



Quarterly Report

Quarter ended 31 March 2008

Arrow Energy Limited

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Introduction and Highlights

Arrow has had a highly successful quarter in executing its previously stated strategy of

- (1) growing upstream production and reserves;
- (2) improving margins through downstream exposure;
- (3) building a substantial overseas business; and
- (4) maintaining a healthy financial position.

All of the above remain on track to meet the Company's end of financial year targets.

Quarter highlights include:

Increased production

Total electricity sales increased by 81 percent. Surat Basin gas production increased by 14 percent over the previous quarter underpinning strong revenue and net operating cashflow growth.

Arrow's share of electricity sales for the quarter was 216,354 MWh representing an increase of more than 81percent over the previous quarter.

Surat basin production increased by 14 percent during the quarter with continued strong performance from dewatering fields. Bowen Basin production slipped slightly due to extreme weather conditions which prevented access to the field for work-overs and completions resulting in a number of wells being off-line for most of the quarter.

The initial development of the Taroom coal seam in the Surat Basin continues to exceed expectations with excellent flow rates developing in Tipton with an average peak flow rate achieved for the nine wells of 525 thousand cubic feet per day (mcmd) or 0.55 terajoules per day (TJ/d). A Daandine Taroom well has recently been brought on stream and is exhibiting strong initial performance.

Reserves targets retained

Arrow has retained its gas reserve certification targets of approximately 2 trillion cubic feet (TCF) of 2P reserves by 31/12/08 and an interim figure of approximately 1.5 TCF by 30/6/08 despite the prolonged bad weather that has significantly affected operations in the first quarter. Final field operations and evaluation studies in conjunction with the reserve certifiers required for the end June reserves certification are in progress.

Australian growth

450 MW Braemar 2 Power Station Development

The company announced the execution of a 50/50 partnership agreement with ERM Power to jointly develop the 450 MW Braemar 2 Power Station and high pressure gas pipeline. Arrow has also signed a gas sales agreement with Braemar 2 Power Station to supply 11.5 petajoules (PJ) of gas per year over a 12 year period at a price aligned to the underlying electricity revenues. Full commercial operation of the plant is scheduled to meet peak demands in winter 2009. Arrow's planned investment in the Braemar 2 Power Station will bring the total of Arrow's net electricity generation capacity to 370 MW and is in-line with the company's strategy of downstream investment, linked to Arrow's upstream gas production, to enhance margins on its gas sales.

LNG Project Progress

Arrow continues its intensive appraisal and reserves certification program for the Gladstone LNG project. The company currently has two pilots on stream, three additional pilots drilled and currently being hooked up for production and drilling for a further 3 pilots planned in the near future. In addition pre-feasibility work is commencing on the Central Queensland Gas Pipeline linking Moranbah to Gladstone. Downstream, LNG Limited (LNGL) has completed preliminary site investigation work and assessment of LNG plant and storage tank foundation requirements for the Fisherman's Landing site at the Port of Gladstone. LNGL has also signed a Pre-Construction Services Agreement with Laing O'Rourke Australia Construction Pty Ltd, in relation to the LNG storage tanks. LNG plant front end engineering design and costing is being actively progressed with WorleyParsons.

International Growth

Signed co-operative Joint Venture agreement with the Government of the Xinjiang Autonomous Region (X.A.R.) of the People's Republic of China (PRC)

The co-operative joint venture company, 80% Arrow, 20% Urumqi Geological and Exploration Development Company of Xinjiang Geological Survey (UGC) Sino-Foreign, has been developed with the intent of prospecting and exploiting the extensive Coal Bed Methane (CBM) resources of the X.A.R. region.

Award of a Vietnam Production Sharing Contract (PSC) covering 2,743 sq km of highly prospective CSG acreage near Hanoi

The PSC was executed with joint venture partner PetroVietnam and the Vietnamese Government in January with field activities planned to commence in the second half of this year.

Arrow's first overseas drilling about to commence in India

Arrow India will be spudding its first well in the first week of May following the granting of PELs in April.

Financial Position

Listed convertible notes (AOEGA) matured at March close and have since been converted into ordinary shares of the Company.

At the end of the quarter Arrow had \$91.8m in cash.

