
Total Gas Sales for the quarter to 31/03/07	3.86 PJ

Summary of Operations/Development:

Though most current producing wells continue to perform as expected, wells in PL196 to the south of the main gas field have been slower than expected in commencing gas production. Pumping of water from these wells continues and their performance is being monitored.

The development drilling program to prepare the field to meet the increased gas sales nomination is in full swing with 7 rigs operating in the field. Drilling rates have increased proportionally and several of the new “quad” lateral wells are now being completed ready to be brought online.

Gas from the Moranbah North Mine Degassing Project, currently being sold into the MGP, continues to yield close to 3 TJ/day. 3 new wells have been completed in this area and, subject to finalization of commercial terms with Enertrade, will be connected and produce into the MGP shortly.

Surat Basin

Kogan North CSG Development

PL 194: Arrow 50% / CS Energy 50%

Producing Wells:	36
Maximum single producing well flow rate:	0.84 TJ / day
Current Gross Field Production Rate:	7.2 mmcfd
Number of rigs drilling:	Nil
Estimated completion of current drilling campaign:	Completed
Total Gas Production for the quarter to 31/03/07	0.532 PJ
Total Gas Sales for the quarter to 31/03/07	0.533 PJ*

* Includes pipeline operator prior period metering adjustment

Summary of Operations/Development

Production at Kogan North increased by 12.5% in the Quarter compared to the previous quarter and gas sales rose by more than 27% for the same period (net of prior period metering adjustments). Dewatering continues and well deliverability is, on average, increasing around the field. The results of some workovers and connection of new wells should see continued improvement over the next quarter.

Project Background

The Kogan North CSG Project is located in the Surat Basin approximately 40 km west of the township of Dalby in Queensland.

The project will supply 4 PJ of gas per annum for 15 years to CS Energy's Swanbank 'E' power plant, located near Ipswich in south east Queensland. Gas is transported to Swanbank via the Roma to Brisbane Pipeline.

Arrow is the Operator of the Kogan North CSG Project and retains a 50% working interest. Australian Pipeline Trust owns and operates the Central Gas Processing Facility.

Tipton West Project

ATP 683P Dalby Block/PL 198: Arrow 60% / Beach Petroleum 40%

The Tipton West development project is now complete and gas is being sold to Braemar Power from the Arrow operated Central Gas Processing Facility located in the Tipton West field.

All 85 development wells have been drilled, 74 wells have commenced dewatering, and field production has ramped up rapidly to 9.5 mmcf/d.

Producing Wells:	74 wells are currently dewatering
Estimated Deliverability from all wells:	n/a – early dewatering stage
Current Gross Field Production Rate:	9.5 mmcf/d
Maximum single well flow rate	1.05 mmcf/d
Field water flow rate:	Approximately 32,000 BWPD
Number of rigs drilling:	Nil
Estimated completion of current drilling campaign:	Completed
Total Gas Production for the quarter to 31/03/07	0.180 PJ
Total Gas Sales for the quarter to 31/03/07	0.159 PJ

Summary of Operations/Development

First gas sales to Braemar occurred on 6 February 2007 and so far to date more than 300TJ of gas have been delivered. Field production continues to ramp up on a daily basis with an individual well, TW105, already exceeding 1 million cfd. There are still 11 wells from the initial development to be connected and start producing and a number of wells completed recently are still in early dewatering phase.

Beach Petroleum has farmed in for 40% equity in the project by funding the first \$35 million of the upstream development program for the initial 10PJ pa development. Australian Pipeline Trust is funding the downstream (gas processing and pipelines) facilities.

The Tipton project has been developed to initially supply 10 PJ pa of gas to the Babcock & Brown / ERM owned 450MW gas fired Braemar Power Station pursuant to a base GSA. A further GSA with the Braemar Power Station for 7.3 PJ p.a. of TWJV "put options" is available to assist in the optimal management of gas production.

Daandine Project

PL230, Arrow 100%

Producing Wells:	14
Estimated Deliverability from all wells:	n/a – early dewatering stage
Maximum single producing well flow rate:	0.7 mmcf/d
Current Gross Field Production Rate:	3.1 mmcf/d
Number of rigs drilling:	2
Estimated completion of current drilling campaign:	Mid June 2007
Total Gas Production for the quarter to 31/03/07	0.135 PJ
Total Gas Sales for the quarter to 31/03/07	0.121 PJ
Total Electricity Sales for the quarter to 31/03/07	1,647 MWh

Summary of Operations/Development

The Daandine field has tripled production rates within the quarter with a steady, day by day, increase in gas produced. The Daandine power station is now commissioned and producing at 9MW of base load capacity and is ready to produce full load output pending final grid connection arrangements.

