



QUEENSLAND GAS COMPANY LIMITED

Level 11, 307 Queen Street, Brisbane QLD 4000

GPO Box 3107, Brisbane QLD 4001

Tel: 07 3004 1000 Fax: 07 3012 8411

Website: www.qgc.com.au

Email: qgc@qgc.com.au

30 January 2007

ASX ANNOUNCEMENT

Enclosed are the Chairman's letter and Explanatory Memorandum (incorporating the Independent Expert Report) in relation to the proposed AGL Transaction. It is intended that the enclosed will be despatched to shareholders tomorrow.

For further information contact:
Mr Richard Cottee
Managing Director
Queensland Gas Company Limited
Telephone: (07) 3004 1000
Facsimile: (07) 3012 8411
Website: www.qgc.com.au




Notice of General Meeting and Explanatory Memorandum



For a general meeting of shareholders in Queensland Gas Company Limited to be held on Friday, 2 March 2007, at the Stamford Plaza Brisbane, Cnr of Edward Street and Margaret Street, Brisbane, at 10.00am (Queensland time).

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. This Notice of General Meeting and Explanatory Memorandum should be considered in conjunction with the bidder's statement (and each supplementary bidder's statement) provided by Santos CSG Pty Ltd in connection with its off-market takeover bid for QGC and the target's statement (and each supplementary target's statement) provided by QGC in response to the Santos takeover bid. If you are in any doubt as to how to deal with this document, you should consult your legal, financial or other professional adviser as soon as possible.

JPMorgan 

 **ABN-AMRO** Morgans

**CORRS
CHAMBERS
WESTGARTH**
lawyers

Important notice

About this document

This document is important.

You should read it in its entirety before deciding how to vote on the resolutions to be considered at the general meeting. If you are in doubt as to how to deal with this document, you should consult your legal, financial or other professional adviser as soon as possible.

You should also consider the bidder's statement (and each supplementary bidder's statement) provided by Santos CSG Pty Ltd in connection with its off-market takeover bid for QGC; and the target's statement (and each supplementary target's statement) provided by QGC in response to the Santos takeover bid.

Responsibility statement

The explanatory memorandum has been prepared by QGC.

QGC and its Related Bodies Corporate do not assume responsibility for the accuracy and completeness of the Independent Expert's Report, except to the extent any inaccuracy or incompleteness in those documents arises directly from the inaccuracy or incompleteness of information given to the Independent Expert by QGC or any of its Related Bodies Corporate.

Role of ASIC and ASX

A copy of this Explanatory Memorandum has been lodged with ASIC for the purposes of section 257C and 257D of the Corporations Act. Neither ASIC nor any of its officers take any responsibility for the contents of this Explanatory Memorandum.

A copy of this Explanatory Memorandum has been lodged with ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Explanatory Memorandum.

Forward-looking statements

This Explanatory Memorandum contains certain forward-looking statements which have not been

based solely on historical facts, but are rather based on current expectations about future events and results. These forward looking statements are subject to inherent risks and uncertainties. Such risks and uncertainties include factors and risks specific to the industries in which QGC operates as well as general economic conditions, prevailing exchange rates and interest rates, conditions in the financial markets, government policies and regulation, competitive pressures and changes in technology. Actual events or results may differ materially from the expectations expressed or implied in such forward-looking statements. None of QGC, its directors, its officers and any person named in this Explanatory Memorandum or involved in the preparation of this Explanatory Memorandum makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law.

Mr Crommelin – ABN AMRO Morgans Corporate Limited

One of the directors of QGC, Mr Timothy Crommelin, is the Chairman of ABN AMRO Morgans Limited (AAML). A subsidiary of AAML, ABN AMRO Morgans Corporate Limited, will receive fees as an adviser to QGC in respect of the Santos Takeover Offer and the proposals described in this Explanatory Memorandum. The quantum or payment of those fees is not dependent on the success (or failure) of the Santos takeover bid or any of the proposals described in this Explanatory Memorandum, but QGC Shareholders should note Mr Crommelin's interest.

Defined terms and interpretation

Terms used in this Explanatory Memorandum are defined in the Glossary of Terms set out in section 9.

Date of this Explanatory Memorandum

This Explanatory Memorandum is dated 1 February 2007.

What should you do?

1

You should read this Explanatory Memorandum, which contains information on each of the Resolutions to be proposed at the Meeting and your Directors' recommendations to vote in favour of each of the Resolutions, in the absence of a superior proposal.

2

If you wish to vote in Person, you should attend the Meeting to be held on Friday 2nd March, 2007 at Stamford Plaza Brisbane, Cnr Edward Street and Margaret Street, Brisbane at 10.00am and present the enclosed Proxy Form to be registered to vote at this meeting.

3

If you wish to vote by Proxy, you must complete and sign the enclosed Proxy Form and return this form:

- ▶ by post to Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235;
- ▶ delivery to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000; or
- ▶ by facsimile to Link Market Services Limited on (02) 9287 0309

by 10.00am (Queensland time) on 28 February 2007.

4

If you have any questions, please call the QGC Shareholder Line on
1800 043 134 (within Australia)
+61 2 8307 2433 (outside Australia)
Monday to Friday between 8.00 am
and 6.00 pm (Queensland time).

**Your directors
recommend you vote
in favour of each
of the resolutions,
in the absence of
a superior proposal**



QUEENSLAND GAS COMPANY LIMITED

Level 11, 307 Queen Street Brisbane Queensland 4000

GPO Box 3107 Brisbane Queensland 4001

Tel (61) 7 3004 1000 Fax (61) 7 3012 8411

website: www.qgc.com.au

Email: qgc@qgc.com.au

1 February 2007

Dear Fellow Shareholder

Approve the Sentient Transaction and the AGL Transaction to create the foundation for further growth

It is my great pleasure to be writing to you in connection with the proposed transactions with each of the Sentient Group and AGL, which were announced on 5 December 2006. This Notice of Meeting and Explanatory Memorandum provides a detailed explanation of, and seeks your approval of, three transactions proposed by QGC:

- the Sentient Transaction;
- the AGL Transaction; and
- the Buy-Back of up to 12.5% of QGC's expanded capital.

A general meeting of the company will be held on Friday, 2 March 2007 at the Stamford Plaza Brisbane, Cnr of Edward Street and Margaret Street, Brisbane at 10.00am (Queensland time) to approve these proposed transactions. The Sentient Transaction and the AGL Transaction are not inter-conditional so that, subject to QGC Shareholder approval, each will proceed independently of the other. The Buy-Back is dependent on QGC Shareholders approving the AGL Transaction.

Under the Sentient Transaction, the Sentient Joint Venture Interests will be acquired for a shareholding in QGC of 10%. This will simplify QGC's future development financing and gas marketing efforts.

Under the AGL Transaction:

- AGL and QGC will enter into a Gas Sale Agreement under which AGL will agree to buy 540 PJ of gas over 20 years and AGL will have an option to buy up to an additional 200 PJ of gas over that period;
- AGL and QGC will enter into a Gas Market Development Services Agreement under which AGL will provide market development services to QGC and, in certain instances, QGC will be entitled to utilise AGL's excess capacity in certain gas pipelines for a period of three years; and
- AGL and QGC will enter into a Subscription Agreement under which AGL will invest approximately \$292¹ million for a 27.5%² shareholding in QGC (calculated by including the issue of the Sentient Shares if the Sentient Transaction is approved and the AGL Shares) at \$1.44 per Share.

Each of those components of the AGL Transaction is conditional upon the other and will not proceed unless the entire AGL Transaction is approved.

At the Meeting, QGC Shareholders will also be asked to approve the appointment of three nominees of AGL to the QGC Board.

1. This assumes that the issue of Shares as part of the Sentient Transaction is approved by QGC Shareholders. If the Sentient Transaction is not approved by QGC Shareholders, the AGL Transaction will still proceed if approved and the amount to be invested by AGL for a 27.5% shareholding in QGC at \$1.44 per Share will be approximately \$292 million. If the Sentient Transaction is not approved but QGC proceeds to make an allotment of Shares to Sentient at any time during the 12 month period after the placement to AGL, AGL will have an option to subscribe for additional Shares. See Section 4 for further details on the option.

2. AGL's percentage shareholding will increase after the subscription if QGC accepts tenders under the Buy-Back, but AGL has agreed to tender into the Buy-Back that number of Shares necessary to ensure that its voting Power does not exceed 30% (see Section 7.2(g)).



The AGL Transaction represents a significant milestone in QGC's transition from being a gas explorer to a major producer and supplier of gas. The Gas Sale Agreement increases the commercialisation of QGC's 2P Reserves and will provide a significant revenue stream for QGC. The purpose of the Gas Market Development Services Agreement is to provide QGC with an opportunity to exploit additional markets outside South East Queensland much earlier than QGC otherwise would have. The funds invested by AGL will be used, amongst other things, to further accelerate the development of our multi-option energy supply business model which your Directors believe will maximise long term value for our shareholders.

The Buy-Back, which will only proceed if the AGL Transaction proceeds, provides QGC Shareholders with an opportunity to tender all or a portion of their Shares for sale to QGC at \$1.44 per Share. In total, QGC will buy-back up to 12.5% of its issued Shares (calculated by including the issue of the Shares to Sentient, if approved, and the issue of the Shares to AGL, if approved) through an off-market tender process. Voting in favour of the Buy-Back does not mean you must sell any of your Shares in the Buy-Back. A separate Buy-Back booklet containing full details of the Buy-Back and the form you will need to complete to tender Shares into the Buy-Back will be sent to you following the Meeting.

To assist QGC Shareholders to consider the AGL Transaction, your Directors appointed Deloitte Corporate Finance Pty Limited as an independent expert to consider whether the AGL Transaction is fair and reasonable to QGC Shareholders. **The independent expert has concluded that the AGL Transaction is fair and reasonable to QGC Shareholders.** The independent expert has also advised, as requested by the Takeovers Panel, that the value of QGC in the absence of the AGL Transaction (i.e. on a stand alone basis) is \$1.35 to \$1.80 per Share. A copy of the Independent Expert's Report is contained in **Appendix A** of this Explanatory Memorandum.

I commend the Sentient Transaction, the AGL Transaction and the Buy-Back to you for the reasons set out in this Explanatory Memorandum. Your Directors (except Mr Cassidy who is a Director of, and holds interest in members of the Sentient Group), recommend that you vote in favour of the Sentient Transaction in the absence of a superior proposal. Your Directors unanimously recommend that you vote in favour of each of the other resolutions to be proposed at the Meeting relating to the AGL Transaction and the Buy-Back in the absence of a superior proposal. Each of your Directors (excluding Mr Cassidy in connection with the Sentient Transaction) has indicated that he intends to vote the Shares that he owns and controls in support of each of the resolutions to be proposed at the Meeting in the absence of a superior proposal.

I also take this opportunity to advise that Mr Denis Patten has indicated that in order to facilitate the appointment of the AGL nominees to the QGC Board, he intends to resign from the QGC Board with effect from the close of the Meeting in the event that Resolution 2 is approved. Mr Patten was a founding director of QGC, and made a significant contribution to the growth of QGC over the past five years. I would like to express my sincere thanks to Mr Patten for his valuable contribution over this period.

Please read the information in the Explanatory Memorandum carefully, as it sets out the information that is material to your decision on how to vote on the resolutions. If you have any queries please call the QGC Shareholder Line on 1800 043 134 (within Australia) or +61 2 8307 2433 (outside Australia) Monday to Friday between 8.00am and 6.00pm (Queensland time).

Yours faithfully,

Robert Bryan
Chairman



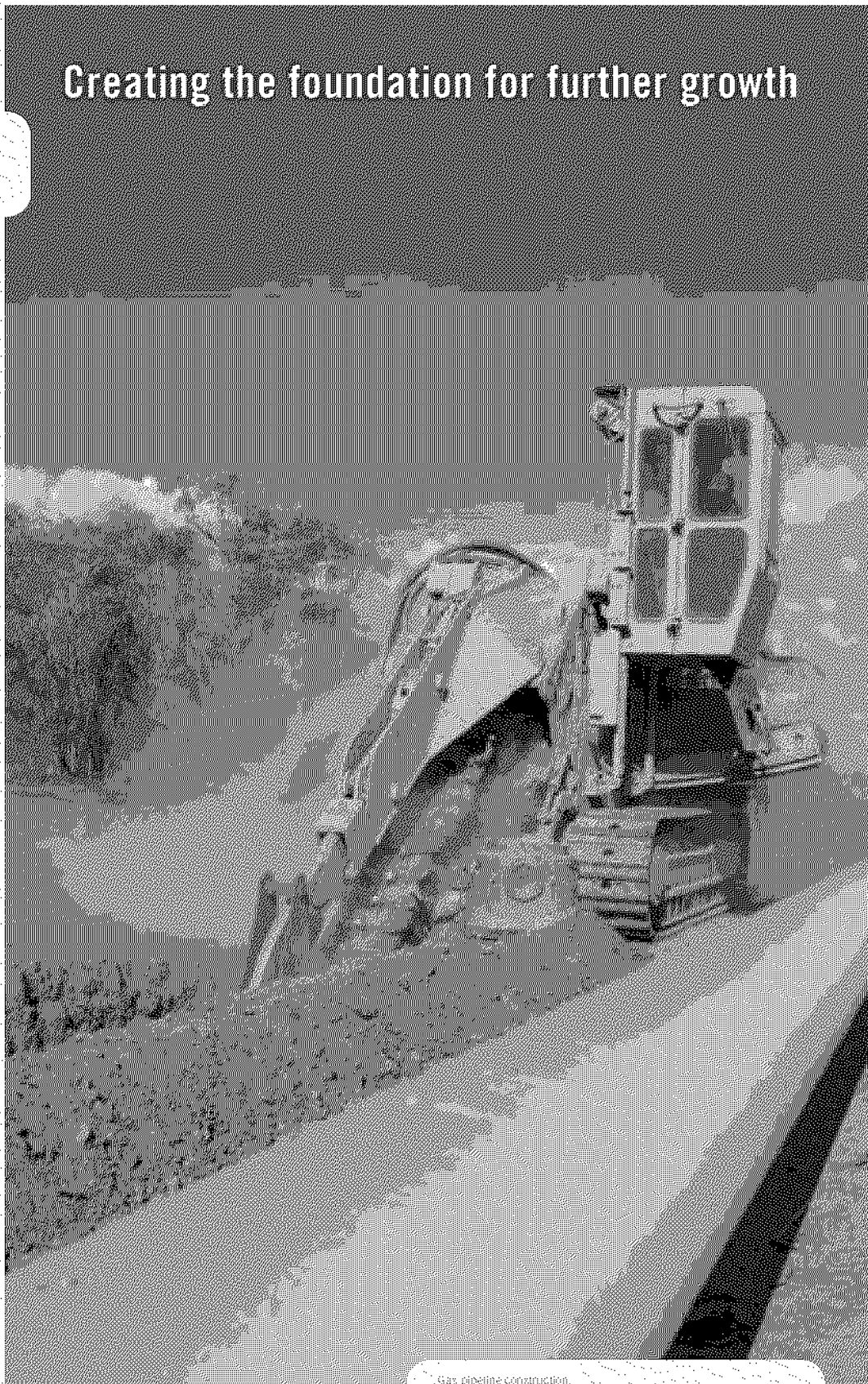
Accelerating the development of our
multi-option energy supply business model

Greenall Power Station – Gas turbine Exhaust Stack

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Creating the foundation for further growth

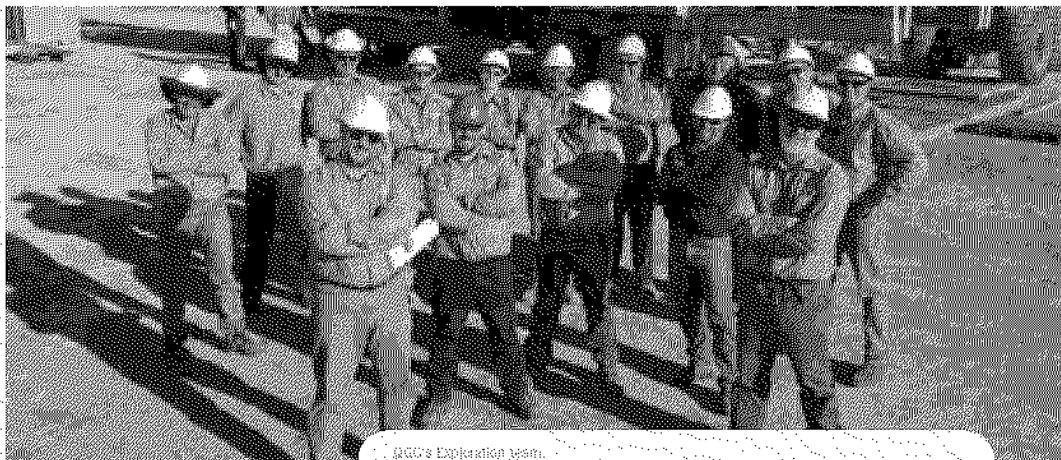


Gas pipeline construction

1

Important Dates

	Date ²
Dispatch of Notice of Meeting and Explanatory Memorandum	1 February 2007
Latest time and date for lodgement of your completed proxy form for the Meeting	10.00am (Queensland time) 28 February 2007
Time and date for determining eligibility to vote at the Meeting	7.00pm (Queensland time) 28 February 2007
Time and date of Meeting	10.00am (Queensland time) 2 March 2007
Completion of AGIL and Sentient Transactions	By 9 March 2007
Ex-entitlement date (Shares bought on or after this date will not carry an entitlement to participate in the Buy-Back)	7 March 2007
Record date for eligibility to participate in the Buy-Back	7.00pm (Queensland time) 14 March 2007
Date of dispatch of Buy-Back tender booklet	16 March 2007
Buy-Back tender opens	19 March 2007
Latest time for submission of Buy-Back tender forms	5.00pm (Queensland time) 10 April 2007
Announcement date for result of Buy-Back, Buy-Back agreements entered into and Shares cancelled	11 April 2007
Dispatch of cheques	By 16 April 2007



AGC's Exploration team

² All dates are indicative only; no assurance can be given that the actual dates will be as indicated.





Overview of the Resolutions

This Explanatory Memorandum contains details of the three transactions proposed by QGC and for which QGC Shareholder approval is being sought at a general meeting of QGC Shareholders to be held on Friday, 2 March 2007 at the Stamford Plaza Brisbane, Cnr of Edward Street and Margaret Street, Brisbane at 10.00am (Queensland time), namely:

- ✦ the Sentient Transaction;
- ✦ the AGL Transaction; and
- ✦ the Buy-Back.

The Notice of Meeting is set out at the end of this Explanatory Memorandum. Your proxy form in connection with the Meeting is enclosed.

Resolutions to be proposed at the Meeting

The Meeting will consider, and if thought fit, approve the following resolutions relating to the proposed transactions:

Resolution 1 – Approval of Sentient Transaction

This resolution is to approve QGC's entry into and performance of the Sentient Share Sale Agreement and to approve the issue of Shares to Sentient Holdings and Sentient Trust as payment of the consideration under the Sentient Share Sale Agreement. This approval is sought because the entry into the Sentient Share Sale Agreement would trigger one or more of the defeating conditions of the Santos Takeover Offer. The resolution also acts:

- ✦ as an approval under ASX Listing Rule 7.1 so that the number of equity securities that QGC may issue without QGC Shareholder approval is not reduced; and
- ✦ as an approval under ASX Listing Rule 7.9 for the agreement to issue equity securities under the Sentient Share Sale Agreement in the three month period following receipt of notice of the Santos Takeover Offer.

Further details in connection with Resolution 1 are set out in section 4 of this Explanatory Memorandum.

Resolution 2 – Approval of AGL Transaction

This resolution is to approve QGC's entry into and performance of the Gas Sale Agreement, the Gas Market Development Services Agreement and the AGL Subscription Agreement. This approval is sought because the entry into the AGL Transaction would trigger one or more of the defeating conditions of the Santos Takeover Offer. The resolution also acts:

- ✦ as an approval for the purposes of section 611 item 7 of the Corporations Act of the acquisition by AGL under the AGL Subscription Agreement of relevant interests in excess of 20% of the issued voting shares in QGC without contravening the takeover prohibition in section 606 of the Corporations Act; and
- ✦ as an approval under ASX Listing Rule 7.9 for the agreement to issue equity securities under the AGL Subscription Agreement in the three month period following receipt of notice of the Santos Takeover Offer.

QGC Shareholders should note that the approval under section 611 item 7 is an approval for the subscription by AGL, for a 27.5% shareholding at \$1.44 per Share and, in the event that the Sentient Resolution is not approved and, subject to certain exceptions, QGC proceeds to make an allotment to Sentient at any time during the 12 month period after the placement to AGL, the issue of Shares on exercise by AGL of the option referred to in section 5.4 which is designed to ensure that AGL maintains its percentage shareholding in that event.

Further details in connection with Resolution 2 are set out in section 5 of this Explanatory Memorandum.

Resolution 3 – Increase in maximum number of directors

This resolution is to approve an increase in the number of directors that may be appointed to the QGC Board in accordance with clause 13.1(a) of QGC's constitution.

Further details on Resolution 3 are set out in section 5.6 of this Explanatory Memorandum.

Resolution 4 – Appointment of Stephen Mikkelsen as a director

This resolution is to approve the appointment of Mr Stephen Mikkelsen as a director of QGC. Mr Mikkelsen has been nominated by AGL for appointment to the QGC Board. This resolution is conditional on QGC Shareholders approving Resolution 2.

Further details on Resolution 4 are set out in section 5.6 of this Explanatory Memorandum.

Resolution 5 – Appointment of Michael Fraser as a director

This resolution is to approve the appointment of Mr Michael Fraser as a director of QGC. Mr Fraser has been nominated by AGL for appointment to the QGC Board. This resolution is conditional on QGC Shareholders approving Resolution 2.

Further details on Resolution 5 are set out in section 5.6 of this Explanatory Memorandum.

Resolution 6 – Appointment of Michael Moraza as a director

This resolution is to approve the appointment of Mr Michael Moraza as a director of QGC. Mr Moraza has been nominated by AGL for appointment to the QGC Board. This resolution is conditional on QGC Shareholders approving Resolutions 2 and 3 (except that it is not conditional upon Resolution 3 being approved if either, or both of, Resolutions 4 and 5 are not approved).

Further details on Resolution 6 are set out in section 5.6 of this Explanatory Memorandum.

Resolution 7 – Buy-Back of Shares

This resolution is to approve the proposed buy-back by QGC of up to 12.5% of its issued share capital (calculated by including the issue of any Shares to Sentient under the Sentient Transaction and the issue of any Shares to AGL under the AGL Transaction, if approved) at a price of \$1.44 per Share. QGC Shareholders should note that voting in favour of Resolution 7 does not require QGC Shareholders to sell any Shares in the Buy-Back. Any participation in the Buy Back will be at the discretion of all eligible QGC Shareholders.

Further details on Resolution 7 are set out in section 7 of this Explanatory Memorandum.

Conditionality of Resolutions

Resolution 1 is not conditional on any other resolution.

If QGC Shareholders approve Resolution 1 but do not approve Resolution 2, the Sentient Transaction will proceed while the AGL Transaction will not.

If Resolution 1 is not approved, but Resolution 2 is approved, the AGL Transaction will proceed while the Sentient Transaction will not.

If Resolution 2 is approved, Resolutions 3, 4 and 5 will be put to the Meeting for consideration.

Resolution 6 will be put to the Meeting for consideration if Resolution 3 is approved; or if Resolution 3 is not approved, and either or both of Resolutions 4 and 5 are not approved.

If Resolution 2 is approved, Resolution 7 will be put to the Meeting for consideration.

The AGL Transaction is not conditional upon any of Resolutions 3, 4, 5, 6 or 7 being approved.

If Resolution 2 is not approved, Resolutions 3, 4, 5, 6 and 7 will not be put to the Meeting for consideration and the AGL Transaction and the Buy-Back will not proceed and each of the directors nominated by AGL will not be appointed to the QGC Board.

What to do

Your Directors recommend that you read the Explanatory Memorandum in its entirety before deciding how to vote on each of the resolutions to be considered at the Meeting. If you are in doubt as to how to deal with the Notice of Meeting and Explanatory Memorandum, you should consult your legal, financial or other professional adviser as soon as possible.

You should also consider the bidder's statement (and each supplementary bidder's statement) provided by Santos CSG Pty Ltd in connection with its off-market takeover bid for QGC and the target's statement (and each supplementary target's statement) provided by QGC in response to the Santos Takeover Offer. Further details on the Santos Takeover Offer, and the implications that the resolutions to be proposed at the Meeting have on the Santos Takeover Offer, are set out in section 6 of this Explanatory Memorandum.

QGC Shareholder Line

If you have any queries in connection with this Explanatory Memorandum or the Meeting please call the QGC Shareholder Line on 1800 043 134 (within Australia) or +61 2 8307 2433 (outside Australia) Monday to Friday between 8.00am and 6.00pm (Queensland time).



How to vote at the Meeting

Location

The general meeting will be held on Friday, 2 March 2007 at the Stamford Plaza Brisbane, Cnr of Edward Street and Margaret Street, Brisbane at 10.00am (Queensland time).

Voting

You will be entitled to vote at the general meeting if you hold Shares at 7.00pm (Queensland time) on 28 February 2007. You can vote at the general meeting:

- ✧ in person;
- ✧ by proxy;
- ✧ by corporate representative (if you are a corporate shareholder); or
- ✧ by attorney.

You will be counted as being present at the Meeting if you vote in any of the ways outlined above.

Voting in person

If you wish to vote in person, you should attend the Meeting.

Voting by proxy

If you wish to vote by proxy, you must complete and sign the proxy form accompanying this Explanatory Memorandum. Completed proxy forms can be:

- ✉ delivered by post to Link Market Services Limited at Locked Bag A14, Sydney South, NSW 1235; or
- ✉ delivered by hand to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000; or
- ✉ sent by facsimile to Link Market Services Limited on (02) 9287 0309,

and must be received by the QGC Share Registry (being Link Market Services Limited) by 10.00am (Queensland time) on 28 February 2007. If a proxy form is completed by an individual or a corporation under a power of attorney, the original or certified copy of that power of attorney under which the form is signed must also be received by the QGC Share Registry by 10.00am (Queensland time) on 28 February 2007.

Appointing a proxy will not stop you attending the Meeting in person and voting at the Meeting instead of your proxy.

Powers of attorney

If you are an attorney and wish to attend and vote at the Meeting, you must provide to QGC the original or a certified copy of the power of attorney under which you have been authorised to attend and vote at the Meeting. Original or certified copies of powers of attorney can be provided to QGC in the same manner as proxy forms and must be received by QGC by 10.00am (Queensland time) on 28 February 2007.

Corporate representatives

If you are a corporate shareholder and you wish to appoint a representative to attend the Meeting, you should ensure that your representative can provide appropriate evidence of their appointment.

Necessary majority and voting exclusions

Each resolution to be proposed at the Meeting must be approved by more than 50% of the total number of votes which are cast on the resolution.

Sentient Holdings and Sentient Trust and each of their respective Associates will not be able to vote on the Sentient Resolution.

AGL and its Associates will not be able to vote on the AGL Transaction Resolution.



Sentient Transaction

4.1

Existing arrangements with the Sentient Group

(a) Overview of the Sentient Group

The Sentient Group is an independent investment firm specialising in the global resources industry. It is based in the Cayman Islands with offices in Sydney and Montreal.

The Sentient Group's principal fund, Sentient Global Resources Fund I L.P. (**Fund**), invests principally in the development of natural resource based projects. The Fund's sponsors includes CDP Capital (Montreal), Babcock & Brown (Sydney) and HypoVereinsbank (Munich). The Fund's global spread of investors include government pension plans, corporate pension funds, institutional investors and industry participants.

(b) Existing interests of the Sentient Group in petroleum tenements

Sentient Group companies have existing interests in various petroleum tenements in which the QGC Group has interests.

SGA, currently holds a 10% legal interest in ATP 632P blocks 2380 and 2452 and in PL 201 and a 10% legal interest in the ATP 610P Shallows and ATP 648P Shallows. The remaining legal interests in ATP 610P Shallows and 648P Shallows are held by QGC and Origin Energy CSG Limited. The remaining legal interest in ATP 632P and PL 201 is held by QGC.

SGAI currently holds a 10% legal interest in the CTI Plant, Export Pipeline and in PPLs 91 and 108. The remaining legal interest in the CTI Plant, Export Pipeline and in PPLs 91 and 108 is held by QGC's wholly owned subsidiary, QGC.

(c) Unitisation Arrangements

Pursuant to the Unitisation Arrangements there has been a contractual redistribution of interests between QGC and the Sentient Group in respect of the Unitised Areas so that notwithstanding the respective legal and beneficial interests of QGC and SGA in any petroleum tenure making up the Unitised Areas, QGC will be responsible for 90% of the costs and entitled to 90% of the income from all operations carried out in respect of the Unitised Areas, and the Sentient Parents, either directly or through SGA and SGAI, will be responsible for 10% of the costs and entitled to receive 10% of the income from all operations carried out in respect of the Unitised Areas.

Appendix C sets out a table showing a comparison between the respective legal/beneficial interests of QGC and SGA in the various petroleum tenures forming the Unitised Areas and the relative proportional contractual rights and interests of QGC and the Sentient Parents on the basis of the obligation to contribute to expenditure, and the right to receive income from the operations on the Unitised Areas as determined by the Unitisation Arrangements (**Unitised Percentages**).

(d) **Co-operation and Securitisation Agreement**

Put option over Sentient Joint Venture Interests and Sentient Income Right

Under the CSA, amongst other things, the Sentient Group is given a put option under which the Sentient Group may require QGC to purchase the Sentient Joint Venture Interests and the right of the Sentient Parents to receive 10% of the income from the Unutilised Projects under the Utilisation Arrangements in the following circumstances:

- (i) at any time on or before 31 December 2009 at the Sentient Group's discretion; or
- (ii) on a Change of Control of QGC which occurs on or before 31 December 2009.

If the Sentient Group exercises the Put Option then it is entitled to require payment by QGC of the purchase price for the Sentient Joint Venture Interests (or as an alternative, for all the shares in SGA and SGAI which hold the Sentient Joint Venture Interests) and the Sentient Income Right (together the **Sentient Sale Assets**) by the issue of Shares, cash or a combination of both. The purchase price for the Sentient Sale Assets will be calculated in accordance with **Appendix D**.

If the Put Option is exercised following a Change of Control then QGC is required to pay the purchase price to the Sentient Group within 60 days after the purchase price has been calculated.

If the Put Option is exercised in circumstances other than following a Change of Control then notwithstanding the date the Put Option is exercised, the Sentient Group cannot require QGC to pay the purchase price for the Sentient Sale Assets until at least 30 June 2010 at the earliest.

Where the Sentient Group exercises the Put Option following a Change of Control then it must do so within 10 business days (Brisbane working days) of the earlier of the date that QGC notifies the Sentient Group there has been a Change of Control and the date when a member of the Sentient Group becomes aware of the Change of Control.

If the Sentient Group determines to take the purchase price in Shares, QGC is only obliged to issue up to 40 million Shares and any balance of the purchase price would be payable in cash unless QGC, at its discretion, determines to obtain QGC Shareholder approval to issue more Shares to meet the full purchase price.

The number of Shares to be issued to the Sentient Group on exercise of the Put Option will be calculated by dividing the purchase price for the Sentient Sale Assets by the VWAP, discounted by 7.5%.

If the Sentient Group requests payment in cash but QGC is unable to provide the cash payment by the settlement date (or where the Sentient Group exercises the Put Option because of a Change of Control, within 60 days after the purchase price for the Sentient Sale Assets is calculated), then QGC has the right to provide the amount of the cash shortfall in Shares to be issued on the basis of VWAP, discounted by 15%. For these purposes the settlement date is a date nominated by the Sentient Group, which must not be earlier than 30 June 2010 (except where the Put Option is exercised as a result of a Change of Control).

Within 10 business days of the final determination of the purchase price for the Sentient Sale Assets, the Sentient Group may withdraw the Put Option and not proceed with the sale of the Sentient Sale Assets. If this right is exercised the Put Option will be terminated and may not be exercised at any later date. All other rights and obligations under the CSA will continue.

Pre-emptive right on transfer of Sentient Joint Venture Interests

Under the CSA, there is no prohibition on the Sentient Subsidiaries transferring at any time any part of the Sentient Joint Venture interests to a third party. However, under the CSA, QGC has a pre-emptive right that requires the Sentient Subsidiaries to first offer those interests to QGC on the same terms as any proposed transfer to a third party by the Sentient Subsidiaries. If QGC elects to exercise its pre-emptive right and acquire the relevant interest(s) then the Sentient Group selling party may elect whether QGC must pay the purchase price in cash, Shares or a combination of cash and Shares.

'Tag along' right on sale by QGC of its interests in Unitised Areas

Under the CSA if at any time QGC wishes to transfer any of its interests in any petroleum tenures within the Unitised Areas to a third party while any of the Sentient Group holds more than a 5% interest in those petroleum tenures, QGC must not effect any such transfer unless it permits the Sentient Group to transfer a proportional part of their interests in the same tenure to the same party on the same terms.

4.2 Acquisition of Sentient Joint Venture Interests

Under the Sentient Share Sale Agreement, subject to QGC Shareholder approval, QGC has agreed to acquire all of the issued shares in SGA and SGAI, partly through the acquisition of all of the issued shares in Gas Resources Limited (a company incorporated in the Cayman Islands) and also directly through the sale of shares in SGA and SGAI by Sentient Trust.

In addition to the share acquisitions, QGC will receive an assignment of the benefit of the debt of \$1,531,301.87 owed by SGA and SGAI to Sentient Trust.

At completion of the issue of the Sentient Shares, the CSA and the Unitisation Arrangements will be terminated and the Put Option provided under the CSA will come to an end. As a result, the Sentient Group will cease to have any liability in connection with 10% of the expenses of the Unitised Areas and it will also cease to share in 10% of the revenues from the projects relating to those tenements. This termination will be effective from 1 December 2006.

Further details on the principal terms of the Sentient Share Sale Agreement are set out in section 8.1.

4.3 Issue of QGC Shares to Sentient Holdings and Sentient Trust

In consideration for Sentient Holdings and Sentient Trust agreeing to sell their direct and indirect interests in GRL, SGA and SGAI, the termination of the CSA and the Unitisation Arrangements and the assignment of the benefit of the intercompany loan, QGC is proposing to issue a total of 53,429,373 Shares in the following proportions:

- ✦ 43,884,750 to Sentient Holdings; and
- ✦ 9,544,623 to Sentient Trust.

Completion of the issue of the Sentient Shares must take place within five Business Days from the date on which QGC Shareholder approval is obtained for such issue, and in any event in accordance with the Listing Rules must be no later than three months after the date of the Meeting.

4.4 QGC Shareholder approval

The entry into and performance of the Sentient Share Sale Agreement and the agreement to issue Shares to Sentient Holdings and Sentient Trust under the Sentient Share Sale Agreement would trigger one or more of the defeating conditions to the Santos Takeover Offer.

Accordingly, your Directors are seeking QGC Shareholder approval for the Sentient Transaction pursuant to Resolution 1. The resolution also acts:

- ✧ as an approval under Listing Rule 7.1 so that the number of equity securities that QGC may issue without QGC Shareholder approval is not reduced; and
- ✧ as an approval under Listing Rule 7.9 for the agreement to issue equity securities under the Sentient Share Sale Agreement in the three month period following receipt of notice of the Santos Takeover Offer.

If the Sentient Transaction is not approved by QGC Shareholders, the acquisition of the Sentient Joint Venture Interests will not proceed and the issue of the Sentient Shares will not take place.

The AGL Transaction will be put to QGC Shareholders for their consideration irrespective of whether the Sentient Transaction is approved.

4.5 Why you should approve the Sentient Transaction

The reasons for approving the Sentient Transaction include the following:

(a) Rationalised permit ownership will simplify gas marketing

Currently QGC markets gas produced in the Unitised Areas on behalf of itself and its joint venturer in the Unitised Areas, SGA.

Gas buyers typically require clauses in gas sales agreements which provide for penalty payments if gas is not delivered in accordance with the terms of the gas sales agreement. Because SGA has no assets of substance other than its Sentient Joint Venture Interests, gas buyers require SGA's obligations to be guaranteed by an entity of substance. Because SGA's ultimate parent is an investment fund, it is prohibited from giving guarantees.

In order to sell its share of gas, QGC therefore needs to guarantee both its own obligations and those of SGA, even though it is not receiving the sale price for SGA's share of gas.

Rationalising ownership of the permits will remove this anomaly because QGC will own all the gas being sold under the relevant gas sales agreements and will therefore receive the sale price for all of that gas as reward for providing any relevant guarantees to gas buyers.

(b) Rationalised permit ownership will simplify future debt financing

Similarly, rationalising ownership of the permits will also give QGC additional flexibility to obtain potentially cheaper and more simple debt financing.

(c) Assured control of joint venture operations

By purchasing the shares in SGA, QGC will ensure that it has control of majority voting rights in those joint ventures in the Unitised Areas where there are also additional third party joint venture partners. It removes the possibility of the Sentient Group at any time voting against a QGC proposal for exploration or development in any of those petroleum tenements.

(d) Removal of the Put Option and other rights

As the CSA will terminate on the acquisition of the shares in SGA and SGAI the Put Option will come to an end.

The uncertainty of the effect of that Put Option on future costs to QGC will be removed. The Sentient Transaction also provides certainty to QGC at this time of the price that QGC must pay for the Sentient Joint Venture Interests. By bringing the acquisition forward the risk of the purchase price payable on exercise of the Put Option being substantially increased as further establishment and development of resources occurs over time is lessened.

Also, any potential complexities in applying the formula under the CSA to calculate the purchase price for the Sentient Sale Assets are avoided and any uncertainty in connection with the outcome of the valuation of QGC's Reserves by two independent experts as part of the application of the formula is removed. Instead, there is a direct calculation of price for the Sentient Sale Assets, being 1/9th of the value of the total issued share capital of QGC as at 1 December 2006.

The end of the Put Option will also provide QGC with greater flexibility in issuing further capital since QGC will no longer be required to maintain sufficient numbers of Shares under Listing Rule 7.1 to ensure that it has the ability to issue up to 40 million Shares to the Sentient Group upon the exercise of the Put Option, without the need to obtain QGC Shareholder approval.

In addition to the end of the Put Option, the QGC 'pre-emptive' right and the Sentient Group 'tag along' right referred to in section 4.1 will both terminate.

(e) The rationalisation of joint venture proceedings

Although SGA and SGAI will remain legally separate entities in the joint ventures, there will be a saving in costs and time through being able to uniformly administer the QGC and the Sentient Group interests in each of those joint ventures.

(f) Increase in reserves position

QGC's available gas reserves will be increased as it will own the reserves attributable to Sentient's Joint Venture Interests in the various petroleum tenures.

The increase in QGC's Reserves as a result of the Sentient Transaction is as follows:

	Pre-Sentient Transaction (PJ)	Post-Sentient Transaction (PJ)	Increase in PJ
1P Reserves	228.0	245.6	17.6
2P Reserves	695.3	741.2	45.9
3P Reserves	2,555.9	2,755.3	199.4

Note: QGC's pre-Sentient Transaction reserves are based on the most recent Reserves estimate conducted by Netherland Sewell & Associates Inc (NSAI) (dated 1 December 2006), and reflect QGC's legal interest in its tenement areas. QGC's post-Sentient Transaction reserves have been extrapolated to include those Reserves on QGC's tenements currently attributable to the Sentient Group's legal interest.

4.6

Risks and disadvantages of approving the Sentient Transaction

(a) Increase in exposure to costs

Upon completion of the Sentient Transaction, QGC's share of costs in connection with the Unitised Areas will increase in proportion to its increased ownership interest in the Unitised Areas.

(b) Santos Takeover Offer may be withdrawn

The approval of the Sentient Transaction will trigger one or more of the defeating conditions to the Santos Takeover Offer. Consequently, if the Sentient Transaction is approved by QGC Shareholders, Santos may withdraw the Santos Takeover Offer and rescind any contract that had resulted from an acceptance of that offer.

If this was to occur QGC Shareholders would lose the opportunity to accept the offer made by Santos (however, QGC Shareholders will be entitled to participate in the Buy-Back, if approved, but QGC Shareholders should note that there is a possibility that they will not have all of their Shares bought back under the Buy-Back – see section 7 for further details).

In addition to the risks set out above, upon completion of the Sentient Transaction, QGC Shareholders will also be subject to the general risks that are associated with QGC's business activities in respect of the Sentient Joint Venture Interests acquired from the Sentient Parents. These are set out in the Annexure to the Second Supplementary Target's Statement, a copy of which is set out in **Appendix F**.

4.7 Consequences of the Sentient Transaction not being approved

If the Sentient Transaction is not approved the existing joint venture arrangements between QGC and the Sentient Subsidiaries, and the rights or interests of the Sentient Group under the CSA and Unitisation Arrangements will continue, including the Sentient Group's rights to exercise the Put Option in accordance with the terms summarised in section 4.1(d).

The AGL Transaction will be put to QGC Shareholders whether the Sentient Transaction is approved or not. However, if the Sentient Transaction is not approved but the AGL Transaction is approved, instead of being issued 202,663,139 Shares (being 27.5% of the issued share capital of QGC following the issue of Shares to Sentient Trust and Sentient Holdings as part of the Sentient Transaction and the issue of Shares to AGL as part of the AGL Transaction), AGL will be issued 182,396,825 Shares (being 27.5% of the issued shares of QGC following the issue to AGL), together with an option to subscribe for up to 30% of the number of Shares that may be allotted to the Sentient Group at any time in the 12 month period (subject to certain exceptions as outlined in section 5.4) from the date of the completion of the AGL Transaction at a price which is equal to the lesser of \$1.44 per Share and the volume weighted average price for Shares over the five trading days prior to the date of the allotment to the Sentient Group.

4.8 Directors' recommendation

The Directors (excluding Mr Peter Cassidy) recommend that QGC Shareholders vote in favour of Resolution 1 for the reasons set out in section 4.5 above, in the absence of a superior proposal.

Mr Cassidy is a director of, and holds beneficial interests in Sentient Holdings and Sentient Trust, and as such, he has declined to have any role in considering the Sentient Transaction or in forming the Directors' recommendation with regard to the Sentient Transaction.

Sentient Holdings and Sentient Trust and each of their respective Associates will not be able to vote on the Sentient Resolution.

Each of the Directors (excluding Mr Cassidy) intends to vote the Shares that he owns and controls in support of Resolution 1 in the absence of a superior proposal.



AGL Transaction

5.1

Overview

On 6 October 2006, The Australian Gas Light Company's shareholders voted in favour of the recommended proposal to separate The Australian Gas Light Company into an integrated energy company and an energy infrastructure company. Following approval of the proposal, AGL became Australia's leading integrated energy company and Airta Limited, through the acquisition of the Australian Gas Light Company's infrastructure assets, became Australia's largest energy infrastructure company.

AGL's general business strategy is to:

- ✦ participate in the contestable growth segments of the electricity and gas sectors, being energy retail, power generation and upstream gas;
- ✦ manage wholesale price risk and earnings volatility by matching upstream and retail exposures; and
- ✦ take advantage of its position as a large purchaser of wholesale gas and electricity to reduce the cost of supply and obtain market share growth.

On 5 December 2006, QGC and AGL announced that they had entered into the following agreements which together make up the AGL Transaction:

- ✦ a Gas Sale Agreement under which AGL will agree to buy 540 PJ of gas over a 20 year period from 2008 and QGC has granted options to AGL to acquire a further 200 PJ, increasing the gas to be sold to a maximum quantity of 740 PJ over the term of the Gas Sale Agreement;
- ✦ a Gas Market Development Services Agreement under which AGL will provide market development services to QGC that are connected with the long term supply of gas to AGL under the Gas Sale Agreement. In certain instances, QGC will be entitled to utilise AGL's excess capacity in certain gas pipelines for a period of three years; and
- ✦ a Subscription Agreement under which AGL will invest approximately \$292⁴ million for a 27.5%⁵ shareholding in QGC (calculated by including the issue of the Sentient Shares if the Sentient Transaction is approved and the AGL Shares) at \$1.44 per Share.

Each of those components of the AGL Transaction is conditional upon the other and will not proceed unless the entire AGL Transaction is approved by QGC Shareholders at the Meeting (Resolution 2).

At the Meeting, QGC Shareholders will also be asked to approve the appointment of three nominees of AGL to the QGC Board and an increase in the maximum number of QGC directors that QGC may appoint to the QGC Board from eight to nine (see section 5.6). The AGL Transaction is not, however, conditional upon those resolutions being passed.

⁴ This assumes that the issue of Shares as part of the Sentient Transaction is approved by QGC Shareholders. If the Sentient Transaction is not approved by QGC Shareholders, the AGL Transaction will still proceed (if approved) but the amount to be invested by AGL will be approximately \$265 million for a 27.5% shareholding in QGC at \$1.44 per Share. If the Sentient Transaction is not approved but QGC proceeds to make an allotment of Shares to Sentient at any time during the 12 month period after the placement to AGL, AGL will have an option to subscribe for additional Shares. See section 5.4 for further details on the option.

⁵ AGL's percentage shareholding will increase after the subscription if QGC accepts tenders under the Buy-Back, but AGL has agreed to tender into the Buy-Back that number of Shares necessary to ensure that its Voting Power does not exceed 30% (see section 7.2(g)).

5.2 Gas Sale Agreement

Under the terms of the Gas Sale Agreement, QGC has agreed to supply a total of 540 PJ of gas to AGL over a period of 20 years from 1 January 2008 (or such other date as agreed between the parties).

The Gas Sale Agreement restricts QGC from making further sales of gas from certain tenements if any sale would result in insufficient 2P Reserves being available to meet QGC's supply obligations to AGL. Current priority supply and reserves commitments to certain existing QGC customers have been preserved.

Annual quantities of gas to be supplied to AGL commence at lower volumes which will increase steadily over the first nine years of the contract until they reach a level which is to be maintained on and from the tenth year of the contract until the end of the term. AGL has the right to increase the annual and total quantity of gas to be supplied under the contract by exercising two options, one no later than 31 December 2009 and the other before 31 December 2011. Each option (if exercised) will entitle AGL to acquire an additional 5 PJ of gas per annum for each remaining year of the term of the contract following the exercise of each option, up to a maximum of 200 PJ in total.

Delivery of the gas will be at a delivery point along the Roma-Brisbane pipeline between Wallumbilla and Oakey as agreed by QGC and AGL. The price to be paid by AGL for the gas is confidential but the Independent Expert has concluded that "based on [its] understanding of typical gas contract pricing, the price to be paid by AGL is within the range of reasonable prices"⁶. The price will be escalated in accordance with a prescribed percentage of the annual movements in the consumer price index for eight capital cities over the term of the agreement.

Further details on the principal terms of the Gas Supply Agreement are set out in section 8.3.

5.3 Gas Market Development Services Agreement

Under the Gas Market Development Services Agreement, AGL will provide QGC with market development services that are connected with the long term supply of gas to AGL under the Gas Sale Agreement.

From 1 January 2008 to 31 December 2010, QGC may put a total of 29 PJ of gas to AGL for purchase (in addition to any gas sold under the Gas Sale Agreement). If AGL does not purchase the quantity of gas put to it by QGC, AGL will use its best endeavours to make available to QGC gas transportation capacity which AGL has in various pipelines, including the Roma-Brisbane pipeline, the Moomba-Adelaide pipeline and the Moomba-Sydney pipeline to allow QGC to sell that quantity of gas which AGL did not accept to third parties. Different costs will be payable for the use of the pipeline depending on whether the service is a firm service that has already been paid for by AGL, or whether the service is an interruptible service.

In addition, AGL has also agreed to make available to QGC at QGC's request any gas supply contracts or commitments which are in excess of AGL's requirements.

In consideration for the provision of these services, QGC has agreed to pay AGL \$1.875 million per quarter over 12 consecutive calendar quarters, commencing on 1 July 2007.

Further details on the principal terms of the Gas Market Development Services Agreement are set out in section 8.4.

⁶ Independent Expert's Report, page 3.

