

Quarterly Report

Quarter ended 30 June 2009



- Gross gas production up 13.4% over prior year
- Electricity sales increase 34% over prior year
- LNG opportunities increase with announcement of Shell's Curtis Island project
- Braemar 2 Power Station commences commercial operation
- Acquisition of Beach interest in Tipton West Joint Venture completed
- International activity ramps up with continued exploration activity in four Asian countries

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1. Operating Highlights

Arrow Energy continued to develop its Australian and international businesses and create value for shareholders. During the quarter Arrow announced the commercial completion of the Braemar 2 power station, and saw commercialisation of our huge gas resources move a step closer with the announcement by the Queensland Government that the Shell LNG facility at Curtis Island is a project of State Significance. The acquisition of Beach Petroleum's interest in the Tipton West project was completed during the quarter and Shell has subsequently confirmed their intention to exercise a pre-emptive right to participate in the acquisition subject to corporate, third-party and regulatory approvals.

Preliminary indications from on-going reserve definition work are very encouraging, and an upgraded reserve statement is expected to be released prior to the full year results in August.

During FY09-10 Arrow is planning to undertake the largest exploration and appraisal program in its history. The clear objective is to accelerate and maximise conversion of the previously identified 70 Tcf of resources into reserves that can be monetized via Fisherman's Landing and Curtis Island LNG opportunities. An overview of exploration objectives by region is presented within this report.

Arrow's cash position at the end of the quarter was \$378 million. The draw down from the previous quarter reflects payments made to Beach for the acquisition of Tipton West, expansion of our capital program as we continue to prove up reserves and develop our LNG project. This amount does not include the \$99 million that will be payable by Shell as a result of their intention to exercise their pre-emptive rights on Tipton West.

The Fisherman's Landing LNG project (with LNG Ltd) remains on track to meet its key milestones for a Final Investment Decision in Quarter 1 2010, and following successful implementation, first LNG in late 2012.

Arrow Energy International continues to aggressively pursue business development opportunities in China, Indonesia, Vietnam and India with drilling exploration activity having commenced in all countries other than Indonesia (where our first wells are expected to be drilled in Quarter 4 2009).

Production snapshot.

Gross gas production increased 5.7% in the June quarter compared to the prior quarter. The Moranbah Gas Project continued a steady increase in production while Tipton West and Kogan North were both positively impacted by new wells coming on line.

Production at Arrow's largest field Tipton West increased 7.1% as the Braemar 2 power station commenced operations utilising gas from this field. Daandine production decreased slightly as production was scaled back due to shutdown of the Swanbank E generator for planned maintenance. The Daandine and Stratheden fields are now ramping up production to provide the majority of the gas under our sales agreement with the Braemar 2 Power Station. On 27 July Arrow Energy achieved daily gas sales deliveries of 100.6 terajoules - a new record for the company.

On a year to date basis, gross gas production was up 13.4% to 32,435 terajoules (TJ) on the comparable period last year. Adjusting for the seven week planned shut in of the Moranbah gas fields due to planned maintenance on the Townsville Power Station, full year production would have been up 18% to 33,757 TJ. Full year sales have also been impacted by planned maintenance at the Swanbank E and Townsville power stations and were down by 1.5%. Gross electricity sales increased strongly during the quarter, up 34.4%, with the commissioning of the Braemar 2 Power station in June. Full year electricity sales were up 41.4%.

| Quarterly Data | | 31 March, 2009 | 30 June, 2009 | Change vs. Prior Quarter | % Change |
|----------------------------|------------|----------------|---------------|--------------------------|----------|
| Gross Operated | | | | | |
| Gas Production | Terajoules | 8,335 | 8,812 | 477 | 5.7% |
| Gas Sales | Terajoules | 4,582 | 4,618 | 36 | 0.8% |
| Electricity Sales | MWH | 360,154 | 484,017 | 123,863 | 34.4% |
| Net to Arrow Energy | | | | | |
| Gas Production | Terajoules | 3,659 | 4,370 | 711 | 19.4% |
| Gas Sales | Terajoules | 2,077 | 2,722 | 645 | 31.1% |
| Electricity Sales | MWH | 209,519 | 271,828 | 62,309 | 29.7% |

| Year to Date Data | | YTD 30 June, 2008 | YTD 30 June, 2009 | Change vs. Prior YTD | % Change |
|----------------------------|------------|-------------------|-------------------|----------------------|----------|
| Gross Operated | | | | | |
| Gas Production | Terajoules | 28,606 | 32,435 | 3,829 | 13.4% |
| Gas Sales | Terajoules | 18,594 | 18,323 | -271 | -1.5% |
| Electricity Sales | MWH | 996,552 | 1,408,752 | 412,200 | 41.4% |
| Net to Arrow Energy | | | | | |
| Gas Production | Terajoules | 16,265 | 17,206 | 941 | 5.8% |
| Gas Sales | Terajoules | 10,200 | 10,151 | -48 | -0.5% |
| Electricity Sales | MWH | 615,170 | 825,794 | 210,624 | 34.2% |

2. Australian Business Activity

Upstream LNG Project on Track

Arrow has an exclusive agreement with Liquefied Natural Gas Limited (LNGL) to supply coal seam gas to a planned Liquefied Natural Gas (LNG) plant at Fisherman's Landing in Gladstone, Queensland. Fisherman's Landing is targeted to become the world's first LNG export facility to use coal seam gas (CSG) as a feedstock when it starts production in late 2012.

The Fisherman's Landing LNG Plant is being developed by LNGL and Arrow has an option to acquire a 20% interest in the plant. The LNG Plant is being developed in two stages; the first stage consists of operating a single processing train providing an initial maximum operational capacity of 1.5 million tonnes of LNG per year. There is an opportunity for a second train to follow, which will double the operational capacity of the plant to 3.0 million tonnes of LNG per year.

Since receiving approval from the Queensland Government for the Environmental Impact Statement (EIS) on the Fisherman's Landing LNG Plant in April 2009, LNGL has progressed with the next stage of the approval process. Agreement has now been reached with the Gladstone Ports Corporation (GPC) and other Government agencies in relation to the dredging approvals strategy for the project's shipping access channel and ship turning basin and the associated dredged material relocation sites.

Gas feed for the Fisherman's Landing plant will be sourced from Arrow's acreage with the first train requiring delivery of 90 PJ of gas per annum or an average of 257 TJ/day.

Arrow's Upstream LNG Project Team, which is responsible for the planning, design and development of the gas field and pipeline to Gladstone, is currently entering the Front End Engineering Design stage of the project. This involves the design of the surface facilities required to develop the gas fields and finalisation of the Field Development Plan that determines the drilling and production profiles for fields.

Surat Gladstone Pipeline Pty Ltd, a wholly owned subsidiary of Arrow Energy, is undertaking the development of the main transmission pipeline linking the gas fields in the Surat Basin to Fisherman's Landing at Gladstone. Engineering and implementation planning is well underway for the 470km long, high pressure, underground steel pipeline. A preferred pipeline route has been selected and an EIS was submitted to the Department of Energy and Resource Management for consideration during July.

