

Form 603
Corporations Act 2001
Section 671B

Notice of initial substantial holder

To Company Name/Scheme Queensland Gas Company Limited

ACN/ARSN 089 642 553

1. Details of substantial holder (1)

Name AGL Energy Limited and its related bodies corporate (as set out in Annexure A)

ACN/ARSN (if applicable)

The holder became a substantial holder on 08/03/2007

2. Details of voting power

The total number of votes attached to all the voting shares in the company or voting interests in the scheme that the substantial holder or an associate (2) had a relevant interest (3) in on the date the substantial holder became a substantial holder are as follows:

| Class of securities (4) | Number of securities | Person's votes (5) | Voting power (6) |
|-------------------------|----------------------|--------------------|------------------|
| Ordinary | 204,616,102 | 204,616,102 | 27.5% |
| | | | |

3. Details of relevant interests

The nature of the relevant interest the substantial holder or an associate had in the following voting securities on the date the substantial holder became a substantial holder are as follows:

| Holder of relevant interest | Nature of relevant interest (7) | Class and number of securities |
|-----------------------------|---|--------------------------------|
| AGL Energy Limited | Registered holder. The securities were acquired pursuant to a Subscription Agreement dated 4 December 2006, a copy of which is set out at Annexure B. | 204,616,102 ordinary |
| | | |

4. Details of present registered holders

The persons registered as holders of the securities referred to in paragraph 3 above are as follows:

| Holder of relevant interest | Registered holder of securities | Person entitled to be registered as holder (8) | Class and number of securities |
|-----------------------------|---------------------------------|--|--------------------------------|
| AGL Energy Limited | AGL Energy Limited | AGL Energy Limited | 204,616,102 ordinary |
| | | | |

5. Consideration

The consideration paid for each relevant interest referred to in paragraph 3 above, and acquired in the four months prior to the day that the substantial holder became a substantial holder is as follows:

| Holder of relevant interest | Date of acquisition | Consideration (9) | | Class and number of securities |
|-----------------------------|---------------------|-------------------|----------|--------------------------------|
| | | Cash | Non-cash | |
| AGL Energy Limited | 08/03/2007 | \$327,385,763.20 | | 204,616,102 ordinary |
| | | | | |

6. Associates

The reasons the persons named in paragraph 3 above are associates of the substantial holder are as follows:


| Name and ACN/ARSN (if applicable) | Nature of association |
|-----------------------------------|-----------------------|
| | |
| | |

7. Addresses

The addresses of persons named in this form are as follows:

| Name | Address |
|----------------|---------|
| See Annexure A | |
| | |

Signature

print name Michael Paul Williams capacity Company Secretary
 sign here  date 12 / 3 / 07

DIRECTIONS

- (1) If there are a number of substantial holders with similar or related relevant interests (eg. a corporation and its related corporations, or the manager and trustee of an equity trust), the names could be included in an annexure to the form. If the relevant interests of a group of persons are essentially similar, they may be referred to throughout the form as a specifically named group if the membership of each group, with the names and addresses of members is clearly set out in paragraph 7 of the form.
- (2) See the definition of "associate" in section 9 of the Corporations Act 2001.
- (3) See the definition of "relevant interest" in sections 608 and 671B(7) of the Corporations Act 2001.
- (4) The voting shares of a company constitute one class unless divided into separate classes.
- (5) The total number of votes attached to all the voting shares in the company or voting interests in the scheme (if any) that the person or an associate has a relevant interest in.
- (6) The person's votes divided by the total votes in the body corporate or scheme multiplied by 100.
- (7) Include details of:
 - (a) any relevant agreement or other circumstances by which the relevant interest was acquired. If subsection 671B(4) applies, a copy of any document setting out the terms of any relevant agreement, and a statement by the person giving full and accurate details of any contract, scheme or arrangement, must accompany this form, together with a written statement certifying this contract, scheme or arrangement; and
 - (b) any qualification of the power of a person to exercise, control the exercise of, or influence the exercise of, the voting powers or disposal of the securities to which the relevant interest relates (indicating clearly the particular securities to which the qualification applies).