5.4

AGL Subscription Agreement

Under the terms of the AGL Subscription Agreement, AGL will subscribe for, and QGC will issue to AGL, such number of Shares that equals 27.5% of the total issued QGC Shares (calculated by including the issue of the Sentient Shares if the Sentient Transaction is approved and the issue of the AGL Shares) at a price of \$1.44 per Share. The total consideration payable for the subscription is approximately \$292 million. This assumes that the issue of Shares as part of the Sentient Transaction is approved by QGC Shareholders. If the Sentient Transaction is not approved by QGC Shareholders, the AGL Transaction will still proceed (if approved) but the amount to be invested by AGL will be approximately \$263 million for a 27.5% shareholding in QGC at \$1.44 per Share. As far as QGC is aware, as at 25 January 2007, AGL did not hold any Voting Power in QGC. Immediately following the subscription for Shares, AGL will have a Voting Power of 27.5%⁷.

The AGL subscription and the issue of the AGL Shares is subject to a number of conditions including:

- ✧ the Independent Expert determining that the AGL Transaction is fair and reasonable;
- ✧ QGC Shareholders approving the AGL Transaction Resolution; and
- ✧ Santos not acquiring Voting Power in QGC of 50% or more prior to the end of the Meeting.

The 30 day volume weighted average price of a Share on the ASX prior to the date of the announcement of the AGL Transaction was \$1.40. The closing price of the Shares on ASX as at 25 January 2007 (being the latest practicable date prior to the date of this Explanatory Memorandum) was \$1.335.

In addition, AGL has been granted an option to subscribe for a number of Shares in the event that QGC Shareholders do not approve the Sentient Resolution and QGC makes a subsequent allotment of Shares to the Sentient Group within 12 months of the issue of the AGL Shares (other than an allotment pursuant to a pro rata offer of Shares or pursuant to an allotment of Shares to both the Sentient Group and AGL at the same time in proportion to their holding of Shares at that time). The number of Shares granted under the option will be such number specified by AGL, up to 30% of the number of Shares issued to the Sentient Group and the exercise price will be equal to the lower of \$1.44 per Share and the volume weighted average price for Shares over the five trading days prior to the date of the allotment to the Sentient Group. Any issue of Shares under the option will be subject to the standstill arrangements set out in section 5.5.

QGC Shareholders should note that since approval is being sought at the Meeting pursuant to section 611, item 7 of the Corporations Act for the issue of Shares upon the exercise of the option, no further approval will need to be obtained from QGC Shareholders at the time the option is exercised (if exercised at all).

Further details on the principal terms of the AGL Subscription Agreement are set out in section 8.2.

⁷ AGL's Shareholding will increase after the subscription if QGC accepts tenders under the Buy-Back, but AGL has agreed to tender into the Buy-Back that number of Shares necessary to ensure that its Voting Power does not exceed 30% (see section 7.2(g)).

5.5 Standstill

Under the AGL Subscription Agreement, AGL has agreed that for a period of two years from the date of the issue of the AGL Shares, it will not hold Voting Power (including any interest that might arise through a derivative instrument) in QGC in excess of 30%, subject to certain exceptions and permitted increases.

QGC Shareholders should note that under the AGL Subscription Agreement AGL will subscribe for that number of QGC Shares which will give it a 27.5% shareholding after the Sentient Transaction and the AGL Transaction, if approved. If as a result of the Buy-Back, AGL would have a Voting Power greater than 30%, AGL must participate in the Buy-Back and tender such number of Shares that is necessary to maintain its Voting Power at no more than 30%. Accordingly, depending on the level of acceptances into the Buy-Back, AGL's percentage shareholding in QGC may increase from 27.5% to a maximum of 30%.

Further details on the standstill arrangements and the exceptions and permitted increases to the standstill arrangements are set out in section 8.2.

5.6 Appointment of directors nominated by AGL

Under the AGL Subscription Agreement, QGC is required to submit to the Meeting for election as Directors, three individuals nominated by AGL. If any of those individuals are not appointed at the Meeting, QGC must ensure that the QGC Board appoints such number of AGL nominees to the QGC Board to ensure that AGL has three nominees in total on the QGC Board (provided that such an appointment would not breach the maximum number of directors allowed under QGC's constitution).

The QGC Board currently comprises seven directors, including the Managing Director. Mr Denis Patten, has advised QGC that he intends to retire from his office as a director of QGC with effect from the end of the Meeting in the event that Resolution 2 is approved. If Resolution 2 is not approved, Mr Patten will continue as a Director.

If the AGL Transaction (Resolution 2) is approved, QGC will propose the appointment of Mr Stephen Mikkelsen and Mr Michael Fraser to the QGC Board. Mr Mikkelsen and Mr Fraser have been nominated by AGL for appointment to the QGC Board.

Under the constitution of QGC the maximum number of directors that may be appointed to the QGC Board is eight. In accordance with clause 13.1(a) of its constitution, QGC may determine in general meeting that the maximum number of QGC Directors to be appointed is amended. Accordingly, approval is sought under Resolution 3 to increase the maximum number of directors that may be appointed to the QGC Board to nine.

If Resolutions 2 and 3 are approved (or Resolution 3 is not approved and either or both of Resolutions 4 and 5 are not approved), QGC will propose the appointment of Mr Michael Moraza to the QGC Board. Mr Moraza is the third individual nominated by AGL for appointment to the QGC Board.

Brief profiles on each of the proposed directors is set out below:

Stephen Mikkelsen BBS, CA

Stephen Mikkelsen was appointed Chief Financial Officer of The Australian Gas Light Company with effect from 1 September 2006 and took up the role of the Chief Financial Officer of AGL Energy Limited with effect from 25 October 2006.

Mr Mikkelsen is a Chartered Accountant and has extensive experience as a Chief Financial Officer in both the private and public sectors and in particular in the energy sector.

Prior to joining AGL, Mr Mikkelsen held the combined role of Chief Financial Officer and Executive Officer Business Development at Snowy Hydro.

Prior to Snowy Hydro, Mr Mikkelsen was employed by Contact Energy in New Zealand.

Approximately 12 months before the initial public offering of Contact Energy, Mr Mikkelsen was promoted to Chief Financial Officer. Along with the normal responsibilities of a Chief Financial Officer, this role included managing all financial aspects of the Contact Energy initial public offering, including significant investor relations following the initial public offering.

Prior to 1996 Mr Mikkelsen worked as Treasury Advisor within the banking and accounting sectors.

Michael Fraser BCom, CPA

Michael Fraser is Group General Manager, Merchant Energy and has led the rapid expansion of AGL's upstream energy interests. He has responsibility for AGL's power generation, wholesale gas and electricity portfolios and energy sales to major industrial and commercial customers. Mr Fraser's responsibility also includes the largest privately owned renewable generation portfolio in Australia, including 11 hydro-electric generation plants in Victoria and New South Wales, peaking plants in Somerton in Victoria and Hallett in South Australia, and a substantial portfolio of power generation development projects. In addition, he is responsible for AGL's upstream gas development interests in Papua New Guinea, New South Wales and Queensland.

Mr Fraser has more than 20 years' energy industry experience in a number of areas including having established AGL as the country's largest energy retailer and headed up its national sales and marketing and trading activities. He also has extensive experience in customer service, regulatory management, distribution and corporate services.

Mr Fraser is a Fellow of the Taxation Institute of Australia. He is Deputy Chairman of ActewAGL, a Director of Egas Limited and a member of the UnitingCare Ageing Board.

Michael Moraza BE, MBA

Michael Moraza has over 20 years experience in the oil and gas industry in Australia and overseas. He was appointed General Manager, Gas Development in 2005 as part of AGL's newly created Merchant Energy Group. He led the team that successfully acquired a 10% interest in the upstream Papua New Guinea Gas Project, a 50% JV deal to develop and operate the coal seam gas business in the Sydney Basin, and a 50% interest in the Moranbah Gas Project in Queensland.

Mr Moraza joined AGL in 1996 and has held various positions within the company's business and corporate development functions. He was appointed General Manager, Corporate Development in 2002 and was involved in major acquisitions including project managing the acquisition of Pulse Energy and was Project Director for the \$3.5 billion GEAC consortium acquisition of Loy Yang Power. Mr Moraza was appointed General Manager, Corporate Strategic Planning in 2004 where his team was responsible for developing AGL's five-year corporate plans and financial forecasts.

Mr Moraza's early career involved working in various countries for the SGS Group, and working in Australia for Bridge Oil and Parker and Parsley.

5.7 QGC Shareholder approval

The entry into and performance of the Gas Sale Agreement, Gas Market Development Services Agreement and the AGL Subscription Agreement, and the agreement to issue Shares to AGL under the AGL Subscription Agreement, triggers one or more of the defeating conditions to the Santos Takeover Offer.

Accordingly, pursuant to Resolution 2, QGC Shareholder approval is being sought for the AGL Transaction. Approval is also required:

- ✦ in accordance with section 611 item 7 of the Corporations Act of the acquisition by AGL under the AGL Subscription Agreement of relevant interests in excess of 20% of the issued voting shares without contravening the takeover prohibition in section 606 of the Corporations Act; and
- ✦ under Listing Rule 7.9 for the agreement to issue equity securities under the AGL Subscription Agreement in the three month period following receipt of notice of the Santos Takeover Offer.

QGC Shareholder approval is also being sought pursuant to Resolutions 3, 4, 5 and 6 in connection with the increase in the maximum number of directors permitted to be appointed to the QGC Board under the QGC constitution and the proposed appointment of three individuals nominated by AGL to the QGC Board. Each of these resolutions is conditional upon Resolution 2 being passed by QGC Shareholders. If Resolution 2 is not approved, then Resolutions 3, 4, 5 and 6 will not be put to the Meeting for consideration.

If Resolution 2 is approved but Resolution 3 is not approved, then Resolution 6 will not be put to the Meeting for consideration unless either or both of Resolutions 4 and 5 are not approved (in which case Resolution 6 will be put). If any one or more of Resolutions 3, 4 and 5 are not approved, the QGC Board will appoint such number of individuals nominated by AGL (being persons other than those previously nominated) to the QGC Board to ensure the AGL has three Directors on the QGC Board. At the next scheduled meeting of QGC Shareholders QGC will propose a further resolution to increase the maximum number of directors permitted to be appointed to the QGC Board to nine (if Resolution 3 has not been passed at the Meeting), and put forward those AGL nominated directors previously appointed on a casual basis for re-election, so that AGL has a total of three nominees on the QGC Board.

5.8 Why you should approve the AGL Transaction

- (a) The Independent Expert, Deloitte Corporate Finance, has concluded that the AGL Transaction is fair and reasonable to QGC Shareholders

In order to assist QGC Shareholders evaluate the AGL Transaction, your Directors have commissioned an Independent Expert's Report from Deloitte Corporate Finance. A copy of the full report is set out in **Appendix A**.

The Independent Expert has concluded that the AGL Transaction is fair and reasonable to QGC Shareholders and that the likely advantages to QGC Shareholders if the AGL Transaction is approved include:

- ✦ the comparison of the AGL subscription price of \$1.44 with the value of a Share of \$1.35 to \$1.80 (on a significant interest basis) indicates that the issue of the Shares to AGL is fair;
- ✦ the price to be paid by AGL under the Gas Sale Agreement is within the range of reasonable prices;

- the development of a significant relationship with AGL and the possibility that the relationship with AGL will provide QGC with additional opportunities to sell gas to AGL and to leverage AGL's access to infrastructure on favourable terms; and
- the increased market capitalisation of QGC may attract greater analyst coverage which may enhance the profile of QGC, particularly with institutional investors.

Among the disadvantages of the AGL Transaction, the Independent Expert has highlighted that:

- whilst the Buy-Back provides QGC Shareholders with a mechanism to sell part of their shareholding at a price of \$1.44, it is limited to 12.5% of QGC's enlarged capital and some QGC Shareholders may prefer an opportunity to sell their entire shareholding pursuant to a takeover; and
- the AGL Transaction is likely to limit future offers for QGC.

(b) The Gas Sale Agreement secures the sale of a large amount of gas

The Gas Sale Agreement is the largest contract (by volume) to sell gas QGC has entered into to date. The minimum quantity of gas QGC has agreed to sell under the Gas Sale Agreement is 540 PJ⁸, compared to 44 PJ⁹ under QGC's next largest gas sale agreement (with Incopec Pivot).

AGL is currently the largest purchaser of gas in Eastern Australia, and the Directors believe that the relationship with AGL is a strategically important one for QGC.

The Gas Sale Agreement increases the commercialisation of the 2P Reserves and will provide a significant revenue stream for QGC which QGC believes will significantly enhance QGC's credit worthiness thus increasing its ability to borrow debt capital to fund additional expansion and/or decrease the cost of debt.

(c) AGL will assist QGC to access new pipelines for three years

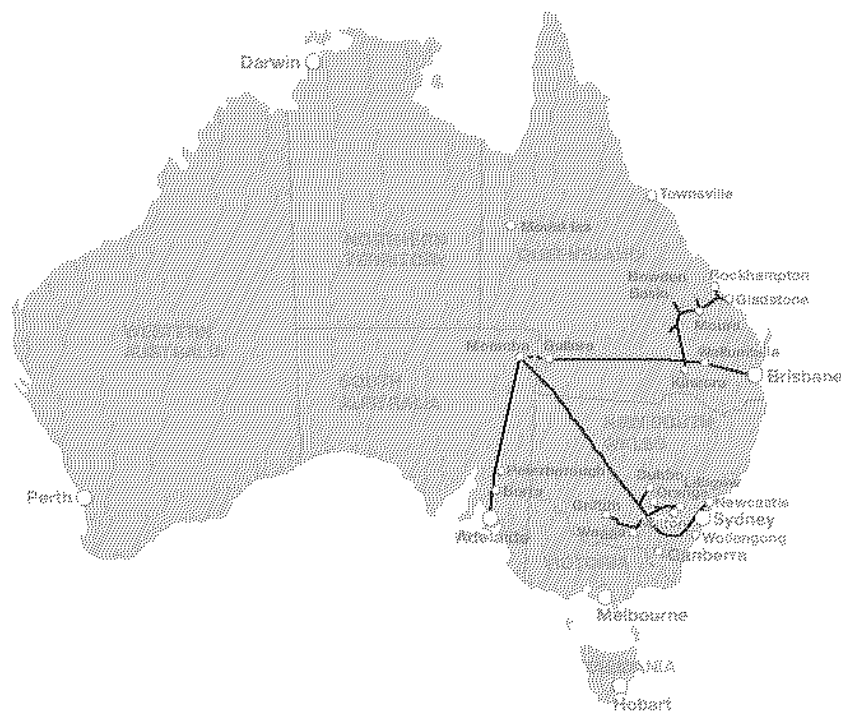
Under the Gas Market Development Services Agreement, over a period of three years commencing on 1 January 2008, QGC may put a total of 29 PJ of gas to AGL for purchase (in addition to any gas sold under the Gas Sale Agreement). If AGL does not purchase the gas put to it by QGC, AGL will use its best endeavours to provide QGC with access to AGL's unutilised capacity in the following gas pipelines to allow QGC to sell that quantity of gas which AGL did not accept, to third parties:

- Roma-Brisbane pipeline;
- Queensland Gas pipeline (from Wallumbilla, near Roma to Gladstone, via Rockhampton);
- South West Queensland pipeline (from Ballera to Wallumbilla, near Roma);
- Moomba-Adelaide pipeline; and
- Moomba-Sydney pipeline.

⁸ QGC's share of gas assuming the Serment Transaction proceeds. If the Serment Transaction does not proceed, QGC's share is in effect 485 PJ by virtue of the Utilisation Arrangements which will give the Serment Parents a 10% share of the income derived from the sale of the total quantity of gas to AGL.

⁹ QGC's share of gas assuming the Serment Transaction proceeds. If the Serment Transaction does not proceed, QGC's share is in effect 39.6 PJ by virtue of the Utilisation Arrangements which will give the Serment Parents a 10% share of the income derived by QGC from the sale of gas under that contract.

The location of these pipelines is shown on the map below:



(d) AGL's investment in QGC provides funds to further accelerate growth

AGL's cornerstone investment in QGC of approximately \$292 million¹⁰ will, amongst other things, provide funding to further accelerate the exploration and development of QGC's gas resources. QGC is currently in the process of establishing development plans and budgets on how it will utilise the funds in its business.

Despite AGL's significant investment in QGC, your Directors believe that AGL will not control QGC because:

- all decisions of the QGC Board are made by majority vote and as part of the agreement with AGL, QGC is only required to ensure that AGL has three nominees on the QGC Board out of a total of nine Directors;
- AGL has agreed it will not increase its Voting Power beyond 30% for two years except in limited circumstances¹¹;
- the QGC Board will decide how QGC's exploration permits and reserves are developed and exploited. Other than 2P Reserves required to underpin the Gas Sale Agreement, QGC's Board will decide how, when and to whom QGC's gas is sold (or otherwise utilised to create value for QGC Shareholders);
- following the AGL Transaction and the Buy-Back, the four largest QGC Shareholders (other than Santos and AGL) will have a relevant interest in 24 – 30% of the Shares (depending on whether the Sentient Transaction is approved); and
- QGC's existing management team will not change as a result of the AGL Transaction.

¹⁰ This assumes that the issue of Shares as part of the Sentient Transaction is approved by QGC Shareholders. If the Sentient Transaction is not approved by QGC Shareholders, the AGL Transaction will still proceed (if approved) but the amount to be invested by AGL for a 27.5% shareholding in QGC at \$1.44 per Share will be approximately \$263 million. If the Sentient Transaction is not approved but QGC proceeds to make an allotment of Shares to Sentient at any time during the 12 month period after the placement to AGL, AGL will have an option to subscribe for additional Shares. See section 5.4 for further details on the option.

¹¹ Refer to sections 5.5 and 8.2 for further details.

5.9 Risks and disadvantages of approving the AGL Transaction

(a) Santos Takeover Offer may be withdrawn

The approval of the AGL Transaction will trigger one or more of the defeating conditions to the Santos Takeover Offer. Consequently, if the AGL Transaction is approved by QGC Shareholders, Santos may withdraw the Santos Takeover Offer and rescind any contract that had resulted from an acceptance of that offer.

If this was to occur QGC Shareholders would lose the benefit of the offer made by Santos (however, QGC Shareholders will be entitled to participate in the Buy-Back, if approved, but QGC Shareholders should note that there is a possibility that they will not have all of their Shares bought back under the Buy-Back – see section 7 for further details).

(b) Likelihood of any further takeover offers may be reduced

AGL's shareholding following the approval of the AGL Transaction will provide AGL with the ability to defeat both a scheme of arrangement under Part 5.1 of the Corporations Act or to stop any bidder from being able to compulsorily acquire the Shares under a takeover offer under Chapter 6 of the Corporations Act. Accordingly, the likelihood of there being further takeover offers for QGC in the future is likely to be reduced.

(c) The price of Shares may reduce

As the Independent Expert has noted in its Independent Expert's Report, in the absence of the AGL Transaction, or if the AGL Transaction is not approved, and the Santos Takeover Offer lapses, it is likely that the trading value of a Share will reduce.¹²

(d) Access to pipeline network not guaranteed

Under the Gas Market Development Services Agreement there is no certainty that AGL will purchase extra gas offered by QGC. AGL is only required to provide access to the nominated pipelines if AGL has available unutilised capacity. QGC will remain able to pay the quarterly fee regardless.

QGC Shareholders will continue to be subject to the general risks that are associated with QGC's business activities. These are set out in the Annexure to the Second Supplementary Target's Statement, a copy of which is set out in **Appendix F**.

5.10 Vesting of Shares under employment contracts

Under the employment contracts of a number of executives and senior management of QGC (including the managing director, Richard Cottey), the completion of the AGL Transaction will constitute a vesting event in connection with any rights over Shares that have been issued to those individuals under QGC's Deferred Employee Share Plan that remain unvested at that time. Accordingly, following completion of the AGL Transaction (if approved), a total of approximately 4.4 million Shares will immediately vest with various executives and senior management of QGC. Subject to the approval of the Board of the Plan trustee, these Shares may be withdrawn from the QGC Deferred Employee Share Plan and, if withdrawn before the Buy-Back record date, will be eligible to be tendered into the Buy-Back.

5.11 Directors' recommendation

The Directors unanimously recommend that QGC Shareholders vote in favour of Resolution 2 to be proposed at the Meeting for the reasons set out in section 5.8 above, in the absence of a superior proposal.

¹² Independent Expert's Report, page 6.

Each of your Directors intends to vote the Shares that he owns and controls in support of Resolution 2 in the absence of a superior proposal.

AGL and its Associates will not be able to vote on Resolution 2.

The Directors also unanimously recommend that QGC Shareholders vote in favour of Resolutions 3, 4, 5 and 6 to be proposed at the Meeting, in the absence of a superior proposal.

Each of your Directors intends to vote the Shares that he owns and controls in support of Resolutions 3, 4, 5 and 6 in the absence of a superior proposal.

In considering whether to vote in favour of the resolutions connected with the AGL Transaction (being Resolutions 2, 3, 4, 5 and 6), your Directors ask QGC Shareholders to note the advantages of voting in favour of the AGL Transaction detailed in section 5.8, and the disadvantages of voting in favour of the AGL Transaction set out in section 5.9.

The Directors' relevant interests in shares in AGL and its Associates as at 25 January 2007 is set out in **Appendix G**.



Takeover bid by Santos

6.1 Background

On 5 October 2006, Santos CSG Pty Ltd, a wholly owned subsidiary of Santos Limited, announced an off-market takeover bid for QGC at a price of \$1.26 per Share. The bidder's statement in connection with the Santos Takeover Offer was lodged on 10 October 2006 and it was sent to QGC Shareholders on 24 October 2006. Santos lodged supplementary bidder's statements on 17 November 2006, 11 December 2006 and 23 January 2007.

QGC responded on 10 October 2006 that the Santos Takeover Offer was "opportunistic and patently inadequate", and the Directors recommended that QGC Shareholders reject the offer.

The QGC target's statement was sent to QGC Shareholders on 15 November 2006. In the Target's Statement, your Directors unanimously recommended that QGC Shareholders reject the Santos Takeover Offer for the reasons set out in the section of the Target's Statement entitled 'Why you should REJECT the Offer'.

QGC lodged supplementary target's statements on 7 December 2006 and 21 December 2006. The supplementary target's statement of 7 December 2006 announced the AGL Transaction, the Sentient Transaction and the Buy-Back and reiterated your Directors' recommendation that QGC Shareholders reject the Santos Takeover Offer. The supplementary target's statement of 21 December 2006 set out disclosure that QGC agreed to provide to address a number of issues raised by the Takeovers Panel (**Panel**) which were the subject of an application by Santos to the Panel (described in section 6.2 below). QGC Shareholders should have regard to all of the documents mentioned above, and to this Explanatory Memorandum, when considering the merits of the Santos Takeover Offer.

On 23 January 2007, Santos extended its offer period so that the Santos Takeover Offer will now close at 5.00 pm (Queensland time) on 7 February 2007, unless extended. Santos advised at that time that its relevant interest in QGC Shares was 3.89%, an increase of 0.03% from its relevant interest at the time when the first of the offers was made under the Santos Takeover Offer on 24 October 2006.

6.2 Takeovers Panel

On 20 November 2006 Santos made an application to the Panel for a declaration of unacceptable circumstances under section 657A of the Corporations Act and final orders including an order requiring QGC to withdraw its Target's Statement and issue a replacement target's statement.

The bases for Santos' application were summarised in the media release issued by the Panel on 21 November 2006, a summary of which is set out below:

- (a) Santos submits that there are deficiencies in the disclosure made in the Target's Statement, including that the Target's Statement does not provide sufficient information to enable QGC Shareholders to properly assess the merits of the Santos Takeover Offer relative to the merits of remaining a QGC Shareholder; and
- (b) the Target's Statement does not contain the expert's report, commissioned by QGC, in relation to QGC's reserves position.

On 19 December 2006, the Panel advised that, having regard to the further disclosures agreed to be provided by QGC in the second supplementary target's statement (dated 21 December 2006), the announcement of the AGL Transaction and the Sentient Transaction, the further information to be provided in this Explanatory Memorandum and the submissions from QGC and Santos, it declined to make the declaration of unacceptable circumstances, as requested by Santos. This media release, which sets out the Panel's response more fully, is set out in **Appendix E**.

6.3 Defeating conditions of the Santos Takeover Offer

The Santos Takeover Offer is subject to a number of defeating conditions. Those defeating conditions are set out in full in section 11 of the Bidder's Statement and are summarised below:

- (a) Santos acquires a relevant interest in at least 50.1% of the QGC Shares;
- (b) there is no event or circumstance that could have a material adverse effect on the business, assets, liabilities, financial position, performance, profitability or prospects of QGC or the QGC Group taken as a whole;
- (c) no member of the QGC Group conducts its business otherwise than in the ordinary course;
- (d) no member of the QGC Group:
 - (i) acquires or disposes of assets amounting to more than \$10 million;
 - (ii) enters into any joint venture, partnership or other arrangement involving a commitment of greater than \$10 million;

- (iii) incurs or commits to any capital expenditure of greater than \$2 million in any 12 month period (except in projects outlined in the QGC Rights Issue Prospectus dated 4 August 2006 in connection with a renounceable rights issue undertaken by QGC);
 - (iv) enters into any contract involving a commitment of greater than \$2 million;
 - (v) enters into or varies any existing contract of service with any Director or officer or agrees to make any material change to the basis or amount of remuneration of any Director, officer or other employee;
- (e) as a result of the acquisition of QGC Shares by Santos:
- (i) no person would become entitled to exercise, exercises or purports to exercise, any rights under any provision of any agreement to which any member of the QGC Group is a party which results or could reasonably be expected to result in various outcomes;
 - (ii) a licence or other instrument held by a member of the QGC Group being revoked, terminated or withdrawn if such revocation, termination or withdrawal could have a material adverse effect on QGC;
- (f) the S&P/ASX 200 Index does not close at a level below 4,600 points on any trading day;
- (g) there being no prescribed occurrences;
- (h) the Target's Statement detailing any contractual arrangements that QGC has with the Sentient Group, including the number of Shares that the Sentient Group may be entitled to be issued as a result in the change of control of QGC under the Santos Takeover Offer, and confirming that the Sentient Group cannot require QGC to issue QGC Shares to the Sentient Group in certain circumstances;
- (i) all necessary regulatory approvals are obtained; and
- (j) no material adverse decisions by a regulatory authority.

6.4 Status of the Santos Takeover Offer

(a) ACCC

The Santos Takeover Offer is subject to Santos obtaining all necessary regulatory approvals (paragraph 6.3(i) above). On 5 October 2006, the ACCC commenced a public review of the Santos Takeover Offer under the Merger Review Process Guidelines, commencing market inquiries on 16 October 2006. The ACCC had expected to announce its decision on 7 December 2006. The timeline was suspended on 23 November 2006 after a request for further information from Santos. On 13 December 2006, the ACCC announced that Santos had not responded to the information request and would be given until early January to respond. Accordingly, the ACCC anticipates making a final decision on the Santos Takeover Offer by 31 January 2007.

(b) Defeating conditions

As part of the defeating condition requiring that the Target's Statement contain information on QGC's contractual arrangements with the Sentient Group (paragraph 6.3(h) above), QGC was required to confirm in the Target's Statement that the Sentient Group cannot require QGC to issue Shares to the Sentient Group following a change of control in QGC. Due to the terms of the arrangement described in section 4.1(d), the Directors could not provide this confirmation, rendering the defeating condition incapable of being satisfied. Santos has reserved its right to waive this defeating condition.

At QGC's annual general meeting held on 13 November 2006, QGC Shareholders approved the issue of up to 5,000,000 Shares to QGC employees and performance rights to 2,248,000 Shares to Mr Richard Cottee. The issue of performance rights to Shares is likely to trigger one of the prescribed occurrences in section 11.7.3 of the Bidder's Statement (paragraph 6.3(g) above). Santos has reserved its right to waive this defeating condition.

(c) Santos right to waive defeating conditions

Santos may waive any of the defeating conditions summarised in section 6.3 in accordance with the Corporations Act. At the date of this Explanatory Memorandum, Santos had not waived any of the defeating conditions. Some or all of the defeating conditions may be waived between the date of this Explanatory Memorandum and the date of the Meeting. Any material changes to the status of the Santos Takeover Offer will be notified to QGC Shareholders by announcement to ASX. Depending on the nature and timing of such changes, QGC may write to you advising you of the change, and the implications of the change on the resolutions which are the subject of this Explanatory Memorandum. However, if the change occurs near the date of the Meeting, such notice may not reach you in time for you to consider the implications on the resolutions proposed at the Meeting. For this reason, your Directors encourage you to pay close attention to ASX announcements during this period by checking the ASX website regularly at www.asx.com.au (ASX code: QGC).

An update with regard to the Directors' relevant interests in shares in Santos and its Associates as at 25 January 2007 is set out in **Appendix G**.

6.5 Implications of the AGL Transaction, the Sentient Transaction and the Buy-Back on the Santos Takeover Offer

If one or more of the AGL Transaction Resolution, the Sentient Resolution and the Buy-Back Resolution is approved by QGC Shareholders at the Meeting, one or more defeating conditions of the Santos Takeover Offer will be triggered. This means that Santos has grounds on which it may withdraw the Santos Takeover Offer and rescind any contract that had resulted from an acceptance of that offer.

At the date of this Explanatory Memorandum, Santos had not advised QGC whether it intends to waive any defeating conditions triggered by the passing of the resolutions which are the subject of this Explanatory Memorandum. Assuming that one or more of those resolutions are passed and Santos chooses to rely on the relevant defeating condition, withdraw the Santos Takeover Offer and rescind any contract that had resulted from an acceptance of that offer, QGC Shareholders would lose their ability to accept the Santos Takeover Offer. QGC Shareholders should have regard to this before deciding to vote in favour of the relevant resolutions. In particular, if the resolutions are passed and the Santos Takeover Offer is withdrawn, as stated in the Independent Expert's Report, it is likely that the trading value of the Shares would reduce in the absence of the AGL Transaction.¹³

In addition, you should be aware that, subject to your ability to sell your Shares under the Buy-Back (refer to section 7) or otherwise dispose of your QGC Shares on-market, and assuming the AGL Transaction Resolution is passed and Santos withdraws the Santos Takeover Offer, you will remain a QGC Shareholder and your investment in QGC will be subject to the risks associated with QGC's business. A summary of those risks was set out in the annexure to the second supplementary target's statement (dated 21 December 2006) a copy of which is set out in **Appendix F**.

¹³ Independent Expert's Report, page 5.

6.6 Implications of your acceptance of the Santos Takeover Offer

The time for determining voting entitlements for the Meeting will be 7.00pm (Queensland time) on Wednesday, 28 February 2007 (**Voting Entitlement Date**).

If, before the Voting Entitlement Date, you:

- (a) accept the Santos Takeover Offer; and
- (b) the contract arising from your acceptance becomes free from its defeating conditions or such defeating conditions are satisfied,

then you will have been taken to have appointed Santos and each of its directors, secretaries and officers severally as your attorney to (among other things) attend and vote at the Meeting.

QGC Shareholders are reminded that if they accept the Santos Takeover Offer they will be unable to withdraw their acceptance other than in limited circumstances. These circumstances are where Santos extends its offer by more than one month from the original closing date and the offer continues to be subject to one or more of the defeating conditions summarised in section 6.3. In its third supplementary bidder's statement dated 23 January 2007, Santos extended its offer period so that the offer will now close at 5.00pm (Queensland time) on 7 February 2007 (unless extended further). That extension (combined with the previous extensions announced on 17 November 2006 and 11 December 2006) resulted in a total extension of the Santos offer by more than one month and QGC Shareholders who have accepted the Santos Takeover Offer before 23 January are entitled to withdraw their acceptance by giving notice to Santos by 22 February 2007. If Santos decides to extend its offer beyond 7 February 2007 (which is at the sole discretion of Santos), Santos will be required under the Corporations Act to offer QGC Shareholders who have accepted the Santos offer before the date on which Santos provides notice of its further extension, a right to withdraw their acceptance by notice to Santos within a period of one month beginning on the day after the QGC Shareholder receives notice of the variation to the Santos Takeover Offer.



Buy-Back

7.1 Overview

On 5 December 2006, QGC announced that in connection with the proposed AGL Transaction it would also undertake a buy-back of up to 12.5% of its Shares (calculated by including the issue of the Sentient Shares and the AGL Shares, if approved). The Buy-Back is to be conducted by way of an off-market tender offer. The tender period is currently scheduled to open on 19 March 2007 and end on 10 April 2007. A Buy-Back booklet containing full details of the Buy-Back will be sent to QGC Shareholders following the Meeting.

Resolution 7 seeks QGC Shareholder approval for the terms of the Buy-Back. Under the Corporations Act, as modified by the exemption received from ASIC (see section 7.5(d) below), QGC must obtain the approval of QGC Shareholders to buy back more than 10% of the smallest number of voting shares that QGC had on issue during the 12 months preceding the Buy-Back. QGC Shareholder approval is also being sought because the Buy-Back would trigger one or more of the defeating conditions of the Santos Takeover Offer. The Buy-Back Resolution will be approved if more than 50% of votes cast at the Meeting on the resolution are in favour of it. Voting in favour of Resolution 7 does not mean that QGC Shareholders must sell their Shares to QGC. Participation in the Buy-Back is voluntary and QGC Shareholders will also have the right to withdraw tenders during the tender period, subject to complying with specific notification procedures.

If the AGL Transaction Resolution (Resolution 2) is not approved, the Buy-Back Resolution (Resolution 7) will not be put to the Meeting for consideration. If the Buy-Back Resolution is not approved by QGC Shareholders, the Buy-Back will not proceed.

Under section 257C and 257D of the Corporations Act, in the notice that accompanies the resolution to approve the Buy-Back, QGC must disclose all information that is material to the decision on how to vote on the Buy-Back Resolution. This information is set out below and elsewhere in this Explanatory Memorandum.

7.2 Terms of the Buy-Back

(a) Off-market tender offer

QGC intends to conduct the Buy-Back as an off-market tender offer. The tender offer will invite QGC Shareholders to tender their Shares for sale to QGC at the fixed price of \$1.44 per Share. QGC Shareholders will be invited to tender all or some of their Shares.

QGC Shareholders that are the registered holders of Shares as at 7.00pm (Queensland time) on the record date (which is currently scheduled to be 14 March 2007) will be entitled to offer to sell some or all of their Shares during the tender period (which is currently scheduled to commence on 19 March 2007 and end on 10 April 2007) (**Buy-Back Period**). Rights under the Buy-Back are personal to the relevant QGC Shareholder and cannot be transferred.

A proposed timetable for the Buy-Back is set out in section 7.2(i). While QGC does not currently anticipate amending any of the dates and times set out in that section, it reserves the right to do so by announcement to ASX.

QGC may at its sole discretion treat any tender it receives as a valid tender, disregard any tender that it believes it should disregard (including any tender that it has reasonable grounds to believe has been submitted by an Excluded Foreign Person) and waive any, or all of the terms of any invitation issued to a QGC Shareholder under the Buy-Back.

(b) Number of Shares to be bought back and price

QGC is seeking approval to buy back up to 12.5% of its issued Shares (calculated by including the issue of the Sentient Shares and the AGL Shares, if approved). If the number of Shares tendered in the Buy-Back is less than 12.5%, QGC will only buy back that number of Shares tendered.

Each Share will be bought back at the fixed price of \$1.44. Payment of the consideration for each Share bought back is expected to be dispatched by bank cheque to participating QGC Shareholders on or before 16 April 2007.

(c) Effect of Buy-Back on voting rights and dividend rights

No tender will be accepted by QGC until after the close of the Buy-Back Period. Accordingly, QGC Shareholders will be entitled to vote at any meeting of QGC that is held during the Buy-Back Period, even if they have lodged a tender form to sell Shares to QGC under the Buy-Back.

QGC Shareholders' rights to receive any dividends paid by QGC where the record date for the dividend occurs prior to the date on which QGC enters into a buy-back agreement with QGC Shareholders (which will be after the close of the Buy-Back Period) will not be affected by the submission of a tender form. However, consistent with past practice, your Directors do not anticipate paying any dividend for the half year ended 31 December 2006.

(d) Off-market tender process

Each QGC Shareholder eligible to participate in the Buy-Back may submit a tender if they wish to sell all or some of their Shares. The offer by a QGC Shareholder who submits a tender to sell Shares to QGC must specify the number of Shares that the QGC Shareholder offers to sell, which may be up to 100% of its holding as at the Buy-Back record date. All Shares will be bought back at a fixed price of \$1.44 per Share.

(e) Directors' interests in Shares

Directors (other than Robert Bryan and Dale Elphinstone and their respective Associates, who have provided undertakings to QGC that they will not participate in the Buy Back – see section 7.2(f)) are entitled to participate in the Buy-Back and may do so, according to their own particular circumstances. Interests in Shares that are Restricted Employee Shares will not be eligible to be tendered into the Buy-Back.

As at 25 January 2007, the Directors held or had a relevant interest in the following Shares:

Director	QGC Shares	% of QGC issued Shares
Mr Robert Bryan	22,833,234 ¹	4.75%
Mr Peter Cassidy	120,900 ²	0.03%
Mr Francis Connolly	309,196 ³	0.06%
Mr Richard Cottee	3,150,237 ⁴	0.66%
Mr Timothy Crommelin	96,681 ⁵	0.02%
Mr Vincent De Santis (Alternate Director)	44,337 ⁶	0.01%
Mr Dale Elphinstone	78,926,495 ⁷	16.41%
Mr Denis Patten	381,868 ⁸	0.08%

1. Mr Bryan has a direct interest in 15,214,906 Shares and a relevant interest in 1,727,671 Shares held by Leyshon Equities Pty Ltd, a company in which he has greater than 20% voting power and 116,801 Shares held by QGC IPT Pty Ltd, trustee of the Deferred Non-executive Director Share Plan and 5,773,856 Shares to which Mr Bryan has a right of pre-emption under a deed between Mr Bryan, Mr N Zelman, GPK Investments Pty Ltd, QGAS Pty Ltd and QGC Ltd dated 14 April 2000.
2. Mr Cassidy has a relevant interest in 62,500 Shares held by Cedarose Pty Ltd and 58,400 Shares held by QGC IPT Pty Ltd, trustee of the Deferred Non-executive Director Share Plan.
3. Mr Connolly has a relevant interest in 250,796 Shares held by a self-managed superannuation fund and 58,400 Shares held by QGC IPT Pty Ltd, trustee of the Deferred Non-executive Director Share Plan.
4. Mr Cottee has a direct interest in 1,541,367 Shares and a relevant interest in 1,608,000 Shares held by QGC IPT Pty Ltd, trustee of the Deferred Employee Share Plan and associates with an interest in 7,170 Shares held by S Cottee (spouse) and 1,700 Shares held by M Cottee (daughter). This excludes 2,248,000 unvested rights to Shares under the Managing Director's employment contract.
5. Mr Crommelin has a direct interest in 70,400 Shares and an interest in 26,281 Shares held by CFF Pty Ltd (Crommelin Family Foundation).
6. Mr De Santis has a relevant interest in 78,396,387 Shares held by Elph Pty Ltd, 471,708 Shares held by Elphinstone Holdings Pty Ltd and 58,400 Shares held by QGC IPT Pty Ltd, trustee of the Deferred Non-executive Director Share Plan.
7. Mr Patten has a direct interest in 238,840 Shares, a relevant interest in 86,628 Shares held by Elmgate Pty Ltd and 58,400 Shares held by QGC IPT Pty Ltd, trustee of the Deferred Non-executive Director Share Plan.
8. Mr De Santis has a direct interest in 44,337 Shares.

(f) Undertakings in connection with the Buy-Back

The following key investors in QGC have undertaken not to participate in the Buy-Back:

- * Elph Pty Ltd and Elphinstone Holdings Pty Ltd (Associates of Mr Dale Elphinstone);
- * The Sentient Group;
- * ANZ Infrastructure Services (ANZIS);
- * Mr Robert Bryan; and
- * Leyshon Equities Pty Ltd (an Associate of Mr Robert Bryan).

Given these undertakings not to tender Shares into the Buy-Back, any OGC Shareholder who tenders Shares into the Buy-Back will be guaranteed to have at least 24% of their Shares bought back under the Buy-Back (assuming that the Sentient Transaction and the AGL Transaction proceed).

Assuming the full 12.5% of Shares are bought back and both the Sentient Transaction and the AGL Transaction proceed, the relevant interests (following completion of the Buy-Back) of the major OGC Shareholders who have given undertakings not to tender their Shares will be:

Shareholder	Pre Buy-Back shareholding	Post Buy-Back shareholding
Elph Pty Ltd	10.58%	12.09%
Elphinstone Holdings Pty Ltd	0.60%	0.07%
The Sentient Group	9.15%	10.46%
ANZIS	3.62%	4.14%
Mr Robert Bryan	2.07% – 2.85%*	2.36% – 3.25%*
Leyshon Equities Pty Ltd	0.23%	0.27%

* Note: Mr Robert Bryan's relevant interest includes his right of pre-emption interest (see Note 1 to section 7.2(a)) and it may vary depending on whether or not the shares in which he has a pre-emptive interest participate in the Buy-Back.

(g) Impact of Buy-Back on AGL

AGL will not tender any Shares into the Buy-Back unless its Voting Power in OGC would exceed 30% as a direct result of the Buy-Back. Depending on the number of Shares tendered into the Buy-Back, AGL may need to tender such number of Shares into the Buy-Back so as to keep its total Voting Power at no more than 30%, as agreed under the standstill arrangements (see section 5.5). Before finalisation of the acceptances of the tenders, OGC will notify AGL of the number of Shares (if any) it needs to tender into the Buy-Back to ensure that immediately following the Buy-Back its Voting Power is no more than 30%, and AGL will submit a tender for that number of Shares.

(h) Scale back

If OGC Shareholders tender more than 12.5% of Shares (calculated by including the issue of the Sentient Shares and the AGL Shares, if approved), a scale back will be applied as follows:

- ✦ OGC Shareholders who have submitted tenders in respect of all of their Shares and who would have a shareholding in OGC of 1,000 Shares or less as a result of the scale-back will have all of their Shares bought back;
- ✦ the remaining Shares tendered by OGC Shareholders to be bought back will be scaled back on a pro rata basis to ensure that no more than 12.5% of Shares (calculated by including the issue of the Sentient Shares and the AGL Shares, if approved) are bought back under the Buy-Back.

OGC Shareholders will be advised by an announcement on the ASX of the total number of Shares to be bought back after the close of the Buy-Back Period.

(i) **Timetable**

Indicative dates for the Buy-Back are as follows:

Date	Event
2 March 2007	QGC Shareholder vote to approve the Buy-Back
7 March 2007	Ex-entitlement date (Shares bought on or after this date will not carry an entitlement to participate in the Buy-Back)
14 March 2007	Record date for determining QGC Shareholders entitled to participate in the Buy-Back
19 March 2007	Buy-Back tender opens
5.00pm (Queensland time), 10 April 2007	Latest time for submission of Buy-Back tender forms
11 April 2007	Announcement date for result of Buy-Back. Buy-Back agreements entered into and Shares cancelled
By 16 April 2007	Expected dispatch of cheques for Buy-Back consideration to participating QGC Shareholders

(j) **Effect of submitting a tender**

Any tender form submitted into the Buy-Back constitutes an offer to sell the tendered Shares to QGC on the terms and conditions of the Buy-Back. If QGC accepts your tender, a binding Buy-Back agreement is formed between the participating QGC Shareholder and QGC. Upon submission of a tender form, amongst other things, you will:

- ✦ offer to sell to QGC on the date of completion of the Buy-Back (**Buy-Back Date**) the number of Shares nominated for sale in your tender form, adjusted in accordance with the terms of the Buy-Back at \$1.44 per Share;
- ✦ agree that QGC's announcement on the Buy-Back Date is effective notice or communication of QGC's acceptance of your tender (adjusted in accordance with the terms of the Buy-Back) which is submitted in accordance with the terms of the Buy-Back (or treated by QGC as being so submitted) and which is not rejected by QGC;
- ✦ agree that it is only upon such communication by announcement to the ASX that a contract is formed for the purchase of the relevant Shares;
- ✦ warrant to QGC that at any time you tender your Shares for sale in the Buy-Back, and on the Buy-Back Date, you are the registered holder of the Shares which you have tendered and that they are lawfully tendered and free from any mortgage, charge, lien or other encumbrance (whether legal or equitable) and from any third party rights;
- ✦ warrant that you are a person to whom an invitation under the Buy-Back may lawfully be made, that you are a person whose participation in the Buy-Back is permitted under the laws of the jurisdiction in which you are resident and that you are not an Excluded Foreign Person; and
- ✦ warrant that none of the Shares that have been tendered are Restricted Employee Shares.

(k) **Brokerage and handling fees**

QGC Shareholders will not have to pay any handling or brokerage fees on sales of Shares into the Buy-Back.

7.3 **Reasons for approving the Buy-Back Resolution**

For the reasons set out in this Explanatory Memorandum, your Directors believe that the AGL Transaction is in the best interests of QGC Shareholders.

Given the long term nature of the Gas Sale Agreement, some of the benefits of the AGL Transaction may take time to be fully realised. Many QGC Shareholders have been long term shareholders and supporters of QGC; some however may have a shorter term view of their investment in QGC. The Directors are therefore giving QGC Shareholders, particularly those holding a shorter term view of their investment an opportunity, through the Buy-Back, to benefit immediately from the AGL Transaction.

The Buy-Back will provide QGC Shareholders with the ability to tender all or a portion of their shareholding at the same price per Share that AGL has agreed to pay under the AGL Subscription Agreement.

QGC Shareholders should note that voting in favour of the Buy-Back does not require you to sell any Shares in the Buy-Back. A separate booklet containing details of the Buy-Back and the tender form will be sent to you following the Meeting. You can make your decision whether to tender Shares into the Buy-Back after you receive that booklet.

7.4 **Risks and disadvantages of approving the Buy-Back Resolution**

The QGC Board does not believe that approving the Buy-Back Resolution poses any significant risks or disadvantages to QGC Shareholders other than the risk of the withdrawal of the Santos Takeover Offer discussed below. However, in deciding whether to vote in favour of the Buy-Back Resolution and whether to participate in the Buy-Back, QGC Shareholders should consider the following matters:

(a) Reduction in QGC's cash reserves

The consideration for the Buy-Back will be paid out of QGC's available cash reserves. If the maximum 12.5% of issued Shares is bought back under the Buy-Back, QGC will utilise approximately \$133 million of its cash reserves in paying the consideration under the Buy-Back. Following payment of the consideration, QGC will have remaining available cash reserves of at least \$158 million.

(b) Increase in major QGC Shareholders' holdings

Since some of the major QGC Shareholders have undertaken not to participate in the Buy-Back (see section 7.2(ff)), and AGL has agreed to participate only in certain circumstances (see section 7.2(gj)), the respective shareholdings of those QGC Shareholders will increase slightly as a consequence of the Buy-Back (refer to the table in section 7.2(f) and to section 7.2(gj)).

(c) Santos Takeover Offer may be withdrawn

The approval of the Buy-Back will trigger one or more of the defeating conditions to the Santos Takeover Offer. Consequently, if the Buy-Back is approved by QGC Shareholders, Santos may withdraw the Santos Takeover Offer and rescind any contract that had resulted from an acceptance of that offer. If this were to occur QGC Shareholders would lose the opportunity to accept the offer made by Santos. However, QGC Shareholders will be entitled to participate in the Buy-Back but QGC Shareholders should note that if the number of Shares tendered under the Buy-Back exceeds the maximum 12.5% of issued Shares that QGC has approval to buy back, QGC Shareholders will not have all of their Shares bought back. However, for those QGC Shareholders who elect to accept the Santos Takeover Offer, all of their Shares will be bought by Santos (subject to the satisfaction or waiver of all defeating conditions to the offer). See section 6.5 for further details.

7.5

Effect of the Buy-Back on QGC

(a) Reduction in cash reserves

The Buy-Back will be funded out of available cash reserves which will be reduced by a total of approximately \$133 million if the full 12.5% of Shares are bought back under the Buy-Back. The remaining cash reserves available for use by QGC will be at least \$158 million. The actual amount of cash that QGC will be required to pay to fund the Buy-Back will depend on the number of Shares tendered under the Buy-Back. Examples of the amount of cash to be paid based on differing levels of Shares tendered under the Buy-Back are set out in the table in section 7.5(b).

(b) What effect will the Buy-Back have on QGC's issued Shares and cash reserves?

As at 25 January 2007 (being the latest practicable date before the date of this Explanatory Memorandum), QGC had 480,864,357 Shares on issue.

