

# Quarterly Report

QUARTER ENDED 31 DECEMBER 2009

- Gross gas production, sales and electricity generation up strongly.
- Fisherman's Landing LNG Project to be restructured.
- Environmental Impact Statement continues for Surat Gas Project.
- Environmental Impact Statement approved for Surat Gas Pipeline.
- Drilling commences in Indonesia.

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# 1.0 OPERATING HIGHLIGHTS

- Arrow Energy delivered strong production results with year-to-date gross gas production up 26.9 percent, gross gas sales up 26.2 percent and electricity sales up 193.8 percent compared with the prior year.
- The planning for the development of the Fisherman's Landing liquefied natural gas (LNG) project remains on track. Arrow will now own the LNG produced from the project following a revised Heads of Agreement executed with LNG Limited in January.
- Arrow is continuing with an Environmental Impact Statement for the Surat Gas Project. The majority of gas produced from this project is expected to supply the Fisherman's Landing LNG plant.
- The gas will be delivered by the proposed Surat Gladstone Pipeline which is in the final planning stage. The Queensland Government approved the project's Environmental Impact Statement (EIS) during the quarter and a petroleum pipeline licence is expected to be awarded in January.
- Initial drilling in Indonesia has shown net coal thicknesses of 55m with good gas content, a second hole is now underway. Arrow Energy International continues to pursue business development opportunities in China, Indonesia, Vietnam and India.

## Operational excellence.

Arrow is committed to leading our industry in profitability, safety, operational performance and environmental care. We made significant ground on this commitment during the December quarter:

- The company achieved 40 days without a Recordable Safety Incident during the quarter. The 12 month rolling Total Recordable Injury Rate as at the end of 2009 was 15.4, a 40 percent improvement since the start of the year.
- A record quarterly gross gas production result of 9,839 terajoules (TJ).
- Increased focus on production optimisation backed by an expansion of our petroleum engineering team.
- We are currently on track to meet or exceed FY2010 business plan objectives – resulting in lower production costs, higher sales, and continued improvement of well performance.
- The ongoing implementation of LEAN Manufacturing principles.

A number of operations staff in Dalby have completed a Certificate IV Competitive Manufacturing (Lean Production) accreditation with demonstrable improvements in operational performance being achieved. The same training is scheduled to begin in Moranbah in February 2010.

## 2.0 AUSTRALIAN BUSINESS ACTIVITY

Arrow performed strongly during the December quarter with several key commercial agreements being announced:

### Fisherman's Landing LNG Project

Under a proposal to revise the Heads of Agreement (HoA) with LNG Limited, Arrow will own the LNG produced from the first LNG train of the Gladstone LNG Plant at Fisherman's Landing. During discussions to convert the 17 February 2009 HoA between Arrow and LNG Limited, it became obvious that the most suitable commercial structure for Fisherman's Landing involved Arrow owning the gas from initial production through to the point of LNG sale to the end user (Golar Energy / Toyota Tsusho).

The revised agreement is a major positive for Arrow as it will result in a more integrated project with Arrow ownership of the gas from the well head to the LNG ship and improved economic benefits.

Under the revised proposal the project will be split into an optimised structure of 'InfraCo' and 'TrainCo'. InfraCo will be established as an unincorporated joint venture (UJV) between Gladstone LNG (51%), a wholly owned subsidiary of LNG Ltd, and Arrow (49%) to own, design and construct the LNG project infrastructure including the storage tank, jetty/ship loading and all related facilities and services (excluding the liquefaction train).

TrainCo will be 100 percent Arrow owned and will develop the first 1.5 million tonne per annum (mtpa) LNG train on land under a sublease from InfraCo. The LNG train will include gas pre-treatment and liquefaction facilities, and will utilise LNG Ltd's OSMR™ liquefaction technology under a technology licence and fee agreement. Arrow will source the gas for the LNG train from its field in the Surat Basin and, subject to final agreed terms, will retain an option to develop an additional LNG train at Fisherman's Landing.

The planning for both the Upstream and Downstream components of the project remains on track, with all parties focused on delivering a final investment decision in the March quarter of 2010. Near term focus of all project participants now turns to revising and completing the LNG sales agreement with Toyota Tsusho in alignment with the revised project structure. Golar LNG Energy Limited will have the potential to participate as part owner of InfraCo and TrainCo.

Early site works have commenced at Fisherman's Landing under an early works deed. Laing O'Rourke have mobilised personnel to Gladstone. Current on-site activities include civil works and deep soil mixing to prepare LNG tank foundations.

