

Arrow goes further.

For personal use only



Arrow Energy
Annual Report 2007

Arrow Energy was one
of Australia's top 10
performing stocks over
the 2007 financial year.



Contents

This year's highlights	2
Chairman's letter	4
Managing Director's report	6
Production review	10
Tenements	18
Exploration review	20
Reserves statement	25
International business	26
Non-financial performance review	32
Directors' report	37

Annual General Meeting

Kingston Room
Brisbane Polo Club
1 Eagle Street
Brisbane Queensland

Wednesday 14 November 2007
at 10.00am sharp.
A formal notice of meeting and proxy
form are enclosed with this report.

Arrow Energy shares are listed
on the Australian Stock Exchange
(ASX Security Code - AOE).



Go further.

What defines Arrow Energy? In industrial terms, the company is one of Australia's leading producers of coal seam gas with significant assets throughout eastern Australia and Asia. We hold equity interests in 80,000 square kilometres of acreage close to Queensland's key markets. Since listing on the Australian Stock Exchange in August 2000, the company's market capitalisation has grown from \$20 million to over \$1.5 billion.

But if that's all you know about Arrow, then you're only seeing part of who we really are. Go further is not just a theme for this year's report, it's the battle cry that guides us, the corporate philosophy that defines us. Our company is made up of people who understand that to build a great company we must always go further - to convert challenges into successes, stand apart from our competitors, create more value for shareholders, and fulfil our mission to answer the call for cleaner energy.

Two became one

Arrow completed a merger with CH4 Gas Limited in August 2006 to create one of Australia's leading coal seam gas players. The merged company has a current market capitalisation of more than \$1.5 billion (as at 30 June 2007).

Power station switched on

Arrow announced that first power was generated from the 274 megawatt Daandine Power Station and exported to the grid, meeting the company's goal of first electricity generation before the end of calendar 2006.



First sales from Tipton West

First gas was sold from our Tipton West field to the Braemar Power Project on 6 February 2007, two months ahead of schedule. Arrow will eventually supply 9.5 petajoules per annum for 15-years.

2

Going further for increased performance

Market Cap
\$1.5b

Arrow a top 200 company

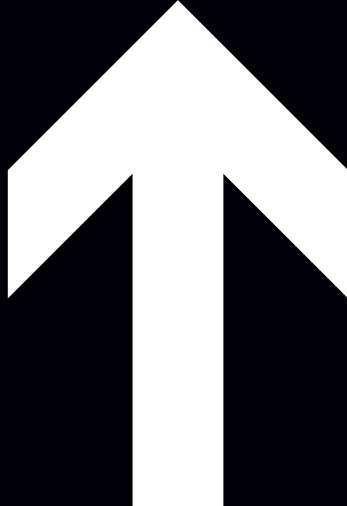
In March 2007, Arrow was included in Standard and Poor's ASX 300 Index which comprises the top 300 listed companies in Australia. Within the space of only 34 days, the company entered the S&P/ASX 200 Index.

Liquefied-natural-gas (LNG) sales

In April 2007, Arrow agreed to supply 2 petajoules (PJ) of gas per annum over 15-years from its Daandine field to Liquegas Energy of Norway for use as a feedstock at a proposed small-scale LNG plant. First gas supply is expected during the first half of 2009. The following month, the company signed a heads of agreement with LNG International to supply at least 55 PJ per annum for 12 years from 2011 to a proposed large-scale LNG plant.

Arrow wins green gongs

Arrow won finalist nominations in three categories of the Banksia Environmental Awards – Prime Minister's Environmentalist of the Year, Eco Innovation Award and Water Award.



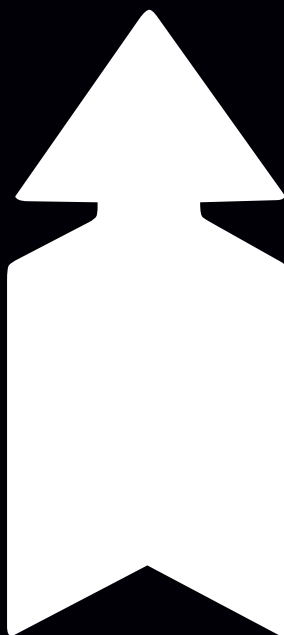
Arrow's global march

In October 2006, Arrow won three highly prospective exploration blocks in Indian CBM III licensing round with major Indian companies Tata Power and GAIL (India) and Energy Infrastructure Group as partners. We continued to build our international presence by signing commercial deals in Indonesia and China throughout the remainder of the fiscal year.

Maiden profit

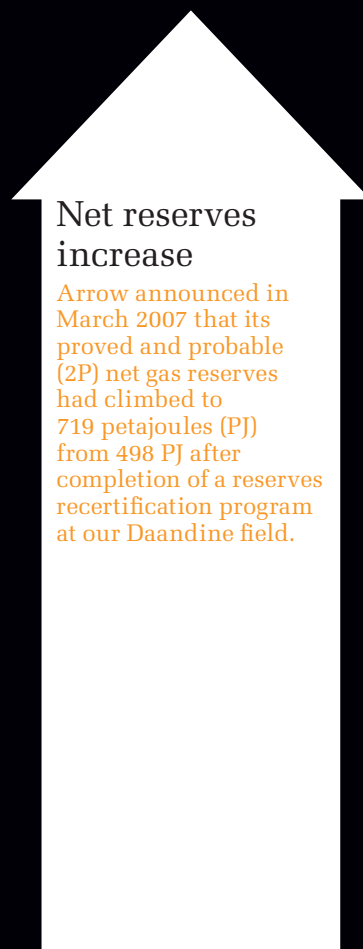
Arrow declared a maiden profit of \$8,698 for the half year to December 2006, and a profit of \$17.83 million for the full year to 30 June 2007.

\$17.83m



Net reserves increase

Arrow announced in March 2007 that its proved and probable (2P) net gas reserves had climbed to 719 petajoules (PJ) from 498 PJ after completion of a reserves recertification program at our Daandine field.



Going further for shareholders

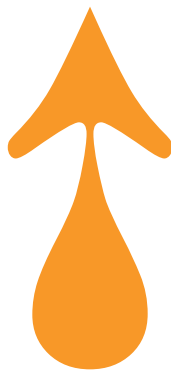
Fiscal 2007 was a great year for Arrow Energy. It started with the completion of our merger with CH4 Gas Limited to create one of Australia's largest coal seam gas producers, and closed with the company posting a healthy maiden annual profit. In between there were many other notable achievements.

Top 10 performing stock

Arrow's ten fold increase in net gas production from less than 1 PJ to more than 10 PJ over the year drew an increase in sales revenue from \$1.7 million to \$27.87 million in fiscal 2007. Our share price tracked our improving production and sales figures, closing the financial year at \$2.80. Arrow's 374.5 percent share price increase over fiscal 2007 made it the second best performing stock on Standard and Poor's ASX 200 Index. Our market capitalisation is now more than \$1.5 billion (as at 30 June 2007).

Record production and sales results

In July 2006, Arrow had one producing field at Kogan North in the Surat Basin. Since that time, we have increased our number of producing fields to four and improved the production at each of these fields to consolidate our transition from explorer to producer. First gas was sold from our fields at Daandine and Tipton West in the Surat Basin throughout the year while the Moranbah Gas Project in the Bowen Basin was added to our portfolio following our merger with CH4 Gas Limited. Arrow also realised its ambition of bringing the electricity market to the wellhead by generating first power from the Daandine Power Station and exporting it to the grid in December 2006.



A clear strategic vision

Arrow's enduring game plan has been to acquire significant coal seam gas acreage close to existing gas and electricity infrastructure and markets. The company is now leveraging its world-leading technical and commercial capabilities to optimise producing fields and advance a long pipeline of development projects as it makes giant strides in the vigorous search for enhanced margins.

A strong corporate culture

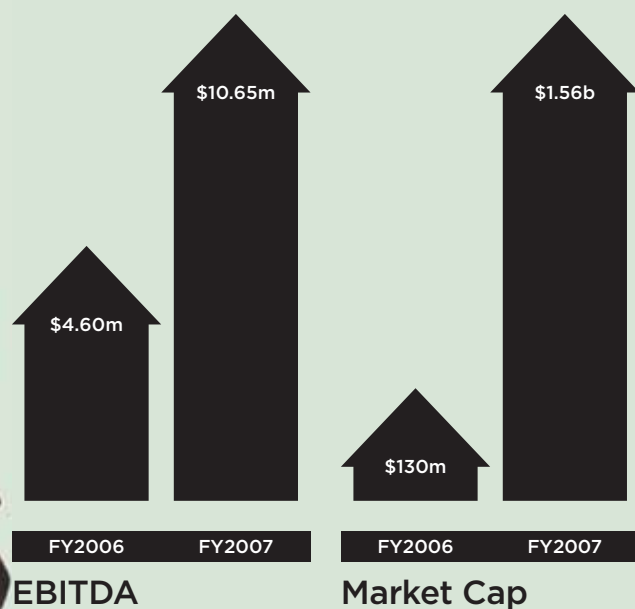
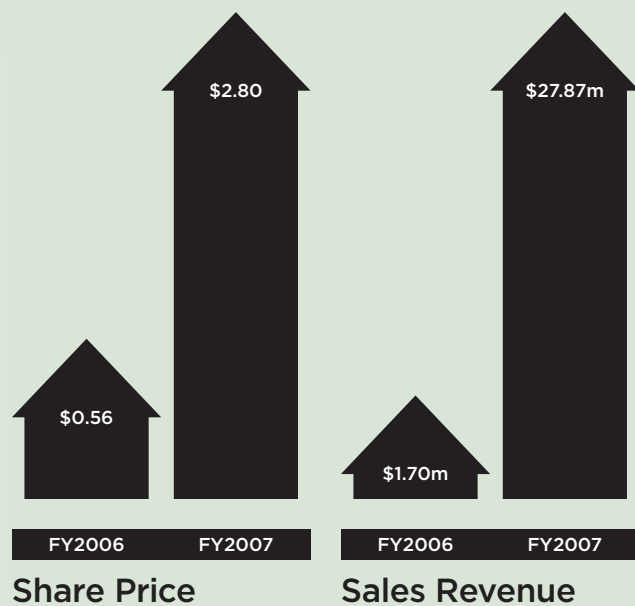
At the heart of Arrow's financial growth is a productive corporate culture. An unrelenting focus on solutions rather than processes has helped the company to push for higher levels of quality and performance. Time and again, our people have combined creativity, inventiveness, and agility to respond to change and deliver impressive results. At a time when business is going well, our people continue to challenge the status quo – working out ways to improve on the past 12 months and putting in place plans to get even better. I'm proud to be part of the team.

Building a powerful future

Looking ahead, we're well positioned to deliver strong results through to the end of the decade. We've added capacity and will continue to invest in new products and new geographies. Our business strategy to secure higher margin sales combined with a relentless push for higher levels of operating and cost performance will deliver long-term benefits to our investors. Arrow Energy faces fiscal 2008 with confidence. We have the strategy, capabilities and people. We will deliver strong returns to our shareholders.

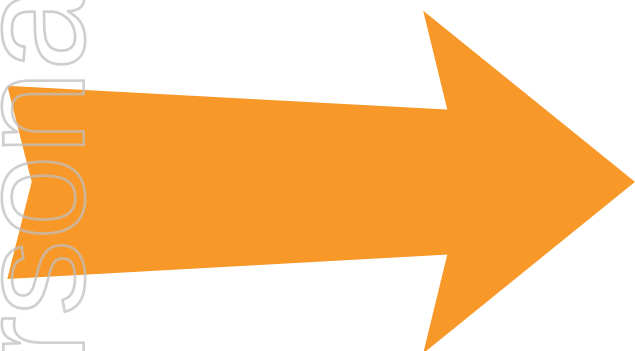
We thank you for your support.

John C. Reynolds
Chairman, Arrow Energy



Arrow Energy made dynamic progress over the past year. The company added capacity, introduced new producing assets, advanced development projects, increased net production and certified reserves, and declared a maiden \$17.83 million profit for the full year.

Going further for new levels of success



What's more, we extended our footprint internationally and secured several downstream alternatives in our strategic pursuit of higher margin sales. In true Arrow tradition, we're not stopping here. On the heels of unprecedented performance, we're back at work identifying opportunities and staking out aggressive expansion plans to drive our company to new levels of success.

Australia's largest coal seam gas portfolio

Arrow Energy has grown through significant acquisitions to develop Australia's largest portfolio of coal seam gas assets. We hold equity interest in 80,000km² of acreage close to Queensland's three key markets – Townsville, Gladstone, and Brisbane. Our land holding is 10 times that of our major competitors in the Australian coal seam gas sector.

Over fiscal 2007, the company made two significant investments to strengthen our strategic position –

1 In August, we completed our merger with CH4 Gas Limited which included a 50 percent stake in the Moranbah Gas Project, one of Australia's largest coal seam gas producing fields with a current production capacity of more than 16 petajoules (PJ) per annum. The Moranbah Gas Project is currently the sole supplier of natural gas into the Townsville market and has significant potential to supply the growing Gladstone market in the future. The proposed Moranbah to Gladstone gas pipeline will answer the growing energy needs of new business and industry in the region.

2 Arrow secured a 13 percent stake in listed coal seam gas explorer Pure Energy Resources with an option to increase to 25 percent in the future. Pure has five exploration permits covering 18,000km² in the Bowen Basin, and a single permit covering 12,000km² in eastern Tasmania. We also opted to farm-in at a 50 percent level to ATP 759P and ATP 831P in the Bowen Basin. Both tenements are well positioned to feed the Gladstone market.

Our merger with CH4 and our investment in Pure together with previous Arrow assets at Styx Basin and Boyne River means we now have multiple supply sources that can deliver gas into the Gladstone to Townsville corridor.

Maiden profit
\$17.83m



Aggressive domestic expansion plans

The 2007 fiscal year saw Arrow's net coal seam gas production increase from less than 1 PJ to over 10 PJ. Over the same time, our certified proved and probable net gas reserves climbed from 498 PJ to 719 PJ. We expect our net production to almost double to around 19 PJ and our certified net gas reserves to swell to over 1550 PJ by the end of fiscal 2008 as we invest more than \$170 million on an accelerated domestic exploration, certification and development program.

The start of this program was funded by our December 2006 option expiry which delivered \$67 million while its completion will be paid for by our successful \$125 million placement and \$33 million share purchase plan launched in July 2007.

Arrow currently has four producing fields with development to begin on two more in close proximity to our existing operations during the next 12 months – Stratheden in the Surat Basin, and Carborough Downs in the Bowen Basin. The company plans to bring more producers on in time as we relentlessly pursue a net production target of 116 PJ per year by the end of fiscal 2012.

For personal use only



Making the most of our resources

Arrow is now realising the potential of our asset portfolio and making the most of the strategic positions we have established.

The demise of the Papua New Guinea to Queensland gas pipeline, the environment debate, changing government legislation, the decline of the Cooper Basin and rising energy demands on the back of industrial growth are all upsides for an eastern Australian gas price constrained by the wide availability of coal.

Although the market is changing to our advantage, we are driving further change by being a first mover in early stage markets.

Natural gas used for power generation in Queensland currently attracts a price of around A\$3.00 per gigajoule. The release of Arrow's strategy document in August 2006 revealed our intention to secure higher margin sales by pursuing new gas products and new countries where gas is more exposed to oil pricing.

As calendar 2007 draws to a close, the substantial progress Arrow has made on both of these fronts is well documented throughout this Annual Report. Our gas-to-liquids (GTL) study indicated solid commercial and technical viability, we signed agreements for the development of two liquefied-natural-gas (LNG) trains, and built our presence in key Asian growth markets.

An abundance of coal seam gas resources and an escalating demand for cleaner energy position Asia as a major growth opportunity for our company. We are driving to become the region's technical partner of choice to increase our access to gas prices ranging from A\$4 to above A\$13 per gigajoule.

Arrow also celebrated first electricity sales from the Daandine Power Station, owned and operated by Australian Pipeline Trust (APT). Our Gas Tolling Agreement with ATP allows us to feed coal seam gas from our Daandine field into the facility and to off-take electricity for sale to New South Wales government-owned retailer Country Energy.

The uptake of gas by alternative downstream projects provides Arrow with greater returns today and promises higher east coast Australian gas prices tomorrow.

**Although the market is
changing to our advantage,
we are driving further change
by being a first mover in
early stage markets.**

A future rich with opportunities

Arrow finished fiscal 2007 celebrating the best year in our company's history. Our firm intent is to make fiscal 2008 and beyond even better. We've already made a promising start. The company has signed several commercial agreements in China which represent another step forward in our international project acquisition strategy.

Arrow's net production target of 19 PJ for the next fiscal year is likely to translate to EBITDA of around \$20 million. Hitting this target within our disciplined financial framework will continue to position Arrow as an outstanding investment opportunity. That's not to say we don't have challenges. We do. First is safety. None of our goals matter if people are injured in the process. We are putting in place new systems and procedures to continuously improve our excellent safety record.

Protecting the environments in which we work is also critical. In June 2007, Arrow was nominated as a finalist for three Banksia Awards – Australia's highest environmental honours. We have since expanded our environmental team and are following through on some exciting initiatives to ensure Arrow remains out in front in leading Australia to a more sustainable future.

The execution of our strategy will demand the most of our company. Innovative transactions in new markets and the accelerated development of our existing operations will require us to perform at an unprecedented level. Fortunately, I can't think of another company in our industry that is better resourced to deliver on our goals. Arrow has assembled an outstanding team that is known worldwide for its technological expertise in coal seam gas exploration and extraction, and its entrepreneurial and innovative commercial acumen. Our people are industry leaders who achieve more targets, pursue more opportunities and deliver more value by always doing more. Going further is not just the theme for this year's report, it's what differentiates Arrow's 150 strong workforce.

Their relentless focus and execution has sustained Arrow through years of growth and transition and will now open an exciting new era of productivity for the company and drive continued performance for shareholders.

As Arrow marks 10 years in operation, I believe the best is yet to come as we all work together to transform this very good company into a truly great one.



Nicholas Davies
Managing Director/Chief Executive Officer

As Queensland's population continues to accelerate on the back of a lifestyle shift towards coastal living, the State is not only demanding increased energy but greater environmental performance from its fuels.

A growing gas industry

There is an increasing trend towards the use of natural gas in the generation of electricity in Queensland (coal seam gas is a natural gas found in underground coal deposits). Gas-fired power stations create less than half the greenhouse gas emissions of equivalent-sized coal-fired power stations. There are now more than 10 gas-fired power stations throughout the State including Swanbank E Power Station, the Townsville Power Station, and the new Braemar Power Station near Dalby which is fired by coal seam gas supplied from Arrow's Tipton West field.

More gas-fired power stations are in the pipeline for Queensland driven by new State government legislation which requires 18 percent of electricity generation to be gas-fired by 2020.

Leading energy consultants Wood Mackenzie estimates that coal seam gas accounted for 73.3 petajoules (PJ) of gas supply in Queensland in 2006, or 63 percent of total demand of 117 PJ. The consultancy predicts that coal seam gas production will rise by more than a third this year to 98.1 PJ or 79 percent of total demand of 125 PJ, while conventional supply declines.

Arrow aims to meet demand

Arrow is well positioned to take advantage of Queensland's changing energy profile. The company has built a very large coal seam gas portfolio close to key markets over the past 10 years and is now ramping up production to meet the State's growing demands for cleaner energy.

For the year ending 30 June 2007, Arrow's net gas production climbed from less than 1 PJ to 10.36 PJ as the company increased its number of producing fields from one to four. First gas was sold from our existing fields at Daandine and Tipton West in the Surat Basin throughout the year while the Moranbah Gas Project in the Bowen Basin was added to our portfolio following our merger with CH4 Gas Limited.

We increased our number of wells across our four producing fields from less than 50 to 243 during fiscal 2007. Net attributable gas production as at 30 June 2007 has increased to around 37 terajoules (TJ) per day, an overall increase of 17.5 percent over the previous quarter. Our net production target for fiscal 2008 is 19 PJ. The company plans to advance a number of highly prospective blocks over time in reaching our net production target of 116 PJ per year by the end of fiscal 2012.

Arrow is currently partnering with Anglo Coal Australia to access significant additional gas from the company's Moranbah North Coal Mine in the Bowen Basin. Following the success of the project, we expect to take advantage of more opportunities to answer the degassing needs of coal mining operations over the next 12 months and beyond.

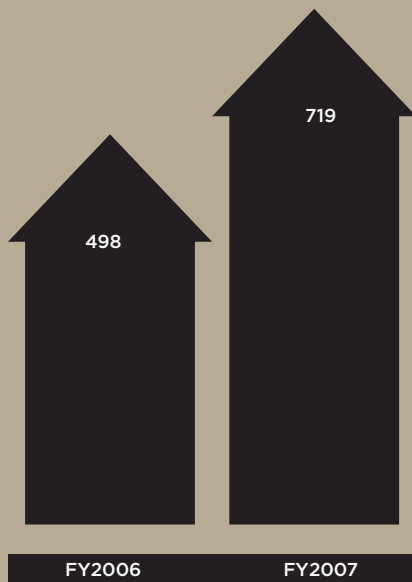
Producing fields

- Kogan North (Surat Basin) (50%).
First gas sale January 2006.
- Daandine (Surat Basin) (100%).
First gas sale September 2006.

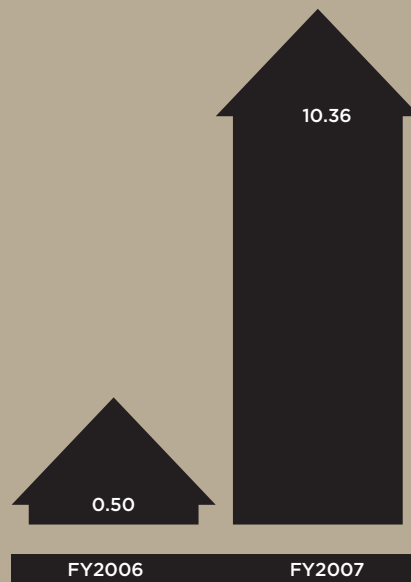
- Tipton West (Surat Basin) (60%).
First gas sale February 2007.
- Moranbah Gas Project
(Bowen Basin) (50%).
First gas sale September 2004.

Electricity generation

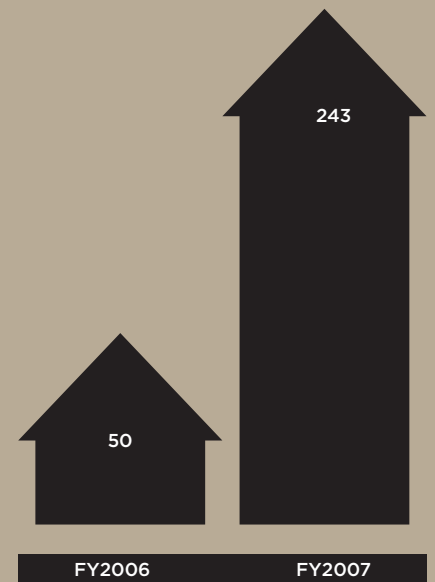
- Daandine Power Project.
First electricity sale December 2006.



2P Reserves (PJ)



Net Gas Production (PJ)



Production Wells

Moranbah Gas Project

Tenements: Petroleum Leases (PL) 191 and PL 196. Petroleum Lease Application (PLA) 222.

Location: The Moranbah Gas Project (MGP) is located in the Bowen Basin, approximately 400km south of Townsville and 190km west of Mackay.

Equity: Arrow is the operator of the MGP in a 50/50 Joint Venture with AGL Energy Ltd.

First gas: First gas was sold from the field to Enertrade in September 2004.

Gas contracts: The MGP's gas supply is delivered to Enertrade which takes ownership of the gas at the inlet to their gas compression facility and to AGL for its Moranbah Power Station, both located in close proximity to Arrow's production fields at Moranbah. The gas to Enertrade is piped to the Townsville Power Station where it is used to produce electricity and supply industrial gas users in the region. The MGP is currently the sole supplier of natural gas into the Townsville market and has significant potential to supply the growing Gladstone market in the future. The anticipated Moranbah to Gladstone gas pipeline will answer the growing energy needs of new business and industry in the region.

Gas sales: Gross gas sales for the year to 30 June 2007 was 15.528 PJ.