Depending on the approvals obtained at the Meeting, QGC will have the following Shares on issue (assuming that there are no further issues of Shares before the commencement of the Buy-Back):

Approval obtained	Shares on issue
If only the Sentient Transaction proceeds	534,293,730
If only the AGL Transaction proceeds*	667,621,153
If the Sentient Transaction and the AGL Transaction proceed*	741,318,840

*Note: this includes the 4,358,971 Shares that will automatically vest with certain executives and senior management of QGC upon completion of the AGL Transaction.

All Shares that QGC buys back under the Buy-Back will be cancelled.

Depending on the level of Shares tendered under the Buy-Back, the effect on the number of Shares on issue and the cash to be paid by QGC to fund the Buy-Back would be as follows:

Assuming both the Sentient Transaction and the AGL Transaction proceed*:

% of Shares tendered	Number of Shares tendered	Number of Shares on issue following cancellation of Shares tendered	Total amount of consideration to be paid from cash reserves
1%	7,413,168	733,903,672	\$10,674,962
3%	22,239,505	719,077,335	\$32,024,887
6%	44,479,010	696,837,830	\$64,049,776
9%	66,718,516	674,598,324	\$96,074,662
12.5%	92,664,605	648,652,235	\$133,437,031

Assuming only the AGL Transaction proceeds:

% of Shares tendered	Number of Shares tendered	Number of Shares on issue following cancellation of Shares tendered	Total amount of consideration to be paid from cash reserves
1%	6,676,212	660,944,942	\$9,613,745
3%	20,028,635	647,592,518	\$28,841,234
6%	40,057,269	627,563,884	\$57,682,468
9%	60,085,904	607,535,249	\$86,523,701
12.5%	83,452,644	584,168,509	\$120,171,808

(c) What effect will the Buy-Back have on the control of QGC?

Given the maximum number of Shares that QGC is expected to acquire in the Buy-Back, the Buy-Back is not expected to have any change of control implications for QGC.

Under the terms of the AGL Subscription Agreement, AGL cannot exceed a Voting Power of 30% (except in limited circumstances) in QGC for a period of two years from the date of issue of the AGL Shares. See sections 5.5 and 8.2 for further details.

7.6 Other material information

(a) Australian tax considerations

Consideration for the sale of a Share

The purchase price of \$1.44 for each Share will be debited in full against amounts standing to the credit of the share capital account of QGC. The purchase price will be taken to have been received as consideration for the sale of the Share.

QGC Shareholders should note that the consideration taken to have been received by them for the sale of a Share will be increased to the market value of the Share where the purchase price is less than the market value.

Pursuant to Taxation Determination TD 2004/22, the market value of a Share will be worked out as follows:

VWAP over last 5 trading days x (Closing Index/Opening Index)

where:

VWAP over last 5 trading days means the volume weighted average price of a QGC Share on the Australian Securities Exchange over the last 5 trading days before 5 December 2006;

Closing Index means the S&P/ASX 200 Index at the close of trading on the day the Buy-Back closes; and

Opening Index means the S&P/ASX 200 Index at the commencement of trading on 5 December 2006.

Capital gain or loss on the sale of a Share

QGC Shareholders will make a capital gain or loss on the sale of a Share to the extent the consideration for the sale of the Share (ie \$1.44 or the market value of the Share, whichever is greater) is more or less than the CGT cost base of the Share.

CGT cost base of a Share

The CGT cost base of a Share will include the money the QGC Shareholder paid to purchase the Share plus any incidental costs of purchase and sale of the Share. The CGT cost base of a Share acquired before 1 July 1999 may be indexed for inflation up to 30 September 1999 unless the CGT discount is applied (see below). The CGT cost base of a Share acquired on or after 1 July 1999 cannot be indexed for inflation.

CGT discount

If the QGC Shareholder is an individual, a complying superannuation entity, a trust or a life insurance company (where the Share is a "virtual PST asset"), the QGC Shareholder may be entitled to the CGT discount on a Share that has been held for at least 12 months. The CGT discount reduces the capital gain otherwise liable to tax by 50% in the case of an individual or trust and by 33% in the case of a complying superannuation entity or a life insurance company. Note that the CGT discount only reduces the net capital gain remaining after any carry forward capital losses have been applied.

Carry forward of capital loss

QGC Shareholders may generally carry forward a capital loss on the sale of a Share to offset capital gains made in a later income year.

Other tax rules

QGC Shareholders should also be aware that there are a number of tax rules designed to discourage a company from distributing share capital in preference to dividends. QGC considers that the Buy-Back should not attract the application of any of these rules. However, if the rules applied to the Buy-Back, then the whole or part of the purchase price may be taken to be an unfranked dividend (instead of the treatment outlined above).

Goods and services tax implications

QGC Shareholders will not be liable to GST if they participate in the Buy-Back. However, if the QGC Shareholder is registered, or required to be registered, for GST the QGC Shareholder may not be entitled to input tax credits in respect of GST on any inputs to the supply of the Shares on the basis that the supply of the Shares is a financial supply and therefore input taxed.

Stamp duty implications

QGC Shareholders will not be liable to stamp duty if they participate in the Buy-Back.

(b) QGC Employee Incentive Schemes

The Buy-Back will involve a buy-back of Shares only. It will not apply to conditional awards of QGC Shares held by employees and officers of QGC in accordance with QGC's employee incentive schemes or to Shares that have restrictions on disposal under the relevant rules of the employee incentive scheme. However, if conditional awards have been satisfied or any restrictions on disposal lifted or expired before the Buy-Back record date, the relevant Shares issued or transferred to incentive scheme participants will be, subject to the terms of the Buy-Back, eligible to be bought back under the Buy-Back. QGC Shareholders should note that unvested performance rights over Shares that have been issued to executives and senior management of QGC under the QGC Deferred Employee Share Plan will immediately vest in those persons as a result of completion of the AGL Transaction (if approved) (see section 5.10). Subject to the approval of the board of the Plan trustee, these Shares may be withdrawn from the share plan and, if withdrawn before the Buy-Back record date, will be eligible to be tendered into the Buy-Back.

(c) Excluded Foreign Persons

Excluded Foreign Persons will not be eligible to participate in the Buy-Back. Without limiting the rights that QGC otherwise has in relation to tenders, a tender submitted by an Excluded Foreign Person will not be accepted by QGC.

By submitting a tender, QGC Shareholders will warrant that they are not an Excluded Foreign Person. If a QGC Shareholder does not provide the warranty, QGC will not accept the tender. A tender submitted by an Excluded Foreign Person will not be accepted by QGC. If QGC has reasonable grounds to suspect that a tender has been submitted by an Excluded Foreign Person, QGC will be entitled to reject that tender.

(d) ASIC exemption and ASX waiver

ASIC exemption

Section 257A of the Corporations Act authorises a company to buy back its own shares if the buy-back does not materially prejudice the company's ability to pay its creditors and it follows the procedures laid down in Division 2 of Part 2J.1 of the Corporations Act. Division 2 of the Corporations Act permits a company to conduct an equal access buy-back scheme if each of the following conditions set out in subsection 257B(2) is satisfied:

- the offers under the scheme relate only to ordinary shares;
- the offers are to be made to every person who holds ordinary shares to buy back the same percentage of their ordinary shares;
- all of those persons have a reasonable opportunity to accept the offers made to them;
- buy-back agreements are not entered into until a specified time for acceptances of offers has closed;
- the terms of all the offers are the same.

An equal access buy-back in excess of the 10/12 limit (defined by section 257B(4) and (5) as 10% of the smallest number of voting shares that QGC had on issue that year) also requires approval under section 257C of the Corporations Act by an ordinary resolution passed at a general meeting of QGC.

The Buy-Back does not technically comply with the requirements for an equal access buy-back and, accordingly, is treated as a selective buy-back for the purposes of the Corporations Act. However, ASIC has granted QGC an exemption under section 257D(4) of the Corporations Act to permit QGC to:

- conduct the Buy-Back similarly to the conduct of an equal access scheme;
- utilise the scale-back mechanism described in section 7.2(h);
- reject tenders to the extent that they relate to shares issued under a QGC employee incentive scheme (see section 7.6(b)) or have been received from an Excluded Foreign Person (see section 7.6(c));
- invite all shareholders to offer for buy-back any number of their Shares to the Company rather than the Company offering to buy back such Shares; and
- seek approval of the Buy-Back by ordinary resolution of its shareholders (on the same basis as would be required for an equal access buy-back in excess of the 10/12 limit).

Accordingly, the Company is not required to approve the Buy-Back in accordance with section 257D of the Corporations Act which requires approval by a special resolution on which no votes are cast by persons whose shares are proposed to be bought back or their associates.

ASX waiver

ASX has granted QGC a waiver from the requirements of Listing Rule 3.8A. The waiver will mean that QGC does not have to lodge an Appendix 3E with ASX during the tender period. The waiver will also mean that QGC may submit an Appendix 3F in connection with the Buy-Back no later than the second business day following the close of the Buy-Back Period.

7.7 Directors' recommendation

The Directors' unanimously recommend that QGC Shareholders vote in favour of Resolution 7 to be proposed at the Meeting in connection with the Buy-Back for the reasons set out in section 7.3 above. QGC Shareholders should also consider the risks and disadvantages of approving the Buy-Back Resolution set out in section 7.4 before deciding how to vote.

Each of your Directors intends to vote the Shares that he owns and controls in support of Resolution 7 in the absence of a proposal superior to the AGL Transaction.

Resolution 7 is conditional on QGC Shareholders approving the AGL Transaction Resolution (Resolution 2). If the AGL Transaction Resolution is not approved, Resolution 7 will not be put to the Meeting and the Buy-Back will not proceed.



Key terms of the Transaction Documents

8.1 Sentient Share Sale Agreement

The following is a summary of the principal terms of the Sentient Share Sale Agreement.

Sale of shares

Sentient Holdings and Sentient Trust have agreed to sell all of their shares in GRL, SGA and SGAI to QGC. The effective date of the transaction (the transfer of the beneficial interest in the Shares) is 1 December 2006. QGC Shareholder approval is a condition subsequent to the sale.

In consideration for the sale of the shares in GRL, SGA and SGAI, QGC has agreed to issue to Sentient Holdings and Sentient Trust on the completion date 53,429,373 Shares. Completion must take place within five business days after QGC obtains QGC Shareholder approval for the Sentient Transaction. QGC Shareholder approval must be obtained on or before 31 March 2007 or such later date as agreed between the parties. If the condition is not fulfilled then either party may terminate the agreement without penalty.

Assignment of intercompany loans

At completion under the Sentient Share Sale Agreement, Sentient Trust will also assign to QGC the benefit of the following loans:

- (a) a loan from Sentient Trust to SGA in the amount of \$1,118,165.56 (being \$970,474.95 in principal and \$147,690.61 in interest); and
- (b) a loan from Sentient Trust to SGAI in the amount of \$413,135.31 (being \$359,998.72 in principal and \$43,137.59 in interest).

Following completion, there will be no debts owed by GRL, SGA or SGAI to any other member of the Sentient Group.

Termination of existing agreements

On and from completion under the Sentient Share Sale Agreement, the following agreements will be terminated:

- (a) CSA; and
- (b) Unitisation Arrangements,

and the parties will be released and discharged from any and all liability to the other under those agreements on and from 1 December 2006.

Warranties and tax indemnity

Sentient Holdings and Sentient Trust have provided warranties to QGC as to the operations of GRL, SGA and SGAI and their financial, trading and tax positions. Total liability under the warranties is capped at \$5 million. There is no limitation on liability with regard to tax warranties and the Sentient Holdings and Sentient Trust agree to indemnify QGC against any adverse tax consequences that may arise in connection with GRL, SGA and SGAI before 1 December 2006.

8.2 AGL Subscription Agreement

The following is a summary of the principal terms of the AGL Subscription Agreement.

Subscription

AGL has agreed to subscribe for, and QGC has agreed to issue to AGL, such number of Shares equal to 27.5% of the total issued QGC Shares (calculated by including the issue of the Sentient Shares if the Sentient Transaction is approved and the AGL Shares) at a price of \$1.44 per Share.

Conditions to subscription

The obligations of QGC and AGL are conditional upon:

- (a) the Independent Expert concluding in the Independent Expert's Report that the AGL Transaction is fair and reasonable;
- (b) Santos not having acquired a Voting Power in QGC of 50% or more (whether pursuant to the Santos Takeover Offer or otherwise) prior to the end of the Meeting;
- (c) QGC Shareholders passing the AGL Transaction Resolution;
- (d) approval of ASX quotation of the AGL Shares, subject to customary conditions; and
- (e) any other approvals of Governmental Agencies which are necessary or which QGC and AGL agree are desirable to implement the AGL Transaction.

The conditions must be satisfied by 4 March 2007 (or such other date agreed between QGC and AGL) or waived, otherwise either party may terminate the agreement.

Independent Expert's Report and convening of Meeting

Under the AGL Subscription Agreement, QGC must, amongst other things:

- (a) commission the Independent Expert's Report as soon as practicable (and, in any event, within 10 Business Days) after the execution of the AGL Subscription Agreement and keep AGL reasonably informed in relation to progress in the preparation of the Independent Expert's Report;
- (b) as soon as practicable after preparation of an advanced draft of the Explanatory Memorandum and the Independent Expert's Report submit the Explanatory Memorandum (including the Independent Expert's Report) for review by ASX;
- (c) immediately following approval of the Explanatory Memorandum, take all steps necessary to convene and hold the Meeting, including the dispatch of the notice of meeting and Explanatory Memorandum to each QGC Shareholder and to all other persons entitled to receive notice of the Meeting;
- (d) as soon as practicable following the date of issue of the AGL Shares, implement the Buy-Back; and
- (e) do all other things as may be reasonably necessary or expedient on its part to attempt to ensure that each of the resolutions to be considered at the Meeting is passed by the requisite majority.

Covenants

On or before the date on which AGL subscribes for the Shares, QGC will not, and will ensure that each other member of the QGC Group does not, amongst other things:

- (a) issue or grant an option or right to subscribe for any shares or securities convertible into shares or agree to make such an allotment or issue or grant such an option or right, other than the issue of the Sentient Shares;
- (b) make or declare any distribution whether by way of dividend or capital reduction or otherwise and whether in cash or in specie;
- (c) reduce its share capital or enter into or resolve to approve the terms of a buy-back agreement, other than the Buy Back;
- (d) dispose or agree to dispose of the whole or a substantial part of its business or property;
- (e) charge or agree to charge the whole or a substantial part of its business or property; or
- (f) conduct its business otherwise than in the ordinary course without the prior written approval of AGL (and for this purpose any action by any member of the QGC Group (either individually or in aggregate with other members of the QGC Group) of the type described in sub-paragraphs (j) to (vi) of section 11.7.2 of the Bidder's Statement will be deemed to be otherwise than in the ordinary course of business).

Option over Shares

QGC has granted AGL an option to subscribe for a number of Shares in the event that QGC Shareholders do not approve the Sentient Resolution and QGC makes a subsequent allotment of Shares to the Sentient Group within 12 months of the AGL subscription (other than an allotment to the Sentient Group pursuant to a pro rata offer of Shares by QGC or pursuant to an allotment of Shares to both the Sentient Group and AGL at the same time in proportion to their holding of Shares at that time). The number of Shares granted under the option will be such number specified by AGL up to 30% of the number of Shares allotted to the Sentient Group and the exercise price will be equal to the lower of \$1.44 per Share and the volume weighted average price for Shares over the five trading days prior to the date of the allotment to the Sentient Group.

Buy-Back

As soon as practicable following the issue of the Shares to AGL, QGC must implement the off-market tender buy-back of up to 12.5% of the Shares on issue following the issue of the Sentient Shares and the issue of the AGL Shares at a price of \$1.44.

Standstill

During the two year period from the date of issue of the Shares to AGL, AGL must not hold a Voting Power in QGC in excess of 30% of the Shares then on issue, subject to certain exceptions and permitted increases.

The exceptions to the 30% limit are:

- (a) if a takeover bid has been made for all or substantially all of the Shares or a scheme of arrangement is proposed by QGC or some other transaction has been proposed the result of which would be that a person would become the holder of all or substantially all of the Shares; or
- (b) if a majority of the non-AGL directors on the QGC Board determine by resolution that the restriction will not apply.

AGL will be entitled to exceed the 30% limit if at any time during the standstill period, the Restricted Shareholders' Voting Power in Shares increases. For the purposes of calculating the Restricted Shareholders' Voting Power in Shares:

- * no increase is to be taken to have occurred as a result of an increase following the Buy-Back; and
- * any actual Voting Power held by Mr Dale Elphinstone, Elph Pty Ltd, Elphinstone Holdings Pty Ltd or any of their respective Associates which at the time of the calculation is below 15.9%, will be taken to be 15.9% of the then Shares on issue.

If AGL's Voting Power would exceed 30% as a direct result of the Buy-Back, AGL must tender such number of Shares into the Buy-Back as required to ensure that AGL's Voting Power is not more than 30%.

Nomination of appointments to QGC Board

AGL will be entitled to nominate three individuals for appointment to the QGC Board. If QGC Shareholders approve Resolution 3 but do not approve one or more of the Directors appointment Resolutions (Resolutions 4, 5 and 6), then immediately following the issue of the AGL Shares and subject to receipt of executed consents to act from the proposed Director(s) QGC must by resolution of the QGC Board, appoint such number of AGL nominees (being persons other than those previously nominated) to the QGC Board that is required to ensure that AGL has three Directors nominated to the QGC Board (including any Directors appointed following approval of any of Resolutions 4, 5 or 6 at the Meeting). At the next scheduled meeting of QGC Shareholders, QGC must propose one or more further resolutions putting forward those Directors appointed by Resolution of the QGC Board for re-election. If QGC Shareholders do not approve Resolution 3 and one or more of the Directors appointment resolutions (Resolutions 4, 5 and 6) are also not approved, then immediately following the issue of the AGL Shares and subject to receipt of executed consents to act from the proposed Director(s) QGC must by resolution of the QGC Board, appoint such number of AGL nominees (being persons other than those previously nominated by AGL) to the QGC Board that is required to ensure that AGL has three Directors nominated to the QGC Board (including any Directors appointed following approval of any of Resolutions 4, 5 or 6 at the Meeting), provided that QGC will not be required to appoint any nominee where to do so would breach the maximum number of Directors. At the next scheduled meeting of QGC Shareholders, QGC must propose a further resolution to increase the maximum number of appointments to the QGC Board to nine and propose one or more resolutions for the re-election of the Directors nominated by AGL, together with any other Director(s) nominated by AGL (being persons other than those previously nominated by AGL) so that AGL has three Directors nominated to the QGC Board.

Termination

AGL may terminate the AGL Subscription Agreement by notice in writing to QGC if:

- (a) there is a material breach or non-fulfilment of QGC's covenants before completion of the subscription or any of the warranties provided by QGC;
- (b) at any time the AGL Transaction ceases to be recommended by a majority of the directors of the QGC Board;
- (c) there is a material breach by QGC of any of its obligations under the AGL Subscription Agreement that QGC fails to remedy within five days of being notified; or
- (d) any member of the QGC Group suffers an insolvency event.

QGC may terminate the AGL Subscription Agreement by notice in writing to AGL if there is a material breach or non-fulfilment of any of the warranties provided by AGL, there is a material breach by AGL of any of its obligations under the AGL Subscription Agreement that AGL fails to remedy within five days of being notified, or AGL suffers an insolvency event.

8.3 Gas Sale Agreement

The parties have agreed a binding terms sheet dated 4 December 2006 with regard to the long term supply of gas to AGL commencing from 1 January 2008 (or such other date agreed between the parties). The terms are binding on the parties upon the AGL Transaction Resolution being passed. It is the parties' intention to enter into a formal Gas Sale Agreement following QGC Shareholder approval but, if for whatever reason, such an agreement is not forthcoming, the terms agreed between the parties will bind the parties.

The following is a summary of the principal terms of the Gas Sale Agreement.

Term and total supply volume

The term is for 20 years for a volume of gas of 540 PJ with supply to AGL to commence on and from 1 January 2008 (or such other date agreed between the parties).

Source of gas

The gas is to be sourced from the following areas in which QGC has interests and which are referred as to the Project Area:

- * blocks 2380 and 2452 of ATP 632P including the area of Petroleum Lease 201;
- * ATP 610P;
- * ATP 620P and all petroleum leases granted out of that area including 179, 228, 229; and
- * blocks 2599, 2600 and 2672 of ATP 648P.

QGC does have the right to supply gas from other areas in which it may have interests to meet the requirements of AGL but QGC is not obliged to do so.

Following QGC Shareholder approval, QGC will be restricted in making further sales of gas from the Project Area if any sale would result in insufficient 2P Reserves within the area to meet the supply obligations to AGL.

QGC will still be entitled to enter into contracts with third parties for the supply of gas out of the Project Area where those contracts are conditional upon QGC obtaining certification of adequate 2P Reserves to meet both AGL's obligations and the commitments to the further buyer.

Existing priority supply and reserves commitments to each of CS Energy Limited (**CSE**), Condamine Power Station (**CPS**) and Incitec Pivot Limited (**IPL**) from parts of the Project Area to which their contracts relate have been preserved.

Reserves

Commencing from 31 August 2007 and at least once in every year after 1 January 2008 QGC must provide a reserves certificate in connection with 2P Reserves to AGL which indicates that there are sufficient 2P Reserves in the Project Area to meet all of QGC's then existing gas supply commitments including those to AGL relating to the Project Area.

If at any time there are insufficient 2P Reserves, and provided QGC has acted as a reasonable and prudent operator, QGC will not be liable to AGL for a supply shortfall to the extent that any reduction or curtailment in supply to AGL occurs because of the 2P Reserves shortfall. In such a case all buyers of gas from the Project Area must be reduced equally with AGL, other than the priority customers of CSE, CPS and IPL.

If QGC is forced to reduce or curtail quantities of gas over a 12 consecutive month period by more than 15% of the maximum daily quantity otherwise deliverable to AGL under the contract then AGL may at its discretion give notice to QGC to reduce the relevant supply volumes on both an annual and daily basis to be taken by AGL under the contract. However, if this is done and subsequently further 2P Reserves are identified within the Project Area then QGC must offer to restore full supply to AGL.

Supply volumes

The annual quantities to be supplied to AGL commence at lower rates which will increase steadily over the first nine years of the contract until they reach a level which is to be maintained on and from the tenth contract year until the end of the twenty year term.

AGL has the right to increase the annual and total quantity of gas to be supplied under the agreement by exercising two options.

The first option may be exercised by no later than 31 December 2009 and the second option may be exercised on or before 31 December 2011.

Each option (if exercised) will entitle AGL to require an additional 5 PJ of gas per annum to be delivered over the balance of the term of the contract but with QGC being able to commence delivery of the increased volumes no earlier than 12 months and no later than 36 months after the option is exercised.

If any of the options are exercised then QGC must within 30 days after the exercise indicate to AGL whether it has sufficient 2P Reserves in the Project Area to meet the increased volume.

If there are insufficient 2P Reserves in the Project Area then AGL may elect to accept a partial increase in volume to the extent that there are 2P Reserves available but if it does so it is entitled to extend the date for exercise of the option in respect of the balance quantity of gas under that option for a further 12 months on the basis that if sufficient 2P Reserves are located in the Project Area within that time, then AGL may exercise the option for the balance quantity.

While AGL has not exercised these options, QGC cannot enter into any gas supply agreement or commitment with a third party from the Project Area if to do so would reduce the uncommitted 2P Reserves available to less than the quantities able to be taken by AGL if it exercised the options.

Minimum quantities

AGL is obliged to take or pay for a minimum quantity of gas each year. This means that irrespective of the amount of the gas it actually orders it will be required to make payment for a minimum annual quantity.

Delivery of gas

The delivery point for the gas will be at any point or points along the Roma-Brisbane Pipeline between Wallumbilla and Oakey agreed from time to time between QGC and AGL acting reasonably but if they cannot agree then the delivery point will be the point or points selected by QGC where it has at any time a lateral pipeline which it owns, operates or uses which connects to the Roma to Brisbane Pipeline system.

Gas which AGL has paid for but not taken, may be taken by it within 3 years of payment at no additional cost and in the case of the last three contract years it may recover any gas paid for but not taken over that period, within six months after the end of the supply term.

Price

The price for the gas will be escalated in accordance with a prescribed percentage of the annual movements in the consumer price index average for eight capital cities over the term.

Any taxes, duties or charges introduced subsequent to QGC Shareholder approval of the AGL Transaction Resolution which have the effect of increasing QGC's costs in producing, processing, transporting or selling the gas to AGL can be passed on to AGL as an increase in the contract price.

Force majeure and other relief

Both QGC and AGL will be excused from obligations to supply and take gas to the extent that events beyond their reasonable control prevent this.

Also for specified periods during a contract year both parties may be relieved of their obligations to respectively supply and take gas to the extent that planned maintenance of their plant and equipment requires this up to a specified minimum quantity.

Failure to supply

If QGC fails without excuse to deliver gas on any day its liability will be the lesser of the difference between the reasonable costs incurred by AGL in obtaining an alternative supply of gas compared to what it would have paid for the gas if QGC had supplied it and an amount equal to 50% of the contract price multiplied by the quantity of gas not delivered.

There is a maximum cap on liability for failure to supply over a contract year of \$17.5 million and an aggregate liability over the entire supply period for all failures to supply being three times the annual cap. The annual cap is adjusted over the term of the contract in accordance with the increases in the contract price.

8.4 Gas Market Development Services Agreement

The parties have agreed on binding terms for the provision of market development services connected with the long term supply of gas to AGL commencing from 1 January 2008. The terms are binding on the parties upon the AGL Transaction Resolution being passed. It is the parties' intention to enter into a more detailed Gas Market Development Services Agreement following QGC Shareholder approval but, if for any reason, such an agreement is not forthcoming, the terms agreed between the parties will bind the parties.

The following is a summary of the principal terms of the Gas Market Development Services Agreement.

Obligations of AGL

For the period from 1 January 2008 to 31 December 2010 AGL agrees to use its best endeavours to make available to QGC any unutilised gas transportation capacity which AGL may have available to it in any of the following pipelines:

- * Roma-Brisbane Pipeline;
- * Queensland Gas Pipeline (from Wallumbilla, near Roma to Gladstone, via Rockhampton);
- * South West Queensland Gas Pipeline (from Badjala to Wallumbilla, near Roma);
- * Moomba-Adelaide Pipeline; and
- * Moomba-Sydney Pipeline.

Any such unutilised capacity is to be made available to the extent that QGC has offered to AGL, and AGL has not agreed to purchase, quantities of gas of up to 29 PJ over this period.

For this purpose, QGC covenants that it cannot make such gas available to third parties on any better terms than those that are offered to AGL.

If AGL does have the unutilised capacity in the pipelines required by QGC then in order for QGC to deliver to another customer the gas up to the quantities outlined above not taken by AGL, that capacity will be made available to QGC at the following costs:

- (a) if the service is a firm service which has already been paid for by AGL then QGC will only have to pay the service cost that may be payable by AGL to the pipeline owner for assignment of that capacity to QGC plus any commodity charges that may be payable in connection with the use of that service plus any overrun charges as applicable; and
- (b) where the service is an interruptible service then QGC will pay to AGL the actual cost which AGL is to pay to the pipeline owner for that interruptible service.

Provision of gas supply contracts

Over the term of the Agreement AGL also agrees to make available to QGC at QGC's request any gas supply contracts or commitments which are in excess of AGL's requirements thus enabling QGC to purchase gas which is in excess of AGL's requirements under contracts which AGL has with third parties. That gas may be bought by QGC at the same price that AGL buys that gas together with any gas transportation tariffs that may be payable by AGL plus an additional amount to reflect AGL's margin which is not to exceed 5%.

Service fee

In exchange for AGL's provision of these services over the three year period from 1 January 2008, QGC is to pay to AGL a total amount of \$22.5 million (exclusive of GST) over 12 calendar quarters commencing on and from 1 July 2007 at the rate of \$1.875 million per calendar quarter.



Glossary of Terms

9.1

Definitions

1P Reserves means all Reserves certified to be "proved" in accordance with the SPE/WPC Definitions.

2P Reserves means all Reserves certified to be "proved" plus "probable" in accordance with the SPE/WPC Definitions.

3P Reserves means all Reserves certified to be "proved" plus "probable" plus "possible" in accordance with the SPE/WPC Definitions.

AGL means AGL Energy Limited, ACN 115 061 375.

AGL Shares means the Shares to be issued to AGL in accordance with the AGL Transaction Resolution.

AGL Subscription Agreement means the Subscription Agreement dated 4 December 2006 between AGL and QGC, as amended.

AGL Transaction means:

- (a) QGC's entry into the Gas Sale Agreement;
- (b) QGC's entry into the Gas Market Development Services Agreement;
- (c) QGC's entry into the Subscription Agreement;
- (d) the subscription for, and issue of, Shares to AGL, for a price of \$1.44 per Share as more fully disclosed in section 5.4; and
- (e) the grant of, and the issue of Shares upon the exercise of, the option to AGL, as more fully disclosed in section 5.4.

AGL Transaction Resolution means Resolution 2 in the Notice of Meeting.

ASIC means the Australian Securities and Investments Commission.

Associates has the meaning given to that term in section 12 of the Corporations Act.

ASX means ASX Limited ACN 008 624 691.

ATP means an authority to prospect under the Petroleum and Gas (Production and Safety) Act 2004 (Queensland) and includes all petroleum leases issued or granted out of the authority and all extensions, renewals, conversions, substitutions, modifications or variations of any authority.

Bidder's Statement means the bidder's statement issued by Santos dated 10 October 2006 that was given to QGC on 24 October 2006 in relation to the Santos Takeover Offer.

Business Day means a day which is not a Saturday, Sunday or bank or public holiday in Brisbane or Sydney, Australia.

Buy Back means the buy-back pursuant to the off-market buy-back tender of up to 12.5% of the Shares on issue (calculated by including the issue of the Sentient Shares if the Sentient Transaction is approved and the AGL Shares, if the AGL Transaction is approved) at a price of \$1.44 per Share.

Buy-Back Period has the meaning given to that term in section 7.2(a).

Buy-Back Resolution means Resolution 7 in the Notice of Meeting.

Change of Control means either of the following which occurs to QGC on or before 31 December 2009:

- (a) a change in the managing director of QGC and the composition of the QGC Board where those changes are initiated as a result of a change in ownership of Shares and the purchaser of the Shares requires (or agrees with other QGC Shareholders to require) that change; or
- (b) a Takeover Event.

Corporations Act means the Corporations Act 2001 (Cth).

CSA means the Co-operation and Securitisation Agreement dated 19 July 2005 between SGA, QGC, GRL, Sentient Trust, Sentient Holdings, QGCi, QGC (Berwyndale South) Pty Limited and SGAI as amended by deeds dated 15 June 2006 and 25 July 2006.

CTI Plant means the gas compression and dehydration facility built and operated for and on behalf of QGCi and SGAI on the CTI Plant Land.

CTI Plant Land means lot 2 on SP 187939, being land located at Windibri, Queensland.

Deep means the stratigraphic divisions under a petroleum tenure which commence from the base of the Shallows and continue to the centre of the earth.

Deloitte Corporate Finance means Deloitte Corporate Finance Pty Limited, ACN 003 833 127.

Director means a director of QGC.

Excluded Foreign Person is a person:

- (a) to whom QGC would be prohibited from paying money pursuant to:
 - (i) the Banking (Foreign Exchange) Regulations 1959 (Cth);
 - (ii) Part 4 of the Charter of the United Nations Act 1945 (Cth);
 - (iii) the Charter of the United Nations (Terrorism and Dealings with Assets) Regulations 2002 (Cth);
 - (iv) the Charter of the United Nations (Sanctions – Afghanistan) Regulations 2001 (Cth);
 - (v) the Iraq (Reconstruction and Repeal of Sanctions) Regulations 2003 (Cth);
 - (vi) any other act, rule or regulation prohibiting QGC from making payments to foreign persons;

(b) to whom the Buy-Back invitation may not be lawfully made under the laws of the jurisdiction in which they are resident; or

(c) whose participation in the Buy-Back is not permitted under the laws of the jurisdiction in which they are resident.

Explanatory Memorandum means this document accompanying the notice of general meeting of QGC Shareholders.

Export Pipeline means the gas pipeline built under the authority of PPL 91 held by QGC and SGA in the proportions of 90% and 10% respectively and connecting the CTI Plant to the Roma-Brisbane Pipeline.

Gas Market Development Services Agreement means the term sheet dated 4 December 2006 between AGL and QGC pursuant to which AGL will provide certain services to QGC during the period of three years commencing on 1 January 2008.

Gas Sale Agreement means the long term gas supply contract between QGC and AGL dated 4 December 2006.

Governmental Agencies means any government or any governmental, semi-governmental, administrative, statutory or judicial entity, authority or agency, including the ACCC and any self-regulatory organisation established under statute or any stock exchange.

GRL means Gas Resources Limited, a company incorporated under the laws of the Cayman Islands.

Independent Expert means Deloitte Corporate Finance.

Independent Expert's Report means the independent expert's report in relation to the AGL Transaction prepared by the Independent Expert.

Listing Rules means the Listing Rules of ASX as amended or varied from time to time.

Meeting means the general meeting of QGC Shareholders convened by the notice of meeting forming part of this Explanatory Memorandum, and includes any postponement or adjournment of such meeting.

Origin Energy means Origin Energy CSG Limited, ACN 001 646 331.

PJ means petajoule.

PL means a petroleum lease under Petroleum and Gas (Production and Safety) Act 2004 (Queensland).

PPL means a petroleum pipeline licence under the Petroleum and Gas (Production and Safety) Act 2004 (Queensland).

Put Option means the option given to the Sentient Group to require QGC to purchase the Sentient Joint Venture Interests or the shares in SGA and SGA in accordance with the terms of the CSA.

QGC means Queensland Gas Company Limited, ACN 089 642 553.

QGC Board means the board of directors of QGC.

QGC Group means QGC and its subsidiaries (as defined in the Corporations Act).

QGCi means QGC (Infrastructure) Pty Ltd ACN 116 145 174.

QGC Share Registry means Link Market Services Limited ACN 083 214 537.

QGC Shareholders means the holders of Shares or any of them as the case requires.

Related Body Corporate has the same meaning given to that term in the Corporations Act.

Reserve means a "reserve" as defined in the SPE/WPC Definitions.

Restricted Shareholder means any of the following:

- (a) Sentient Holdings and Sentient Trust and any of their respective Associates;
- (b) Dale Elphinstone, Elph Pty Ltd, Elphinstone Holdings Pty Ltd or any of their respective Associates; and
- (c) Robert Bryan, Leyshon Equities Pty Ltd or any of their respective Associates.

Santos means Santos CSG Pty Ltd ACN 121 188 654.

Santos Takeover Offer means the off-market takeover bid made by Santos for QGC.

Sentient Group means Sentient Holdings and each of its Related Bodies Corporate, including without limitation, GRL, Sentient Trust, SGA and SGAI.

Sentient Holdings means Sentient Executive GP I, Limited, in its capacity as general partner of Sentient GP I, L.P. acting in its capacity as general partner of Sentient Global Resources Fund I, L.P.

Sentient Income Right means the right of the Sentient Parents under the Unitisation Arrangements to receive 10% of the income derived from the conduct of Unitised Projects except income derived by disposing of interests between QGC and the Sentient Group and except for amounts received on account of project costs or expenses or government charges.

Sentient Joint Venture Interests means each of the following:

- (a) the 10% interest of SGA in blocks 2380 and 2452 of ATP 632P and in PL 201;
- (b) the 10% interest of SGA in ATP 610P to the extent of the Shallows;
- (c) the 10% interest of SGA in ATP 648P to the extent of the Shallows; and
- (d) the 10% interest of SGAI in the CTI Plant, Export Pipeline and PPLs 91 and 108.

Sentient Parents means collectively Sentient Trust and Sentient Holdings.

Sentient Resolution means Resolution 1 in the Notice of Meeting.

Sentient Sale Assets has the meaning given to that term in section 4.1(d).

Sentient Shares means the 43,894,750 Shares to be issued to Sentient Holdings and the 9,544,623 Shares to be issued to Sentient Trust as part of the Sentient Transaction.

Sentient Share Sale Agreement means the Share Sale Agreement between Sentient Holdings, Sentient Trust and QGC dated 4 December 2008, as amended.

Sentient Subsidiaries means SGA and SGAI.

Sentient Transaction means the sale to QGC of all of the issued shares in GRL, SGA and SGAI by Sentient Holdings and Sentient Trust in consideration for the issue to Sentient Holdings and Sentient Trust of the Sentient Shares.

Sentient Trust means Sentient (Aust) Pty Limited as trustee of the Sentient Global Resources Trust No. 1.

SGA means Sentient Gas Australia Pty Ltd ACN 114 116 068.

SGAI means Sentient Gas Australia (Infrastructure) Pty Limited ACN 116 132 873.

Shallows means the stratigraphic divisions underlying a petroleum tenure from the surface down to a depth of 100 feet below the base of the Walloon Coal Measures.

Shares means fully paid ordinary shares in the capital of QGC.

SPE/WPC Definitions means the current Petroleum Reserves definitions of the Society of Petroleum Engineers and the World Petroleum Congress and the current Guidelines for Evaluation of Petroleum Reserves and Resources of those bodies, together with the American Association of Petroleum Geologists (see www.spe.org to obtain these documents).

Takeover Event means either:

- (a) a takeover bid (as defined in the Corporations Act) is made to acquire all or some of the Shares and the offer is or becomes unconditional and the bidder has a relevant interest in more than 50% of the Shares on issue; or
- (b) QGC lodges with the ASIC a draft explanatory statement for a scheme of arrangement that QGC proposes to enter into under Part 5.1 of the Corporations Act which, if approved and implemented, will result in a person having a relevant interest in more than 50% of the Shares that will be on issue after the scheme is implemented and the scheme is approved by the court.

Target's Statement means the Target's Statement issued by QGC in response to the Santos Takeover Offer.

Tenements means ATP 648P, ATP 610P, ATP 632P, PL 201, PPL 91 and PPL 108 and includes all petroleum leases issued or granted out of any of the authorities to prospect and all extensions, renewals, conversions, substitutions, modifications or variations to any of them.

Unitised Areas means each of the following:

- (a) blocks 2380 and 2452 of ATP 632P including PL 201;
- (b) blocks 2599, 2600 and 2672 of the Shallows of ATP 648P;
- (c) all blocks and sub-blocks within ATP 620P to the extent of the Shallows; and
- (d) all blocks and sub-blocks within ATP 610P to the extent of the Shallows.

Unitisation Arrangements means the document so entitled dated 25 July 2006 between QGC, Sentient Holdings and Sentient Trust.

Unitised Percentages has the meaning given to that term in section 4.1(c).

Unitised Project means any operation or activity which is based on or relates to any part of the Unitised Area and in which either or both QGC and a Sentient Group member are participating.

Voting Power has the meaning given to that term in the Corporations Act.

VWAP the arithmetic average of the volume weighted average sale price of shares in QGC sold on the Australian Stock Exchange calculated in the manner prescribed in **Appendix B** including those transactions which have codes marked as "Included" but excluding transactions which have codes marked as "Excluded" during the period of 20 trading days ending the trading day prior to the date the Sentient Group gives notice of exercise of the Put Option.

9.2 Interpretation

In this Explanatory Memorandum and the accompanying Notice of Meeting, unless the context otherwise requires:

- (a) the headings are for convenience only and do not affect the interpretation;
- (b) words or phrases defined in the Corporations Act have the same meaning when used in this document;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a section is a reference to a section in this document;
- (e) where a term is defined, its other grammatical forms have a corresponding meaning;
- (f) a reference to a person includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated association and a government or statutory body or authority;
- (g) a reference to a statute, ordinance, code or other law includes regulations and other statutory instruments under it and consolidations, amendments, re-enactments or replacements of any of them; and
- (h) "\$" or "dollars" is a reference to the lawful currency of Australia.

Appendix A

Independent Expert's Report



Queensland Gas Company Limited

Independent expert's report

25 January 2007

Financial services guide

25 January 2007

What is a Financial Services Guide?

This Financial Services Guide (FSG) is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided by Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127). The use of "we", "us" or "our" is a reference to Deloitte Corporate Finance Pty Limited as the holder of Australian Financial Services Licence (AFSL) No. 241457. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

We have been engaged by Queensland Gas Company (QGC or the Client) to give general financial product advice in the form of a report to be provided to you in connection with a financial product to be issued to another party. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us using the details located above.

Deloitte Corporate Finance Pty Limited is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

The Australian partnership of Deloitte Touche Tohmatsu is a member firm of the Deloitte Touche Tohmatsu Verein. As the Deloitte Touche Tohmatsu Verein is a Swiss Verein (association), neither it nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names.

The financial product advice in our report is provided by Deloitte Corporate Finance Pty Limited and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide financial product advice in respect of securities, debentures, stocks or bonds issued or proposed to be issued by the government and interests in managed investment schemes including investor directed portfolio schemes
- to deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of securities and debentures, stocks or bonds issued or proposed to be issued by the government.

Information about the general financial product advice we provide

The financial product advice provided in our report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant Product Disclosure Statement (PDS) or offer document provided by the issuer of the financial product. The purpose of the PDS is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS will include details such as the risks, benefits and costs of acquiring the particular financial product.

How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Deloitte Corporate Finance Pty Limited nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee is \$375,000, excluding GST and will also be disclosed in the relevant PDS or offer document prepared by the issuer of the financial product.

All of our employees receive a salary. Our employees are eligible for annual salary increases and bonuses based on overall performance but do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits in connection with our advice.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Complaints Officer
Practice Protection Group
PO Box N250
Grosvenor Place
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service (FICS). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FICS at:

Financial Industry Complaints Service
PO Box 579
Collins Street West
Melbourne VIC 8007
Telephone: 1300 780 808
Fax: +61 3 9621 2291
Internet: <http://www.fics.asn.au>

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia (ICAA). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

The Institute of Chartered Accountants
GPO Box 3921
Sydney NSW 2001
Telephone: +61 2 9290 1344
Fax: +61 2 9262 1512

Specific contact details for lodging a complaint with the ICAA can be obtained from their website at <http://www.icaa.org.au/about/index.cfm>.

The Australian Securities and Investments Commission (ASIC) regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630
Email: infoline@asic.gov.au
Internet: <http://www.asic.gov.au/asic/asic.nsf>

The Directors
Queensland Gas Company Limited
Level 11, 307 Queen Street
Brisbane QLD 4000

25 January 2007

Dear Directors

Independent expert's report

Introduction

On 5 December 2006, Queensland Gas Company Limited (QGC or the Company) announced that it had reached an agreement with AGL Energy Limited (AGL) to form a strategic relationship (the Proposal).

The Proposal between QGC and AGL involves:

- AGL paying approximately \$292 million for a 27.5% stake in QGC through a share placement at \$1.44 per share
- QGC undertaking an off-market buyback of up to 12.5% of its expanded capital at a price of \$1.44 per share
- a Gas Sale Agreement under which AGL will purchase from QGC 540 petajoules (PJ) of gas over 20 years (Gas Sale Agreement), plus an option to purchase an additional 200 PJ over this period
- a Gas Market Development Services Agreement whereby AGL will provide market development services consisting of rights to utilise some of AGL's excess pipeline capacity for a term of three years (the Gas Market Development Services Agreement)
- AGL being entitled to nominate three individuals for appointment to the QGC board.

The full details of the Proposal are set out elsewhere in the accompanying Explanatory Memorandum. An overview of the Proposal is provided in Section 1 of this report.

The Proposal requires QGC shareholder (Shareholders) approval, which will be sought at an Extraordinary General Meeting of QGC expected to be held in early March 2007.

Under a separate agreement, it is proposed that Sentient will convert its legal and beneficial permit interests into an equivalent 10% QGC shareholding (calculated on a Proved and Probable (2P) basis) (the Sentient Transaction).

Purpose of the report

The directors of QGC (the Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) provide an independent expert's report advising whether, in our opinion, the Proposal is fair and reasonable.

As set out in Australian Securities and Investments Commission (ASIC) Policy Statement 74, the directors must provide Shareholders with an evaluation of the Proposal by either commissioning an independent expert's report or undertaking their own detailed evaluation.

Pursuant to Section 611 of the Corporations Act 2001 (Section 611) (item 7), an acquisition may be exempt from the prohibition against acquiring more than a 20% interest in a public company if it is approved by a resolution passed at a general meeting of the Company. As AGL will acquire up to a 30% interest in QGC pursuant to the Proposal, the approval of Shareholders is required under Section 611 and this independent expert's report has been prepared to assist Shareholders in their decision whether or not to approve the Proposal.

This report is to accompany a Notice of Meeting and Explanatory Memorandum to be sent to Shareholders and has been prepared exclusively for the purpose of assisting Shareholders in their consideration of the Proposal. The report should not be used for any other purpose.

Basis of evaluation

In our consideration as to whether the Proposal is fair and reasonable, we have had regard to common market practice and to ASIC Policy Statement 74 and Practice Note 43 in relation to acquisitions agreed to by shareholders and independent expert's reports.

As the Proposal consists of a number of interrelated transactions and agreements, in considering whether the Proposal is fair and reasonable, we have considered all aspects of the Proposal and the expected outcome together and have not necessarily concluded on each individual component.

In forming an opinion on whether or not the Proposal is fair and reasonable to Shareholders we have:

- estimated the fair market value of a QGC ordinary share
- compared the fair market value of a QGC ordinary share with the proposed share issue and buyback price
- assessed the other elements of the Proposal, including:
 - the Gas Sale Agreement
 - the Gas Market Development Services Agreement
- considered other advantages and disadvantages of the Proposal to Shareholders
- considered any other significant shareholdings in QGC
- considered the likely price and market liquidity of QGC shares in the absence of the Proposal
- considered the likelihood of an alternative takeover offer
- considered other implications for Shareholders of not accepting the Proposal.

Summary and conclusion

In our opinion the Proposal is fair and reasonable.

We have based this opinion on the analysis and considerations contained in our report which are summarised below.

Advantages of the Proposal:

The likely advantages to QGC Shareholders if the Proposal is approved include:

Fairness of the share placement to AGL

Pursuant to the Proposal, AGL will pay approximately \$292 million for a 27.5% stake in QGC, through a share placement at \$1.44 per share.

We have estimated the fair market value of a QGC share, on a significant interest basis to be in the range of \$1.35 to \$1.80. This represents a value range of \$1.49 to \$2.00 for a QGC share on a majority basis.

We have also considered recent share market trading activity, to provide additional evidence of the fair market value of a share in QGC.

Our discounted cash flow valuation of QGC assumes that the Proposal with AGL proceeds and that QGC derives the benefit of the Gas Sale Agreement with AGL, totalling 740 PJ (including options). We consider that the value of QGC in the absence of the Proposal (stand alone value of QGC) is within the same range, as it is likely that QGC would be able to obtain additional contracts with other customers (or AGL) to replace the Gas Sales Agreement with AGL.

A comparison of the share placement price of \$1.44 with the value of \$1.35 to \$1.80 (on a significant interest basis) indicates that the share placement to AGL is fair.

Long term contract with AGL

Pursuant to the Proposal, AGL will enter into a Gas Sale Agreement whereby AGL will purchase from QGC a total contracted volume of 540 PJ over 20 years. In addition AGL will have the option to purchase an additional 200 PJ over 20 years.

Prices and other terms of gas sales contracts are rarely publicly disclosed and normally subject to confidentiality agreements. In addition, prices can vary depending on the flexibility factors for daily and annual swing volumes. In general, the more flexibility the customer seeks, the higher the price, while the larger the volume, the lower the price.

Based on our understanding of typical gas contract pricing, the price to be paid by AGL is within the range of reasonable prices.

Access to AGL's excess pipeline capacity

Pursuant to the Proposal, AGL and QGC will enter into a Gas Market Development Services Agreement whereby QGC will have the right to utilise some of AGL's excess pipeline capacity up to a total maximum cap of 29 PJ of gas over three years.

Under the agreement, QGC may offer gas to AGL on an annual basis (up to the volume limits specified in the agreement) for three years. AGL has first right of refusal to buy that volume at the offered contract price. If AGL does not accept the offer, QGC may attempt to locate a customer and AGL will transport the gas at its incremental cost. The incremental cost is estimated at not more than a marginal tariff cost, which may be significantly less than normal pipeline charges.

At the conclusion of the three year period it is likely that additional infrastructure will be in place to enable QGC to access new markets, such as through the proposed Moomba to Ballera interconnect and the possible backhaul pipeline to Wallumbilla.

Pursuant to the Gas Market Development Services Agreement, QGC is required to pay to AGL a gas development service fee, equal to an amount of \$1.875 million per quarter for 12 quarters (for a total amount of \$22.5 million over three years). The impact of the Gas Market Development Services Agreement has been incorporated in our valuation of QGC.