Production Review

Production Field	Net to Arrow Gas Production			
	Quarter to 31/12/07	Quarter to 31/03/08	Quarter on Quarter	Year to 31/03/08
	Gas Production TJ	Gas Production TJ	% Production increase	Gas Production TJ
Daandine (100%)	635	696	10%	1,816
Kogan North (50%)	364	406	12%	1,063
Moranbah (50%)	2,162	2,035	-6%	6,312
Tipton West (60%)	897	1,051	17%	2,550
TOTAL AOE	4,058	4,188	3%	11,741

Production Field	Gross Field Gas Production			
	Quarter to 31/12/07	Quarter to 31/03/08	Quarter on Quarter	Year to 31/03/08
	Gas Production TJ	Gas Production TJ	% Production increase	Gas Production TJ
Daandine	635	696	10%	1,816
Kogan North	727	812	12%	2,126
Moranbah	4,324	4,069	-6%	12,624
Tipton West	1,496	1,752	17%	4,250
TOTAL	7,182	7,329	2%	20,816

Production Field	Net to Arrow Gas & Electricity Sales			
	Quarter to 31/03/08		Year to 31/03/08	
	Gas Sales TJ	Electricity Sales MWh	Gas Sales TJ	Electricity Sales MWh
Daandine (100%)	209	53,622	313	170,401
Kogan North (50%)	369	-	952	-
Moranbah pre Enertrade Acquisition (50%)	-	-	3,298	-
Moranbah post Enertrade Acquisition (50%)	763	162,732	926	218,223
Tipton West (60%)	1,008	-	2,490	-
TOTAL AOE	2,349	216,354	7,979	388,624

Production Field	Gross Field Gas & Electricity Sales			
	Quarter to 31/03/08		Year to 31/03/08	
	Gas Sales TJ	Electricity Sales MWh	Gas Sales TJ	Electricity Sales MWh
Daandine	209	53,622	313	170,401
Kogan North	738	-	1,903	-
Moranbah pre Enertrade Acquisition	-	-	6,597	-
Moranbah post Enertrade Acquisition	1,526	325,464	1,852	436,446
Tipton West	1,679	-	4,149	-
TOTAL	4,152	379,086	14,814	606,847

Moranbah Gas Project

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

The Moranbah area is currently producing 44 million cubic feet per day (mmcf) or 46.2 TJ/day. The best performing well is at around 2.6 mmcf (2.32TJ/d). Heavy rainfalls were received during this reporting period, resulting in severe flooding in parts of the Bowen Basin. This resulted in drilling operations being totally suspended with several wells off-line due to access being prevented for well work-overs and completions and field activity in general for the period being severely curtailed. Activity in most areas is now returning to normal.

North Queensland Energy Joint Venture

Arrow 50% / AGL Energy 50%

In the first quarter of 2008, the North Queensland Energy Joint Venture (NQE JV) has substantially achieved all pre-acquisition expectations. Net gas sales for the quarter were 0.76 PJ and net electricity sales of 162,732 MWh from the Townsville Power Station.

Availability of the Townsville station has been in line with expectations and the gas sales to third party customers has been equal to or above expectations due to some additional small spot sales to QNI at favorable pricing.

The NQE JV contracted electricity sales achieved prices well in excess of the actual spot prices achieved in QLD for the period. Extreme Queensland electricity price volatility this summer occurred on 22 and 23 February and the JV Operator managed to build up enough line pack in anticipation of the peak demand on these days to run at full output. Queensland pool price averaged approximately \$1,350 for the day on 23 February. Revenue for the JV was in the vicinity of \$4.5m for that day alone.

Tipton West Project

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

The Tipton West field is currently producing 21 mmcf (22.21 TJ/d) with the best performing well at around 1.3 mmcf (1.37 TJ/d). Net gas sales for the quarter were 1.1 PJ. There are two rigs currently drilling on the field.

The field continues to be dewatered and production increased by 17 percent in the quarter over the previous quarter with sales increasing by 16 percent. Field production and gas sales to Braemar Power Station via the Tipton West Central Gas Processing Facilities continue to improve. The field now has a significant number of wells that have already ramped up to more than 500 mcf (0.53 TJ/d).

The Taroom Pilots in Tipton have been extremely successful and has resulted in commercial gas production and an additional 70PJ of reserves being certified. Taroom producing wells are now being drilled and connected. Ongoing development of the Tarooms in Tipton West will require significantly reduced investment through sharing of infrastructure with existing, co-located Juandah seams wells.