Overall, the project remains on track to meet its key milestones for a Final Investment Decision in the first quarter 2010, and following successful implementation, first LNG in late 2012.

Shell Australia's CSG-to-LNG project declared a significant project.

The Queensland Government announced that Shell's proposed CSG to LNG facility at Curtis Island, Gladstone is a Project of State Significance. Shell has released an Initial Advice Statement stating that gas for the LNG train will be sourced from Arrow/Shell joint venture tenements. Later expansion of the LNG facility will utilize additional gas as it becomes available from expected exploration and appraisal success within the Arrow/Shell Joint Venture tenements.

The foundation train will use approximately 200 PJ per annum as feed gas. A total of up to 4000 PJ would be required for a foundation train in the first 20 years of operation. Shell also note in their IAS that they have sufficient market access for the foundation LNG train, through its marketing activities and re-gasification positions across locations such as North Asia, India, Europe and North America. First LNG production is targeted for 2014 - 2015.

Shell will now commence work on an Environmental Impact Statement in order to develop this project further.

Shell signs letter of intent for exercise of Tipton West pre-emptive rights

Shell CSG (Australia) Pty Ltd has signed a letter indicating that it intends to exercise joint venture pre-emptive rights to take up a share of the Tipton West assets recently acquired by Arrow from Beach Petroleum, subject to both parties obtaining necessary corporate, third-party and regulatory approvals.

On finalisation, Shell will pay Arrow A\$99 million to obtain a further 12% of the Tipton West Joint Venture. In addition to the initial payment of \$99 million, Shell will also reimburse Arrow for 30% of any contingent payments (up to \$21 million) that Arrow makes to Beach under the terms of the Arrow/Beach Tipton West sale agreement.

Post completion of the transaction, ownership of the Tipton West Joint Venture will be 70% Arrow and 30% Shell.

Arrow completed the acquisition of Beach Petroleum Limited's 40% interest in the Tipton West Joint Venture coal seam gas project and surrounding exploration acreage on the 20th May 2009. Arrow's net reserves position post completion of the acquisition and post Shell participation is as shown in the table below.

| | April 2008 | Tipton Acquired | Post Deal (AOE Net) |
|---------------------------------------|------------|-----------------|---------------------|
| Net Proved (1P) | 259 | 117 | 376 |
| Net Proved + Probable (2P) | 1,177 | 492 | 1,669 |
| Net Proved + Probable + Possible (3P) | 3,676 | 1,174 | 4,850 |

Petajoules, "Net" refers to AOE's attributable share of reserves and excludes joint venture partner share

Braemar 2 Power Station fully operational with construction completed \$15m below budget

The 450MW Braemar 2 Power Station achieved operational status with all three 150MW gas fired generation units fully commissioned and in commercial operation. The NewGen Braemar 2 Partnership, a 50:50 partnership between subsidiaries of Arrow and ERM Power Pty Ltd (ERM), owns the Braemar 2 Power Station.

Arrow is currently supplying gas to the Braemar 2 Power Station at a rate of approximately 5.5 PJ/a, this will ramp up over the next 12 months to 15 PJ/a. The Tipton West JV (70% Arrow, 30% Shell – post pre-emptive rights exercise) will contribute 3.5 PJ/a and the Daandine JV (70% Arrow, 30% Shell) will supply 11.5 PJ/a under a 12-year gas sales agreement. ERM will operate the power station and manage the electricity despatch. Revenues for the power station are underpinned by an electricity hedge agreement with Origin Energy Ltd for 300MW of electricity hedges for a minimum of 10 years, with options over an additional 150MW of capacity.

The construction of the power station and associated high pressure gas pipeline has completed at a cost of ca. \$530m representing a saving of approximately \$15m from original budget estimates. Commissioning and hand over of the final generation unit was completed in early July and Braemar 2 is in full commercial operation.

The Braemar 2 Power Station will operate initially as a peak and shoulder period generator that will aim to despatch electricity during periods of higher electricity demand and capture the associated higher electricity prices during that time. As an accredited generator under the Queensland Gas Scheme, Braemar 2 also benefits from earning Gas Electricity Certificates.



Braemar 2 Power Station – three 150 MW Siemens Gas Turbines

Arrow has been developing the Stratheden field within the Daandine area to supply gas to Braemar 2. The recent commissioning of the Daandine / Stratheden compression and gas processing facility was a major milestone in this development.

3. International Business Activity

Continuing progress on all fronts.

Arrow Energy International continues to aggressively pursue business development opportunities in China, Indonesia, Vietnam and India with drilling exploration activity having commenced in all countries other than Indonesia (where our first wells are expected to be drilled in October 2009).



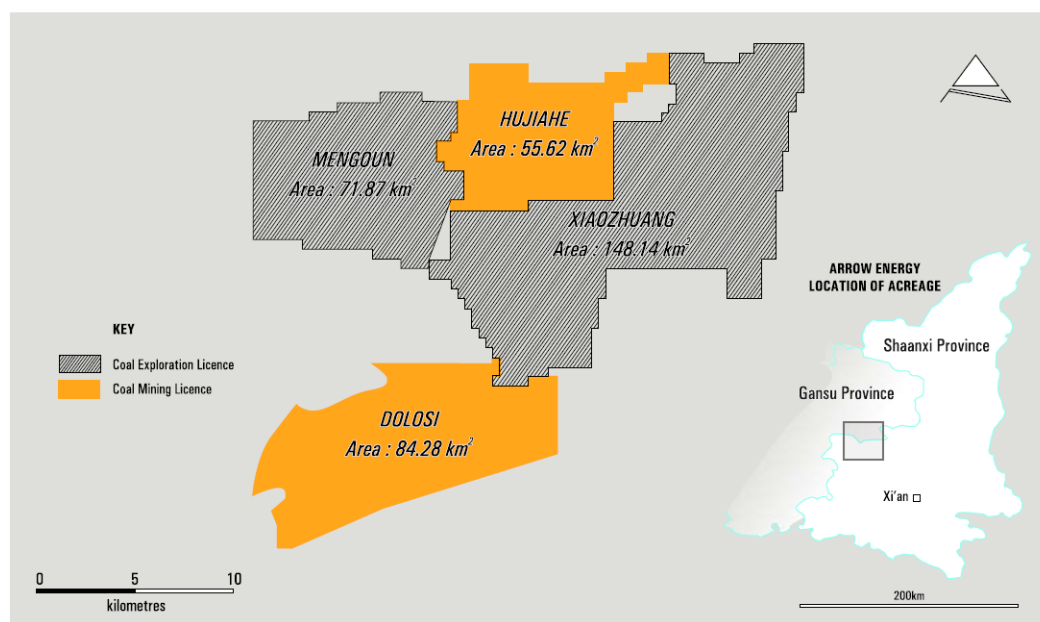
Successful completion of Arrow's first surface to in-seam well in China.