Relationship with AGL

AGL is Australia's leading integrated energy company. AGL's retail division is Australia's largest retailer of gas, electricity and related services, supplying a customer base of more than three million customers. AGL's wholesale electricity and gas division purchases and generates the electricity and related products sold by AGL's retail division and contracts with external parties, mainly generators, with a view to reduce the price risk associated with retailing electricity to customers.

Management expect that the Proposal will underpin a significant relationship with AGL. Key elements of the relationship are:

- AGL will become a major shareholder, holding up to 30% of the issued share capital in QGC
- AGL will be entitled to nominate three directors on an expanded QGC Board of nine
- AGL will be a major customer, effectively underpinning a proportion of QGC's earnings
- QGC will have access to AGL's excess pipeline capacity for three years, providing QGC with an opportunity to sell gas into additional markets.

It is possible that the relationship with AGL will provide QGC with additional opportunities to sell gas to AGL and to leverage AGL's access to infrastructure on favourable terms.

Our discounted cash flow valuation of QGC assumes that the Proposal with AGL proceeds and that QGC derives the benefit of the Gas Sale Agreement, totalling 740 PJ (including options).

QGC will have an increased size

QGC's market capitalisation is likely to increase significantly as a result of the Proposal proceeding.

The increased market capitalisation of QGC may attract greater analyst coverage and could result in QGC being included in various Australian Stock Exchange (ASX) indices, which may enhance the profile of the Company, particularly with institutional investors.

As a result of the increased market capitalisation, QGC may have improved access to both debt and equity funds compared with those currently available, on possibly more attractive terms.

Buyback

As part of the Proposal, QGC will undertake an off-market buyback of up to 12.5% of its expanded capital at a price of \$1.44 per share (at an approximate maximum cost to QGC of \$133 million¹).

The buyback provides Shareholders with a mechanism to sell part of their shareholding at a price of \$1.44, which is in excess of the current market trading price of QGC shares.

As Elph Pty Limited and associates, Sentient Executive GP1 Limited, and its related entities (Sentient), ANZ Infrastructure Services (ANZIS) and Leyshon and Mr Robert Bryan (QGC Chairman) have confirmed that they do not intend to participate in the buyback and AGL has indicated it will only participate to the extent to which it needs to keep its shareholding at a maximum of 30%, a total of approximately 50% of shareholders will not participate in the buyback. Accordingly shareholders who participate in the buyback will be able to sell a significant part (potentially all) of their shareholding, depending on the level of interest in the buyback from other shareholders.

Shareholders who participate in the buyback may be required to pay capital gains or income tax on disposal of the QGC shares. Shareholders should consult their tax advisor in relation to their personal circumstances.

Directors intend to vote in favour of the Proposal, subject to the receipt of a superior offer

QGC's directors hold or control a relevant interest, in aggregate, of approximately 22% of QGC's current issued ordinary shares. The Directors have indicated their intention to vote in favour of the Proposal, subject to the receipt of a superior offer.

Disadvantages of the Proposal:

The likely disadvantages to QGC Shareholders if the Proposal is approved include:

No sale mechanism for Shareholders

Whilst the buyback provides Shareholders with a mechanism to sell part of their shareholding at a price of \$1.44, which is in excess of the current QGC share price, it is limited to 12.5% of the enlarged capital of QGC. Some shareholders may prefer an opportunity to sell their entire shareholding pursuant to a takeover.

The Proposal is likely to limit future offers for QGC

Following the acceptance of the Proposal, while AGL holds a significant stake in QGC, any prospective purchaser of QGC would need to come to an agreement with AGL. In addition, AGL will be party to a number of key agreements with QGC.

It should be recognised, however, that as a result of the directors' collective current relevant interest of 22% in QGC, it is already difficult for another party to acquire a controlling interest in QGC without the agreement of the collective director group.

Other matters:

Santos Takeover Offer

On 5 October 2006, Santos announced a takeover bid for all the ordinary shares in QGC, for consideration of \$1.26 per share. The consideration offered by Santos is below the

¹ Based on the buyback price of \$1.44 and the number of shares, assuming that the Sentient Transaction proceeds

range of our estimate of the fair market value of a QGC share on a control basis of \$1.49 to \$2.00.

Value of a QGC share in the absence of the Proposal

We note the following in relation to the value of a QGC share in the absence of the Proposal or if the Proposal is not approved:

- the bid by Santos CSG Pty Limited (Santos) is still current, subject to Australian Competition and Consumer Commission (ACCC) approval, and may be improved
- it is possible that QGC could seek to negotiate an alternative proposal with another diversified energy company, however, such an alternate proposal may not be achieved
- in the event that the Santos offer lapses, it is likely that the trading value of a QGC share would reduce.

Premium for control

AGL will acquire up to a 30% interest in QGC pursuant to the Proposal, which reflects a strategic stake in QGC. As a significant shareholder, AGL is likely to be able to exert some level of influence over QGC, however, as AGL is not gaining full control, AGL is unlikely to be paying a control premium.

Opinion

In our opinion, the Proposal is fair and reasonable to Shareholders. An individual Shareholder's decision in relation to the Proposal may be influenced by their particular circumstances. If in doubt the Shareholder should consult an independent adviser.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



Robin Polson

Director



Stephen Reid

Director

Note: All amounts stated in this report are Australian dollars unless otherwise stated.

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1 Terms of the Proposal

1.1 Summary

On 5 December 2006, QGC announced that it had reached an agreement with AGL to form a strategic relationship. The terms of the Proposal are described in the accompanying Explanatory Memorandum and are detailed in various agreements entered into by QGC and AGL.

The Proposal between QGC and AGL involves:

- AGL paying approximately \$292 million² for a 27.5% stake in QGC through a share placement at \$1.44 per share
- QGC undertaking an off-market buyback of up to 12.5% of its expanded capital at a price of \$1.44 per share
- a Gas Sale Agreement under which AGL will purchase from QGC 540 PJ of gas over 20 years, plus an option to purchase an additional 200 PJ over this period
- a Gas Market Development Services Agreement whereby AGL will provide market development services consisting of rights to utilise some of AGL's excess pipeline capacity for a term of three years
- AGL being entitled to nominate three individuals for appointment to the QGC board.

The Proposal requires Shareholder approval, which will be sought at an Extraordinary General Meeting of QGC expected to be held in early March 2007.

AGL investment in QGC

Pursuant to the proposed Subscription Agreement, AGL has agreed to limit its voting power in QGC to no more than 30% for two years from the date of the subscription, subject to some limited exceptions (e.g. if QGC receives a takeover offer from a third party).

Buyback

The buyback will take the form of an off-market tender of up to 12.5% of QGC's shares at \$1.44 each. Shareholders will be invited to tender some or all of their shares, subject to scale back if more than 12.5% of shares are tendered.

As Elph Pty Limited and associates, Sentient, ANZIS and Leyshon and Mr Robert Bryan (QGC Chairman) have confirmed that they do not intend to participate in the buyback and AGL has indicated it will only participate to the extent to which it needs to keep its shareholding at a maximum of 30%, a total of approximately 50% of shareholders will not participate in the buyback.

Gas Market Development Services Agreement

The purpose of the Gas Market Development Services Agreement is for AGL to provide to QGC rights to utilise AGL's excess pipeline capacity for a term of three years, in the event that AGL does not purchase up to 29 PJ put to it by QGC on terms acceptable to QGC.

² Based on the number of shares to be issued assuming that the Sentient Transaction proceeds.

Other related matters

Matters related to the Proposal which we have considered, but which are not part of the Proposal and on which we do not express any opinion include the following:

Sentient Gas Australia (SGA)

As previously discussed, under a separate agreement, it is proposed that QGC's joint venturer SGA (a related entity of Sentient), will convert its legal and beneficial permit interests into an equivalent 10% QGC shareholding, prior to the issue of shares to AGL and the buyback, if the proposal is approved. This is in addition to its associates' current 3% shareholding (both figures calculated on a pre-AGL issue and pre-buyback basis).

Santos offer and panel proceedings

On 5 October 2006, Santos announced a takeover bid for all the ordinary shares in QGC, for consideration of \$1.26 per share. In response to Santos' offer, QGC issued a Target's Statement and two subsequent supplementary Target's Statements (dated 15 November 2006, 7 December 2006 and 21 December 2006 respectively).

Santos applied to the Takeovers Panel for a declaration of unacceptable circumstances to be made against QGC. The Panel heard these proceedings and, based on QGC's agreement to make further disclosures, it declined to make a declaration of unacceptable circumstances as requested by Santos.

Santos has announced an extension to the offer period for its bid to 31 January 2007. Subsequently, the ACCC has extended their determination date to the same date, to allow the ACCC to complete its inquiries into potential competition issues.

Further information on the Santos Offer is set out in Section 6 of the Explanatory Memorandum.

2 Scope of the report

2.1 Purpose of the report

The Directors of QGC have appointed Deloitte Corporate Finance, as an independent expert, to express an opinion as to whether or not the Proposal is fair and reasonable to Shareholders.

Pursuant to Section 611 of the Corporations Act 2001 (Section 611, item 7), an acquisition of voting shares may be exempt from the prohibition against acquiring more than a 20% interest in a listed company if it is approved by a resolution passed at a general meeting of the Company. As AGL will acquire up to a 30% interest in QGC pursuant to the Proposal, the approval of Shareholders is required under Section 611 and this independent expert's report has been prepared to assist Shareholders in their decision whether or not to approve the Proposal.

We have prepared this report having regard to ASIC Policy Statements 74 and 75 in relation to acquisitions agreed to by shareholders and independent expert's reports and ASIC Practice Notes 42 and 43 in respect of the independence of experts and valuation reports.

Our report will accompany a Notice of Meeting and Explanatory Memorandum to be sent to Shareholders, to assist in their decision as to whether or not to approve the Proposal.

2.2 Basis of evaluation

2.2.1 Guidance

Section 611 proposals can include many different types of transactions and the basis of evaluation selected by the expert must be appropriate for the nature of each specific transaction. In considering how to assess whether the Proposal is fair and reasonable we have considered the following guidance:

ASIC Policy Statement 74

This policy statement relates to independent expert's reports prepared in the context of acquisitions of shares in a company that must be agreed to by shareholders. This situation occurs where an individual shareholder acquires an interest in excess of 20% in the company without making a takeover offer. Independent expert's reports prepared in these circumstances are required to provide an opinion on whether the proposed transaction is 'fair and reasonable' to non-associated shareholders.

ASIC notes in the policy statement that the assessment of what is fair and reasonable in these circumstances is not as straightforward as in the circumstances discussed in Policy Statement 75. The policy statement does not provide a specific definition of the meaning of 'fair and reasonable'. However, it does contain the following guidance: 'the report must compare the likely advantages and disadvantages for the non-associated shareholders if the proposal is agreed to, with the advantages and disadvantages to those shareholders if it is not'. The policy statement also requires the expert to state whether the proposed transaction 'may deter the making of a takeover bid for the company'.

ASIC Policy Statement 75

This policy statement provides guidance in relation to independent expert's reports prepared in relation to:

- related party takeover offers
- related party schemes of arrangement
- proposed acquisitions of non-voting shares, renounceable options and convertible notes following a takeover.

In the context of takeover offers, the policy statement separates the concepts of fairness and reasonableness. The policy statement defines a takeover offer as being fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer, with the assessment being made on the assumption of 100% ownership of the target company (i.e. including a control premium). The policy statement defines an offer as being reasonable if either the offer is fair or, despite not being fair, shareholders should accept the offer in the absence of a higher bid before the close of the offer.

2.2.2 Selected approach

In our consideration as to whether the Proposal is fair and reasonable, we have had regard to common market practice and to ASIC Policy Statement 74 and Practice Note 43 in relation to acquisitions agreed to by shareholders and independent expert's reports.

As the Proposal consists of a number of interrelated transactions and agreements, in considering whether the Proposal is fair and reasonable, we have considered all aspects of the Proposal and the expected outcome together and have not necessarily concluded on each individual component.

In forming an opinion on whether or not the Proposal is fair and reasonable to Shareholders we have:

- estimated the fair market value of a QGC ordinary share
- compared the fair market value of a QGC ordinary share with the proposed share issue and buyback price
- assessed the other elements of the Proposal, including:
 - the Gas Sale Agreement
 - the Gas Market Development Services Agreement
- considered other advantages and disadvantages of the Proposal to Shareholders
- considered any other significant shareholdings in QGC
- considered the likely price and market liquidity of QGC shares in the absence of the Proposal
- considered the likelihood of an alternative takeover offer
- considered other implications for Shareholders of not accepting the Proposal.

2.2.3 Definition of value

For the purposes of our opinion, fair market value has been defined as the amount at which the shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices, to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of QGC has not been premised on the existence of a special purchaser.

2.2.4 Individual circumstances

We have evaluated the Proposal for Shareholders as a whole and have not considered the effect of the Proposal on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposal from the emphasis adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposal is fair and reasonable. If in doubt investors should consult an independent adviser.

2.3 Limitations and reliance on information

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 8.

Our procedures and enquiries do not include verification work nor constitute an audit in accordance with Australian Auditing Standards (AUS), nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

3 The Australian natural gas industry

QGC's principal activities consist of the exploration for and production of coal-seam gas (CSG) in the Surat Basin approximately 300 km west of Brisbane. The Surat Basin covers a large area of Queensland and New South Wales (NSW) and contains substantial quantities of coal. The following sections provide an overview of the Australian natural gas industry with emphasis on the relevant Queensland and NSW markets.

3.1 Introduction

Natural gas is a colourless and odourless fossil fuel which may be found in reservoirs within the earth's crust. Natural gas was formed millions of years ago from the remains of plants, animals and micro-organisms. Natural gas is predominantly composed of methane (referred to as 'dry' gas if almost pure methane), however small traces of other gases, including ethane, propane and butane may also be found (referred to as 'wet' gas when these hydrocarbons are present).

CSG is a natural gas composed primarily of methane. CSG is produced by the alteration of organic material during the coalification process and is stored in the same coal seams by bonding to the surface of the coal particles. The major difference between natural gas and CSG is where it is stored; natural gas is stored in the pore spaces between the grains of sandstone or similar rocks whereas CSG is stored with the coal seam due to water and burial pressure that keeps the CSG attached or adsorbed on the coal particle's surface. CSG is released from the coal seam when the water pressure is reduced by pumping.

To estimate the in-situ gas within the coal seams, an original-gas-in-place (OGIP) estimate provides an indication of the amount of gas present in the specified area. The Estimated Ultimate Recovery (EUR) provides an estimate of the proportion of the OGIP which may eventually be economically recovered. The most important in-situ factors in relation to the amount of gas which can be recovered from the coal seam are the extent of gas content and saturation in the coal seam and how permeable the coal seam is. The expertise of the operator is also very important, since different production techniques can have very different impacts on flow rates.

It is also possible to penetrate more than one coal seam with a single well, which can extend production lifetimes and substantially improve economic viability, since fixed costs are spread over a greater reserve base.

It is estimated that Queensland has over 5,000 PJ of 2P combined 'conventional' natural gas and CSG reserves, of which three quarters is CSG³.

3.1.1 Measurement

Oil and gas reserves are typically quoted as proved (1P), proved and probable (2P) or proved, probable and possible (3P) with proved reserves having the highest confidence and possible reserves having the least confidence.

³ As per description provided by the Department of Mines and Energy on its website

The following table provides a summary of the definitions of each of these classifications.

Table 1: Probability of recovery of oil and gas reserves

Probability of recovery	Reserve definition	Definition
90%	Proved reserves	There is a reasonable certainty that the reserves will be commercially recoverable using current technology at current prices, with current commercial terms and government consent.
50%	Probable reserves	There is a 'reasonable probability' of being produced using current or likely technology at current prices, with current commercial terms and government consent.
10%	Possible reserves	Has a chance of being developed under favourable circumstances.

Source: Society of Petroleum Engineers and World Petroleum Council

The requirements for 2P certification are quite stringent, typically requiring a contract in place with a third party in order to demonstrate the commerciality of reserves. Accordingly, in addition to the above classifications a further definition arises, being a 'contingent resource'. Contingent resources are 'potentially recoverable', however, due to the lack of a sales contract and/or required infrastructure, do not satisfy the requirements for certification.

3.1.2 Australia's natural gas reserves

Australia has an abundant supply of natural gas reserves. These natural gas reserves, however, are not typically found in close vicinities to the majority of users. Accordingly, Australia's natural gas supplies are linked to major markets by more than 20,000 kilometres (km) of transmission pipelines.

Appendix 2 provides a map of Australia's major pipeline system.

Australia's major natural gas production sites are as follows:

- Carnarvon Basin
- Gippsland Basin
- Cooper / Eromanga Basins.

The Carnarvon Basin is the largest known gas-bearing basin in Australia predominantly lying offshore from the mid-north coast of Western Australia. Total resources have been estimated to exceed 79,000 PJ, accounting for approximately 99% of the developed gas reserves in Western Australia. The Carnarvon Basin is the greatest source of Western Australia's domestic natural gas requirements. It also produces all the gas for the North West Shelf LNG Export Project (the equivalent of 500 PJ each year).

The Gippsland Basin is the largest conventional gas supply source in Eastern Australia with remaining 3P reserves estimated at between 7,500 PJ and 8,500 PJ. The total current production of 230 PJ per year is controlled by a joint venture between Esso Australia Resources Pty Limited and BHP Billiton Petroleum Pty Limited with the majority of this gas sold to Victorian retailers under long-term contracts. An additional 25 PJ to 30 PJ per annum is delivered to the NSW market via the Eastern Gas Pipeline.

The Cooper Basin is Australia's largest onshore resource project containing approximately 160 gasfields and 75 oil fields currently in production. It is estimated that the Cooper Basin has between 2,500 PJ and 3,000 PJ of known 2P sales gas remaining. The Moomba processing facility in South Australia and the Ballera plant in Queensland are located in the Cooper Basin. It currently provides the majority of the NSW / Australian Capital Territory (ACT) gas supply and most of the supply to Queensland and South Australia.

3.2 Demand

This section provides a brief overview of the demand for natural gas.

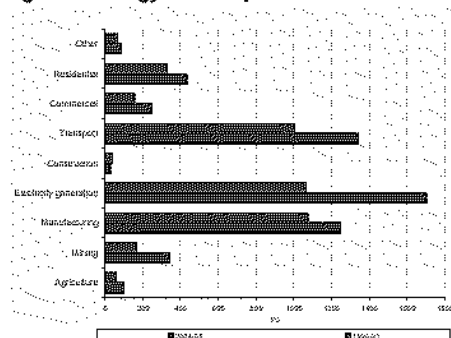
3.2.1 Overall demand and uses of natural gas

Natural gas is an important energy source due to its abundance and the fact that it offers a number of environmental benefits over other energy sources. In Australia, natural gas is used in the transport, industrial and mining (smelters and refineries) sectors and for the generation of electricity. CSG has the potential for use as reticulated gas, generation of electricity and as an input for the production of methanol and chemicals. Other uses, which represent potential opportunities for Australian domestic gas to be converted into other products (including energy products), are:

- conversion of gas to liquids
- compressed natural gas
- liquefied natural gas (LNG)
- ammonia production
- urea production.

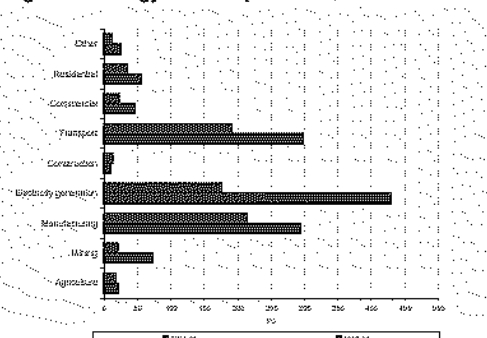
The Energy Networks Association estimates that the gas industry serves 3.5 million customers, of which 3.4 million customers are households and 105,000 are from commercial and industrial sectors. The following graph illustrates the consumption of natural gas in Australia and in Queensland.

Figure 1: Energy consumption in Australia



Source: Energy Update 2006, ABARE
Note: CSG is included in the above figures

Figure 2: Energy consumption in Queensland



Source: Energy Update 2006, ABARE
Note: CSG is included in the above figures

The Queensland market is dominated by power stations and industrial consumers that require gas for large, capital intensive processing plants. These customers tend to place a premium on certainty of supply, both in terms of volume and timing.

The following table compares the energy consumption in Australia from 1989/90 to 2004/05.

Table 2: Energy consumption by state

	Consumption		Annual growth	
	1989-1990 (PJ equivalent)	2004-2005 (PJ equivalent)	1989-90 to 2003-04 (%)	2003-04 to 2004-05 (%)
NSW	1,230	1,532	1.5	1.2
Victoria	1,100	1,407	1.7	(3.2)
Queensland	692	1,251	4.0	8.5
South Australia	302	340	0.8	1.6
Western Australia	428	785	4.1	0.1
Tasmania	96	114	1.2	3.8
Northern Territory	52	83	3.2	5.8
Australia	3,900	5,512	2.3	1.8

Source: Energy update 2006, ABARE

The table demonstrates that consumption of energy is growing faster in Queensland, compared to most other Australian states. In 2004/05, Queensland was the third largest consumer of all energy.

Natural gas is currently under-represented as a fuel source as it is still considered more expensive than (brown and black) coal. However, demand for natural gas is expected to grow relatively strongly, due in a large part to it being an environmentally preferred fuel, relative to other fossil fuel sources.

3.2.2 Demand determinants

Growth in the demand for natural gas is determined by several factors including:

- real gross domestic product (GDP) growth
- relative pricing of substitute fuels
- population growth.

Real GDP

Fluctuations in industrial output affect the amount of natural gas consumed. IBISWorld Pty Limited (IBISWorld) estimates that shifts in real GDP explain approximately 87% of the year-on-year changes in the volume of gas available for reticulation. The following table summarises the gross state product (GSP) growth for each state.

Table 3: Annual GSP and average annual compound growth rates

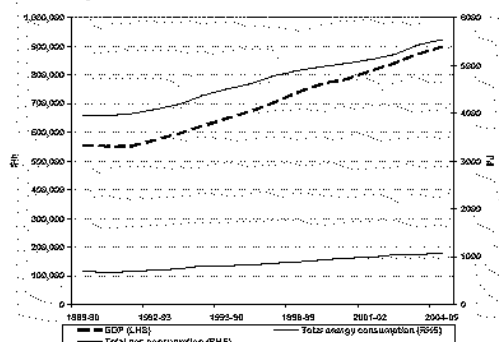
	Annual GSP growth 2004/05 – 2005/06 (%)	Average annual compound growth rates 1995/96 – 2005/06 (%)
NSW	1.4	2.9
Victoria	2.7	3.6
Queensland	4.9	5.0
South Australia	2.2	2.7
Western Australia	4.9	4.3
Tasmania	3.1	2.1
Northern Territory	7.5	3.3
ACT	3.4	2.8

Source: ABS

Queensland had the second highest GSP growth between 2004/05 and 2005/06 and the highest average annual compound growth rate for the ten years to 2005/06, followed by Western Australia. This high growth relative to other states has been driven by the growth of the state population, increases in economic activity and expansion into energy intensive industries.

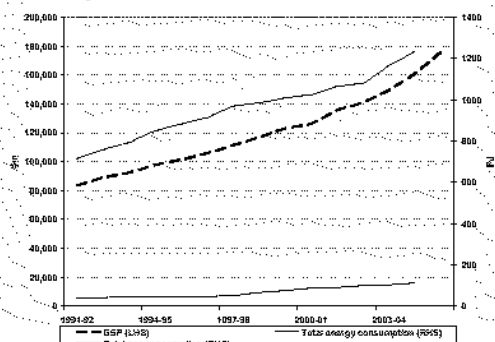
The following figure illustrates estimated real GDP/GSP from 1989/90 to 2003/04 compared to energy consumption, as provided by the Australian Bureau of Agriculture and Resources Economics (ABARE).

Figure 3: Real GDP vs. total energy and gas consumption for Australia



Source: ABS, ABARE

Figure 4: Real GDP vs. total energy and gas consumption for Queensland



Source: ABS, ABARE

The above figures illustrate a positive linear relationship between real GDP/GSP and energy consumption and a less positive linear relationship between real GDP/GSP and gas consumption.

Relative pricing of substitute fuels

CSG competes with other 'conventional' natural gas sources and other forms of energy such as electricity, petroleum and coal. Accordingly, the demand for natural gas (and CSG) is affected by the prices of other sources of fuel.

The following table presents the energy consumption by energy source in Queensland in 2004/05.

Table 4: Energy consumption in Queensland for 2004/05

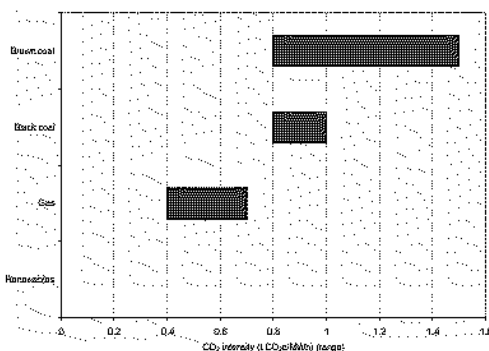
Fuel	2004/05 (PJ equivalent)
Black coal	627.9
Petroleum / Crude oil	423.1
Electricity ¹	212.8
Natural gas	111.1
Bagasse	93.4
Other	12.5

Source: ABS

Note: 1. Electricity is a secondary energy source and includes hydro electricity (refer Section 3.2.3)

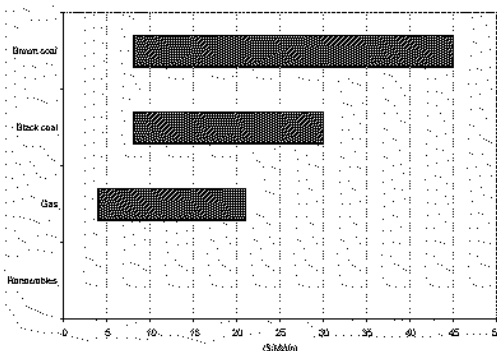
Natural gas is relatively expensive compared to other fuel sources, but is the cleanest burning fossil fuel, emitting relatively few pollutants into the atmosphere. If the environmental impacts of carbon emissions are taken into account, gas becomes more competitive. The impact of a carbon emissions tax is illustrated by studies conducted by the National Institute of Economic and Industry Research into the impact of a carbon emissions price as illustrated in the following figures.

Figure 5: Carbon dioxide emissions of selected NEM generators



Source: The National Institute of Economic and Industry Research

Figure 6: \$/MWh assuming carbon price between \$10/t CO₂e and \$30/t CO₂e



Source: The National Institute of Economic and Industry Research

The study found that prices above \$15 per tonne of carbon emissions would alter the traditional fuels used in electricity generation.

Australia does not currently have a carbon tax, however, state and federal policy initiatives increasingly favour gas as a source of energy.

Population growth

The Queensland population grew, on average, at 2.1% (year-on-year) from 1990 to 2005. The Australian Bureau of Statistics (ABS) projects the Queensland population growth from 2006 to 2015 as set out in the following table.

Table 5: Projected population of Queensland

Scenario	Units	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Series A	'000s	4,064	4,156	4,249	4,344	4,438	4,534	4,630	4,727	4,824	4,923
% change	%		2.26	2.25	2.22	2.18	2.15	2.12	2.09	2.06	2.04
Series B	'000s	4,043	4,118	4,192	4,267	4,341	4,416	4,490	4,565	4,639	4,712
% change	%		1.83	1.81	1.78	1.75	1.72	1.68	1.65	1.62	1.59
Series C	'000s	4,027	4,085	4,142	4,198	4,254	4,309	4,364	4,417	4,470	4,522
% change	%		1.45	1.40	1.36	1.33	1.30	1.26	1.23	1.19	1.16

Source: ABS

The projections presented above are based on different assumptions relating to the total fertility rate, net overseas migration and life expectancy.

3.2.3 Electricity

Electricity is a secondary energy source. It is produced by the conversion of other energy sources like coal, natural gas and oil. The National Electricity Market Management Company Limited (NEMMCO) estimates that more than 90% of Australia's electricity production relies on the burning of fossil fuels such as coal, gas and oil.

The Australian National Electricity Market (NEM) is operated by NEMMCO. The NEM is a wholesale market comprised of five interconnected electrical regions. The demand for electricity varies in each region and is generally a function of population, temperature and industrial and commercial needs. As electricity cannot be stored, supply must vary instantaneously with changing demand.

The Queensland government estimates that approximately 88% of electricity generated in Queensland is sourced from coal. The dominance of coal-fired power stations is due to the abundant supplies of coal in the coastal hinterland from north to south Queensland. Many coal-fired power stations are located adjacent to coal suppliers. Due to the low price of coal and water, electricity produced by gas is generally more expensive.

ABARE projects the relative share of electricity generated from natural gas will increase to 23% in 2029-2030, with the corresponding decrease attributed to electricity generated from coal (black and brown). ABARE attributes growth in gas-fired electricity generation in the medium term to investment made in peak capacity and the impact of policy initiatives including the Queensland 13% gas scheme and NSW greenhouse gas benchmarks.

The 13% gas scheme requires Queensland electricity retailers and other parties to source at least 13% of their electricity from gas-fired generation. Eligible fuels include natural gas, CSG, LPG and waste gases associated with conventional petroleum refining. The scheme will be in operation for 15 years.

3.3 Supply

This section provides a brief overview of the factors influencing the supply of natural gas.

3.3.1 Current supplies

Overall supply is expected to be impacted by the decline of the two largest natural gas producing basins in the eastern states. ABARE projects that the Gippsland Basin production will peak in 2021-22 at 392 PJ and decline at an average of 4.7% per year. Production from the Cooper-Eromanga Basin is projected to decline to 183 PJ by 2011-12, a decline of 17% per annum.

ABARE, however, expects growing supplies from the Otway Basin and CSG to compensate for the declines outlined above. Peak production in the Otway Basin is projected in 2011-12 at approximately 160 PJ, declining to 110 PJ by 2019-2020. ABARE projects that CSG production in 2029-2030 will be approximately six times the amount produced in 2004-05.

3.3.2 Papua New Guinea (PNG) Gas Project

The PNG Gas Project is intended to transport natural gas from PNG's Southern Highlands via a pipeline (to be constructed) over 3,000 km to customers in Australia. It was intended that AGL-Petronas Consortium (APC) (a joint venture between AGL, not part of the merger with Alinta, and Petronas Australia Pty Limited) would build, own and operate the downstream pipeline from the Australian-PNG border in the Torres Strait to the customer delivery points in Queensland. Gas and liquids sales were originally expected to commence in 2006/07 with an estimated 5,500 PJ of gas to be sold to Australia over 30 years.

As per recent media announcements, APC have advised that they do not intend to proceed with the project. In an announcement on 16 August 2006, AGL advised that it did not envisage being a long term owner of the asset and would be scaling back its activities in the joint venture. This decision reflects the lack of confirmed customer load to support the project's financial close.

Currently, the project has stalled and the joint venture parties are seeking a new partner to build the Australian portion of the pipeline. The construction of the pipeline has not yet commenced.

3.3.3 Construction of pipelines

Gas transmission pipelines are the link between the production facilities and major market centres and are of critical importance within the wholesale natural gas market. The landscape of the gas transmission sector has altered in recent years with the majority of gas transmission pipelines in Australia owned by the private sector (Moomba to Sydney pipeline, Moomba to Adelaide pipeline, Ballera to Roma pipeline, Ballera to Mt Isa pipeline, Roma to Brisbane pipeline and Wullumbilla to Gladstone pipeline in Queensland, Dampier to Bunbury pipeline in Western Australia).

The east Australian pipeline system, connecting the Moomba gas processing plant in South Australia to markets in Sydney, Canberra and country NSW was the only interstate gas transmission pipeline. However, in recent years, interstate connectivity is emerging. The following table summarises major recent developments.

Table 6: Major pipeline developments in Australia

Name	Location	Year commissioned	Length (km)	Owner / Operator
Eastern Gas Pipeline	Longford – Horsley Park	2000	795	Alinta
Tasmania Gas Pipeline	Longford – Bell Bay	2002	345	Alinta
SEAGas Pipeline	Port Campbell – Adelaide	2002	630	TXU / Origin / ANP
North Queensland Gas Pipeline	Moranbah – Townsville	2002	391	Arrow

Source: Energy Networks Association

The following table presents pipelines proposed to be constructed, specific to Queensland.

Table 7: Proposed pipelines

Location	Market opportunities	Length (km)	Owner / Operator
Queensland			
Central Queensland Gas Pipeline	will enable gas to be transported to as far as Gladstone	440	Enertrade
Fairview – Wallumbilla Pipeline	Wallumbilla is in close proximity to QGC's gas processing plant	130	Santos
Queensland to NSW			
NSW to Queensland Interconnector (Ballera to Moomba)	will enable gas to be transported to Moomba allowing access to the NSW market	180	Australian Pipeline Trust ¹
Wallumbilla – Hexham Gas Pipeline	Wallumbilla is in close proximity to QGC's gas processing plant	1,000	Hunter Energy
Queensland to Northern Territory			
Darwin – Moomba – Townsville – Gladstone	will have the potential to transport gas to Darwin and to NSW via Moomba	3,500	n/a

Source: The Australian Pipeliner

Notes:

1. Ownership / Operator is not yet finalised.

The above proposed pipelines may enable Queensland producers to supply gas into other markets.

3.4 Barriers to entry

Potential competitors entering the Australian natural gas industry face the following barriers to entry:

- securing land access – entry into the exploration and extraction phase of the natural gas industry may face opposition from Aboriginal traditional land owners. The needs of Aboriginal communities need to be met prior to any exploration
- capital intensive – following approval from Aboriginal traditional land owners, entrants also face large capital expenditure requirements for drilling of exploratory wells, completing production wells and necessary equipment.
- securing sales (foundation) contracts – the final investment decision requires sales contracts to underpin construction of any infrastructure
- government control / approval – entry into the distribution phase of the natural gas industry can only be made with government approval (franchises, licenses, authorisations). A distributor is generally provided with rights to supply a particular area
- securing the requisite expertise to convert OGIP to IP reserves and to produce saleable gas.

3.5 Pricing

The demand for natural gas in Australia and its pricing is influenced by prices of competing fuels. Wholesale Australian domestic gas is priced locally and is generally governed by local long-term supply contracts. Pricing information is generally commercially sensitive and is not typically published.

The main determinants of contract price are volumes and flexibility factors. Generally, the higher the degree of volume flexibility, the higher the contract price, while the greater the volume, the lower the price. Foundation customers expect to pay a lower price, as they can effectively underpin a resource development.

We would expect the following to have a critical impact on gas prices:

- gas is a relatively environmentally friendly fuel (refer to Section 3.2.1)
- the Australian Government energy policy, particularly in relation to greenhouse gas emissions (refer to Section 3.4)
- the decline of the Gippsland and Cooper / Eromanga basins (refer to Section 3.3.1)
- potential new pipeline networks linking into other markets (NSW) (refer to Section 3.3.3).

4 Profile of QGC

In this section we provide an overview of QGC. In addition, we have provided a brief profile of AGL in Section 5.

4.1 Company history

Figure 7: Company history


FY 2000	<ul style="list-style-type: none"> QGC was established in September 1999 and was listed on the ASX on 28 August 2000, raising \$12 million The Company started its initial drilling program in November 2000 and completed 15 exploration wells and six core wells Undertook its first multi-well pilot program at Argyle gasfield in authority to prospect (ATP) 620P
FY 2001	<ul style="list-style-type: none"> Undertook its second multi-well pilot program at Aberdeen gasfield in ATP 621P and commenced the testing of this pilot Commenced drilling its third multi-well pilot program at Berwyndale South gasfield in ATP 632P Continued its exploration drilling program with eight exploration wells and four core wells Raised \$5.1 million through share placements to CS Energy Limited (CS Energy), as part of a Participation Agreement where CS Energy was entitled to purchase 60 PJ over a period of 15 years Raised \$9.7 million through a one-for-three renounceable rights issue at \$0.30 per share
FY 2002	<ul style="list-style-type: none"> Completed drilling the pilot program at Berwyndale South gasfield and commenced the testing program Completed the testing program at the Aberdeen gasfield pilot Continued its exploration drilling program with one exploration well and three core wells Acquired 100% interests in four permit areas
FY 2003	<ul style="list-style-type: none"> Continued the appraisal of the Berwyndale South gasfield pilot with the drilling of an additional appraisal well and one exploration well, these wells were the first to use the improved well design Continued its exploration drilling program with three new core wells Signed gas supply agreement with CS Energy for up to 90 PJ over 15 years Elphinstone Group invested \$3 million in QGC Raised an additional \$3 million through a share purchase plan Entered into an agreement with US-based investment fund Cornell Capital Partners Offshore LP (Cornell Capital) for an \$8 million equity line facility Settled a dispute with Pangaea Oil & Gas Pty Limited (Pangaea) Commenced testing at the Argyle gasfield pilot and achieved flow rates of over 500 million cubic feet per day (mcf/d) per well at one well A petroleum lease (PL) 201 was granted in June 2004 over the Berwyndale South gasfield
FY 2004	<ul style="list-style-type: none"> Re-commenced appraisal and exploration drilling in ATP 620P with the drilling of the Argyle East Pilot and the Lauren mini-pilot A second appraisal well using the improved well design was drilled at Berwyndale South gasfield Continued the exploration drilling program with five new core wells Flow rates of over 1 mcf/d per well are achieved at Argyle and Berwyndale South Pilots 559 PJ of 3P gas reserves were independently certified for the Berwyndale South and Argyle gasfields combined A pipeline licence (PPL) 91 was granted in August 2004, approving the construction of a gas pipeline connecting the Berwyndale South gasfield to the Roma to Brisbane Gas Pipeline

FY 2005

- PLs 179, 228 and 229 were granted in June 2005 over the Argyle, Kenya and Argyle East gasfields
- PPL 107 was granted in June 2005, approving the construction of a gas pipeline connecting the Argyle gasfield to the Roma to Brisbane Gas Pipeline
- PPL 108 was granted in June 2005, approving the construction of a gas pipeline connecting the Argyle gasfield to the Berwyndale South gasfield
- Signed a Gas Sales Agreement with Incitec for up to 7.4 PJ a year for 10 years
- Increased its equity line facility from a total of \$8 million to a maximum of \$25 million in order to fund the development of the Incitec Pivot Limited (Incitec) gas supply contract
- QGC acquired CS Energy's interest in the Berwyndale South gasfield. As a result, the gas sales agreement with CS Energy was restructured with QGC to deliver 4 PJ per year for 10 years commencing 31 July 2006
- International resources investment group, Sentient Global Resource Fund, acquired a 10% interest in the Berwyndale South gasfield
- 2P reserves were increased by 26%
- Commenced development drilling at Berwyndale South gasfield and drilled three appraisal wells and 24 development wells
- Continued the exploration drilling program with three new core wells
- Commenced and completed the construction of the gas processing and transportation infrastructure at Berwyndale South gasfield ahead of planning, delivering full contract rate
- Secured a new contract with Braemar Power Project to supply 4 PJ per year from June 2006, no significant additional investment was required to fulfil this contract
- Entered a joint venture agreement with Origin Energy Limited (Origin Energy) who purchased Pangaea's interest in ATP 620P (which contains the Argyle gasfield). Currently Origin energy has a 40% interest in ATP 620P
- Development drilling continued at Berwyndale South gasfield with four wells drilled

FY 2006

- PPL 125 was granted in August 2006, approving the construction of a gas pipeline connecting the Bellevue and Berwyndale gasfields to the Berwyndale South gasfield
- PPL 125 construction was completed in December 2006
- Flow rates from Berwyndale South gasfield exceeded expectations twofold
- Finalised funding arrangement with ANZIS for development of the Condamine power station
- Extended Memorandum of Understanding (MoU) with Incitec to enable planning of development of new gas-fired power station at Gibson Island within the Port of Brisbane
- Reached an agreement with Sentient to equalise all interests in the Undulla Nose (ATP 610P, two blocks of ATP 632P, ATP 620P and the northern blocks of ATP 648P) on a 90% - 10% basis. Under the agreement QGC and Sentient will contribute to all development and operating expenses in these proportions and share the revenue generated accordingly. QGC received \$9.5 million in consideration for this arrangement
- Raised \$60.3 million in September to fund its 'Growth Acceleration Strategy', comprising:
 - accelerated commercialisation of the Undulla Nose reserves
 - early Argyle gasfield development (PL 228)
 - Berwyndale South gasfield development for the Condamine power station
 - enhanced evaluation of the Surat Basin tenements beyond Undulla Nose (Aberdeen #8 and Woleebee Creek #3)
- Development drilling commenced at Kenya gasfield (PL 228) with seven wells drilled and one exploration well
- Continued the exploration drilling program with 1 new core well and one exploration well and eight appraisal wells for pilots at Bellevue (ATP 610P), Berwyndale (ATP 632P) and Aberdeen (ATP 621P) gasfields
- Commenced the construction of the gas processing and transportation infrastructure at Kenya gasfield

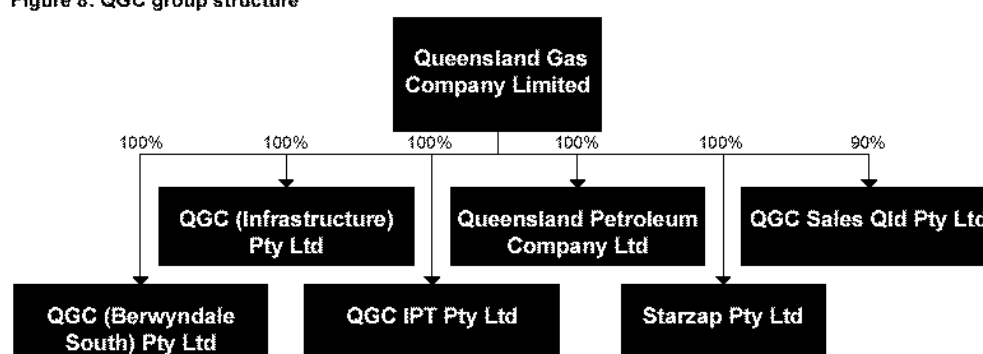
	<ul style="list-style-type: none"> On 8 November 2006, announced upgrade of independently certified reserves that had been previously upgraded in February 2006, as follows (on a legal interest basis): <ul style="list-style-type: none"> 1P reserves increased 55%, from 142 PJ to 228 PJ 2P reserves increased 64%, from 423 PJ to 695 PJ 3P reserves increased 4%, from 2,464 PJ to 2,556 PJ
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Source: QGC

4.2 Legal structure

Figure 8 below sets out a simplified group structure for QGC.

Figure 8: QGC group structure



Source: QGC

The principal operations of each of the companies are discussed below.

QGC

QGC is the ultimate parent and has interests in joint ventures and wholly owned CSG operations in the Surat Basin.

QGC (Berwyndale South) Pty Limited

QGC (Berwyndale South) Pty Limited is a wholly owned subsidiary of QGC and is intended to hold QGC's interests in the PL 201 joint venture with Sentient. Currently, QGC owns 90% of the PL 201 joint venture and is the operator of the Berwyndale South gasfield (located in PL 201). If the Sentient Transaction is approved, QGC will be the sole owner of the PL 201 joint venture.

QGC (Infrastructure) Pty Limited

QGC (Infrastructure) Pty Limited is a wholly owned subsidiary of QGC that owns 90% of the Compression and Transportation Infrastructure joint venture with Sentient Gas Australia Infrastructure Pty Limited, who owns the remaining 10%. The joint venture includes the compression plant located at "Windibri" and the export pipeline that connects the plant to the Roma to Brisbane Pipeline and to the Braemar Power Project pipeline. If the Sentient Transaction is approved, QGC (Infrastructure) Pty Limited would be the sole owner of the Compression and Transportation Infrastructure assets.

QGC IPT Pty Limited

QGC IPT Pty Limited is a wholly owned subsidiary of QGC and acts as trustee for the Exempt Employee Share Plan (EESP), Deferred Employee Share Plan (DESP) and the Non-Executive Director Share Plan (DDSP). Equity-based compensation benefits are provided to employees via the DESP and the DDSP.

The EESP is a scheme that gives the employees of the Company the opportunity to acquire an ownership in QGC. An employee cannot withdraw shares from the EESP for three years, until the employee ceases to be employed by QGC or makes an application to withdraw the shares which is approved by the plan trustee.

The DESP is a performance incentive scheme under which eligible employees can earn ordinary shares in QGC upon achievement of individual and corporate performance targets. Ordinary shares issued to the benefit of employees under the DESP are held by QGC IPT Pty Ltd until the employee ceases to be employed by QGC or makes an application to withdraw the shares which is approved by the plan trustee.

The DDSP is a scheme under which non-executive directors of QGC can elect to be issued ordinary shares in QGC in lieu of directors' fees being paid to them. Ordinary shares issued under the DDSP are held by QGC IPT Pty Ltd until the non-executive director ceases to be a director of QGC, makes an application to withdraw the shares which is approved by the plan trustee or in certain takeover circumstances.

The shares in the EESP, DESP and DDSP cannot be dealt with by the employee while held by the EESP, DESP or DDSP and the shares are not quoted on the ASX until they are withdrawn from either the EESP, DESP or the DDSP. Shares in the EESP, DESP and DDSP have the same dividend and voting rights as other ordinary shares.

Queensland Petroleum Company Limited

Queensland Petroleum Company Limited is a wholly owned subsidiary of QGC and has no activities as at the date of this report.

Starzap Pty Limited

QGC's 100% interest in ATP 647P (excluding 50% of the Myall Creek East block (50% Starzap and 50% Origin Energy)) is held through this wholly owned subsidiary.

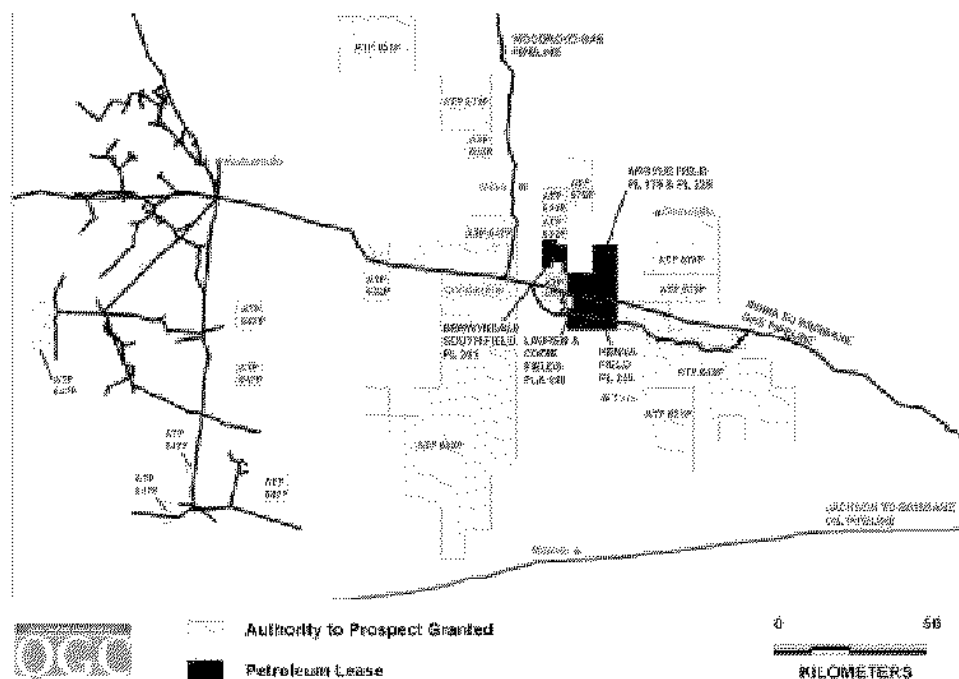
QGC Sales Qld Pty Limited

QGC Sales Qld Pty Limited is 90% owned by QGC and 10% by Sentient. This company was formed as part of the agreement reached between QGC and Sentient to unitise all interests in the Undulla Nose region. This company will commercialise gas sales of the tenements included in the Undulla Nose region (refer to Section 4.1). If the Sentient Transaction is approved, QGC will be the sole owner of QGC Sales Qld Pty Limited.

4.3 Principal activities

QGC has certified 3P gas reserves (legal interest, pre-Sentient transaction) of 2,556 PJ (2.4 trillion cubic feet) in its Bellevue, Berwyndale, Berwyndale South Argyle, Kenya, Kenya East and Lauren gasfields. QGC has drilled 125 wells across the north-east portion of the Surat Basin, approximately 300 km west of Brisbane. Figure 9 below shows the various interests of QGC, totalling an area of approximately 7,500 square kilometres. More than half of that surface is considered by QGC to have CSG potential.