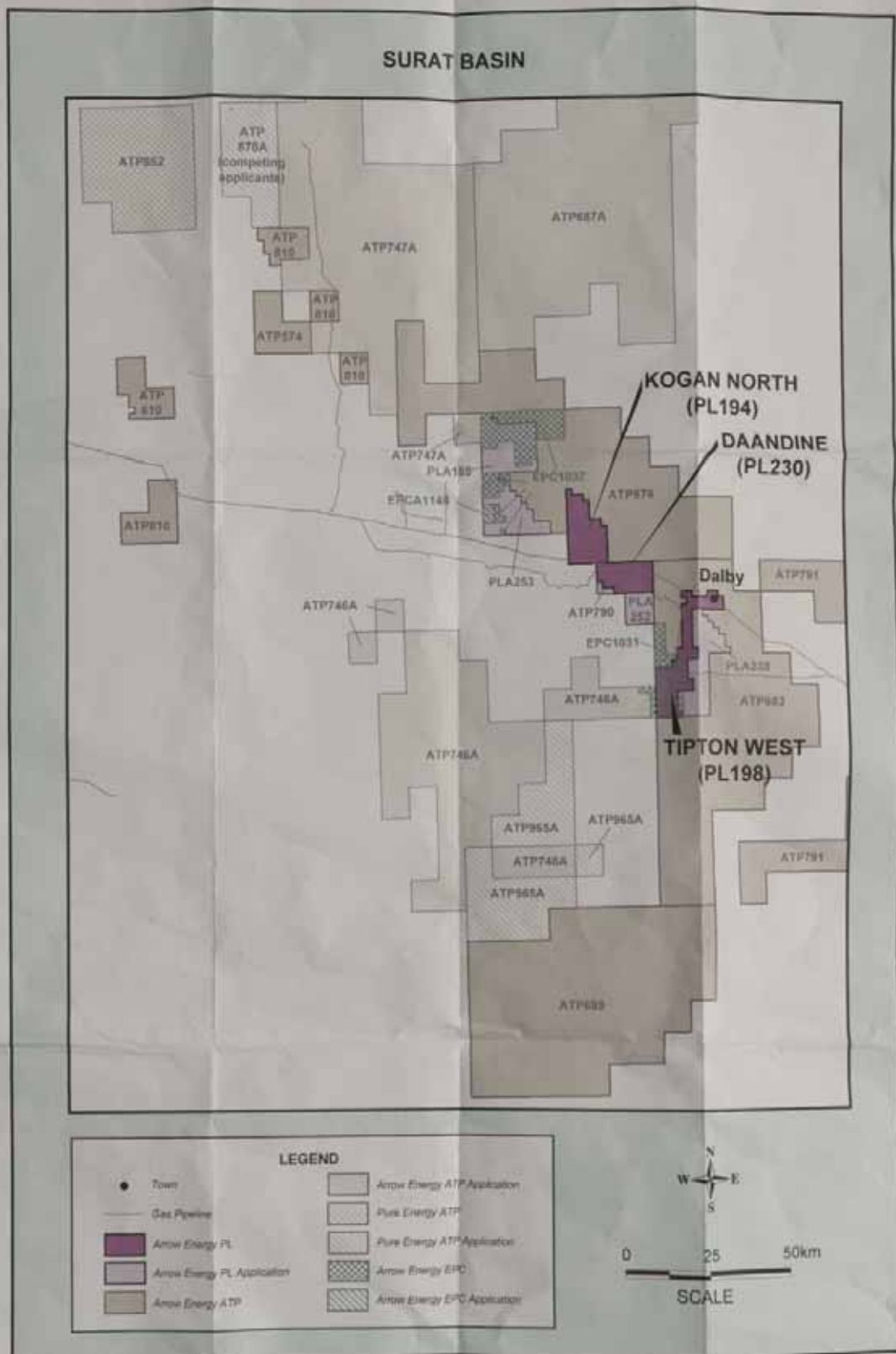
Gas production: Gross field production for the year to 30 June 2007 was 16.556 PJ.¹ This was a seven percent increase over the previous fiscal year. The increase can be attributed to another 43 lateral wells and 21 vertical wells being drilled, completed and connected to the network over the period.

Arrow is targeting a gross production target of 19.7 PJ in fiscal 2008.

The field is currently producing 47 TJ/day on average (as at 30 June 2007), up from 45 TJ/day at the same time last year.

¹ Gross field production includes gas from Moranbah North Coal Mine.





Kogan North Project

Tenements: Petroleum Lease (PL) 194.
Authority to Prospect (ATP) 676P.

Location: The Kogan North Project is located in the Surat Basin approximately 40km west of Dalby in south-east Queensland, Australia.

Equity: Arrow is the operator and Queensland government-owned CS Energy has earned 50 percent in the project area by funding \$13.1 million towards the initial appraisal and development of the project. Ongoing contributions are on a 50/50 basis.

The Central Gas Processing Facility:

The Central Gas Processing Facility at Kogan North is owned and operated by Australian Pipeline Trust (APT). APT charges a tolling fee to process the raw gas from the Kogan North field under a usage agreement.

First gas: First gas was sold from the field under contract to CS Energy on 23 January 2006.

Gas contracts: The Kogan North Project Joint Venture holds a 15-year contract to supply 4 PJ/year to CS Energy (total gas supply 60 PJ). CS Energy takes ownership of the gas at the inlet to their gas processing facility, located in close proximity to Arrow's production fields at Kogan North and Daandine. The gas is transported via the Roma to Brisbane Pipeline to CS Energy's Swanbank 'E' power plant near Ipswich for use in electricity generation.

Gas sales: Gross gas sales for the year to 30 June 2007 were 1.794 PJ.

Gas production: Gross field production for the year to 30 June 2007 was 1.949 PJ. Production ramp up is slower than expectation – the performance of specific wells was lower than expected, and insufficient water disposal facilities constrained the pumping of the field and subsequent gas flow production.

Arrow is targeting a gross production target of 4.416 PJ in fiscal 2008 following a remediation program and the development of new wells. Additional water storage capacity has now been secured.

Tipton West Project

Tenements: Petroleum Lease (PL) 198.
Authority to Prospect (ATP) 683P.

Location: The Tipton West Project is located in the Surat Basin, approximately 20km south of Dalby in south-east Queensland, Australia.

Equity: Arrow is the operator and Beach Petroleum holds 40 percent through funding \$35 million of field development.

The Tipton West Gas Processing Facility:

The Tipton West Gas Processing Facility at Tipton West is owned and operated by Australian Pipeline Trust (APT). APT charges a tolling fee to process the raw gas from the Tipton West field under a usage agreement.

First gas: First gas was sold from the field under contract to Braemar Power Partners on 6 February 2007.

Gas contracts: Tipton West Joint Venture has executed an agreement with Braemar Power Station to supply 9.5 PJ/year for 15 years (total gas supply of 142.5 PJ).

Gas sales: Gross gas sales for the year to 30 June 2007 were 0.959 PJ.

Gas production: Gross field production for the year from first gas in February 2007 to 30 June 2007 was 1.006 PJ. The field is still in early ramp up and Arrow is targeting a gross production target of 7.189 PJ in fiscal 2008. Arrow's development plans during this period involve the drilling of eight new wells and 11 pilot wells.

Daandine Project

Tenements: Petroleum Lease (PL) 230.

Location: The Daandine Project is located in the Surat Basin, approximately 20km south of Dalby in south-east Queensland, Australia. It lies to the immediate south of the Kogan North Project.

Equity: Arrow is the 100 percent owner and operator of the Daandine field.

First gas: The Daandine Project produced first gas in September 2006.

Gas contracts: The gas produced from Arrow's Daandine field is currently supplied to the Daandine Power Station, located in close proximity to Arrow's operations at Kogan North and Daandine. Arrow has a Gas Tolling Agreement with a subsidiary of the Australian Pipeline Trust which provides for the ownership and operation of the 27.4 megawatts Daandine Power Station. The agreement establishes a commercial mechanism for Arrow to feed coal seam gas from the Daandine project into the power station and to off-take electricity for sale by Arrow to New South Wales Government-owned retailer Country Energy under a long-term Power Purchase Agreement. First electricity was generated in December 2006.

Any available but unused ramp up gas from the Daandine field is being sold to CS Energy.

Arrow also has a commercial agreement to supply gas from the Daandine field to AGR Group company, Liquegas Energy, for use as a feedstock to their proposed LNG plant. Our agreement with Liquegas is initially for 2 PJ per annum over a period of 15 years. First gas supply is expected in 2009.

Gas sales: Gross gas sales for the year to 30 June 2007 was 0.284 PJ. Gas sales to Daandine Power Station under the existing contract are forecast to total 2.1 PJ for the 2008 fiscal year. Sales to Liquegas and sales to the Braemar Power Station are expected to commence in July 2009.

Electricity sales: Electricity sales from the newly commissioned Daandine Power Station totalled 17,233 megawatt hours for the year ending 30 June 2007.

Gas production: Gross field production for the year from September 2006 to 30 June 2007 was 0.500 PJ. Arrow is targeting a gross production target of 2.148 PJ in fiscal 2008. Four new pilot wells and two coreholes will be developed over the period to define the productivity of the Taroom coal seams.

The field is currently producing 4.9 TJ/day on average (as at 30 June 2007).

Daandine
PL 230

EPC1037

ATP676

PLA253

ATP790

PLA
252

EPC1031

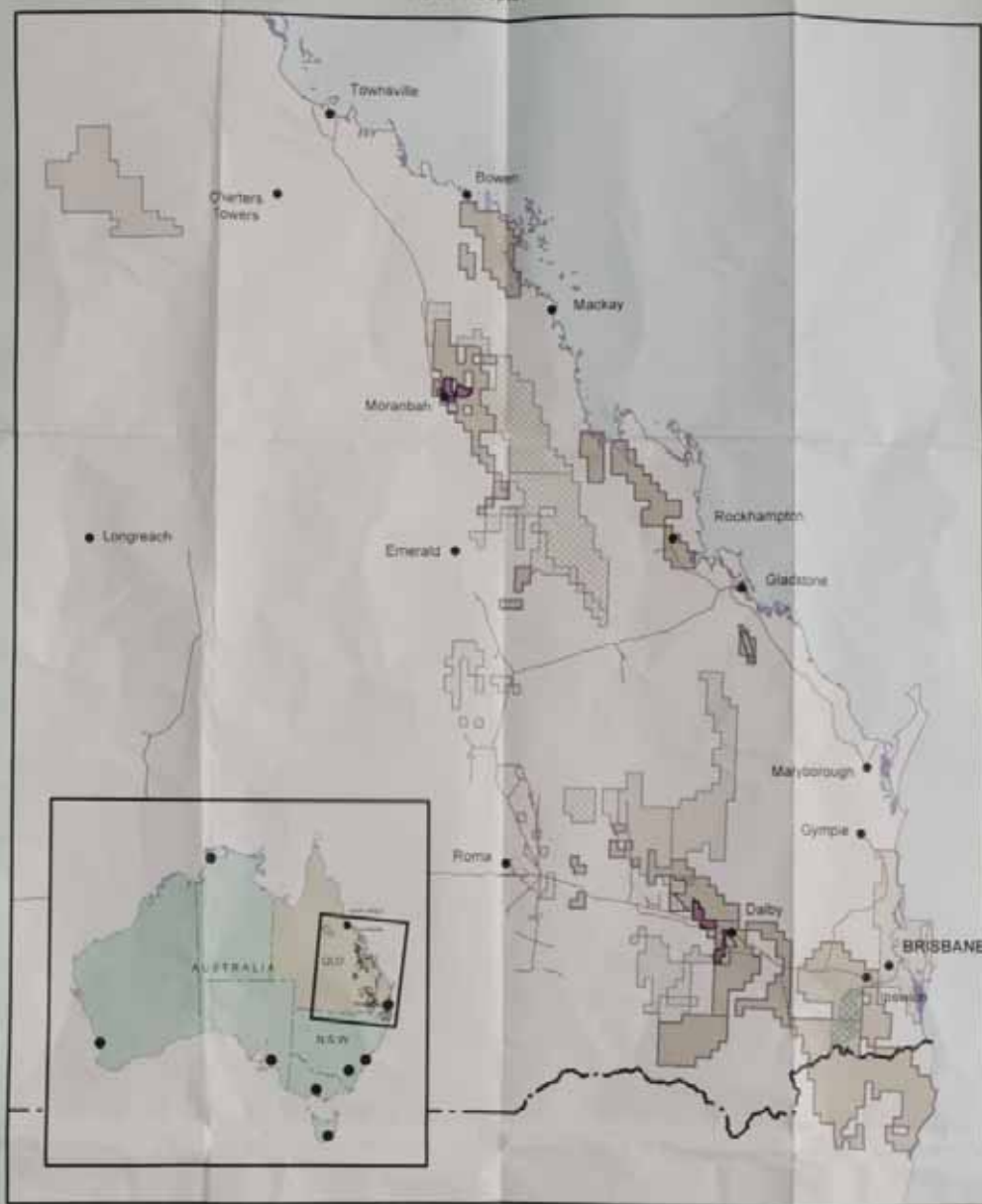
Basin	Tenement	Tenement Size (km ²)	Arrow Interest
Surat Basin	ATP 574P	230	6.25%
	ATP 676P	3,176	50-90%
	ATP 683P	3,275	60-100%
	ATP 687P <i>Application</i>	6,650	100%
	ATP 689P	3,328	100%
	ATP 746P <i>Application</i>	2,892	100%
	ATP 747P <i>Application</i>	3,553	100%
	ATP 790P	229	100%
	ATP 791P	561	100%
	ATP 810P <i>Application</i>	718	100%
	PLA 185 (Dundee)	261	100%
	PLA 238 (Plainview)	228	60%
	PLA 252 (Stratheden)	76	100%
	PLA 253 (Stratheden)	229	100%
	PL 194 (Kogan North)	196	50%
	PL 198 (Tipton West)	231	60%
	PL 230 (Daandine)	138	100%
	EPC 1031	201	100%
	EPC 1037	352	100%
Bowen Basin	ATP 364P	4,640	1%
	ATP 727P	225	100%
	ATP 742P <i>Application</i>	675	100%
	ATP 748P	375	100%
	ATP 749P <i>Application</i>	450	100%
	ATP 753P	225	100%
	ATP 759P ²	6,207	50%
	ATP 831P ²	705	50%
	PLA 221	6	100%
	PLA 222 (Moranbah Gas Project)	108 ²	100%
	PL 223 (Carborough Downs)	165	100%
	PLA 224	225	100%
	PL 191 (Moranbah Gas Project)	219 ²	50%
	PL 196 (Moranbah Gas Project)	38	50%
Ipswich & Clarence Moreton Basins	ATP 641P	4,793	100%
	ATP 644P	1,441	100%
	ATP 694 <i>Application</i>	6,797	100%
	ATP 791P	5,355	100%
	PEL 445	9,184	100%
	EPC 961	840	100%
	EPC 962	572	100%
Styx Basin	ATP 700P	1,189	100%
Coastal Tertiary Basins	ATP 716P	3,688	100%
Nagoorin Graben Basin	ATP 679P	469	100%
	PLA 206 (Boyne River)	222	100%
Hillsborough Trough	ATP 787P	4,021	100%
Drummond Basin	ATP 714P	7,987	100%

1. Underlying tenement holding in ATP364P is 99 percent AGL and 1 percent Arrow with Arrow having a 50-year right to explore and a 100 percent right to that gas as owner, subject to AGL's right to participate at the rate of up to 50 percent.
2. Pure Energy Resources holds 50 percent of these tenements. Arrow has a 13 percent shareholding in this company with an option to increase to 25 percent in the future. Pure has five exploration permits covering 18,000km² in the Bowen Basin, and a single permit covering 12,000km² in eastern Tasmania.

ATP – Authority to Prospect for Petroleum
 PL – Petroleum Licence
 PLA – Petroleum License Application
 EPC – Exploration Permit for Coal
 PEL – Petroleum Exploration Licence

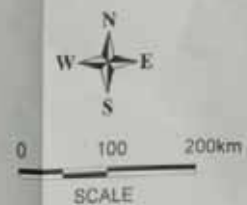
ARROW ENERGY NL. TENURE MAP

As at 1 September 2007



LEGEND

- | | |
|-----------------------------|------------------------------|
| • Town | Arrow Energy ATP Application |
| — Gas Pipeline | Pure Energy ATP |
| Arrow Energy PL | Pure Energy ATP Application |
| Arrow Energy PL Application | Arrow Energy EPC |
| Arrow Energy ATP | Arrow Energy EPC Application |



Arrow Energy holds equity interest in 80,000km² of acreage throughout Queensland and northern New South Wales. The primary aim of Arrow's exploration strategy is to identify additional proved and probable (2P) reserves to meet current and future gas supply contracts in eastern Australia.

During fiscal 2007, our certified 2P net gas reserves rose from 498 petajoules (PJ) to 719 PJ following a reserves re-certification of our Daandine field. Throughout the year, we maintained an active exploration and appraisal program close to our existing operations in the Bowen and Surat Basins as well as highly prospective areas in the Ipswich and Clarence Moreton Basins, and the Nagoorin Graben Basin south of Gladstone.

Our certified 2P net reserves come from less than two percent of our landholding. We are targeting a certified 2P net gas reserve of over 1,550 PJ by the end of fiscal 2008 as we invest more than \$60 million on an accelerated domestic exploration and reserve certification program.

Bowen Basin

In the Bowen Basin, the primary exploration focus continued to be on expanding the Moranbah Gas Project and in areas of ATP 364 east of the Moranbah Gas Project – at South Walker Creek.

In ATP 364, the South Walker Creek Pilot targeted the Leichhardt Seam of the Rangal Coal Measures. Drilling has been completed on the expansion of the pilot program with two additional surface-to-inseam wells alongside the existing pilot well. The wells are currently being equipped for production testing.

Four exploration wells have been completed in the South Walker area to assist in the upgrade of reserves to 2P status. Early results show good coal thickness and good initial gas content. Permeability testing has also commenced on these wells.

On PL 191, surveying and line clearing was completed and 40km of new seismic was acquired. Four core wells and one stratigraphic exploration well have been completed of a seven-well program designed

to expand the 2P reserves in the Moranbah Coal Measures. Early results similarly show good coal thickness; up to seven metres in the Goonyella Middle seam with gas contents up to 14m³/tonne. Permeability testing has also commenced on these wells.

An active program of seismic and exploration and appraisal drilling is planned in the Bowen Basin during fiscal year 2008. Arrow will continue the expansion of the Moranbah Gas Project targeting the Moranbah and Fort Cooper Coal Measures to the north and south. Additionally, the Rangal Coal Measures will continue to be a target throughout the Bowen Basin. The company will also be actively engaging with coal mining companies to develop coal seam gas projects through commercial agreements.

Surat Basin

Tipton West (PL 198)

The Tipton-26 corehole was drilled in the southern part of the Tipton field at the proposed location of the Taroom pilot to investigate coal thicknesses and properties. Permeabilities of up to 776 millidarcies (mDs) were recorded in the Taroom coals.

ATP 683

The Plainview-2A corehole was drilled in the portion of the Dalby Block not covered by PL 198. Significant gassy coal was intersected increasing the prospective area of the greater Tipton area east of the Horrane Fault, a feature previously thought to define the eastern edge of prospectivity.

A six-well drilling program was completed in the Dalby South Block as part of the Beach Petroleum farm-in commitment for this area. Gas desorption work has commenced and preliminary data suggests that the coals are as expected and similar to Tipton West. Data is still preliminary but indicates generally good permeability in the Juandah seams, ranging from 10s to 100s of mDs.



Meenawarra 5 and 6 show permeabilities in the Taroom coals to be several hundred mD and greater. River Road 3 data generally exhibits good permeability. A Petroleum Lease (PL) application has been lodged. Plans for testing of various seams in a 5-spot pilot have been finalised.

Daandine (PL 230)

A stratigraphic well (Daandine 25) was drilled to the east of the Daandine development area where 15 production holes have now been drilled. This well was designed to extend the known area of Walloon Coal Measures and provide additional stratigraphic information and quality data for reserve certification over a larger area of PL 230. During the year a new certification resulted in the reserves for this tenure being 4 PJ of 1P, 120 PJ of 2P and 196 PJ of 3P.

Stratheden (ATP 790/PLA 252)

A corehole and two stratigraphic wells were drilled in ATP 790P, south of the Daandine area. These exploration wells were designed to test the Walloon Coal Measures between the active Kogan North, Daandine and Tipton West fields, and provide additional stratigraphic information and quality data for reserve certification over a larger area of ATP 790P. A new certification resulted in the reserves for this tenure being 126 PJ of 2P and 166 PJ of 3P.

Exploration review

(continued)

22

Exploration Drilling 2006-2007

Basin	Tenement	Well Name	Type	Spud Date	Total Depth (m)
Surat Basin	ATP 683P	Plainview 2	Exploration	1 August 2006	578.49
	ATP 683P	Mt Maria 1	Exploration	18 Nov 2006	335.81
	ATP 683P	Meenawarra 4	Appraisal	25 February 2007	414.30
	ATP 683P	River Road 3	Appraisal	9 March 2007	575.79
	ATP 683P	Meenawarra 5	Appraisal	23 March 2007	538.11
	ATP 683P	Meenawarra 6	Appraisal	13 April 2007	491.07
	ATP 683P	River Road 4	Appraisal	24 April 2007	521.11
	PLA 252 (Stratheden)	Stratheden 1	Exploration	5 January 2007	481.10
	PLA 252 (Stratheden)	Stratheden 2	Appraisal	9 January 2007	493.33
	PLA 252 (Stratheden)	Stratheden 3	Appraisal	30 January 2007	481.08
	PL 198 (Tipton West)	Tipton 26	Appraisal	5 February 2007	642.60
	PL 230 (Daandine)	Daandine 25	Appraisal	31 January 2007	486.33
Bowen Basin	ATP 364P	SW016	Appraisal	5 May 2007	384.00
	ATP 364P	SW015	Appraisal	12 May 2007	394.00
	ATP 364P	SW017	Appraisal	22 May 2007	371.70
	ATP 364P	SW018	Appraisal	16 June 2007	311.70
	PL 191 (MGP)	GR056	Appraisal	26 April 2007	604.00
	PL 191 (MGP)	GR061	Appraisal	29 April 2007	604.00
	PL 191 (MGP)	GR051	Appraisal	1 May 2007	468.24
	PL 191 (MGP)	GR057	Appraisal	21 May 2007	612.24
Ipswich & Clarence Moreton Basins	ATP 644P	Mt Lindesay 5	Appraisal	17 October 2006	541.41
	ATP 644P	Bush 1	Exploration	19 June 2007	634.12
	PEL 445	Round Hill 1	Exploration	10 Nov 2006	672.83
Nagoorin Graben Basin	ATP 679P	Boyne River 3	Appraisal	10 Dec 2006	598.98
	ATP 679P	Boyne River 4	Appraisal	15 February 2007	594.78

MGP – Moranbah Gas Project

Ipswich & Clarence Moreton Basins

Exploration drilling by Arrow in previous years has shown the area is highly prospective for coal seam gas. During the 2007 fiscal year, we drilled three exploration and appraisal wells in these exploration tenures. Drilling of the Mt Lindesay 5 appraisal well was completed and 32 metres of net coal were intersected in the Walloon Coal Measures. Arrow is currently investigating well stimulation techniques for this area. The Round Hill 1 exploration hole was drilled to a depth of 673 metres, intersecting 16.1 metres of net coal in the Walloon Coal Measures. The result is encouraging and the Round Hill 2 hole has now been drilled. Planning is well advanced for further drilling and testing of wells in the next 12 months. This program will test the Silverdale, Kalbar, Round Hill and Mt Lindesay discoveries.

Styx Basin

Following drilling by Arrow in 2005 (Styx River 1), Arrow planned an appraisal program for early 2007, however inclement weather delayed this work. Styx River 2 and 3 have now been drilled and the coals will now undergo permeability testing.

Coastal Basins

Arrow holds a 100 percent interest in the coastal Tertiary basins which have yet to be drilled to test the potential for coal seam gas. Previous drilling by oil shale explorers has indicated the presence of lignites and coaly shales that seem similar to the lignites intersected in Boyne River. Arrow plans to drill two exploration wells to test the Herbert Creek Basin and the Yaamba Basin during late 2007.

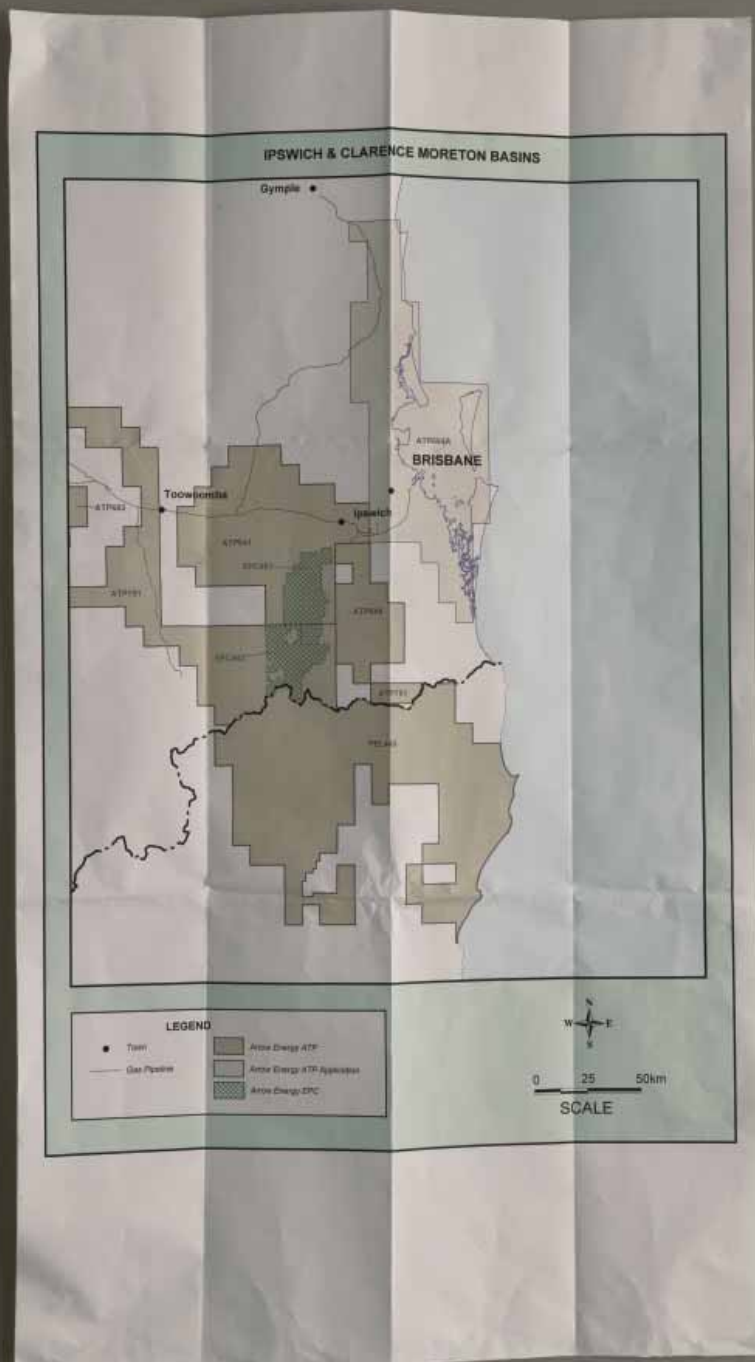
Nagoorin Graben Basin

During exploration drilling in the period 2004 to 2006 Arrow discovered a potentially significant coal seam gas field in Tertiary age sediments of the Nagoorin Graben, close to Gladstone. The Boyne River 1 exploration well and subsequent Boyne River 2 corehole both demonstrated good permeability and gas flows during flow testing and Arrow has applied for a Petroleum Lease (PLA 206) over the discovery. Build-up pressures are being monitored on the Boyne River 4 well which was a re-drill of the Boyne River 3 well completed in February 2007. This well and the original Boyne River 1 well will shortly commence production testing.