See the definition of "relevant agreement" in section 9 of the Corporations Act 2001.
- (8) If the substantial holder is unable to determine the identity of the person (eg. if the relevant interest arises because of an option) write "unknown."
- (9) Details of the consideration must include any and all benefits, moneys and other, that any person from whom a relevant interest was acquired has, or may, become entitled to receive in relation to that acquisition. Details must be included even if the benefit is conditional on the happening or not of a contingency. Details must be included of any benefit paid on behalf of the substantial holder or its associate in relation to the acquisitions, even if they are not paid directly to the person from whom the relevant interest was acquired.

Annexure A

AGL Energy Limited ACN 115 061 375

1. Details of substantial shareholder / 7. Addresses

| Substantial shareholder | ACN | Address |
|--|--------------------------------------|--|
| AGL Energy Limited | 115 061 375 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Limited | NZ Company No 1054119 | C/- Russell McVeagh, Level 24, Mobil On The Park, Lambton Quay, Wellington, New Zealand |
| AGL ACT Retail Investments Pty Limited | 093 631 586 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Chile Operations S.A. | | Camino Internacional 1420, Renaca Alto, Vina del Mar, Chile |
| AGL Corporate Services Pty Limited | 093 015 724 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Electricity (VIC) Pty Limited | 070 182 099 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Energy Limited | NZ Company No 1054121 | C/- Russell McVeagh, Level 24, Mobil On The Park, Lambton Quay, Wellington, New Zealand |
| AGL Energy Foundation Limited | 120 724 405 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Energy Sales & Marketing Limited | 076 092 067 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Energy Services Pty Limited | 074 821 720 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Finance Pty. Limited | 003 376 529 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Gas Developments (Hunter) Pty Limited | 073 928 631 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Gas Developments (PNG) Pty Limited | 001 389 939 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Gas Development (Sydney) Pty Limited | 086 013 505 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Gas Production (Camden) Pty Limited | 115 063 744 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Gas Trading Pty Limited | 068 827 038 | 72 Christie Street, St Leonards NSW 2065 |
| AGL HP1 Pty Limited | 080 429 901 | 72 Christie Street, St Leonards NSW 2065 |
| AGL HP2 Pty Limited | 080 810 546 | 72 Christie Street, St Leonards NSW 2065 |
| AGL HP3 Pty Limited | 080 735 815 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Hydro Maintenance Services Pty Limited | 084 668 093 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Hydro Operations Pty Limited | 080 797 824 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Hydro Partnership | 076 694 481 | 72 Christie Street, St Leonards NSW 2065 |
| AGL International | Cayman Islands Registration No 76753 | C/- International Management Services Ltd, 4 th Floor, Harbour centre, PO Box 61, George Town, Grand Cayman/British West Indies |
| AGL Pipelines Investments Pty Limited | 091 258 418 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Pipelines Investments (QLD) Pty Limited | 091 258 472 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Power Generation (NSW) Pty Limited | 118 099 451 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Power Generation (QLD) Pty Limited | 119 438 756 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Power Generation (SA) Pty Limited | 086 013 523 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Power Generation (Victoria) Pty Limited | 086 586 192 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Retail Energy Limited | 074 839 464 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Sales Pty Limited | 090 538 337 | Level 22, 120 Spencer Street, Melbourne VIC 3000 |
| AGL Sales (Queensland) Pty Limited | 121 177 740 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Sales (Queensland Electricity) Pty Limited | 078 875 902 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Share Plan Pty Limited | 080 609 749 | 72 Christie Street, St Leonards NSW 2065 |
| AGL (SHL) Pty Limited | 116 830 285 | 72 Christie Street, St Leonards NSW 2065 |
| AGL South Australia Pty Limited | 091 105 092 | 22 Greenhill Road, Eastwood SA |
| AGL Southern Hydro Holdings Pty Limited | 104 646 424 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Southern Hydro Investments Pty Ltd | 104 071 829 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Southern Hydro Pty Limited | 088 976 327 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Southern Hydro (NSW) Pty Limited | 056 452 601 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Utility Services Pty Limited | 081 834 826 | Level 22, 120 Spencer Street, Melbourne VIC 3000 |
| AGL Wholesale Gas Limited | 072 948 504 | 72 Christie Street, St Leonards NSW 2065 |
| AGL Wholesale Gas (SA) Pty Limited | 094 384 291 | 72 Christie Street, St Leonards NSW 2065 |
| Australian Energy Ltd | 083 183 028 | 72 Christie Street, St Leonards NSW 2065 |
| Australian Energy Services Pty Ltd | 090 595 896 | 72 Christie Street, St Leonards NSW 2065 |
| Dollar Wind Farm Pty Limited | 107 251 285 | 72 Christie Street, St Leonards NSW 2065 |
| Dual Fuel Systems Pty Limited | 001 499 314 | 72 Christie Street, St Leonards NSW 2065 |
| EdgeCap Pty Limited | 091 369 014 | Level 22, 120 Spencer Street, Melbourne VIC 3000 |
| Empresa de Gas de la V Region S.A. (Gas Valpo) | | Camino Internacional 1420, Renaca Alto, Vina del Mar, Chile |
| Essential Energy Services Pty Ltd | 090 072 889 | 72 Christie Street, St Leonards NSW 2065 |
| HC Extractions Pty Limited | 002 945 655 | 72 Christie Street, St Leonards NSW 2065 |
| Inversiones AGL Chile Limitada | | Miraflores 222 Piso 24, Santiago, Chile |
| Macarthur Wind Farm Pty Ltd | 106 134 507 | 72 Christie Street, St Leonards NSW 2065 |
| Powerdirect Pty Ltd | 067 609 803 | 72 Christie Street, St Leonards NSW 2065 |
| Powerdirect Utility Services Pty Ltd | 104 759 471 | 72 Christie Street, St Leonards NSW 2065 |
| Victorian Energy Pty Limited | 069 892 379 | 72 Christie Street, St Leonards NSW 2065 |

