

# ASX/Media Release



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FOR IMMEDIATE RELEASE

## Arrow Energy reaches initial close with Shell.

The Directors of Arrow Energy are pleased to announce the partial completion of the sale of 30% of Arrow Energy's Australian upstream tenements to Shell. Arrow has received initial proceeds of approximately US\$233 million (approximately A\$315 million<sup>1</sup>) representing completion of a substantial portion of the Australian asset sales. While both Arrow and Shell had targeted full completion of this transaction in December, delays in receiving third party transfer consents for some tenements has precluded this. These outstanding consents are expected to be received in January which will enable the remainder of the upfront payments under the transaction of a further approximate US\$220 million to be paid to Arrow including the subscription for a 10% shareholding in Arrow International by Shell. Arrow can earn up to a further US\$275 million in milestone related payments pursuant to the domestic and international transactions.

Commenting on the initial close Arrow's Managing Director Nick Davies said "Both Arrow and Shell are delighted that a substantial portion of this transaction has now been closed and are working together to ensure the balance of the transaction is completed soon. This is a momentous event in Arrow's short corporate history. Working with Shell and our other joint venture partners Arrow is now well positioned to progress towards producing LNG from coal seam gas together with continuing to grow our existing domestic gas supply and electricity generation business. Combining Arrow's acknowledged expertise in CSG with Shell's experience in developing major projects is a great outcome for our shareholders and the industry in general."

Mr. Davies continued "In the current financial climate it is reassuring to know that the proceeds from this transaction will be available to continue the rapid development of our world class assets both in Australia and the Asia Pacific."

### Details of Arrow Energy's transaction with Shell:

#### Domestic Transaction

Shell has entered into agreements to acquire 30 percent of Arrow's interest in all of its Australian upstream tenements for US\$388 million which represents the initial upfront payment of US\$355 million and payment of back costs from January 1, 2008 of approximately US\$33 million. Arrow had partially hedged the domestic transaction resulting in a total Australian dollar receipt of \$315 million for the US\$233 million completed to date.

In addition to the up front payments there are additional milestone payments that Arrow can earn:

- A further US\$133 million payable to Arrow upon Final Investment Decision of an LNG project
- US\$66.5 million payable when the LNG project is producing an annualized equivalent of 1 mtpa of LNG using CSG from Arrow/Shell upstream tenements.

#### International Transaction

Shell has entered into agreements to subscribe for a 10% shareholding in Arrow International Pte Ltd, which holds all of Arrow's International assets, for US\$66 million which represents US\$50 million for 10% of the equity in that company and US\$16 million payment for back costs.

Additionally Arrow International Pte Ltd has the potential to earn additional milestone payments:

- US\$25 million upon signing of two License/Production Sharing Contracts (PSC) once the initial US\$50 million is expended,
- US\$50 million if 2P reserves in which Shell/Arrow hold an equity interest exceeds 5 trillion cubic feet (TCF) prior to 31 December 2015 (reduced to US\$25 million if only 2.5 TCF is certified)

Shell has also acquired the opportunity, within five years after closing the deal, to farm-in for up to 50 percent of Arrow's international assets upon payment of Shell's share of sunk costs. This option excludes the three currently held coal seam gas licenses in India.

Note 1: US dollar receipts of US\$233 million converted at previously hedged exchange rate

**ENDS**

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