18 October 2006 **FOR IMMEDIATE RELEASE**

Underwriting Agreement Signed For $67 million Option Expiry; Operations Update

The Directors of Arrow Energy NL ("Arrow") are pleased to advise that the Company has entered into an Underwriting Agreement with Wilson HTM Corporate Finance Limited ("WHTM") with respect to the Company's outstanding listed 75 cent options which expire on 1 December 2006.

The total number of outstanding options as at the date of this announcement is 89,857,173 and the total underwritten amount (based on the 75 cent strike price) is $67,392,880. The funds to be raised from the option exercise will position Arrow to continue to pursue its rapid growth strategy and will be applied to further advance the Company's existing projects including:

- additional reserves certification programs on several areas including the Daandine and Moranbah projects;
- exploration and appraisal programs on a number of Arrow's 15 appraisal projects including 3 pilot developments;
- expansion of Tipton West field beyond current 10PJ per annum development;
- expansion of Daandine field beyond current 2PJ per annum development;
- expansion of the Moranbah field for additional sales;
- development of the Dundee field;
- initial exploration and appraisal of recently awarded CBM projects in India;
- business development activities on other international project opportunities;
- feasibility studies for gas to liquids, LNG and other high margin downstream project opportunities; and
- costs of the issue and general working capital requirements.

The underwriter will receive an underwriting fee totalling 2.5% of the underwritten amount together with a 0.5% issue management fee.

Operations Update

The Directors of Arrow also provide the following operations update.

Moranbah Gas Project (PL191, PL196 and PLA 222 - Arrow 50%)

Producing Wells:	67
Estimated Deliverability from all wells:	50 TJ/day
Maximum single producing well flow rate:	2.2 TJ/day
Current Field Production Rate:	46.5 TJ/day
Number of rigs drilling:	2
Estimated completion of current drilling campaign:	May 2007

Summary of Operations/Development:

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The field continues to perform to a very consistent standard. A development drilling program is underway to prepare the field to meet the needs of the increased nomination of 16.89 PJ per annum from Enertrade for the year commencing on 7 February 2007. 20 wells are planned to be drilled in this program and the first 2 of these wells are near completion.

A newly targeted seam, the GML seam, is currently on production test and multiple seam completions (in the P and GM seams) are also now being drilled.

Gas from the Moranbah North Mine Degassing Project is currently being sold into the MGP. The daily rate being contributed from these wells is close to 2 TJ/day. Once these wells are fully producing it is estimated that the contribution to MGP production will be around 4TJ of gas per day.

Greater Moranbah Area (ATP364P, ATP727P, ATP748P, ATP751P, ATP753P, PLA224, PL223)

There are currently two CSG pilot projects in the Bowen Basin outside of the Moranbah Gas Project. These are at Carborough Downs (PL223) and South Walker (ATP364P). At Carborough Downs, wells are averaging gas production rates of greater than 250 mcfd in 2 of the 3 pilot wells with the third well dewatering at 900bbls/d. South Walker is in an earlier stage of dewatering.

Tipton West Project (PL 198, Arrow 60%)

Producing Wells:	40
Estimated Deliverability from all wells:	n/a - early de-watering stage
Field water flow rate:	18,400 BWPD
Number of rigs drilling:	4
Estimated completion of current drilling campaign:	November 2006

Summary of Operations/Development

66 development wells have now been drilled on the Tipton West field. 40 wells are on pump and producing water. The wells are being managed at this stage to minimise gas production and maximise water production to accelerate efficient dewatering of the field.

Nine more wells remain to be drilled and these will be completed by November 2006. The development drilling of this field has been completed ahead of schedule and considerable development drilling efficiencies have emerged as the program has progressed.

The first two compression packages arrived on site on 14 October. The third and fourth units are in transit and the fifth and sixth units are due for shipping from the USA on 27 October 2006. Civil works on the central gas processing facility are nearly complete and structural pipework, steelwork and tanks progressing well, with no current material supply problems or forecast delays. Control and shutdown system factory acceptance testing has been completed, with good results.