The 27.4 MW Power Station, which is located approximately 40km west of the township of Dalby in Queensland, has been built under an Engineering, Procurement and Construction Agreement with Clarke Energy. Work commenced on the project in March 2006 and all 11 GE Jenbacher reciprocating engines are now on site and installed.

Arrow has a Gas Tolling Agreement with a subsidiary of the Australian Pipeline Trust which provides for the ownership and operation of the Daandine Power Station facility. The agreement establishes a commercial mechanism for Arrow to feed Coal Seam Gas from its 100% owned Daandine field into the Power Station and to off-take electricity for sale by Arrow to NSW Government owned retailer Country Energy under a long term Power Purchase Agreement.

Any available but un-used ramp-up gas from the Daandine field continues to be sold to CS Energy via the existing Kogan North Processing Facilities.

Ten further development wells out of a proposed 15 wells have also been drilled to expand the Daandine field for new customers.

3 Exploration

Greater Moranbah Area – Bowen Basin

In ATP 364 at the South Walker Creek Pilot, one of the initial vertical wells MB02V was re-entered and re-completed with slotted liner across the production interval. The well will now be put back on pump. The Pilot program is to be expanded with two additional surface-to-inseam wells commencing during April.

Four core and stratigraphic wells have been permitted in the South Walker area to upgrade reserves to 2P status, with drilling scheduled to commence shortly.

In PL 191 surveying and line clearing started in preparation for the acquisition of some 50 km of new seismic. Seven core and stratigraphic holes have been permitted and drilling will commence during the last week of April.

ATP 683 P – Surat Basin

The Tipton 26 corehole was drilled in the south of PL 198 in order to obtain additional permeability and coal quality data before finalizing plans for a Taroom seam pilot. Approximately 32 m of coal were intersected and permeability measurements are currently being acquired. Preliminary planning for two separate Taroom seam pilots has commenced.

A six well drilling program commenced in the Dalby South Block as part of the Beach farmin commitment for this area. To date two stratigraphic wells and two coreholes have been drilled and permeability testing has commenced. This work is aimed at certifying 2P reserves in this relatively unexplored part of ATP 683P in which Beach are earning a 40% interest by expending \$3 million.

ATP 790 and PL 230 – Daandine area

A program of 4 exploration holes including coring was completed in these two contiguous permit areas in order to upgrade the 2P reserves. In ATP 790P three holes each intersected over 40m of coal. As a result of this work and increasing gas production from the PL 230 production wells, the 2P reserves were increased from 25 PJ to 246 PJ, and 4PJ of 1P reserves were certified by

independent certifier Malkewicz Hueni Associates. Of these reserves, 129 PJ are attributed to PL 230 and 117 PJ to ATP 790P.

Within PL 230 a program of 15 production wells commenced to expand the Daandine field. Ten of these holes have now been drilled.

PEL 445 – Clarence-Moreton Basin, NSW

The Round Hill 2 drill location was permitted in preparation for drilling when a suitable rig becomes available.

ATP 679 P – Boyne River area, Nagoorin Graben

Boyne River 4, a re-drill of the Boyne River 3 well was completed in February with slotted production liner run across the 50 m coal seam section in anticipation of future production testing. Build-up pressures are presently being monitored on this well and the original Boyne River 1 well, and a workover rig is scheduled to be brought in to run pump testing in both wells.

Planned Exploration Activity –Quarter Ending 30 June 2007

The following activities are planned during the quarter ending 30 June 2007 :

- Bowen Basin-MGP-ATP 364 :- 11 exploration wells and 50 km seismic program;
- Daandine- PL 230 :- complete the 15 well expansion program of the Daandine field;
- ATP 790P-Stratheden :- carry out permeability testing of exploration wells;
- ATP 679P-Boyne River :- production testing of Boyne River 4 hole;
- ATP 683P- Dalby Block :- drill and complete Taroom seam Pilots on PL 198;
- ATP 683P-Dalby South Block :- complete appraisal drilling and commence pilot work;
- ATP 700P- Styx Basin :- drill 2 exploration wells;
- ATP 716P- Coastal :- drill two exploration wells; and
- PEL 445- NSW :- drill Round Hill 2 exploration / appraisal well.

4 Reserves Summary

Following a recently completed reserves re-certification on the Daandine Field, the Company’s net Proved and Probable (2P) gas reserves have increased from 498 PJ to 719 PJ. This is the first of four fields scheduled for additional reserves certification in 2007.