Figure 9: Layout of QGC's interests



Source: QGC

Currently, the main operations of QGC consist of CSG exploration and production in the Berwyndale South gasfield. During the last six months, gas flow rates have been as follows:

- 18 wells have recorded peak daily gas flow rates above 1.0 mcf/d
- 11 wells have flowed above 1.5 mcf/d
- two wells have flowed above 3.0 mcf/d.

The Company has developed its gas-field exploration programmes and production facilities through joint ventures, based on its business model which is focussed on:

- achieving a low cost base through:
 - keeping 'finding costs' below 3 cents per gigajoule (GJ)
 - implementing techniques that allow gas flows without pumping
 - strategic location of assets
- achieving low development costs through:
 - obtaining the right proportion of equity and project finance
 - controlling the operations of project development

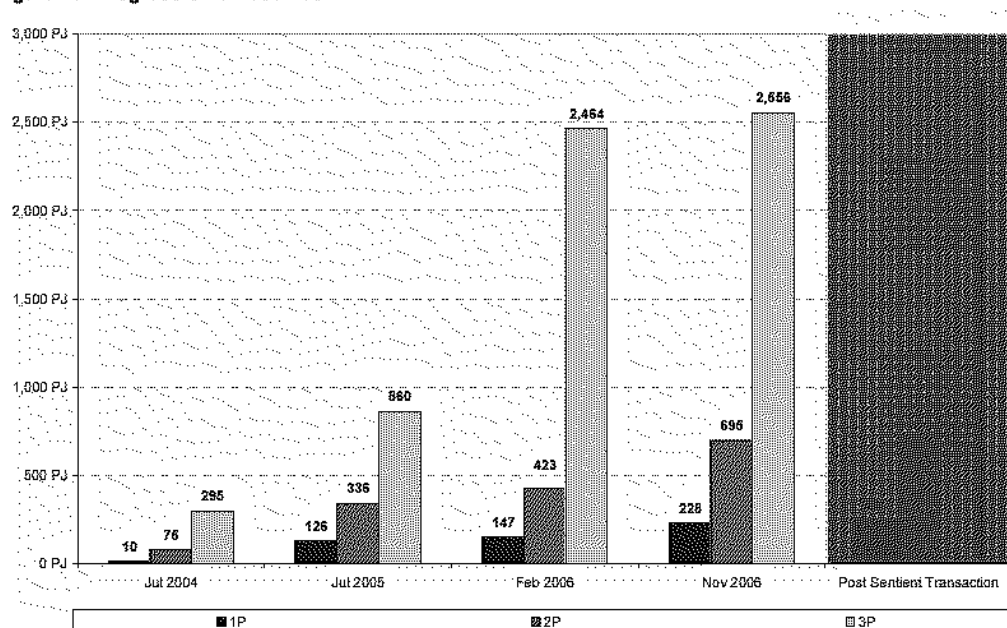
- developing a multi-option sales model by:
 - establishing long term contracts
 - providing flexibility through put option contracts
 - aiming to deliver gas into the spot market.

4.3.1 Resources and reserves

During 2006/07, QGC has drilled seven additional development wells in the Berwyndale South gasfield, ten development wells at Kenya gasfield, eight appraisal wells at Bellevue, Berwyndale and Aberdeen gasfields, two exploration wells at Kenya and Kenya East and one core well at Berwyndale. These activities contributed to the recent reserves upgrade for QGC as set out in Section 4.1. The resources and reserves are contained in a number of ATPs and PLs. One of the main drivers of QGC's future development is an accelerated programme for commercialising reserves in this region, which is included in the Company's 'Growth Acceleration Strategy'. The short-term objective of QGC is to increase 2P reserves in this region to 1,000 PJ.

Figure 10 below, illustrates the progression of QGC's 3P, 2P and 1P reserves on a legal interest basis, up to the latest independent economic certification by specialist petroleum consultants Netherland, Sewell & Associates, Inc (NSAI) in December 2006. It also illustrates the level of estimated reserves if the Sentient Transaction is approved.

Figure 10: Progression of reserves



Source: QGC

Notes:

1. Numbers reflect QGC's legal interest in tenement areas
2. Estimated figures have been extrapolated to include those reserves on QGC's tenements attributable to Sentient's legal interest

Exploration programme

As set out in QGC's recent Rights Issue Prospectus, in the medium term QGC has planned an expanded exploration programme for 2006/07 to investigate CSG potential across QGC's tenements in the Surat Basin (refer to Figure 9 for location of ATPs). The areas to be explored are:

- ATP 574P: drilling of fully cored well to investigate CSG potential. Estimated cost: \$0.3 million
- ATP 621P: drilling of fully cored well to investigate CSG potential and if results are positive, drilling of five pilot wells. Estimated cost: \$3.8 million
- ATP 647P: drilling of conventional gas exploration well. Estimated cost: \$1 million
- ATP 648P: appraisal drilling and production tests. Estimated cost: \$0.8 million
- ATP 651P: test of production capability. Estimated cost: \$0.9 million
- ATP 676P: drilling of fully cored well to test CSG potential. Estimated cost: \$0.2 million

The total estimated cost for QGC of the 2006/07 exploration programme is expected to be \$7 million.

Systems and safety

In 2006 QGC conducted a formal risk assessment programme and developed safety and operating systems and maintenance and development plans as required by legislation. In addition, a Code of Environmental Practice was developed in order to manage the exploration, appraisal and operation activities.

Joint Ventures

Table 8 below sets out joint ventures over gas and petroleum tenements in which QGC participates as operator and majority owner.

Table 8: Joint ventures

	Permit/Licence description	QGC share	Joint Venturer/s
ATP	ATP 574 P – Shallows ¹	60%	Victoria Petroleum 30% Australian CBM 6.25% SEQ Oil 3.75%
	ATP 610 P – Shallows (PLA 247 ³)	60.625%	Sentient 10% Origin Energy 29.375%
	ATP 610 P – Deeps ² (PLA 247 ³)	56.25%	Pangaea 43.75%
	ATP 620 P – Shallows	59.375%	Origin Energy 40.625%
	ATP 620 P – Deeps	26.25%	Pangaea 73.75%
	ATP 621 P – Shallows	100%	
	ATP 621 P – Deeps ⁴	0%	Bobwyns Pty Ltd 100%
	ATP 632 P	90%	Sentient 10%
	ATP 647 P – Myall Creek East – block 2656	50%	Origin Energy 50%
	ATP 647 P – All other blocks	100%	
	ATP 648 P – Shallows	58.75%	Sentient 10% Origin Energy 31.25%
	ATP 648 P – Deeps	60%	Pangaea 40%
	ATP 651 P	85%	Lucas Coal Seam Gas 15%
	ATP 676 P – Blocks 2237, 2386, 2456, 2457 and 2458	50%	Australian CBM 50%
	ATP 676 P – Blocks 2309, 2528, 2529 and 2530	25%	Australian CBM 75%
PL	PL 179 – Shallows	59.375%	Origin Energy 40.625%
	PL 179 – Deeps	26.25%	Pangaea 73.75%
	PL 201	90%	Sentient 10%
	PL 228 – Shallows	59.375%	Origin Energy 40.625%
	PL 228 – Deeps	26.25%	Pangaea 73.75%
	PL 229 – Shallows	59.375%	Origin Energy 40.625%
	PL 229 – Deeps	26.25%	Pangaea 73.75%
Petroleum Lease Application (PLA) areas	PLA 180 – Shallows	59.375%	Origin Energy 40.625%
	PLA 180 – Deeps	26.25%	Pangaea 73.75%
	PLA 211	90%	Sentient 10%
	PLA 212	90%	Sentient 10%
PPL	PPL 91	90%	Sentient 10%
	PPL 107	59.375%	Origin Energy 40.625%
	PPL 108	90%	Sentient 10%

Source: QGC

Notes:

1. Shallows are all stratigraphic divisions underlying the surface area down to a depth of 100 feet below the Walloon Coal Measures
2. Deeps are all stratigraphic divisions below a depth of 100 feet below the Walloon Coal Measures
3. QGC and Origin Energy have submitted an application for a Petroleum Lease over the area of ATP 610 P. The Department of Mines and Energy has allocated PLA No. 247 to this application.
4. QGC has entered into an agreement to purchase the 100% interest in the Deeps currently held by Bobwyns Pty Limited

4.3.2 Contracts in place

Table 9 below contains a summary of the supply contracts QGC has entered into, or currently proposed with various parties as at the date of this report.

Table 9: Contracts

Agreed start date	Customer	Area	Type	Term (years)	ACQ ¹ (PJ)	Total (PJ)	QGC share (%)	QGC share post Sentient Transaction ² (%)
Contracts								
31 Jul 2006 ³	CS Energy ⁴	Berwyndale South	Firm	10.0	4.0	40.0	90	100
1 Oct 2006 ⁵	Braemar - tranche I	Berwyndale South	Firm	10.0	4.0	40.0	90	100
1 Sept 2006	Braemar ⁶	Berwyndale South	Option	2.3	3.6	7.4	90	100
1 Sept 2006	Braemar - tranche II	Berwyndale South	Firm	1.0	2.2	2.2	90	100
Feb 2007	Braemar - tranche III	Berwyndale South	Firm	1.0	5.1	5.1	90	100
Oct 2007	Incitec ⁸	Argyle/Kenya	Firm	10.0	4.4	44.0	60	60
Jul 2009	Condamine ⁷	Berwyndale	Firm	20.0	9.0	180.0	90	100
AGL contracts as per the Proposal								
Jan 2008	AGL – Gas Sale Agreement	All available	Firm	20.0	Max 35.0 ⁹	540.0	-	-
From Jan 2008 ¹⁰	AGL – Gas Sale Agreement	All available	Option	Up to 20	10.0	200.0	-	-
Jan 2008	AGL – Gas Market Development Services Agreement	All available	Option	3.0	Various ¹¹	29.0	-	-

Source: QGC

Notes:

1. Annual contract quantity (ACQ)
2. If the Sentient Transaction is approved, Sentient will convert its legal and beneficial permit interests into an equivalent 10% QGC shareholding (calculated on a 2P basis)
3. Commissioning sales commenced in May 2006
4. Option exercisable by CS Energy to extend up to a total of 90 PJ over 15 years
5. Commissioning sales commenced in June 2006
6. Put options exercisable by QGC for a total of 7.4 PJ
7. Condamine power station contract reflects an average of gas sales of 9 PJ for the life of the power station (20 years). This contract has not yet been finalised, however funding has been approved with ANZIS, as discussed in Section 4.3.5
8. Gas to be sold to Incitec is planned to be produced in PL 228 and 229, which are developed in joint venture with Origin Energy
9. Contract volumes ramp up to a maximum of 35 PJ within ten years
10. AGL has the right to exercise up to two options, each for a volume up to 5 PJ per annum (to a maximum of 200 PJ). The first is exercisable from the commencement date (1 January 2008) for a period of two years, the second is exercisable from the commencement date (1 January 2008) for a period of four years
11. Under the Gas Market Development Services Agreement, QGC may offer to sell AGL a quantity of gas by 30 June each year. In the event that AGL is unable to accept the offer, QGC has the right to utilise any of AGL's excess pipeline capacity subject to annual yearly caps, to a combined total of 29 PJ.

In addition to the above contracts, QGC is considering expansion outside the region. QGC has recently announced that it has applied for a licence to construct a pipeline from the Undulla Nose to Wallumbilla, which would enable sales of gas into the Mt Isa market and potentially into the New South Wales and South Australia markets.

4.3.3 Berwyndale South gasfield

QGC is the majority owner (90%) and operator of Berwyndale South gasfield in joint venture with Sentient. Berwyndale South gasfield is located in PL 201⁴ and is QGC's first commercial development, which commenced gas delivery to foundation customer CS Energy, in May 2006. The gasfield includes 28 development wells, a 40 km underground gas and water gathering system and gas compression and processing facilities. Additionally, a 14 km pipeline linking the field to the Roma to Brisbane gas pipeline was completed. Other facilities include a site office, warehouse, site camp, water storage ponds and a conference/meeting complex.

QGC has announced⁵ weekly average production rates of above 1.4 mcf/d per well, with overall production in excess of 35 terajoules (TJ) per day or approximately 13 PJ per year. The best performing well (#60) recorded daily average flow rates of over 4.6 mcf/d (equivalent to 1.8 PJ a year), four of the wells (#40, #18, #17 and #9) have average daily flow rates in excess of 2.0 mcf/d and at least 50% of the wells have recorded average daily flow rates greater than 1.0 mcf/d. The Company has reported that no wells at Berwyndale South gasfield have yet to show signs of peaking.

The flow of gas has exceeded initial expectations and has enabled QGC to secure the gas sales agreement with the Braemar power station, signed in October 2005, without major additional capital expenditure. Almost half of the production wells are free-flowing wells⁶, resulting in savings in capital and operational expenditures. In addition, two new screw compressors, which were installed in December 2006, are expected to increase the capacity of the field by an additional 50%. The Berwyndale South gasfield is expected to deliver approximately 19 PJ in 2007.

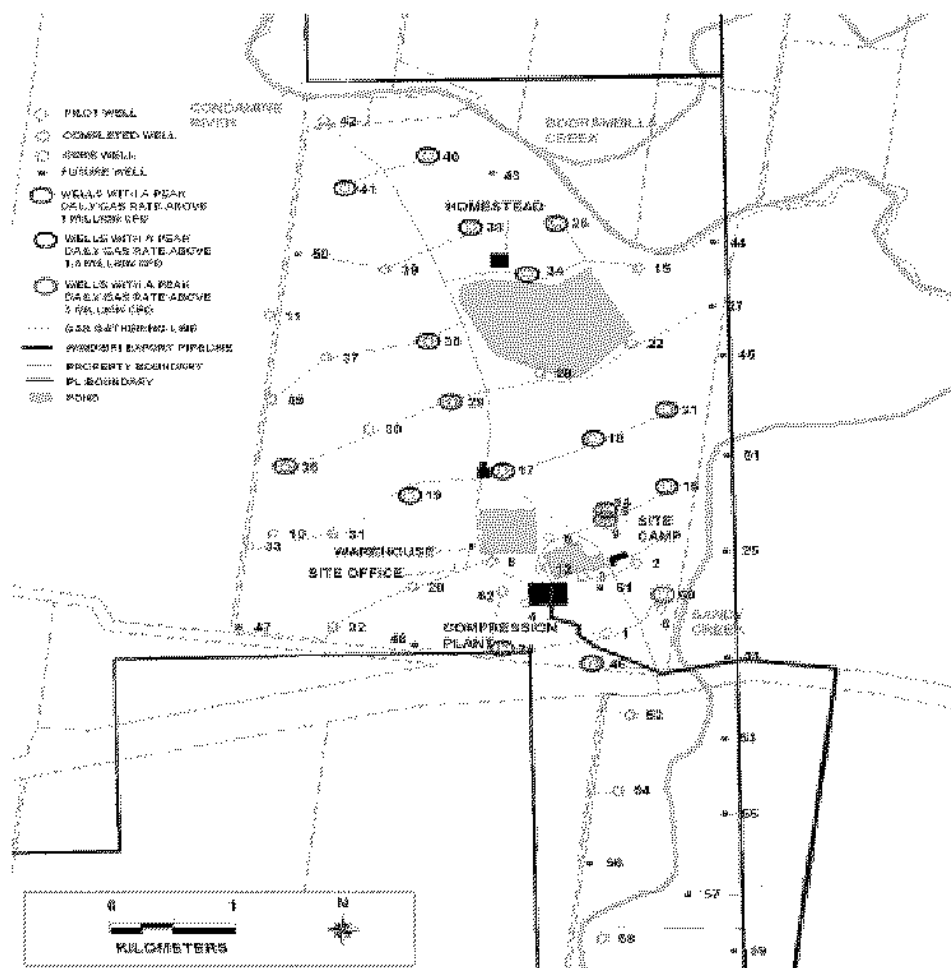
⁴ PL 201 was originally part of ATP 632P (Note: PL's are generally carved out of ATP's as they are granted)

⁵ ASX announcement dated 11 January 2007

⁶ No pumping equipment is necessary to extract water from the coal seams to produce gas

The figure below represents the detailed layout of the Berwyndale South gasfield.

Figure 11: Layout of Berwyndale South gasfield



Source: QGC

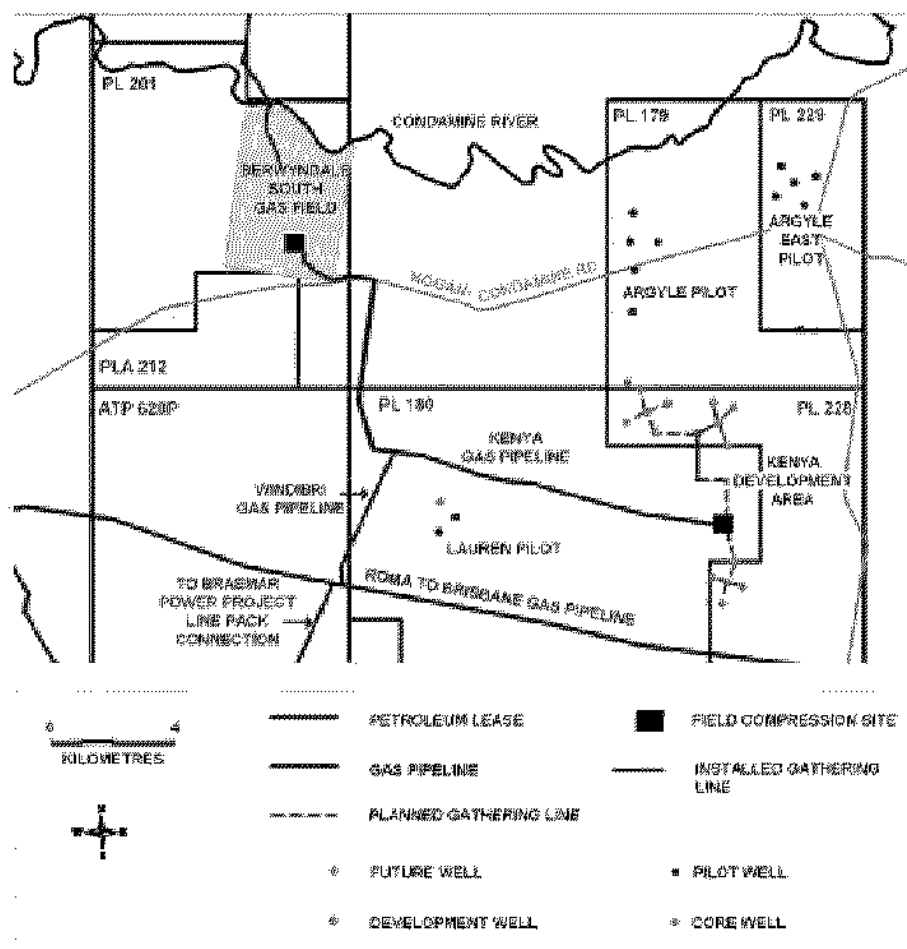
QGC intends to expand the compression and transportation infrastructure to also process gas supplies from the Argyle gasfield development. This will involve the installation and commissioning of additional gas processing equipment as well as the construction of a 20.5 km gas pipeline (PPL 108) linking the two gasfields. This line was completed in January 2007.

4.3.4 Argyle and Kenya gasfields

The exploration work at the Argyle gasfield commenced in 2000, with the latest drilling performed in late 2004. The Argyle gasfield is located in PL 179 and PL 229. Since the announcement of the 'Growth Acceleration Strategy', further drilling has been performed in PL 228, which contains the Kenya gasfield which is an extension of the Argyle gasfield. QGC is the operator and majority owner (60%) of the Argyle and Kenya gasfields in joint venture with Origin Energy.

Gas sales from PL 228 are planned to be delivered to Incitec Pivot from October 2007 to supply the Gibson Island fertiliser manufacturing plant. Engineering and construction for the pipeline to link Argyle and Kenya gasfields with Berwyndale South gasfield has been completed. In addition, engineering for the field compressor site is complete and the compressors arrived on site in January 2007. Figure 12 below shows the layout of ATP 620P, which contains the Argyle and Kenya gasfields, relative to the Berwyndale South gasfield. The figure also shows the pipeline to link the two gasfields, which is close to completion.

Figure 12: Location of Berwyndale South and Argyle and Kenya gasfields



Source: QGC

4.3.5 Power stations

Condamine power station

On 28 July 2006, QGC and ANZIS announced the completion of a funding agreement to enable QGC and ANZIS to proceed with the planning and tendering for the Condamine power station, which is to be built on freehold land owned by QGC.

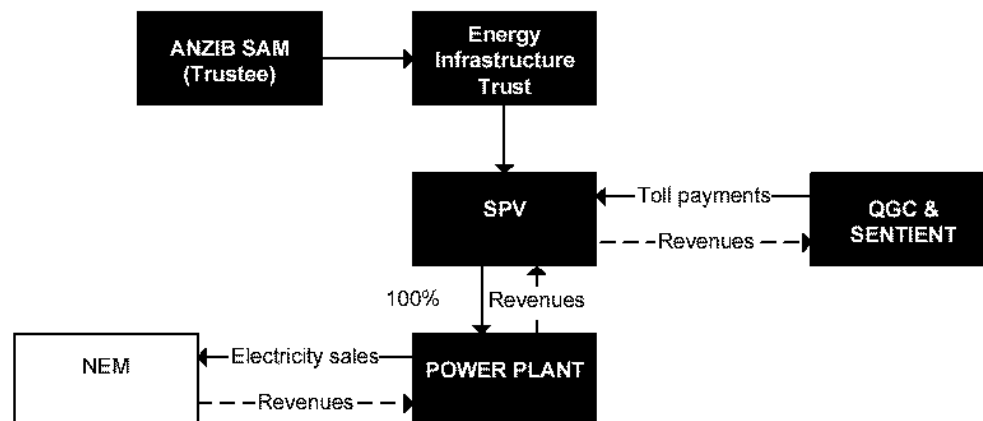
The power station is designed to operate as a baseload power station capable of running on a 24 hour basis. It is estimated that it will consume between 8 PJ and 13 PJ per year and that construction and commissioning will be finalised in 2009. The power station, to be located in conjunction with the gasfield, permits substantial savings in terms of capital costs because of the proximity to the gas source and also in terms of operating costs, as water required for the operation is planned to be supplied by QGC's gasfield operations. In addition, QGC will have the choice to either generate electricity or sell gas on a daily basis, depending on price levels in the NEM.

The power station will be fully funded by ANZ Investment Bank Specialist Asset Management (ANZIB SAM). ANZIB SAM will also act as trustee for the Energy Infrastructure Trust, a specialist energy investment vehicle established to own the special purpose vehicle (SPV) established to hold the power station.

Under this agreement, QGC and Sentient will make tolling payments to the SPV to generate and sell electricity through the power plant. The tolling payments represent the annual capacity payment. QGC will receive all of the electricity revenues sold in the NEM from which the costs of producing the gas, the operating and maintenance costs of the power station and the tolling charges will be paid. The ownership of the power station will revert to QGC and Sentient after 20 years. If the Sentient Transaction is approved, the power station will be solely owned by QGC.

Figure 13 below shows the structure of the funding agreement.

Figure 13: Power plant funding arrangement



Source: QGC

Gibson Island power station

QGC and Incitec Pivot have recently extended their current MoU for two additional years, which enables the investigation of the commercial viability of building a gas-fired power station at Gibson Island within the Port of Brisbane. The power station will be designed to meet the long-term electricity requirements of Incitec and other industries in the vicinity of Gibson Island. The estimated gas requirement of the power plant is 8 PJ per year.

4.4 Other

Water management

QGC is considering applying the water produced from the CSG production process in agriculture and in the production of potable water supplies. In addition, QGC is considering using the water in the electricity generation process in the Condamine power station.

QGC has conducted preliminary testing of a purifying process to convert water into potable water. The creation of a major purification project requires funding and QGC sees the Commonwealth Government as a potential financier of this project.

In addition, QGC commenced a barley crop trial in May 2006 to investigate the possibility of using water from CSG production in agriculture. This crop was harvested in October 2006 with a yield of two tonnes per acre.

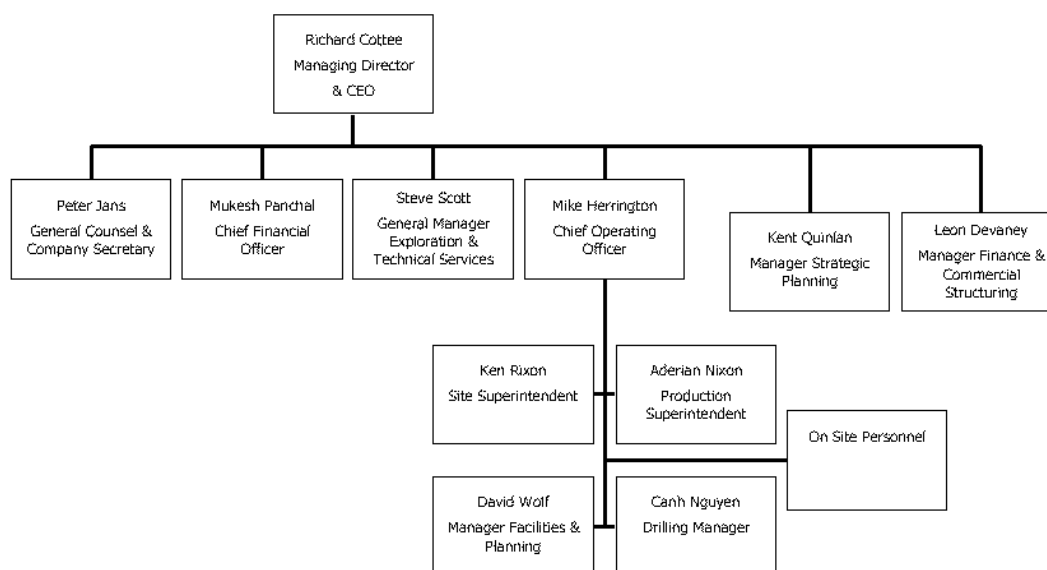
Community and cultural heritage

QGC puts considerable emphasis into building strong relationships with local landowners and communities. QGC's intention is to minimise the impact of CSG production on the areas adjacent to the ATP's and on local communities.

4.5 Management and personnel

Figure 14 below sets out the current organisational chart of QGC.

Figure 14: QGC organisational chart



Source: QGC

Mr Richard Cottee was appointed as Managing Director in October 2002 with the objective of managing the transition of QGC from an exploration company to a gas producer.

Currently, QGC has a permanent staff of 35 in Brisbane and 24 on site, at the gasfields.

Equity-based compensation benefits are provided to employees via QGC's DESP and DDSP.

4.6 Competitive position of QGC

Table 10 below sets out the strengths, weaknesses, opportunities and threats (SWOT) for QGC.

Table 10: SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • unconditional contracts with CS Energy, Braemar, Incitec, AGL and Condamine power station provide certainty of gas sales in the long term and a steady revenue stream • high gas flow rates allow increased sales with reduced requirement for additional capital expenditures • fully funded 'Growth Acceleration Strategy' allows continuing exploration program directed to increase 2P reserves certification • track record of significant upgrades in reserves, through high flow rates confirming commercial potential of QGC tenements • future interests in both gas production and electricity generation will permit QGC to choose whether to sell gas or electricity on a daily basis, depending on which activity will generate the best return • innovative engineering capabilities and methods have been and are being developed. As a result, QGC has been able to successfully locate and exploit gas, at high flow rates • QGC gasfields are strategically located, close to the city of Brisbane and to pipelines. This allows for savings in transportation costs 	<ul style="list-style-type: none"> • CSG is still a relatively new energy source in Australia (recently commercialised) • as it is not possible to forecast or guarantee the potential flow rate of early stage wells, QGC might see timelines in future production delayed • cost and time fluctuations in drilling and construction of facilities could have material adverse effects on QGC • high dependence on key personnel • QGC has a concentrated portfolio of sizable contracts. If QGC breaches any one of these contracts, it would have a material adverse effect in the financial performance of the Company
Threats	Opportunities
<ul style="list-style-type: none"> • domestic and foreign competitors might be able to produce or deliver gas and/or other fuels at more competitive prices than QGC • there is no guarantee that QGC will be able to commercialise all its proven reserves as it depends on pipeline network availability. The lack of pipeline capacity from the Brisbane City Gate to the Port of Brisbane has stalled the development of Gibson Island power station • in exercising a choice between selling gas or electricity, there is no guarantee that the returns from the sales of gas would be sufficient to cover the toll charges to Condamine power station • environmental incidents are still possible despite compliance with current regulations. • development of new technologies can pose a threat as alternative energy sources in the mid to long term 	<ul style="list-style-type: none"> • significant area still to be explored • delay of construction of PNG pipeline improves QGC's ability to secure contracts in the future • multiple opportunities for growth as QGC builds reputation in market and gas becomes a preferred source of energy over more pollutant fuels • growth in Queensland is expected to require an increase in large industrial projects that in turn will require increased energy sources availability • possible opening to other markets through: <ul style="list-style-type: none"> ○ the proposed Newcastle pipeline ○ the Moomba extension ○ the Mt Isa link ○ new Gladstone link • prices of natural gas may increase in the long term, allowing for higher margins in the future • ability to utilise water to reduce cost of management of water produced • growth in the demand for gas to satisfy base and peak local requirements of power stations

Source: Deloitte Corporate Finance analysis and QGC management

4.7 Capital structure and shareholders

As at the date of this report QGC had the following securities on issue:

- 478.3 million ordinary shares
- 2.5 million ordinary shares in employee share plans.

The total number of shares, including ordinary shares and shares held in employee share plans, is 480.9 million. The directors of QGC currently hold a combined relevant interest in 22% of shares in QGC. Table 11 below shows the top ten shareholders in QGC as at 11 January 2007.

Table 11: Top ten shareholders in QGC

Holder name	Volume held (million)	% outstanding
Elph Pty Limited	78,396,387	16.30
ANZ Nominees Limited	29,623,046	6.16
Santos	18,576,616	3.86
Mr Robert Bryan	15,214,906	3.16
Sentient	14,424,279	3.00
Westpac Custodian Nominees Limited	12,543,634	2.61
J P Morgan Nominees Australia Limited	9,274,629	1.93
Citicorp Nominees Pty Limited	8,002,149	1.66
National Nominees Limited	7,694,896	1.60
HSBC Custody Nominees (Australia) Limited – GSI ECSA	5,340,147	1.11
Total	199,090,689	41.39¹

Source: QGC

Note:

1. Calculated on the basis of the total number of shares on issue as at 11 January 2007, i.e. 480.9 million

A summary of the movements in the share capital of QGC since 1 July 2006 is shown in the table below.

Table 12: Share capital movements

Movement of shares	Ordinary shares	Shares in employee share plans	Total
On issue as at 1 July 2006	376,592,376	1,069,574	377,661,950
Issue to DESP (performance related)	-	1,305,213	
Issue as per exercise of options ¹	6,040,000	-	
Issue to Non-Executive Directors Share Plan (in lieu of directors fees)	-	185,484	
Rights issue	95,671,710	-	
Transfer of shares from DESP to employees	29,540	(29,540)	
Transfer of shares from EESP to employees	5,263	(5,263)	
On issue as at 11 January 2007	478,338,889	2,525,468	480,864,357

Source: QGC

Note:

1. Currently there are no options outstanding

4.8 Share price performance

A summary of QGC's share price performance is provided in Table 13 below.

Table 13: QGC quarterly share price information

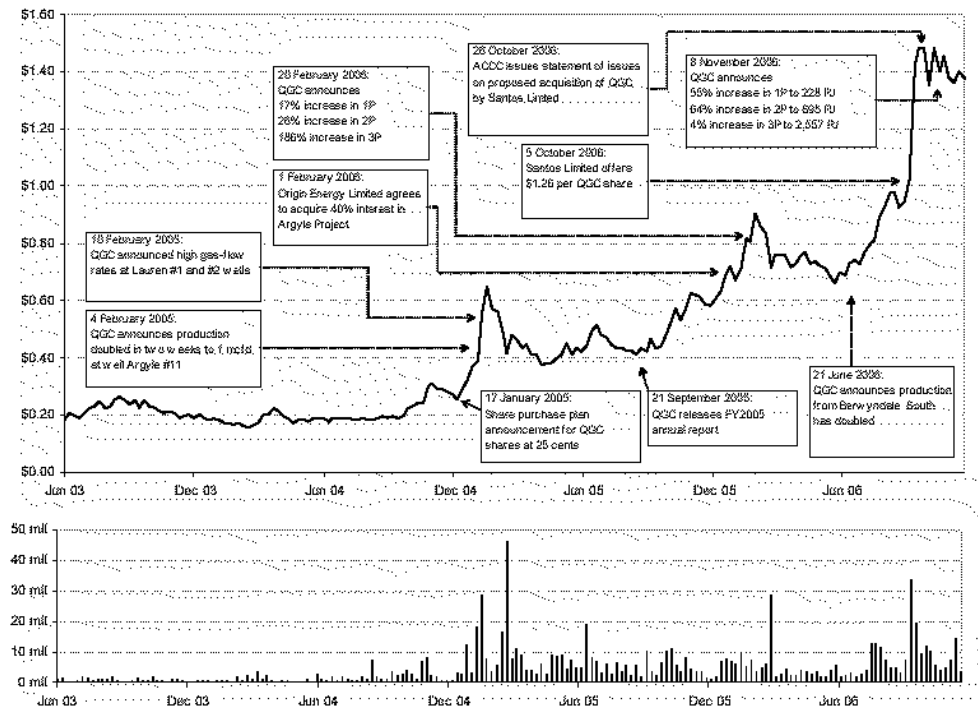
Quarter end date	High (\$)	Low (\$)	Last trade (\$)	Volume (million)
Jun-2003	0.220	0.150	0.185	9.4
Sept-2003	0.275	0.190	0.240	12.0
Dec-2003	0.260	0.185	0.200	10.1
Mar-2004	0.210	0.150	0.210	12.8
Jun-2004	0.220	0.165	0.180	13.9
Sept-2004	0.215	0.170	0.195	21.6
Dec-2004	0.355	0.175	0.255	37.6
Mar-2005	0.740	0.255	0.425	165.6
June-2005	0.475	0.360	0.440	77.2
Sept-2005	0.525	0.395	0.465	82.1
Dec-2005	0.665	0.410	0.605	64.7
Mar-2006	0.920	0.615	0.760	96.6
Jun-2006	0.805	0.505	0.690	40.8
Sept-2006	1.060	0.680	1.020	79.0
Dec-2006	1.535	1.010	1.330	127.3

Source: Bloomberg

QGC's share price performance had been relatively flat until the end of 2004, with generally low volumes traded. Since January 2005, the share price has increased significantly with higher volumes traded.

These share price movements and trading volumes are presented graphically in the figure below.

Figure 15: QGC stock activity on ASX



Source: Bloomberg

4.9 Financial performance

The audited consolidated financial results of QGC for the years ended 30 June 2003 to 30 June 2006 are summarised in the table below.

Table 14: Financial results

	Actual 2003 (\$'000)	Actual 2004 (\$'000)	Actual 2005 (\$'000)	Actual 2006 (\$'000)
Revenue	148	83	667	4,787
EBITDA	(3,046)	(2,069)	(11,942)	(4,687)
Depreciation and amortisation	182	17	-	725
EBIT	(3,228)	(2,087)	(11,942)	(5,412)
Interest expense	(27)	(38)	(230)	(842)
Loss before tax	(3,255)	(2,124)	(12,172)	(6,254)

Source: QGC

QGC completed the Berwyndale South gasfield project in May 2006 and recorded its first revenue from gas sales to foundation customer CS Energy. Better than expected gas flow rates from this gasfield also permitted QGC to commence gas supply to Braemar, more than three months ahead of contract requirements. Revenue from gas sales to CS Energy and Braemar in FY2006 was \$1.2 million. QGC expects these two foundation customers to account for a significant portion of gas sales in the 2007 financial year.

Revenue in FY2006 also included interest on cash at bank of \$1.4 million, net gain on disposal of interests in tenements of \$1.7 million and fair value gains on financial liabilities of \$0.2 million.

Major expenses relate to employee benefits (\$3.0 million in 2006), Sydney Gas Limited (Sydney Gas) bid costs and operating costs (\$1.7 million and \$1.4 million respectively).

4.10 Financial position

The audited consolidated statements of financial position of QGC as at 30 June 2005 and 30 June 2006 are summarised in the table below.

Table 15: Financial position

	June 2005 audited (\$'000)	June 2006 audited (\$'000)	Dec 2006 unaudited (\$'000)
Cash	26,150	12,979	25,977
Receivables and prepayments	1,106	3,443	13,891
Inventories	1,144	3,097	3,436
Derivative financial instruments	-	28	-
Total current assets	28,400	19,547	43,304
Loan receivables	3,642	-	-
Development and production assets	2,138	101,317	124,279
Other property, plant and equipment	1,692	1,083	7,399
Intangibles – exploration and evaluation costs	35,791	7,131	11,421
Total non-current assets	43,263	109,531	143,099
Total assets	71,663	129,078	186,403
Payables	2,072	12,265	16,067
Interest bearing liabilities	208	12,135	1,002
Derivative financial instruments	-	285	-
Provisions	142	292	340
Total current liabilities	2,422	24,977	17,409
Interest bearing liabilities	614	30,628	34,061
Provisions	1,640	2,763	3,184
Total non-current liabilities	2,254	33,391	37,245
Total liabilities	4,676	58,368	54,654
Net assets	66,987	70,710	131,749

Source: QGC

When the technical and commercial viability of extracting a resource is demonstrable, the exploration and evaluation costs carried forward for a determined area are assessed for impairment and reclassified as development and production assets.

Development and production assets as at 31 December 2006 (unaudited) mainly comprise:

- development and production assets of \$47 million
- gasfield assets of \$35 million
- gasfield plant and equipment of \$41 million.

Prior to production, the transferred exploration and evaluation costs and field development costs are classified as “development assets – not producing”. Once commercial production has commenced, the accumulated “development assets – not producing” amount is reclassified as either, property plant and equipment, or as gasfield assets, depending on their nature.

QGC has unused tax losses not brought to account of \$49.5 million.

In addition to the financial position presented above, Table 16 below sets out contracted gas volumes, certified reserves and enterprise value⁷ as at 30 June 2003 to 30 June 2006.

Table 16: Relationship between contracted gas volumes, 2P reserves and market capitalisation

	30 June 2003	30 June 2004	30 June 2005	30 June 2006
Gas under sales contract (QGC share)	30 PJ	30 PJ	80 PJ	116 PJ
Certified 2P (QGC share)	-	75 PJ	336 PJ	423 PJ
Share price (\$)	0.185	0.18	0.44	0.69
Market capitalisation (\$'mil)	29.88	31.35	155.14	260.59
Enterprise value (\$'mil)	27.92	29.89	129.82	290.37
\$ per 2P GJ (QGC share basis)	n/a	0.40	0.39	0.69

Source: Bloomberg, QGC and Deloitte Corporate Finance analysis

⁷ Enterprise value represents the total value of the equity (represented by its market capitalisation) and the debt of a company

5 Brief profile of AGL

5.1 Overview of AGL

On 6 October 2006, The Australian Gas Light Company's shareholders voted in favour of the recommended proposal to separate the company into an integrated energy company and an energy infrastructure company. Following approval of the proposal, AGL became one of Australia's leading integrated energy companies and The Australian Gas Light Company's infrastructure assets were acquired by Alinta Limited (Alinta).

The following information in relation to AGL is sourced from the AGL Scheme Booklet – Part 2, dated 29 August 2006.

AGL's general business strategy is to:

- participate in the contestable growth segments of the electricity and gas sectors, being energy retail, power generation and upstream gas
- manage wholesale price risk and earnings volatility by matching upstream and retail exposures
- take advantage of its position as a large purchaser of wholesale gas and electricity to reduce the cost of supply and obtain market share growth.

We describe below the business operations of AGL.

Retail business

Following the separation, AGL became Australia's largest retailer of gas, electricity and related services. AGL's retail energy customer base supplies more than three million customers.

AGL supplies gas, electricity and energy related services to residential consumers, small and large commercial consumers and industrial consumers. In the 2006 financial year, AGL sold 186.2 PJ of natural gas and 22,148 gigawatt-hours (GWh) of electricity.

The key elements of AGL's strategy for its retail business are:

- to grow the business within its existing retail markets
- to provide a comprehensive range of gas and electricity products and related services in response to changing market requirements, including green energy
- to develop innovative energy solutions for large energy users
- to continue its cost rationalisation systems and processes and to improve services to customers.

Merchant energy business

AGL's wholesale electricity division purchases and generates the electricity and related products sold by AGL's retail division.

AGL contracts with external parties, mainly generators, with a view to reduce the price risk associated with retailing electricity to customers. Generation assets owned by AGL are used mainly to manage its exposure to pool prices during periods of peak demand.

AGL has a power generating portfolio that includes base, peaking and intermediate generation. AGL has thermal (coal and gas) and renewable (hydro, landfill gas and bio gas) energy assets. The power generating assets are predominantly located within the regions where its retail customers are located.

The wholesale gas division of AGL is involved in gas purchasing and managing, gas transportation and gas storage services for AGL's energy customers.

AGL is focussed on developing and acquiring upstream gas and power generation assets with the objective of:

- ensuring wholesale energy costs are maintained at competitive levels
- reducing risk by diversifying sources of supply
- maintaining an appropriate balance between equity and contract gas and electricity supplies to provide portfolio flexibility and minimise cost and risk
- participating in the development of alternative energy technologies, including clean carbon solutions.

5.2 AGL's strategic rationale

As per media announcements released to the ASX on 5 December 2006, the Proposal delivers to AGL's wholesale energy portfolio further fuel diversity, price competitiveness, stability and longevity of gas supply. In addition, it represents a strategic fit with AGL's recent \$75 million acquisition of the Queensland Government's Sun Gas retail business, which includes 70,800 retail customers in south-east Queensland consuming approximately 23 PJ of gas per year⁸ and representing approximately 50% of Queensland's mass market customer base.

The location of QGC's assets, based around the Surat Basin, also complements AGL's recent acquisition of a half-share in the Moranbah Gas Project which is based around the Bowen Basin.

⁸ Source: p.11, Queensland Government IM

6 Valuation methodology

6.1 Valuation methodologies

To estimate the fair market value of a share in QGC, we have considered common market practice and the valuation methodologies recommended by ASIC Practice Note 43 regarding valuation reports of independent experts. These are discussed below.

6.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

6.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

6.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

6.2 Selection of valuation methodologies

We are of the opinion that the most appropriate methodology to value QGC is the discounted cash flow method due to the following factors:

- QGC is in the process of transitioning from a pure exploration company to a gas production and development company and achieved its first revenues from gas sales in financial year 2006
- QGC is at an early stage in its development and has yet to record earnings
- significant capital expenditure will be required by QGC in the near future.

We have also considered recent share market trading activity to provide additional evidence of the fair market value of a share in QGC. In addition, we have also considered an industry rule of thumb, by estimating the value implied by our valuation of QGC on a \$/GJ basis and comparing this to \$/GJ achieved in other recent comparable transactions.

7 Future cash flows

7.1 Financial model

In conjunction with NSAI, we have prepared a detailed financial model based on QGC's existing gas supply contracts, the Gas Supply Agreement to be entered into with AGL pursuant to the Proposal and scenarios for possible future contracts (the Model). The Model includes projections of nominal after tax cash flows for QGC for 20 years to 31 December 2026.

NSAI, an independent specialist petroleum consultant, has prepared a report providing a technical assessment of ATPs 610, 620, 632 and 648. They have provided us with projections of production profiles, operating costs and capital costs up to and including 31 December 2026 in nominal AUD terms. We have valued QGC based on these technical inputs and our assessment of gas prices, sales volumes, taxation and discount rate.

A copy of NSAI's report is provided in Appendix 7.

We have not undertaken a review of the projections in accordance with AUS 804 – The Audit of Prospective Financial Information. However, nothing has come to our attention as a result of our analysis that suggests the assumptions on which the projections are based have not been prepared on an appropriate basis.

7.2 Revenue

Gas revenue is a function of volume and prices which are discussed in the following section.

7.2.1 Contracted volumes

As discussed in Section 7.2.1, the contracted volumes with foundation customers and proposed contracts with AGL have been modelled consistent with contracted terms.

Given the short period that QGC has been producing gas and the early stage of its development, we have developed two scenarios for possible future contracts.

Scenario 1 is based on existing contracts, the proposed contract with AGL and additional gas sales, increasing from 2007 to a total of 50 PJ per annum in 2013 (QGC's share), until the end of our projection period (2026). The additional gas sales are based on an assessment of potential contracts totalling more than 50 PJ per annum, which QGC management consider have a high probability of being secured, over a six year period. Scenario 1 assumes existing contracts will extend beyond their current terms, based on contract terms expected to be in effect at maturity. We consider the additional 50 PJ per annum to be an appropriate expectation.

Scenario 1 implies that QGC has an average 19% share of the East Coast gas market over the projection period. The additional gas sales modelled in Scenario 1 represent 8% of the East Coast gas market.⁹

Scenario 2 includes additional possible gas sales, starting from 2010 to a total of 50 PJ per annum in 2012 (QGC's share), until the end of our projected period (2026). These possible gas sales are dependent on the completion of the Moomba to Ballera and RBP pipeline extensions and the backhaul pipeline to Wallumbilla from QGC's Bellevue field (ATP 610). We consider Scenario 2 to be an appropriate high case expectation.

Scenario 2 implies that QGC has an average share of 26% of the East Coast gas market over the projection period. The additional gas sales modelled in Scenario 2 represent 16% of the East Coast gas market.¹⁰

⁹ Source: ABARE Research Report 06.26 - Table C2 Final energy consumption in Australia, by fuel, by state

The scenarios are summarised in the following table.

Table 17: Scenarios for analysis

Scenario	CS Energy	Braemar ²	Incitec	Condamine	AGL ³	Additional gas sales	Further additional gas sales
Existing contracts	✓	✓	✓	✓			
Existing contracts, plus AGL	✓	✓	✓	✓	✓		
Scenario 1	✓	✓	✓	✓	✓	✓	
Scenario 2	✓	✓	✓	✓	✓	✓	✓

Source: Deloitte Corporate Finance analysis

Notes:

1. Refer to Section 4.3.2 for further detail in relation to the existing contracts
2. The option in relation to the contract with Braemar (total of 7.4 PJ) has not been incorporated into existing contracts
3. The option with AGL, pursuant to the Gas Market Development Services Agreement, has been incorporated into existing contracts

The scenarios summarised above incorporate existing contracts with customers (including options) including CS Energy, Braemar, Incitec, Condamine, the proposed AGL Gas Sales Agreement contracts and additional gas sales.

The existing contracts with foundation customers and proposed contracts with AGL have been modelled consistent with contracted terms. The additional gas sales (Scenario 1 and Scenario 2) have been modelled based on the pricing discussed below and an estimate by NSAI as to the likely capital and operating costs appropriate to deliver these additional gas sales.

NSAI have assumed that the additional gas sales (Scenario 1 and Scenario 2) will be fulfilled from ATPs 610, 620, 632 and 648 and the capital and operating costs reflect QGC's experience and actual costs incurred by QGC in these fields. It is possible that alternate fields held by QGC will be developed instead, and if so, it is assumed that the alternate fields will exhibit similar development attributes.

7.2.2 Pricing

Existing contracts and the proposed AGL contracts have been modelled according to the contract terms. Due to the commercial sensitivity of pricing agreements, pricing is generally not publicly available. In considering an appropriate price to apply to the additional gas sales (Scenario 1 and Scenario 2), we have had regard to the following:

- pricing in the existing contracts and the proposed contracts with AGL
- discussions with management
- industry estimates and commentary including, but not limited to NSAI, ABARE and Core Collaborative Pty Limited (Core Collaborative).

On the basis of our analysis, we have adopted gas prices (commencing 1 July 2007) of between \$2.50 and \$2.90 per GJ to apply to additional gas sales in the discounted cash flow analysis.

¹⁰ Source: ABARE Research Report 06.26 - Table C2 Final energy consumption in Australia, by fuel, by state

It is common industry practice for pricing to escalate at a percentage of the consumer price index (CPI). In determining the escalation factor to apply to the additional gas sales, we have had regard to escalation factors in QGC's existing contracts and our discussions with management.