Seventy five wells are planned in the initial 10 PJ p.a. development program for Tipton West and first gas is scheduled for first quarter 2007. Beach Petroleum is farming in for 40% equity in the project by funding the first $35 million of the upstream development program. A Heads of Agreement has been signed with the Australian Pipeline Trust for funding of the downstream (gas processing and pipelines) facilities, but in the meantime this is being funded by the upstream partners.

The Tipton project is being developed to initially supply the Babcock & Brown / ERM owned Braemer Power Station. A Memorandum of Understanding with BP for 3 PJ p.a. is in the latter stages of conversion to a Gas Sales Agreement ("GSA") while a conditional GSA with Ergon Energy for 3.9 PJ p.a. is on hold during the sale process of the government owned electricity retailing companies. A further GSA with the Braemer Power Station for 7.3 PJ p.a. of Arrow "put option" is available to assist in the optimal management of early gas production.

Kogan North Project (PL 194, Arrow 50%)

Producing Wells:	31
Estimated Deliverability from all wells:	6.2 TJ/Day
Maximum single producing well flow rate:	0.84 TJ/day
Current Production Rate:	18,700 BWPD, 5.3 TJ/day
Number of rigs drilling:	1
Estimated completion of current drilling campaign:	End October 2006

Summary of Operations/Development

Dewatering continues at Kogan North. Well deliverability is steadily increasing around the field and the full field is expected to reach contract deliverability of 12 TJ / day by its contractual due date of 1 July 2007. A number of wells have been offline recently for mechanical repairs. However, these wells are now back on-stream and the field is gradually rebuilding to its current deliverability. The agreed field development plan allowed for the drilling of 10 additional development wells by end of calendar 2007. Six of these have been recently been drilled, which will accelerate the dewatering of the field. These new wells will be brought on stream from mid November 2006. The remaining 4 wells will likely be drilled in 2007.

Daandine Field (PL230, Arrow 100%)

Producing Wells:	4 (3 dewatering and 8 shut in pending completion of water disposal system)
Estimated Deliverability from all wells:	n/a – early dewatering stage
Maximum single producing well flow rate:	0.3 TJ/day
Current Production Rate:	4,300 BWPD, 0.42 TJ/day]
Number of rigs drilling:	Nil
Estimated completion of current drilling campaign:	Completed

Summary of Operations/Development

Development Drilling has been completed on the Daandine Field and de-watering of the first 7 wells has commenced, with 4 wells now producing gas already. Dewatering of the remaining wells requires the completion of installation of export water pipelines which is underway.

The power station is being constructed by Clarke Energy under an Engineer, Procure and Construct ("EPC") contact. First electricity sales will begin in December 2006. Meanwhile ramp-up gas is being sold to CS Energy via the existing Kogan Compression facilities.

Civil works are now complete. The first four generator enclosures have been completed and installed on site. Structural steel erection is also complete. The first two generators have been delivered to site and another four will arrive at site over the next 10 days.

The Daandine upstream project is designed to provide approximately 2PJ p.a. to the 27.4 MW power station, being constructed on the Daandine site. Arrow will toll the Daandine gas through the plant, which will be owned by the Australian Pipeline Trust and then sell the electricity to Country Energy under an agreed, long term Power Purchase Agreement.

Current reserves and reserve certification programs.

The total Arrow gas reserves following the recently announced reserve upgrades at the Moranbah project and initial certification at Dundee is now as follows:

	Arrow Net Reserves / PJ
Proven (1P)	81
Proven + Probable (2P)	498
Proven + Probable + Possible (3P)	2,780

Arrow will be pursuing an aggressive reserve certification program across a number of its project areas over the next two years. A program targeting an additional 700 PJ in the Greater Moranbah area (Arrow 50%) has recently been announced.

Near term programs targeting significant reserves additions of 300-500 PJ per year from Arrow's Surat, Styx, Boyne River and Clarence Moreton project areas are currently being finalised.

Gas Production

Arrow's net gas production is currently at the rate of 10.4 PJ per year and expected production is 10.8 PJ for FY07 and 18 - 19 PJ for FY08.

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