Arrow Energy and its partner Binchang Mining Group (Binchang) have completed drilling the first well of its two well pilot drilling program.

Well DFS-01-V was successfully completed on 17th June 2009. The well has been equipped and is on pump with the first lateral going through gas desorption. The well is intersected by two relatively short 500m horizontal/lateral sections proving up the feasibility of a similar well design concept to Arrow's Bowen Basin surface to in-seam wells.

This drilling is part of a Heads of Agreement (HOA) signed with Binchang aimed at developing coal seam gas in an area covering 360km² of Binchang coal mining licenses in Shaanxi Province, 100km North West of Xi'an, the provincial capital.

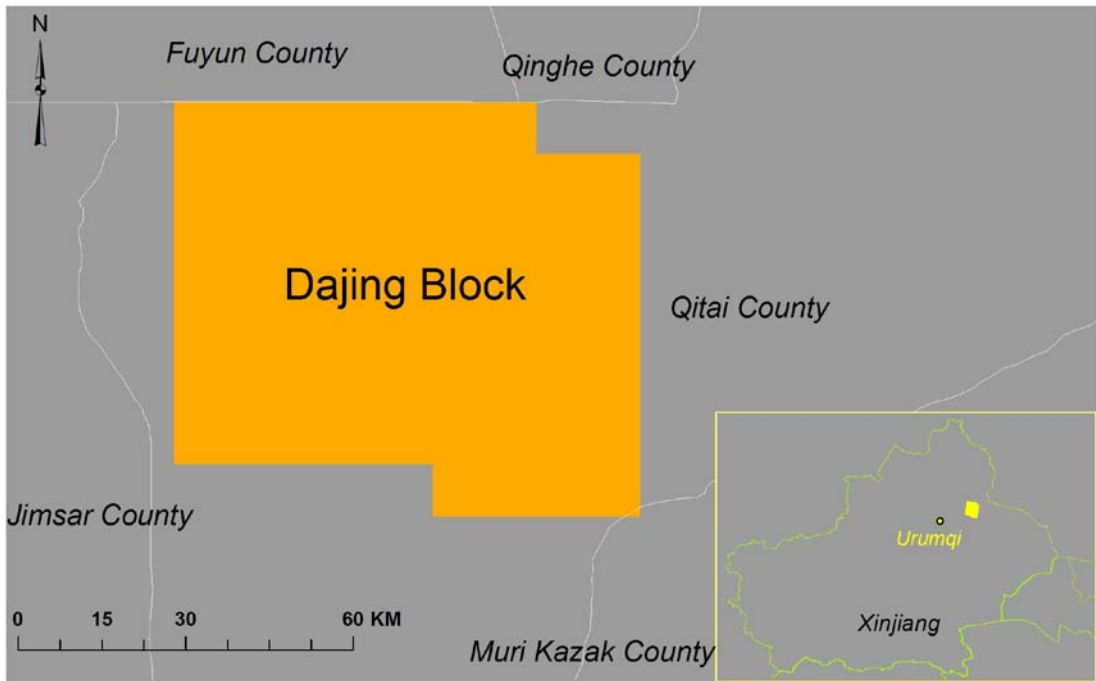
BINCHANG COAL MINING LEASES SHAANXI PROVINCE - CHINA



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Dajing PSC with PetroChina nearing completion

Arrow and Petrochina have concluded negotiations for a PSC award over the Dajing Block in Xinjiang Province in the Northwest of China covering some 4,000 km². It is envisaged that PSC signing will occur during 3Q2009. Arrow has already commenced full scale planning for exploration operations consisting of 14 wells in the first phase that will start as soon as possible after PSC award.





Preparation under way for Arrow's first CBM exploration drilling in Indonesia

Planning for Arrow's first exploration work program on the W. Sangatta PSC block, east Kalimantan is progressing well with spud date anticipated in October 2009. This activity is being carried out in partnership with Ephindo Iltahi CBM Holding Inc. (Ephindo) and Pertamina Hulu Energi Metan A, a subsidiary of state oil and gas company PT Pertamina.





Completion of initial exploration drilling phase on MVHN-01KT block in northern Vietnam.

Drilling of the 8 exploration wells was successfully completed mid-July and the rig has been demobilized. Coal samples are undergoing sorption laboratory testing. Gross coal has averaged 29.5m. Results of testing under way will determine our next phase of activity on this block





Initial drilling program nearing successful completion with plans in place for pilot wells to be drilled following technical review

Arrow's work program to drill 18 core holes in two CBM blocks in Chhattisgarh state in India will be completed by end July 2009. Drilling of pilot wells could start as early as January 2010 depending on review of results from the initial drilling program.

Preparation under way for CBM IV

The Government of India announced CBM IV bidding round for 10 blocks in India. The revised bid closing date will be around 12th October. Arrow is currently analysing the potential of these blocks and preparing to take the most appropriate action with regard to bidding depending on perceived prospectivity.

Negotiations under way with coal mining companies

Arrow is currently negotiating with Indian coal mining companies aimed at extracting methane ahead of mining activity in some of the most gassy coal mining areas in Jharia and Bokaro coalfields.



4. Production Review

Gross gas production for the June quarter increased 5.7% on the March quarter largely due to improved production at Kogan North and Tipton West gas fields. Net production figures take into account Shell's acquisition of 30% of Arrow's interests in its Australian tenements and Arrow's acquisition of Beach Petroleum's interest in Tipton West.

To facilitate review of the impact of the Shell and Beach transactions, we have included a like for like analysis on Page 13.

Quarter on quarter performance.

| Gas Production TJ Gross | Quarter to 31 March, 2009 | Quarter to 30 June, 2009 | Change vs. Prior Quarter | % Change |
|---------------------------|---------------------------|--------------------------|--------------------------|-------------|
| Daandine | 962 | 936 | -26 | -2.7% |
| Kogan North | 678 | 750 | 72 | 10.7% |
| Moranbah | 4,056 | 4,300 | 244 | 6.0% |
| Tipton West | 2,639 | 2,826 | 187 | 7.1% |
| Total Arrow Energy | 8,335 | 8,812 | 477 | 5.7% |

| Gas Production TJ Net | Quarter to 31 March, 2009 | Quarter to 30 June, 2009 | Change vs. Prior Quarter | % Change |
|---------------------------|---------------------------|--------------------------|--------------------------|--------------|
| Daandine (70%) | 674 | 655 | -19 | -2.8% |
| Kogan North (35%) | 237 | 263 | 26 | 11.0% |
| Moranbah (35%)* | 1,640 | 1,505 | -135 | -8.3% |
| Tipton West (42%) | 1,108 | 1,947 | 839 | 75.7% |
| Total Arrow Energy | 3,659 | 4,370 | 711 | 19.4% |

| Gas Sales TJ Gross | Quarter to 31 March, 2009 | Quarter to 30 June, 2009 | Change vs. Prior Quarter | % Change |
|---------------------------|---------------------------|--------------------------|--------------------------|-------------|
| Daandine | 389 | 214 | -175 | -45.0% |
| Kogan North | 550 | 642 | 92 | 16.7% |
| Moranbah | 1,182 | 1,200 | 18 | 1.5% |
| Tipton West | 2,461 | 2,563 | 101 | 4.1% |
| Total Arrow Energy | 4,582 | 4,618 | 36 | 0.8% |

| Gas Sales TJ Net | Quarter to 31 March, 2009 | Quarter to 30 June, 2009 | Change vs. Prior Quarter | % Change |
|---------------------------|---------------------------|--------------------------|--------------------------|--------------|
| Daandine (70%) | 272 | 150 | -122 | -45.0% |
| Kogan North (35%) | 193 | 227 | 34 | 17.6% |
| Moranbah (35%)* | 579 | 587 | 8 | 1.4% |
| Tipton West (42%) | 1,034 | 1,760 | 726 | 70.2% |
| Total Arrow Energy | 2,077 | 2,722 | 645 | 31.1% |

Year on year performance.