### Surat Basin

#### **Arrow commences Environment Impact Statement for Surat Gas Project.**

Arrow is planning its largest gas exploration and development program in the Surat Basin called the Surat Gas Project. The project involves ongoing exploration in the Surat Basin to identify the most economic and environmentally acceptable areas for future gas production. The exploration program will be focused in an area extending from Wandoan to Dalby and south to Millmerran and toward Goondiwindi, where the company currently holds exploration tenures and environmental approvals to conduct exploration activities. Field development and gas production will be undertaken based on the results of the exploration.

The Surat Gas Project will meet gas supply opportunities arising from domestic and export markets. Presently, Arrow's interests include ongoing and increased supply to the Queensland domestic gas market, and potential supply to the LNG plants proposed for Fisherman's Landing at Gladstone and the Shell Australia LNG Project on Curtis Island.

Before the project can proceed, Arrow must gain approval from the Queensland Government and the Commonwealth Government. Prior to government approval, regulatory authorities must be satisfied our activities have been properly assessed, and that appropriate measures are in place to avoid or minimise environmental impacts. To do this, we have commissioned an Environmental Impact Statement (EIS) to examine the entire development.

### **WorleyParsons appointed as FEED Program Manager for Arrow's Surat Gas Project.**

Arrow has appointed WorleyParsons as Program Manager for the Front End Engineering and Design (FEED) study for the Surat Gas Project. The FEED study will include the preliminary engineering, design, procurement and planning services that will enable the preparation of the FEED report, cost estimate and execution planning required for development of the upstream surface facilities. The surface facilities include well head infrastructure, gathering systems, gas compression, water treatment and power generation.

### **Finding beneficial uses for water production.**

Arrow has received expressions of interest for water delivery from Tarong Energy, Sunwater, Western Downs Regional Council, Wambo Cattle Company, and Central Downs Irrigators. Based on these opportunities, along with irrigation of Arrow owned properties, there is abundant demand for our coal seam gas water.

## **Surat to Gladstone Pipeline**

The Surat Gladstone Pipeline (SGP) will connect Arrow Energy's vast coal seam gas resources in the Surat Basin with the proposed Fisherman's Landing LNG project in Gladstone. The SGP achieved a major milestone during the quarter when the Queensland Government approved the project's Environmental Impact Statement (EIS). A petroleum pipeline licence is expected to be awarded in January. It will be the first licence awarded for a pipeline connecting the Surat Basin with Gladstone.

## **Bowen Basin**

Work on a field development plan for the Bowen Basin for gas supply to the proposed Shell Curtis Island LNG plant commenced in November. Key people from Arrow's Exploration and Development teams were engaged to work on the plan and deliverables. In support of an expanded geological model reservoir data collection, parameter modeling, well placement and production modeling will be conducted as part of the process. Three additional secondees from Shell have been resourced to support the project.

## 3.0 INTERNATIONAL BUSINESS ACTIVITY

Arrow Energy International's program of business development in its current four target Asian countries of China, Indonesia, Vietnam and India has continued during the quarter.

The company is now drilling in all four countries. Considerable work was also undertaken on evaluating various new opportunities that were presented to Arrow International in the period.

### China

Arrow Energy subsidiary Arrow Energy International has signed an agreement with Fortune Oil subsidiary, Fortune Green Energy, to acquire a 35 percent stake in Fortune Liulin Gas for US\$13.3m, subject to certain conditions being satisfied. Arrow has conditional options to increase its stake to 75 percent over time.

Fortune Liulin Gas' sole asset is a 50 percent participating interest in the Liulin Coal Bed Methane (CBM) block which has been the subject of considerable exploration activity since 1999, and is one of the most advanced CBM prospects in China.

The block has internationally certified 3P reserves of 89 PJ. Arrow's net interest will be 15 PJ of certified 3P reserves once the transaction is completed. Arrow expects gross 2P reserves in the range of 45 to 50 PJ within two years.

The block covers 198 km<sup>2</sup> and is located 35 km from Luliang and 500 km south-west of Beijing within the south-east Ordos Basin in Shanxi Province. There are three target coal seams with high gas content and saturations.

In February 2009, the Liulin block was designated a State Special Pilot Project, which will enable acceleration of the exploration and development program. Arrow, Fortune and CUCBM, the Chinese counterparty to the Production Sharing Contract (PSC) covering the transaction, will be working collaboratively to achieve commercial gas production from the block within 12 to 18 months.

### India

The company continues to progress negotiations with ONGC Limited for a 30 percent interest in the company's Ranigani and North Karanpura coal seam gas blocks.

Regulatory authorities continue to assess submissions made during the Indian Government's CBM IV bidding round. Arrow remains confident of being awarded one or more blocks.

## Vietnam

Arrow conducted a management meeting with its partner PetroVietnam during November to review progress of its eight-well exploration program on block MVHN-01KT. Our plans to deepen wells 2 and 8 were approved.

Other opportunities aimed at extracting methane ahead of mining activity are under review.