Planned pilots

Arrow will target 15 pilot production projects this fiscal year to identify the best locations for development.

- PL 191, PL 196 (Moranbah Gas Project)
 - Fort Cooper Coal Measures x 2
- PL 223 (Carborough Downs)
 - Rangal Coal Measures
- ATP 364 – Moranbah Coal Measures (Q, GML, GL Seams)
- ATP 364 – Rangal Coal Measures x 2
- PL 198 – (Tipton West) – Taroom Seams x 2
- ATP 683 (Dalby South Block/ Meenawarra)
- ATP 683 (Dalby South Block/ River Road)
- PL 230 (Daandine) – Taroom Seams
- ATP 679 (Boyne River)
- ATP 641 (Silverdale)
- ATP 644 (Mt Lindesay)



Reserves statement



Tenure / Area	Proved Reserves (PJ)	Proved + Probable Reserves (PJ)	Proved + Probable + Possible Reserves (PJ)
Bowen Basin			
MGP (PL 191, PL 196, PLA 222 ¹)	59	190	668
PL 223 ¹	4	22	51
ATP 364P (North Goonyella) ¹		20	38
ATP 727P (Inc PLA 224) ¹	4	18	54
Sub-total	67	250	811
Surat Basin			
PL 194 (Kogan North)		42	120
PL 198 (Tipton West) & ATP 683P (Dalby Block)	15	104	1,359
PL 230 (Daandine) [#]	4	120	196
ATP 790P/PLA 252 (Stratheden) [#]		126	166
PLA 185 (Dundee)		77	108
Sub-total	19	469	1,949
Total	86	719	2,760

¹ Underlying Tenement Holding in ATP 364P is 99 percent AGL/1 percent Arrow with Arrow having a 50-year right to explore and a 100 percent right to that gas as owner, subject to AGL's right to participate at the rate of up to 50 percent. Volumes shown are based on AGL electing to participate at their full 50 percent.

[#] Revised figures from Malcewicz Hueni Associates March 2007.

All reserves have been reviewed and assessed subsequent to the end of the financial year.

International business

On the back of a strong domestic base in Queensland, Arrow Energy is now expanding into global markets with the aim of becoming Asia's technical partner of choice.

Voluminous coal seam gas resources, limited competition, increasing demand for cleaner energy, and high gas prices combine to present international markets as a tremendous growth opportunity for our company. Asia is the world's fastest-growing region, and it's right where Arrow is aiming its coal seam gas expertise. China and India are the world's second and fifth biggest energy consumers, and both see coal seam gas as key to long-term energy needs.

For personal use only

Expanding overseas requires an ability to operate in different cultures, liaise with foreign governments and build new financial networks. We're confident of doing so due to our extensive international experience and contacts through our directors, executives, key investors and partners.

Arrow continues to progress its plans towards an Initial Public Offering of its overseas assets and interests on a future overseas stock exchange listing. 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.

India

Gas demand in India is projected to rise from 2,000 petajoules (PJ) per year in 2005 to 5,200 PJ/year by 2025. The country has significant coal seam gas potential and with spot gas prices reaching over \$13 per gigajoule we anticipate significant growth in shareholder value.

In August 2006, Arrow was awarded three license blocks in India with Indian Government-estimated coal seam resources in excess of 10,000 PJ. All three blocks (Raj Mahal, Tatapani-Ramkola, and Mand-Raigarh) are in partnerships with leading Indian gas company GAIL (India) Limited and Energy Infrastructure Group of Sweden. Indian power company Tata Power Limited is also a partner in the first two blocks.

The Arrow-led consortium had bid on seven of the 10 blocks offered in the license round. The three blocks that were awarded were those ranked 1, 2 and 4 by Arrow according to our scale based on commercial and technical parameters.

Arrow Energy (India) submitted an Expression of Interest for the five coal mine methane blocks offered by Coal India on 29 June 2007. The Expression of Interest is regarding the development of coal mine methane projects within the mining lease areas controlled by Coal India, in particular the Jharia, Raniganj, East & West Bokaro and South Karanpura coalfields. The Expression of Interest and subsequent tendering process will be conducted by the CMPDI, a subsidiary of Coal India.

While no opening date has been given for the main tender, Coal India has expressed that they would like to have the entire tendering process completed by the end of calendar 2007.

The next coal bed methane Licensing Round in India (CBM IV) has been announced, with submissions likely to be required prior to end of calendar 2007. Arrow will be seeking additional exploration blocks in India through this process.

China

Arrow Global CBM Pty Ltd and Orion Energy have signed a Letter of Intent for broad ranging cooperation in China. Orion is a United States-based privately owned energy company specialising in coal bed methane operations in China. Under our agreement, Arrow will earn a five percent share in two concession blocks in China's premier coal bed methane basins of Ordos and Qinshu by conducting a technical and commercial study. We will have the option to farm-in for a further 25 percent by funding up to \$10 million for a work program to be agreed.

In August 2007, Arrow signed a Letter of Intent with major Chinese government-owned oil and gas company PetroChina to negotiate a production sharing contract covering coal bed methane reserves over the Dajing block. The 4000km² block is in the Junggar Basin of Xinjiang Autonomous Region in north-west China and is considered highly prospective for coal bed methane. The gas-in-place exploration target could be as much as 35,000 PJ.

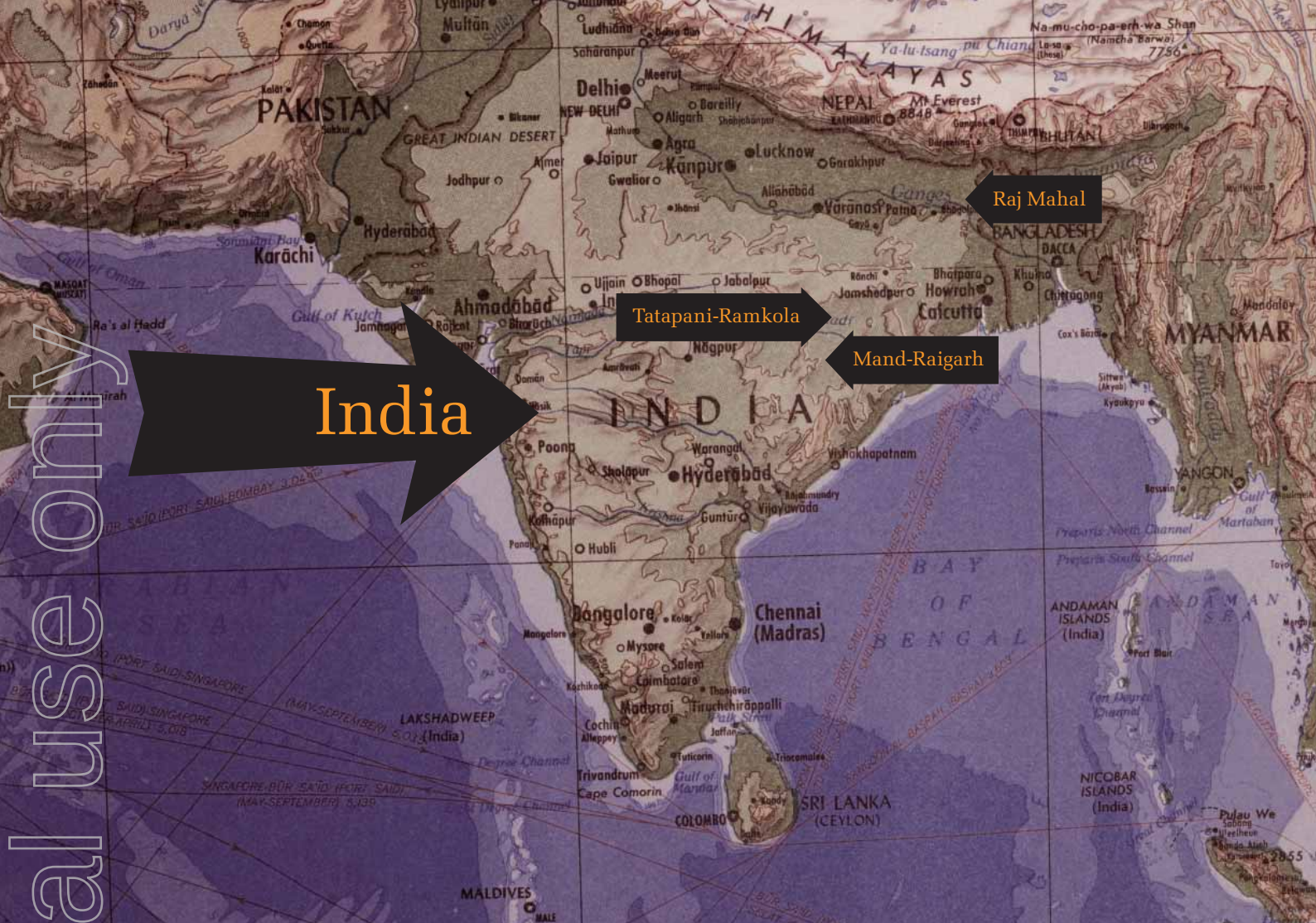
Also in August 2007, we signed agreements with two leading Chinese coal mining companies, Bin County Coal and Shaanxi Binchang Mining Company to provide degassing services ahead of mining operations. The two mining leases cover an area of approximately 700km² and could provide up to 4,000 PJ based upon geological data reviewed.

In the same week, Arrow agreed to renew potential development of coal seam gas deposits owned by Shenyang Gas Company and Liaohe Petroleum Development Company in Liaoning Province, north-east China. Shenyang Gas has rights to gas from coal acreage owned by Fushun Mining. Arrow will drill and complete wells in this field on behalf of Shenyang Gas and receive revenue based on global gas market prices. Our deal with Liaohe Petroleum, a subsidiary of China National Petroleum Corporation, is to evaluate nine blocks covering an area of approximately 9,000km².

Arrow now has seven projects in three different regions of China which have the potential to provide a major component of the company's future growth.

Block	State	Area (km ²)	DGH Resource Estimate (PJ)	Arrow Equity Share (%)
Raj Mahal	Jharkhand	469	5,900	35
Tatapani-Ramkola	Chhattsgarh	458	1,900	35
Mand-Raigarh	Chhattsgarh	634	4,200	40

(DGH = Indian Government's Director General of Hydrocarbons)





International business

(continued)

31

Indonesia

In December 2006, Arrow successfully negotiated an option to farm-in up to a 65 percent stake in 12 tenements in South Sumatra owned by Sugico Graha PT of Indonesia. Sugico's projects consists of 12 coal mining authorisations in the South Sumatra Basin which cover around 1,400km². Sugico's tenements are close to existing gas pipeline infrastructure and growing energy markets.

The Indonesian Government is currently preparing regulations to govern the exploration and development of coal bed methane (i.e. coal seam gas) in its country. These regulations are expected to give first right of refusal for coal bed methane tenements to the existing and overlapping tenement holders for coal and petroleum.

Sugico is a privately held Indonesian company with diversified interests in mining (coal, mineral sands, gold, limestone, and iron ore), oil and gas exploration and production, coal mine mouth power generation and crude palm oil.

Arrow has also signed a Letter of Understanding with PT Medco Exploration & Production Indonesia to perform a joint commercial and technical study of a highly prospective 1,200km² area in South Sumatra. Pending the results of the study, Arrow and Medco will finalise a commercial arrangement to monetise coal bed methane resources in the target area.

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 capitalisation of more than US\$1.2 billion.

Consultant studies have estimated that the coal resources of the South Sumatra Basin contain up to 120,000 PJ. Prices are up to double those obtainable in Queensland, reaching up to A\$4.50 per gigajoule (GJ).

Vietnam

Vietnam is making a concerted effort to develop its huge oil and gas resources in line with rising energy demand.

Making use of our international contacts, Arrow is currently investigating opportunities to develop the country's coal seam gas resources. We have submitted a proposal to the Vietnamese Government to study a large prospective area in the Hanoi Basin. The proposal includes standard production sharing contract terms.

Gas Pricing In Key Coal Seam Gas Provinces

Queensland	\$2.50 – \$3.50/GJ
India	\$6.50 – \$13.00/GJ
China	\$4.00 – \$6.00/GJ
Indonesia	\$3.50 – \$4.50/GJ
Vietnam	\$4.00 – \$4.75/GJ

Prices are \$A converted at US\$0.85/A\$1.00

Non-financial performance review

Occupational Health and Safety

Arrow Energy is committed to providing a healthy and safe workplace for all employees, consultants, contractors, service providers and visitors across all facets of our operations. None of our other goals matter if people are injured in the process of achieving them.

We are ramping up for a new growth period and are currently developing a new Occupational Health and Safety (OHS) Management System. This system will exceed the OHS best practice requirements as detailed in Australian Standard (AS/NZS) 4801 and International Standard OHSAS 18001. The system focuses on accountability, visible leadership and integration of safety into all business practices, as well as specific action items to drive changes and sustain gains. It will support our business growth both domestically and internationally.

Further to developing an improved safety environment, emphasis remains focused on staff training and ensuring that contractors meet training requirements particularly in relation to specialised activities such as Work Permit procedures and Senior First Aid.

In June 2007, our Moranbah operation celebrated one year without a lost time injury (LTI). At the same time, unfortunately, we reported our first LTI in more than two years at our operations in the Surat Basin when a construction contractor driving a vehicle from the Tipton site was involved in a motor vehicle incident resulting in minor injuries to his arm.

Our safety record for fiscal 2007 registers greater impact when you consider our staff grew from 25 to 150 permanent staff during this time and production increased by more than 500 percent. Having said that, one injury is one injury too many. We believe all accidents and injuries are preventable, therefore our goal is zero.

Increasing operational and project demands brought about by Arrow's continuing growth will provide challenges for our staff and contractors to maintain our proud safety record. The people and systems we are putting in place will ensure we have the best chance to meet these challenges.





Photo courtesy of the Dalby Herald

Cultural heritage and native title

Arrow Energy recognises and respects the long and deep attachments that Aboriginal and Torres Strait Islander peoples throughout Queensland have to the land and water in this State. Some of the most obvious expressions of this attachment are the values and beliefs they hold for sites that contain evidence of occupation, tool manufacture, certain flora, fauna and fishes, and sites of continuing spiritual significance.

The company strictly adheres to a comprehensive and cultural heritage and native title policy to meet its duty of care for indigenous cultural heritage on land and water affected by our ongoing operations. This policy ensures we meet the requirements of the *Aboriginal Cultural Heritage Act 2003*, the *Torres Strait Islander Cultural Heritage Act 2003*, and the *Commonwealth Native Title Act 1993*.

Further, Arrow also offers training courses for community induction in indigenous cultural awareness to staff, project contractors and service providers.

We take pride in our many practical programs to address traditional owner matters and to engage with Aboriginal and Torres Strait Islander people in a spirit of reconciliation.

Community relations

Arrow's licence to operate rests in part on our ability to deliver mutual benefit for people living in the communities in which we operate. In respect to Community Relations, we have two goals: building mutually advantageous relationships, and respecting the quality of life and economic and social progress of communities.

Arrow is committed to using local suppliers and employing local workers wherever possible.

We believe in open and accountable engagement processes and practices to empower people to genuinely inform our decision making. Regular meetings with local communities allow us to keep residents informed while taking advantage of their local knowledge to create better policies, programs, services and projects.

Arrow seeks to act as a good corporate citizen at all times and undertakes contributions and sponsorship programs as part of its partnership with the community. In fiscal 2007, Arrow contributed more than \$35,000 in cash donations to a diverse mix of nearly 30 organisations including Childhood Cancer Support, Condamine Alliance, Dalby State School, and the Moranbah Miners Junior Rugby League Club.

We are now working with a number of local government and commercial agencies in Dalby and Moranbah to finalise our sponsorship program for the 2008 fiscal year. This \$70,000 plus program will support a wide range of cultural, educational, sporting, environmental, and welfare initiatives.

Environment

The challenge over the past 20 years and now moving forward has been to identify and utilise energy sources that have less impact on the environment.

Coal seam gas is considered as a greener energy source despite being a carbon-based fossil fuel. It produces less than half the greenhouse gases of coal when used to produce electricity. On a scale that matters, gas can also be less destructive than renewable sources of energy. A natural gas combined cycle plant requires only a fraction of the green space, concrete and steel needed to generate the same amount of power from a wind farm, biomass power plant or solar cell facility.

The Queensland Government Energy Policy: *A Cleaner Energy Strategy* promotes the development of natural gas as a significant component of our future energy production needs. Targets are in place to have 18 percent of Queensland's electricity produced from natural gas by 2020, thus reducing greenhouse emissions by millions of tonnes per year.

Arrow is helping to lead Australia to a more sustainable future. The concept of sustainability – meeting the needs of the present without compromising the ability of future generations to meet their own needs – poses many challenges. For Arrow, we see these challenges as opportunities to develop new solutions that allow both our company and our planet to prosper.

This viewpoint is underpinned by a belief that operating responsibly in respect to the environment has two levels. At its core it requires compliance with laws and regulations. At a second, higher level, we seek to act as a progressive operator by going further than the law requires.

Arrow Energy operates in compliance with Commonwealth, State and Local Government statutes and Industry guidelines. We have gone another step forward by implementing an Integrated Environmental Management System (IEMS) that manages the environmental issues linked with all of our ongoing activities from exploration and development, through operations to de-commissioning and rehabilitation.

Based on the IEMS, specific Environmental Management Plans have been created for each of our production fields to govern the conduct of environmentally relevant activities specific to these sites. Further, field environmental audits are conducted by Arrow on an ongoing basis with direct feedback to staff and subcontractors.

In fiscal 2007 Arrow extended its clean environmental record past 10 years recording no reportable environmental incidents. It's a record of which we're extremely proud and committed to preserving. Our Environment Manager was named by the Banksia

Foundation as one of four finalists for the 2007 Prime Minister's Environmentalist of the Year Award – widely recognised as Australia's highest environmental honour.

Arrow was also a finalist in the 2007 Banksia Water Award for developing recycling strategies for coal seam gas water, and the Banksia Eco Innovation Award for implementing new technology to degas coal mines and reduce greenhouse gas emissions. No other company in the history of the Banksia Awards has received three finalist nominations in the one year.

Our work is proof that supporting sustainable development can create value for our customers, investors, the environment and the communities in which we work.

Dalby drought relief

Arrow has played an important part in the development of a new reverse osmosis plant at Dalby to treat coal seam gas water from our nearby gas fields. The Federal and State Governments have joined with Dalby Town Council and Arrow to fund the \$10 million plus project which will supply up to five megalitres per day for household, agricultural and industrial use.

Over 1,387 Olympic swimming pools of water will be processed each year, providing drought relief to Dalby. The project will spell the local upper aquifer and allow it to recharge.

In the meantime, the water is currently being put to good use in coal washing, cattle feedlots and even a trial saltwater fish farm. In fact, 15,000 fingerlings have been successfully raised over the past six months by the Department of Primary Industries and Fisheries in coal seam gas water at Bribie Island. The fingerlings, which predominantly comprise Mulloway, Barramundi and Mangrove Jack species, are due to be transplanted back to Arrow's Kogan North evaporation pond before the end of calendar 2007 where the trial will continue.

Degassing technology at Moranbah North

Arrow Energy is utilising and selling coal seam gas extracted from the Anglo Coal Australia-operated Moranbah North Coal Mine prior to underground mining. The gas would otherwise be released into the atmosphere. Degassing the mine saves 120,000 cars' worth of greenhouse gas emissions. What's more, the risk of coal mine explosions is dramatically reduced due to lower gas levels.

We know that enabling sustainable development is an ongoing journey, and we're focused on being a leader on this front. We have real contributions to make – contributions that over the long term will benefit our business, our customers and our investors while helping to create a more sustainable world.



For personal use only

Contents	
Directors' Report	37
Remuneration Report	46
Auditor's Independence Declaration	57
Corporate Governance Statement	60
Annual Financial Report	
- 30 June 2007	65
Corporate Directory	IBC

For personal use only

Your Directors present their report on the consolidated entity consisting of Arrow Energy N.L. and the entities it controlled at the end of, or during, the course of the financial year ended 30 June 2007.

Directors

The following persons were Directors during the whole of the financial year under review and up to the date of this report:

Stephen Bizzell	– Executive Director
Nicholas Davies	– Chief Executive Officer and Managing Director
Dr Paul Elkington	– Non-executive Director

John Reynolds, Jeremy Barlow and David Williamson were appointed as Directors of Arrow Energy N.L. on 15 August 2006 and continue in office at the date of this report.

William Stubbs and Dr Robert Day were Directors of Arrow Energy N.L. from the beginning of the financial year until their retirement from the Board on 15 August 2006.

Kerry Parker was appointed as Company Secretary on 15 August 2006 and continues in office at the date of this report.

Paul Marshall was Company Secretary from the beginning of the financial year until his resignation on 12 January 2007.

Principal activities

During the course of the financial year under review, the principal activity of the consolidated entity was the undertaking of gas exploration, development and production activities in Australia and Asia. The company also continued to review and acquire opportunities to participate in gas exploration activities in Australia and Asia.

Dividends

No dividends were paid or declared during the year and none is recommended as at 30 June 2007.

Review of operations

Production operations

During the financial year ended 30 June 2007, the Group produced 10.363 PJ of gas from its operations at Moranbah, Kogan, Tipton and Daandine, with sales volumes for the same period totalling 9.520 PJ.

Production Field	Net to Arrow			
	Quarter to 30/06/07		Year to 30/06/07	
	Sales TJ	Sales MWh	Sales TJ	Sales MWh
Daandine (100%)	117	17,233	284	20,929
Kogan North (50%)	264	–	897	–
Moranbah (50%)	1,920	–	7,764	–
Tipton West (60%)	480	–	575	–
Total AOE	2,781	17,233	9,520	20,929

Production Field	Gross Sales			
	Quarter to 30/06/07		Year to 30/06/07	
	Sales TJ	Sales MWh	Sales TJ	Sales MWh
Daandine	117	17,233	284	20,929
Kogan North	528	–	1,794	–
Moranbah	3,841	–	15,528	–
Tipton West	799	–	959	–
Total	5,285	17,233	18,565	20,929

Moranbah Gas Project

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

Producing Wells:	82
Maximum single producing well flow rate:	2.10 mmcfd*
Current gross field production rate:	45.00 mmcfd

Kogan North CSG Development

PL 194: Arrow 50%/CS Energy 50%

Producing Wells:	40
Maximum single producing well flow rate:	0.83 mmcfd
Current gross field production rate:	7.00 mmcfd

Tipton West Project

ATP 683P Dalby Block/PL 198:

Arrow 60%/Beach Petroleum 40%

Producing Wells:	85 wells are currently dewatering
Maximum single well flow rate:	0.95 mmcfd
Current gross field production rate:	11.50 mmcfd

Daandine Project

PL230: Arrow 100%

Producing Wells:	21
Maximum single producing well flow rate:	0.70 mmcfd
Current gross field production rate:	4.70 mmcfd

* mmcfd = million cubic feet per day

Review of operations (continued)

Gas sales revenues (including GECS – Gas Electricity Certificates under Queensland Government 13% Gas Scheme; and TUOS – Transmission Use of System Charges under Queensland 13% Gas Scheme) totalled approximately \$20.98 million, which was in line with management expectations. Field operating costs were tightly managed across all operating assets during the year, and came in at, or under levels anticipated by management.

During the financial year first electricity was generated from the Daandine Power Generation Facility, achieving the Group's target of first electricity generated prior to 31 December 2006.

During the financial year ended 30 June 2007 there were the following significant changes in the company's state of affairs:

- the Group proceeded with ongoing development at the Moranbah Gas Project to meet increased nominations for the 2007 contract year (commencing 7 February 2007);
- commencement of gas production operations at Tipton West (Arrow 60% and Beach Petroleum 40%) proceeding to achieve full contract delivery volumes by August 2007; and
- commencement of gas production at Daandine and first electricity generated from Daandine Power Station.

Acquisition of CH4 Gas Limited ("CH4")

Arrow Energy N.L. and CH4 announced a merger of their businesses during May 2006 to create a leading Australian independent Coal Seam Gas company.

The merger was implemented by means of a takeover bid by Arrow Energy N.L. for all of the issued capital of CH4, under which CH4 shareholders received 2.15 Arrow Energy N.L. shares for each CH4 share and two Arrow Energy N.L. listed options with an exercise price of \$0.75 and expiry date of 1 December 2006, for every five CH4 shares.

The merged company owns a highly complementary and diversified portfolio of CSG assets in the growing Queensland gas market incorporating producing assets and an exciting pipeline of development and exploration projects. The merged company has access to all of the significant gas markets in Queensland, being Townsville, Gladstone, and the broader South East Queensland market.

The merger was declared unconditional on 14 July 2006, with Arrow Energy N.L. completing compulsory acquisition of the remaining shares in CH4 on 1 September 2006.

New projects

Arrow Energy N.L. has reached agreement on the terms and conditions for the supply of gas from the Daandine fields to AGR Group company, Liquegas Energy, for use as feedstock to their proposed LNG plant. The agreement establishes a commercial framework for Arrow Energy N.L. to supply CSG from its Daandine field into the LNG plant.