Kogan North CSG Development

PL 194: Arrow 50% / CS Energy 50%

The Kogan North Field is currently producing 9.38 mmcf/d (9.92 TJ/d) with the best performing well over 1.0 mmcf/d (1.05 TJ/d). Net gas sales for the quarter were 0.37 PJ.

Continued ramp up of Kogan North was interrupted by unseasonal wet weather.

Four maintenance wells in the Northern end of the field have been prepared for production and are expected to further increase sales next quarter.

Daandine Project

PL230, Arrow 100%

The Daandine Field is currently producing 10.6 mmcf/d (11.21 TJ/d) with the best performing well at around 693 mcf/d (0.73 TJ/d). Net gas production for the quarter was 0.64 PJ and net gas sales for the quarter were 0.20 PJ with net electricity sales of 53,622 MWh from the Daandine Power Station.

The field continues to increase production rates in line with expectation and ahead of budget. Production in the quarter increased by more than 10 percent over the previous quarter and electricity sales from the Daandine power station decreased by 16 percent over the period due to failure of Ergon's transmission system which restricted output. The power station is now producing at its maximum capacity on a daily basis. Any excess gas produced from the field is being sold to CS Energy.

Four maintenance wells have been drilled and are dewatering. This will further increase gas production

Four Taroombur pilot wells have been drilled and are dewatering. The first pilot well is now producing gas at 120 mcf/d (0.126 TJ/d) and others are expected to commence gas production shortly.

Health, Safety, Environment and Community

Health and Safety

There were no lost time injuries reported during the quarter.

Environment

During January and February exceptional wet weather from tropical cyclones off the North Queensland Coastline caused inland rain depressions, restricted field operations and in some cases has caused minor damage to infrastructure, such as pipelines and access tracks. The time required to rehabilitate sites and incidents has been pushed out a further three months.

Arrow has a number of water recycling programs that it has initiated for its local communities:

Desalination

Arrow has continued its 5.6 megalitres per day desalination of coal seam water project in the Dalby region. The Company has progressed past the feed design stage and is now calling tenders for further works.

Talks are continuing with a number of councils for the supply of potable and non-potable water for regional use.

Protecting water supplies

Arrow is supplying water to feedlots and to coal wash facilities located near its production facilities. This is having a positive impact on the environment by reducing the drawdown on upper aquifers in the areas.

Sustainable use of water

Arrow has advertised for partners to assist in the evaluation of fish farming in the Company's evaporation ponds. This is being developed in conjunction with the Queensland Department of Primary Industries and Fisheries. Arrow and its Partner will conduct trials to ensure the fish produced is both ecologically and economically viable.

Environmental Footprint

Arrow has developed, in-house, advanced well development techniques that reduces the impact on the land around the well and associated works.

Community

Minor Grants Program

Arrow contributed \$11,000 towards the Dalby Town Council's Minor Grants Scheme during the quarter. The scheme has assisted numerous organisations to implement community, welfare, cultural, sporting and environmental projects of significant importance to areas throughout the region.

Stratheden Coal Seam Gas Project - Information Session

Arrow hosted an information session regarding its activities in the Surat Basin on March 19. The session was held at one of the company's properties in Dalby and was related to the new Stratheden coal seam gas project. The event was attended by around 40 interested landholders and was followed by a question and answer session. The information session was the first event to be run as part of a wider community relations program designed to increase dialogue between Arrow and key stakeholders in the Dalby community.

Indigenous People

Arrow has continued to engage with the indigenous people and in conjunction with other parties is developing an Apprenticeship program that will employ by the company of indigenous people in parts of its operations.

Arrow is committed to go further in its cultural, community and environmental commitment to the regions that it operates in.

Exploration

NORTHERN REGION

PL 191 & PL 196 – Moranbah Gas Project

There was no drilling activity due to the effects of wet weather, and Pilot wells drilled in late December could not be accessed for completion and testing. Work has now been resumed.

ATP364P – South Walker Area

Flood damage to access roads in the area prevented necessary supply and maintenance work to pilot wells. Restoration of access has recommenced.

ATP 364P - Red Hill Area

The three well in-seam Pilot in the Goonyella Middle Seam has now been drilled but has yet to be equipped and tested. Since the end of the reporting period drilling of the three well Goonyella Upper Seam Pilot has advanced and will be completed in the next period.

SOUTHERN REGION

PL 198 – Tipton West

Netherland Sewell and Associates Inc (NSAI) completed a revised reserves certification for PL 198, resulting in a 560% increase in 1P reserves and a 68% increase in the 2P number as reported in January.

