



18 December 2009

**FORTUNE OIL PLC**  
**("Fortune Oil" or "the Company")**

**Strategic Coal Bed Methane Investment by Arrow Energy International**

Fortune Oil is pleased to announce a major strategic alliance signed today with Arrow Energy International ("Arrow"), a leading Asia-Pacific coal bed methane ("CBM") company, including a staged investment in Fortune Liulin Gas ("FLG") which operates the Liulin CBM project.

Highlights

- The strategic alliance with Arrow will strengthen Fortune Oil's integrated gas business, combining Arrow's upstream CBM expertise with Fortune Oil's gas distribution capabilities and extensive operating experience in China.
- The alliance will extend beyond CBM to the recovery of gas from coal mines, which is a priority area for China in tackling coal mine safety and climate change.
- Today Arrow has made an initial investment of US\$8 million (£5.0 million) in relation to the Liulin project. This amount increases to a total of US\$13.3 million (£8.2 million) (of which US\$6 million will be invested in FLG and US\$7.3 million will be paid to Fortune Green Energy Limited ("FGE")) for a 35 per cent interest in FLG, following the extension of the Liulin Production Sharing Contract ("PSC").
- Arrow has been granted the right to invest up to a further US\$12.7 million (£7.9 million) in FLG (plus a bonus payment dependent on the level of probable reserves) for a further 15 per cent interest in the enlarged share capital of FLG.
- Arrow has been granted a further option to acquire from FGE a 25 per cent interest in FLG for US\$40 million (£24.8 million), one condition for which is that Arrow and Fortune Oil must have co-invested in at least two other CBM PSCs.
- Shell, which owns 10 per cent of Arrow Energy International, will have back-in rights for investment in Liulin and other CBM projects developed by Fortune Oil with Arrow.

Qian Benyuan, Chairman of Fortune Oil, said:

*"The strategic alliance and investment by Arrow represents a transformational step for our gas business and a major advance for China in the safe and efficient extraction of coal seam gas. The combination of Fortune Oil's gas distribution capabilities and China experience along with Arrow's CBM expertise is a unique and powerful platform. Arrow's skills in lateral drilling and field optimisation will be drawn upon at a critical stage in the development of the Liulin block. Our Chinese partner CUCBM has welcomed our invitation for Arrow to invest in the Liulin project and we expect this to be the first of a series of joint investments in CBM and coal mine degassing projects".*

### Liulin Project Status

The Foreign Contractor Rights in the Liulin PSC are held by FLG, which until today was a wholly owned subsidiary of FGE, and FGE is an 85 per cent owned subsidiary of Fortune Oil. The PSC is due for extension from 24 March 2010 and the PSC government party, China United Coalbed Methane Corporation Ltd (CUCBM), has committed to apply for this extension. The Liulin project was designated a State Pilot Project in February 2009 and CUCBM has received government funding exceeding US\$20 million to drill production wells in Liulin in 2009 and 2010.

The submission by CUCBM and FLG for reserves certification of a northern section of the block has now been reviewed by the Ministry of Land and Resources and the formal certification is expected by February 2010. The certification is a major step forward towards sales of gas and approval of an Overall Development Programme (ODP) for full commercial development of the Liulin block. This was also the first time that a foreign CBM company has been named in a reserves application in China.

As at 31 December 2008 FLG had gross assets of US\$14 million and a loss before tax of US\$269,619 for the year to 31 December 2008.

### Strategic Alliance with Arrow

Fortune Oil and Arrow have agreed to enter into a strategic alliance for the development of coal seam gas in China, combining the upstream CBM expertise of Arrow with the Fortune Oil's gas distribution capabilities and extensive operating experience in China.

The initial focus of the strategic partnership will be on the Liulin CBM block. Arrow and FGE have also entered into a Memorandum of Understanding to co-operate on the degassing of coal mining areas, which is a priority target for the China government in reducing coal mine explosions, enabling the efficient use of coal seam gas and reducing greenhouse gas emissions. These joint projects would provide additional sources of gas for Fortune Oil's distribution network.

Today FGE signed a Sale and Purchase Agreement (SPA) and Subscription and Shareholders' Agreement (SSA) with Arrow Energy (FLG) Pte Ltd, a special purpose company owned 100 per cent by Arrow Energy International (Arrow), which is 90 per cent owned by ASX-listed Arrow Energy Limited and 10 per cent owned by Shell.