MHA Petroleum Consultants, Inc of Denver, Colorado, have provided the following reserves upgrade on Daandine

Category	New Daandine Certification	Previous Daandine Certification	Increase	Total New Arrow Reserves position
	(PJ)	(PJ)	(PJ)	(PJ)
1P	4	-	4	
2P	246	25	221	719
3P	362	380		

Of the current balance of 2P reserves within Daandine, 129 PJ are within PL 230, and 117 PJ are within ATP 790.

Previously, Arrow had targeted 150 PJ of 2P reserves increase from Daandine during 2007.

At the time of writing, Arrow’s reserves position is as follows :

	Arrow Net Remaining Recoverable Reserves / PJ
Proven	86
Proven + Probable	719
Proven + Probable + Possible	2,760

Arrow’s net interest in the Daandine reserves will be subject to reduction following completion of the recently announced farm-in arrangements with EIG in relation to the PL230 and Dundee areas.

As previously disclosed, Arrow is targeting the following further increases to its net 2P reserves, during 2007 :

Field	2P PJ’s Net To Arrow
Bowen Basin	350
Meenawarra	60
Tipton	90
TOTAL	500

5 New Business / Business Development

First Gas Sales From Tipton West Field

First gas was sold from the Tipton West Field to the Braemer Power Project (“BPP”) on 6 February 2007. Under the terms of the Gas Sales Agreement (“GSA”), first gas deliveries were required by 31 March 2007. In a tight market for labour and materials, the project development has been well executed with the total elapsed time from project development decision to first gas sales being approximately 13 months.

At the time of writing, gas flow into the BPP export line is at a rate of approximately 8 TJ/day and rising.

EIG Investment and Farm-In to Queensland CSM Acreage

Arrow finalised the signing of a Letter of Intent with EIG Energy Infrastructure Group AB (“EIG”) of Sweden for a farm-in to a portfolio of predominantly exploration coal seam gas assets in the Eastern coastal region of Queensland. EIG will contribute \$150 million to the joint venture for the rapid exploration, appraisal and, potentially, development of the portfolio of assets. EIG will also pay up to \$115 million to Arrow by way of a series of milestone bonuses linked to reserve certification milestones and achievements.

The farm-in is to a portfolio of predominantly exploration coal seam gas assets in the Eastern coastal region of Queensland and New South Wales. The assets to be subject to the joint venture between Arrow and CGC include a 50% interest in the Clarence Moreton and Coastal Queensland basins and the Dundee Project and a 30% interest in PL230 which contains part of the Daandine Field including Arrow’s interest in the Daandine Power Generation Project (and hence assigns

CGC net 39 PJ of the 2P reserves in PL230, part of the recently announced 246 PJ of Daandine certified 2P reserves).

EIG will sole fund joint venture costs until such time as the \$150 million of funds is spent, including an upfront reimbursement to Arrow of all costs incurred by Arrow on the assets since March 2006. Subsequent expenditure beyond the \$150m will revert to the relevant joint venture interest.

EIG will also now pay up to \$115 million to Arrow by way of four milestone bonuses, three at \$30 million each and one at \$25 million. The first three of these will be for achieving certification of 250 PJ, 500 PJ and 750 PJ of gross 2P gas reserves on the portfolio of assets, excluding PL 230. The fourth milestone payment will be for achieving gross 2P gas reserve certification of 250 PJ on PL230.

The transaction is subject to completion of final legal documentation.

EIG is a privately owned energy asset holding company based in Sweden with energy development subsidiaries active in Asia-Pacific. Associate companies are engaged in oil and gas exploration and production (UK North Sea and Africa) specialising in heavy oil extraction and processing of heavy residues using proprietary technologies. EIG is 35 per cent owned by International Energy Holdings AG of Switzerland.

Agreement with Liquegas to Supply Daandine Gas for LNG Facility

Arrow has reached agreement on the terms and conditions for the supply of gas from the Daandine field to AGR Group company, Liquegas Energy for use as feedstock to their proposed LNG plant. The agreement establishes a commercial framework for Arrow to supply CSG from its Daandine field into the LNG plant. Arrow's agreement with Liquegas is initially for 2 petajoules per annum over a period of 15 years with first gas supply expected to be during the first half of 2009. The LNG produced from this plant will be targeted to customers in Southern Queensland and Northern NSW.

In its September 2006 strategy document Arrow highlighted that it was targeting additional gas markets outside of the current gas to power generation market – and that was to include looking at the potential for the use of gas to produce Gas to Liquids (“GTL”), Compressed Natural Gas (“CNG”) and small scale LNG. As recently announced, Arrow has now completed a GTL pre-feasibility study and is commencing a CNG study. This agreement with Liquegas completes progress on the third leg of the strategy.