For the purposes of assessing an appropriate annual escalation factor (to apply to prices post 2007), we have adopted an inflation rate of 2.5% and an escalation factor of 85% of inflation, for the duration of our projection period.

7.3 Flow rates

Scenario 1 and Scenario 2 are based on average flow rates for each well, based on:

- for existing wells, the decline curve projections tied to the volumetric reserves for each grid block, or spacing unit, that the well is located in
- for undrilled wells, a type curve analysis that allow wells to dewater to the peak rate in six months, then an immediate decline from the peak in two phases; at 20% for two years, then 10% to 12% to the economic limit of the well.

As set out in Section 4.3.3, QGC has announced weekly average production rates of above 1.4 mcf/d per well, with overall production in excess of 35 TJ per day or approximately 13 PJ per year. The best performing well (#60) recorded daily average flow rates of over 4.6 mcf/d (equivalent to 1.8 PJ a year), four of the wells (#40, #18, #17 and #9) have average daily flow rates in excess of 2.0 mcf/d and at least 50% of the wells have recorded average daily flow rates greater than 1.0 mcf/d. The Company reported that none of the wells at Berwyndale South have yet shown signs of peaking.

NSAI's projections of operating and capital costs were initially based on peak average flow rates of 0.9 mcf/d. NSAI has advised QGC that it considers the peak gas rate of 1.4 mcf/d to be reasonable and have advised us how this improved performance can be recognised in NSAI's estimates of capital and operating costs.

7.4 Operating costs

Based on data provided by QGC, NSAI have projected operating costs, including the following:

- tolling costs – including gathering, compression and transportation fees assuming a central gathering system
- well operating costs – based on a fixed cost per well per month to operate existing wells
- water disposal costs – based on a cost per barrel to treat, handle and dispose of water
- general operating costs – based on a fixed cost per month for head office support and overheads
- capital costs – based on a fixed drilling cost, plus a cost per metre drilled
- escalation – operating costs are escalated at 100% of CPI (2.5%) each year.

NSAI's assumptions are based on a historical analysis of QGC's costs and NSAI's knowledge of comparable operator costs.

Almost half of QGC's production wells are free-flowing wells¹¹, resulting in savings in capital and operational expenditures. In addition, two new screw compressors, which were installed in December 2006, are expected to increase the capacity of the field by an additional 50%.

¹¹ No pumping equipment is necessary to extract water from the coal seams to produce gas

In addition to the above operating costs, we have incorporated the Gas Development Service Fee into our estimate of the net present value of the Gas Market Development Services Agreement

7.5 Capital costs

Capital costs have been projected based on a drilling schedule determined by NSAI for each gas contract scenario and other capital equipment expected to be required to extract and process the volumes for the proposed contract with AGL and additional gas sales.

7.6 Production tax

A royalty of 10% of the wellhead value is payable to the Queensland government. The royalty is based on sales revenue less certain expenses, including tariffs paid to third parties for pipeline access or access to a processing plant, depreciation of capital costs and operating costs specifically relating to treating, processing or refining petroleum or transporting the petroleum.

The royalty has been modelled as approximately 8% per annum of sales revenue, based on allowable expenses that reduce the wellhead value.

7.7 Other

In addition to the above assumptions, the Model assumes the following:

- a corporate tax rate of 30% over the life of the fields and that all taxes are paid as and when incurred
- as discussed in Section 4.10, QGC has unused tax losses not brought to account of \$49.5 million. We have incorporated these tax losses in the Model
- there are no material working capital movements.

8 Valuation of QGC

8.1 Introduction

Deloitte Corporate Finance has estimated the fair market value of a QGC ordinary share, on a significant interest basis to be in the range of \$1.35 to \$1.80. This represents a value range of \$1.49 to \$2.00 for a QGC share on a majority basis.

For the purpose of our opinion fair market value is defined as the amount at which the shares would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we estimated the fair market value of QGC using the discounted cash flow method.

We have also considered recent share market trading activity to provide additional evidence of the fair market value of a share in QGC. In addition, we have considered an industry rule of thumb, by estimating the value implied by our valuation of QGC on a \$/GJ basis and compared this to \$/GJ achieved in other recent comparable transactions.

These are discussed in Sections 8.2 to 8.4 respectively.

8.2 The discounted cash flow method

The discounted cash flow method estimates market value by discounting a company's future cash flows to their net present value. To value QGC using the discounted cash flow method requires the determination of the following:

- future cash flows
- an appropriate discount rate to be applied to the cash flows
- an estimate of value beyond the projection period
- premium over and above the discounted cash flow valuation
- the value of any surplus assets
- the level of net debt outstanding.

Our considerations on each of these factors are presented below.

8.2.1 Future cash flows

NSAI has provided us with cash flow information upon which to project future cash flows.

We have adopted these cash flow projections and made adjustments, where appropriate, to reflect additional assumptions on pricing and sales volumes.

The projected cash flows for Scenario 1 and Scenario 2 assume the following utilisation of QGC's reserves and resources over the projection period.

Table 18: Modelled reserves and resources

	Modelled reserves and resources (PJ)	% of total reserves and resources ¹	% of potential OGIP
Scenario 1	2,070	75%	11%
Scenario 2	2,868	104%	16%

Source: Deloitte Corporate Finance analysis

Note:

1. Based on total 3P reserves and resources of 2,755 PJ, post the Sentient Transaction
2. Based on QGC's estimate of its share of OGIP in its tenements of 18,500 PJ (post the Sentient Transaction)

8.2.2 Discount rates

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a nominal after tax discount rate in the range of 11% to 12% to discount the future cash flows of QGC to their present value.

In selecting this range we considered the following:

- the required rates of returns for comparable ASX listed companies with operations in CSG and oil and gas exploration and production
- the debt to equity ratios of comparable listed Australian CSG and oil and gas exploration and production companies
- the specific business and financing risks of QGC
- company specific risks attributable to QGC, particularly the early stage of its production activities and its ability to secure/renew long term contracts with customers
- an appropriate long term cost of debt for QGC.

A detailed consideration of these matters is provided in Appendix 3.

8.2.3 Value beyond the projection period

As discussed in Section 7.2.1, NSAI have provided us with projected cash flows for varying periods under each of the two scenarios. We have adopted these cash flows for a period of 20 years (until 2026).

However, QGC has significant potential to add to its resources and reserves in existing tenements, which could result in the extension of existing/proposed contracts or entering into new contracts with customers in current and/or extended markets. QGC management have estimated total OGIP of 25,500 PJ, of which QGC's share is estimated at 18,500 PJ (assuming the Sentient Transaction proceeds). In particular, these potential reserves include:

- further commercialisation of the Undulla Nose reserves
- Argyle gas development (PL 228)
- Berwyndale South development (for the Condamine power station)
- Surat Basin tenements beyond Undulla Nose, including Aberdeen #8 and Woleebee Creek #3.

Rather than attempt to project cash flows beyond 2026 in the Model, we have projected cash flows beyond the projection period for an additional 20 years based on the projected cash

flows in 2026. These additional cash flows represent approximately 16% and 27% of the discounted cash flow value of Scenario 1 and Scenario 2.

We have adopted the following 20 year annuity formula to calculate the present value of the additional cash flows:

$$CF(2026-2046) = CF2027 * [(1 - (1 + AEF)^{-20}) / (AEF)]$$

We have selected the following inputs into the above calculation:

- CF2027 = the projected cash flow in the 2026 financial year escalated by 2.5%
- annuity escalation factor (AEF) = $[(1 + WACC)/(1 + g)] - 1$
- WACC = 11% to 12% as outlined in Appendix 3
- a nominal long-term growth rate (g) of 2%.

The projected cash flows for Scenario 1 and Scenario 2 assume the following utilisation of QGC's reserves and resources over the period 2006 to 2046.

Table 19: Modelled reserves and resources (2006 – 2046)

	Total modelled reserves and resources (PJ)	% of potential OGIP ¹
Scenario 1	4,450	24%
Scenario 2	6,306	34%

Source: Deloitte Corporate Finance analysis

Note:

1. Based on QGC's estimate of its share of OGIP in its tenements of 18,500 PJ (post the Sentient Transaction)

8.2.4 Discounted cash flow valuation

Given the nature of QGC's activities and limited production history, the nature and pricing of possible future gas sales is uncertain and accordingly, we have based our valuation analysis on two scenarios for possible future contracts. In addition, the assumed value of several other variables is uncertain. These variables, which have a significant impact on the discounted cash flow analysis, are as follows:

- gas pricing
- well flow rates
- capital and operating costs.

Gas pricing

Pricing is generally negotiated for each contract between the parties and is not typically publicly available due to the commercial sensitivity of these pricing agreements. Accordingly, a range of possible outcomes could eventuate in respect of contract arrangements with each party.

In addition, as a result of various proposed new pipelines and pipeline extensions, the anticipated decline of the Cooper Basin and the favourable setting for gas fired electricity generation, there is some uncertainty over the future demand and supply balance.

Accordingly, we have adopted gas prices of \$2.50 per GJ, \$2.60 per GJ, \$2.75 per GJ and \$2.90 per GJ (as at 1 July 2007).

Volumes and capital and operating costs

The drilling schedule and flow rate estimates adopted by NSAI project volumes sufficient to meet all projected contract requirements and reflect an associated capital and operating cost profile.

However, there is uncertainty over future well production volumes. Accordingly, the capital and operating cost profile provided for each of the scenarios could support different volume profiles, or alternatively, the same volumes could be produced from lower operating and capital costs. In particular, we note the following:

- the operating and capital cost projections are based on an average of 1.4 mcf/d
- as set out in Section 4.3.3, QGC has announced weekly average production rates of above 1.4 mcf/d per well, with overall production in excess of 35 TJ per day or approximately 13 PJ per year. The best performing well (#60) recorded daily average flow rates of over 4.6 mcf/d (equivalent to 1.8 PJ a year), four of the wells (#40, #18, #17 and #9) have average daily flow rates in excess of 2.0 mcf/d and at least 50% of the wells have recorded average daily flow rates greater than 1.0 mcf/d
- NSAI has based its assumptions on a type curve analysis that allow wells to dewater to the peak rate in six months. QGC management have advised that based on its experience with wells to date, an appropriate assumption in respect to ramp up could be between six months to a few years. It is difficult to estimate an average, given that some wells can ramp-up within a month. In addition, most of QGC's wells are still inclining and a number have been doing so for between 18 months to approximately three years
- NSAI assume that once wells reach a peak, they will commence an immediate decline. QGC management have advised that based on its experience, a significantly longer plateau period may be appropriate considering particularly the similarity of the performance of QGC wells to wells in the San Juan basin, which have demonstrated plateaux's of up to four years
- NSAI have assumed a decline in two phases: at 20% for two years, then at 10% to 12% to the economic limit of the well. QGC management have advised that their expectation would be for wells to decline at approximately 10% per annum post the plateau period.

As discussed above, it appears that the assumptions adopted by NSAI have a level of conservatism that has, in some instances, been surpassed by QGC's actual results and experiences. The realisation and sustainability of higher well flow rates reflects significant upside potential that has not been incorporated in the Model. This upside could allow increased sales with reduced requirement for capital and operating costs. We have attempted to capture this additional upside potential by modelling different volume and cost profiles for both Scenario 1 and Scenario 2.

Based on discussions with NSAI and QGC management we understand that an increase in volumes of up to 10% could be reasonably supported by the capital and operating cost profile provided by NSAI for each scenario. Alternatively, a reduction in costs of up to 10% would not be unreasonable to produce the scenario volume requirements.

Accordingly, we have considered the following adjustments to the base volumes and costs in respect of Scenario 1 and Scenario 2:

- volumes: +5% and +10%
- operating and capital costs: +/- 5% and - 10%.

The enterprise value of QGC derived from the discounted cash flow method is set out in the table below.

Table 20: Summary – discounted cash flow method

	Enterprise value (\$ million) ¹		
	12.0%	11.5%	11.0%
Scenario 1			
Pricing (as at 1-Jul-07):			
\$2.50 per GJ	628	661	696
\$2.60 per GJ	639	672	708
\$2.75 per GJ	655	688	725
\$2.90 per GJ	671	705	742
Volume (assuming gas pricing at \$2.60 per GJ):			
Base volumes	639	672	708
Base volume + 5%	693	728	767
Base volume + 10%	746	784	826
Capital and operating cost (assuming gas pricing at \$2.60 per GJ):			
Base costs + 5%	612	644	678
Base costs	639	672	708
Base costs - 5%	666	700	737
Base costs - 10%	693	728	766
Scenario 2			
Pricing (as at 1-Jul-07):			
\$2.50 per GJ	819	866	918
\$2.60 per GJ	840	888	941
\$2.75 per GJ	871	921	976
\$2.90 per GJ	902	954	1,011
Volume (assuming gas pricing at \$2.60 per GJ):			
Base volumes	840	888	941
Base volume + 5%	912	964	1,021
Base volume + 10%	984	1,040	1,102
Capital and operating cost (assuming gas pricing at \$2.60 per GJ):			
Base costs + 5%	803	850	901
Base costs	840	888	941
Base costs - 5%	876	926	981
Base costs - 10%	912	964	1,021

Source: Deloitte Corporate Finance analysis

Notes:

1. The above range of discounted cash flow values have been calculated on a mutually exclusive basis and do not incorporate any interrelationships between the various assumptions adopted

The table above indicates a wide range of potential values for QGC, which reflects the early stage of its development, resulting from uncertainty in relation to several key operating assumptions, particularly the extent of future sales and well flow rates.

The values for Scenario 1 range from \$612 million to \$826 million and from \$803 million to \$1,102 million for Scenario 2. We have placed more emphasis on the values arising from our adjustments to operating and capital costs than to the volume adjustments, which effectively assume increased gas sales.

Based on the above and our professional judgement, we have adopted an enterprise value range of \$700 million to \$900 million for QGC. The low end of this range is towards the middle of the range of values for Scenario 1 and the upper end is below the middle of the range of Scenario 2.

8.2.5 Premium to discounted cash flow valuation

Over the projection period, Scenario 1 and Scenario 2 projects net cash flows arising from 75% and 104% of the current proven and probable reserves of QGC. In addition, production of a further 2,380 PJ to 3,438 PJ are assumed in our calculation of value beyond the projection period (from 2026 to 2046). There are a number of other items, however, not captured by the discounted cash flow valuation, such as:

- well flow rates in excess of the levels modelled, which could significantly reduce QGC's projected operating and capital costs
- discovery of further resources from existing tenements. QGC management estimate OGIP in QGC's tenements of 25,500 PJ, of which QGC's share is estimated at 18,500 PJ¹²
- the ability of QGC to extract further benefits in excess of the projected cash flows through future strategic options which include initiatives such as the proposed Condamine power station. Whilst we have modelled gas sales to the Condamine power station, we have not incorporated any upside relating to electricity sales
- QGC's management has a strong track-record in developing QGC to date, including its exploration activities and the commencement of production at Berwyndale South. As a result, there may be future value attributable to management's ability to enhance the value of the existing assets and future strategic directions which have not been captured in the Model
- a potential investor in QGC may also be willing to pay a premium in excess of the discounted cash flow value for the strategic value offered by QGC. This strategic value may relate to the large potential resource base, access to pipelines and demonstrable production capability
- potential upside in respect of revenue not captured in the discounted cash flows model, including QGC's put option with Braemar (to sell up to 3.65 PJ per annum for two years)
- the Gas Market Development Services Agreement with AGL provides QGC with the right to utilise excess pipeline capacity up to 29 PJ over three years. Given gas pricing in some of the markets QGC will be able to access pursuant to this agreement, QGC may be able to contract at levels in excess of the gas prices adopted in the discounted cash flow valuation
- possible revenue in respect of sale of water produced when extracting gas.

Having regard to the potential impact of these factors, based on our professional judgement, we have added a premium of 15% to 20% to the discounted cash flow valuation of QGC.

8.2.6 Surplus assets

QGC does not hold any assets that do not contribute to the projected cash flows included in the Model.

¹² Calculated based on the Sentient Transaction proceeding

8.2.7 Net debt

QGC's unaudited net debt position at 31 December 2006 was as follows:

Table 21: Net debt

	31 December 2006 (\$'000)
Current interest bearing liabilities	1,002
Non-current interest bearing liabilities	34,061
Cash	(25,977)
Net debt	9,086

Source: Deloitte Corporate Finance analysis

8.2.8 Significant interest discount

AGL will acquire up to a 30% interest in QGC pursuant to the Proposal. As a significant shareholder, AGL is likely to be able to exert significant influence over QGC

In our view, the discounted cash flow methodology derives a value for a controlling interest. The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

- control the cash flows of the company includes dividends and capital expenditure
- determine the strategy of the company
- make acquisitions or divest operations
- control the composition of the board of directors.

Australian studies indicate the premiums required to obtain control of companies range between 25% and 40% of the portfolio holding values. A minority interest discount is the inverse of a premium for control (*minority interest discount* = $1/[1/(1+\text{control premium})]$) and generally ranges between 15% and 30%.

The discount that should be applied to the value of a controlling interest in order to derive the value of a significant interest is somewhat subjective. We believe the discount to be applied to these circumstances to be relatively minor, for the following reasons:

- AGL will acquire up to a 30% interest in QGC pursuant to the Proposal. As a significant shareholder, AGL is likely to be able to exert significant influence over QGC
- it is unlikely that any potential purchaser would be able to extract significant cost synergies from acquiring QGC
- the lower end of our discounted cash flow valuation, which measures a control value, is broadly supported by the value of a QGC share with reference to recent share trading (refer section 8.4)
- significant shareholding blocks in QGC
- QGC's low net debt position.

On the basis of the above, we have applied a significant interest discount of 10% to our valuation of QGC.

8.2.9 Summary valuation

The value of QGC derived from the discounted cash flow method, incorporating the above assumptions, is set out in the table below.

Table 22: Summary – valuation of QGC

	Section	Units	Low value	High value
Selected enterprise value range	8.2.4	\$ million	700.0	900.0
Premium to discounted cash flow value	8.2.5	%	15%	20%
Adjusted enterprise value		\$ million	805.0	1,080.0
Surplus assets	8.2.6	\$ million	-	-
Net debt	8.2.7	\$ million	9.1	9.1
Equity value		\$ million	795.9	1,070.9
<i>Valuation of QGC on a per share basis on a majority basis¹</i>		<i>\$</i>	<i>1.49</i>	<i>2.00</i>
Significant interest discount	8.2.8	%	10%	10%
Equity value (significant interest basis)		\$ million	716.3	963.8
<i>Valuation of QGC on a per share basis on a significant interest basis¹</i>		<i>\$</i>	<i>1.34</i>	<i>1.80</i>
Assessed value of a QGC share on a significant interest basis		\$	1.35	1.80

Source: Deloitte Corporate Finance analysis

Note:

1. Based on the number of QGC shares outstanding of 534.3 million (calculated based on the Sentient Transaction proceeding)

The above value of a QGC share assumes that the Sentient Transaction proceeds. We would not expect the Sentient Transaction to significantly impact the value of a QGC share, in the event that it does not proceed.

Value of QGC on a stand alone basis

Our discounted cash flow valuation of QGC assumes that the Proposal with AGL proceeds and that QGC derives the benefit of the Gas Sale Agreement with AGL, totalling 740 PJ (including options). In the absence of the Proposal it is likely that QGC would be able to obtain additional contracts with other customers (or AGL) to replace the Gas Sales Agreement, although the timing, price and volumes will be different to the Gas Sales Agreement.

QGC has received a conditional offer for almost half of the AGL volume at a better price than the Gas Sales Agreement. It is possible that QGC could over time negotiate a number of additional contract volumes, on more favourable pricing terms than the Gas Sales Agreement.

As outlined in Section 3.2, given current market conditions which are driving the growth of CSG as a fuel source (i.e. the decline of the Cooper Basin, the delays associated with the PNG project, etc.), the proven reserves and reserves and resource potential of QGC are a strategic asset. Accordingly, QGC could be more valuable to a diversified energy company without the existence of significant contracted volumes, as QGC resources can then be used to supply the purchaser's own requirements.

On balance, we would estimate the value of QGC in the absence of the Proposal (i.e. on a stand alone basis) to be within our range of the value of a QGC share.

8.3 Industry rule of thumb

In addition to our valuation based on the discounted cash flow methodology, we have also considered an industry rule of thumb, by estimating the value implied by our valuation of QGC on a \$/GJ basis and comparing this to those achieved in other recent comparable transactions.

This rule of thumb method has emerged from market transactions, as it can be calculated by analysts based on limited publicly available information. We consider the \$/GJ rule of thumb provides inconclusive evidence of the value of a CSG company for the reasons set out below:

- the calculation is based on 2P reserves and therefore ignores any potential upside in 3P resources and/or additional exploration acreage
- the requirements for 2P certification are quite stringent, typically requiring a contract in place with a third party in order to demonstrate the commerciality of reserves
- the rule of thumb assumes the tenements held by the subject company and those subject to the comparable transactions are at the same stage of development
- the rule of thumb assumes that the tenements held by the subject company have the same prospectively as those subject to the comparable transactions being analysed, which is difficult to establish.

Whilst we consider that the \$/GJ rule of thumb provides weak evidence of the fair market value of a QGC share, we have presented the value of a QGC share, derived from the discounted cash flow valuation on a \$/GJ basis as follows.

Table 23: QGC value based on \$/GJ¹

	Units	Low	High
Selected share range (on a significant interest basis)	\$	1.35	1.80
<i>Number of shares¹</i>	<i>millions</i>	<i>534.3</i>	<i>534.3</i>
Implied equity value	\$m	721.3	961.7
add net debt	\$m	9.1	9.1
Implied enterprise value	\$m	730.4	970.8
2P reserves ¹	PJ	741.2	741.2
Implied \$/GJ	\$/GJ	0.99	1.31

Source: Deloitte Corporate Finance analysis

Note:

1. Calculation based on the Sentient Transaction proceeding

Our selected significant interest value range for a QGC share of \$1.35 to \$1.80 derived under the discounted cash flow method implies the value of QGC on a \$/GJ basis in the range of \$0.99 per GJ to \$1.31 per GJ, based on QGC's 2P reserves of 741.2 PJ (calculation based on the Sentient Transaction proceeding).

The comparable \$/GJ transactions detailed in Appendix 5 range from 0.43 per GJ to 0.76 per GJ. Our valuation of QGC on a \$/GJ basis of \$0.99 per GJ to \$1.31 per GJ is above the comparable transactions. In our view, this can be attributed to the following:

- QGC has significant 3P reserves and contingent resources, which are not taken into account by the rule of thumb
- QGC's tenements are located in close proximity to major infrastructure and is therefore likely to have lower transportation costs relative to some of the comparable transactions
- QGC appears to have significantly higher well flow rates than those announced by its competitors, which reduces its operating and capital costs.

8.4 Analysis of recent share trading

In addition to the value range derived under the discounted cash flow methodology, we have considered recent share market trading activity for QGC shares.

8.4.1 Basis of assessment

The decision whether to hold or sell QGC shares in the future is an investment decision which Shareholders will have to make if the Proposal is approved. This report has not been prepared to assist Shareholders in deciding whether to hold or sell QGC shares through the buyback.

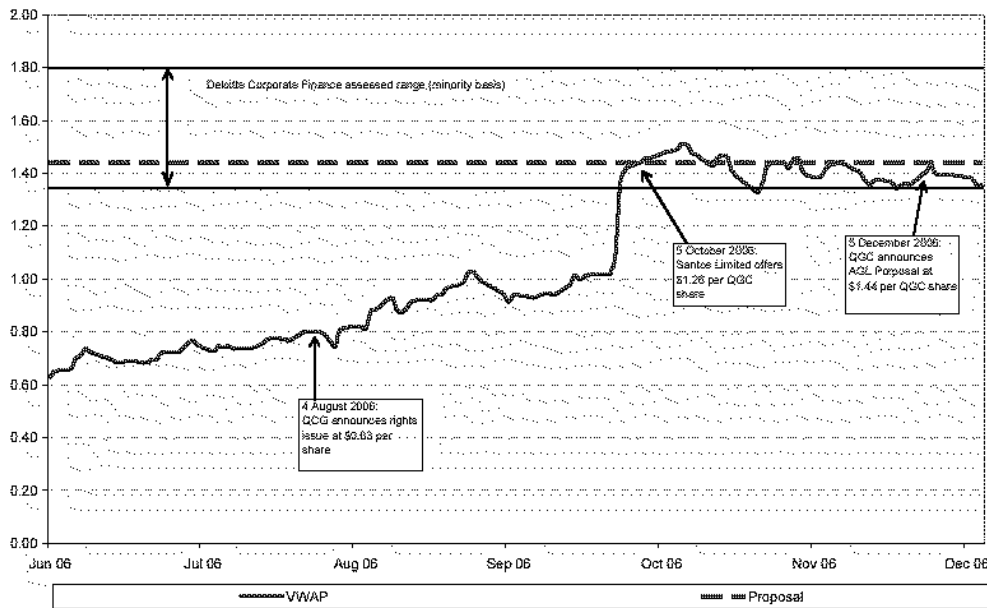
The share market can be expected to provide an objective assessment of the fair market value of a listed entity where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's shares. It would be reasonable to assume that the share trading price is an appropriate measure of the fair market value of QGC's shares on a significant interest basis for the following reasons:

- QGC's audited financial statements for the year ended 30 June 2006 were released to the market on 25 September 2006, providing a recent update regarding QGC's financial performance
- QGC is followed by a number of equities analysts including ABN Amro Morgans and Wilson HTM
- disclosure statements have been made publicly available in relation to the following proposed transactions over the past twelve months:
 - QGC's takeover bid in January 2006 for all the ordinary shares in Sydney Gas (the transaction did not proceed and was terminated in May 2006)
 - QGC's renounceable issue in August 2006 of new QGC shares at \$0.63 per share (representing a 18% discount to trading price of \$0.77 on the last day before the announcement of the issue, on 4 August 2006) on a 1 for 4 basis. The issue was successfully completed in September, raising \$60.3 million
 - Santos' takeover bid in October 2006 for all the ordinary shares in QGC at \$1.26 per share
 - the ACCC commenced proceedings in relation to the QGC and Santos bid immediately after it was announced and released a Statement of Issues on 26 October 2006. The ACCC has announced that the proposed date for the release of its findings is 31 January 2007
 - QGC and AGL's Proposal, announced on 5 December 2006
 - QGC released a first supplementary Target Statement on 7 December 2006 in relation to the AGL Proposal and the Santos offer
 - QGC released a second supplementary Target Statement on 21 December 2006 in relation to the Santos offer.
- QGC has issued the following market announcements in relation to milestone events over the past twelve months:
 - the commencement of first-gas sales to CS Energy from the Berwyndale South gasfield in May 2006
 - delivery of full contract volumes to CS Energy by 25 May 2006, two and a half months ahead of 31 July 2006 deadline
 - flow rates 42% above expectations at Berwyndale South wells, announced in June 2006
 - on 28 July 2006, the completion of a funding agreement to secure the financing of the Condamine power station
 - QGC announced a reserve upgrade certified by NSAI on 1 December 2006
 - announcement of improved flow rates at Berwyndale South gasfield, with a revised daily average flow rate of 1.4 mcf/d (11 January 2007).
- QGC has released weekly drilling reports indicating the status of operations on a per well basis and quarterly reports to Shareholders informing on the status of operations.

8.4.2 Recent share market trading

We have compared the daily volume weighted average price (VWAP) of QGC shares for the six months prior to the announcement of the Proposal to the share placement value of the Proposal (being \$1.44 per share) in the figure below.

Figure 16: Comparison of share trading with Proposal value



Source: Bloomberg, Deloitte Corporate Finance analysis

The VWAP of a QGC share was \$0.82 in the six months prior to the Santos offer and was \$1.14 in the six months prior to the announcement of the Proposal. The share placement price pursuant to the Proposal of \$1.44 represents a premium of 26% over the VWAP of a QGC share of \$1.14 in the six months prior to the announcement of the Proposal. In addition, during the two month period between the Santos offer and the AGC Proposal, the VWAP of a QGC share was \$1.41.

The values derived from share market trading do not reflect the market value for control of a company as they are for portfolio holdings. However, given the current offer by Santos for QGC, it is possible that the market price of a QGC share contains a control premium.

We consider the recent trading in QGC's shares provides support for the fair market value for a QGC share on a significant interest basis derived under the discounted cash flow methodology.

8.5 Summary valuation

In our opinion, the fair market value of a QGC ordinary share, on a significant interest basis is in the range of \$1.35 to \$1.80. This represents a value range of \$1.49 to \$2.00 for a QGC share on a majority basis.

9 Evaluation and conclusion

9.1 Introduction

In our assessment as to whether the Proposal is fair and reasonable, we have had regard to common market practice and to ASIC Policy Statements 74 and Practice Note 43 in relation to acquisitions agreed by shareholders and independent expert reports.

As the Proposal consists of a number of interrelated transactions and agreements, in considering whether the Proposal is fair and reasonable we have assessed the fairness and reasonableness of the Proposal to Shareholders judged in all the circumstances of the Proposal, that is, based on the anticipated total outcome of the Proposal and not necessarily on each individual component.

9.2 Assessment of the Proposal

Advantages of the Proposal:

The likely advantages to QGC Shareholders if the Proposal is approved include:

Fairness of the share placement to AGL

Pursuant to the Proposal, AGL will pay approximately \$292 million for a 27.5% stake in QGC, through a share placement at \$1.44 per share.

We have estimated the fair market value of a QGC share on a significant interest basis to be in the range of \$1.35 to \$1.80. This represents a value range of \$1.49 to \$2.00 for a QGC share on a majority basis.

We have also considered recent share market trading activity, to provide additional evidence of the fair market value of a share in QGC.

Our discounted cash flow valuation of QGC assumes that the Proposal with AGL proceeds and that QGC derives the benefit of the Gas Sale Agreement with AGL, totalling 740 PJ (including options). We consider that the value of QGC in the absence of the Proposal (stand alone value of QGC) is within the same range, as it is likely that QGC would be able to obtain additional contracts with other customers (or AGL) to replace the Gas Sales Agreement with AGL.

A comparison of the share placement price of \$1.44 with the value of \$1.35 to \$1.80 (on a significant interest basis) indicates that the share placement to AGL is fair.

Long term contract with AGL

Pursuant to the Proposal, AGL will enter into a Gas Sale Agreement whereby AGL will purchase from QGC a total contracted volume of 540 PJ over 20 years. In addition AGL will have the option to purchase an additional 200 PJ over 20 years.

Prices and other terms of gas sales contracts are rarely publicly disclosed and normally subject to confidentiality agreements. In addition, prices can vary depending on the flexibility factors for daily and annual swing volumes. In general, the more flexibility the customer seeks, the higher the price, while the larger the volume, the lower the price.

Based on our understanding of typical gas contract pricing, the price to be paid by AGL is within the range of reasonable prices.

Access to AGL's excess pipeline capacity

Pursuant to the Proposal, AGL and QGC will enter into a Gas Market Development Services Agreement whereby QGC will have the right to utilise some of AGL's excess pipeline capacity up to a total maximum cap of 29 PJ over three years.

Under the agreement, QGC may offer gas to AGL on an annual basis (up to the volume limits specified in the agreement) for three years. AGL has first right of refusal to buy that volume at the offered contract price. If AGL does not accept the offer, QGC may attempt to locate a customer and AGL will transport the gas at its incremental cost. The incremental cost is estimated at not more than a marginal tariff cost, which may be significantly less than normal pipeline charges.

At the conclusion of the three year period it is likely that additional infrastructure will be in place to enable QGC to access new markets, such as through the proposed Moomba to Ballera interconnect and the possible backhaul pipeline to Wallumbilla.

Pursuant to the Gas Market Development Services Agreement, QGC is required to pay to AGL a gas development service fee, equal to an amount of \$1.875 million per quarter for 12 quarters (for a total amount of \$22.5 million over three years). The impact of the Gas Market Development Services Agreement has been incorporated in our valuation of QGC.

Relationship with AGL

AGL is Australia's leading integrated energy company. AGL's retail division is Australia's largest retailer of gas, electricity and related services, supplying a customer base of more than three million customers. AGL's wholesale electricity and gas division purchases and generates the electricity and related products sold by AGL's retail division and contracts with external parties, mainly generators, with a view to reduce the price risk associated with retailing electricity to customers.

Management expect that the Proposal will underpin a significant relationship with AGL. Key elements of the relationship are:

- AGL will become a major shareholder, holding up to 30% of the issued share capital in QGC
- AGL will be entitled to nominate three directors on an expanded QGC Board of nine
- AGL will be a major customer, effectively underpinning a proportion of QGC's earnings
- QGC will have access to AGL's excess pipeline capacity for three years, providing QGC with an opportunity to sell gas into additional markets.

It is possible that the relationship with AGL will provide QGC with additional opportunities to sell gas to AGL and to leverage AGL's access to infrastructure on favourable terms.

Our discounted cash flow valuation of QGC assumes that the Proposal with AGL proceeds and that QGC derives the benefit of the Gas Sale Agreement, totalling 740 PJ (including options).

QGC will have an increased size

QGC's market capitalisation is likely to increase significantly as a result of Proposal proceeding.

The increased market capitalisation of QGC may attract greater analyst coverage and could result in QGC being included in various ASX indices, which may enhance the profile of the Company, particularly with institutional investors.

As a result of the increased market capitalisation, QGC may have improved access to both debt and equity funds compared with those currently available, on possibly more attractive terms.

Buyback

As part of the Proposal, QGC will undertake an off-market buyback of up to 12.5% of its expanded capital at a price of \$1.44 per share (at an approximate maximum cost to QGC of \$133 million¹³).

The buyback provides existing Shareholders with a mechanism to sell part of their shareholding at a price of \$1.44, which is in excess of the current market trading price of QGC shares.

As Elph Pty Limited and associates, Sentient, ANZIS and Leyshon and Mr Robert Bryan (QGC Chairman) have confirmed that they do not intend to participate in the buyback and AGL has indicated it will only participate to the extent to which it needs to keep its shareholding at a maximum of 30%, a total of approximately 50% of shareholders will not participate in the buyback. Accordingly shareholders who participate in the buyback will be able to sell a significant part (potentially all), of their shareholding; depending on the level of interest in the buyback from other shareholders.

Shareholders who participate in the buyback may be required to pay capital gains or income tax on disposal of the QGC shares. Shareholders should consult their tax advisor in relation to their personal circumstances.

Directors intend to vote in favour of the Proposal, subject to the receipt of a superior offer

QGC's directors hold or control a relevant interest, in aggregate, of approximately 22% of QGC's current issued ordinary shares. The Directors have indicated their intention to vote in favour of the Proposal, subject to the receipt of a superior offer.

Disadvantages of the Proposal:

The likely disadvantages to QGC Shareholders if the Proposal is approved include:

No sale mechanism for Shareholders

Whilst the buyback provides existing Shareholders with a mechanism to sell part of their shareholding at a price of \$1.44, which is in excess of the current QGC share price, it is limited to 12.5% of the enlarged capital of QGC. Some shareholders may prefer an opportunity to sell their entire shareholding pursuant to a takeover.

The Proposal is likely to limit future offers for QGC

Following the acceptance of the Proposal, while AGL holds a significant stake in QGC, any prospective purchaser of QGC would need to come to an agreement with AGL. In addition, AGL will be party to a number of key agreements with QGC.

It should be recognised, however, that as a result of the directors' collective current shareholding of 22% in QGC, it is already difficult for another party to acquire a controlling interest in QGC without the agreement of the collective director group.

Other matters:

Santos Takeover Offer

On 5 October 2006, Santos announced a takeover bid for all the ordinary shares in QGC, for consideration of \$1.26 per share. The consideration offered by Santos is below the range of our estimate of the fair market value of a QGC share on a control basis of \$1.49 to \$2.00.

¹³ Based on the buyback price of \$1.44 and the number of shares, assuming that the Sentient Transaction proceeds

Value of a QGC share in the absence of the Proposal

We note the following in relation to the value of a QGC share in the absence of the Proposal or if the Proposal is not approved:

- the Santos bid is still current, subject to ACCC approval and may be improved
- it is possible that QGC could seek to negotiate an alternative proposal with another diversified energy company, however, such an alternative proposal may not be achieved
- in the event that the Santos offer lapses, it is likely that the trading value of a QGC share would reduce.

Premium for control

AGL will acquire up to a 30% interest in QGC pursuant to the Proposal, which reflects a strategic stake in QGC. As a significant shareholder, AGL is likely to be able to exert some level of influence over QGC, however, as AGL is not gaining full control, AGL is unlikely to be paying a control premium.

9.3 Conclusion

Based on the foregoing, we are of the opinion that the Proposal is fair and reasonable.

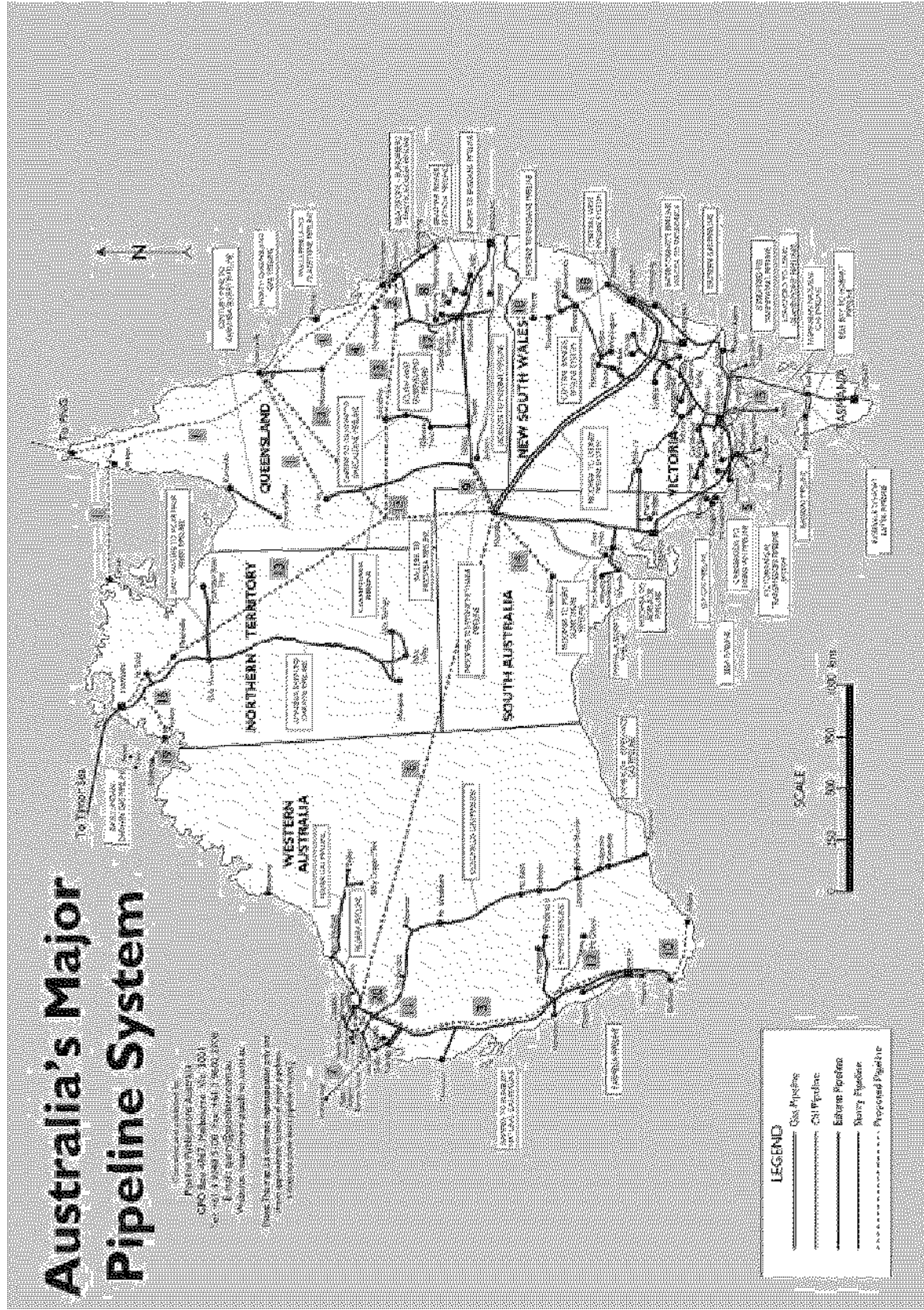
Appendix 1: Glossary

Reference	Definition
1P	Proved reserves
2P	Proved and probable reserves
3P	Proved, probable and possible reserves
ABARE	Australian Bureau of Agriculture and Resources Economics
ABS	The Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACQ	Annual contract quantity
ACT	Australian Capital Territory
AGL	AGL Energy Limited
AGSM	Australian Graduate School of Management
Alinta	Alinta Limited
ANZIB SAM	ANZ Investment Bank Specialist Asset Management
ANZIS	ANZ Infrastructure Services
APC	AGL Petronas Consortium
Arrow	Arrow Energy NL
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited
ATP	Authority to Prospect
AUS	Australian Auditing Standards
Beach Petroleum	Beach petroleum Limited
Blue Energy	Blue Energy Pty Limited
bps	Basis points
CAPM	Capital asset pricing model
CH4	CH4 Gas Limited
Company, the	Queensland Gas Company Pty Limited
Cornell Capital	Cornell Capital Partners Offshore LP
CPI	Consumer price index
CS Energy	CS Energy Limited
CSG	Coal-seam gas
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
DDSP	Non-executive director share plan
DESP	Deferred Employee Share Plan
Directors, the	Directors of QGC
Eastern Corporation	Eastern Corporation Limited
Eastern Star	Eastern Star Gas Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EESP	Exempt employee share plan
EMRP	Equity market risk premium
Energy Investments	Energy Investments Limited
EUR	Estimated ultimate recovery
FY	Financial year
Gas Sale Agreement	Agreement whereby AGL will purchase 540 PJ of gas over 20 years
GDP	Gross domestic product
GJ	Gigajoule
Gas Market Development Services Agreement	An agreement whereby AGL is to provide market development services consisting of rights to utilise some of AGL's excess pipeline capacity for a term of three years
GSP	Gross state product
GWh	Gigawatt-hours
IBISWorld	IBISWorld Pty Ltd

Reference	Definition
Incitec	Incitec Pivot Limited
Km	Kilometres
LNG	Liquefied natural gas
mcf/d	Million cubic feet per day
Metgasco	Metgasco Limited
Model, the	Financial model prepared in conjunction with NSAI based on QGC's existing gas supply contracts, the Gas Supply Agreement to be entered into with AGL pursuant to the Proposal and scenarios for possible future contracts
Molopo	Molopo Australia Limited
MoU	Memorandum of understanding
NEM	The Australian National Electricity Market
NEMMCO	The National Electricity Market Management Company Limited
NPAT	Net profit after tax
NSAI	Netherland, Sewell & Associates, Inc
NSW	New South Wales
OGIP	Original-gas-in-place
Origin Energy	Origin Energy Limited
Pangaea	Pangaea Oil & Gas Pty Limited
PJ	Petajoules
PL	Petroleum Lease
PLA	Petroleum Lease Application
PPL	Pipeline Licence
PNG	Papua New Guinea
Proposal, the	Agreement reached between QGC and AGL to form a strategic relationship
QGC	Queensland Gas Company Limited
Santos	Santos CSG Pty Limited
Section 640	Section 640 of the Corporations Act 2001
Sentient	Sentient Executive GP1 Limited, and its related entities
Sentient Transaction, the	Agreement between Sentient and QGC to convert Sentient's legal and beneficial permit interests into an equivalent 10% QGC shareholding
SGA	Sentient Gas Australia
Shareholders	Existing holders of QGC shares
SPV	Special purpose vehicle
Sunshine Gas	Sunshine Gas Limited
SWOT	Strengths, weaknesses, opportunities and threats
Sydney Gas	Sydney Gas Limited
TJ	Terajoule
VWAP	Volume weighted average price
WACC	Weighted average cost of capital

Appendix 2: Australia's major pipeline system

Figure 17: Pipeline map of Australia



Source: Pipeline Publications - www.pipeline.com.au

Appendix 3: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor. Discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the weighted average cost of capital (WACC). The WACC can be derived using the following formula:

$$WACC = \left(\frac{E}{V} * K_e \right) + \left(\frac{D}{V} * K_d (1 - t_c) \right)$$

The components of the formula are:

K_e	=	cost of equity capital
K_d	=	cost of debt
t_c	=	corporate tax rate
E/V	=	proportion of company funded by equity
D/V	=	proportion of company funded by debt

The adjustment of K_d by $(1 - t_c)$ reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%.

Cost of equity capital (K_e)

The cost of equity, K_e , is the rate of return that investors require to make an equity investment in a firm.

We have used the Capital Asset Pricing Model (CAPM) to estimate the K_e for QGC. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

Under the "classical" system of double taxation of dividends which existed in Australia until the introduction of dividend imputation in 1987 (and which still applies in many countries), the cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta(R_m - R_f) + \alpha$$

The components of the formula are:

K_e	=	required return on equity
R_f	=	the risk free rate of return
R_m	=	the expected return on the market portfolio
β	=	beta, the systematic risk of a stock which can be objectively measured by the responsiveness of company returns to movements in returns earned on the market portfolio
α	=	specific company risk premium

Each of the components in the above equation is discussed below.

Risk free rate (R_f)

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term government bond rate.

In determining R_f we have taken the 10-year Australian Government Bond yield on 21 January 2007 of 5.89%. The 10-year bond rate is a widely used and accepted benchmark for the risk free rate. This rate represents a nominal rate and thus includes inflation.

Equity market risk premium (EMRP)

The Equity Market Risk Premium (EMRP) ($R_m - R_f$) represents the risk associated with holding a market portfolio of investments, that is, the difference between the expected return on holding the market portfolio and the risk free rate. It is the excess return above the risk free rate that investors demand for their increased exposure to risk when investing in equity securities.

In selecting an appropriate EMRP to include in the estimation of the cost of equity a number of factors need to be considered:

- whether to use historical or prospective measures
- the use of arithmetic or geometric averaging for historical data
- selection of an appropriate benchmark risk free rate
- the impact of franking tax credits
- time periods for use in historical analysis
- exclusion or inclusion of extreme observations.

Historical and prospective EMRP

In evaluating the EMRP, we have considered both the historically observed and the prospective EMRP. The most appropriate EMRP to use in our analysis is the prospective risk premium that investors are using to evaluate current investment opportunities. However, while being theoretically preferable, it is not possible to reliably measure prospective EMRP.

The historically observed EMRP is typically used as a proxy for the prospective EMRP. The historical EMRP is estimated by comparing the historical returns on equities against the returns on risk free assets such as Government bonds. The historical EMRP has the benefit of being capable of estimation from reliable data; however it is possible that historical returns achieved on stocks were different from those that were expected by investors when making investment decisions in the past and thus the use of historical market returns to estimate the EMRP would be inappropriate.

It is also likely that the EMRP is not constant over time. The forward-looking EMRP will be influenced by several factors such as population demographics, savings rates and the increase in globalisation of world markets. In particular, relatively pessimistic investors believe that the days of high EMRPs have passed and that, in the future, the market will perform similarly to the bond market. However, these views are balanced by optimistic investors who believe that the returns on shares will continue to outperform the returns on bonds by a similar margin to the past. It does seem likely that equity investors will continue to be rewarded for the additional risk of their investment and so, in the absence of any conclusive evidence to the contrary, we have placed most emphasis on the historically observed risk premium in our analysis and choice of EMRP.

We have used the historically observed EMRP as a guideline in determining the appropriate EMRP to use in this report. In particular, we have considered a recent study undertaken by the Centre for Research in Finance at the Australian Graduate School of Management (AGSM) which gives detailed estimates of the EMRP for investors in Australian listed equity, calculated using data from January 1974 to June 2004.

Arithmetic or geometric averaging of historical returns

Empirical studies seeking to measure the historical EMRP typically average the results using either an arithmetic or geometric averaging process. Geometric averaging assumes that returns are reinvested in later periods and will be less than the arithmetic average if the returns show some variance between periods.

We consider the arithmetic average equity risk premium to be more appropriate when discounting future cash flows. The geometric average is more appropriate when reporting past performance, since it represents the compound average return, but we believe that investors today would demand a higher premium than that calculated using a geometric average.

Risk free rate used in the analysis of historical returns

Risk free securities of different maturities can be used to measure the historical EMRP. For example, the AGSM reports the EMRP calculated over both 13 week Government notes and 10 year Government bonds. To match the risk free rate included in the CAPM and discussed above, we have considered the premium calculated over the return on 10 year Government bonds.