Arrow Energy Limited is a major producer of CBM in Australia and is developing one of the first CBM-supplied LNG plants in Queensland. Although the company's international arm, Arrow Energy International ("Arrow"), is currently involved in a coal mine degassing project in China, the Liulin transaction is expected to be the first active involvement by Arrow in CBM drilling in China.

Pursuant to agreements between Shell and Arrow, Shell has the right to back in to 50 per cent of Arrow's interests in international coal bed methane projects until end 2013, which may include the Liulin CBM project.

### Staged Investment in FLG by Arrow

Under the SPA and SSA signed today, Arrow has invested US\$6 million into FLG in return for new shares representing 8.9 per cent of the enlarged capital of FLG. The US\$6 million will be used to fund a work programme in Liulin including the drilling of horizontal wells.

Arrow has also paid US\$2 million to FGE as deposit for acquiring existing shares representing an additional 26.1 per cent of FLG for a total consideration of US\$7.3 million. The balance of US\$5.3 million is payable upon extension of the PSC, expected in March 2010, following which Arrow will own a 35 per cent interest in FLG. If the extension is not completed by 30 June 2010, the transactions will be reversed, although Arrow will retain a 3.7 per cent interest for a net payment of US\$ 2.5 million.

Assuming that the PSC is extended by 30 June 2010, Arrow will then be able to exercise a series of options that have today been granted to Arrow to increase its shareholding in FLG as follows:

#### *Option 1a*

Exercisable between 1 September and 31 December 2010 under which Arrow can invest a further US\$8.7 million in return for new shares representing 10 per cent of the enlarged issued share capital of FLG.

A bonus subscription will also be payable by Arrow after exercise of Option 1a, which shall be calculated at the rate of US\$175,000 per PJ (peta joule) of certified 2P (probable) reserves net to Arrow as of 30 June 2011. For example if independent consultants have accredited 2P reserves of 150 PJ as of that date, Arrow would pay an additional \$5.9 million into FLG for no additional shares in FLG (based upon an Arrow net share of 33.75 PJ).

#### *Option 1b*

Exercisable within 6 months from 30 June 2011 or a date when an ODP has been approved for part of the block (whichever earlier), under which Arrow can invest US\$4 million for new shares representing a further 5 per cent of the enlarged issued share capital of FLG.

Up until exercise of these options, Fortune Oil will retain control of FLG. Subsequent to the exercise of Options 1a and 1b it is anticipated that Arrow and FGE will both have a 50 per cent interest in FLG with joint control.

#### *Option 2*

Arrow has also been granted the right to acquire from FGE a 25 per cent interest in FLG for payment of US\$40 million, which would increase Arrow's shareholding in FLG to 75 per cent. Option 2 will only be exercisable in the 3 years from the date that the first ODP approval is obtained and in any case is exercisable only up until 31 December 2014; in addition Fortune Oil Group and Arrow must have co-invested in at least two other CBM production sharing contracts in which Fortune Oil Group holds a minimum interest of 25 per cent.

### **Enquiries:**

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## About Arrow Energy International (“Arrow”)

Arrow Energy International is the international arm of Arrow Energy Limited (ASX: AOE), a leading Australian integrated energy company focused on the development of coal seam gas throughout eastern Australia and Asia. Arrow Energy Limited is an ASX Top 100 company, with over 500 employees, and has an Australia-wide and international alliance with Shell.

Arrow Energy Limited has the largest CBM acreage position in eastern Australia, with over 65,000 sq km of tenement area and 9,312 PJ gross 3P reserves. The company has five operating coal seam gas developments in Queensland, with 428 wells producing more than 20 per cent of Queensland's gas consumption. Arrow Energy also has interests in three gas-fired power stations with net generating capacity of 488 MW.

Arrow Energy Limited is planning to supply two liquefied natural gas export facilities with a combined potential capacity of 20 million tonnes per year. The first CBM to LNG production is planned for 2012.

Arrow has set up its international headquarters in Singapore to service its growing business presence in the key Asian growth markets of China, India, Indonesia and Vietnam. Exploration drilling programmes have commenced in all four countries in partnership with government entities and major national corporations.