Whilst this is only a small step in the development of a new market, it is a highly important and significant one that could signify the birth of a whole new industry. This agreement will not only provide a basis for further development of the Daandine field but will also contribute to a new and important gas supply alternative in Queensland.

Liquegas is part of the AGR Group, the Norway based oil technology and services group with a worldwide reputation for providing innovative and environmentally responsible solutions to the international petroleum industry and with established operations in Australia through its recent purchase of Upstream Petroleum Pty Ltd and Peak Group Asia Pacific Pty Ltd.

Arrow's Global March

China

Arrow Global CBM Pty Ltd (“AGCBM”) and Orion Energy (“Orion”) have signed a Letter of Intent for broad ranging co-operation in China. Orion is a US based privately owned energy company specializing in Coal Bed Methane (“CBM”) operations and services, operating solely in China. It is the largest provider of horizontal drilling services to the rapidly growing Chinese CBM industry and is also the owner of two CBM concessions.

Under the terms of the LOI :

- AGCBM and Orion will perform a joint technical and commercial study of two concession blocks, in China's premiere CBM basins of Ordos and Qinshu, in which Orion already has 70% upstream working interest. Arrow will earn 5% share in both of these blocks by virtue of performing the study and will have an option to farm in for a further 25% based on funding a work program to be agreed, up to a maximum of \$10 million;
- Orion will act as Arrow's partner and representative in China and will use their significant in-country relationships to help consolidate and grow the combined companies businesses in China; and
- The two companies will look for a broad range of additional opportunities in the CBM industry in China using both companies' extensive data bases and have the intent to grow a significant, multi asset, business together.

It is anticipated that the study phase of the farm-in will be completed within 2 months.

Indonesia

Arrow Global CBM Pty Ltd ("AGCBM") and PT Medco E&P Indonesia ("Medco") have signed a Letter of Understanding ("LOU") for broad ranging cooperation in Coal Bed Methane ("CBM") in South Sumatra, Indonesia. Medco is Indonesia's leading independent Oil and Gas Company with daily production of more than 80,000 barrels of oil equivalent and a market capitalization of more than US\$1.2 billion. Medco is also the owner of a number of oil and gas tenements in the South Sumatra Basin in an area that is also highly prospective for CBM. Medco, in conjunction with the government research organization Lemigas, is already conducting a CBM pilot in this area

Under the terms of the LOU:

- An area of approximately 1,200 square kilometres in South Sumatra is defined for mutual cooperation;
- The companies will perform a joint commercial and technical due diligence study of the area;
- Pending the results of the study, Arrow and Medco will finalise a commercial arrangement between the two companies to monetize CBM resources in the target area; and
- It is intended to complete the studies and sign a Joint Venture arrangement by the end of April 2007.

Consultant studies have estimated that the coal resources of the South Sumatra Basin contain up to 120 Trillion Cubic Feet of CBM. Involvement in this basin is a key part of AGCBM's strategy. This agreement complements the agreement with PT Sugico Graha in the same basin, announced late last year.

PT Medco Energi Internasional Tbk. ("MedcoEnergi") is an integrated energy company with business involvement in oil and gas exploration and production, drilling services, methanol production and most recently, power generation.

In 2004, MedcoEnergi acquired Novus Petroleum Limited – an Australian oil and gas company managing productive fields in Indonesia, Australia, Oman and UAE.

Gas-To-Liquids Pre-Feasibility Study Confirms Exciting Opportunity

Arrow and Alcan (South Pacific) Pty Ltd (Alcan) have completed their joint study, initially announced in September 2006, investigating the feasibility of a potential Gas to Liquids (GTL) plant.

The results of the study, conducted by leading engineering company GHD Pty Ltd (GHD), supports Arrow's earlier work which showed that a plant, located on the Queensland central coast, is technically feasible and economically attractive. It is recognised that more thorough feasibility and engineering studies will ultimately be required to confirm these initial encouraging results.

The plant considered in the study would use 180 TJ/day or 66 PJ/year of Coal Seam Gas (CSG) to create 20,000 barrels per day of liquids comprising 70% ultra low sulphur diesel, 25% Naptha and 5% LPG.

GHD estimate that the capital requirement for such a plant would be around A\$1 billion with total cash costs of approximately A\$10 per barrel (excluding the cost to deliver CSG).

Using reasonable assumptions for cost of delivered CSG and a mid range long term oil forecast, the project would deliver a very attractive rate of return with significant upside from higher oil prices.