## Indonesia

Arrow drilled its first coal seam gas well in Indonesia during the quarter. The well is located near the town of Sangatta, in East Kalimantan, about 200km north of the city of Balikpapan and 60km north of the Bontang LNG plant. Initial indications are promising with net coal thickness of 55m with good gas content.

The effective ownership of the Production Sharing Contract (PSC) permit area is Arrow 24 percent, Ephindo 24 percent, and Pertamina 52 percent.

Arrow and Ephindo are jointly operating the block through Sangatta West CBM Inc, a joint venture company which is owned 50/50 by Arrow and Ephindo.

The PSC permit area contains coals of Miocene age, primarily of the Balikpapan Formation. Net coal thickness for the target zone could be up to 80m.

The Sangatta 1 CBM PSC is an important part of our gas aggregation strategy for the region. Arrow is currently in negotiations to partner on a number of highly prospective coal seam gas opportunities in nearby areas.

Arrow has been invited to participate in Indonesian Government forums tasked with facilitating coal seam gas commercialisation by the year 2011. Arrow is the only company in Indonesia that has a proven track record in coal seam gas production. The company believes that commercial gas could be produced in Indonesia as early as 2011 if government regulations are streamlined and barriers to market removed.

The current drilling program and continuing governmental talks represent exceptional opportunities for Arrow and the Republic of Indonesia to work together.



*Gas analysis activities being conducted at the drill site of our first exploration well in Indonesia.*

## 4.0 PRODUCTION REVIEW

Gross gas production increased 2.4 percent in the December quarter compared to the prior quarter while gross sales were up 10 percent reflecting recognition of some prior period sales and improved operational efficiency. Production at Tipton West and Moranbah remained largely flat while production at the Daandine gas field and Kogan North field increased moderately.

On a year to date basis, gross gas production was up 26.9 percent to 19,444 TJ (19.4 PJ) on the comparable period last year. This increase is largely attributed to the major expansion of the Daandine field to supply the Braemar 2 Power Station.

For the December quarter, gross gas sales increased 10.4 percent compared to the prior quarter. Tipton West gross gas sales rose 26.7 percent on the September quarter due to the inclusion in the December Quarter of a prior quarter sales adjustment of 288 TJ. Gross gas sales at Kogan North also experienced a 21.3 percent upswing over the prior quarter as Swanbank 'E' Power Station returned to peak capacity following a protracted shutdown.

Net gas sales fell 9.1 percent during the quarter due largely to a 40.3 percent decrease at the Daandine field which is related to Arrow's increased ownership of Braemar 2 Power Station compared with the prior quarter resulting in the elimination of gas sales previously treated as third party sales.

### Tipton West Project.

PL 198 / Arrow Energy 70% (Operator), Shell Group 30%

Gross production at Tipton West for the December quarter was 2,888 TJ, an increase of 0.1 percent over the September quarter. Daily field production was reaching 35 TJ/day during the quarter which meets the total capacity of the Tipton West Central Gas Processing Facility. Gross production is up 22.1 percent on a year to date comparison with the prior year.

### Kogan North CSG Development.

PL 194 / Arrow Energy 35% (Operator), Shell Group 15%, CS Energy 50%

Gross gas production at the Kogan North field increased by 7.8 percent versus the prior quarter. CS Energy booked higher nominations during the quarter as Swanbank 'E' Power Station returned to peak capacity following a protracted shutdown. A five-well pilot is planned for the March quarter in an area separate to our existing development but within our lease that preliminary exploration has shown to be highly prospective.

### Daandine Project.

PL 230 / Arrow Energy 70% (Operator), Shell Group 30%

Gross gas production at the Daandine field for the quarter was 1,830 TJ, an increase of 5.1 percent versus the September quarter. Gross production is up 69.1 percent on a year to date comparison with the prior year as the field is expanded to meet our sales agreement with the Braemar 2 Power Station. Arrow is pursuing additional sales opportunities which will allow the field to achieve maximum productive capacity.

## Moranbah Gas Project.

PL 191 / PL 196 / PL223 / Arrow Energy 35% (Operator), Shell Group 15%, AGL 50%

Gross gas production for the Moranbah Gas Project was 4,387 TJ, which represented a 2 percent increase compared to the prior quarter. Production at the field remained flat as constraints in the water management system are resolved. This resulted in existing wells being turned down and new well connections deferred. A significant compressor downtime incident at the Moranbah Central Gas Processing Facility also restricted production. Performance at the MGP is expected to steadily improve during 2010 as a range of improvements are implemented. The completion of water handling infrastructure will allow a number of new wells to come online and boost production levels. Ongoing negotiations with Vale to facilitate bringing the new PL223 compression facility online remain a focus area.