Liquified Natural Gas Limited and Arrow Energy N.L. announced the execution of a Heads of Agreement ("HOA") for the supply of 150 TJ/day of gas, commencing in 2010, to Liquified Natural Gas Limited's proposed first stage – one million tonne per annum LNG plant to be built in Gladstone, Queensland. The HOA also includes the option for a further 150TJ/day of gas, with delivery as early as 2011.

Acquisition of Global CBM

The company reached an agreement for the staged investment in and acquisition by Arrow Energy N.L.'s subsidiary, Arrow Energy International Pty Ltd ("Arrow International"), of Global CBM Pty Ltd ("Global").

Global was in the advanced stages of business development for the acquisition of coal bed methane assets in Indonesia, China, Vietnam and India. Under the agreement between the two companies, Arrow Energy N.L. and Global's international business development teams and opportunities have been merged into Global which has been renamed "Arrow Global CBM Pty Ltd". Up to \$2 million of business development costs for Arrow Global CBM will be funded by Arrow International. In return, Arrow International has received an initial 50% shareholding interest in Global, has appointed two Directors to the four person Board and has a two year option to acquire the remaining 50% shareholding from the existing Global shareholders under agreed terms.

International projects

The company announced that it had been awarded three CBM exploration blocks (in consortium with GAIL, Tata Power, and EIG) in the October 2006 CBM III licensing round in India. Exploration work will commence in October 2007.

Arrow Energy N.L. has reached an Agreement with Sugico Graha, PT ("Sugico"), which provides Arrow Energy N.L. with an option to farm-in to 12 of Sugico's tenements in South Sumatra, Indonesia to earn up to 65% interest in each.

Capital raising

In December 2006, the company completed a capital raising in relation to its 1 December 2006 \$0.75 listed options, raising approximately \$65 million (after underwriting costs of approximately \$2 million).

Matters subsequent to the end of the financial year **Share Placement**

On 20 July 2007, the company successfully completed a Share Placement raising of \$125 million, via the issue of approximately 53.2 million ordinary shares in the company at \$2.35 per share. The placement was undertaken by way of a book-build with the issue price of \$2.35 at the top of the book build price range.

In conjunction with the Share Placement a Share Purchase Plan was announced for all shareholders registered on the Arrow Energy N.L. share register on 1 August 2007. Eligible shareholders are able to apply for between \$1,000 and \$5,000 in new shares in Arrow Energy N.L., in \$1,000 increments. The Share Purchase Plan is underwritten to the extent of \$25 million by Wilson HTM Corporate Finance and Citi.

International projects

A Letter of Intent ("LOI") has been signed with major Chinese Government owned oil and gas company, PetroChina. The LOI is to negotiate a Production Sharing Contract covering natural gas including coal bed methane ("CBM") over the 4,000km² Dajing block in the Junngar basin of Xinjiang Autonomous Region, North-West China.

Arrow Energy N.L. announced the signing of a HOA with Shenyang Gas Company, the city gas company supplying gas to the Greater Shenyang area. Following completion of technical studies and final agreements, Arrow Energy N.L. will drill and complete wells in this field on behalf of Shenyang Gas and receive revenue based on gas produced to surface at global gas market prices.

Arrow Energy N.L. announced the signing of a HOA with Liaohé Petroleum Development Company ("LPDC") to evaluate nine blocks in Liaoning Province, covering an area of approximately 9,000km² of high potential thick coal ranging from high volatile bituminous to semi anthracite. Arrow Energy N.L. will undertake an initial technical evaluation of the project area and following successful evaluation Arrow will finalise a Production Sharing Contract with LPDC to develop some or all of these blocks.

The company signed a HOA with Bin County Coal. The HOA is for Arrow to provide a degassing service ahead of mining operations in a similar business model to Arrow's current Moranbah North Degassing Project in Queensland, Australia in conjunction with the mine owner, Anglo Coal. Arrow Energy N.L. will continue its technical studies and draw up plans for a pilot production program followed by the field's development if the pilot is successful.

A Memorandum of Understanding ("MOU") was signed with Shaanxi Binchang Mining Company Limited ("SBMCL") to initially evaluate the potential for CBM developments on their mining tenements and following successful evaluation to form a Joint Venture arrangement with SBMCL.

Likely developments and expected results of operations

The company will continue its progress as a gas exploration, development and production company in Australia and Asia.

There are no further developments of which the Directors are aware which could be expected to affect the results of the company's operations in subsequent financial years other than information which the Directors believe comment on or disclosure of, would prejudice the interests of the company.

Environmental regulation

The consolidated entity is subject to environmental regulation in relation to its exploration, development and production activities. There are no significant matters that have arisen in relation to environmental issues during the course of the financial year under review or up to the date of this report.

Information on Directors



John Reynolds
Chairman – Non-executive

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

Kerry Parker
Company Secretary

John Reynolds
Chairman – Non-Executive

Qualifications
BSc (Hons) BBus DipEd

Age
64

Experience and expertise

John is a business and strategic advisor to numerous companies, professional firms, universities and government bodies in Queensland and across Australia. John has over 30 years' business and corporate experience in Australia and internationally. John has previously held the position of Chief Executive of APN News and Media, West Australian Newspapers and David Syme. He has also held senior executive positions with Normandy Mining Limited and Santos Limited.

Other current Directorships
Director of Bank of Queensland Limited (from 2003)

Director of Mater Health Services Brisbane Limited (from 2005)

Director of Brisbane Powerhouse Pty Ltd (from 2005)

Former Directorships in last three years
CH4 Gas Limited (from 2003 to 2006)

Queensland Cotton Holdings Limited (from 2003 to 2007)

Special responsibilities
Chairman of the Board

Chairman of the corporate governance sub-committee

Member of audit and compliance and of the remuneration committees

Interests in shares and options
70,000 Ordinary Shares in Arrow Energy N.L.

430,000 Unlisted Options at \$0.572c

Jeremy Barlow
Non-executive Director

Qualifications
BE (Mining) MAdmin MAICD

Age
65

Experience and expertise

Jeremy has had over 40 years of diverse technical and commercial experience in the petroleum and coal industries, both as an executive in operating companies in Australia and overseas and as a consultant to numerous international clients. Until recently Jeremy also held the role of Non-executive Director of Barlow Jonker Pty Ltd, which provides wide ranging consulting services in the coal and energy industries.

Other current Directorships
None

Former Directorships in last three years
CH4 Gas Limited (from 2003 to 2006)

Special responsibilities
Member of the corporate governance committee

Interests in shares and options
7,539,255 Ordinary Shares in Arrow Energy N.L.

43,757 Unlisted Options at \$0.572c

Stephen Bizzell
Executive Director

Qualifications
BCom ACA

Age
39

Experience and expertise

Stephen is a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Taxation division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing and mergers and acquisitions and has over 14 years' corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies. He is Chairman of boutique investment banking and funds management group, Bizzell Capital Partners Pty Ltd and has been an Executive Director of Arrow Energy N.L. since 1999.

Other current Directorships
Renison Consolidated Mines N.L. (from 1996)

Bow Energy Ltd (from 2004)

Former Directorships in last three years
CH4 Gas Limited (2006)

Special responsibilities
Executive Director Corporate

Member of audit and compliance and of the remuneration committees

Interests in shares and options
9,668,323 Ordinary Shares in Arrow Energy N.L.

1,190,303 Convertible Notes

Nicholas Davies
Managing Director and Chief Executive Officer

Qualifications
BSc (Hons Maths/Eng)

Age
50

Experience and expertise

Nicholas joined Arrow in January 2004 as Chief Operating Officer and became Chief Executive Officer in September 2004. Nicholas has over 25 years' oil and gas industry experience in upstream development, strategic planning, new business development and marketing. Prior to joining Arrow, Nicholas was President of BP's Asia Pacific Gas and Power business headquartered in Tokyo and immediately prior to that was President of Atlantic Richfield Company (ARCO) SE Asia based in Singapore.

Other current Directorships
None

Former Directorships in last three years
CH4 Gas Limited (2006)

Special responsibilities
Managing Director and Chief Executive Officer

Interests in shares and options
3,131,819 Ordinary Shares in Arrow Energy N.L.

999,999 Unlisted Options at \$0.290c

999,999 Unlisted Options at \$0.390c

1,075,067 Unlisted Options at \$0.490c

500,000 Unlisted Options at \$0.500c

100,000 Unlisted Options at \$0.800c

Dr Paul Elkington

Non-executive Director

Qualifications

BSc (Hons) PhD FAICD

Age

63

Experience and expertise

Dr Paul Elkington has over 20 years of general management and major project development experience in the Australian oil and gas industry with emphasis over the last 10 years on coal seam gas developments in Queensland. He was formerly the General Manager of Origin Energy (CSG) Ltd with responsibility for development, production and marketing of a number of gas production areas in Queensland and was Project Director for the successful development of Origin's Spring Gully coal seam gas project. Prior to this he was General Manager and CEO of ASX listed Oil Company of Australia Ltd for eight years prior to its takeover by Origin Energy Ltd.

Other current Directorships

None

Former Directorships in last three years

CH4 Gas Limited (2006)

Special responsibilities

Chairman of the remuneration committee

Interests in shares and options

300,000 Ordinary Shares in Arrow Energy N.L.

David Williamson

Non-executive Director

Qualifications

BCom FCA MAICD

Age

57

Experience and expertise

David has been registered as a Chartered Accountant for approximately 30 years. He is principal of his own firm Williamson Chaseling Pty Ltd and has gained a wide range of experience covering business management, finance, general accounting, taxation and audit assignments. He has had considerable experience in the resources sector being a Non-executive Director of New Hope Corporation Limited since 1999 which operates coal mines in Queensland and until recently in Indonesia. David is currently Chairman of the Audit Committee of New Hope Corporation Limited. David has also been a Non-executive Director since 2001 of Australian Health and Nutrition Association Limited (Sanitarium Health Food Co) including being a member of the Finance and Business Committee which reviews all finance and business proposals.

Other current Directorships

New Hope Corporation Ltd (from 1999)

Australian Health and Nutrition Association Limited (from 2001)

Former Directorships in last three years

None

Special responsibilities

Chairman of the audit and compliance committee

Member of the corporate governance committee

Interests in shares and options

10,000 Ordinary Shares in Arrow Energy N.L.

Kerry Parker

Company Secretary

Qualifications

BBus (Acct) ACA

Experience

Prior to joining Arrow Energy in August 2006, Kerry came from the CH4 Gas Limited group in the same capacity, where he commenced in July 2003. He is a chartered accountant and has nearly 20 years' experience in various business advisory and commercial roles. Kerry has held senior finance positions with listed resource companies Downer Group (Roche Mining), Ross Mining N.L. and Santos Limited, with extensive involvement in management of the accounting and finance functions including systems implementation, debt and equity raisings, treasury management and commercial negotiations.

Meetings of Directors

The numbers of meetings of the company's Board of Directors and of each Board committee held during the year ended 30 June 2007, and the numbers of meetings attended by each Director are as follows:

	Meetings of committees							
	Full meetings of Directors		Audit		Corporate Governance		Remuneration	
	A	B	A	B	A	B	A	B
J Reynolds	12	12	5	5	1	1	5	5
J Barlow	12	10	*	*	1	1	*	*
S Bizzell	15	15	5	5	*	*	5	5
N Davies	15	14	*	*	*	*	*	*
P Elkington	15	15	*	*	*	*	5	5
D Williamson	12	12	5	5	1	1	*	*
W Stubbs	3	3	*	*	*	*	*	*
R Day	3	3	*	*	*	*	*	*

A = Number of meetings held during the time the Director held office or was a member of the committee during the year.

B = Number of meetings attended.

* = Not a member of the relevant committee.

Retirement, election and continuation in office of Directors

John Reynolds and Dr Paul Elkington both retire in accordance with Article 40 of the company's constitution at the company's Annual General Meeting to be held on 14 November 2007.

Shares under option

Unissued ordinary shares of Arrow Energy N.L. under option at the date of this report are as follows:

Grant date	Expiry date	Issue price of shares	Number under option
19/07/2004	28/06/2008	\$0.2900	999,999
19/07/2004	28/06/2008	\$0.3900	674,999
19/07/2004	28/06/2008	\$0.4900	999,999
22/12/2004	28/06/2008	\$0.2900	499,998
22/12/2004	28/06/2008	\$0.2900	350,001
22/12/2004	28/06/2008	\$0.3900	499,998
22/12/2004	28/06/2008	\$0.3900	350,001
22/12/2004	28/06/2008	\$0.4900	325,000
22/12/2004	28/06/2008	\$0.4900	499,998
22/12/2004	28/06/2008	\$0.4900	350,001
22/12/2004	28/06/2008	\$0.4900	694,608
06/10/2005	06/10/2008	\$0.6000	660,000
14/10/2005	28/06/2008	\$0.4000	200,000
14/10/2005	28/06/2008	\$0.5000	500,000
14/10/2005	28/06/2008	\$0.5000	200,000
14/10/2005	21/08/2011	\$0.5518	1,903,837
14/10/2005	21/08/2011	\$0.5717	2,247,832
25/11/2005	28/06/2009	\$0.8000	2,147,740
31/05/2006	28/06/2010	\$0.7500	240,000
31/05/2006	28/06/2010	\$0.8500	240,000
31/05/2006	28/06/2010	\$0.9500	240,000
31/08/2006	28/06/2010	\$0.7500	443,000
31/08/2006	28/06/2010	\$0.8500	444,000
31/08/2006	28/06/2010	\$0.9500	443,000
			16,154,011

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Shares issued on the exercise of options

The following ordinary shares of Arrow Energy N.L. were issued during the year ended 30 June 2007 on the exercise of options granted under the Employee Option Plan. No amounts are unpaid on any of the shares.

Issue price of shares	Number of shares issued
\$0.390	325,000
\$0.490	595,411
\$0.800	309,555
\$0.750	167,000
\$0.850	166,000
\$0.950	167,000
\$0.572	1,499,500
	3,229,466

This does not include 1 December 2006 listed options that were open to all shareholders. For further detail refer to note 25.

Remuneration Report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information – (unaudited)

The information provided under headings A to D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited.

A Principles used to determine the nature and amount of remuneration (audited)

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with general market practices for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- all operations and works conducted with the highest regard for safety;
- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- capital management.

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short- and long-term incentives.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for Executive Directors, other senior executives and Non-executive Directors. The Corporate Governance Statement provides further information on the role of this committee.

Non-executive Directors

Fees and payments to Non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Board has also considered the advice of independent remuneration consultants to ensure Non-executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of Non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

The current base remuneration was last reviewed with effect from 24 November 2006 (date of last Annual General Meeting). The Chairman's remuneration is inclusive of committee fees while other Non-executive Directors who chair, or are a member of, a committee receive additional yearly fees.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$450,000 per annum.

It should be noted that Dr Paul Elkington was an Executive Director for a portion of the financial year under review.

Retirement allowances for Directors

Other than in respect of specified circumstances relating to change of control, no retirement allowances for Non-executive Directors are paid. This is in line with recent guidance on Non-executive Directors' remuneration. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are added to the Directors' overall fee entitlements.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits, including superannuation
- retention incentives
- short-term performance incentives and
- long-term incentives

The combination of these comprises the executive's total remuneration.

Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market.

There are no guaranteed base pay increases included in any executives' contracts.

Benefits

Executives receive benefits including car parking allowances.

Short-term incentives

Each executive has a target short-term incentive ("STI") opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. The maximum target STI opportunity is 25% of base pay.

Each year, the remuneration committee considers the appropriate targets and key performance indicators ("KPIs") to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2007, the KPIs linked to STI plans were based on group, individual business, personal and safety objectives. The KPIs required performance in reducing operating costs and achieving specific targets in relation to return on assets and shareholder value added ("SVA"), as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods.

The remuneration committee is ultimately responsible for assessing whether the KPIs are met.

The short-term incentive payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee.

The STI target annual payment is reviewed annually.

Long-term incentives

Long-term incentives are provided to all employees. The annual assessment will be based on the performance of the company against three-year performance targets (i.e. rolling EBITDA targets set each year for the next three financial year ends commencing with the financial year ending 30 June 2007). The equity will vest in three equal instalments over the following three years commencing with the year just completed.

Retention incentives

Retention incentives ("RI") are provided to all employees. It is awarded in recognition of ongoing commitment and service to Arrow and will be awarded annually at 30 June each year. 5% of base salary is the current entitlement. The equity awarded will vest in three equal instalments over three years. Commencing at the end of the financial year in which the RI shares are granted.

B Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Arrow Energy N.L. and the Arrow Energy N.L. Group are set out in the following tables.

The key management personnel of Arrow Energy N.L. includes the Directors as per pages 42 to 44 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- Nicholas Davies, Chief Executive Officer.
- Stephen Bizzell, Executive Director.
- Andrew Purcell, Chief Operating Officer.
- Kerry Parker, Chief Financial Officer.
- Shaun Scott, Chief Commercial Officer.

Remuneration Report (continued)

B Details of remuneration (audited) (continued)

The key management personnel of the Group are the Directors of Arrow Energy N.L. and those executives who report directly to the Managing Director being:

- Stephen Bizzell, Executive Director.
- Andrew Purcell, Chief Operating Officer.
- Kerry Parker, Chief Financial Officer.
- Shaun Scott, Chief Commercial Officer.
- Neville Robinson, General Manager Exploration.
- Mike Furminger, Human Resources Manager.
- Kent Anson, Country Manager – India.

Key management personnel and other executives of the Group

Key management personnel and other executives of the Group					Post-employment benefits	Long-term benefits	Share-based payments		
2007	Short-term employee benefits								
Name	Cash salary and fees \$	Share-based payments \$	Non-monetary benefits \$	Cash bonus \$	Super-annuation \$	Long service leave \$	Long-term incentive \$	Options \$	Total \$
Non-executive Directors									
J Reynolds ⁽¹⁾ Chairman	85,474	—	—	—	7,400	—	—	—	92,874
J Barlow ⁽¹⁾	42,916	—	—	—	3,862	—	—	—	46,778
P Elkington	25,999	—	—	56,881	82,367	—	—	—	165,247
D Williamson ⁽¹⁾	35,152	—	—	—	12,937	—	—	—	48,089
W Stubbs ⁽²⁾	6,307	—	—	86,567	567	—	—	—	93,441
R Day ⁽²⁾	—	—	—	78,723	—	—	—	—	78,723
Total Non-executive Directors	195,848	—	—	222,171	107,133	—	—	—	525,152
Executive Directors									
N Davies*	379,548	—	5,460	217,967	34,108	942	—	—	638,025
S Bizzell	135,000	—	—	76,197	—	—	—	—	211,197
Total Executive Directors	514,548	—	5,460	294,164	34,108	942	—	—	849,222
Other key management personnel									
A Purcell*#	263,494	61,376	4,550	—	23,594	773	31,518	294,650	679,955
S Scott ^{(5)*#}	280,866	187,767	5,460	—	2,770	—	—	—	476,863
K Parker ^{(3)*#}	201,197	51,081	2,238	—	16,744	294	25,517	—	297,071
N Robinson*#	199,933	111,146	—	—	17,994	265	22,793	—	352,131
K Anson ^{(6)*#}	178,238	102,506	25,000	—	14,187	255	18,168	—	338,354
M Furminger ^{(4)*}	73,346	21,177	—	—	6,601	230	4,221	—	105,575
Total key management personnel compensation	1,197,074	535,053	37,248	—	81,890	1,817	102,217	294,650	2,249,949

(1) John Reynolds, Jeremy Barlow and David Williamson were appointed as Directors on 15 August 2006.

(2) William Stubbs and Robert Day were Directors from the beginning of the year until their retirement from the Board on 15 August 2006.

(3) Kerry Parker was appointed as Chief Financial Officer/Company Secretary on 15 August 2006. The salary disclosed is for the period 1 September 2006 to 30 June 2007.

(4) Mike Furminger was appointed as Human Resources Manager on 23 October 2006. The salary disclosed is for the period 23 October 2006 to 30 June 2007.

(5) Shaun Scott resigned from his full-time employment position as Chief Commercial Officer on 1 September 2006 and commenced a contract role with the company from that date in the same position.

(6) Kent Anson is provided with housing and other allowances whilst in India as Country Manager.

* Represents key management personnel of the Group. The Parent entity only employs current Directors.

Represents five highest paid key management personnel of the Group, as required to be disclosed under the Corporations Act 2001.

Key management personnel and other executives of the Group

2006	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees \$	Cash bonus ⁽²⁾ \$	Non-monetary benefits \$	Other [#] \$	Superannuation \$	Long service leave \$	Options \$	Total \$
Non-executive Directors								
W Stubbs, Chairman	94,975	—	2,400	1,344	—	—	—	98,719
R Day	77,338	—	—	1,344	—	—	—	78,682
R Prefontaine (resigned 18/11/05)	35,287	—	—	672	—	—	—	35,959
Total Non-executive Directors	207,600	—	2,400	3,360	—	—	—	213,360
Executive Directors								
S Bizzell	123,750	79,950	—	2,016	—	—	—	205,716
N Davies ⁽¹⁾	223,624	92,300	773	2,016	20,126	—	89,507	428,346
P Elkington	130,179	11,700	—	1,344	9,316	—	—	152,539
Total Executive Directors	477,553	183,950	773	5,376	29,442	—	89,507	786,601
Other key management personnel								
K Anson	133,217	—	—	672	11,990	—	90,114	235,993
G Hines (resigned 08/05/06)	137,116	30,000	—	672	141,766	—	19,625	329,179
N Robinson	157,143	—	—	672	14,143	—	88,762	260,720
S Scott	174,028	20,000	—	672	15,662	—	120,957	331,319
A Thompson	143,317	10,000	—	672	12,899	—	94,793	261,681
Total key management personnel compensation	744,821	60,000	—	3,360	196,460	—	414,251	1,418,892

(1) N Davies was appointed as a Director on 15 December 2005. He was the Chief Executive Officer ("CEO") for Arrow throughout the financial year. The amounts shown above include all remuneration for the full year whether as Director or as CEO. Amounts received in his position as a Director amounted to \$281,185 made up of salary \$128,352, cash bonus \$92,300, other benefits \$419, superannuation \$11,552, options \$48,554 and insurance premium \$1,008.

(2) Bonus granted and paid in the financial year is 100% of the entitlement to a bonus for the 2006 financial year.

Insurance premiums relate to Directors and Officers Insurance. Premiums have been allocated on a pro rata basis.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration 2007	At risk RTI 2007	At risk STI 2007	At risk LTI 2007
Executive Directors				
N Davies	60.00%	5.00%	20.00%	15.00%
S Bizzell	100.00%	—	—	—
Other key management personnel				
A Purcell	60.00%	5.00%	20.00%	15.00%
S Scott	100.00%	—	—	—
K Parker	60.00%	5.00%	20.00%	15.00%
N Robinson	60.00%	5.00%	20.00%	15.00%
K Anson	60.00%	5.00%	20.00%	15.00%
M Furminger	75.00%	5.00%	15.00%	5.00%

This incentive scheme was introduced during the 2007 financial year.

Remuneration Report (continued)

C Service agreements (audited)

On appointment to the Board, all Non-executive Directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of Director.

Remuneration and other terms of employment for the Managing Director and the other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, and other benefits including car allowances. Other major provisions of the agreements relating to remuneration are set out below.

Nicholas Davies, Chief Executive Officer

- Employee of the controlled entity, Arrow Group Services Pty Ltd.
- Term of agreement – 18 month period commencing 1 July 2007.

Base salary, inclusive of superannuation, of \$490,500.

- Short-term incentive and long-term incentives reviewed and assessed annually. Short-term incentives paid in the form of cash bonuses. Long-term incentives paid either in the form of cash, or in options over ordinary shares.
- Contract may be terminated by either party with three months' notice.
- Payment of benefit of change of control of company equal to 12 months' base salary plus one month for every year of service to a maximum of 18 months.

Stephen Bizzell, Executive Director

- Term of agreement ongoing.
- Base salary, inclusive of superannuation, of \$135,000.
- Agreement is a consultancy style agreement for the provision of services as Executive Director. Services are invoiced monthly at the rate of \$11,250 per calendar month.

Andrew Purcell, Chief Operating Officer

- Term of agreement – open ended agreement commencing 1 August 2006.
- Base salary, inclusive of superannuation, of \$312,000.
- Short-term incentive – 20% of base salary is the maximum entitlement, with 50% of this amount relating to the performance of Arrow (EBITDA performance against approved annual budgets, being the performance of Arrow as measured by its earnings before interest, depreciation and amortisation and taxes for the relevant period) with the remaining 50% of this relating to personal performance against an agreed performance contract.

- Long-term incentive assessed on the performance of the company against three-year performance targets i.e. EBITDA targets set on 1 November for the next three financial year ends. An amount equivalent to 15% base salary is the maximum entitlement. The equity will vest in three equal instalments over the following three years.
- Retention incentive – awarded in recognition of ongoing commitment and service to Arrow. 5% of base salary is the maximum entitlement. Awarded in the form of fully paid shares or some other form of equity instrument in Arrow. The equity awarded will vest in three equal instalments over the following three years.
- Contract may be terminated by either party with three months' notice.
- Payment of benefit of change of control of company equal to 12 months' base salary plus one month for every year of service to a maximum of 18 months.

Shaun Scott, Chief Commercial Officer

- Term of agreement – Independent Contractors agreement commencing 1 September 2006 and ending 31 August 2007.
- Paid day rate of \$1,500/day.
- No payment on termination or in event of change of control.