This is Annexure A of 1 page referred to in the Form 603 Notice of Initial Substantial Shareholder signed by me and dated 12 MARCH 2007

Name: Michael Paul Williams

Capacity: Company Secretary

Signature 

Date

12 MARCH 2007

Annexure B

**AGL Energy Limited
ACN 115 061 375**

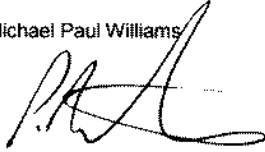
Subscription Agreement

This is Annexure B of 27 pages referred to in the Form 603 Notice of Initial Substantial Shareholder signed by me and dated 12 MARCH 2007

Name: Michael Paul Williams

Capacity: Company Secretary

Signature



Date

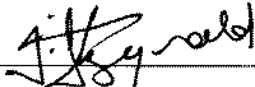
12 MARCH 2007

I certify that the document on the following 26 pages is a true, complete and conformed copy of the Subscription Agreement between AGL Energy Limited and Queensland Gas Limited dated 4 December 2006 (as amended).

Name: John Fitzgerald

Capacity: Solicitor

Signature



Date

12/3/07

Governor Phillip Tower
1 Farrer Place Sydney NSW 2000
GPO Box 9925 NSW 2001
Tel (02) 9210 6500
Fax (02) 9210 6611
www.corr.com.au

CORRS
CHAMBERS
WESTGARTH

Conformed copy

Queensland Gas Company Limited

AGL Energy Limited

Subscription Agreement

4284736v6

Ref: AJL1DL OFFICE-CA22

© Corrs Chambers Westgarth

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Date 4 December 2006

Parties

Queensland Gas Company Limited ACN 089 642 553 of Level 11, 307
Queens Street, Brisbane Queensland 4000 (**QGC**)

AGL Energy Limited ACN 115 061 375 of 72 Christie Street, St Leonards,
NSW (**AGL**)

Background

- A AGL has agreed to subscribe for, and QGC has agreed to issue to AGL,
ordinary shares in QGC in accordance with the terms of this document.
-

Agreed terms

1 Interpretation

1.1 Definitions

In this document:

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 Australian Stock Exchange Limited.

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

Buy-back Tender means the off-market tender buyback of that percentage (to
be determined by the QGC Board which is no lower than 12.5% and no higher
than 14.74%) of the Shares on issue immediately following the issue of the
Subscription Shares on the Subscription Completion Date at a price to be
determined by the QGC Board which is no less than \$1.52 and no higher than
\$1.79.

Buy-back Resolution means an ordinary resolution of QGC Shareholders to
approve the Buy-back Tender under section 257C of the Corporations Act.

Conditions means the conditions set out in **clause 2.1**.

Corporations Act means the *Corporations Act 2001* (Cth).

Cut-Off Date means 90 days from the Execution Date or such other date agreed in writing between the parties.

Gas Market Development Services Term Sheet means the term sheet dated on or about the date of this document 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.