## 5.0 PRODUCTION STATISTICS

### Summary

Quarterly Data		Sep 30, 2009	Dec 31, 2009	Change	% Change
<b>Gross Operated</b>					
Gas Production	TJ	9,605	9,839	235	2.4%
Gas Sales	TJ	8,572	9,461	888	10.4%
Electricity Sales	MWh	727,673	930,868	203,195	27.9%
<b>Net to Arrow</b>					
Gas Production	TJ	4,981	5,095	115	2.3%
Gas Sales	TJ	2,881	2,618	-263	-9.1%
Electricity Sales	MWh	427,179	627,354	200,175	46.9%

Year to Date Data		Year to date Dec 31, 2008	Year to date Dec 31, 2009	Change	%Change
<b>Gross Operated</b>					
Gas Production	TJ	15,323	19,444	4,121	26.9%
Gas Sales	TJ	14,288	18,033	3,745	26.2%
Electricity Sales	MWh	564,580	1,658,541	1,093,961	193.8%
<b>Net to Arrow</b>					
Gas Production	TJ	9,190	10,076	886	9.6%
Gas Sales	TJ	5,754	5,500	-254	-4.4%
Electricity Sales	MWh	344,446	1,054,533	710,087	206.2%

*Current and prior period Gross Gas Sales have been adjusted to include all sales regardless of end use and destination, previously gas used in electricity generation had been excluded from this figure. Net Gas Sales represent gas sold only to third party industrial customers and excludes any gas consumed in the generation of Arrow's electricity off-take from power stations.*

### Gas production by field (quarter on quarter)

Gas production	Sep 30, 2009	Dec 31, 2009	Change	% Change
<b>Net to Arrow (TJ)</b>				
Daandine	1,219	1,281	63	5.1%
Kogan North	238	257	19	7.8%
Moranbah	1,505	1,535	31	2.0%
Tipton West	2,019	2,022	3	0.1%
<b>Net</b>	<b>4,981</b>	<b>5,095</b>	<b>115</b>	<b>2.3%</b>

Gas production	Sep 30, 2009	Dec 31, 2009	Change	% Change
<b>Gross (TJ)</b>				
Daandine	1,741	1,830	89	5.1%
Kogan North	680	734	53	7.8%
Moranbah	4,299	4,387	88	2.0%
Tipton West	2,884	2,888	4	0.1%
<b>Gross</b>	<b>9,605</b>	<b>9,839</b>	<b>235</b>	<b>2.4%</b>

### Gas production by field (year to date)

Gas production	Year to date Dec 31, 2008	Year to date Dec 31, 2009	Change	% Change
<b>Net to Arrow (TJ)</b>				
Daandine	2,112	2,500	388	18.4%
Kogan North	734	495	-239	-32.6%
Moranbah	3,508	3,040	-468	-13.3%
Tipton West	2,836	4,041	1,205	42.5%
<b>Net</b>	<b>9,190</b>	<b>10,076</b>	<b>886</b>	<b>9.6%</b>

Gas production	Year to date Dec 31, 2008	Year to date Dec 31, 2009	Change	% Change
<b>Gross (TJ)</b>				
Daandine	2,112	3,572	1,460	69.1%
Kogan North	1,468	1,414	-54	-3.7%
Moranbah	7,016	8,685	1,669	23.8%
Tipton West	4,727	5,773	1,046	22.1%
<b>Gross</b>	<b>15,323</b>	<b>19,444</b>	<b>4,121</b>	<b>26.9%</b>

### Gas sales by field (quarter on quarter)

Gas sales	Sep 30, 2009	Dec 31, 2009	Change	% Change
<b>Net to Arrow (TJ)</b>				
Daandine	370	221	-149	-40.3%
Kogan North	203	242	40	19.5%
Moranbah	615	659	44	7.1%
Tipton West	1,694	1,496	-197	-11.6%
<b>Net</b>	<b>2,881</b>	<b>2,618</b>	<b>-263</b>	<b>-9.1%</b>

Gas sales	Sep 30, 2009	Dec 31, 2009	Change	% Change
<b>Gross (TJ)</b>				
Daandine	1,604	1,663	60	3.7%
Kogan North	570	692	122	21.3%
Moranbah	3,991	4,055	64	1.6%
Tipton West	2,408	3,051*	643	26.7%
<b>Gross</b>	<b>8,572</b>	<b>9,461</b>	<b>888</b>	<b>10.4%</b>

Current and prior period Gross Gas Sales have been adjusted to include all sales regardless of end use and destination. Previously, gas used in electricity generation had been excluded from this figure. Net Gas Sales represent gas sold only to third party industrial customers and excludes any gas consumed in the generation of Arrow's electricity off-take from power stations.