Kerry Parker, Chief Financial Officer and Company Secretary

- Term of agreement – open ended agreement commencing 1 August 2006.
- Base salary, inclusive of superannuation, of \$252,597.
- Short-term incentive – 20% of base salary is the maximum entitlement, with 50% of this amount relating to the performance of Arrow (EBITDA performance against approved annual budgets, being the performance of Arrow as measured by its earnings before interest, depreciation and amortisation and taxes for the relevant period) with the remaining 50% of this relating to personal performance against an agreed performance contract.
- Long-term incentive assessed on the performance of the company against three-year performance targets i.e. EBITDA targets set on 1 November for the next three financial year ends. An amount equivalent to 15% base salary is the maximum entitlement. The equity will vest in three equal instalments over the following three years.
- Retention incentive – awarded in recognition of ongoing commitment and service to Arrow. 5% of base salary is the maximum entitlement. Awarded in the form of fully paid shares or some other form of equity instrument in Arrow. The equity awarded will vest in three equal instalments over the following three years.

- Contract may be terminated by either party with four weeks' notice.
- Payment of benefit of change of control of company equal to 12 months' base salary plus one month for every year of service to a maximum of 18 months.

Neville Robinson, General Manager, Exploration

- Term of agreement – open ended agreement commencing 1 May 2004.
- Base salary, inclusive of superannuation, of \$225,630.
- Short-term incentive – 20% of Base salary is the maximum entitlement, with 50% of this amount relating to the performance of Arrow (EBITDA performance against approved annual budgets, being the performance of Arrow as measured by its earnings before interest and taxes for the relevant period) with the remaining 50% of this relating to personal performance against an agreed performance contract.
- Long-term incentive assessed on the performance of the company against three-year performance targets i.e. EBITDA targets set on 1 November for the next three financial year ends. An amount equivalent to 15% Base Salary is the maximum entitlement. The equity will vest in three equal instalments over the following three years.
- Retention incentive – awarded in recognition of ongoing commitment and service to Arrow. 5% of base salary is the maximum entitlement. Awarded in the form of fully paid shares or some other form of equity instrument in Arrow. The equity awarded will vest in three equal instalments over the following three years.
- Contract may be terminated by either party with four weeks' notice.
- Payment of benefit of change of control of company equal to 12 months' base salary plus one month for every year of service to a maximum of 18 months.

Mike Furminger, Human Resources Manager

- Term of agreement – Open ended agreement commencing 23 October 2006.
- Base salary, inclusive of superannuation, of \$115,000.
- Short-term incentive – 15% of base salary is the maximum entitlement, with 50% of this amount relating to the performance of Arrow (EBITDA performance against approved annual budgets, being the performance of Arrow as measured by its earnings before interest, depreciation and amortisation and taxes for the relevant period) with the remaining 50% of this relating to personal performance against an agreed performance contract.
- Long-term incentive assessed on the performance of the company against three-year performance

targets i.e. EBITDA targets set on 1 November for the next three financial year ends. An amount equivalent to 5% base salary is the maximum entitlement. The equity will vest in three equal instalments over the following three years.

- Retention incentive – awarded in recognition of ongoing commitment and service to Arrow. 5% of base salary is the maximum entitlement. Awarded in the form of fully paid shares or some other form of equity instrument in Arrow. The equity awarded will vest in three equal instalments over the following three years.
- Contract may be terminated by either party with four weeks' notice.
- Payment of benefit on change of control of company equal to six months' base salary plus one month for every year of service to a maximum of 12 months.

Kent Anson, Country Manager, India

- Term of agreement – open ended agreement commencing 1 May 2004.
- Base salary, inclusive of superannuation, of \$247,486 (this includes allowance for living in India).
- Payment for accommodation whilst in India is an additional payment apart from base salary.
- Short-term incentive – 20% of base salary is the maximum entitlement, with 50% of this amount relating to the performance of Arrow (EBITDA performance against approved annual budgets, being the performance of Arrow as measured by its earnings before interest, depreciation and amortisation and taxes for the relevant period) with the remaining 50% of this relating to personal performance against an agreed performance contract.
- Long-term incentive assessed on the performance of the company against three-year performance targets i.e. EBITDA targets set on 1 November for the next three financial year ends. An amount equivalent to 15% base salary is the maximum entitlement. The equity will vest in three equal instalments over the following three years.
- Retention incentive – awarded in recognition of ongoing commitment and service to Arrow. 5% of base salary is the maximum entitlement. Awarded in the form of fully paid shares or some other form of equity instrument in Arrow. The equity awarded will vest in three equal instalments over the following three years.
- Contract may be terminated by either party with four weeks' notice.
- Payment of benefit of change of control of company equal to 12 months' base salary plus one month for every year of service to a maximum of 18 months.

Remuneration Report (continued)

D Share-based compensation (audited)

Details of options over ordinary shares in the company provided as remuneration to each Director of Arrow Energy N.L. and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of Arrow Energy N.L.

Name	Number of options granted during the year		Number of options vested during the year	
	2007	2006	2007	2006
Directors of Arrow Energy N.L.				
J Reynolds	—	—	—	—
J Barlow	—	—	—	—
P Elkington	—	—	—	—
D Williamson	—	—	—	—
N Davies	—	100,000	—	—
S Bizzell	—	—	—	—
P Elkington	—	—	—	—
Other key management personnel of the Group				
A Purcell*	1,500,000	—	500,000	—
K Parker	—	—	—	—
G Hines	—	100,000	—	—
K Anson	—	100,000	—	—
N Robinson	—	100,000	—	—
M Furminger	—	—	—	—
S Scott	—	100,000	—	—
A Thompson	—	100,000	—	—

* There are no performance hurdles attaching to the options granted. In the event of termination (specified circumstances) only vested options are entitled to be exercised.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2007 included: (applicable to options issued in late 2006 and during financial year 2007. All other options have vested in prior years).

- (i) options are granted for no consideration and one third of options vested 30 June 2007, a further one third vesting 30 June 2008, with the remaining one third vesting 30 June 2009;
- (ii) exercise price: 1/3 at \$0.75, 1/3 at \$0.85, 1/3 at \$0.95;
- (iii) grant date: 31 August 2006;
- (iv) expiry date: 28 June 2010;
- (v) expected price volatility of the company's shares: 50%;
- (vi) expected dividend yield: nil; and
- (vii) risk-free interest rate: 5.22%.

Shares provided on exercise of remuneration options

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each Director of Arrow Energy N.L. and other key management personnel of the Group are set out below.

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	
		2007	2006
Directors of Arrow Energy N.L.			
J Reynolds	—	70,000	—
N Davies	—	—	—
S Bizzell	—	—	—
Other key management personnel of the Group			
A Purcell	28/06/07	500,000	—
K Parker	26/06/07	145,000	—

The amounts paid per ordinary share by each Director and other key management personnel on the exercise of options at the date of exercise were as follows:

Exercise date	Amount paid per share
26/06/07	\$0.572
28/06/07	\$0.750
28/06/07	\$0.850
28/06/07	\$0.950

No amounts are unpaid on any shares issued on the exercise of options.

Remuneration Report (continued)

E Additional information – (unaudited)

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 48 to 49, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

Name	Bonuses		Options					
	% Paid	% Forfeited	Year granted	% Vested	% Forfeited	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
N Davies ⁽¹⁾	100.00	–	Pre 2007	100.00	0.00	Vested	nil	–
S Bizzell ⁽¹⁾	100.00	–	–	–	–	–	nil	–
A Purcell	99.00	1.00	2007	100.00	0.00	Vested	nil	\$147,325
			2007	0.00	0.00	28/06/08	nil	\$147,325
			2007	0.00	0.00	28/06/09	nil	–
S Scott	–	–	Pre 2007	100.00	0.00	Vested	nil	nil
K Parker	99.00	1.00	Pre 2007	100.00	0.00	Vested	nil	nil
N Robinson	100.00	–	Pre 2007	100.00	0.00	Vested	nil	nil
M Furminger	100.00	–	–	–	–	–	–	–
K Anson	100.00	–	Pre 2007	100.00	0.00	Vested	nil	nil

(1) Bonus paid in cash. For all other persons, bonuses were paid in the form of fully paid shares.

Insurance of officers

During the financial year, Arrow Energy N.L. paid a premium of \$90,689 to insure the Directors and officers and senior executives of the company and its Australian-based controlled entities, and the general managers of each of the divisions of the Group.

In addition to this premium, a “Run Off Policy” to insure both the company and the former Directors and officers of CH4 Gas Limited was paid during the year in the amount of \$184,728. This policy provides coverage until 1 September 2013. No further premium payments will be required in respect of this policy.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2007 \$	2006 \$
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	135,000	–
Other audit work under the Corporations Act 2001	6,042	–
Non-PricewaterhouseCoopers audit firm (BDO Kendalls)	–	25,050
Total remuneration for audit services	141,042	25,050
2. Non-audit services		
<u>Audit related services</u>		
PricewaterhouseCoopers Australian firm:	–	–
Total remuneration for audit related services	141,042	25,050
Taxation services		
PricewaterhouseCoopers Australian firm:		
Related practices of PricewaterhouseCoopers Australian firm	165,108	–
Non-PricewaterhouseCoopers audit firm (BDO Kendalls)	12,980	10,525
Total remuneration for taxation services	178,088	10,525
Other services		
PricewaterhouseCoopers Australian firm:		
Related practices of PricewaterhouseCoopers Australian firm	83,790	–
Non-PricewaterhouseCoopers audit firm (BDO Kendalls)	–	52,697
Total remuneration for other services	83,790	52,697
Total remuneration for non-audit services	261,878	63,222

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 53.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors.



John Reynolds
Director



Nicholas Davies
Director

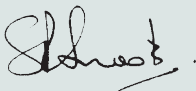
Brisbane
20 August 2007

Auditor's Independence Declaration

As lead auditor for the audit of Arrow Energy N.L. for the year ended 30 June 2007,
I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Arrow Energy N.L. and the entities it controlled during the period.



Stephen R Snook
Partner
PricewaterhouseCoopers

Brisbane
20 August 2007

Shareholder Information

as at 30 August 2007

Distribution of equity securities

The number of shareholders, by size of holding, in each class of share are:

Number of securities held	Ordinary shares		March 2008 convertible notes	
	No. of holders	No. of shares	No. of holders	No. of shares
1 to 1,000	3,999	1,508,538	72	36,410
1,001 to 5,000	3,596	10,725,927	53	132,746
5,001 to 10,000	2,035	16,316,917	25	197,354
10,001 to 100,000	3,688	108,883,480	94	3,343,639
100,001 and Over	402	474,636,769	26	9,651,417
Totals	13,720	612,071,631	270	13,361,566
Number of shareholders holding less than a marketable parcel of shares are	1,395	196,151	14	1,536

Twenty largest shareholdings

AOE ordinary fully paid shares

No.	Name of shareholder	Holding	% Held
1	Arkdale Pty Ltd	111,153,517	18.16%
2	ANZ Nominees Limited <Cash Income A/C>	70,654,853	11.54%
3	HSBC Custody Nominees (Australia) Limited	36,140,488	5.90%
4	National Nominees Limited	26,396,895	4.31%
5	Aust Executor Trustees NSW Ltd <Tea Custodians Limited>	21,637,832	3.54%
6	J P Morgan Nominees Australia Limited	19,859,541	3.24%
7	Citicorp Nominees Pty Limited	17,207,597	2.81%
8	Cogent Nominees Pty Limited <SL Non Cash Collateral A/C>	17,064,000	2.79%
9	J Barlow Consultants Pty Ltd	7,583,012	1.24%
10	Mathews Capital Partners Pty Ltd <Sabre Fund A/C>	7,391,392	1.21%
11	Australian Reward Investments Alliance	6,614,209	1.08%
12	Thorney Investments Pty Ltd	5,081,619	0.83%
13	Mathews Capital Partners Pty Ltd Iior <Sabre Fund A/C>	4,100,000	0.67%
14	Citicorp Nominees Pty Limited <Cfsil Cfs Ws Small Comp A/C>	3,987,751	0.65%
15	Mr Louis Ivan Rozman	3,884,336	0.63%
16	Cogent Nominees Pty Limited	3,364,151	0.55%
17	Kabila Investments Pty Ltd	3,039,340	0.50%
18	Mr Nicholas Paul Davies	3,001,819	0.49%
19	Aspac Mining Limited	2,101,592	0.34%
20	Farjoy Pty Ltd	2,042,944	0.33%
		372,306,888	60.81%

AOEGA – March 2008 convertible notes

No.	Name of securityholder	Holding	% Held
1	Fortis Clearing Nominees Pty Ltd <Settlement A/C>	2,050,621	15.35%
2	Lujeta Pty Ltd <The Margaret Account>	1,344,555	10.06%
3	Citicorp Nominees Pty Limited	1,290,212	9.66%
4	Geelong City Motor Holdings Pty Ltd	476,533	3.57%
5	Biotec International Pty Ltd <Bigum Super Fund A/C>	463,548	3.47%
6	Mr Andrew James Lees	413,376	3.09%
7	UBS Wealth Management Australia Nominees Pty Ltd	384,707	2.88%
8	Trafalgar Custodians Pty Ltd <Davgre Super Fund A/C>	363,433	2.72%
9	Tukumbini Pty Ltd <Willis Family A/C>	335,026	2.51%
10	Diab Investments Pty Ltd	270,136	2.02%
11	Badenvale Pty Ltd	250,000	1.87%
12	Hillmorton Custodians Pty Ltd <The Lennox Unit A/C>	221,118	1.65%
13	Mr Martin Lennox Rathbone & Mrs Margot Johanna Rathbone	155,587	1.16%
14	ANZ Nominees Limited <Cash Income A/C>	146,268	1.09%
15	Mr Guy Lance Jones & Mrs Lyndal Bayly & Mrs Fiona Winten <Est Late Rex Jones A/C>	138,528	1.04%
16	Richard Seville & Associates Pty Ltd <The Seville Super Fund A/C>	137,930	1.03%
17	Kelpador Pty Ltd <Superannuation Fund A/C>	135,141	1.01%
18	Bedford Banner Pty Ltd <Bedford Banner S/Fund A/C>	131,233	0.98%
19	Brile Pty Ltd <Super Fund A/C>	131,233	0.98%
20	Sixth Erra Pty Ltd <Staff Super A/C>	125,000	0.94%
		8,964,185	67.08%

Arrow Energy N.L. (the company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the Group in this statement.

The relationship between the Board and senior management is critical to the Group's long-term success. The Directors are responsible to the shareholders for the performance of the company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

A description of the company's main corporate governance practices is set out below.

The Board of Directors

The Board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the company website at www.arrowenergy.com.au. The charter details the Board's composition and responsibilities.

Board composition

The charter states:

- the Board is to be comprised of both executive and Non-executive Directors with a majority of Non-executive Directors. Non-executive Directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management;
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman must be an independent Non-executive Director, the majority of the Board must be independent of management and all Directors are required to bring independent judgement to bear in their Board decision-making;
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director;

- the company is to maintain a mix of Directors on the Board from different backgrounds with complementary skills and experience; and
- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the company including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives;
 - compliance with the company's Code of Conduct; and
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors;
- appointment, performance assessment and, if necessary, removal of the Managing Director;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation; and
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the Directors' Report under the heading "Information on Directors". There are four Non-executive Directors, three of whom are deemed independent under the principles set out below, and two Executive Directors at the date of signing the Directors' Report.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between Directors with experience and knowledge of the Group and Directors with an external or fresh perspective;
- the size of the Board is conducive to effective discussion and efficient decision-making.

Directors' independence

The Board has adopted specific principles in relation to Directors' independence. These state that to be deemed independent, a Director must be a non-executive and:

- not be a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- within the last three years, not have been employed in an executive capacity by the company or any other Group member, or been a Director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the company or any other Group member, or an employee materially associated with the service provided;
- not be a material supplier or customer of the company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no material contractual relationship with the company or a controlled entity other than as a Director of the Group;
- not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the company; and
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the company.

Materiality for these purposes is determined on both quantitative and qualitative bases. A transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the Director's performance.

Non-executive Directors

The Non-executive Directors meet regularly without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the full Board.

Term of office

The company's constitution specifies that all Non-executive Directors must retire from office no later than the third annual general meeting ("AGM") following their last election. Where eligible, a Director may stand for re-election, subject to attaining the age of 70 years when a Director will retire, by agreement, at the next AGM and will not seek re-election.

Chairman and Chief Executive Officer ("CEO")

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the company's senior executives.

The CEO is responsible for implementing Group strategies and policies. The Board charter specifies that these are separate roles to be undertaken by separate people.

Commitment

The Board held 15 Board meetings and an additional corporate strategy workshop during the year. Two of those meetings were held at operational sites of the company and a full tour of the facilities was included as part of each visit.

Non-executive Directors are expected to spend an appropriate portion of time per year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the company's Board of Directors and of each Board committee held during the year ended 30 June 2007, and the number of meetings attended by each Director is disclosed on page 45.

It is the company's practice to allow its Executive Directors to accept appointments outside the company with prior advice to the Board.

The commitments of Non-executive Directors are considered by the Board prior to the Directors' appointment to the Board of the company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each Non-executive Director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the company.

The Board of Directors (continued)

Conflict of interests

No entities connected with Directors had business dealings with the consolidated entity during the year, other than Jeremy Barlow who was a shareholder and Director of Global CBM. During the course of the financial year under review Arrow purchased a 50% interest in the issued capital of Global CBM and renamed the company as Arrow Global CBM. It also has contractual rights to purchase the remaining 50% of the shares in Arrow Global CBM based on agreed terms. Jeremy Barlow remains a shareholder in Arrow Global CBM on his own account. Arrow Energy N.L. currently holds a 50% interest in Arrow Global CBM. In accordance with the Board Charter, the Directors concerned declared their interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions. In addition, those Directors did not receive any papers from the Group pertaining to those dealings.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

The Chairman undertakes an annual assessment of the performance of individual Directors and meets privately with each Director to discuss this assessment.

Corporate reporting

The Managing Director and Chief Financial Officer have made the following certifications to the Board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the corporate governance, remuneration and audit committees. The committee structure and membership is reviewed on an annual basis.

Each committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the company website. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Minutes of committee meetings are tabled at the subsequent committee meeting and are available to other Directors. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Corporate Governance committee

The Corporate Governance committee consists of the following Non-executive Directors:

J Reynolds (Chairman)
J Barlow
D Williamson

Details of these Directors' attendance at corporate governance committee meetings are set out in the Directors' Report on page 45.

Remuneration committee

The remuneration committee consists of the following Directors:

P Elkington (Chairman)
J Reynolds
S Bizzell

Details of these Directors' attendance at remuneration committee meetings are set out in the Directors' Report on page 45.

The remuneration committee operates in accordance with its charter which is available on the company website. The remuneration committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other senior executives and Non-executive Directors.

Committee members receive briefings from external remuneration sources on recent developments on remuneration and related matters as required.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

Further information on Directors' and Executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration Report".

The committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programs and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Audit committee

The audit committee consists of the following Directors:
D Williamson (Chairman)
J Reynolds
S Bizzell

Details of these Directors' qualifications and attendance at audit committee meetings are set out in the Directors' Report on pages 43 to 45.

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit committee operates in accordance with a charter which is available on the company website.

The main responsibilities of the committee are to:

- review, assess and approve the annual report, the half-year financial report and all other financial information published by the company or released to the market;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations;
 - reliability of financial reporting; and
 - compliance with applicable laws and regulations.
- determine the scope of potential internal audit requirements;

- oversee the effective operation of the risk management framework;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and external auditors;
- meets with external auditors at least three times a year, or more frequently if necessary;
- reviews the processes the CEO and CFO have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors as required without the presence of management; and
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external auditor for the financial year 2007 onwards. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

External auditors (continued)

An analysis of fees paid to the external auditors, including a break down of fees for non-audit services, is provided in the Directors' Report and in note 29 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Risk assessment and management

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. A formal delegation of authority document exists and is operational.

The company risk management policy and the operation of the risk management and compliance system are regularly reviewed by the Executive Group.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

In addition, the Board requires that each major proposal submitted to the Board for decision is accompanied by an appropriate review of risks and, where required, management's proposed mitigation strategies.

The environment, health and safety management system ("EHSMS")

The company recognises the importance of environmental and occupational health and safety ("OH&S") issues and is committed to the highest levels of performance. To help meet this objective the EHSMS was established to facilitate the systematic identification of environmental and OH&S issues and to ensure they are managed in a structured manner. This system has been operating for a number of years and allows the company to:

- monitor its compliance with all relevant legislation;
- continually assess and improve the impact of its operations on the environment;

- encourage employees to actively participate in the management of environmental and OH&S issues;
- work with trade associations representing the Group's businesses to raise standards;
- use energy and other resources efficiently; and
- encourage the adoption of similar standards by the Group's principal suppliers, contractors and distributors.

Information on compliance with significant environmental regulations is set out in the Directors' Report.

Continuous disclosure and shareholder communication

The company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the company's securities. These policies and procedures also include the arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings. A summary of these policies and procedures is available on the company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange ("ASX"). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When presentations on aspects of the Group's operations are made, the material used in the presentation is released to the ASX and posted on the company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders currently receive a copy of the company's annual report. In addition, the company seeks to provide opportunities for shareholders to participate through electronic means. Recent initiatives to facilitate this include making all company announcements, media briefings, details of company meetings, press releases for the last three years and financial reports for the last five years available on the company's website.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates on company matters.

Annual Financial Report

65

30 June 2007

Contents	Page
Financial report	
Income statement	66
Balance sheet	67
Statement of changes in equity	68
Cash flow statement	69
Notes to the financial statements	70
Directors' declaration	115
Independent audit report	116

This financial report covers both Arrow Energy N.L. as an individual entity and the consolidated entity consisting of Arrow Energy N.L. and its subsidiaries. The financial report is presented in Australian currency.

Arrow Energy N.L. is a listed public company limited by shares, incorporated and domiciled in Australia and listed on the Australian Stock Exchange. Its registered office and principal place of business is:

Level 13, 10 Eagle Street
Brisbane Qld 4000

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 38 to 41.

The financial report was authorised for issue by the Directors on 20 August 2007. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.arrowenergy.com.au.

Income Statement

66

For the year ended 30 June 2007

	Notes	Consolidated		Parent entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	5	27,868,249	1,182,896	3,872,376	821,242
Depreciation and amortisation	6	(6,587,335)	(213,937)	(183,012)	(174,779)
Employment expenses		(6,151,631)	(3,369,661)	(2,897,388)	(3,369,661)
Corporate and administration		(3,154,052)	(714,129)	(1,091,864)	(714,129)
Field production expenses		(2,328,359)	(311,193)	—	—
Occupancy costs		(2,002,279)	(386,896)	(485,475)	(386,896)
Royalties		(1,713,431)	(6,040)	—	—
Consultants		(1,200,026)	(354,597)	(872,356)	(354,597)
Finance Costs	6	(1,264,188)	(485,937)	(517,879)	(479,991)
Other expenses		(796,436)	(531,583)	(450,140)	(506,178)
Legal expenses		(269,228)	(106,460)	(60,689)	(106,460)
Profit/(Loss) before income tax		2,401,284	(5,297,537)	(2,686,427)	(5,271,449)
Income tax (expense)/benefit	7	15,430,000	—	—	—
Profit is attributable to:					
Equity holders of Arrow Energy N.L.		17,831,284	(5,297,537)	(2,686,427)	(5,271,449)
		Cents	Cents		
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:					
Basic earnings per share	38	3.60	(2.83)		
Diluted earnings per share	38	3.48	(2.83)		

The above income statement should be read in conjunction with the accompanying notes.