ATP 683P – Longswamp

Two single Pilot production wells (Longswamp-3 and -3T) have been drilled as part of a reserves certification process being undertaken by NSAI to assign 2P reserves (in both the Juandah and Taroom seams) to this block. Results are expected by the end of the financial year.

ATP 683P (PLA 258) – Meenawarra

As part of the extensive reserves certification process over ATP 683 being undertaken by NSAI, the first (River Road-5) of two single production Pilot wells has been drilled. Results are expected by the end of the financial year.

ATP 683P (PLA 238) – Tipton East

The Plainview-3 corehole was spudded to gain additional coal quality and gas content information, and as part of the overall NSAI reserves certification process described above.

ATP 790P (PLA 252) – Stratheden Area

The Stratheden-4 corehole spudded on 17 March and has been completed since the end of the reporting period, encountering 39m of coal. Permeability testing is being carried out. This well is part of a reserve certification being undertaken over this area and the PL 230 block adjacent and to the north.

ATP 679P – Nagoorin Graben

Testing operations were disrupted by rain during the reporting period but have re-commenced and the pump testing of the Boyne River-1 well is continuing.

Reserves Summary

The status of Reserves has not changed since the last Quarterly Report. These figures include the revised certification by NSAI over Tipton West, as published in January. Arrow's net reserves position is as follows:

Arrow Net Remaining Recoverable Reserves (PJ)	
Proven	171
Proven + Probable	791
Proven + Probable + Possible	2790

Reserve certification work is ongoing over several project areas in the Bowen and Surat Basins. Arrow has retained its gas reserve certification targets of approximately 2 TCF of 2P reserves by 31/12/08 and an interim figure of approximately 1.5 TCF by 30/6/08 despite the prolonged bad weather that has significantly affected operations in the first quarter. Final field operations and evaluation studies in conjunction with the reserve certifiers required for the end June reserves certification are in progress.

Business Development

ERM Partnership Agreement

The Company announced the execution of a 50/50 partnership agreement with ERM Power to jointly develop the 450 MW Braemar 2 Power Station and high pressure gas pipeline. Arrow has signed a gas sales agreement with Braemar 2 Power Station to supply 11.5 PJ of gas per year over a 12 year period at a price aligned to the underlying electricity revenues. Full commercial operation of the plant is scheduled to meet peak demands in winter 2009. Arrow's planned investment in the Braemar 2 Power Station brings the total of Arrow's net generation capacity to 370 MW and is in-line with the Company's strategy of downstream investment to enhance margins on its gas sales.

The project is scheduled for financial close in the first half of this year and the debt financing being arranged for the project is well advanced with selected lenders.

Siteworks commenced in January and the first two gas turbine-generators are currently being shipped from Germany. Siemens Ltd, a world leader in design and manufacture of gas turbines and electricity generators, is supplying the power plant and is responsible for the successful commissioning of the power station. Bilfinger-Berger will be the major contractor for the power station construction.

Execution of a Co-operation Agreement Liquefied Natural Gas Ltd

The Company had previously announced the purchase of a 10 percent stake in ASX listed LNG Ltd (LNGL) plus a number of strategic and tactical options with that company. A co-operation agreement is now in place under which Arrow and LNG Ltd will co-operate in the identification and potential development of liquefied natural gas (LNG), utilizing coal seam gas (CSG) as the feedstock to LNG production (CSG-LNG Opportunities). Under this agreement, Arrow will have primary responsibility for all associated CSG project development activities and has the option to acquire up to a 50 percent stake in each LNG project to be developed pursuant to an identified CSG-LNG opportunity.

Gladstone LNG Project

Arrow continues its intensive appraisal and reserves certification program for the Gladstone LNG project. In the Bowen Basin, the company currently has two pilots on stream, three additional pilots drilled and currently being hooked up for production and drilling for a further three pilots planned in the near future. In addition pre-feasibility work is commencing on the Central Queensland Gas Pipeline linking Moranbah to Gladstone.

Downstream, LNGL has completed preliminary site investigation work and assessment of LNG plant and storage tank foundation requirements for the Fisherman's Landing site at the Port of Gladstone. LNGL has also signed a Pre-Construction Services Agreement with Laing O'Rourke Australia Construction Pty Ltd, in relation to the LNG storage tanks. LNG plant front end engineering design and costing is being actively progressed with WorleyParsons.