Directors Appointment Resolutions means the ordinary resolutions to be proposed at the Shareholders' Meeting to:

- (a) increase the maximum number of directors that may be appointed to the QGC Board to nine pursuant to clause 13.1(a) of QGC's constitution; and
- (b) appoint with effect from the Subscription Completion Date the three directors nominated by AGL in accordance with **clause 6.1(a)**.

Execution Date means the date this document is executed by the parties.

Explanatory Material means the explanatory material to accompany the notice of the Shareholder Meeting.

Gas Sale Contract means the long term gas supply contract between QGC and AGL dated on or about the date of this document.

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.

Independent Expert means such expert as QGC appoints for the purposes of preparing the Independent Expert's Report.

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

Insolvency Event means:

- (a) a party is or states that it is unable to pay from its own money all its debts as and when they become due and payable;
- (b) a party is taken or must be presumed to be insolvent or unable to pay its debts under any applicable legislation;
- (c) an application or order is made for the winding up or dissolution of a party or a resolution is passed or any steps are taken to pass a resolution for its winding up or dissolution;
- (d) an administrator, provisional liquidator, liquidator or person having a similar or analogous function under the laws of any relevant jurisdiction is appointed in respect of a party or any action is taken to appoint any such person and the action is not stayed, withdrawn or dismissed within seven days;
- (e) a controller (as defined in the Corporations Act) is appointed in respect of any property of a party;

- (f) a party is deregistered under the Corporations Act or notice of its proposed deregistration is given to the corporation;
- (g) execution is levied or becomes enforceable against any property of a party;
- (h) a party enters into or takes any action to enter into an arrangement (including a scheme of arrangement or deed of company arrangement), composition or compromise with, or assignment for the benefit of, all or any class of its creditors or members or a moratorium involving any of them; or
- (i) anything analogous to or of a similar effect to anything described above under the law of any relevant jurisdiction occurs in respect of a party.

Listing Rules means the Listing Rules of ASX.

Non-AGL Directors means those directors of the board of QGC from time to time, other than those appointed in accordance with **clause 6**.

Option means the option granted by QGC pursuant to **clause 4.4**.

QGC Board means the board of directors of QGC.

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

QGC Group Member means each member of the QGC Group.

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

Restricted Shareholder means any of the following:

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

Santos means Santos CSG Pty Ltd ACN 121 188 654.

Santos Bid means the takeover bid made by Santos for QGC pursuant to a Bidder's Statement given by Santos to QGC on 10 October 2006.

Sentient means Sentient Executive GP 1, Limited, Sentient (Aust) Pty Limited or any of their respective Associates.

Sentient Allotment means the proposed allotment of Shares to Sentient (Aust) Pty Limited and Sentient Executive GP 1, Limited in connection with the sale of the capital of certain entities holding interests in joint ventures concerning coal seam methane fields in Southern Queensland.

Sentient Resolution means the ordinary resolution to be proposed at the Shareholders' Meeting to approve the Sentient Allotment.

Shareholders' Meeting means the meeting of QGC Shareholders to consider and if thought fit approve:

- (a) the Sentient Resolution;
- (b) the Transaction Approval Resolution;
- (c) the Share Subscription Resolutions;
- (d) the Directors Appointment Resolutions; and
- (e) the Buy-back Resolution.

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

Share Subscription Resolutions means the ordinary resolutions of QGC Shareholders to approve:

- (a) the issue of the Subscription Shares and the exercise of the Option under section 611(7) of the Corporations Act, and
- (b) the issue of the Subscription Shares and the exercise of the Option under section 7.9 of the Listing Rules,

Standstill Period means the two year period from the Subscription Completion Date.

Subscription Amount means \$1.60 per Subscription Share multiplied by the number of Subscription Shares.

Subscription Completion Date means 10.00 am on the date which is five Business Days after satisfaction or waiver of the Conditions referred to in **clause 2.1** or such other date as the parties agree in writing.

Subscription Shares means that number of Shares calculated in accordance with **clause 4.1**.

Takeover Bid has the meaning given to that term in the Corporations Act.

Transaction means the subscription and allotment of the Subscription Shares, QGC's entry into the Gas Sale Contract and QGC's entry into the Gas Market Development Services Term Sheet.

Transaction Approval Resolution means the ordinary resolution of QGC Shareholders to approve the Transaction.