Balance Sheet

67

As at 30 June 2007

		Consolidated		Parent entity	
	Notes	2007 \$	2006 \$	2007 \$	2006 \$
Assets					
Current assets					
Cash and cash equivalents	8	35,991,946	26,932,828	34,596,871	26,932,759
Trade and other receivables	9	5,691,006	3,356,436	292,607	9,656,835
Inventory	10	6,323,527	1,518,017	4,064,513	1,518,017
Total current assets		48,006,479	31,807,281	38,953,991	38,107,611
Non-current assets					
Available-for-sale financial assets	11	9,367,220	1,560,835	9,328,553	1,560,835
Other financial assets	12	—	—	205,534,452	1,625,375
Property, plant and equipment	13(a)	23,874,884	851,265	2,574,466	851,265
Leased assets	13(b)	52,108,825	—	—	—
Intangible asset – exploration	14	109,886,305	5,088,833	8,154,020	5,020,052
Development assets – producing areas	15	124,491,945	38,559,890	12,457,425	29,341,818
Other assets	16	2,111,389	224,985	154,281	224,985
Deferred tax assets	17	—	—	—	—
Total non-current assets		321,840,568	46,285,808	238,203,197	38,624,330
Total assets		369,847,047	78,093,089	277,157,188	76,731,941
Liabilities					
Current liabilities					
Trade payables	18	4,097,275	11,261,786	1,612,017	18,359,425
Other payables	18	8,078,682	7,100,661	296,121	55,358
Borrowings – finance leases	19	5,291,000	—	—	—
Borrowings	21(a)	4,848,784	—	4,848,784	—
Provisions	20	2,261,130	—	460,495	—
Total current liabilities		24,576,871	18,362,447	7,217,417	18,414,783
Non-current liabilities					
Provisions	22	7,330,172	1,111,828	559,859	764,783
Borrowings – finance leases	23	45,953,496	—	—	—
Borrowings	21(b)	—	4,831,028	—	4,831,028
Deferred tax liability	24	—	—	—	—
Total non-current liabilities		53,283,668	5,942,856	559,859	5,595,811
Total liabilities		77,860,539	24,305,303	7,777,276	24,010,594
Net assets		291,986,508	53,787,786	269,379,912	52,721,347
Equity					
Contributed equity	25	274,264,105	63,736,618	274,264,105	63,736,618
Reserves	26(a)	10,738,651	1,920,890	10,738,396	1,920,891
Retained profits/(accumulated losses)	26(b)	5,961,562	(11,869,722)	(15,622,589)	(12,936,162)
Parent entity interest		290,964,318	53,787,786	269,379,912	52,721,347
Minority interest	27	1,022,190	—	—	—
Total equity		291,986,508	53,787,786	269,379,912	52,721,347

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

68

For the year ended 30 June 2007

	Notes	Consolidated		Parent entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Total Equity at the beginning of the financial year		53,787,786	11,241,448	52,721,346	10,148,921
Available-for-sale investments revaluation reserve	26	6,806,385	235,216	6,767,717	235,216
Share-based payments reserve	26	2,011,195	1,042,166	2,049,787	1,042,166
Foreign currency translation reserve	26	181	—	—	—
Net income recognised directly in equity		8,817,761	1,277,382	8,817,504	1,277,382
Minority interest		1,022,188	—	—	—
Profit/(Loss) for the year		17,831,284	(5,297,537)	(2,686,427)	(5,271,449)
Total recognised income and expense for the year		27,671,233	(4,020,155)	6,131,077	(3,994,067)
Transaction with equity holders in their capacity as equity holders					
Shares issued		212,716,632	48,943,484	212,716,632	48,943,484
Transaction costs		(2,189,143)	(2,376,991)	(2,189,143)	(2,376,991)
Total Equity at the end of the Financial Year		291,986,508	53,787,786	269,379,912	52,721,347

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

69

For the year ended 30 June 2007

	Notes	Consolidated		Parent entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash flows from operating activities					
Receipts from customers		25,670,010	404,465	1,880,831	112,797
Payments to suppliers and employees		(14,449,708)	(3,887,544)	(6,342,906)	(3,614,449)
Interest received		2,198,237	638,016	1,991,544	638,016
Finance costs paid		(1,476,516)	(154,518)	(118,885)	(148,573)
Net cash inflows/(outflows) from operating activities	37	11,942,023	(2,999,581)	(2,589,416)	(3,012,209)
Cash flows from investing activities					
Payments for property, plant and equipment		(6,911,442)	(356,656)	(1,732,855)	(356,656)
Payments for construction of gas processing infrastructure		—	(13,661,468)	—	(13,661,468)
Payments for exploration and development expenditure		(57,744,834)	(324,808)	(4,532,929)	(324,808)
Research and development receipt		—	322,875	—	322,875
Purchase of tenements		—	(2,350,271)	—	(2,350,271)
Purchase of investments		(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Acquisition of CH4 Gas Limited (net of cash acquired)		2,625,927	(293,269)	(1,884,354)	(293,269)
Advance to related party		—	—	(55,238,093)	(31,127)
Advance from related party		—	—	—	44,420
Tenement security bonds		(23,542)	361,059	70,773	361,057
Net cash inflows/(outflows) from investing activities		(63,053,891)	(17,302,538)	(64,317,458)	(17,289,247)
Cash flows from financing activities					
Proceeds from issue of shares		76,760,129	45,642,606	76,760,129	45,642,606
Payment of share issue costs		(2,189,143)	(2,280,004)	(2,189,143)	(2,280,004)
Proceeds from borrowings		6,580,000	—	—	—
Repayments of borrowings		(20,980,000)	—	—	—
Net cash inflows/(outflows) from financing activities		60,170,986	43,362,602	74,570,986	43,362,602
Net increase (decrease) in cash and cash equivalents		9,059,118	23,060,483	7,664,112	23,061,146
Cash and cash equivalents at the beginning of the financial year		26,932,828	3,872,345	26,932,759	3,871,613
Cash and cash equivalents at end of year	8	35,991,946	26,932,828	34,596,871	26,932,759

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

70

30 June 2007

Contents	Page
1 Summary of significant accounting policies	71
2 Financial risk management	80
3 Critical accounting estimates and judgements	81
4 Segment information	82
5 Revenue	83
6 Expenses	83
7 Income tax expense	84
8 Current assets – cash and cash equivalents	85
9 Current assets – trade and other receivables	86
10 Current assets – inventories	86
11 Non-current assets – available-for-sale financial assets	86
12 Non-current assets – other financial assets	86
13 Non-current assets – property, plant and equipment	87
14 Non-current assets – development	88
15 Non-current assets – intangible assets (exploration)	88
16 Non-current assets – other assets	89
17 Non-current assets – deferred tax assets	89
18 Current liabilities – trade and other payables	90
19 Current liabilities – borrowings (finance lease)	90
20 Current liabilities – provisions	90
21 Borrowings – current/non-current	91
22 Non-current liabilities – provisions	91
23 Non-current liabilities – borrowings (finance lease)	91
24 Deferred tax liability	92
25 Contributed equity	93
26 Reserves and retained profits	94
27 Minority interest	95
28 Key management personnel disclosures	95
29 Remuneration of auditors	100
30 Contingencies	101
31 Commitments	101
32 Related party transactions	103
33 Business combination	105
34 Subsidiaries	107
35 Interests in Joint Ventures	107
36 Events occurring after the balance sheet date	109
37 Reconciliation of profit after income tax to net cash inflow from operating activities	110
38 Earnings per share	111
39 Share-based payments	111

1

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Arrow Energy N.L. as an individual entity and the consolidated entity consisting of Arrow Energy N.L. and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the consolidated financial statements and notes of Arrow Energy N.L. comply with International Financial Reporting Standards ("IFRS"). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosure and Presentation*.

Early adoption of standards

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- revised AASB 101 *Presentation of Financial Statements* (issued October 2006)

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas

where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Arrow Energy N.L. ("company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. Arrow Energy N.L. and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements Arrow Energy N.L.

(ii) Joint Ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of Joint Venture activities have been incorporated in the financial statements under the appropriate headings. Details of the Joint Ventures are set out in note 35.

Profits or losses on transactions with the joint venture are eliminated to the extent of the Group's ownership interest.

30 June 2007

Note 1 Summary of significant accounting policies (continued)

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Arrow Energy N.L.'s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue recognition

Amounts disclosed as revenue are net of trade allowances and duties and taxes paid. The gas sales revenue is recognised on delivery of gas at the buyers' metering points and is billed monthly in arrears. Electricity revenue is recognised on delivery of electrical output at the power station outlet metering point and is billed monthly in arrears.

Interest revenue is recognised on a time proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of goods and services tax.

Joint Venture management fees are calculated based on current contractual guidelines.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Arrow Energy N.L. and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Arrow Energy N.L., and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

Upon the acquisition of CH4 Gas Limited and its controlled entities during the financial year the companies were added to the consolidated group.

In addition to its own current and deferred tax amounts, Arrow Energy N.L. also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax

funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 13). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is amortised over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 31). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(h) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

30 June 2007

Note 1 Summary of significant accounting policies (continued)

(h) Business combinations (continued)

If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

(l) Inventories

Drillhole casing and consumables are recorded at the lower of cost or net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs.

(m) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost. Such investments include both investments in shares issued by the subsidiary and other parent entity interests that in substance form part of the parent entity's investment in the subsidiary. These include investments in the form of interest-free loans which have no fixed repayment terms and which have been provided to subsidiaries as an additional source of long-term capital.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

30 June 2007

Note 1 Summary of significant accounting policies (continued)

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(o) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Buildings	15 years
Office furniture and equipment	5 years
Plant and equipment	10 years
Computer equipment	5 years
Leased plant and equipment	15 years to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(s) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the share option plan and an employee share scheme.

The fair value of options granted under the share option plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Under the employee share scheme, shares issued to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

Long-term incentives

Long-term incentives are provided to all employees. The annual assessment will be based on the performance of the company against three-year performance targets (i.e. EBITDA targets set each year for the next three financial year ends commencing with the financial year ending 30 June 2007). The equity will vest in three equal instalments over the following three years commencing 1 July each year and annually thereafter.

Retention incentives

Retention incentives are provided to all employees. It is awarded in recognition of ongoing commitment and service to Arrow and will be awarded annually at 30 June each year. 5% of base salary is the current entitlement. The equity awarded will vest in three equal instalments over the following three years.

30 June 2007

(s) Employee benefits (continued)

Short-term incentives

A proportion of the employee's base salary is payable each year, with 50% of this amount relating to the performance of Arrow EBITDA performance against approved annual budgets, being the performance of Arrow as measured by its earnings before interest, depreciation and amortisation and taxes for the relevant period) with the remaining 50% of this relating to personal performance against an agreed performance contract.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(t) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but does not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Capitalised development and construction costs are amortised over the life of the area of interest to which they relate. Amortisation charges are determined on a production output basis. Economically recoverable reserves are reassessed annually to establish any adjustments required to amortisation patterns.

(u) Restoration and rehabilitation provisions

Both for close down and restoration and for environmental clean up costs, provision is made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs.

The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period.

For close down and restoration costs, which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas, movements in provision other than the amortisation of the discount, such as those resulting from changes in the cost estimates, lives of operations or discount rates, are capitalised and amortised against future production.

(v) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(z) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 7 *Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards* [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038] AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's and the parent entity's financial instruments.

(ii) AASB-I 10 *Interim Financial Reporting and Impairment*

AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

(iii) AASB-I 11 AASB 2 *Group and Treasury Share Transactions*

AASB-I 11 AASB 2 – *Group and Treasury Share Transactions* and AASB 2007-1 *Amendments to Australian Accounting Standards* arising from AASB Interpretation 11 AASB-I 11 and AASB 2007-1 are effective for annual reporting periods commencing on or after 1 March 2007. AASB-I 11 addresses whether certain types of share-based payment transactions should be accounted for as equity-settled or as cash settled transactions and specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent. The Group will apply AASB-I 11 from 1 July 2007, but it is not expected to have any impact on the Group's financial statements.

(iv) AASB 8 *Operating Segments*

AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

30 June 2007

(aa) New accounting standards and interpretations (continued)

(v) Revised AASB 123 *Borrowing Costs*

Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards* arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 and AASB 138 and Interpretations 1 and 12]. The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The impact on the financial statements will depend on the amount of qualifying assets and related borrowing costs in the first year of application. The Group has not yet decided when to adopt AASB 123.

(vi) AASB 2007-4 *Amendments to Australian Accounting Standards* AASB 2007-4 *Amendments to Australian Accounting Standards* arising from ED 151 and Other Amendments and AASB 2007-7 *Amendments to Australian Accounting Standards* [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 and AASB 128]

AASB 2007-4 and AASB 2007-7 are applicable to annual reporting periods beginning on or after 1 July 2007. The amendments introduce a number of options that existed under IFRS but had not been included in the original Australian equivalents to IFRS and remove many of the additional Australian disclosure requirements. The financial statements may be affected by the ability to use the indirect method for presenting cash flow statements, a possible exemption from the requirement to prepare consolidated financial reports for intermediate parent entities, provided they are wholly owned or all shareholders agree and they are not the ultimate Australian parent entity in the group and discount rates for employee benefits obligations to be based on corporate bonds if there is a deep market in Australia (previous guidance mandated the use of government bond rates).

The Group will adopt the amendments arising from AASB 2007-4 and AASB 2007-7 for the financial year ending 30 June 2008. However, it does not intend to apply any of the new options now available. As a consequence, application of the revised standards will not affect any of the amounts recognised in the financial statements, but it may remove some of the disclosures that are currently required.

2

Note 2 Financial risk management

The Group's activities expose it to a variety of financial risk; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The company carries out risk management as approved by the Board of Directors to identify and evaluate financial risks. The Board provides principles for overall risk management, also covering specific areas such as mitigating interest rate and other risks, borrowings and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar.

(ii) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The significant majority of the Group's sales are made to entities that are directly owned by, or controlled by, the Queensland State Government. On the basis of the standing and credit ratings of these government backed organisations, the Group does not consider that it has any significant exposure to credit risks.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

(d) Interest rate risk

Other than cash balances held (which are invested in short to medium term money market) the group has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group does not consider that it has any exposure to fluctuations in interest rates in relation to the convertibles notes on issue, given the fixed interest rate nature of this item.

The Group does not consider that it has any exposure to fluctuations in interest rates in relation to the finance leases in existence, given the fixed interest rate nature of this item.

3

Note 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Share-based payment transactions

The Group measures the cost of shares and options issued to employees and third parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of unlisted options is determined by an external valuer using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

(b) Critical judgements in applying the entity's accounting policiesRehabilitation

The Group assesses rehabilitation requirements at each reporting date by evaluating costs both for close down and restoration and for environmental clean up costs. Provision is made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs. The cost of any provision is capitalised as development costs and amortised over the life of the area of interest.

Recoverability of exploration costs

The Group assesses the recoverability of the carrying value of capitalised exploration costs at each reporting date (or at closer intervals should the need arise). In completing this assessment, regard is had to the Group's intentions with regard to proposed future exploration and development plans for individual exploration areas, to the success or otherwise of activities undertaken in individual areas in recent times, to the likely success of future planned exploration activities, and to any potential plans for divestment of individual areas. Any required adjustments to the carrying value of capitalised exploration is completed based on the results of this assessment.

30 June 2007

4

Note 4 Segment information

(a) Description of segments

Business segments

The principal activity of the consolidated entity was the undertaking of gas exploration, development and production activities in Australia and Asia. The entity operates in only one business segment being coal seam methane gas.

Geographical segments

Although the consolidated entity's divisions are managed on a global basis they operate in two main geographical areas:

- Australia
- Asia

(b) Geographical segments

	Consolidated	
	2007 \$	2006 \$
Segment revenues from sales to external customers		
Australia	27,868,249	1,182,896
Asia	–	–
	27,868,249	1,182,896
Segment assets		
Australia	366,314,981	78,093,089
Asia	2,532,066	–
	368,847,047	78,093,089
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		
Australia	272,869,049	34,141,691
Asia	1,685,711	–
	274,554,760	34,141,691

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

All profits are currently derived from operations in Australia.

(c) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and Accounting Standard AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for service warranties. Segment assets and liabilities do not include income taxes.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's length basis and are eliminated on consolidation.

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
5				
Note 5 Revenue				
From continuing operations				
Sales of gas	20,983,904	361,654	—	—
Joint Venture services and charges	4,617,477	112,798	1,838,644	112,798
	25,601,381	474,452	1,838,644	112,798
Other revenue				
Interest	2,198,237	707,811	1,991,544	707,811
Other	68,631	633	42,188	633
	2,266,868	708,444	2,033,732	708,444
	27,868,249	1,182,896	3,872,376	821,242

6				
Note 6 Expenses				
Profit before income tax includes the following specific expenses:				
<u>Depreciation</u>				
Plant and equipment	1,324,833	104,493	159,583	104,493
Total depreciation	1,324,833	104,493	159,583	104,493
<u>Amortisation</u>				
Borrowing costs	—	70,286	—	70,286
Leased assets	233,158	—	—	—
Development	5,029,344	39,158	23,429	—
Total amortisation	5,262,502	109,444	23,429	70,286
Total depreciation and amortisation	6,587,335	213,937	183,012	174,779
<u>Finance costs</u>				
Borrowing costs – convertible notes	440,188	479,991	440,188	479,991
Other interest payable	1,186,497	5,946	77,691	—
Less amounts capitalised to development properties	(362,497)	—	—	—
	1,264,188	485,937	517,879	479,991
Operating lease rentals	554,280	326,270	283,966	326,270
Defined superannuation contributions	694,943	203,269	136,304	54,271

Notes to the Financial Statements

84

30 June 2007

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
7				
Note 7 Income tax expense				
(a) Income tax expense				
Current tax	—	—	—	—
Deferred tax	(15,430,000)	—	—	—
Adjustments for current tax of prior periods	—	—	—	—
Total income tax expense/(benefit)	(15,430,000)	—	—	—
Income tax expense is wholly attributable to profit from continuing operations.				
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 17)	—	—	—	—
(Decrease)/increase in deferred tax liabilities (note 24)	(15,430,000)	—	—	—
	(15,430,000)	—	—	—
Deferred tax expense/(benefit) comprises:				
Impact of CH4 Gas Limited entering the tax consolidated group during the financial year	(22,481,739)	—	—	—
Impact of the derecognition of income tax losses as a result of CH4 Gas Limited entering the tax consolidated group	7,051,739	—	—	—
	(15,430,000)	—	—	—
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(Loss) from continuing operations before income tax expense	2,401,284	(5,297,537)	(2,686,427)	(5,271,449)
Tax at the Australian tax rate of 30% (2006: 30%)	720,385	(1,589,261)	(805,928)	(1,581,435)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Entertainment	8,340	6,860	7,264	6,860
Employee Share Options	603,358	430,536	145,769	430,536
Share issue costs	—	(179,747)	—	(179,747)
Previously unrecognised tax losses used to reduce income tax expense	(1,332,083)	1,331,612	652,895	1,323,786
Income tax expense	—	—	—	—
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly credited to equity.				
Net deferred tax debited directly to equity	2,414,480	110,359	2,179,918	110,359

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
(d) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	60,166,666	16,298,932	60,166,666	16,298,932
Potential tax benefit at 30%	18,050,000	4,889,680	18,050,000	4,889,680

All unused tax losses were incurred by Australian entities that are part of the tax consolidated group.

(e) Tax consolidation legislation

Arrow Energy N.L. and its wholly owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Arrow Energy N.L.

Upon the acquisition of CH4 Gas Limited and its controlled entities during the financial year the companies were added to the consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Arrow Energy N.L. for any current tax payable assumed and are compensated by Arrow Energy N.L. for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Arrow Energy N.L. under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables (see note 32).

8

Note 8 Current assets – cash and cash equivalents

Cash at bank and on hand	6,763,229	14,599,008	5,375,539	14,598,939
Deposits at call	29,228,717	12,333,820	29,221,332	12,333,820
	35,991,946	26,932,828	34,596,871	26,932,759

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	35,991,946	26,932,828	34,596,871	26,932,759
Balances per statement of cash flows	35,991,946	26,932,828	34,596,871	26,932,759

(b) Cash at bank and on hand

These earn interest at 5.0% to 5.6% per annum.

(c) Deposits at call

The deposits are bearing floating interest rates between 5.2% and 5.6% per annum (2006: 5.1% and 5.2% per annum). These deposits have an average period to repricing of approximately 60 days.

Notes to the Financial Statements

86

30 June 2007

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
9				
Note 9 Current assets – trade and other receivables				
Trade receivables	5,145,561	1,673,100	99,866	1,673,100
Other receivables*	540,878	1,093,509	192,741	7,393,907
Prepayments	4,567	589,827	–	589,828
	5,691,006	3,356,436	292,607	9,656,835

These amounts generally arise from transactions outside the usual operating activities.

All balances in this category are non-interest bearing.

10				
Note 10 Current assets – inventories				
Drill hole casing at cost	2,188,567	–	1,856,692	–
Consumables at cost	4,134,960	1,518,017	2,207,821	1,518,017
	6,323,527	1,518,017	4,064,513	1,518,017

11				
Note 11 Non-current assets – available-for-sale financial assets				
At beginning of year	1,560,835	107,105	1,560,835	107,105
Adjustment on adoption of AASB 132 and AASB 139	–	218,514	–	218,514
Additions/acquisitions	1,000,000	1,000,000	1,000,000	1,000,000
Revaluation surplus/(deficit) transfer to equity	6,806,385	235,216	6,767,718	235,216
At end of year	9,367,220	1,560,835	9,328,553	1,560,835

The available-for-sale financial assets comprises investments in companies listed on the Australian Stock Exchange.

12				
Note 12 Non-current assets – other financial assets				
Shares in subsidiaries (note 34)	–	–	140,932,131	1,625,375
Loans to controlled entities (note 32)	–	–	64,602,321	–
	–	–	205,534,452	1,625,375

These financial assets are carried at cost.

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
13				
Note 13 Non-current assets – property, plant and equipment				
(a) Owned assets				
<u>Land and buildings</u>				
At cost	2,055,892	317,657	267,869	317,657
<u>Plant and equipment</u>				
At cost	23,372,117	761,901	2,694,473	761,901
Accumulated depreciation	(1,553,125)	(228,293)	(387,876)	(228,293)
	21,818,992	533,608	2,306,597	533,608
<u>Total property, plant and equipment</u>				
At cost	25,428,009	1,079,558	2,962,342	1,079,558
Accumulated depreciation	(1,553,125)	(228,293)	(387,876)	(228,293)
	23,874,884	851,265	2,574,466	851,265
<u>Land and Buildings</u>				
Carrying amount at beginning of year	317,657	268,116	317,657	268,116
Acquisition of CH4 Gas Limited	530,127	–	–	–
Transfers	(49,788)	–	(49,788)	–
Additions	1,257,896	49,541	–	49,541
Carrying amount at end of year	2,055,892	317,657	267,869	317,657
<u>Plant and equipment</u>				
Carrying amount at beginning of year	533,608	629,744	533,608	629,744
Acquisition of CH4 Gas Limited	17,270,277	–	–	–
Transfers	49,788	–	49,788	–
Additions	5,296,634	329,919	1,882,783	329,919
Disposals	(6,483)	–	–	–
Refund of costs by a third party	–	(321,561)	–	(321,561)
Depreciation expense	(1,324,832)	(104,494)	(159,582)	(104,494)
Carrying amount at end of year	21,818,992	533,608	2,306,597	533,608
<u>Total property, plant and equipment</u>				
Carrying amount at beginning of year	851,265	897,860	851,265	897,860
Acquisition of CH4 Gas Limited	17,800,404	–	–	–
Additions	6,554,530	379,460	1,882,783	379,460
Disposals	(6,483)	–	–	–
Refund of costs by a third party	–	(321,561)	–	(321,561)
Depreciation expense	(1,324,832)	(104,494)	(159,582)	(104,494)
Carrying amount at end of year	23,874,884	851,265	2,574,466	851,265
(b) Leased assets				
All leased assets were entered into by the controlled entities during the financial year:				
<u>Leased equipment</u>				
Acquired during the year – at cost	52,341,983	–	–	–
Amortisation charges for the year	(233,158)	–	–	–
Net book amount	52,108,825	–	–	–

Refer to notes 19 and 23 for corresponding lease liability.

30 June 2007

14

Note 14 Non-current assets – intangible asset (exploration)

Exploration

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
At cost	109,886,305	5,088,833	8,154,020	5,020,052
Accumulated amortisation	—	—	—	—
	109,886,305	5,088,833	8,154,020	5,020,052

Exploration

Carrying amount at beginning of year	5,088,833	9,064,346	5,020,052	7,430,200
Additions	10,787,167	3,760,621	3,133,968	3,760,620
Acquisitions during the year	94,010,305	—	—	—
Transfers to Development	—	(7,736,134)	—	(6,170,768)
Carrying amount at end of year	109,886,305	5,088,833	8,154,020	5,020,052

15

Note 15 Non-current assets – development

Development

At cost	129,491,062	38,599,048	12,480,853	29,341,818
Accumulated amortisation	(4,999,117)	(39,158)	(23,428)	—
	124,491,945	38,559,890	12,457,425	29,341,818

Development

Carrying amount at beginning of year	38,559,890	2,451,742	29,341,818	2,451,742
Acquisition of CH ₄ Gas Limited	56,048,797	—	—	—
Reimbursement of past costs*	(16,860,965)	—	(16,860,965)	—
Additions	51,773,567	28,411,172	—	28,064,127
Transfers from exploration	—	7,736,134	—	6,170,768
Transfers to subsidiaries	—	—	—	(7,344,819)
Amortisation expense	(5,029,344)	(39,158)	(23,428)	—
Carrying amount at end of year	124,491,945	38,559,890	12,457,425	29,341,818

* During the financial year under review, the consolidated entity entered into two transactions in relation to the development, construction and financing of the Tipton West Central Gas Processing Facility and the Daandine Power Generation facility. Both of these are considered to be in the nature of finance leases. This reimbursement of past costs are in connection with these two transactions.

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
16				
Note 16 Non-current assets – other assets				
Deposits – AGL Energy Limited	648,000	–	–	–
Deposits – Department of Natural Resources Mines and Energy (Queensland)	1,171,195	224,985	154,281	224,985
Deposits – Sundry	292,194	–	–	–
Security Deposits	2,111,389	224,985	154,281	224,985

The Group is in late stage negotiations in relation to converting these cash based security deposits into a non-cash backed bank guarantee facility. On this basis having regard to the Group's intentions, book value is considered to reasonably approximate fair value.

Deposits – AGL Energy Limited

On 17 May 2000, a controlled entity entered into a Project Agreement ("the Agreement") with BHP Coal Pty Ltd ("BHPC"). Under the terms of that Agreement, BHPC was seeking an investor who was willing to finance and operate a coal seam gas project on area ATP 364P in Queensland, Australia, with such efforts involving exploration, testing of extraction methods, and potentially for the commercial production and sale of coal seam gas from the area. By signing of the Agreement, the controlled entity agreed to act in that capacity. The Agreement, subject to various termination events, is for a period of 50 years from the date of execution. Prior to commencing to exercise any rights under the Agreement, the controlled entity was required to deposit an amount of \$570,000 with BHPC (subsequently increased to \$648,000 by DNRME), such deposit amount to remain with BHPC during the term of the Agreement and for a period of three months subsequent to termination of the Agreement. In August 2006, that Agreement was assigned from BHP Coal Pty Ltd to AGL Energy Limited.

Deposits – Department of Natural Resources Mines and Energy (Queensland) ("DNRME")

The DNRME currently holds security deposits over various tenement areas in Queensland.