\*Gas sales exceed gas production as a prior period adjustment of 288 TJ of sales were recognised in this quarter.

### Gas sales by field (year to date)

Gas sales	Year to date Dec 31, 2008	Year to date Dec 31, 2009	Change	% Change
<b>Net to Arrow (TJ)</b>				
Daandine	1,106	591	-515	-46.5%
Kogan North	681	445	-236	-34.7%
Moranbah	1,340	1,274	-66	-4.9%
Tipton West	2,627	3,190	563	21.4%
<b>Net</b>	<b>5,754</b>	<b>5,500</b>	<b>-254</b>	<b>-4.4%</b>

Gas sales	Year to date Dec 31, 2008	Year to date Dec 31, 2009	Change	% Change
<b>Gross (TJ)</b>				
Daandine	1,856	3,267	1,411	76.0%
Kogan North	1,363	1,262	-101	-7.4%
Moranbah	6,690	8,046	1,356	20.3%
Tipton West	4,379	5,458	1,079	24.7%
<b>Gross</b>	<b>14,288</b>	<b>18,033</b>	<b>3,745</b>	<b>26.2%</b>

Current and prior period Gross Gas Sales have been adjusted to include all sales regardless of end use and destination, previously gas used in electricity generation had been excluded from this figure. Net Gas Sales represent gas sold only to third party industrial customers and excludes any gas consumed in the generation of Arrow's electricity off-take from power stations.

## Like for like net production and sales.

To provide a clearer picture of the underlying performance of Arrow's net operating interest the following figures have been adjusted for ownership changes which relate to the sale of 30 percent of our Australian tenements to Shell and the purchase of the remaining 40 percent of Tipton West from Beach Petroleum (of which Shell has subsequently acquired their pro-rata share so that they own 30 percent of Tipton West and Arrow own the remaining 70 percent).

Net gas production is up by 29.9 percent over the year while the net gas sales are up by 4.7 percent. This reflects strong production increases at the Daandine and Tipton West fields as new wells have been completed and brought on line. The smaller increase in net sales relates to the increased ownership of Braemar 2 Power Station where gas used in electricity generation is eliminated.

### ADJUSTED net gas production (year to date)

Gas Production	Year to date Dec 31, 2008	Year to date Dec 31, 2008 ADJUSTED	Year to date Dec 31, 2009	Change	% Change
<b>Net to Arrow (TJ)</b>					
Daandine	2,112	1,478	2,500	1,022	69.1%
Kogan North	734	514	495	-19	-3.7%
Moranbah	3,508	2,456	3,040	584	23.8%
Tipton West	2,836	3,309	4,041	732	22.1%
<b>Net</b>	<b>9,190</b>	<b>7,756</b>	<b>10,076</b>	<b>2,319</b>	<b>29.9%</b>

FY 2009	7,756 TJ	UP
FY 2010	10,076 TJ	29.9%

### ADJUSTED net gas sales (year to date)

Gas Sales	Year to date Dec 31, 2008	Year to date Dec 31, 2008 ADJUSTED	Year to date Dec 31, 2009	Change	% Change
<b>Net to Arrow (TJ)</b>					
Daandine	1,106	774	591	-183	-23.6%
Kogan North	681	477	445	-32	-6.7%
Moranbah	1,340	938	1,274	336	35.9%
Tipton West	2,627	3,065	3,190	125	4.1%
<b>Net</b>	<b>5,754</b>	<b>5,254</b>	<b>5,500</b>	<b>246</b>	<b>4.7%</b>

FY 2009	5,254 TJ	UP
FY 2010	5,550 TJ	4.7%

## 6.0 ELECTRICITY GENERATION

Gross electricity sales were up 27.9 percent from the previous quarter as Braemar 2 Power Station continued to increase output. Gross electricity sales have experienced an impressive 193.8 percent increase on a year on year performance comparison. Net sales have risen 47 percent over the September quarter and 206.2 percent on a year-to-date basis when compared with the prior year due to the increase in ownership of Braemar 2 to 74.9 percent.

### Electricity sales (quarter on quarter)

Electricity Sales	Sep 30, 2009	Dec 31, 2009	Change	% Change
<b>Net to Arrow (MWh)</b>				
Daandine	60,143	58,328	-1,815	-3.0%
Townsville PS	179,970	170,226	-9,744	-5.4%
Braemar 2	187,067	398,800	211,734	113.0%
<b>Net</b>	<b>427,179</b>	<b>627,354</b>	<b>200,175</b>	<b>47%</b>