Arrow Energy's gross gas production has increased 13.4% on a year to date basis reflecting major increases at our Tipton West and Daandine fields over the past twelve months. During the year the Moranbah gas field was shut-in for seven weeks during planned maintenance at the Townsville Power Station – normalising for this event Arrow's production would have been up 18% year on year to ca. 33,800 terajoules.

Gross & Arrow net operated production.

| Gas Production TJ Gross | YTD 30 June, 2008 | YTD 30 June, 2009 | Change vs. Prior Quarter | % Change |
|---------------------------|-------------------|-------------------|--------------------------|--------------|
| Daandine | 2,699 | 4,010 | 1,311 | 48.6% |
| Kogan North | 2,949 | 2,896 | -53 | -1.8% |
| Moranbah | 16,832 | 15,337 | -1,647 | -8.9% |
| Tipton West | 6,126 | 10,192 | 4,066 | 66.4% |
| Total Arrow Energy | 28,606 | 32,435 | 3,829 | 13.4% |

| Gas Production TJ Net | YTD 30 June, 2008 | YTD 30 June, 2009 | Change vs. Prior Quarter | % Change |
|---------------------------|-------------------|-------------------|--------------------------|-------------|
| Daandine (70%) | 2,699 | 3,440 | 741 | 27.5% |
| Kogan North (35%) | 1,475 | 1,234 | -240 | -16.3% |
| Moranbah (35%)* | 8,416 | 6,640 | -1,776 | -21.1% |
| Tipton West (42%) | 3,675 | 5,892 | 2,216 | 60.3% |
| Total Arrow Energy | 16,265 | 17,206 | 941 | 5.7% |

Gross & Arrow net operated sales.

| Gas Sales TJ Gross | YTD 30 June, 2008 | YTD 30 June, 2009 | Change vs. Prior Quarter | % Change |
|---------------------------|-------------------|-------------------|--------------------------|--------------|
| Daandine | 614 | 1,306 | 692 | 112.9% |
| Kogan North | 2,620 | 2,555 | -65 | -2.5% |
| Moranbah | 9,400 | 5,060 | -4,340 | -46.2% |
| Tipton West | 5,960 | 9,402 | 3,442 | 57.8% |
| Total Arrow Energy | 18,594 | 18,323 | -271 | -1.5% |

| Gas Sales TJ Net | YTD 30 June, 2008 | YTD 30 June, 2009 | Change vs. Prior Quarter | % Change |
|---------------------------|-------------------|-------------------|--------------------------|--------------|
| Daandine (70%) | 614 | 1,126 | 512 | 83.5% |
| Kogan North (35%) | 1,310 | 1,101 | -211 | -16.0% |
| Moranbah (35%)* | 4,700 | 2,505 | -2,195 | -46.7% |
| Tipton West (42%) | 3,576 | 5,421 | 1,844 | 51.6% |
| Total Arrow Energy | 10,200 | 10,151 | -49 | -0.5% |

Like for like production analysis.

The following table details the changes in Arrow's net interest in the operating fields in the last six months of the financial year.

| Joint Venture | ARROW INTEREST (%) | | | 30/6/09 |
|---------------|--------------------|-------|-------|---------|
| | 31/12/08 | SHELL | BEACH | |
| Daandine | 100 | - 30 | | 70 |
| MGP | 50 | - 15 | | 35 |
| Tipton | 60 | - 18 | + 40 | 82* |
| Kogan North | 50 | - 15 | | 35 |

* Shell have indicated they will exercise their pre-emptive rights which will reduce Arrow's interest to 70%

To provide a clearer picture of the underlying performance of Arrow's net operating interest the following table details the reported data and the "Like for Like" data recasting prior reported data as if the current ownership structure had been in existence for the past three years. There has been no change in the ownership interests in the power stations over the period.