LNGL is in advanced discussions with several LNG buyers, including their potential investment in the Gladstone LNG Project. All shortlisted LNG buyers are of a bankable credit standing and have existing LNG purchasing and trading activities, together with access to LNG ships. Final LNG buyer selection is expected during the June 2008 quarter.

International

Arrow has exercised its option to acquire a further 50 percent interest in Arrow Global CBM Pty Ltd (Global CBM) to take Arrow's shareholding interest to 100%. As consideration for the 50% acquisition, Arrow will issue 4,624,188 Arrow ordinary shares and 5,000,000 options to acquire Arrow ordinary shares, exercisable at \$3.00 expiring 31 December 2010. Global CBM holds the Production Sharing Contract in Vietnam and has numerous agreements with respect to CBM assets in China and Indonesia.

China

Arrow signed a co-operative joint venture agreement with Urumqi Geological and Exploration Development Company of Xinjiang Geological Survey (UGC) of the PRC. The co-operative joint venture company, 80% Arrow, 20% UGC Sino-Foreign, has been developed with the intent of prospecting and exploiting the extensive Coal Bed Methane (CBM) resources of the X.A.R. region. The intent of the joint venture is to identify opportunities where CBM can be commercially exploited prior to coal mining with the intent of adding value, providing environmental benefit, and assisting issues relating to coal mine safety within the context of newly developing regulations in China.

Award of a Vietnam Production Sharing Contract (PSC) covering 2,743 sq km of highly prospective CSG acreage near Hanoi

The PSC was executed with joint venture partner PetroVietnam and the Vietnamese Government in January with field activities planned to commence in the second half of this year.

India

Arrow and its Joint Venture Partners will be the first consortium from the CBM III bidding groups, to commence drilling after achieving environmental and legislative clearances and gaining the award of two PELs in April enabling drilling to commence in the first week of May. During the exploration phase each block will have a 13 well program of core and production wells. Arrow had previously expected drilling to commence in March but approval processes have caused delays. All approvals are now in place for drilling to commence on two blocks.

It is anticipated that the PEL for the third block will be awarded within the next four months. The entire drilling program is forecasted to take approximately 12 months in total.

Corporate

Financial Position

Listed convertible notes (AOEGA) matured at March close and have since been converted into ordinary shares of the Company; they were removed from official quotation on 18 April 2008.

At the end of the quarter Arrow had \$91.8m in cash.

Personnel

Andrew Purcell has been diagnosed with a serious illness. To allow him time for treatment of his illness he has moved from his position as Regional Chief Executive Officer to work on special projects for the Board as Executive Advisor. The Board and Staff wish Andrew well with his treatment.

Shaun Scott has been appointed Chief Executive Officer (Australia), reporting to Nick Davies, and leaving his previous role as Commercial Officer. Shaun's detailed knowledge of the business, gained over nearly 4 years with Arrow has resulted in a smooth transition and continued strong leadership.

Clint Adams has been appointed as Chief Commercial Officer replacing Shaun Scott. Clint has been an integral part of the Arrow Commercial team for the past 2 years, and will continue to apply his strong commercial skills to developing the business.

Tony Knight has rejoined the Company as General Manager – Exploration. Tony has a long history in exploration and has extensive knowledge of Arrow's Queensland acreage.

Strong Shareholder Base

At the end of the March 2008 quarter, Arrow had 13,244 shareholders. Arrow's share capital position was as follows:

Category	ASX Code	Number On Issue
Issued Ordinary Shares	AOE	678,526,344
Issued Convertible Notes	AOEGA	13,704,179
Unlisted Options	n/a	7,738,837
Shares Issued To Employees – not yet vested	n/a	730,577

Planned Activities for the June 2008 Quarter

Arrow plans the following major activities during the June 2008 Quarter:

- Continued increase in gas deliveries from all producing fields;
- Continued reserves certification in both Bowen and Surat basins;
- Continue other gas sales opportunity negotiations;
- Continue exploration and appraisal programs in the Bowen, Surat, Clarence-Moreton and Coastal Queensland Basins;
- Continue business development activities in Domestic and International business;
- Continue to progress activities required for Gladstone LNG project;
- Commence exploration drilling in India; and

- Finalisation of China prospects.

Paul Marshall
Company Secretary

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Corporate Directory

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