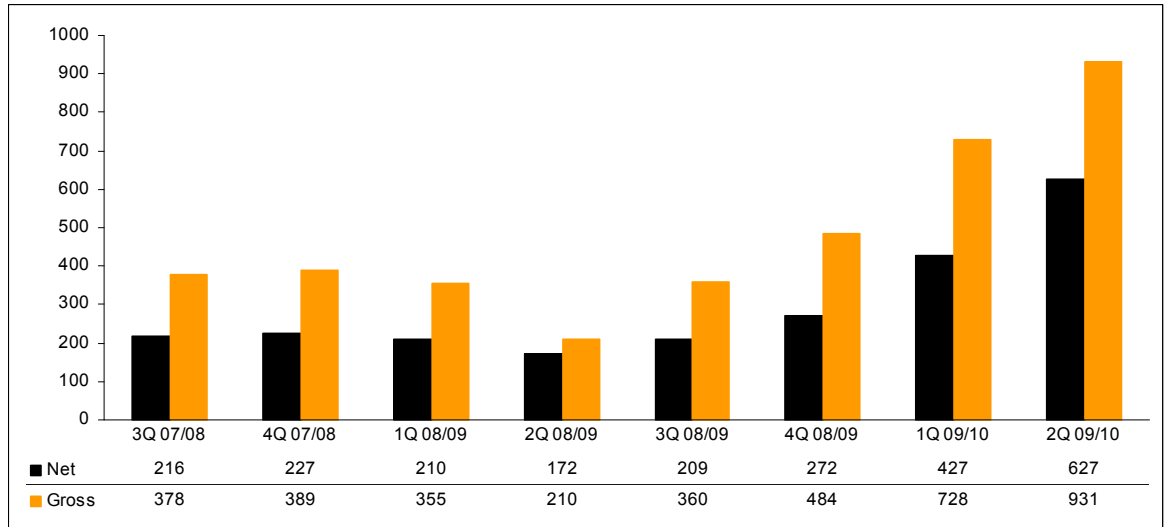
Electricity Sales	Sep 30, 2009	Dec 31, 2009	Change	% Change
<b>Gross (MWh)</b>				
Daandine	60,143	58,328	-1,815	-3.0%
Townsville PS	359,939	340,452	-19,487	-5.4%
Braemar 2	307,590	532,088	224,498	73.0%
<b>Gross</b>	<b>727,673</b>	<b>930,868</b>	<b>203,195</b>	<b>27.9%</b>

### Electricity sales (year on year)

Electricity Sales	Year to date Dec 31, 2008	Year to date Dec 31, 2009	Change	% Change
<b>Net to Arrow (MWh)</b>				
Daandine	124,312	118,471	-5,841	-4.7%
Townsville PS	220,134	350,196	130,062	59.1%
Braemar 2	0	585,867	585,867	0.0%
<b>Net</b>	<b>344,446</b>	<b>1,054,533</b>	<b>710,087</b>	<b>206.2%</b>

Electricity Sales	Year to date Dec 31, 2008	Year to date Dec 31, 2009	Change	% Change
<b>Gross (MWh)</b>				
Daandine	124,312	118,471	-5,841	-4.7%
Townsville PS	440,268	700,391	260,123	59.1%
Braemar 2	0	839,679	839,679	0.0%
<b>Gross</b>	<b>564,580</b>	<b>1,658,541</b>	<b>1,093,961</b>	<b>193.8%</b>

## Electricity sent out ('000 Mwh)



### Townsville Power Station.

*North Queensland Energy Joint Venture  
Arrow Energy 50% / AGL Energy 50% electricity sales*

Townsville Power Station achieved gross sales of 340,452 MWh (170,226 MWh net to Arrow) during the quarter, down 5.4 percent on the prior quarter due to a reduction in plant efficiency caused by sustained periods of hot weather.

### Daandine Power Station.

*Arrow Energy 100% electricity sales*

Daandine Power Station continues to reliably generate at its current maximum available connection capacity of 27.4MW. Quarterly generation was 58,328 MWh, broadly consistent with the prior quarter results.

### Braemar 2 Power Station.

*NewGen Braemar 2 Partnership  
Arrow Energy 74.9% / ERM Power 25.1%*

Braemar 2 is continuing to ramp up production, operating as a peak and shoulder producer. In its second full quarter of generation, Braemar 2 gross electricity sales increased to 532,088 MWh (398,800 MWh net to Arrow) operating at a 56 percent capacity factor.

## 7.0 EXPLORATION REVIEW

Arrow has embarked on a \$300 million exploration and appraisal program targeting the following:

- To prove and secure adequate 2P reserves to supply domestic and LNG export contracts.
- To deliver 2P reserves at an annual rate of approximately 1,000 PJ (Gross).
- To prove deliverability of reserves at a rate necessary to meet LNG supply requirements.

This program is the largest of its type ever undertaken by Arrow and comprises several key activities:

- characterisation of the coal resource extent and structure, achieved primarily by the drilling of stratigraphic wells and/or recording of 2D seismic.
- characterisation of coal reservoir character, achieved primarily by the drilling of cored wells for sampling and testing.
- pilot production testing.