17

Note 17 Non-current assets – deferred tax assets

The balance comprises temporary differences attributable to:

Employee benefits	237,621	71,108	–	71,108
Provision for rehabilitation	2,199,052	333,548	156,576	229,435
Share issue costs	905,938	636,515	498,512	636,515
Accrued interest on convertible notes	33,481	–	33,481	–
Unrealised foreign exchange	23,166	–	–	–
Borrowing costs	175,839	–	–	–
Other accruals	47,730	–	–	–
Total deferred tax assets	3,622,827	1,041,171	688,569	937,058
Set-off of deferred tax liabilities pursuant to set-off provisions (note 24)	(3,622,827)	(1,041,171)	(688,569)	(937,058)
Net deferred tax assets	–	–	–	–
Deferred tax assets to be recovered after more than 12 months	2,199,053	970,063	655,088	865,950
Deferred tax assets to be recovered within 12 months	1,423,774	71,108	33,481	71,108
	3,622,827	1,041,171	688,569	937,058

Notes to the Financial Statements

90

30 June 2007

	Tax losses \$	Employee benefits \$	Provision for rehab \$	Share Issue costs \$	Other \$	Total \$
Movements – consolidated						
At 30 June 2006	–	71,108	333,548	636,515	–	1,041,172
Charged/(credited) to the income statement	–	73,514	1,070,160	–	280,215	1,423,889
Charged/(credited) directly to equity	–	–	–	(372,564)	–	(372,564)
Acquisition of subsidiary	–	86,110	795,343	689,984	105,450	1,676,887
Impact of tax entering tax consolidations	–	6,890	–	(47,997)	(105,450)	(146,557)
Post consolidation	–	93,000	795,343	641,987	–	1,530,330
At 30 June 2007	–	237,621	2,199,052	905,938	280,215	3,622,825

Movements – parent entity						
At 30 June 2006		71,108	229,435	636,515	–	937,058
Charged/(credited) to the income statement		(71,108)	(72,859)	–	33,481	(110,486)
Charged/(credited) directly to equity		–	–	(138,003)	–	(138,003)
Assumption of tax losses from tax consolidated entities		–	–	–	–	–
At 30 June 2007		–	156,576	498,512	33,481	688,569

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$

18

Note 18 Current liabilities – trade and other payables

Trade payables	4,097,275	11,261,786	1,612,017	18,359,425
Other payables and accruals	8,078,682	7,100,661	296,121	55,358
	12,175,957	18,362,447	1,908,138	18,414,783

19

Note 19 Current liabilities – borrowings (finance lease)

Daandine Power Station	3,260,000	–	–	–
Tipton Central Gas Processing Facility	2,031,000	–	–	–
	5,291,000	–	–	–

Security: The Leased Assets and Lease Liabilities, relating to the Tipton Gas Processing Facilities and the Daandine Power Generation Facilities, are owned by Australian Pipeline Trust, and have been recorded in accordance with UIG 4. Refer to note 31 for commitment details.

20

Note 20 Current liabilities – provisions

Employee benefits	2,261,130	–	460,495	–
-------------------	-----------	---	---------	---

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
21				
Note 21 Borrowings				
(a) Current liabilities – Borrowings				
Unsecured				
Convertible notes	4,848,784	–	4,848,784	–
(b) Non-current liabilities – Borrowings				
Unsecured				
Convertible notes	–	4,957,917	–	4,957,917
Amortised borrowing costs re-convertible notes	–	(126,889)	–	(126,889)
Total unsecured non-current borrowings	–	4,831,028	–	4,831,028
Total non-current borrowings	–	4,831,028	–	4,831,028

The terms and conditions of the convertible notes are:

Conversion: Convertible at any time until 31 March 2008 at holder's election. Each \$0.40 note converts into one ordinary share.

Maturity and redemption: redemption for full face value on 31 March 2008

Interest rate: 10%.

Borrowing costs relate to expenses incurred in relation to the issue of convertible notes. These costs are being amortised over period to maturity of the convertible notes.

A controlled entity has access to a project finance facility in the amount of A\$25 million for use in funding development expenditure on the production project owned by the controlled entity. As at the balance date, no amounts were drawn down under that facility. The drawdown period for this facility expires on 31 December 2007. The project finance facility is secured by a first ranking fixed and floating charge over the assets of the controlled entity.

22

Note 22 Non-current liabilities – provisions

Rehabilitation	7,330,172	1,111,828	559,859	764,783
Carrying amount at start of year	1,111,828	–	764,783	–
Additional provision recognised	3,259,942	1,111,828	(204,924)	764,783
Acquisition of CH4 Gas Limited	2,651,145	–	–	–
Charged/(credited) to income statement				
– unwinding of discount	307,257	–	–	–
Carrying amount at end of year	7,330,172	1,111,828	559,859	764,783

For further detail refer accounting policy note 1(u).

23

Note 23 Non-current liabilities – borrowings (finance lease)

Daandine Power Station	28,327,034	–	–	–
Tipton Gas Processing Facility	17,626,462	–	–	–
	45,953,496	–	–	–

Refer to note 19 for details of security in relation to these liabilities.

Notes to the Financial Statements

92

30 June 2007

24

Note 24 Deferred tax liability

The balance comprises temporary differences attributable to:

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Property, plant and equipment	(486,401)	–	–	–
Available-for-sale financial assets	(2,152,264)	(110,349)	(2,152,264)	(110,349)
Other	(3,508)	–	(578)	–
Development costs	(6,424,312)	(994,397)	(1,053,336)	(761,243)
Exploration costs	(12,597,488)	(1,526,649)	(2,431,913)	(1,517,225)
Unrealised foreign exchange	(8,854)	–	–	–
Total deferred tax liabilities	(21,672,827)	(2,631,395)	(5,638,091)	(2,388,817)
Set-off of deferred tax liabilities pursuant to set off provisions (note 17)	3,622,827	1,041,171	688,569	937,058
Previously unrecognised tax losses utilised to offset				
Deferred tax liability	18,050,000	1,590,224	4,949,522	1,451,759
Net deferred tax liabilities	–	–	–	–
Deferred tax liabilities to be recovered after more than 12 months	(21,660,464)	(2,631,395)	(5,637,513)	(2,388,817)
Deferred tax liabilities to be recovered within 12 months	(12,363)	–	(578)	–
Net deferred tax liabilities	(21,672,827)	(2,631,395)	(5,638,091)	(2,388,817)

	Development costs \$	Exploration costs \$	Property, plant and equipment \$	Available-for-sale financial assets \$	Other \$	Total \$
Movements – consolidated						
At 30 June 2006	(994,397)	(1,526,649)	–	(110,349)	–	(2,631,395)
(Charged)/credited to the income statement	(4,184,235)	(2,922,742)	(90,801)	–	11,037	(7,186,747)
(Charged)/credited directly to equity	–	–	–	(2,041,915)	–	(2,041,915)
Acquisition of subsidiary	(8,708,710)	(23,603,140)	(129,221)	–	–	(32,441,072)
Impact of entering tax consolidation group	7,463,030	15,455,044	(266,379)	–	(23,400)	22,628,296
Net impact	(1,245,680)	(8,148,096)	(395,600)	–	(23,400)	(9,812,776)
At 30 June 2007	(6,424,312)	(12,597,488)	(486,401)	(2,152,264)	(12,363)	(21,672,827)
Movements – parent entity						
At 30 June 2006	(761,243)	(1,517,225)	–	(110,349)	–	(2,388,817)
(Charged)/credited to the income statement	(292,093)	(914,688)	–	–	–	(1,206,781)
(Charged)/credited directly to equity	–	–	–	(2,041,915)	–	(2,041,915)
At 30 June 2007	(1,053,336)	(2,431,913)	–	(2,152,264)	–	(5,637,513)

25

Note 25 Contributed equity

(a) Share Capital

Ordinary Shares – Fully Paid

558,098,350274,264,105

20072006

of Shares\$# of Shares\$

(b) Movements in ordinary share capital

Opening Balance229,088,02463,736,618128,028,60317,155,221

– Issue of shares – acquisition of CH4 Gas Limited219,714,935135,956,574–

– Exercise of listed options91,567,13168,675,32676,88357,662

– Exercise of unlisted options15,038,7646,679,601110,00053,900

– Placement of shares––59,947,36828,980,000

– Entitlement issue––18,159,0026,537,241

– Share purchase plan––17,265,17810,013,803

– Payment for services––3,664,5982,272,570

– Employee milestone bonus shares2,134,4841,183,1241,402,980869,848

– Transaction fees–(2,189,143)–(2,376,992)

– Convertible note555,012222,005433,412173,365

Closing Balance558,098,350274,264,105229,088,02463,736,618

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

30 June 2007

26

Note 26 Reserves and retained profits

(a) Reserves

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Available-for-sale investments revaluation reserve	7,259,948	453,563	7,221,280	453,564
Share-based payments reserve	3,478,522	1,467,327	3,517,116	1,467,327
Foreign currency translation reserve	181	—	—	—
	10,738,651	1,920,890	10,738,396	1,920,891

Movements:

<u>Available-for-sale investments revaluation reserve</u>				
Balance 1 July	453,563	—	453,563	—
Adjustments on adoption of AASB 132 and AASB 139	—	218,347	—	218,348
Revaluation	6,806,385	235,216	6,767,717	235,216
Balance 30 June	7,259,948	453,563	7,221,280	453,564

Share-based payments reserve

Balance 1 July	1,467,327	440,066	1,467,327	440,066
Option expenses	2,011,195	1,042,166	2,049,789	1,042,166
Transfer to share capital (options exercised)	—	(14,905)	—	(14,905)
Balance 30 June	3,478,522	1,467,327	3,517,116	1,467,327

Foreign currency translation reserve

Balance 1 July	—	—	—	—
Foreign currency	181	—	—	—
Balance 30 June	181	—	—	—

(b) Retained profits/Accumulated losses

Movements in retained profits were as follows:

Balance 1 July	(11,869,722)	(6,572,185)	(12,936,162)	(7,664,713)
Net profit/(loss) for the year	17,831,284	(5,297,537)	(2,686,427)	(5,271,449)
Balance 30 June	5,961,562	(11,869,722)	(15,622,589)	(12,936,162)

(c) Nature and purpose of reserves

(i) Available-for-sale investments revaluation reserve

Changes in the fair value of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve, as described in note 1. Amounts recognised in the profit and loss when the associated assets are sold or impaired.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
27				
Note 27 Minority interest				
Interest in:				
Share capital	1,000,000	–	–	–
Reserves	–	–	–	–
Retained profits	22,190	–	–	–
Total	1,022,190	–	–	–

28

Note 28 Key management personnel disclosures

(a) Directors

The following persons were Directors during the whole of the financial year and up to the date of this report:

Stephen Bizzell	– Executive Director
Nicholas Davies	– Chief Executive Officer and Managing Director
Dr Paul Elkington	– Non-executive Director

John Reynolds, Jeremy Barlow and David Williamson were appointed as Directors of Arrow Energy N.L. on 15 August 2006 and continue in office at the date of this report.

William Stubbs and Dr Robert Day were Directors of Arrow Energy N.L. from the beginning of the financial year until their resignation on 15 August 2006.

Kerry Parker was appointed as Company Secretary of Arrow Energy N.L. on 15 August 2006 and continues in office at the date of this report.

Paul Marshall was Company Secretary from the beginning of the financial year until his resignation on 12 January 2007.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
A Purcell	Chief Operating Officer	Arrow Group Services
N Robinson	Exploration Manager	Arrow Group Services
K Parker	Chief Financial Officer	Arrow Group Services
M Furminger	Human Resources Manager	Arrow Group Services
K Anson	Country Manager, India	Arrow Group Services
S Scott	Chief Commercial Officer	Arrow Group Services

All of the above persons were also key management persons during the year ended 30 June 2006, except for A Purcell and K Parker who commenced employment with the Group on 15 August 2006 and M Furminger who commenced employment on 23 October 2006.

30 June 2007

28

Note 28 Key management personnel disclosures (continued)

	Consolidated	
	2007 \$	2006 \$
(c) Key management personnel compensation		
Short-term employee benefits	2,368,546	1,689,193
Post-employment benefits	223,131	225,902
Long-term benefits	2,759	—
Share-based payments	1,029,887	503,758
	3,624,323	2,418,853

The company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A to C of the remuneration report on pages 46 to 51.

(d) Equity instrument disclosures relating to key management personnel**(i) Options provided as remuneration and shares issued on exercise of such options**

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on page 52.

(ii) Share holdings

The numbers of shares in the company held during the financial year by each Director of Arrow Energy N.L. and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2007				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Arrow Energy N.L.				
<u>Ordinary shares</u>				
N Davies	2,951,516	180,303	—	3,131,819
J Reynolds	—	70,000	—	70,000
S Bizzell	7,310,904	1,748,840	608,579	9,668,323
P Elkington	250,000	50,000	—	300,000
J Barlow	7,539,255	—	—	7,539,255
D Williamson	—	—	10,000	10,000
Other key management personnel of the Group				
<u>Ordinary shares</u>				
A Purcell	—	500,000	(397,610)	102,390
K Parker	72,590	145,000	(145,000)	72,590
N Robinson	144,253	—	(45,716)	98,537
M Furminger	—	—	9,055	9,055
S Scott	160,620	—	(160,620)	—

2006

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Arrow Energy N.L.				
<u>Ordinary shares</u>				
S Bizzell	5,928,309	—	1,382,595	7,310,904
N Davies	2,575,034	—	376,482	2,951,516
R Day	979,922	—	165,850	1,145,772
P Elkington	—	—	250,000	250,000
R Prefontaine	4,129,214	—	(4,129,214)	—
W Stubbs	1,023,750	—	154,872	1,178,622

Other key management personnel of the GroupOrdinary shares

K Anson	349,000	—	(166,500)	182,500
G Hines	750,000	—	(750,000)	—
N Robinson	53,596	—	90,657	144,253
S Scott	237,470	—	(67,415)	170,055
A Thompson	—	—	104,000	104,000

(iii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each Director of Arrow Energy N.L. and other key management personnel of the Group, including their personally related parties, are set out below.

2007

Name	Balance at start of the year	Granted as compensation	Exercised	Arising from acquisition of CH4 Gas Limited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Arrow Energy N.L.							
N Davies	3,675,065	—	—	—	3,675,065	3,675,065	—
J Reynolds	—	—	70,000	500,000	—	430,000	—
S Bizzell	—	—	—	—	—	—	—
P Elkington	—	—	—	—	—	—	—
J Barlow	—	—	—	43,757	43,757	43,757	—
D Williamson	—	—	—	—	—	—	—
Other key management personnel of the Group							
A Purcell	—	1,500,000	500,000	—	1,000,000	—	1,000,000
K Parker	—	—	145,000	645,000	500,000	500,000	—
N Robinson	925,065	—	—	—	925,065	925,065	—
S Scott	1,169,181	—	—	—	1,169,181	1,169,181	—
K Anson	949,997	—	—	—	949,997	949,997	—
M Furminger	—	—	—	—	—	—	—

All vested options are exercisable at the end of the year.

30 June 2007

28

Note 28 Key management personnel disclosures (continued)**(d) Equity instrument disclosures relating to key management personnel (continued)**

2006	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Name							
Directors of Arrow Energy N.L.							
S Bizzell	—	—	—	—	—	—	—
N Davies	3,075,065	600,000	—	—	3,675,065	3,675,065	—
R Day	—	—	—	—	—	—	—
P Elkington	—	—	—	—	—	—	—
R Prefontaine	—	—	—	—	—	—	—
W Stubbs	—	—	—	—	—	—	—

Other key management personnel of the Group

K Anson	849,997	100,000	—	—	949,997	949,997	—
G Hines	750,000	100,000	—	(850,000)	—	—	—
N Robinson	825,065	100,000	—	—	925,065	925,065	—
S Scott	1,069,181	100,000	—	—	1,169,181	1,169,181	—
A Thompson	—	500,000	—	—	500,000	500,000	—

(iv) Convertible Notes

2007	Balance at the start of the year	Retired as Director during the year	Other changes during the year	Balance at the end of the year
Name				
Directors of Arrow Energy N.L.				
N Davies	—	—	—	—
R Day	10,961	(10,961)	—	—
J Reynolds	—	—	—	—
S Bizzell	1,081,873	—	108,430	1,190,303
P Elkington	—	—	—	—
J Barlow	—	—	—	—
D Williamson	—	—	—	—

Other key management personnel of the Group

A Purcell	—	—	—	—
K Parker	—	—	—	—
N Robinson	—	—	—	—
M Furminger	—	—	—	—
S Scott	75,000	—	(75,000)	—

2006				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Arrow Energy N.L.				
S Bizzell	981,290	—	100,583	1,081,873
N Davies	—	—	—	—
R Day	10,011	—	950	10,961
P Elkington	—	—	—	—
R Prefontaine	156,461	—	(156,461)	—
W Stubbs	—	—	—	—
Other key management personnel of the Group				
K Anson	—	—	—	—
G Hines	50,000	—	(50,000)	—
N Robinson	—	—	—	—
S Scott	—	—	75,000	75,000
A Thompson	—	—	—	—

(e) Other transactions with key management personnel

Shaun Scott, Chief Commercial Officer

- Term of agreement – Independent Contractors agreement commencing 1 September 2006.
- Paid day rate of \$1,500/day.
- No payment on termination.

Stephen Bizzell, Executive Director

- Consultancy arrangements with Bizzell Capital Partners for the provision of services of Stephen Bizzell as an Executive Director. Base consultancy fees for the year ending 30 June 2007 of \$135,000 and milestone bonus of \$76,197.

Paul Elkington, Non-executive Director

- Directors fees of \$50,000 plus superannuation per year plus additional fees paid for any consulting work undertaken on behalf of the company in addition to Directors' duties.
- No payment on termination.

30 June 2007

29

Note 29 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2007 \$	2006 \$
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	135,000	—
Other audit work under the Corporations Act 2001	6,042	—
Non-PricewaterhouseCoopers audit firm (BDO Kendalls)	—	25,050
Total remuneration for audit services	141,042	25,050
2. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:	—	—
Total remuneration for audit related services	141,042	25,050
Taxation services		
PricewaterhouseCoopers Australian firm:		
Related practices of PricewaterhouseCoopers Australian firm	165,108	—
Non-PricewaterhouseCoopers audit firm (BDO Kendalls)	12,980	10,525
Total remuneration for taxation services	178,088	10,525
Other services		
PricewaterhouseCoopers Australian firm:		
Related practices of PricewaterhouseCoopers Australian firm	83,790	—
Non-PricewaterhouseCoopers audit firm (BDO Kendalls)	—	52,697
Total remuneration for other services	83,790	52,697
Total remuneration for non-audit services	261,878	63,222

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

30

Note 30 Contingencies

The parent entity and Group had contingent liabilities at 30 June 2007 in respect of:

Bank Guarantee Facility

The company has in place a bank guarantee facility for \$2.95 million under which bank guarantees will be issued to cover bonds required by government departments in relation to tenements held. The bank requires Arrow to maintain deposits with the bank to cover the facility in place. As at 30 June 2007 guarantees totalling \$3,000,000 had been put in place using the facility. No losses are expected in relation to the guarantees provided.

A controlled entity has a 50% ownership interest in the Moranbah Gas Project Joint Venture ("MGP"). At the date of these financial statements, the MGP parties are yet to determine final compensation amounts that will be required to be paid to two landholders, in respect of areas that have been accessed or disturbed up to the date of these financial statements. The MGP parties are in discussion with the relevant landholders in an attempt to be able to reach a mutually agreeable compensation arrangement. If a mutually agreeable compensation arrangement is not able to be reached between the MGP parties and the landholders concerned, a determination of compensation may be required to be considered by the Queensland Land and Resources Tribunal. The MGP parties continue to have ongoing and unrestricted access to this land area.

31

Note 31 Commitments

(a) Exploration commitments

Exploration expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	2007 \$	2006 \$
Exploration		
Payable:		
Within one year	6,003,750	3,040,000
Later than one year but not later than five years	13,736,875	6,930,000
Later than five years	—	—
	19,740,625	9,970,000

Authorities to prospect – minimum expenditure requirements

With the exception of PEL 445, all of Arrow's Tenements are in Queensland. To keep permits (ATPs) in good standing in Queensland, work programs should meet the minimum expenditure required on a year-by-year basis. If the annual minimum expenditure requirement is not met in any one permit year, Arrow will have the option to negotiate new terms which may include a partial or total relinquishment. Arrow also has the ability to meet the expenditure requirements by Joint Venture or farm-in agreements. PEL 445 is in New South Wales. In New South Wales, only the first two years are a fixed work program with a review at the end of year two at which point a further fixed two-year work and expenditure program shall be submitted for approval.

30 June 2007

31

Note 31 Commitments (continued)

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
(b) Lease commitments: Group as lessee				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	778,845	489,260	540,142	489,260
Later than one year but not later than five years	1,387,389	1,535,976	1,323,884	1,535,976
Later than five years	—	—	—	—
	2,166,234	2,025,236	1,864,026	2,025,236

The group holds a number of leases for rental properties, office space in Brisbane, motor vehicles as well as office equipment.

Commitments in relation to finance leases are payable as follows:

Within one year	3,545,894	—	—	—
Later than one year but not later than five years	14,415,685	—	—	—
Later than five years	39,480,354	—	—	—
Minimum lease payments	57,441,933	—	—	—
Less future finance charges	(6,382,437)	—	—	—
Recognised as lease liabilities	51,059,496			
Representing lease liabilities:				
Current (note 19)	5,291,000	—	—	—
Non-current (note 23)	45,768,496	—	—	—
	51,059,496	—	—	—

Finance leases relate to the Tipton Central Gas Processing Facility and Daandine Power Station Development. A weighted average interest rate of 9% is used in calculating the lease repayments.

(c) Capital commitments

Commitments in relation to capital contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	23,500,000	—	—	—
Later than one year but not later than five years	—	—	—	—
Later than five years	—	—	—	—
	23,500,000	—	—	—

32

Note 32 Related party transactions

(a) Parent entities

The parent entity within the Group is Arrow Energy N.L.

(b) Subsidiaries

Interests in subsidiaries are set out in note 34.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 28.

(d) Arrow Global CBM ("AGCBM")

The Board of AGCBM is comprised of Nicholas Davies (Managing Director of Arrow), Stephen Bizzell (Executive Director of Arrow), Jeremy Barlow (Director of Arrow, and shareholder in AGCBM), and Nathan Mitchell (shareholder in AGCBM, and major supplier of drilling services to Arrow Group).

Current shareholdings in AGCBM, along with related information, is as follows:

- Arrow International Pty Ltd – 50.00% – Arrow International Pty Ltd is a wholly owned controlled entity of Arrow Energy N.L.;
- J Barlow Consultants Pty Ltd – 11.25% – Controlled by Jeremy Barlow who is a Director of Arrow Energy N.L. Jeremy is one of the founders of AGCBM;
- Employees of Arrow – 12.50% (held by two employees who were also founding shareholders of AGCBM); and
- External parties – 26.25%.

During the period since the date of acquisition, Arrow Energy N.L. has incurred various items of expenditure on behalf of AGCBM. Such items of expenditure have been on-charged by Arrow Energy N.L. to AGCBM, at cost. During the period since the date of acquisition, these expenditure items totalled \$344,256.

As at 30 June 2007, Arrow Global CBM had intercompany loans of \$135,922 owing to Arrow Group companies.

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
(e) Transactions with related parties				
<u>Sales of goods and services</u>				
Sales of goods and service to controlled entities	–	–	–	–
Sale of other services to controlled entities	–	–	–	–
Services Provided To Arrow Global CBM Pty Ltd	–	–	344,526	–
<u>Purchase of goods and Services</u>				
Purchases of goods and services from controlled entities	–	–	–	–
Management services received from controlled entities	–	–	–	–
<u>Dividends received</u>				
From controlled entities	–	–	–	–
From related entities	–	–	–	–
<u>Superannuation contributions</u>				
Contributions to superannuation funds on behalf of employees	694,943	203,269	136,304	54,271
<u>Directors fees paid</u>				
Payment of Directors' fees and other related payments to Directors – Non-executive Directors	525,152	213,360	525,152	213,360
Payment of Directors' fees and other related payments to Directors – Executive Directors	769,722	786,601	211,197	358,255
<u>Other transactions with related parties</u>				
Share investment in Pure Energy Resources Limited	1,000,00	1,000,000	1,000,000	1,000,000

30 June 2007

32

Note 32 Related party transactions (continued)**(f) Outstanding balances arising from sales and purchases of goods and services**

Other than in respect of a balance owing by Arrow Global CBM Pty Ltd to Arrow Energy N.L. in the amount of \$344,256, there are no outstanding balances owing in relation to the above matters.

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
(g) Loans to controlled entities				
Balance At Beginning Of Year	—	—	6,245,040	(1,086,485)
Loans advanced	—	—	58,357,281	—
Loan repayments received	—	—	—	(72,093)
Interest charged	—	—	—	—
Interest received	—	—	—	—
Transfer of project development expenditure incurred	—	—	—	7,403,618
Balance At End Of Year	—	—	64,602,321	6,245,040
(h) Loans to other related parties				
Balance at beginning of year	—	—	—	—
Loans advanced	—	—	—	—
Loan repayments received	—	—	—	—
Interest charged	—	—	—	—
Interest received	—	—	—	—
Balance at end of year	—	—	—	—

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

The loans to controlled entities are generally non-interest bearing and have no fixed period to repayment date. On this basis, they have been classified in the balance sheet under the category of “Investments In Controlled Entities”.

(i) Loans from controlled entities

There are no loans from Controlled Entities to the parent entity.

(j) Loans from other related parties

There are no loans from other related parties to the parent entity.

33

Note 33 Business combination

(a) Acquisition of CH4 Gas Limited

A merger was implemented by means of a takeover bid by Arrow for all of the issued capital of CH4, under which CH4 shareholders received 2.15 Arrow shares for each CH4 share and two Arrow options with an exercise price of \$0.75 and expiry date of 1 December 2006, for every five CH4 shares.

Control over CH4 Gas Limited was acquired on 14 July 2006.