Franking tax credits

The return on the market portfolio used in calculating the EMRP may include a return that shareholders receive through franking tax credits. The evidence on franking tax credits is inconclusive and therefore we have not adjusted the cost of capital for the impact of dividend imputation. The AGSM estimated that the inclusion of franking tax credits increased the historically observed EMRP by approximately 75 basis points (bps), based on short-maturity risk free assets. As we have used the EMRP calculated over longer term securities, we have assumed the same estimated increase of 75 bps to determine the illustrative EMRP including franking tax credits.

Time period for observations

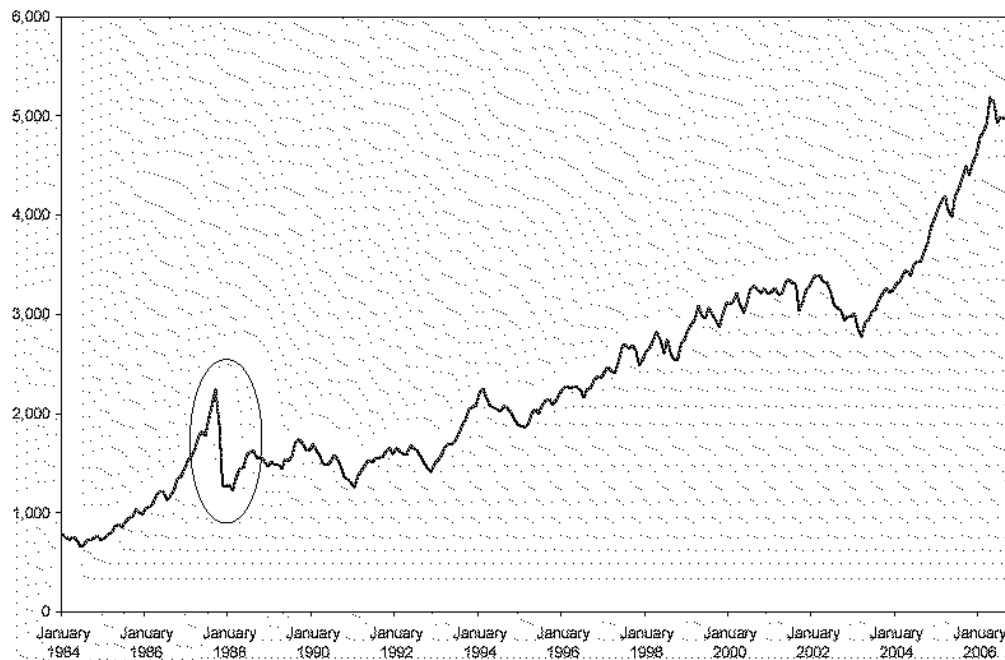
In empirical studies seeking to measure the EMRP, it is necessary to select a time period over which observations are considered. In general a longer time period is preferred as a larger number of observations are available which narrows the confidence intervals for the observed EMRP. However, it is possible that the EMRP does not remain stable over time and therefore a shorter observation period could be used to incorporate the recent observed risk premium only.

As noted above, we have used the results calculated using data from January 1974 as this is the longest period covered in the AGSM survey and data from a shorter period would be less reliable.

Extreme observations – October 1987

Some observers consider that the severe market movement in October 1987 (and shown in the graph of the ASX 100 Accumulation Index below) was an extreme observation, which is unlikely to repeat itself.

Figure 18: ASX 100 Accumulation Index



Source: Bloomberg

A large fall in value, such as in October 1987, will decrease the returns to equity holders and therefore the EMRP. Accordingly, ignoring this observation tends to increase the historically observed EMRP by approximately 1.4% based on the AGSM study.

On balance, we favour the inclusion of October 1987 within the observations as it appears that this movement merely returned the market to its longer term trend.

Selected EMRP

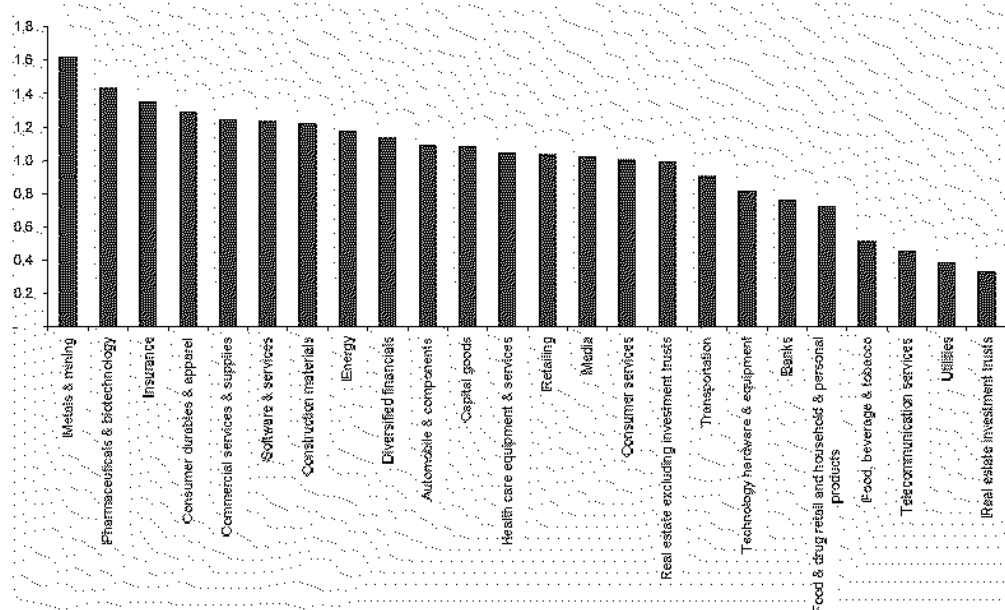
The recent study undertaken by the Centre for Research in Finance at the AGSM detailed a number of estimates for the EMRP. The EMRP calculated using arithmetic averaging of returns between January 1974 and June 2004, including October 1987, without adjusting for franking credits was 5.81%. On this basis, we have adopted 6% as the EMRP. This EMRP is consistent with other studies in developed markets. In particular, Roger Ibbotson and Peng Chen, of Ibbotson Associates and the Yale School of Management respectively, estimated the expected long-term equity risk premium in the US (relative to the long-term government bond yield) to be about 6% arithmetically and 4% geometrically (Financial Analysis Journal, Vol. 59, No.1, February 2003).

Beta estimate (β)

Description

The beta coefficient measures the systematic risk of a company in comparison to the market as a whole. A beta of greater than one indicates greater market related risk than average, while a beta of less than one indicates less risk than average. The betas of various Australian industries listed on the ASX are reproduced below.

Figure 19: Betas for various Industries (as at 30 September 2006)



Source: AGSM Risk Management Service

The differences are related to the business risks associated with the industry. For example, the above diagram indicates the media industry is riskier than the utilities industry. The beta for an asset can be estimated by regressing the returns on any asset against returns on an index representing the market portfolio, over a reasonable time period.

Market evidence

In estimating an appropriate beta for QGC we have considered the betas of listed companies involved in the exploration and production of CSG and oil and gas. These betas, which are presented below, have been calculated based on weekly returns, over a two year period, compared to the S&P/ ASX 200 index.

Table 24: Analysis of Betas for listed companies with comparable operations to QGC as at 28 December 2006

Company Name	Enterprise value (\$'m)	Debt to enterprise value ratio ¹ (%)	Years in production ²	2P certified reserves ³ (PJ)	Levered Beta	Unlevered Beta
QGC	661	4.50	0.6	695.0	1.27	1.23
CSG exploration and production						
Eastern Corporation Limited	31	0.00	-	-	1.03	1.03
Sydney Gas Limited	127	0.00	5.8	41.4	1.23	1.23
Sunshine Gas Limited	77	0.00	-	7.8	0.75	0.75
Eastern Star Gas Limited	116	0.00	-	-	1.50	1.50
Molopo Australia Limited	18	0.00	2.8	83.0	1.21	1.21
Energy Investments Limited	51	6.17	-	-	0.21	0.20
Metgasco Limited	67	0.00	-	22.0	1.06	1.06
Arrow Energy NL	670	0.00	1.0	498.0	0.93	0.93
High					1.50	1.50
Low					0.21	0.20
Average³					1.10	1.10
Weighted average³					1.02	1.02
Oil & gas exploration and production						
Origin Energy Limited	10,441	23.09			1.06	0.88
Beach Petroleum Limited	1,232	0.00			1.71	1.71
Santos Limited	8,094	19.75			1.19	1.01
High					1.71	1.71
Low					1.06	0.88
Average					1.32	1.20
Weighted average					1.15	0.99
High					1.71	1.71
Low					0.21	0.20
Total average³					1.17	1.13
Total weighted average³					1.15	0.99

Source: Bloomberg

Notes:

1. Debt to value ratio equals the value of debt divided by the sum of the value of equity plus the value of debt
2. Data sourced for companies involved in CSG exploration and production only
3. Averages do not include QGC or Energy Investments Limited, which is considered an outlier

We provide the description for each of the above comparables in Appendix 4.

The observed beta is a function of the underlying risk of the cash flows of the company, together with the capital structure and tax position of that company. This is described as the levered beta.

The capital structure and tax position of the entities in the table above may not be the same as QGC. The levered beta is often adjusted for the effect of the capital structure and tax position. This adjusted beta is referred to as the unlevered beta. The unlevered beta is a reflection of the underlying risk of the pre-financing cash flows of the entity.

Selected beta (β)

In selecting an appropriate beta for QGC we have considered the following:

- the selected comparable companies involved in CSG are considered directly comparable to QGC. The average unlevered beta for these companies is 1.10 (or 1.02 on a weighted average basis)
- with the exception of Sydney Gas, Molopo Australia Limited (Molopo) and Arrow Energy NL (Arrow), the CSG exploration and production companies are still at exploration stage and have not yet commercialised any gas discovered. Accordingly, the betas for these companies are impacted by their early stage of development and lack of production history. These companies can also be tightly held initially and impacted by thin trading for extended periods which can result in measured betas which appear low relative to the high level of uncertainty of future returns from exploration companies
- QGC has been producing gas for seven to eight months. Sydney Gas, Molopo and Arrow are all CSG producing companies, with production histories of 5.8 years, 2.8 years and 1 year respectively. Therefore, we consider these companies to be most comparable to QGC. The average beta of these companies is 1.12. We note that the recent volatility of the share prices of Sydney Gas and Arrow have been impacted by the takeover offer for Sydney Gas from QGC and the takeover of CH4 Gas Limited by Arrow. This volatility will have impacted the beta measured
- the majority of the CSG exploration and production companies have significantly smaller (or nil) 2P reserves than QGC
- Molopo is a CSG developer and producer in Queensland and may therefore face similar opportunities and growth prospects to QGC. Sunshine Gas is also an explorer in Queensland with activities in the Bowen Basin and in the Surat basin
- Energy Investments is a very thinly traded company which has been listed for 12 years. The company is not yet in production and has no 2P certified reserves. On this basis it is considered an outlier and has been excluded from our calculation of averages in Table 24
- we note that the companies involved in oil and gas exploration and/or production undertake a diversified range of resources based activities and therefore face a number of different opportunities and risks compared to pure CSG players such as QGC
- the historic beta demonstrated by QGC is measured over a period where QGC made significant progress in proving up exploration acreage, settled arrangements with Pangaea with regard to its interest in the Argyle acreage, saw Pangaea replaced by Origin Energy as joint venture partner in the Argyle acreage, secured key sales contracts and financing arrangements, presented a takeover offer to Sydney Gas and responded to the Santos takeover offer. These significant events are likely to have contributed to the volatility in the QGC share price and resulted in an increased beta measure over the observed period that is in excess of the volatility that may be expected going forward for QGC.

On the basis of the above we have selected a levered beta of 1.00 to 1.10 for QGC.

Specific company risk premium (α)

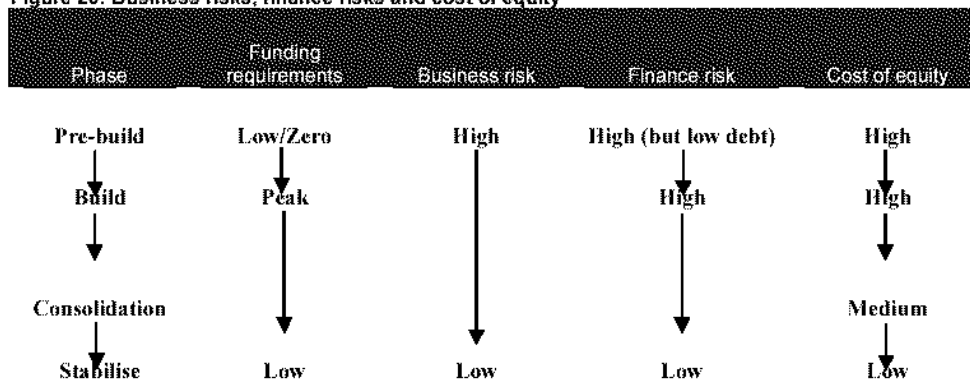
The specific company risk premium adjusts the cost of equity for company specific factors. The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk).

There are several empirical studies that demonstrate that the investment market does not ignore specific company risks. In particular, studies show that on average, early stage companies have higher rates of return than mature companies.

Early stage companies

QGC is a company that is in an early stage of production and is seeking to expand rapidly. Investors in early stage companies often require higher rates of return than investors in mature companies. Venture capitalists are a common source of equity capital for early stage investments. The reason that the discount rate required for an early stage company is different to that required for a mature company is because the relationship between business risks, finance risks and the cost of equity changes as a company progresses from an early stage company to a mature company. The relationship between business risk, finance risk and cost of equity is illustrated in the following figure.

Figure 20: Business risks, finance risks and cost of equity



Source: Adapted from The Valuation of Businesses, Shares and Other Equity, 3rd edition, W. Lonergan

Selection of specific company risk premium

We have selected a specific company risk premium of 1% to 2%.

In determining this amount we have had regard to the following:

- uncertainty in respect of results of future developments: In order to meet its future contractual arrangements, QGC will have to implement an extensive drilling programme, which results, in terms of timeliness, costs and gas flow rates, remain uncertain
- limited production history: Whilst QGC has been in existence for seven years, it has only recently commenced production; having previously been exclusively a gas exploration company. There is limited performance-related financial information about QGC available in relation to the gas sales business
- competition for sales contracts: QGC's future earnings depend upon its ability to secure and/or renew long term contracts with customers. As new competitors in the CSG sector arise, this could prove to be increasingly challenging.

Dividend imputation

Dividends paid by Australian corporations may be franked, unfranked, or partly franked. A franked dividend is one that is paid out of company profits which have borne tax at the company rate, currently 30%. Where the shareholder is an Australian resident individual or complying superannuation fund, it will generally be entitled to a tax credit (called an imputation credit) in respect of the tax paid by the company on the profits out of which the dividend was paid. If the recipient of the dividend is another company, the dividend will give rise to a credit in that company's franking account thereby increasing the potential of the company to pay a franked dividend at a later stage.

Imputation credits represent the prepayment of company tax and when utilised result in the shareholder receiving dividends that are effectively "untaxed" at the company level. Imputation credits result in the shareholders receiving a higher tax cashflow than would otherwise be the case under the classical taxation system.

We have not adjusted the cost of capital or the projected cashflows for the impact of dividend imputation due to the diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Determining the value of franking credits requires an understanding of shareholders' personal tax profiles to determine the ability of shareholders to use franking credits to offset personal income. Furthermore, the observed EMRP already includes the value that shareholders ascribe to franking credits in the market as a whole. In our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive.

Conclusion on cost of equity

Based on the above factors we arrive at a cost of equity, K_e , as follows:

Table 25: K_e applied to valuation of QGC

Input	Low	High
Risk free rate (%)	5.89	5.89
EMRP (%)	6.00	6.00
Selected beta	1.00	1.10
Specific company risk premium (%)	1.00	2.00
Cost of equity capital (K_e) (%)	12.89	14.49

Source: Deloitte Corporate Finance analysis

Cost of debt capital (K_d)

The cost of debt is the rate of return required by providers of debt financing. In general terms, it is a function of the default risk that lenders perceive in the borrower. QGC's current weighted average cost of debt (calculated as approximately 9%) reflects the current perception in the market of QGC's default risk. However, as QGC continues to expand its gas production, we would expect the default risk perception to decline. Accordingly, we would expect QGC's debt-equity mix to move to a similar mix to that of other more mature players in the market, such as Origin Energy or Santos (being 25% debt and 75% equity on average).

On this basis, for the discount rate calculation we consider it appropriate to use a cost of debt reflective of QGC's likely cost of debt in the long term, rather than its current weighted average cost of debt.

In order to determine an appropriate long term cost of debt for QGC, we have considered the following:

- QGC's arranges the funding of its activities in accordance to their inherent risks, therefore, riskier exploration activities are typically funded with equity
- QGC typically funds its development activities with structured debt schemes, via special purpose vehicles at a long term estimate of approximately 175 bpts to 225 bpts over the current Bank Bill Swap rate
- the latest credit rating for Santos and Origin Energy, issued by Standard & Poor's is 'BBB+'

- market evidence of the yields of corporate bonds issued by Australian corporate entities that are rated at 'BBB' and 'A'¹⁴. The results are presented in Table 26 below.

Table 26: Yields / spreads

	Australia sovereign bonds yield	Australian 'A' rated corporate bonds yield ¹	Australian 'BBB' rated corporate bonds yield ²
10 years	5.88%	7.04%	7.05%

Source: Bloomberg and Deloitte Corporate Finance analysis

1. Based on indices calculated by Bloomberg
2. Basis points

On the basis of the above, we have selected a cost of debt range for QGC of 7.50% to 8.00%.

Calculation of WACC

Based on the above, we have assessed the nominal post-tax WACC for QGC to be:

Table 27: WACC applied to valuation of QGC

	High (%)	Low (%)
Cost of equity capital	12.89	14.49
Cost of debt capital	7.50	8.00
Debt to enterprise value ratio	25.00	25.00
Tax rate	30.00	30.00
Weighted average cost of capital	10.98	12.27
Deloitte Corporate Finance selected WACC	11.00	12.00

Source: Deloitte Corporate Finance analysis

¹⁴ Standard & Poor's defines a 'BBB' obligation as one that exhibits adequate protection parameters. However, adverse economic conditions or changing circumstance are more likely to lead to a weakened capacity of the issuer to meet its financial commitment on the obligation. An 'A' obligation means the issuer's capacity to meet its financial commitments is strong.

Appendix 4: Comparable entities

The following table provides analysis of companies with comparable activities to QGC:

Table 28: Reserves multiples – market trading

Company	Enterprise value ³ (\$million)	Number of years listed	Years in production	2P certified reserves ¹ (PJ)	\$/GJ ²
QGC	661	6	0.6	695.0	0.95
CSG exploration and production					
Eastern Corporation Limited	31	11	-	-	-
Sydney Gas Limited	127	11	5.8	41.4	3.08
Sunshine Gas Limited	77	4	-	7.8	9.84
Eastern Star Gas Limited	116	6	-	-	-
Molopo Australia Limited	18	20	2.8	83.0	0.22
Energy Investments Limited	51	12	-	-	-
Metgasco Limited	67	2	-	22.0	3.05
Arrow Energy NL	670	6	1.0	498.0	1.34
Average					3.50
Oil & gas exploration and production					
Origin Energy Limited	10,441	45			
Beach Petroleum Limited	1,232	35			
Santos Limited	8,094	52			

Source: Bloomberg

Notes:

1. On a legal interest basis
2. Reserves valuation multiples are based on enterprise value divided by stated 2P reserves and presented in \$/GJ
3. Calculated as at 28 December 2006

We provide the description for each of the above comparables as follows:

Companies involved in CSG exploration and production

Eastern Corporation Limited

Eastern Corporation Limited (Eastern Corporation) is an Australia-based energy company. The principal activities of the company are the exploration and development of coal in Australia and New Zealand and CSG in the Galilee Basin near Longreach in Queensland. Eastern Corporation also holds 61% of Galilee Energy Limited, which is exploring for CSG as well as conventional petroleum. Galilee holds exploration permits near Longreach.

Sydney Gas Limited

Sydney Gas is engaged in CSG exploration, evaluation, development, production and marketing in the Sydney Basin. As of 30 June 2006, Sydney Gas had 67 producing wells in the Camden Project area feeding gas directly into the Moomba-Sydney pipeline. Sydney Gas entered into a joint venture with AGL in which Sydney Gas sold 50% of its production and exploration interests. The company, in partnership with AGL, is focusing its exploration and production efforts in the Camden Project area.

Sunshine Gas Limited

Sunshine Gas Limited (Sunshine Gas) is an oil and gas exploration and production company. The company's principal activity is exploring for, developing and producing conventional gas and CSG. It has CSG exploration activities underway and planned across an area of greater than 35,000 square kilometers in central Queensland.

Eastern Star Gas Limited

Eastern Star Gas Limited (Eastern Star) is principally engaged in exploration for oil and gas, development and production of natural gas and generation of electricity. The primary focus of the company's exploration and development activities is a 9,100 square kilometres licence area, which contains the prospective Bohena Trough area of the Permo-Triassic Gunnedah Basin, to the west and south of Narrabri, in north-central New South Wales. In October 2006, the company acquired an additional 32.5% interest in an area which it operates with Hillgrove Energy Pty Limited, a subsidiary of Hillgrove Resources Limited, which brought Eastern Star's total interest to 65%.

Molopo Australia Limited

Molopo is a CSG developer and producer in Queensland. The principal activities of the company are investment in petroleum exploration, appraisal, development and production, particularly CSG. Molopo has an interests in the Clarence Moreton Basin in north-eastern New South Wales and in the Gloucester Basin, approximately 100 kilometers north of Newcastle. Molopo's original growth strategy has been to build a diversified portfolio of petroleum assets at the appraisal or advanced exploration stage.

Energy Investments Limited

Energy Investments Limited is engaged in the exploration, evaluation and development of conventional oil and gas and CSG tenements. In 2006, Energy Investments acquired all the issued shares of Blue Energy Pty Limited (Blue Energy) and its wholly owned subsidiaries. Blue Energy has interests in joint ventures in the Cooper Eromanga Basins in South Australia and interests in tenements in Queensland. Energy Investments also undertakes oil and gas exploration activities in Papua New Guinea.

Metgasco Limited

Metgasco Limited (Metgasco) primarily invests in appraisal and development of CSG and is engaged in the development of associated energy infrastructure. The company develops projects to serve the energy needs of the communities in northern New South Wales and southeastern Queensland.

Arrow Energy NL

Arrow is an Australian company engaged in gas exploration and development activities. The company is focused on CSG exploration and production in the Surat, Clarence-Moreton and Ipswich Basins, the Styx Basin and Nagoorin Graben. Arrow has been carrying out

exploration/appraisal drilling (over 50 wells) and has proven a large CSG resource. The company's projects include Kogan North, Tipton West, Moranbah, Daandine, Dundee, Mt Lindesay, Silverdale and Boyne River. In June 2006 Arrow acquired CH4 Gas Limited (CH4).

Oil & gas exploration and production companies

Origin Energy

Origin Energy is engaged in the supply of natural gas, electricity and liquid petroleum gas to business and residential customers in Australia, New Zealand and the Pacific region. It operates through four business units. The exploration and production business unit holds significant producing assets, operates onshore processing facilities and holds a portfolio of onshore and offshore exploration permits. The retail business unit is engaged in the sale of gas, electricity and energy-related products and services. The generation business unit owns and operates a portfolio of power plants with a total capacity of more than 3,000 megawatts. The networks business unit provides a range of services required to operate and manage gas and water networks and other infrastructure in Australia. The company has its major production interests in the Cooper Basin. Its other onshore production interests are located in the Surat, Bowen, Otway and Perth basins.

Beach Petroleum Limited

Beach Petroleum Limited (Beach Petroleum) is engaged in oil and gas exploration, development and production and investment in the resources industry. The company's projects include the Basker-Manta-Gummy off-shore gas project and Tipton West CSG project. Beach Petroleum has exploration activities in the Cooper and Eromanga Basins, Gippsland Basin, Surat Basin, Otway Basin, Browse Basin, Carnarvon Basin and Canterbury Basin.

Santos

Santos is an Australian oil and gas exploration and production company with interests and operations in Australia and also in the United States, Indonesia, Papua New Guinea, Kyrgyzstan and Egypt. Santos is a gas producer in Australia, supplying gas to all mainland Australian states and territories.

Appendix 5: Comparable transactions

Below are the details of comparable transactions.

Table 29: Comparable transaction

Announcement date	Acquirer	Target	Interest acquired	Transaction type	Consideration paid (\$ m) ¹	Years in production	2P certified reserves (PJ) ^{2,3}	\$/GJ ⁴
21 June 2006	The Australian Gas Light Company Limited	BHP Billiton Limited	50% interest in the Moranbah CSG field	Trade sale	93	2	192.0	0.48
4 May 2006	Arrow	CH4 Gas Limited	100% of shares in CH4	Takeover	145	2	191.0	0.76
1 February 2006	Origin Energy	Pangaea Oil & Gas Pty Limited	Diverse interests in the Argyle and Lauren CSG projects	Trade sale	70	-	117.0	0.60
13 September 2005	Beach Petroleum	Arrow	40% interest in PL 198 and ATP 683P of the Tipton West CSG project	Farm-in	35	-	49.6	0.71
7 September 2005	Anglo Coal (Moura) Limited & Mitsui Moura Investment Pty Limited	Origin Energy	Diverse interests in the Moura CSG field	Trade sale	22	10	51.5	0.43
1 July 2005	Santos	Tipperary Corporation	75% interest in the Fairview CSG field	Takeover	612	10	1,437.0	0.43
Average								0.57

Source: Bloomberg, SDC Platinum, Mergerstat, company reports, ASX announcements and Deloitte Corporate Finance analysis

Notes:

1. In relation to the CH4 acquisition, the calculation was performed on an enterprise value basis, using an implied value of the Arrow offer of \$1.36 per CH4 share, as per Arrow's Bidder's Statement
2. As at the date of the transaction announcement
3. On target's legal interest basis
4. Reserves valuation multiples are based on announced consideration divided by stated 2P reserves

We provide the descriptions for each of the above comparable transactions, as follows:

The Australian Gas Light Company Limited's acquisition of interest in the Moranbah CSG field

The Australian Gas Light Company Limited acquired a 50% interest in the Moranbah CSG field for a total consideration of \$93 million. The Moranbah CSG field is located in the Bowen Basin, approximately 400km south of Townsville and 170km west of Mackay. Moranbah is the site of several large coal mining projects owned by BHP Coal and Anglo Coal.

Arrow's acquisition of CH4 Gas Limited

Arrow acquired the entire share capital of CH4 in a transaction valued at \$145 million. The offer was 2.15 Arrow shares for every CH4 share plus two Arrow options for every five CH4 shares. The acquisition was subject to a 90% minimum acceptance condition.

Origin Energy's acquisition of interest in Argyle and Lauren CSG projects

Origin Energy acquired for \$70 million the following interests of Pangaea Oil & Gas Pty Limited in the Argyle and Lauren CSG projects:

- 40.625% in ATP 620P, PLs 179, 228 and 229
- 40.625% in pipeline license PPL107
- 29.375% in ATP 610P
- 31.250% in ATP 648P.

The remainder of these interests are owned and operated by QGC (refer to Section 4.3).

Beach Petroleum's acquisition of interest in Tipton West CSG Project

Beach Petroleum agreed to fund \$35 million of Stage 1 of Arrow's Tipton West CSG Project upstream development costs for a 40% interest in PL198 and ATP 683P in the Tipton West CSG Project, located 25km south of Dalby. The Tipton West pilot was commissioned in April 2004.

Anglo Coal (Moura) Limited and Mitsui Moura Investment Pty Limited acquisition of interests in the Moura CSG field

Anglo Coal (Moura) Limited (Anglo Coal) and Mitsui Moura Investment Pty Limited (Mitsui) acquired Origin Energy's interests in the Moura CSG field, consisting of:

- 100% interest in PI 94 and PPL 26 (Dawson Valley pipeline)
- 50% in 564P and ATP 602P.

The transaction was for a total cash consideration of \$22 million and was subject to Government approval. The Moura CSG field is located 150 km inland from Mackay and first began delivering CSG to the Queensland Gas Pipeline in November 1996 for supply to the Gas Corporation of Queensland Limited.

Santos' acquisition of Tipperary Corporation

Santos acquired 100% of the equity in Tipperary Corporation and 100% equity in Tipperary Oil & Gas Australia for a total of \$612 million. Through the acquisition Santos obtained 75% interest in the Fairview CSG field, located to the North East of Injune in the Bowen Basin. Production of CSG from the Fairview field began in February 1997.

Appendix 6: Sources of information

In preparing this report we have had access to the following principal sources of information:

- QGC annual reports for the years ending 30 June 2000 to 30 June 2006
- QGC quarterly reports
- QGC's prospectus for the renounceable pro rata issue of shares in August 2006
- Santos CSG Pty Limited, Bidder's Statement in respect to the takeover offer for QGC, dated 24 October 2006
- QGC Target's Statement, first Supplementary Target's Statement and second Supplementary Target's Statement, in relation to the Santos offer, dated 15 November 2006, 7 December 2006 and 21 December 2006 respectively
- various ASX announcements and investor presentations released by QGC
- Subscription Agreement between QGC and AGL, dated 4 December 2006
- Gas Market Development Services Term Sheet between AGL and QGC, dated 4 December 2006
- Gas Sale Agreement between QGC and AGL, dated 4 December 2006
- Memorandum of Understanding between QGC and Incitec
- other information made available for viewing by QGC through its on-site dataroom
- cash flow data and related information provided by NSAI
- NSAI report (refer Appendix 7)
- QGC Gas Market Report, prepared by Core Collaborative, dated December 2006
- various industry and economic websites and publications, including those sourced from:
 - ABARE
 - ABS
 - Core Collaborative
 - Energy Networks Association
 - NEMMCO
 - Pipeline Publications - www.pipeliner.com.au
 - Society of Petroleum Engineers
 - The Australian Gas Association
 - The Australian Pipeliner
 - The Department of Mines and Energy of Queensland
 - The Nation Institute of Economic and Industry Research
 - World Petroleum Council
 - Queensland Government
- publicly available information on comparable companies and comparable transactions
- various brokers reports in respect of QGC and the CSG and oil and gas industries.
- other publicly available information, including information published by/ available from Bloomberg, IBISWorld, Economics Intelligence Unit, Access Economics, AGSM, Mergerstat, SDC Platinum.

In addition, we have had discussions with the board and management of QGC in relation to the above information and to the Company's strategic direction, current operations and prospects.

Appendix 7: NSAI report

January 19, 2007

Mr. Michael Herrington
Queensland Gas Company Limited
Level 11, 307 Queen Street
Brisbane QLD 4000
Australia

Dear Mr. Herrington:

Under engagement with Queensland Gas Company Limited (QGC), and as instructed by Deloitte Corporate Finance Pty Limited (Deloitte), we have been asked to provide information to Deloitte on particular aspects of the recent proposal for QGC to form a strategic alliance with AGL Energy Limited (AGL). We have conducted various sensitivity analyses, as of December 31, 2006, of potential gas flowrates, operating costs, and capital costs that might occur under various gas contract scenarios provided by Deloitte for the QGC interest in certain coal seam gas (CSG) properties located in Authorities to Prospect (ATPs) 610P, 620P, and 648P and the eastern block of ATP 632P in the Northeastern Surat Basin of Queensland, Australia. ATP 620P comprises Petroleum Leases (PLs) 179, 228, and 229 and Petroleum Lease Application (PLA) 180. The eastern block of ATP 632P comprises PL 201 and PLAs 211 and 212. It is our understanding that a PLA is in progress for ATP 610P. ATP 648P does not currently have any PLs or PLAs. We have considered QGC's existing gas supply contracts with CS Energy Limited (CSE), Braemar Power Project Pty Ltd (BPP), Incitec Pivot Limited (IPL), and Condamine Power Plant (CPP). We have also considered sensitivity cases based on prospective gas contract scenarios that may occur in the future for the QGC interest properties, including the following:

1. Existing gas supply contracts plus the gas supply agreement to be entered into with AGL
2. Existing gas supply contracts plus the gas supply agreement to be entered into with AGL plus scenarios for possible future contracts

The results of our analyses have previously been provided to Deloitte in digital format. Specifically, we have provided annual data for gross gas, net gas, gas revenue, Queensland royalty taxes, net capital costs, operating expenses, net revenue, and number of wells drilled for several different contract volume scenarios. We have also provided this sensitivity analysis for varying peak rates. Projected gas volumes have been adjusted for fuel and shrinkage. We have been provided with complete technical information for the four ATPs by the staff of QGC, including gas and water production history, pressure measurements, gas content measurements, wellbore schematics, drilling and completion information, well logs, and economic parameters. We have visited the QGC offices in Brisbane to conduct technical discussions with the QGC staff. For the purposes of this report, we did not perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and their related facilities. We have not investigated possible environmental liability related to the properties. Our estimates are based on QGC conducting future development operations in the ATPs consistent with current operations.

DESCRIPTION OF CSG OPERATIONS

As of December 31, 2006, QGC owns a 60.625 percent interest in ATP 610P, a 59.375 percent interest in ATP 620P, a 90.000 percent interest in the eastern block of ATP 632P, and a 58.750 percent interest in ATP 648P. As requested, our analyses are based on projected QGC interests of 70.625 percent in ATP 610P, 59.375 percent in

ATP 620P, 100.000 percent in the eastern block of ATP 632P, and 68.750 percent in ATP 648P. These interests assume that QGC obtains the 10.000 percent share that Sentient Gas Australia Pty Ltd holds in ATPs 610P, 632P, and 648P.

The QGC-operated Berwyndale South Gas Field contains a total of 25 development wells that are producing and selling approximately 33 million cubic feet (MMCF) of gas per day. Wells drilled in Berwyndale South Gas Field, located in PL 201, and pilots in the four ATPs have encountered coal in the Kogan, Macalister Upper, Macalister Lower, Nangram, Wambo, Iona, and Argyle seam packages from the Juandah (upper) coal measures of the Walloon subgroup. Based on gas produced from these coals during the early phases of pilot production and on the desorption and adsorption analysis of coal cores, it appears the coals are nearly or fully saturated. Additionally, the Auburn, Bulwer, and Condamine Coals from the Taroom (lower) coal measures of the Walloon subgroup have been tested and produced in some of the areas.

QGC is actively developing pilots in the four ATPs with its 2006/2007 drilling program. In the northern portion of ATP 620P, including PLs 179 and 229, QGC conducted two CSG pilots referred to as the Argyle and Argyle East CSG pilots. These two pilot projects have a total of 12 drilled wells, 6 of which, at their peak rates, produced gas at a combined rate of over 3,500 thousand cubic feet (MCF) per day before the pilot area was shut in to reduce gas flaring in May 2005. QGC is drilling development wells to the south of these pilots in an area referred to as Kenya. As of December 31, 2006, 8 of the 15 planned Kenya wells have been drilled.

The proposed development plan in PLA 180 and PL 228 of ATP 620P includes two pilots and three pressure monitor wells. Two CSG pilots, referred to as Lauren and Codie, have been conducted in ATP 620P to test the Juandah and Taroom coals. The Lauren 2 well tested at a rate of 576 MCF per day from the Juandah coals and the Lauren 3 well tested 769 MCF per day from the Taroom coals before the wells were shut in to prevent gas flaring. The Codie core well was drilled in October 2006 and tested at 500 MCF per day. QGC is developing a 5-spot pilot surrounding the Codie core well. Also, the Kenya East CSG pilot is located on the western edge of ATP 648P and has one pilot well testing at 300 MCF per day. QGC is in the process of installing gas sales lines to these pilots.

GAS MARKETS

The Berwyndale South Gas Field is currently selling gas under the terms of gas contracts with CSE and BPP. Gas sales commenced in May 2006 under an early sales option in the contract with CSE, which became effective on July 31, 2006, for up to 4.40 petajoules (PJ) per year over a 10-year period. The gas contract with BPP is in effect for a base volume of 4.00 PJ per year until September 30, 2016. Two tranches were recently added to the terms of the BPP contract that will increase sales volumes through November 1, 2007. A gas contract with IPL for ATP 620P is in place, with gas sales scheduled to commence on October 1, 2007, for 7.40 PJ per year over a 10-year period.

QGC has other gas contract opportunities that could substantially increase the available gas sales market from all four ATPs considered in this report. QGC has a tentative contract with CPP to sell 9.00 PJ per year beginning in 2010 and extending through a primary term of 20 years. It is our understanding that there is the opportunity for an additional gas supply agreement with AGL that could substantially increase the sales capacity for the QGC properties. As requested, we considered several sales scenarios: (1) sales from existing gas supply contracts, (2) sales from existing gas supply contracts plus the gas supply agreement to be entered into with AGL, (3) sales from existing gas supply contracts plus the gas supply agreement to be entered into with AGL plus possible additional gas sales (Scenario 1), and (4) sales from existing gas supply contracts plus the gas supply agreement to be entered into with AGL plus possible additional gas sales plus possible further additional gas sales

(Scenario 2). We have not given effect to gas that might be sold under the Gas Market Development Services Agreement, which we understand may be in the order of 29 PJ over a 3-year period beginning in 2008.

EVALUATION METHODOLOGY

Our assessment of potential future gas production rates in the four ATPs is dependent on the following data that were collected by QGC staff:

- Historical gas and water production
- Individual well completion information
- Digital log data, including density logs from wells in the study area
- Laboratory reports developed from canister desorption tests and proximate analysis on representative samples of the coals
- Laboratory analysis regarding the organic properties of the coal rank (gas content measurements expressed on both a dry ash-free gas basis and on an as-received basis, macerals, rank, fixed carbon volumes, and vitrinite reflectance and thermal maturity)
- Reservoir pressure data from the wells
- Pertinent maps, including surface geology, and cultural data
- Economic information to establish the commerciality of QGC operations, including interest factors, taxes, gas prices and marketing, and operating and capital costs

Our review of the geology included an analysis of the wellbore logs to determine net coal pay, structural control, and lateral continuity. We have prepared net coal isopach and structure maps for all coals along with overburden maps to delineate the depth to the coals. Structural mapping illustrates the general features of the coals with predominant southwest dip. Construction of isopach maps using data from QGC and other project areas and conventional wells demonstrates coal continuity for more than 10 kilometers.

For evaluation of CSG production capabilities, we require adequate documentation regarding:

1. Geologic lateral continuity of the coal members
2. Pressure data to confirm connectivity of the coals
3. Production data to establish the capability of the coals to produce gas commercially

The CSG volumes in the four ATPs were assessed using a spacing of 0.75 kilometers between wells, or a drainage area of 0.5625 square kilometers (km²) per well.

We have estimated the volumetric original gas-in-place (OGIP) for each of the existing and future drilling units in the four ATPs. The OGIP calculation includes consideration of gas content, coal density, coal thickness, drainage area, and recovery factor, as expressed in the following equations:

$$\text{OGIP per well (MMCF)} = 1,359 * \text{GC} * \text{D} * \text{H} * \text{A} / 1,000,000$$

$$\text{Recoverable Gas Volumes (MMCF)} = \text{OGIP} * \text{Recovery Factor}$$

Where:

OGIP = original gas-in-place
MMCF = million cubic feet
1,359 = constant for conversion
GC = gas content (scf/ton) = $V_L * \text{Pressure} / (P_L + \text{Pressure})$
D = density of coal (g/cc)
H = net thickness of coal (feet)
A = drainage area per well (acres)

Where Langmuir constants V_L and P_L define the isotherm curve determined by laboratory adsorption tests.

Based on these volumetric parameters, we have calculated the OGIP for wells drilled and potential well locations in the four ATPs. A 0.75-km² grid system has been built using Landmark Graphics Corporation's Z-MAP Plus software for each of the Juandah coals and has been populated with structural tops, ground elevations, and net coal thickness. A density cutoff of 1.75 grams per cubic centimeter (g/cc) is used to define the net pay of the coal. The bottomhole pressure was estimated at the approximate mid-point of the coal members, based on a regional pressure gradient of 0.433 psi per foot of overburden. This pressure was integrated with the estimated Langmuir volume and pressure to determine the gas content for the spacing units. For the Wambo and all Macalister coals, 550 standard cubic feet per ton (scf/ton) and 700 psi were used, and for the Iona and Argyle coals, 600 scf/ton and 740 psi were used.

Gas content was adjusted to account for ash and moisture contents of approximately 24.0 and 4.1 percent, respectively, for the Wambo and all Macalister seams, and 20.0 and 2.6 percent, respectively, for the Iona and Argyle seams. The estimated OGIP is based on these parameters, using an average coal density of 1.3 g/cc. Based on high gas production rates from wells in Berwyndale South Gas Field, we have used a recovery factor of 70 percent of OGIP for wells in that area. For other areas, we have used estimated recovery efficiencies per spacing unit between 60 and 68 percent of OGIP.

The average gas flow profile associated with each well involves a six-month ramp-up period, ending with the peak rate of gas production. Gas production is then projected to decline at 20 percent for two years, and then decline between 10 and 12 percent to the economic limit of the well. Our average estimated peak gas production rate is over 900 MCF per day. The recent performance of wells in Berwyndale South Gas Field are demonstrating actual average peak rates of 1,400 MCF per day per well, indicating upside potential to our estimates. As such, the peak gas rates in the type curves used in our study are not sufficiently high to account for this recently improved performance.

CAPITAL AND OPERATING COSTS

As requested, we have provided estimates of capital costs and operating costs based on scenarios including existing gas supply contracts, the gas supply agreement to be entered into with AGL, and possible future contracts. Development drilling costs are based on recent actual drilling costs utilizing the completion technique predominantly utilized by QGC. This technique uses pre-perforated liners and under-reamed wellbores.

Operating costs are divided into (1) per-well costs (2) gathering, compression, and transportation costs expressed in Australian dollars (\$AU) per MCF of gas produced, (3) per-barrel costs of \$AU0.075 to dispose of water produced, and (4) fixed costs associated with field operations.

In evaluating the information at our disposal concerning this report, we have excluded from our consideration all matters as to which the controlling interpretation may be legal or accounting, rather than engineering and geologic. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geologic data; therefore, our conclusions necessarily represent only informed professional judgment.

The data used in our estimates were obtained from Queensland Gas Company Limited, various operators of analogous properties, public data sources, and the nonconfidential files of Netherland, Sewell & Associates, Inc. and were accepted as accurate. Supporting geologic, field performance, and work data are on file in our office. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties and are not employed on a contingent basis.

Very truly yours,

NETHERLAND, SEWELL & ASSOCIATES, INC.

/s/ C.H. (Scott) Rees III, P.E.

By:

C.H. (Scott) Rees III, P.E.
President and Chief Operating Officer

/s/ Dan Paul Smith, P.E.

By:

Dan Paul Smith, P.E.
Senior Vice President

/s/ John G. Hattner, P.G.

By:

John G. Hattner, P.G.
Senior Vice President

Date Signed: January 19, 2007

Date Signed: January 19, 2007

DPS:ID

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Appendix 8: Qualifications, declarations and consents

The report has been prepared at the request of the Directors of QGC and is to accompany the Explanatory Memorandum to be given to Shareholders in relation to the Proposal. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Explanatory Memorandum in their assessment of the Proposal outlined in the report and should not be used for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposal.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposal is fair and reasonable having regard to the interests of Shareholders. Deloitte Corporate Finance consents to this report accompanying the Explanatory Memorandum.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the information provided by the directors and executives of QGC which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to QGC management for confirmation of factual accuracy.

Furthermore, recognising that Deloitte Corporate Finance may rely on information provided by QGC and its officers and/or associates, QGC has agreed to make no claim against Deloitte Corporate Finance to recover any loss or damage which QGC may suffer as a result of that reliance and also has agreed to indemnify Deloitte Corporate Finance against any claim arising out of the assignment to give this report, except where the claim has arisen as a result of any proven wilful misconduct by Deloitte Corporate Finance.

Deloitte Corporate Finance also relies on the independent specialist report prepared by NSAI. Deloitte Corporate Finance has received consent from NSAI for reliance in the preparation of this report.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of QGC personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit in accordance with Australian Auditing Standards, nor did they constitute a review in accordance with AUS 902 applicable to review procedures.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are grounds to believe that the prospective financial information for QGC included in this report has been prepared on an appropriate basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of QGC referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Stephen Reid, Director, M App. Fin. Inv., B.Ec, F Fin, CA, Robin Polson, Director, BComm, Grad. Dip. App. Fin. Inv., Nicole Corn, Associate Director, BBus (B&F), BA, M App. Fin. Inv., F Fin, Michel Brun, Client Manager, BA, MBA and Tracey Louey, Senior Analyst, B.Com. CA. Stephen and Robin are both Directors and Nicole is an Associate Director of Deloitte Corporate Finance. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Deloitte Touche Tohmatsu is the internal auditor of Santos and auditor of AGL. We do not believe that these relationships impair our ability to provide an independent assessment of the Proposal.

Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte Corporate Finance will receive a fee of \$375,000, exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposal.

About Deloitte

'Deloitte' refers to the Australian partnership of Deloitte Touche Tohmatsu and its subsidiaries. Deloitte, one of Australia's leading professional services firms, provides audit, tax, consulting and financial advisory services through around 3000 people across the country. Focused on the creation of value and growth and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at www.deloitte.com.au.

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Appendix B

VWAP Transaction Codes

Definition of ASX volume weighted average price (VWAP) calculation

$$VWAP = \frac{\sum \text{Trade Value}}{\sum \text{Trade Volume}}$$

VWAP calculation includes all on-market trades and excludes all off-market trades. Trades without condition codes are included. Trades with condition codes treatment are as follows:

Condition Code	Description	Included	Excluded
AM	ASX Match Facility Trade	✓	
BK	Buy Back		✓
BL	Blocked From Transaction Netting	✓	
BP	Booking Purposes Only		✓
BV	Book Value Switch		✓
BW	Buy Write		✓
CO	Standard Combination Trade		✓
CT	Combination Trade		✓
DR	Directed Reporting		✓
EC	Exercise of Call		✓
EP	Exercise of Put		✓
LN	Loan		✓
LR	Loan Return		✓
PR	Prompt Re-booking		✓
PS	Prompt Resale		✓
PT	Put Through		✓
ON	Overnight		✓
OS	Overseas		✓
EF	Delivery of Future		✓
FD	Forward Delivery		✓
OD	Overseas Delivery		✓
OR	Overseas Resident		✓
MI	Market Information		✓
SH	Short Trade	✓	
SP	Block Special Sale (Special Crossings Greater than \$1M)		✓
ST	Stabilisation Trade	✓	
SX	Special Sale Portfolio		✓
SO	Other Special Sale (i.e. Special sales other than 'SP', 'SX' and 'SA')		✓
SA	Special Crossing Sale to complete client order		✓
IB	Index Replicating Special Crossing		✓
VW	VWAP Executed Trade		✓
XT	Crossed Trade	✓	

Trades without condition codes are classified as on-market. Any combination of Condition Codes including one from the excluded list causes the trade to be excluded from VWAP.

Trades taking place under a different basis of quotation from the main market in a stock (i.e. special markets) are excluded.

Trades that are subsequently cancelled are excluded from subsequent VWAP calculations except in special circumstances involving the Block trading market.

Appendix C

Unitised Percentages

Unitised Area	Participating Interests	Unitised Percentages
ATP 610P	QGC – 60.625% SGA – 10.00% Origin Energy – 29.735%	QGC – 63.5625% Sentient Parents – 7.0625%
ATP 620P	QGC – 59.375% SGA – 0.00% Origin Energy – 40.625%	QGC – 53.4375% Sentient Parents – 5.9375%
ATP 632P	QGC – 90.00% SGA – 10.00%	QGC – 90.00% Sentient Parents – 10.00%
ATP 648P	QGC – 58.75% SGA – 10.00% Origin Energy – 31.25%	QGC – 61.875% Sentient Parents – 6.875%

Appendix D

Calculation of purchase price under the CSA

(a) Calculation of purchase price of Sentient Sale Assets

Under the terms of the CSA whilst the Unitisation Arrangements are in force, the purchase price for the Sentient Sale Assets is calculated in accordance with the following formula:

$$EV \times EC \times 1/9$$

Where:

EV is the Enterprise Value (as defined below); and

EC is the percentage economic contribution which the interests held by QGC in respect of the Tenements and Unitised Areas (Mirror Assets) makes to QGC's Enterprise Value.