The program will focus on the largest resource areas of the Bowen, Surat and Clarence Moreton Basins, and a more gradual approach will be employed to explore and develop resources in the "Coastal" Basins.

### Surat Basin.

In the period since our major exploration announcement in early December, Arrow has started drilling a five-spot vertical well pilot in the Glenburnie region south of Tipton West (ATP683). This pilot will target the Walloon seams and is designed to confirm deliverability rates in support of field development planning. It follows a number of exploration wells which provided favourable results. There is a strong expectation that additional reserve growth will be achieved in this area.

### Bowen Basin.

Arrow has 24 pilot wells in an early stage of dewatering and gas production throughout the Bowen Basin. These pilots are likely to allow for significant reserve growth in this area. Nine of these pilots are aimed at extending reserve coverage in the Moranbah Coal Measures to the south of the Moranbah Gas Project area. The GU, GM, and GL Seams are being targeted. Another four pilots are targeting the Rangal Coal Measures South region where very high gas contents and favourable seam thicknesses have been identified.

### Clarence Moreton Basin.

A hydro-fracture pilot was recently completed and is being equipped in preparation for commencement of production testing. Previous exploration drilling in the area has confirmed that the Walloon Coal Measures are well developed in this area, with thick seams and favourable gas contents.

### Nagoorin Graben Basin.

Arrow regards the Nagoorin Graben Basin as a highly prospective exploration area. The company has identified very encouraging indicators of potential such as thick seams and high gas contents. Two exploration wells are currently being drilled in the Boyne River region. The Boyne River 5 well will seek to determine seam structure and reservoir characteristics while the Boyne River 6 well has already returned favourable results and will also determine reservoir characteristics.

## Current pilot wells

Basin	ATP/PL	Region	Pilot & type	Seam	Current Status
Bowen	PL223	MGP	Wotonga – hydro-fracture	Girrah	Early stage production testing
	PL191	MGP	FCCM - hydro-fracture	Fairhill	Production build-up
	PL191	MGP	P Seam – hydro-fracture	P	Production build-up
	PL191	MGP	Multi-seam hydro-fracture	GU, P, GM, GL	Production build-up
	PL191	MGP	GM Seam – hydro-fracture	GM	Production build-up
	PL191	MGP	SIS	GM	Production build-up
	PL191	MGP	SIS	P	Production build-up
	ATP364	MCM – North	Redhill GU # 1 - SIS	GU	Production build-up
	ATP364	MCM – North	Redhill GU #2 - SIS	GU	Early stage production testing
	ATP364	MCM – North	Redhill GU #3 - SIS	GU	Completion
	ATP364	MCM - North	Redhill GM#1 - SIS	GM	Production build-up
	ATP364	MCM – North	Redhill GL #1 – SIS	GL	Production build-up
	ATP364	MCM – North	Redhill GL #2 – SIS	GL	Completion
	ATP364	FCCM – North	Redhill FCCM #1 – Frac	Multiple	Drilling
	ATP364	MCM – North	Lancewood GM#1 - SIS	GM	Early stage production testing
	ATP364	RCM - North	Suttor Creek #1 – SIS	Leichhardt	Early stage production testing
	ATP364	MCM - South	Saraji H16 #1 – SIS	H16	Early stage production testing
	ATP364	MCM - South	Saraji H16 #3 - SIS	H16	Drilling
	ATP364	RCM - South	Coxendean LC#1 - SIS	Leichhardt	Early stage production testing
	ATP364	RCM - South	Coxendean LC #2 – SIS	Leichhardt	Drilling
	ATP364	RCM – South	Coxendean VM #2 - SIS	Vermont	Drilling
	ATP364	MCM – North	Wards Well GU #1 – SIS	GU	Completion
	ATP364	MCM – North	Wards Well MCM #1 – Frac	Multiple	Drilling completed, fracking pending
	ATP364	RCM – South	Kemmis Creek RCM #1 – Frac	Multiple	Drilling
	ATP751		Blackwater #1 – SIS	Gemini	Initial production – not stabilised
Surat	ATP683	Glenburnie	Glenburnie – 5 spot vertical	Walloon	Drilling
Clarence – Moreton	ATP641		Mt Lindsay – Hydro-frac	Walloon	Initial production – not stabilised