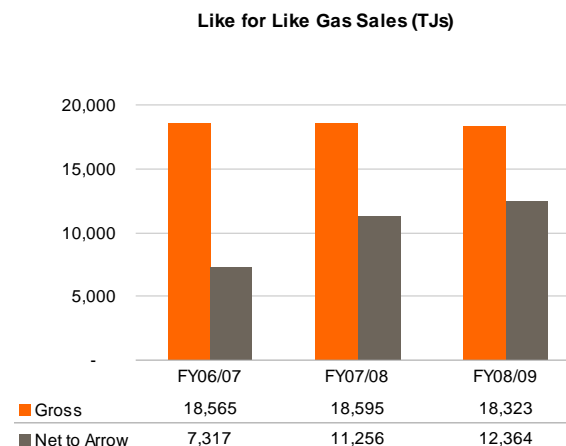
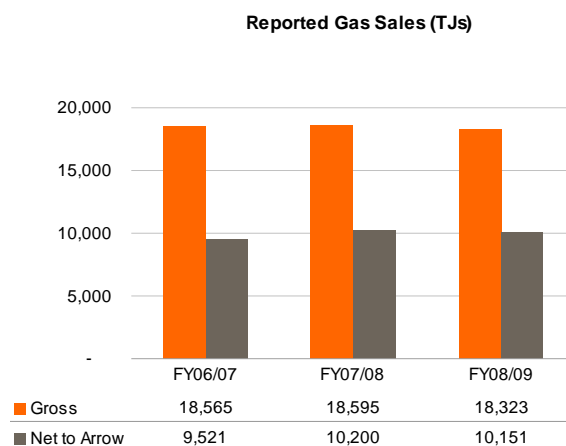
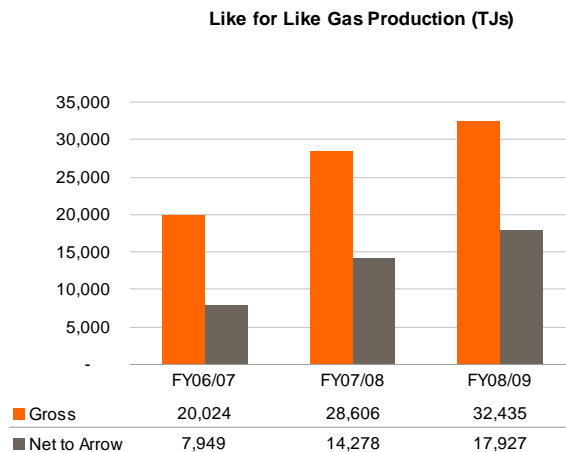
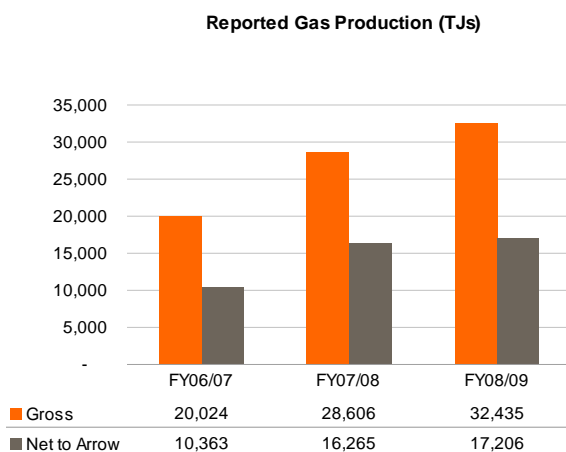
| | | | | | |
|---|----------------|----------------|-----------------|----------------|-----------------|
| Reported Gas Production (TJs) | FY06/07 | FY07/08 | % Change | FY08/09 | % Change |
| Gross | 20,024 | 28,606 | 43% | 32,435 | 13% |
| Net to Arrow | 10,363 | 16,265 | 57% | 17,206 | 6% |
| Reported Gas Sales (TJs) | FY06/07 | FY07/08 | % Change | FY08/09 | % Change |
| Gross | 18,565 | 18,595 | 0% | 18,323 | -1% |
| Net to Arrow | 9,521 | 10,200 | 7% | 10,151 | 0% |
| Reported Electricity Sales (MWhs) | FY06/07 | FY07/08 | % Change | FY08/09 | % Change |
| Gross | 20,929 | 996,948 | 4663% | 1,408,752 | 41% |
| Net to Arrow | 20,929 | 615,368 | 2840% | 825,794 | 34% |
| Like for Like Gas Production (TJs) | FY06/07 | FY07/08 | % Change | FY08/09 | % Change |
| Gross | 20,024 | 28,606 | 43% | 32,435 | 13% |
| Net to Arrow | 7,949 | 14,278 | 80% | 17,927 | 26% |
| Like for Like Gas Sales (TJs) | FY06/07 | FY07/08 | % Change | FY08/09 | % Change |
| Gross | 18,565 | 18,595 | 0% | 18,323 | -1% |
| Net to Arrow | 7,317 | 11,256 | 54% | 12,364 | 10% |
| Like for Like Electricity Sales (MWhs) | FY06/07 | FY07/08 | % Change | FY08/09 | % Change |
| Gross | 20,929 | 996,948 | 4663% | 1,408,752 | 41% |
| Net to Arrow | 20,929 | 615,368 | 2840% | 825,794 | 34% |

* Production only relates to the fields, it excludes any purchased gas

Graphically the like for like comparatives are detailed below:

Reported Production Actual Ownership

Adjusted Production Like for Like



Removing the impact of changes in the ownership interests indicates consistent increases in production and sales over the past three years as additional downstream investment creates monetisation opportunities for Arrow's gas reserves.

Tipton West Project

PL 198 / ATP 689 / ATP 683P

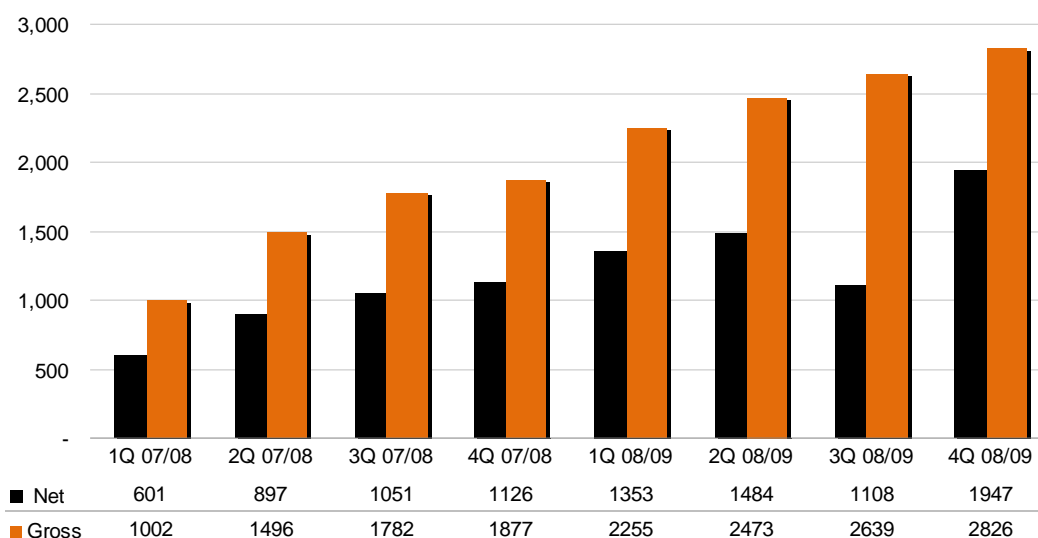
Arrow Energy 82% (Operator), Shell Group 18%

Gross production at Arrow's largest field Tipton West reached record levels as new wells were brought on line and flow rates improved with the addition of further Taroom wells. Gross production from the field increased by 7.1% versus the prior quarter to 2,826 TJ (1,947 TJ net to Arrow post the acquisition from Beach Petroleum). Arrow completed the acquisition of Beach Petroleum's interest in the Tipton West project during the quarter. Shell, Arrow's joint venture partner in the Tipton West project, has indicated that it intends to exercise its pre-emptive rights to maintain its ownership interest in the project. It is expected that this will be completed in the first quarter of the 2009/10 financial year.

Production continued to ramp up in the "Taroom seam only" wells that Arrow has been piloting in the area. Several Juandah and Taroom seam comingled wells have now been completed and continue to dewater with steady ramp up of gas production throughout the quarter. Following the successful pilot results, the Taroom coals will be an ongoing part of Arrow's development activity in the Surat basin and will significantly enhance gas rates and recovery with only a minor increase in costs.

The first portable reverse osmosis plant was completed during the quarter and is currently being commissioned. The one and a half million litre per year plant will treat water to a quality that it can be used for crop irrigation on adjacent properties owned by Arrow.