The merged company owns a highly complementary and diversified portfolio of CSG assets in the growing Queensland gas market incorporating producing assets and an exciting pipeline of development and exploration projects. The merged company will have access to all of the significant gas markets in Queensland, being Townsville, Gladstone, and the broader South-East Queensland market.

CH4 is the Operator and 50% owner of the MGP in Moranbah. The MGP is currently the sole supplier of natural gas into the Townsville market. The MGP is one of the largest operating CSG projects in Australia with current annual production capacity of the order of 16 PJ per annum. The MGP has significant potential to supply the expanding Gladstone market in the future.

Arrow has significant ownership interests in and operates a number of CSG projects in South-East Queensland. At the time of the merger Arrow had recently commenced commercial CSG production at Kogan North and has developments in progress at Tipton West and Daandine.

At the time of the merger, the merged company:

- was one of Australia's leading independent CSG company with a market capitalisation of approximately A\$300 million;
- has two producing projects (MGP and Kogan North), and two development projects (Tipton West and Daandine);
- has initially 15 additional potential projects;
- has a tenement area of nearly 80,000km²; and
- has reserves of 84 PJ of 1P, 363 PJ of 2P and in excess of 2,631 PJ of 3P.

The Boards of Arrow and CH4 agreed on the merger as they believed the merger will provide a number of benefits to shareholders of both companies including:

- combining two highly complementary asset portfolios with activities across the CSG industry value chain;
- a diversified portfolio of projects in terms of accessible markets;
- creating a strengthened strategic position in the fast growing Queensland gas market;
- enhanced financial strength and flexibility;
- enhanced opportunity to accelerate commercialisation of development opportunities;
- combining complementary management, technical and operating skills; and
- increased share market index weighting and liquidity.

The offer period closed on 21 July 2006 with Arrow having received acceptances for greater than 95% of the shares in CH4. Compulsory acquisition of the remaining shares was completed in early September. The total consideration for the acquisition is as follows:

30 June 2007

33

Note 33 Business combination (continued)

(a) Acquisition of CH4 Gas Limited (continued)

Consideration	Nos of securities issued	\$
Issue of ordinary shares in Arrow Energy N.L.	219,714,935	135,956,575
Issue of December 2006 \$0.75 options in Arrow Energy N.L.	40,877,357	1,563,966
Costs associated with the transaction		1,855,459
		139,376,000

(b) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount \$	Fair value \$
Cash	2,625,977	2,625,977
Trade receivables	4,101,838	4,101,838
Inventories	1,045,060	1,045,060
Prepayments	6,973	6,973
Plant and equipment	17,800,404	17,800,404
Development assets	56,048,797	56,048,797
Exploration assets	8,133,281	94,010,306
Security deposits	1,862,862	1,862,862
Trade creditors	(3,954,684)	(3,954,684)
Accrued expenses	(1,386,578)	(1,386,578)
Provisions	(2,954,905)	(2,954,905)
Deferred tax liabilities	—	(15,430,000)
Interest bearing liabilities	(14,400,050)	(14,400,050)
Net assets	68,928,975	139,376,000
Minority interests		—
Net identifiable assets acquired		139,376,000

The acquired business contributed revenues of \$18,136,365 and net profit of \$2,026,985 to the Group during the period under review. If the acquisition had occurred on 1 July 2006, the resultant revenues and net profit would not be materially different to these amounts.

33

Note 33 Business combination (continued)

(c) Investment in Arrow Global CBM Pty Ltd

On 18 January 2007 (“the Acquisition Date”), Arrow Energy N.L. (“Arrow”) announced that its wholly owned subsidiary Arrow Energy International Pty Ltd (“Arrow International”) had entered into an agreement (“the Agreement”) for the staged investment in and acquisition of Global CBM Pty Ltd (“Global”). Subsequent to the signing of the Agreements, Global CBM Pty Ltd was renamed as Arrow Global CBM Pty Ltd (“AGCBM”).

At the date of acquisition, Global was in the advanced stages of business development for the acquisition of CBM assets in Indonesia, China, Vietnam and India. Under the agreement between the two companies, Arrow and Global’s international business development teams and opportunities were merged.

On the Acquisition Date, Arrow International contributed \$1 million to AGCBM for a 50% stake in the company. On that date it appointed two Directors to the Board (to create a four person Board) and received (for no consideration) a two-year option to acquire the remaining 50%, in two equal tranches. Arrow International may spend (at its discretion) an additional \$1 million on the activities of AGCBM prior to exercising its option to acquire any additional equity in the company. The assets acquired were cash and exploration assets which each had a fair value on acquisition of \$1 million.

30 June 2007

34

Note 34 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2007 %	2006 %
Australian CBM Pty Ltd	Australia	Ordinary	100	100
BNG Pty Ltd	Australia	Ordinary	100	100
Arrow Warra Pty Ltd	Australia	Ordinary	100	100
Arrow Surat Pty Ltd	Australia	Ordinary	100	100
Arrow (Tipton) Pty Ltd	Australia	Ordinary	100	100
Arrow (Daandine) Pty Ltd	Australia	Ordinary	100	100
Arrow (Generation) Pty Ltd	Australia	Ordinary	100	100
Arrow Land Holdings Pty Ltd	Australia	Ordinary	100	100
Arrow Energy (India) Pty Ltd	Australia	Ordinary	100	100
CH4 Development Pty Ltd ⁽¹⁾	Australia	Ordinary	100	—
CH4 Pty Ltd ⁽¹⁾	Australia	Ordinary	100	—
CH4 Operations Pty Ltd ⁽¹⁾	Australia	Ordinary	100	—
CH4 Moranbah Pty Ltd ⁽¹⁾	Australia	Ordinary	100	—
CH4 Exploration Pty Ltd ⁽¹⁾	Australia	Ordinary	100	—
CH4 Marketing Pty Ltd ⁽¹⁾	Australia	Ordinary	100	—
Gas Development Services Pty Ltd ⁽¹⁾	Australia	Ordinary	100	—
Arrow Overseas Pty Ltd ⁽²⁾	Australia	Ordinary	100	—
Arrow International Pty Ltd ⁽²⁾	Australia	Ordinary	100	—
Arrow China Pty Ltd ⁽²⁾	Australia	Ordinary	100	—
Arrow Indonesia Pty Ltd ⁽²⁾	Australia	Ordinary	100	—
Arrow Global CBM Pty Ltd ⁽³⁾	Australia	Ordinary	50	—

(1) Acquired as part of acquisition of CH4 Gas Limited.

(2) Incorporated during the year.

(3) 50% interest in Global CBM acquired during the year. Company renamed as Arrow Global CBM Pty Ltd.

35

Note 35 Interests in Joint Ventures

(a) Jointly controlled assets

The company holds the following Joint Venture interests.

Joint Venture	Joint Venture Partners	% Interest
Moranbah Gas Project Joint Venture	AGL Energy Limited	50
Kogan Joint Venture	CS Energy Limited	50
Tipton Joint Venture	Beach Petroleum (Surat) Pty Ltd	60

The assets and liabilities of the above named Joint Ventures have been included at their relevant percentage interest in the income statement, balance sheet, and statement of cash flows. Net assets employed in the Joint Venture are included in the financial statements as follows:

	Consolidated 30 June 2007 \$	Consolidated 30 June 2006 \$	Parent entity 30 June 2007 \$	Parent entity 30 June 2006 \$
Current assets				
Cash	5,849	35,795	—	—
Receivables	1,001,910	34,993	—	—
Inventory	1,703,595	—	—	—
Total current assets	2,711,354	70,788	—	—
Non-current assets				
Property, plant and equipment	27,447,512	—	—	—
Exploration and development	98,138,176	7,973,801	—	—
Security deposits	16,705	—	—	—
Total non-current assets	125,602,393	7,973,801	—	—
Total assets	128,313,747	8,044,589	—	—
Current liabilities				
Payables	8,832,488	41,411	—	—
Total current liabilities	8,832,488	41,411	—	—
Non-current liabilities				
Provisions	3,805,532	347,045	—	—
Total non-current liabilities	3,805,532	347,045	—	—
Total liabilities	12,638,020	388,456	—	—
Net assets	115,675,727	7,656,133	—	—
(b) Commitments				
Capital commitments for capital expenditure	23,500,000	—	—	—

30 June 2007

35

Note 35 Interests in Joint Ventures (continued)

(b) Commitments (continued)

The Moranbah Gas Project is located in the Northern Bowen Basin adjacent to the town of Moranbah. The project is designed to supply up to 20.5 PJ of gas per annum for 15 years to Enertrade's Townsville gas pipeline and 1.25 PJ per year to the AGL-owned 12 MW Moranbah power station. Arrow is the Operator of the MGP.

The Kogan North CSG Project is located in the Surat Basin approximately 40km 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. Australian Pipeline Trust owns and operates the Central Gas Processing Facility.

The Tipton West Project is located about 25km south of the town of Dalby in the Surat Basin. The project has been developed to initially supply 10 PJ per annum of gas to the Babcock & Brown/ERM owned 450 MW gas-fired Braemar Power Station. Arrow is the Operator of the Tipton West Project. Australian Pipeline Trust owns the downstream (gas processing) facilities.

36

Note 36 Events occurring after the balance sheet date

International projects

A Letter of Intent ("LOI") was signed with major Chinese Government owned oil and gas company, PetroChina. The LOI is to negotiate a Production Sharing Contract covering natural gas including coal bed methane ("CBM") over the 4,000km² Dajing block in the Junngar basin of Xinjiang Autonomous Region, NW China.

Arrow Energy N.L. announced the signing of a Heads of Agreement ("HOA") with Shenyang Gas Company, the city gas company supplying gas to the Greater Shenyang area. Following completion of technical studies and final agreements, Arrow Energy N.L. will drill and complete wells in this field on behalf of Shenyang Gas and receive revenue based on gas produced to surface at global gas market prices.

Arrow Energy N.L. announced the signing of a HOA with Liaohe Petroleum Development Company ("LPDC") to evaluate nine blocks in Liaoning Province, covering an area of approximately 9,000km² of high potential thick coal ranging from high volatile bituminous to semi anthracite. Arrow Energy N.L. will undertake an initial technical evaluation of the project area and following successful evaluation Arrow Energy N.L. will finalise a Production Sharing Contract with LPDC to develop some or all of these blocks.

The company signed a HOA with Bin County Coal. The HOA is for Arrow Energy N.L. to provide a degassing service ahead of mining operations in a similar business model to Arrow Energy N.L.'s current Moranbah North Degassing Project in Queensland, Australia in conjunction with the mine owner, Anglo Coal. Arrow Energy N.L. will continue its technical studies and draw up plans for a pilot production program followed by the field's development if the pilot is successful.

A Memorandum of Understanding ("MOU") was signed with Shaanxi Binchang Mining Company Limited ("SBMCL") to initially evaluate the potential for Coal Bed Methane ("CBM") developments on their mining tenements and following successful evaluation to form a Joint Venture arrangement with SBMCL.

Share Placement

On 20 July 2007 the company successfully completed a Share Placement raising of \$125 million, via the issue of approximately 53.2 million ordinary shares in the company at \$2.35 per share. The placement was undertaken by way of a book-build with the issue price of \$2.35 at the top of the book build price range. The book-build process was completed over the days of 18 July 2007 and 19 July 2007. Shares commenced re-trading on 20 July 2007.

In conjunction with the Share Placement a Share Purchase Plan for all shareholders registered on the Arrow Energy N.L. share register on 1 August 2007. Eligible shareholders will be able to apply for between \$1,000 and \$5,000 in new shares in Arrow Energy N.L., in \$1,000 increments. The Share Purchase Plan is underwritten to the extent of \$25 million by Wilson HTM Corporate Finance and Citi.

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
37				
Note 37 Reconciliation of profit after income tax to net cash inflow from operating activities				
(a) Reconciliation				
Profit for the year	17,831,284	(5,297,537)	(2,686,427)	(5,271,449)
Depreciation and amortisation	6,476,499	213,938	183,012	174,780
Income tax benefit	(15,430,000)	—	—	—
Interest re-investment plan	—	327,573	—	327,573
Securities issued to employees and consultants	—	1,413,399	—	1,413,399
Gain on financial assets available-for-sale through profit and loss	—	(633)	—	(633)
Changes in assets and liabilities				
(Increase)/decrease in provisions	1,957,370	—	460,495	—
(Increase)/decrease in inventory	(401,349)	—	(546,496)	—
(Increase)/decrease in trade and other receivables	286,612	(223,530)	—	(228,195)
(Increase)/decrease in trade and other payables	1,221,607	567,209	—	572,316
Net cash (outflow) inflow from operating activities	11,942,023	(2,999,581)	(2,589,416)	(3,012,209)

(b) Non-cash financing and investing activities

(i) Acquisition of plant and equipment by means of Finance Leases

During the financial year under review, the consolidated entity entered into two transactions in relation to the development, construction and financing of the Tipton West Central Gas Processing Facility and the Daandine Power Generation facility. Both of these are considered to be in the nature of finance leases. These transactions amounted to \$52,341,983.

(ii) Acquisition of CH4 Gas Limited

During the financial year under review, the consolidated entity purchased 100% of the issued capital of the CH4 Gas Limited group by means of an all share bid, via the issue of 219,714,935 ordinary shares together with 40,877,357 listed options in Arrow Energy N.L. for a total dollar value of \$135,956,575.

Notes to the Financial Statements

112

30 June 2007

	Consolidated	
	2007 \$	2006 \$
38		
Note 38 Earnings per share		
(a) Basic and diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	17,831,284	(5,297,537)
Profit attributable to the ordinary equity holders of the company	17,831,284	(5,297,537)
	2007 Number	2006 Number
(b) Weighted average number of shares used as the denominator		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	495,541,695	187,043,555
Adjustments for calculation of diluted earnings per share:		
Options	16,154,011	—
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	511,695,706	187,043,555
	2007 Cents	2006 Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		
Basic earnings per share	3.60	(2.83)
Diluted earnings per share	3.48	(2.83)

39

Note 39 Share-based payments

Employee share and option incentive schemes

Two employee share/option schemes have been established where Arrow Energy N.L. may, at the discretion of the Directors, grant shares and or options to employees and consultants engaged by the company. The details of the schemes are as follows.

Employee share bonus plan

Arrow had a milestone based bonus scheme operating for all staff and Directors, contractors that was discontinued in 2007. The aim of this program was to focus the company on completing tasks that are seen as differentially important to the future success of Arrow. On completion of any identified milestones, to the satisfaction of a vote of the Arrow Board, the company created a bonus pool that will equate to 1% of market capitalisation based on the average stock price in the week following the Board's decision. The 1% market capitalisation pools were split amongst staff, following each event based on the Arrow paid remuneration for the 12 months prior to the award. The distribution of the bonus pool can be either by way of the issue of fully paid ordinary shares in Arrow or in cash. Shares issued under the plan carry full dividend and voting rights.

Conditions applicable to the plan include:

The award will be made entirely at the discretion of the Board and may be:

- reduced, deferred or cancelled in the event of a declining stock price or urgent need for capital elsewhere; and
- granted in the form of ordinary shares, cash or a mixture of both.

Certain employees, who may already have bonus schemes linked to these or similar milestones may receive a reduced award under this particular scheme.

The calculation for new staff will be pro rata, based on their tenure, via the Arrow Energy N.L. gross Annual Compensation calculation for the 12 months prior to the award. Staff who have previously been contractors within the 12 months prior will have their contractor compensation taken into account in the calculation. The scheme was replaced by the Retention incentive, Short-term incentive, and Long-term incentive schemes as described below.

30 June 2007

39

Note 39 Share-based payments (continued)**Retention incentive/short-term incentive/long-term incentive**

Arrow Energy N.L. has a number of incentives to attract and retain staff. The company reserves the right to pay these incentives in the form of fully paid shares with various vesting dates and conditions.

Short-term incentive – 15% of base salary is the maximum entitlement, with 50% of this amount relating to the performance of Arrow Energy N.L. (EBIT performance against approved annual budgets, being the performance of Arrow as measured by its earnings before interest and taxes for the relevant period) with the remaining 50% of this relating to personal performance against an agreed performance contract.

Long-term incentive assessed on the performance of the company against three-year performance targets i.e. EBIT targets set on 1 November for the next three financial year ends. An amount equivalent to 5% base salary is the maximum entitlement, though there is a potential to achieve up to 7.5% base salary for exceptional company performance. The equity will vest in three equal instalments over the following three years.

Retention incentive – awarded in recognition of ongoing commitment and service to Arrow. 5% of base salary is the maximum entitlement. Awarded in the form of fully paid shares or some other form of equity instrument in Arrow Energy N.L. The equity awarded will vest in three equal instalments over the following three years.

2007 Transaction	Date	Number	\$ per share	Total \$
Retention Incentive	02/03/2007	603,279	\$0.635	\$383,082
Tipton Milestone Bonus	08/09/2006	1,848,626	\$0.640	\$1,183,121

For STI and LTI shares will be issued subsequent to the signing of these accounts. They will be issued at a per share price calculated by reference to the value weighted average price for the 10 days prior to the shares being issued.

2006 Transaction	Date	Number	\$ per share	Total \$
Milestone Bonus	17/02/2006	1,402,980	\$0.62	\$869,848

Share options

A share option scheme has been established where Directors may grant options over the ordinary shares of Arrow Energy N.L. to employees or consultants engaged by the company. In addition a number of executives have been engaged under contracts of employment which entitle them to options in accordance with the terms and conditions of their employment contracts. No Directors are entitled to partake in the share option scheme or are engaged under contracts that entitle them to options. The options issued are not quoted on the Australian Stock Exchange. The options are granted for no consideration. When exercisable each option is convertible into one ordinary share.

39

Note 39 Share-based payments (continued)**Consolidated and parent entity – 2007**

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted in year	Acquisition of CH4	Exercised in year	Expired at end of year	Balance at end of year	Exercisable at end of year
19/07/2004	28/06/2008	\$0.2900	999,999	—	—	—	—	999,999	999,999
19/07/2004	28/06/2008	\$0.3900	999,999	—	—	(325,000)	—	674,999	999,999
19/07/2004	28/06/2008	\$0.4900	999,999	—	—	—	—	999,999	999,999
22/12/2004	28/06/2008	\$0.2900	499,998	—	—	—	—	499,998	499,998
22/12/2004	28/06/2008	\$0.2900	350,001	—	—	—	—	350,001	350,001
22/12/2004	21/08/2011	\$0.2900	—	—	1,668,355	(1,668,355)	—	—	—
22/12/2004	28/06/2008	\$0.3900	499,998	—	—	—	—	499,998	499,998
22/12/2004	28/06/2008	\$0.3900	350,001	—	—	—	—	350,001	350,001
22/12/2004	21/08/2011	\$0.3920	—	—	3,741,004	(3,741,004)	—	—	—
22/12/2004	28/06/2008	\$0.4900	325,000	—	—	—	—	325,000	325,000
22/12/2004	28/06/2008	\$0.4900	499,998	—	—	—	—	499,998	499,998
22/12/2004	28/06/2008	\$0.4900	350,001	—	—	—	—	350,001	350,001
22/12/2004	28/06/2008	\$0.4900	1,289,999	—	—	(595,391)	—	694,608	694,608
06/10/2005	06/10/2008	\$0.6000	1,330,000	—	—	(670,000)	—	660,000	660,000
14/10/2005	28/06/2008	\$0.4000	200,000	—	—	—	—	200,000	200,000
14/10/2005	21/08/2011	\$0.4514	—	—	5,176,957	(5,176,957)	—	—	—
14/10/2005	28/06/2008	\$0.5000	500,000	—	—	—	—	500,000	500,000
14/10/2005	28/06/2008	\$0.5000	200,000	—	—	—	—	200,000	200,000
14/10/2005	21/08/2011	\$0.5518	—	—	2,548,507	(644,670)	—	1,903,837	1,903,837
14/10/2005	21/08/2011	\$0.5717	—	—	3,425,664	(1,177,832)	—	2,247,832	2,247,832
25/11/2005	28/06/2009	\$0.8000	2,357,295	—	—	(209,555)	—	2,147,740	2,147,740
31/05/2006	28/06/2010	\$0.7500	240,000	—	—	—	—	240,000	80,000
31/05/2006	28/06/2010	\$0.8500	240,000	—	—	—	—	240,000	80,000
31/05/2006	28/06/2010	\$0.9500	240,000	—	—	—	—	240,000	80,000
31/08/2006	28/06/2010	\$0.7500	110,000	610,000	—	(277,000)	—	443,000	36,667
31/08/2006	28/06/2010	\$0.8500	110,000	610,000	—	(276,000)	—	444,000	36,667
31/08/2006	28/06/2010	\$0.9500	110,000	610,000	—	(277,000)	—	443,000	36,667
			12,802,288	1,830,000	16,560,487	(15,038,764)	—	16,154,011	14,779,011
Weighted average exercise price			\$0.544	\$0.850	\$0.462	\$0.466	—	\$0.567	\$0.531

No options were forfeited during the periods covered by the table.

Notes to the Financial Statements

116

30 June 2007

Consolidated and parent entity – 2006

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted in year	Exercised in year	Expired in year	Balance at end of year	Exercisable at end of year
19/07/2004	28/06/2008	0.2900	999,999	–	–	–	999,999	999,999
19/07/2004	28/06/2008	0.3900	999,999	–	–	–	999,999	999,999
19/07/2004	28/06/2008	0.4900	999,999	–	–	–	999,999	999,999
29/10/2004	28/06/2008	0.3900	325,000	–	–	–	325,000	325,000
22/12/2004	28/06/2008	0.4900	325,000	–	–	–	325,000	325,000
22/12/2004	28/06/2008	0.2900	499,998	–	–	–	499,998	333,332
22/12/2004	28/06/2008	0.3900	499,998	–	–	–	499,998	333,332
22/12/2004	28/06/2008	0.4900	499,998	–	–	–	499,998	333,332
22/12/2004	28/06/2008	0.2900	350,001	–	–	–	350,001	233,334
22/12/2004	28/06/2008	0.3900	350,001	–	–	–	350,001	233,334
22/12/2004	28/06/2008	0.4900	350,001	–	–	–	350,001	233,334
22/12/2004	28/06/2008	0.4900	1,399,999	–	(110,000)	–	1,289,999	1,289,999
14/10/2005	28/06/2008	0.5000	–	500,000	–	–	500,000	250,000
14/10/2005	28/06/2008	0.4000	–	200,000	–	–	200,000	133,334
14/10/2005	28/06/2008	0.5000	–	200,000	–	–	200,000	133,334
25/11/2005	28/06/2009	0.8000	–	2,357,295	–	–	2,357,295	–
31/05/2006	28/06/2010	0.7500	–	240,000	–	–	240,000	–
31/05/2006	28/06/2010	0.8500	–	240,000	–	–	240,000	–
31/05/2006	28/06/2010	0.9500	–	240,000	–	–	240,000	–
			7,599,993	3,977,295	(110,000)	–	11,467,288	7,481,662

No options were forfeited during the periods covered by the above tables.

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2006 was \$0.60 (2005: \$0.38).

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.33 years. (2005: 3 years).

Fair value of options granted

The assessed fair value at the date of grant of options issued is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the underlying share price at the time of issue, the term of the option, the underlying share's expected volatility, expected dividends and the risk-free interest rate for the expected life of the instrument.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2007 included: (applicable to options issued in late 2006 and during financial year 2007. All other options have vested in prior years)

- (a) options are granted for no consideration and 1/3 of options vested 30 June 2007, a further 1/3 vesting 30 June 2008, with the remaining 1/3 vesting 30 June 2009;
- (b) exercise price: 1/3 at \$0.75, 1/3 at \$0.85, 1/3 at \$0.95;
- (c) grant date: 31 August 2006;
- (d) expiry date: 28 June 2010;
- (e) expected price volatility of the company's shares: 50%;
- (g) expected dividend yield: nil; and
- (h) risk free interest rate: 5.22%.

The total share option expense for the year amounted to \$2,011,195 (2006: \$1,042,166).

Directors' Declaration

117

30 June 2007

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 66 to 114 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 46 to 55 of the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



John Reynolds
Director



Nicholas Davies
Managing Director

Brisbane
20 August 2007

Independent audit report

30 June 2007

Independent Auditor's Report to the members of Arrow Energy N.L.

Report on the financial report and AASB 124 remuneration disclosures contained in the Directors' Report

We have audited the accompanying financial report of Arrow Energy N.L., which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for both Arrow Energy N.L. (the company) and the Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the Directors' Report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of Directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 46 to 55 of the Directors' Report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' Report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors of the company are also responsible for the remuneration disclosures contained in the Directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

Our responsibility is to also express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' Report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion, the financial report of Arrow Energy N.L. is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's opinion on the AASB 124 remuneration disclosures contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in pages 46 to 55 of the Directors' Report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers



Stephen R Snook
Brisbane
Partner
20 August 2007

Liability limited by
a scheme approved
under Professional
Standards Legislation

This page has been left blank intentionally

Corporate Directory

Directors

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

Company Secretary

Mr Kerry Parker, Chief Financial Officer

Notice of Annual General Meeting

The Annual General Meeting of Arrow Energy N.L.
will be held at Kingston Room, The Polo Club
Time, 10.00am
Date, 14 November 2007

Principal registered office in Australia

Level 13, 10 Eagle Street
Brisbane 4000
Telephone: (07) 3105 3400

Share registry

Link Market Services
Locked Bag A14
Sydney South
NSW 1235

Auditor

PricewaterhouseCoopers
Riverside Centre
123 Eagle Street
Brisbane 4000

Solicitors

Hopgood Ganim
Level 8 Waterfront Place
Brisbane 4000

Stock exchange listings

Australian Stock Exchange Ltd
AOE - Ordinary Shares
AOEGA - Convertible Notes

Website address

www.arrowenergy.com.au

For personal use only



arrowenergy.com.au