Depending on the life of the plant, gas reserves of 1,500-2,000 PJ will be needed for this project. Arrow believes that, with its substantial land position in and around the Gladstone / Rockhampton area together with potential supplies from its interests in the Bowen Basin, this target is achievable. The next step is for Arrow to execute on its reserves certification strategy for this region to meet this target.

The GTL initiative is part of the broad Arrow strategy that included the merger with CH4 last year, the farm-in to Pure Energy tenements and the recently announced exploration funding LOI with Energy Infrastructure Group, to accumulate a large potential reserves base around Coastal and Central Queensland that could be monetised through a higher margin end use than traditional gas to power generation sales.

As promised in last year's post merger strategy document, Arrow will now also perform a study to test the feasibility of a Compressed Natural Gas (CNG) export option with potential end sales to New Zealand.

Additional Gas Sales From Tipton West

The Tipton West Joint Venture (TWJV) (Arrow Energy – 60%, Beach Petroleum – 40%) has executed a conditional Heads of Agreement (HOA) with Braemar Power Partners (BPP) to increase the firm supply of gas under the existing Gas Sale Agreement (GSA) with BPP from 6 PJ per annum to 10 PJ per annum for 15 years (total gas supply of 150PJ). The TWJV also has additional gas put option arrangements with BPP which allow the TWJV at their election to supply up to a further 7.3PJ per annum to BPP.

The parties expect to finalise amendments to the existing GSA to reflect the increased volumes by mid May 2007. The TWJV commenced gas supply to BPP's 450 MW gas fired power station in early February of this year.

This increase in firm gas sales to BPP effectively replaces the conditional GSA with Ergon Energy which will now not proceed following the Queensland Government's sale of the retail business of Ergon. The additional firm gas sales to BPP is to an existing customer, requires no new capital expenditure or infrastructure and delivers sales revenue earlier than would otherwise have been the case compared to the previous Ergon agreement.

6 Corporate



Inclusion in S&P/ASX 200 Index

On 19 April 2007, Standard and Poors announced that Arrow would be included in the S&P/ASX 200 Index with effect from 27 April 2007. The S&P/ASX 200 index comprises the Top 200 Listed Companies in Australia, using various criteria.

On 16 March 2007, Arrow was advised by Standard and Poors that it had been included in the S&P/ASX 300 Index. Within the space of only 34 days, Arrow has moved from the S&P/ASX 300 Index to the S&P/ASX 200 Index.

Strong Shareholder Base

At the end of the December 2006 quarter, Arrow had 8,671 shareholders (up from 8,369 shareholders at the end of the previous quarter), with approximately 35 to 40 institutional holders currently on the register.

At the time of writing, Arrow's share capital position was as follows :

Category	ASX Code	Number On Issue
Issued Ordinary Shares	AOE	555,541,038
Issued Convertible Notes	AOEGA	13,372,831
Unlisted Options	n/a	17,036,339
Shares Issued To Employees – not yet vested	n/a	603,278

Listing of International Assets

Arrow continues to progress its plans towards an Initial Public Offering of its overseas assets and interests (in India, China, Vietnam, and Indonesia) on an overseas stock exchange in the latter part of calendar 2007. It is planned that Arrow would retain a significant majority stake in such an overseas listed entity, while being able to raise significant equity to progress the development of these overseas assets and interests.

Exercise of Unlisted Options / Issue of Shares in Arrow

During the quarter, a total of 4,087,021 unlisted options were exercised and were converted into ordinary shares in Arrow.

During the quarter, 603,278 ordinary shares were issued to a total of 92 Arrow employees, under the terms of the Company's "Retention Incentive" Program, which is aimed at retaining staff and employees within Arrow over the longer term, in what continues to be a very tight and competitive labour market. These shares vest to employees progressively over a 3 year period.

Cash and Debt Position

At the time of writing :

- the Group's cash position stood at approximately \$55.0 million;
- the Group had total drawn-down debt of NIL;
- the Group had un-drawn debt facilities available of \$25 million.

7 Planned Activities for the June 2007 Quarter

Arrow plans the following major activities during the March 2007 Quarter :

- Continued increase in deliveries from all producing fields;
- Increased level of international business development activities, following the investment in Arrow Global CBM;
- Preparations for potential overseas listing for international assets;
- Continue other gas sales opportunity negotiations;
- Continue proving up of additional reserves in the Bowen Basin, targeting additional gross 2P reserves of 700PJ; and
- Continue exploration and appraisal program in the Surat, Clarence-Moreton and Coastal Queensland Basins using both a core rig and drilling rig.

Kerry J Parker
Company Secretary

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