Gas Production – Tipton West (TJ)



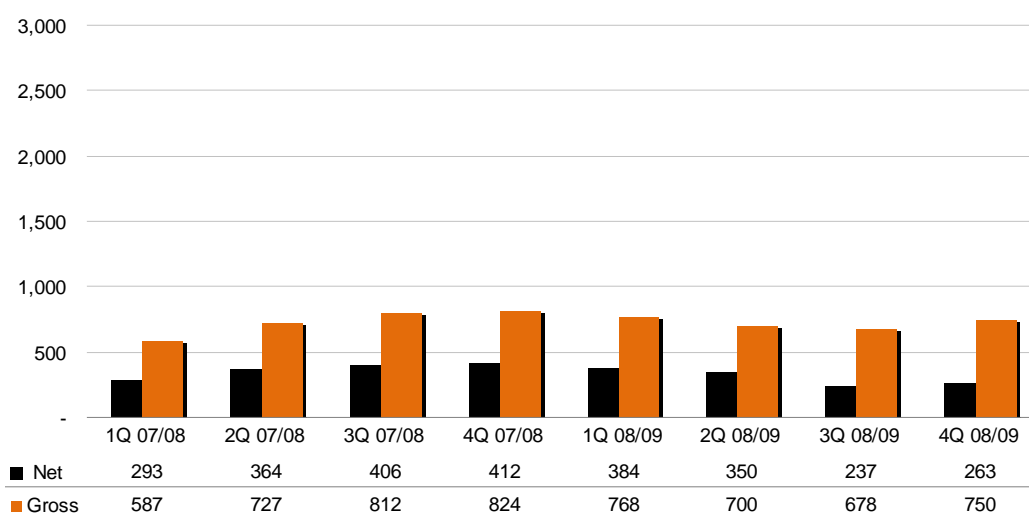
Kogan North CSG Development

PL 194 / ATP676P

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

Total gas production at the Kogan North field increased by 10.7% versus the prior quarter to 750 TJ (263 TJ net to Arrow). This increase is due to an increase in the number of producing wells and key high production wells being brought back on line following a comprehensive well work over program. Further improvements were gained through well stimulations and work overs.

Gas Production – Kogan North (TJ)



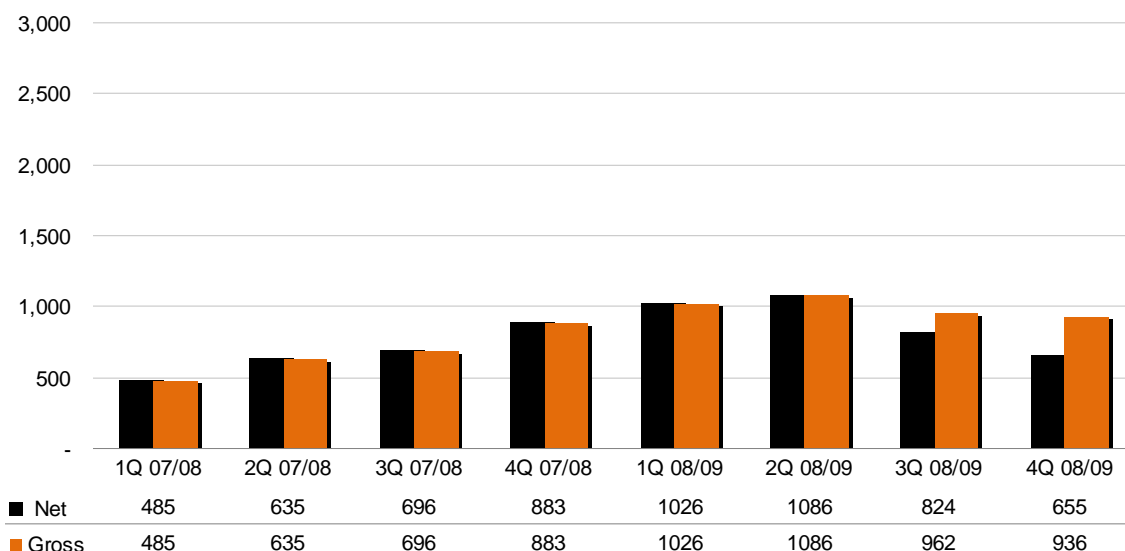
Daandine Project

PL 230

Arrow Energy 70% (Operator), Shell Group 30%

Gross gas production at the Daandine field decreased by 2.7% versus the prior quarter to 936 TJ (655 TJ net to Arrow). The Daandine field is currently being expanded and producing wells are shut in during drilling on existing leases for operational and safety reasons. A number of recently completed Taroom wells show strong performance. Production had been expected to increase in the June quarter, however the shutdown of the Swanbank E generation unit for maintenance had a flow on effect to Daandine sales. An additional impact on sales came from Braemar 2 taking less gas than expected due to timing of station commissioning. The Daandine Central Gas Processing Facility was completed during the quarter.

Gas Production – Daandine (TJ)



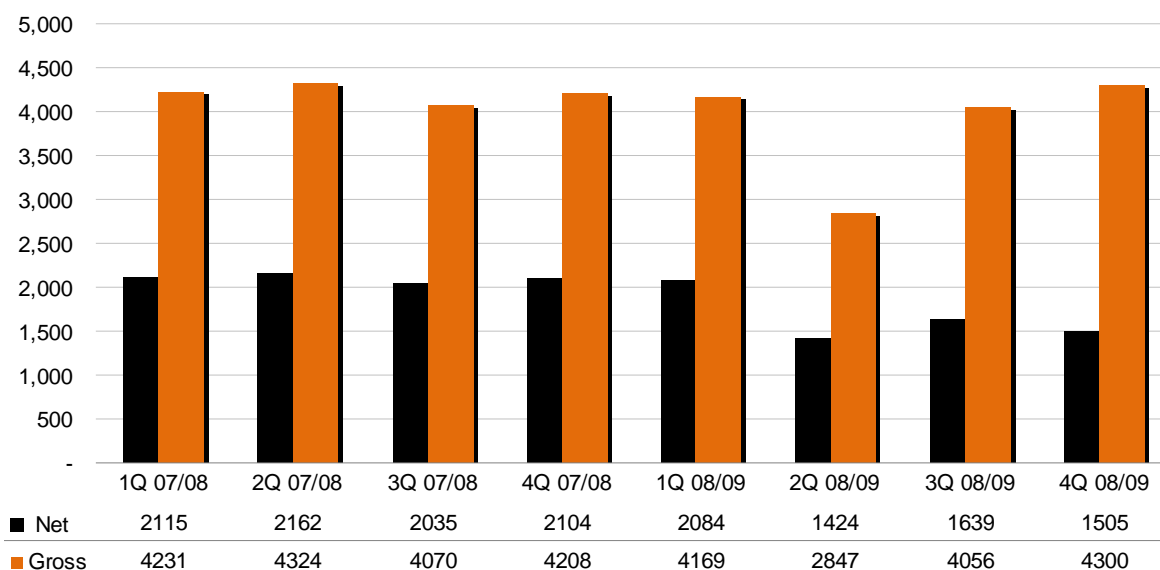
Moranbah Gas Project

PL 191 / PL 196 / PLA 222/

Arrow Energy 35% (Operator), Shell Group 15%, AGL 50%

Total gas production for the Moranbah Gas Project was 6.0% higher at 4,300 TJ (1,505 TJ net to Arrow post the Shell transaction) compared to the prior quarter. The production increase resulted from the installation of three new nodal compressors in the field and start up of new additional wells.