## Exploration wells - December

Basin	Purpose	Well	ATP	Well Type	Results	Objective
Bowen	Exploration	Red Hill #16P	ATP364	Stratigraphic	Favourable	Seam structure delineation
	Exploration	Red Hill #21C	ATP364	Core	Favourable	Reservoir characterisation
	Exploration	Peak Downs #24P	ATP364	Stratigraphic	Favourable	Seam structure delineation
	Exploration	Peak Downs #25C	ATP364	Core	Favourable	Reservoir characterisation
Surat	Exploration	Stratheden#5	PL252	Core	Underway	To support field development planning
	Exploration	Meenawarra#17	ATP683	Stratigraphic	Underway	Reservoir characterisation
Nagoorin Graben	Exploration	Boyne River 5	ATP679	Core	Underway	Seam structure and reservoir characterisation, and to assist in future pilot testing
	Exploration	Boyne River 6	ATP679	Core	Favourable	Reservoir characterisation

## 8.0 CORPORATE

### Financial position.

Arrow's cash position at the end of the quarter was \$253.4 million.

### Sales revenue.

Sales revenue for the December quarter was up 54 percent on the September quarter and up 131 percent on the same time last year. This increase was primarily driven by increased electricity sales following the commissioning of the Braemar 2 Power Station which is being supplied with gas from higher production in the Daandine and Stratheden fields.

The current quarter also includes revenue from Braemar 2 Power Station at the increased Arrow holding of 74.9 percent for the full quarter (previous quarter one month only).

#### Total sales (\$'000) quarter on quarter

1Q 2009	GAS 11,054	ELECTRICITY 24,261	TOTAL 35,315	UP
2Q 2009	GAS 11,808	ELECTRICITY 42,533	TOTAL 54,341	54%

#### Total sales (\$'000) year to date

FY 2009	GAS 21,602	ELEC 17,280	TOTAL 38,882	UP
FY 2010	GAS 22,862	ELECTRICITY 66,794	TOTAL 89,656	131%

### Exploration and development expenditure.

Exploration expenditure for the period was \$21.0 million and a further \$68.8 million was spent on development activities.

### Shareholder base.

At the end of the December 2009 quarter, Arrow Energy had 24,355 shareholders and the share capital position was as follows:

Category	ASX code	Number on issue
Issued Ordinary Shares	AOE	732,381,533
Unlisted Options	n/a	9,417,823
Shares issued to employees – not yet vested	n/a	932,514

## Planned activities for the March 2010 quarter.

Arrow Energy plans the following major activities during the March 2010 Quarter:

- Continued increase in gas deliveries from all producing fields, particularly Daandine and Stratheden;
- Continued reserves certification in both Bowen and Surat basins;
- Continued exploration and appraisal programs in the Bowen, Surat, Clarence-Moreton and Coastal Queensland basins;
- Continued business development activities in domestic and international business;
- Continue to progress activities required for Curtis Island LNG project;
- Continue to progress Final Investment Decision for the Fisherman's Landing LNG Facility;
- Granting of petroleum pipeline licence for Surat Gladstone Pipeline;
- Continued exploration activities in India, Vietnam and China, and Indonesia.

**Paul Marshall**  
Company Secretary

## 9.0 CONTACTS

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# 10.0 CORPORATE DIRECTORY

## Directors

John Reynolds, Non-Executive Chairman  
Jeremy Barlow, Non-Executive Director  
Stephen Bizzell, Executive Director  
Nicholas Davies, Managing Director and Chief Executive Officer  
Dr Paul Elkington, Non-Executive Director  
David Williamson, Non-Executive Director  
Dr Ralph Craven, Non-Executive Director

## Company Secretary

Paul Marshall

## Australian Business Number

ABN 73 078 521 936

## Stock Exchange Listing

Australian Stock Exchange Ltd  
ASX Codes: AOE Ordinary Shares

## Corporate and Registered Office

Level 19 AM60  
42-60 Albert Street, Brisbane Qld 4000  
Telephone: 07 3012 4000  
Facsimile: 07 3012 4001

## Postal Address

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Brisbane Qld 4001

## Moranbah Office

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Moranbah Qld 4744  
Phone: +61 7 4841 2000

## Dalby Site Office

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Dalby Qld 4405  
Phone: +61 7 4679 9000

## India Office

DLF Cyber City, Phase III  
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Gurgaon, New Delhi, 122002  
Phone +91 124 4391200

## Singapore Office

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## Vietnam Office

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Hanoi City, Vietnam  
Phone: +84 4 856 3085

## Jakarta Office

Wisma Anugraha (Petrosea Office), 1st Floor  
Jl. Taman Kemang No. 32B,  
Kemang, Jakarta 12730, Indonesia

## Share Registry

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Locked Bag 14  
Sydney South NSW 1235  
Phone: 02 8280 7454

## Solicitors

Hopgood Ganim  
Level 8 Waterfront Place  
1 Eagle St  
Brisbane Qld 4000

## Auditors

PriceWaterhouseCoopers  
Riverside Centre  
123 Eagle Street  
Brisbane Qld 4000

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