In effect the Sentient Group is to be paid in cash, Shares or a combination of both, an amount equal to one-ninth of the proportion of QGC's Enterprise Value which is represented by QGC's holdings in the petroleum tenures and associated infrastructure relating to the Unitised Areas and in such assets outside the Unitised Areas in which both QGC or its subsidiaries and any of the Sentient Group have an interest in joint venture, including without limitation the CTI Plant and Export Pipeline.

The Enterprise Value is then multiplied by the proportion (expressed as a percentage) of that value represented by the value of the Mirror Assets and where the Unitisation Arrangements are still in force this value is calculated on the basis that QGC holds its interests in the petroleum tenures relating to the Unitised Areas in proportion to the Unitised Percentages. That result is then divided by one-ninth to give the purchase price of the Sentient Sale Assets.

All calculations of the relevant values are made as at the date the Sentient Group gives notice exercising the Put Option.

For example, if the Enterprise Value of QGC at that date of exercise of the Put Option is \$900 million and the proportion of that value represented by the Mirror Assets is 90%, then the purchase price payable by QGC for the Sentient Sale Assets would be one-ninth of \$810 million, i.e. \$90 million.

(b) Definition of Enterprise Value if QGC not owned as to more than 45% by one entity and/or its related bodies corporate

If at the date the Put Option is exercised QGC is not owned as to more than 45% by one entity and/or its related bodies corporate then the Enterprise Value is the value of QGC calculated as the sum of the following:

- (i) QGC's market capitalisation;
- (ii) any debt in QGC;
- (iii) the aggregate issue price of any preference shares on issue by QGC;
- (iv) the aggregate of the difference between the exercise price of each "in the money" share option and the share price for Shares; and
- (v) the market value attributable to the equity component of any hybrid securities issued by QGC,

less any cash and cash equivalent assets QGC may hold.

(c) Definition of Enterprise Value if QGC owned as to more than 45% by one entity or its related bodies corporate

If at the date the Put Option is exercised, QGC is owned by an entity and/or its related bodies corporate as to more than 45% then the Enterprise Value for the purpose of the formula will be determined on the basis of the 1P Reserves and 2P Reserves of gas which QGC has in its petroleum tenures in which production is occurring or in relation to which there is a development program at the date the notice exercising the Put Option is given.

While the Unitisation Arrangements are in force, any determination as to the value of those 1P and 2P Reserves will be based on QGC's Unitised Percentages and not the legal and beneficial interests of QGC in the relevant tenures.

(d) Additional factors to be considered in calculating the purchase price of the Sentient Sale Assets

Both the calculation of the percentage contribution which QGC's interests in the Mirror Assets makes to its Enterprise Value and the value of the 1P and 2P Reserves in QGC's petroleum tenures is to be made by taking the average of 2 determinations made by independent experts.

Furthermore, in the case of ATP 648P and ATP 610P, if for either of those petroleum tenures, at the time the Put Option is exercised, there is no approved development program, then the value of that tenure will be excluded from the calculation of the Enterprise Value.

Instead the price for that part of the Sentient Sale Assets will be calculated by reference to the cost incurred by the Sentient Group in acquiring the interest in the first place plus development expenditure incurred by the Sentient Group in respect of that tenure under the relevant joint venture since the date of acquisition by the Sentient Group, with both those amounts being added and then subject to compound interest at 20% per annum.

The level of development expenditure incurred by the Sentient Group is to be calculated by reference to the contributions made under the Unitisation Arrangements based on the Unitised Percentage interests rather than the legal or beneficial interests of the relevant Sentient company in the relevant tenure and joint venture relating to that tenure.

For the purposes of determining the percentage contribution of the Mirror Assets to QGC's Enterprise Value as well as the value of QGC's gas reserves, the value of QGC's interests in ATP 610P, ATP 620P and ATP 648P and the gas reserves in those tenures, will be deemed to be confined to the Shallows and no value will be ascribed to the Deepes of those tenures.

Appendix E
Takeovers Panel – Media Release of
19 December 2006



Tuesday, 19 December 2006

Queensland Gas Company Limited – Panel Decision

The Takeovers Panel (**Panel**) advises that it has considered the application (**Application**) from Santos CSG Pty Ltd (**Santos**) in relation to its off-market takeover offer for Queensland Gas Company Limited (**QGC** and **Offer**). Having regard to the further disclosures agreed to be provided by QGC in a second supplementary target's statement, the recent announcements by QGC about the proposed transaction with AGL Energy Ltd (**AGL Proposal**) and the proposed transaction with Sentient Gas (**Sentient Proposal**) (collectively the **Proposals**) the further information to be provided in the notice of meeting and explanatory memorandum for those Proposals and submissions from QGC and Santos, the Panel has decided not to make a declaration of unacceptable circumstances in relation to the Application.

QGC has agreed to provide a supplementary target's statement to address a number of issues raised by the Panel which were the subject of the Application and which also addresses a number of issues raised by Santos. The Panel has also considered the recent announcements by QGC in relation to the AGL Proposal¹ and the Sentient Proposal².

The Panel considered that the Application must be considered in light of the recent announcement of the Proposals, which are subject to the approval of QGC shareholders. QGC announced that it will send the notice of the meeting and explanatory memorandum to QGC shareholders in January 2007. QGC has also advised the Panel that it has appointed Deloitte Corporate Finance Pty Ltd (**Deloitte**) to prepare an independent expert's report³ to accompany the notice and explanatory memorandum, advising whether, in Deloitte's opinion, the AGL Proposal is fair and reasonable to QGC shareholders. QGC has advised the Panel that Deloitte will assess the value of QGC shares on a stand alone basis for the purpose of its report.

The Panel considered that QGC's directors will have an obligation to provide proper disclosure about the AGL Proposal and Sentient Proposal and the basis of their recommendations for those Proposals in the notice of meeting and explanatory memorandum for those Proposals.

¹ As described in QGC's Media Release dated 05/12/06 and QGC's first supplementary target's statement dated 07/12/06.

² Sentient Gas is constituted by a number of entities which are part of the Sentient Global Resources Funds which are managed by the Sentient Group, an independent private equity investment firm specialising in the global resources industry <http://www.thesentientgroup.com/index.html>.

³ The report is for the purposes of item 7 of section 611.

The Panel also considered that if Deloitte's report is prepared on this basis, QGC shareholders should have sufficient information to be able to assess:

- (a) the value of QGC shares on a stand alone basis; and
- (b) the relative merits and demerits of Santos' Offer and the AGL Proposal;

and information to assist them to assess the Sentient Proposal.

The information package that QGC shareholders will receive for the AGL and Sentient Proposals will assist QGC shareholders to decide whether or not they should accept the Santos Offer. Accordingly, the Panel did not consider that QGC shareholders would be materially assisted by receiving further information in the form of another supplementary target's statement explaining only the basis of QGC's directors' recommendation in relation to the Santos Offer. This is fundamentally because:

- (a) further information will be provided in mid-late January 2007 in the forthcoming notice of meeting and explanatory memorandum (including the Deloitte independent expert's report) in relation to the AGL Proposal ;
- (b) the closing date for Santos' Offer has been extended to 31 January 2007;
- (c) the meeting to consider the AGL Proposal is not due to be held until February 2007; and
- (d) QGC shareholders who choose to trade in the current market know that they are trading in a period prior to significant information releases in relation to proposals that may change the value of their shares materially.

The Panel advised both Santos and QGC in relation to each of the issues set out below that if the explanatory memorandum and the Deloitte expert's report are not adequate or there is a material deficiency of information following the January releases of information, it would be open for Santos or any other person to make a further application to the Panel.

Background

Santos submitted that QGC's target statement in relation to the Offer (**QGC's Target's Statement**), contained a number of deficiencies. Santos submitted, amongst other things, that QGC's Target's Statement:

1. does not provide sufficient information to support the recommendation of QGC's directors that QGC shareholders should reject the Offer;
2. does not contain a technical expert's report issued in November 2006, commissioned by QGC, in relation to QGC's reserves position (**Technical Expert's Report**); and
3. contains other misleading and deceptive statements.

QGC made an announcement to Australian Stock Exchange Limited (**ASX**) on 5 December 2006 (**ASX Announcement**) and issued a first supplementary target's statement dated 7 December 2006 (**First Supplementary Target's Statement**) in relation to the AGL Proposal and Sentient Proposal. The ASX Announcement and First Supplementary Target's Statement states that the AGL Proposal and Sentient

Proposals are subject to QGC shareholder approval at an extraordinary general meeting (EGM) expected to be held in February 2007. QGC states that it will commission an independent expert to confirm that the AGL Proposal is fair and reasonable for QGC shareholders.

QGC states in the First Supplementary Target's Statement that it expects that QGC shareholders will receive a notice of the EGM, explanatory memorandum and independent expert's report (EGM Documentation) in early January 2007. QGC later advised the Panel that it expected the EGM Documentation to be despatched in mid to late January 2007.

Decision

Basis for QGC's directors' recommendation

The Panel considered that QGC's directors will have an obligation to provide proper disclosure about the AGL Proposal and Sentient Proposal and the basis of their recommendations for those Proposals in the EGM Documentation. The Panel also considered that if Deloitte prepares its report in accordance with:

1. policy guidance issued by the Australian Securities and Investments Commission (that is, policy statements 74 and 75 and practice notes 42 and 43); and
2. Deloitte's terms of engagement, Deloitte will provide an assessment of the value of QGC's shares on a stand alone basis,

then QGC's shareholders should have sufficient information to be able to assess:

1. the value of QGC shares on a stand alone basis; and
2. the relative merits and demerits of Santos' Offer and the AGL Proposal.

The above factors will assist QGC shareholders to decide whether or not they should accept the Offer.

Accordingly, on the basis of the further information to be provided to QGC shareholders in the EGM Documentation, the Panel did not consider that QGC shareholders would be materially assisted by receiving further information in the form of another supplementary target's statement explaining only the basis of QGC's directors' recommendation in relation to the Offer.

Disclosure of Technical Expert's Report

The Panel considered that as Deloitte will assess the value of QGC shares on a stand alone basis, it will need to take into account all relevant underlying data about QGC's operations, including its reserves position. The Panel expects that in order to properly conduct the valuation, Deloitte will need to have regard to the Technical Expert's Report and any other similar technical expert reports, and form a view as to the reliability of those reports. The Panel considers that it is a matter for Deloitte to decide the nature and character of the technical expert information which it will address in its independent expert report. It is not appropriate for the Panel to pre-empt the independent expert's decision in this respect.

Accordingly, the Panel did not consider that QGC shareholders would be materially assisted by QGC releasing the Technical Expert's Report before the EGM Documentation is despatched to QGC shareholders.

Other Disclosure Issues

Santos submitted a list of other disclosures in QGC's Target's Statement which Santos submitted were inadequate or misleading. The Panel considered that the further supplementary target's statement agreed to be issued by QGC was adequate to address any concerns that the Panel had in relation to those other disclosure issues raised in the Application.

The Panel considered that QGC should disclose more information about the Sentient Proposal, in particular, a more complete summary of the commercial and financial terms of the Sentient Proposal, the extent to which the Sentient Proposal is interdependent with the AGL Proposal and what part or parts of the Sentient Proposal will be placed before the QGC shareholders for their decision. The Panel considered that this disclosure could be given to QGC shareholders in the EGM Documentation.

On the basis of the further disclosures agreed to be provided by QGC in a second supplementary target's statement, the recent announcements by QGC about the AGL Proposal and Sentient Proposal and the further information to be provided in the EGM Documentation, and the submissions from QGC and Santos, the Panel has decided not to make a declaration of unacceptable circumstances in relation to the Application. The Panel did not consider it to be against the public interest to decline to make a declaration of unacceptable circumstances.

The sitting Panel which considered the application is Meredith Hellicar, Norman O'Bryan SC (sitting President) and Simon Withers.

The Panel will publish its reasons for the decision on its website when they are given to parties.

Nigel Morris
Director, Takeovers Panel
Level 47, 80 Collins Street
Melbourne, VIC 3000
Ph: +61 3 9655 3501
nigel.morris@takeovers.gov.au

Appendix F

Second Supplementary Target's Statement



QUEENSLAND GAS COMPANY LIMITED

Level 11, 307 Queen Street, Brisbane QLD 4000

GPO Box 3107, Brisbane QLD 4001

Tel: 07 3004 1000 Fax: 07 3012 8411

Website: www.qgc.com.au

Email: qgc@qgc.com.au

ASX ANNOUNCEMENT

Second Supplementary Target's Statement

This is a supplementary target's statement ('Supplementary Statement') issued by Queensland Gas Company Limited ('QGC') under section 644 of the *Corporations Act 2001* (Cth). It is the second Supplementary Statement issued by QGC in relation to an off-market takeover offer for QGC Shares by Santos CSG Pty Ltd, a wholly owned subsidiary of Santos Limited.

This Supplementary Statement supplements and is to be read together with the Target's Statement issued by QGC on 15 November 2006 and the first supplementary target's statement issued on 7 December 2006. Words defined in the Target's Statement have the same meaning in the Supplementary Statement unless the context requires otherwise. This Supplementary Statement prevails to the extent of any inconsistency with the Target's Statement.

A copy of this Supplementary Statement has been lodged with ASIC. Neither ASIC nor any of its officers takes any responsibility for the contents of the Supplementary Statement.

21 December 2006

Dear Shareholder

TAKEOVER UPDATE: YOUR DIRECTORS' RECOMMENDATION STANDS – REJECT THE SANTOS TAKEOVER OFFER

You will have received QGC's Target's Statement dated 15 November 2006 and first supplementary target statement dated 7 December 2006 containing important information, including your Directors' recommendation to **REJECT** the Santos Takeover Offer.

Santos has recently released a second supplementary Bidder's Statement containing additional information:

1. About the ACCC enquiries in relation to the competition effects of Santos' acquisition of QGC;
2. Extending the closing date of the offer period until 31 January 2007; and
3. Noting that Santos 'reserves its position' in relation to a number of the conditions of the Santos offer which have become incapable of being satisfied.

Shareholders will have noticed that Santos has asserted in its first supplementary Bidder's Statement that there are a number of 'fundamental flaws' in QGC's Target's Statement. You may also have noticed that Santos has recently made an application to the Takeovers Panel in respect of the Target's Statement.

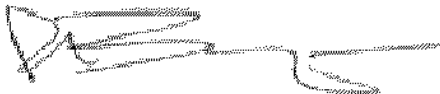
Annexed to this document is further information that QGC has either voluntarily agreed to provide as a result of ongoing negotiations with Santos or, has agreed to provide at the request of the Takeovers Panel and in response to matters raised by the Takeovers Panel with respect to the disclosures made in the Target's Statement. QGC's agreement to make these further disclosures forms part of the basis for the Takeovers Panel decision to decline Santos' application for a declaration of unacceptable circumstances. Although **QGC rejects the Santos criticisms** set out in the paragraph above, QGC has agreed to take this conciliatory step and provide this further information. A prompt resolution is clearly in the interests of Shareholders as prolonged negotiations will only cause QGC officers and employees to be diverted from their everyday tasks in running QGC and cause QGC to incur further legal fees.

For further information contact:
Mr Richard Cottee
Managing Director
Queensland Gas Company Limited
Telephone: (07) 3004 1000
Facsimile: (07) 3012 8411
Website: www.qgc.com.au



Your Directors continue to believe that the Santos Offer does not adequately compensate QGC Shareholders. On this basis, the QGC Directors continue to recommend that you **REJECT** the Santos Takeover Offer.

If you have any questions, please call the QGC Shareholder Information Line on 1800 043 134 (within Australia) or +61 2 8307 2433 (outside Australia) Monday to Friday between 8.00 am and 6.00 pm Queensland time, or visit our website at www.qgc.com.au.



Robert Bryan
Chairman
Queensland Gas Company Limited

For further information contact:
Mr Richard Cottee
Managing Director
Queensland Gas Company Limited
Telephone: (07) 3004 1000
Facsimile: (07) 3012 8411
Website: www.qgc.com.au



SECOND SUPPLEMENTARY TARGET'S STATEMENT

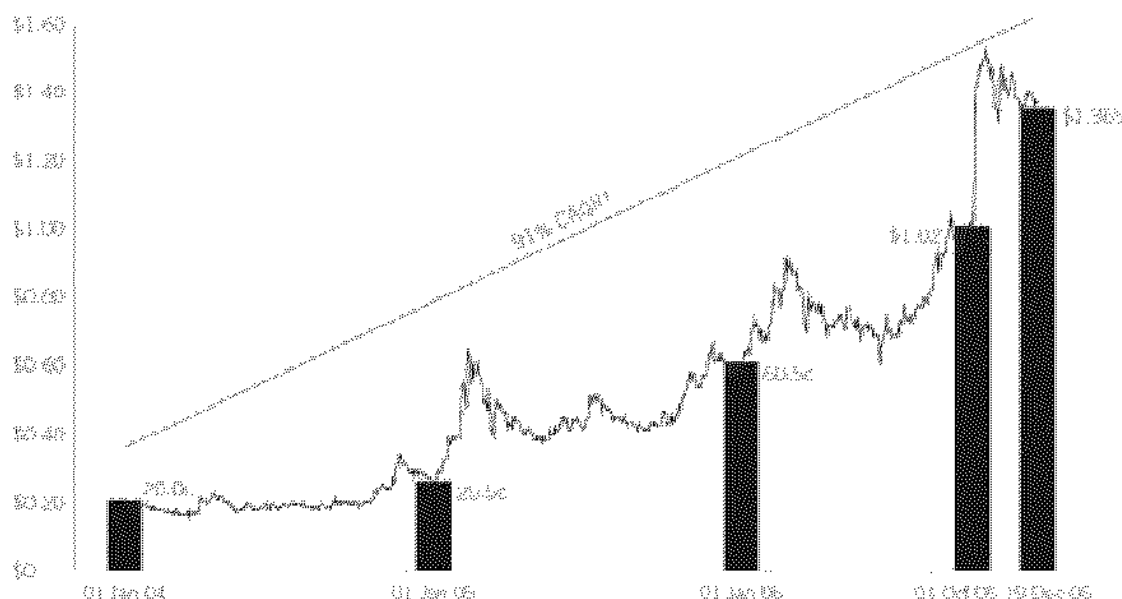
Queensland Gas Company Limited

Share Price Graph

The Target's Statement contains a graph on page 7 that represents QGC's Share price growth from 1 January 2004 to 9 November 2006. In its decision to decline to make a declaration of unacceptable circumstances as requested by Santos, the Takeovers Panel requested that the Supplementary Statement include a line graph showing the movement in the price of QGC Shares at more regular intervals. The Takeovers Panel further requested that QGC update the graph to include the most current Share price information. The amended graph is shown below.

It is also noted that the Share price graph as it appeared in the Target's Statement showed an arrowhead on the top right hand end of the 'CAGR' line. The Takeovers Panel has also requested that QGC make some clarifying statements with respect to the arrowhead. Accordingly, QGC notes that QGC Shareholders may have interpreted the arrow as indicating that QGC's Share price would continue to increase at the same rate as it has in the past. Your Directors are not in a position to forecast QGC's Share price in the future. The future price of QGC Shares is dependent not only on QGC's performance but also on factors outside QGC's control including general economic and share market conditions.

QGC'S SHARE PRICE GROWTH (BASED ON CLOSING PRICES)



1 CAGR is the compound annual growth rate of QGC's Share price from 1 January 2004 to 19 December 2006.

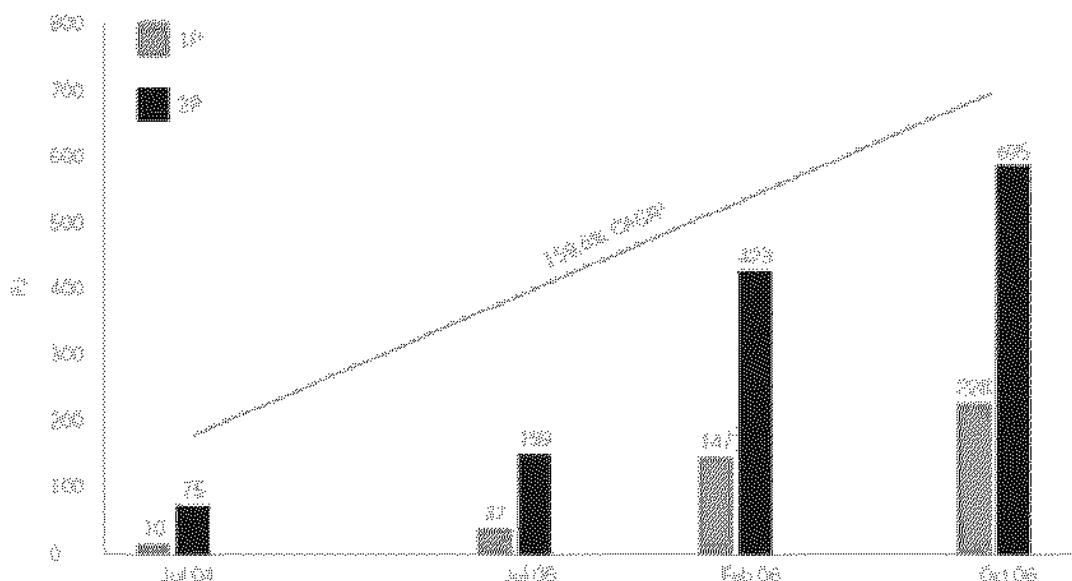
For further information contact:
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Managing Director
Queensland Gas Company Limited
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Facsimile: (07) 3012 8411
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Reserves graph

This graph was represented on page 5 of the Target's Statement with an arrowhead appearing on the top right hand end of the 'CAGR' line. QGC Shareholders may have interpreted the arrow as indicating that QGC's Reserves would continue to increase at the same rate as it has in the past. Although your Directors have an opinion on QGC's likely Reserves position in the future, they cannot guarantee QGC's Reserves growth.

1P AND 2P RESERVES GROWTH (QGC'S LEGAL INTEREST ONLY)



1 Reserves estimated by Southdown, James & Associates Inc.

2 CAGR is the compound annual growth rate of 2P Reserves from July 2004 until October 2006.

Economic certification for QGC Reserves upgrade

When referring to the Reserves upgrade certified in the NSAI November Report, the Target's Statement says:

NSAI is currently conducting an economic analysis to confirm that these Reserves volumes can be commercially produced under the terms of existing gas agreements and current cost parameters. Relevantly, NSAI has stated that it expects, based on its economic analysis as of February 2006, that the Reserves estimated in the NSAI November Report will likely be commercial. (inside the front cover of the Target's Statement under the heading 'NSAI November Report')

The results of the NSAI November Report were incorporated into the Target's Statement. NSAI has now provided, in a report dated 29 November 2006 ('NSAI Economic Report'), economic certification for QGC's Reserves upgrade which was confirmed by NSAI in the NSAI November Report.

The NSAI Economic Report certifies the commerciality of QGC's 64% volumetric increase in Proved and Probable (2P) coal seam gas Reserves to 695 PJ.

For further information contact:
 Mr Richard Cottee
 Managing Director
 Queensland Gas Company Limited
 Telephone: (07) 3004 1000
 Facsimile: (07) 3012 8411
 Website: www.qgc.com.au



NSAI wrote in the NSAI Economic Report that:

In our report dated November 7, 2006, we set forth our estimates of the proved, probable and possible reserves, as of October 31, 2006, to the Queensland Gas Company Limited (QGC) interest in certain coal seam gas properties located in Authorities to Prospect (ATPs) 610P, 620P, 632P, and 648P in the Northeastern Surat Basin of Queensland Australia.

As stated in that report, because of time constraints, we did not conduct an economic assessment of the reserves at that time. In accordance with your request, we have now completed our economic analysis and have determined that there are no material changes in the reserves shown in our November 7 report. We have concluded these reserves can be commercially produced under terms of existing gas contracts and current cost parameters.

The NSAI certification is a two-stage evaluation, the second stage of which could not be completed before QGC was required to release its Target's Statement in response to the Santos Offer.

Based on the results of QGC's first six weeks of drilling in the Growth Acceleration Strategy, NSAI determined major volumetric and economic increases in Reserves on all the key measures:

- 1P (Proved) reserves increased 55%, from 142 PJ to 228 PJ;
- 2P (Proved and Probable) reserves increased 64%, from 423 PJ to 695 PJ;
- 3P (Proved, Probable and Possible) reserves increased 4%, from 2,464 PJ to 2,556 PJ;
- Economic Ultimate Recovery (EUR) rate upgraded from 58% to 70% for QGC's only current producing area, the Berwyndale South Gasfield (PL201).

The NSAI Economic Report formally confirms the commerciality of QGC's recently upgraded Reserves as announced on 8 November 2006 and set out in the Target's Statement.

Tenement Areas

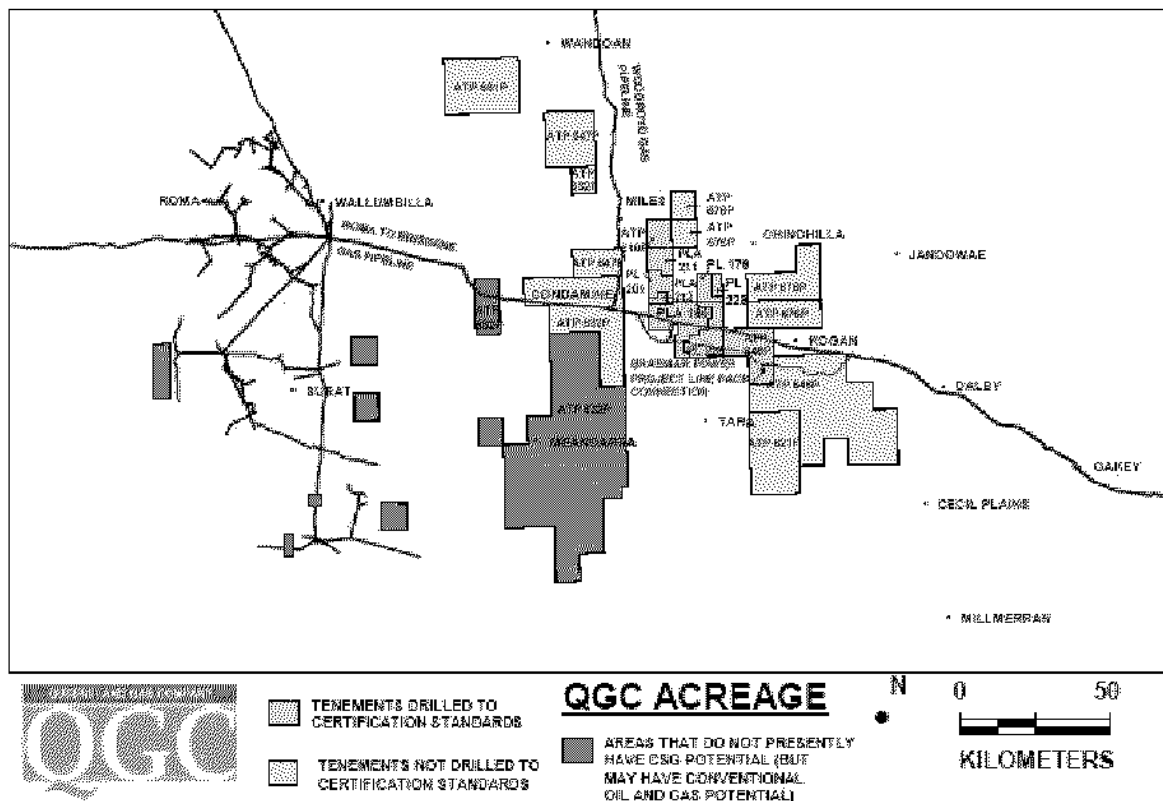
The second bullet point on page 6 of the Target's Statement states that 'QGC has yet to drill to certification standards more than 80% of its tenement areas, which it considers to have CSG potential'.

In order to describe with more accuracy the extent of QGC's tenements which QGC believes are prospective and to assist Shareholders to understand the areas to which QGC is referring, QGC has indicated in the map below:

- the tenement areas that QGC considers to have CSG potential and, within that area:
 - the tenement areas drilled to certification standards; and
 - the tenement areas not drilled to certification standards
- the areas that QGC considers does not presently have CSG potential (but may have conventional oil and gas potential).

For further information contact:
Mr Richard Cottee
Managing Director
Queensland Gas Company Limited
Telephone: (07) 3004 1000
Facsimile: (07) 3012 8411
Website: www.qgc.com.au





Growth Acceleration Strategy

The fifth bullet point on page 6 of the Target's Statement states that 'QGC expects to exceed the 1,000 PJ target for 2P Reserves by August 2007'. Shareholders should consider this statement in light of QGC's proposed Growth Acceleration Strategy initiatives as set out in section 3 of the Target's Statement and the risks set out in the Annexure to this Supplementary Statement. Although your Directors have an opinion on QGC's likely Reserves position in the future, they cannot guarantee QGC's Reserves growth.

Unsuccessfully Explored Areas

The second bullet point on page 10 of the Target's Statement says:

Superior exploration success is evidenced by QGC having recently found significant Reserves in areas which had previously been unsuccessfully explored.

This reference relates to QGC tenements that had been unsuccessfully explored by QGC's former management team (not by other gas exploration companies).

For further information contact:
 Mr Richard Cottee
 Managing Director
 Queensland Gas Company Limited
 Telephone: (07) 3004 1000
 Facsimile: (07) 3012 8411
 Website: www.qgc.com.au



Finding Costs

The fifth bullet point on page 10 of the Target's Statement says:

QGC's average cost of finding gas is approximately 3c/GJ which 'QGC believes to be lower than many other industry participants'.

The part of the statement that is directly quoted above is an opinion of the QGC Directors. Because there is insufficient publicly available data to verify the statement, QGC withdraws its statement and asks Shareholders to give it no weight in considering the Santos Takeover Offer.

Forward-looking statements

On the inside of the front cover of the Target's Statement, QGC explains the nature of the various forward-looking statements contained in the Target's Statement. Your Directors remain of the view that they have reasonable grounds to make the forward-looking statements they have made in the Target's Statement.

QGC would like to clarify the nature of the forward-looking statements referred to above by replacing the statement referred to above with the following paragraph:

This Target's Statement contains certain forward-looking statements which have not been based solely on historical facts, but are rather based on current expectations about future events and results. These forward looking statements are subject to inherent risks and uncertainties. Such risks and uncertainties include factors and risks specific to the industries in which QGC operates as well as general economic conditions, prevailing exchange rates and interest rates, conditions in the financial markets, government policies and regulation, competitive pressures and changes in technology. Actual events or results may differ materially from the expectations expressed or implied in such forward-looking statements. Neither QGC, nor its directors, officers, any person named in this Target's Statement or involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfillment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law.

Annualised gas sales revenue

The last sentence in the second last paragraph on page 6 of the Target's Statement says:

QGC's annualised gas sales revenue will be approximately \$28-30 million once deliveries have commenced on all existing contracts.

QGC has not provided a forecast of the profitability of its gas sales contracts because your Directors believe that they do not have sufficient information to do so. QGC is currently in transition from being an exploration company to a gas production company. Its original production facility at Berwyndale South has only been in production for 6 months. Given that QGC is in this early stage of data gathering, your Directors believe it is inappropriate to quantify costs at this point. Production costs are dependent upon a number of factors, including the number of wells that need to be drilled to supply the contracted volumes (ie the fewer wells that need to be drilled to get the gas necessary to supply the contracted volumes, the lower the production costs and the higher the profitability of the contracts). Given that QGC's flow rates are still increasing (and have shown no signs of peaking), QGC cannot reasonably estimate how many wells will be required for QGC to be in a position to supply the contracted volumes.

For further information contact:
Mr Richard Cottee
Managing Director
Queensland Gas Company Limited
Telephone: (07) 3004 1000
Facsimile: (07) 3012 8411
Website: www.qgc.com.au



Mr Crommelin – ABN AMRO Morgans Corporate Limited

One of the directors, Mr Timothy Crommelin, is the Chairman of ABN AMRO Morgans Limited ('AAML'). A subsidiary of AAML, ABN AMRO Morgans Corporate Limited, will receive fees as an adviser to QGC in respect of the Santos Offer. The quantum or payment of those fees is not dependent on the success (or failure) of the Santos Offer, however Shareholders should note Mr Crommelin's interest.

Important risks

QGC Shareholders have previously been advised of relevant risks. The Bidder's Statement (section 2.4 and 2.5 on pages 6 and 7) contains a discussion of risks associated with QGC's business.

The Target's Statement (section 7.3, page 40) referred shareholders to relevant additional information, including the recent QGC Rights Issue Prospectus which contains (section 3.10, pages 28-30) a discussion of the principal risks associated with an investment in QGC. A list of the relevant risks to be considered by Shareholders, which include those set out in section 3.10 of the QGC Rights Issue Prospectus, is produced in Annexure A to this document.

Taxation consequences

The Target's Statement made the point that you may incur a significant tax liability if you accept the Santos Takeover Offer. You should be aware that you may also incur a significant tax liability if you sell your QGC Share for cash at some other time in the future.

Directors' authorisation

This Supplementary Target's Statement has been approved by a resolution passed by the QGC Board.

For further information contact:
Mr Richard Cottee
Managing Director
Queensland Gas Company Limited
Telephone: (07) 3004 1000
Facsimile: (07) 3012 8411
Website: www.qgc.com.au



Annexure

Principal Risks

The QGC business is subject to risk factors, both specific to its business activities and of a general nature. Individually, or in combination, these might affect the future operating performance of QGC and the value of QGC. Shareholders should consider relevant risks, both general and specific. Each of the risks set out below could, if it eventuates, have a material adverse impact on QGC's operating performance and prospects, and the market price of the Shares.

General market risks

Share market investments

Like the shares of all ASX listed companies, QGC's Shares are quoted on ASX and their price might rise or fall. There can also be no assurance that an active trading market will always exist for the Shares. Factors affecting the price at which the Shares are traded on ASX could include domestic and international economic conditions. In addition, the prices of many listed entities' securities are affected by factors that might be unrelated to the operating performance of the relevant company. Such fluctuations might adversely affect the price of the Shares.

General economic conditions

QGC's operating and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, commodity prices, interest rates and government fiscal, monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates, could be expected to have a corresponding adverse impact on QGC's operating and financial performance.

Accounting Standards

Australian accounting standards are set by the Australian Accounting Standards Board (AASB) and are outside the Directors' and QGC's control. Changes to accounting standards issued by AASB could materially adversely affect the financial performance and position reported in QGC's financial statements.

Taxation risks

A change to the current taxation regime in Australia or overseas may affect QGC and its Shareholders. Personal tax liabilities are the responsibility of each individual investor. QGC is not responsible either for taxation or penalties incurred by investors.

Specific risks

Drilling Risk and Wells

There is no guarantee QGC can complete drilling of the wells required to implement its strategy in a timely manner or within expected costs. The quality of new and early stage wells and potential peak flow rates cannot be known or accurately forecast.

Contractual Arrangements

QGC is a party to a number of material contracts. These contracts have been announced to the market. In each case, a breach of contract by the relevant party or event of force majeure failure could have a material adverse effect on QGC. If QGC fails to meet its delivery obligations under contracts to which QGC is a party, liquidated damages may become payable.

For further information contact:
Mr Richard Cottee
Managing Director
Queensland Gas Company Limited
Telephone: (07) 3004 1000
Facsimile: (07) 3012 8411
Website: www.qgc.com.au



Joint Venturers

QGC also operates a number of joint ventures which are subject to risk of termination or breach. QGC's key joint venturers within the Undulla Nose are described in section 2 of the QGC Rights Issue Prospectus.

Competition

QGC faces competition from domestic and foreign producers.

Project Delay

To the extent that construction and development activities are delayed and production in the future cannot meet the required estimates, this may have a material adverse effect on QGC.

Cost Fluctuations

Any project in which QGC invests may be subject to cost fluctuations which could have a substantial impact on QGC's prospects and the value of the Shares.

Environmental Risks

The CSG industry involves environmental risks. QGC incurs considerable costs in environmental compliance, impacting upon new project developments and ongoing operational costs. In the event of an environmental accident, QGC may potentially be found liable to severe penalties or civil actions.

Workplace Health & Safety

The CSG operating environment also involves inherent risks for field personnel. In the event of a work place health and safety incident QGC may potentially be found liable to severe penalties or civil actions.

Legislation, Regulation and Tenure

QGC's activities in the CSG industry (and future involvement in the Condamine Power Station) are subject to legislation, regulations and approvals ('laws'). The impact of existing or new laws, or their interpretation in the Courts, could have a material adverse effect on QGC. Further, QGC will, from time to time, require various government regulatory approvals for its operations and must comply with those laws. There is a risk of delay, increased cost or failure to obtain such approvals.

Tenements

The loss of granted tenements may have a material adverse effect on QGC.

Native title and cultural heritage

Native title claims and cultural heritage issues may potentially impact upon tenements depending on the nature of the tenement, the date of its grant or proposed grant, and the nature of the underlying land tenures.

Financing

QGC may be required to raise additional equity and/or debt capital in the future. There is no assurance that it will be able to raise such capital when it is required or that the terms associated with providing such capital will be satisfactory to QGC.

Dependence upon Key Personnel

QGC's success depends to a significant extent upon its key management personnel, as well as other management personnel. The loss of the services of such personnel could have a material adverse effect upon QGC. To address this risk QGC has secured a number of key personnel to service and consultancy contracts.

Gas Market Risk

There is no guarantee that QGC will be able to secure contracts for all of the reserves proved up by the exploration.

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Power Station Risk

QGC will be liable for payments under a tolling agreement (tolling fee) for the Condamine Power Station. Payment of tolling fees or overheads may not be able to be met from electricity sales if there are unforeseen low prices on the NEM. There is no guarantee that sales of gas switched to the gas markets will cover all of these costs.

Commodity Prices

The commodities that might be sold by QGC, or any project in which it invests, may be subject to price fluctuations which may impact on QGC's business and financial condition.

Share Price

Neither your Directors or Santos are in a position to speculate on the future trading price of QGC's Shares if the Santos offer lapses, or to guarantee any sale price. The future price of QGC Shares is dependent not only on QGC's performance but also on factors outside QGC's control including general economic and share market conditions.

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Appendix G

Directors' Interests in Santos and AGL

As at 25 January 2007, the Directors had relevant interests in the following securities of Santos and its Associates and AGL and its Associates:

Director	Santos and its Associates' securities	AGL and its Associates' securities
Mr Robert Bryan	Nil	Nil
Mr Peter Cassidy	Nil	Nil
Mr Francis Connolly	Nil	Nil
Mr Richard Cottee	Nil	Nil
Mr Timothy Crommein	10,000*	10,000*
Mr Vincent De Santis (Alternate Director)	Nil	Nil
Mr Dale Elphinstone	20,000^	Nil
Mr Denis Patten	Nil	Nil

*Note

Mr Crommein has an indirect interest in 10,000 shares of Santos Limited and 10,000 shares of AGL through TIBC Pty Ltd «Crommein Family Account».

^Note

Mr Elphinstone has an indirect interest in 20,000 shares of Santos Limited through Elphinstone Holdings Pty Ltd.

Notice of General Meeting



QUEENSLAND GAS COMPANY LIMITED

Level 11, 307 Queen Street Brisbane Queensland 4000

GPO Box 3107 Brisbane Queensland 4001

Tel (61) 7 3004 1000 Fax (61) 7 3012 8411

website: www.qgc.com.au

Email: qgc@qgc.com.au

Notice is given that a General Meeting of the shareholders of Queensland Gas Company Limited (**Company**) will be held on Friday, 2 March 2007 at the Stamford Plaza Brisbane, Cnr Edward Street and Margaret Street, Brisbane at 10.00am (Queensland time).

Agenda

1 Approval of Sentient Transaction

To consider, and if thought fit, pass the following as an ordinary resolution of the Company:

"That:

- (i) the Company's entry into and performance of the Share Sale Agreement between Sentient Executive GP I, Limited in its capacity as general partner of Sentient GP I, L.P. acting in its capacity as general partner of Sentient Global Resources Fund I, L.P. (**Sentient Holdings**), Sentient (Aust) Pty Limited as trustee of the Sentient Global Resources Trust No. 1 (**Sentient Trust**) and the Company dated 4 December 2006 be approved; and*
- (ii) for the purposes of Listing Rules 7.1 and 7.9 of the ASX Listing Rules, the Company be authorised to issue 43,884,750 fully paid ordinary shares in the Company to Sentient Holdings and 9,544,623 fully paid ordinary shares in the Company to Sentient Trust."*

Note

The Company will disregard any votes cast on Resolution 1 by Sentient Holdings or Sentient Trust or any of their respective Associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form as the proxy decides.

2 Approval of AGL Transaction

To consider, and if thought fit, pass the following as an ordinary resolution of the Company:

"That:

(a) the Company's entry into and performance of:

- (i) the Gas Sale Agreement between the Company and AGL Energy Limited dated 4 December 2006; and*
- (ii) the Gas Market Development Services Agreement between the Company and AGL Energy Limited dated 4 December 2006; and*
- (iii) the Subscription Agreement between the Company and AGL Energy Limited dated 4 December 2006*

be approved, and the Company be authorised to enter into the arrangements set out in those documents and to proceed to finalise all contractual documents relating to such arrangements; and



(b) without limiting (a) above, for the purposes of item 7 of section 611 of the Corporations Act 2001 (Cth) and Listing Rule 7.9 of the ASX Listing Rules, the Company's entry into and performance of the Subscription Agreement between the Company and AGL Energy Limited dated 4 December 2006 be approved, and the Company be authorised:

- (i) if Resolution 1 to be considered at this meeting is passed, to issue to AGL Energy Limited (AGL) 202,663,139 fully paid ordinary shares in the Company (**Shares**) at a price of \$1.44 per Share; and
- (ii) if Resolution 1 to be considered at this meeting is not passed, to issue to AGL 182,396,825 Shares at a price of \$1.44 per Share (**Original Allotment**); and
- (iii) if Resolution 1 to be considered at this meeting is not passed, the Original Allotment is made, but QGC proceeds to make an allotment to a member of the Sentient Group (other than an allotment to a member of the Sentient Group pursuant to a pro rata offer of Shares or pursuant to an allotment of Shares to both a member of the Sentient Group and AGL at the same time in proportion to their holding of Shares at that time) at any time during the 12 month period after the date of the Original Allotment – to issue upon exercise of the option referred to in section 5.4 of the Explanatory Memorandum that accompanies the Notice of Meeting that number of Shares up to 30% of the number of Shares allotted to the member of the Sentient Group during the 12 month period at a price which is equal to the lesser of:
 - (A) \$1.44 per Share; and
 - (B) the volume weighted average price for Shares over the five trading days prior to the date of the allotment to Sentient."

This approval is sought because the entry into the AGL Transaction would trigger one or more of the defeating conditions of the Santos Takeover Offer. The resolution also acts:

- » as an approval for the purposes of section 611 item 7 of the Corporations Act of the acquisition by AGL under the AGL Subscription Agreement of relevant interests in excess of 20% of the issued voting shares in QGC without contravening the takeover prohibition in section 606 of the Corporations Act; and
- » as an approval under ASX Listing Rule 7.9 for the agreement to issue equity securities under the AGL Subscription Agreement in the three month period following receipt of notice of Santos' Takeover Offer.

Note that the approval under section 611 item 7 is an approval for the subscription by AGL for a 27.5% shareholding at \$1.44 per Share and, in the event that the Sentient Resolution is not approved and QGC proceeds to make an allotment to a member of the Sentient Group at any time during the 12 month period after the placement to AGL, the issue of any QGC Shares on exercise by AGL of the option referred to in section 5.4 of the Explanatory Memorandum that accompanies this Notice of Meeting which is designed to ensure that AGL maintains its percentage shareholding in that event.



Note

The Company will disregard any votes cast on Resolution 2 by AGL Energy Limited or any of its Associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form as the proxy decides.

3 Increase in maximum number of directors

To consider, and if thought fit, pass the following as an ordinary resolution of the Company:

"That, subject to Resolution 2 proposed at this meeting being passed, pursuant to clause 13.1(a) of the Company's constitution, the maximum number of directors that may be appointed to the Company's board be increased from eight to nine."

4 Appointment of Stephen Mikkelsen as a director

To consider, and if thought fit, pass the following as an ordinary resolution of the Company:

"That, subject to Resolution 2 proposed at this meeting being passed, Mr Stephen Mikkelsen be appointed to the board of directors of the Company with effect from the date on which AGL Energy Limited is issued fully paid ordinary Shares in the company in accordance with Resolution 2 proposed at this Meeting."

5 Appointment of Michael Fraser as a director

To consider, and if thought fit, pass the following as an ordinary resolution of the Company:

"That, subject to Resolution 2 proposed at this meeting being passed, Mr Michael Fraser be appointed to the board of directors of the Company with effect from the date on which AGL Energy Limited is issued fully paid ordinary Shares in the company in accordance with Resolution 2 proposed at this Meeting."

6 Appointment of Michael Moraza as a director

To consider, and if thought fit, pass the following as an ordinary resolution of the Company:

"That, subject to Resolutions 2 and 3 proposed at this meeting being passed, or if Resolution 3 is not passed and either or both of Resolution 4 or 5 proposed at this meeting is not passed, Mr Michael Moraza be appointed to the board of directors of the Company with effect from the date on which AGL Energy Limited is issued fully paid ordinary Shares in the company in accordance with Resolution 2 proposed at this Meeting."



7 Buy-Back of Shares

To consider, and if thought fit, pass the following as an ordinary resolution of the Company:

"That, subject to Resolution 2 proposed at this meeting being passed, the Company authorises and approves:

- (a) the terms, and the entry into, of any Buy-Back agreement as described in the Explanatory Memorandum accompanying the Notice of General Meeting convening this meeting; and*
- (b) any agreement in those terms entered into during the 12 months commencing from the date of this resolution to the extent that:*
 - (i) approval of such buy-back agreement is required under section 257G of the Corporations Act 2001 (Cth); and*
 - (ii) approval of such buy-back agreement would not result in the Company buying back more than 12.5% of its issued ordinary share capital (including any increases that result from any issue of fully paid ordinary shares in the Company following the approval of Resolutions 1 and/or 2 at this meeting)."*

Explanatory Memorandum

The Explanatory Memorandum forms part of this Notice of Meeting and should be read in conjunction with it.

Terms used in this Notice of Meeting are defined in the Glossary of Terms.

Proxies

A shareholder entitled to attend and vote at the meeting is entitled to appoint another person as the shareholder's proxy to attend and vote for the shareholder at the meeting. A proxy need not be a shareholder of the Company. A shareholder who is entitled to cast two or more votes may appoint up to two proxies and may specify the proportion or number of votes that the proxy may exercise. If no such specification is given and two proxies are appointed, each may exercise half of the votes to which that shareholder is entitled.

The enclosed proxy form must be signed by the shareholder or the shareholder's attorney, duly authorised in writing. Proxies by a company must be executed in accordance with its constitution and a certificate of appointment of corporate representative should be completed and lodged in the manner specified below.



To be valid, the signed proxy form (together with an original or certified copy of the power of attorney – if applicable) must be:

- ✦ delivered by post to Link Market Services Limited at Locked Bag A14, Sydney South, NSW 1235; or
- ✦ delivered by hand to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000; or
- ✦ sent by facsimile to Link Market Services Limited on (02) 9287 0300,

so as to be received by the QGC share registry (being Link Market Services Limited) by 10.00am (Queensland time) on Wednesday, 28 February 2007, being not less than 48 hours before the time for holding the meeting.

Appointing a proxy will not stop you attending the meeting in person and voting at the meeting instead of your proxy.

A proxy form accompanies this Notice of Meeting.

Corporate representatives

A corporate shareholder who has appointed a person to act as its corporate representative at the meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as the company's representative. The authority may be sent to QGC or its share registry, Link Market Services Limited, in advance of the meeting or handed in at the meeting when registering as a corporate representative.

Voting entitlements

The time for determining voting entitlements for the meeting will be 7.00pm (Queensland time) on Wednesday, 28 February 2007.

By Order of the Board

Peter Jans
Company Secretary
1 February 2007

Notes

Notes



Queensland Gas Company Limited

Notice of General Meeting and Explanatory Memorandum

ABN: 11 089 642 553

Registered and Head Office


Level 11, 307 Queen Street Brisbane Queensland 4000

GPO Box 3107 Brisbane Queensland 4001

TELEPHONE: +61 7 3004 1000 FACSIMILE: +61 7 3012 8411

EMAIL: ggc@ggc.com.au WEBSITE: www.ggc.com.au

JPMorgan 

 **ABN AMRO** Morgans

**CORRS
CHAMBERS
WESTGARTH**
LAWYERS