Gas Production – Moranbah Gas Project (TJ)



Electricity

Gross electricity sales were up 34.4% from the previous quarter as Braemar 2 came on line. Gross electricity sales have experienced a 41.4% increase on a year on year performance comparison.

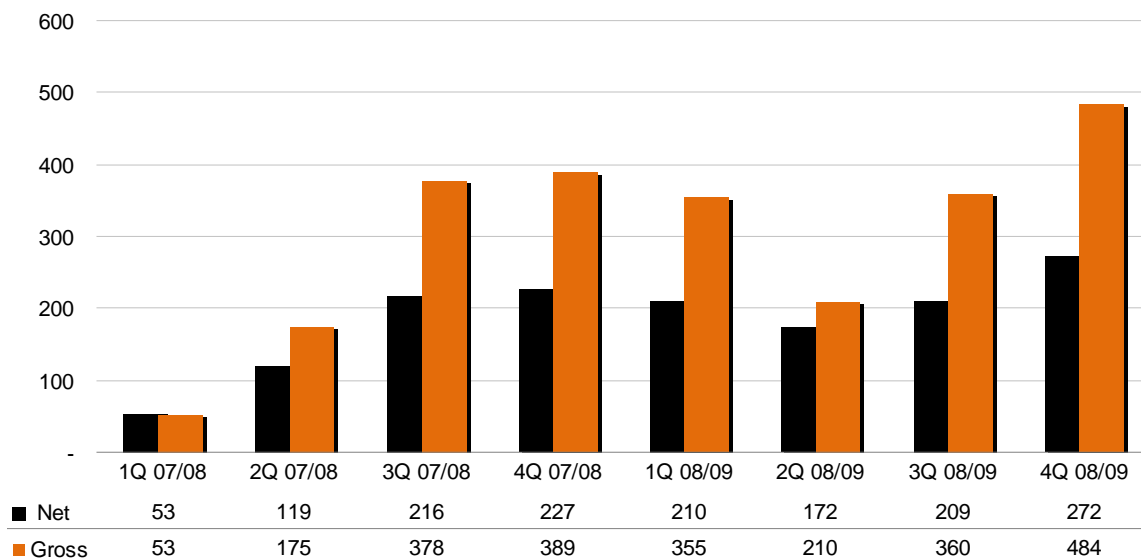
Quarter on Quarter Performance

| Electricity Sales MWh Gross | Quarter to Mar 31, 2009 | Quarter to June 30, 2009 | Change vs. Prior Quarter | % Change |
|-----------------------------|-------------------------|--------------------------|--------------------------|--------------|
| Daandine | 58,884 | 59,638 | 754 | 1.3% |
| Moranbah | 301,271 | 327,354 | 26,083 | 8.7% |
| Braemar 2 | - | 97,025 | 97,025 | |
| Total Arrow Energy | 360,154 | 484,017 | 123,863 | 34.4% |
| Electricity Sales MWh Net | Quarter to Mar 31, 2009 | Quarter to June 30, 2009 | Change vs. Prior Quarter | % Change |
| Daandine (100%) | 58,884 | 59,638 | 754 | 1.3% |
| Moranbah (50%) | 150,635 | 163,677 | 13,042 | 8.7% |
| Braemar 2 (50%) | - | 48,513 | 48,513 | |
| Total Arrow Energy | 209,519 | 271,828 | 62,309 | 29.7% |

Year on Year Performance

| Electricity Sales MWh Gross | YTD June 30, 2008 | YTD June 30, 2009 | Change vs. Prior Quarter | % Change |
|-----------------------------|-------------------|-------------------|--------------------------|--------------|
| Daandine | 233,788 | 242,834 | 9,047 | 3.9% |
| Moranbah | 762,764 | 1,068,893 | 306,129 | 40.1% |
| Braemar 2 | - | 97,025 | 97,025 | |
| Total Arrow Energy | 996,552 | 1,408,752 | 412,200 | 41.4% |
| Electricity Sales MWh Net | YTD June 30, 2008 | YTD June 30, 2009 | Change vs. Prior Quarter | % Change |
| Daandine (100%) | 233,788 | 242,834 | 9,047 | 3.9% |
| Moranbah (50%) | 381,382 | 534,446 | 153,064 | 40.1% |
| Braemar 2 (50%) | - | 48,513 | 48,513 | |
| Total Arrow Energy | 615,170 | 825,794 | 210,624 | 34.2% |

Electricity Sent Out – Thousands of Megawatt Hours



Townsville Power Station

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

Townsville Power Station benefited from higher gas availability with sales of 327,354 MWh (163,167 MWh net to Arrow) during the quarter, up 8.7% on the prior quarter.

Daandine Power Station

Arrow Energy 50% / AGL Energy 50%

Daandine Power Station continues to reliably generate at its current maximum available connection capacity of 27.4MW. Quarterly generation was 59,638 MWh, consistent with the prior quarter results.

Braemar 2 Power Station

*NewGen Braemar 2 Partnership
Arrow Energy 50% / ERM Power 50%*

Braemar 2 Power Station (near Dalby) is a 450MW power station consisting of three 150MW Siemens open cycle gas turbines and a 100km dedicated gas pipeline. Initial gas for the project will be sourced from Arrow Energy and Origin Energy operated areas in the Surat Basin. Braemar 2 reached commercial completion in June with all three gas turbines fully commissioned. Braemar 2 will continue to ramp up production over the next 12 months operating as a peak and shoulder producer.

5. Exploration Review

Upcoming exploration program aimed at accelerating reserve growth

In 2008 contingent and prospective resources within Arrow's vast exploration tenement holdings were estimated at approximately 70 Tcf. The clear objective of the FY09-10 exploration work program, which will be the largest ever undertaken by the Company, is to accelerate and maximise conversion of these resources to 2P reserves. An overview of exploration objectives by region is presented below – see map overleaf for locations.

Surat Basin

Exploration and appraisal activity will focus on confirming gas deliverability rates to aid field development planning, and to extend reserve coverage both north and south of existing fields to support LNG projects.

Bowen Basin

The Bowen Basin will be a major focus for the next several years, with the aim of aggressively expanding reserve coverage in terms of area (particularly across much of the 4000sq. km. of ATP364) and stratigraphically (targeting all three major coal measures in the Bowen Basin, but with a particular focus on the Fort Cooper Coal Measures). A regional development strategy is also being formulated to set out the long term plans for supplying Bowen Basin gas to Gladstone. This strategy will also consider opportunities presented to access additional resources of gas drained from open-cut and underground coal mines in the Bowen Basin as a consequence of mine safety and carbon emissions reduction requirements.

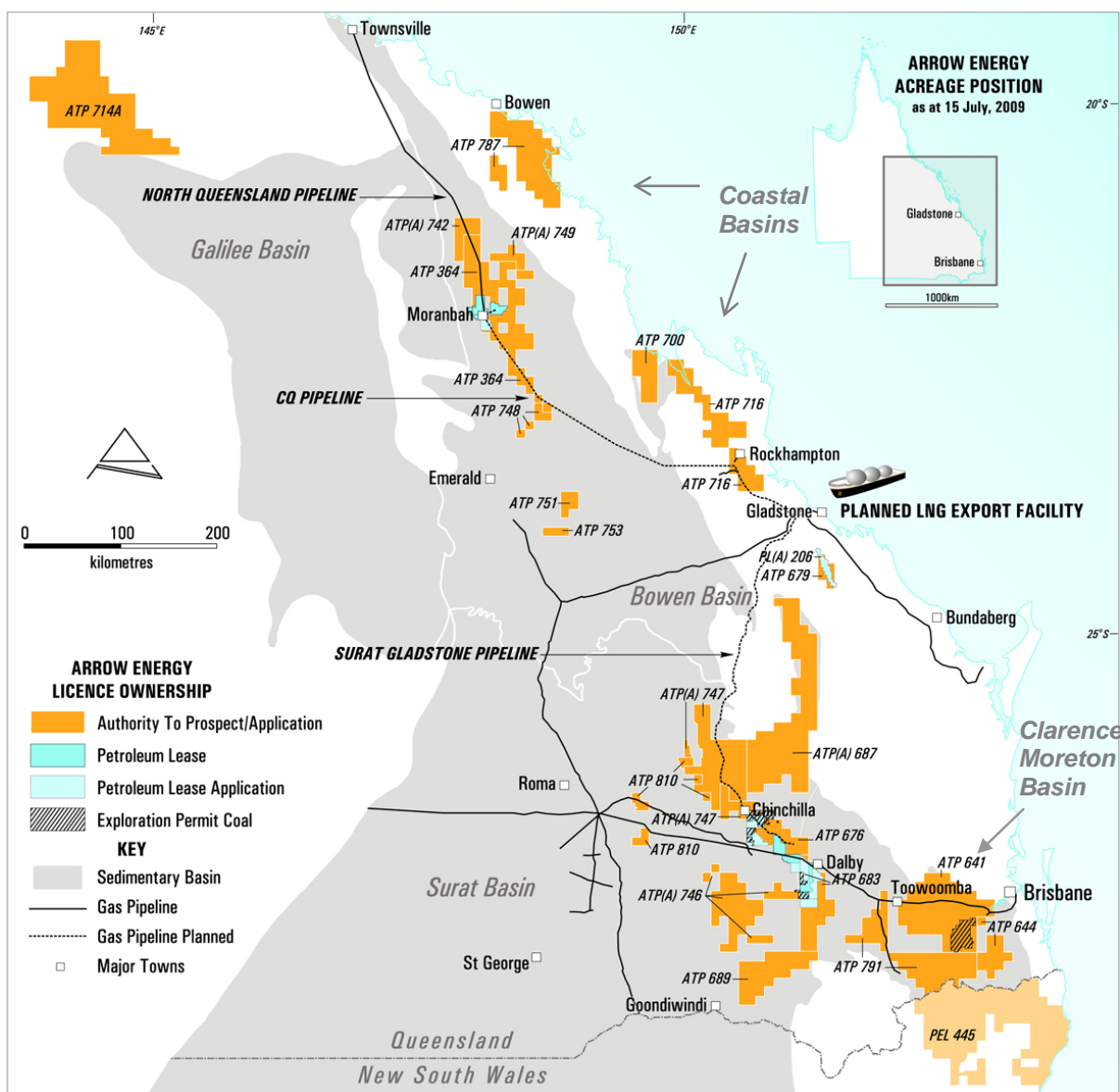
Clarence Moreton Basin

The Clarence Moreton is a very large but relatively underexplored basin in close proximity to Brisbane. During the upcoming work program Arrow will concentrate efforts to understand the regional variability of coal seams within the basin, and seek to demonstrate commercially viable pilot production via its planned 3 well hydro-fracture pilot scheduled for commencement in the northern part of the basin next Quarter.

Coastal Basins

The various coal basin tenements held by Arrow and spread along the central Queensland coast, namely the Nagoorin, Styx, Capricorn and Hillsborough Basins, are highly prospective exploration areas, with very encouraging indicators of potential (such as the thick seams, high gas contents and favourable permeability of coal within the Styx Basin) warranting exploration work. The planned works for these areas will focus on determining the stratigraphic and reservoir properties of coal seams in the short term, with pilot testing to follow in subsequent years dependent upon results.

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Arrow Energy has 65,000km² of tenements in Queensland and Northern New South Wales

Reserve growth continues

Updated reserve estimates are currently in preparation by Netherland Sewell and Associates Inc (NSAI), and MHA Petroleum Consultants LLC (MHA) for the period ending 30th June, 2009 and a new reserve statement will be released prior to the full year results in August.

6. Corporate

Financial position

At the end of the June quarter Arrow Energy had \$378 million in cash. Significant outflows during the quarter included the \$260 million payment to Beach Petroleum for its interest in Tipton West. Post the end of the quarter, Shell have indicated that they will be exercising their pre-emptive with respect to acquiring a further interest in Tipton West which will result in a \$99 million payment to Arrow upon completion.

Shareholder base

At the end of the June 2009 quarter, Arrow Energy had 19,064 shareholders and the share capital position was as follows:

| Category | ASX code | Number on issue |
|---|----------|-----------------|
| Issued Ordinary Shares | AOE | 725,746,918 |
| Unlisted Options | n/a | 10,437,815 |
| Shares issued to employees – not yet vested | n/a | 954,821 |

ASX company classification

Arrow has been advised by ASX that the Company's industry classification for reporting purposes has now been amended to Mining/Oil Production entity, effective from 4 August 2009. One impact of this is that the company will no longer be required to lodge the Appendix 5b quarterly cash flow reports with ASX. The quarterly cash flow for the period ended 30 June 2009 will be the last one completed by the company.

Planned activities for the September 2009 quarter

Arrow Energy plans the following major activities during the September 2009 Quarter:

- Continued increase in gas deliveries from all producing fields, particularly Daandine and Stratheden;
- Continued reserves certification in both Bowen and Surat basins;
- Continued exploration and appraisal programs in the Bowen, Surat, Clarence-Moreton and Coastal Queensland Basins;
- Continued business development activities in domestic and international business;
- Continue to progress activities required for Fisherman's Landing LNG project;
- Continued drilling in India, Vietnam and China, and potentially first drilling in Indonesia.

Paul Marshall
Company Secretary

7. Contacts

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8. Corporate Directory

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

Company Secretary

Paul Marshall

Australian Business Number

ABN 73 078 521 936

Stock Exchange Listing

Australian Stock Exchange Ltd
ASX Codes: AOE Ordinary Shares

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