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

1.2 Construction

Unless expressed to the contrary, in this document:

- (a) words in the singular include the plural and vice versa;
- (b) any gender includes the other genders;
- (c) if a word or phrase is defined its other grammatical forms have corresponding meanings;
- (d) "includes" means includes without limitation;

- (e) no rule of construction will apply to a clause to the disadvantage of a party merely because that party put forward the clause or would otherwise benefit from it;
- (f) a reference to:
 - (i) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority;
 - (ii) a person includes the person's legal personal representatives, successors, assigns and persons substituted by novation;
 - (iii) any legislation includes subordinate legislation under it and includes that legislation and subordinate legislation as modified or replaced;
 - (iv) an obligation includes a warranty or representation and a reference to a failure to comply with an obligation includes a breach of warranty or representation;
 - (v) a right includes a benefit, remedy, discretion or power;
 - (vi) time is to local time in Sydney;
 - (vii) "\$" or "dollars" is a reference to Australian currency;
 - (viii) this or any other document includes the document as novated, varied or replaced and despite any change in the identity of the parties;
 - (ix) writing includes any mode of representing or reproducing words in tangible and permanently visible form, and includes fax transmissions;
 - (x) this document includes all schedules and annexures to it; and
 - (xi) a clause, schedule or annexure is a reference to a clause, schedule or annexure, as the case may be, of this document;
- (g) if the date on or by which any act must be done under this document is not a Business Day, the act must be done on or by the next Business Day; and
- (h) where time is to be calculated by reference to a day or event, that day or the day of that event is excluded.

2 Conditions

2.1 Conditions

The obligations of QGC and AGL under **clauses 4, 5 and 6** are conditional upon:

- (a) the Independent Expert concluding in the Independent Expert's Report that the Transaction is fair and reasonable;

- (b) Santos not having acquired a Voting Power in QGC of 50% or more (whether pursuant to the Santos Bid or otherwise) prior to the end of the Shareholders' Meeting;
- (c) the QGC Shareholders passing the following resolutions at the Shareholders' Meeting:
 - (i) the Transaction Approval Resolution; and
 - (ii) the Share Subscription Resolutions;
- (d) any other approvals of Governmental Agencies which are necessary or which QGC and AGL agree are desirable to implement the Transaction.

2.2 Waiver of Conditions

None of the conditions contained in **clause 2.1** can be waived without the approval in writing of both QGC and AGL.

2.3 Fulfilment of Conditions

If any Condition contained in **clause 2.1** is not satisfied by the Cut-Off Date, or waived in accordance with **clause 2.2**, then the agreement evidenced by this document may be terminated by notice given by either QGC or AGL to the other of them.

2.4 Reasonable endeavours to satisfy conditions

Each of QGC and AGL must use reasonable endeavours to ensure that the conditions precedent in **clause 2.1** are satisfied by the Cut-Off Date.

2.5 Effect of termination

If the agreement evidenced by this document is terminated under **clause 2.3**, this document (except for **clauses 7, 8 and 12**) is of no further effect and:

- (a) the parties are released from any further obligations under this document; but
- (b) the parties remain liable for any breach committed before that termination.

3 Independent Expert's Report and convening of Shareholders' Meeting

QGC must:

- (a) commission the Independent Expert's Report as soon as practicable (and, in any event, within 10 Business Days) after the Execution Date;
- (b) as soon as practicable after commission of an Independent Expert, provide all assistance and information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's Report. Information provided to the Independent Expert in respect of the Gas Sale Agreement must be provided on the basis that, prior to disclosure, the Independent Expert has agreed for the

benefit of AGL that the terms of the Gas Sale Contract will, to the maximum extent possible, be kept strictly confidential and that, on no account, will the price payable by AGL for gas supplied under the Gas Sale Contract be disclosed to third parties without the prior written approval of AGL;

- (c) keep AGL promptly and reasonably informed in relation to:
 - (i) progress in the preparation of the Independent Expert's Report, and
 - (ii) any issues of which QGC becomes aware in connection with the preparation of the Independent Expert's Report which are, in QGC's reasonable opinion, material to AGL, including without limitation, any indication from the Independent Expert that the Transaction may not be fair and reasonable to the QGC Shareholders whose votes are to be counted on the Resolution;
- (d) as soon as practicable (and, in any event, within 30 Business Days) after the Execution Date prepare the Explanatory Material in compliance with all applicable laws and in particular the Corporations Act and the Listing Rules;
- (e) seek and obtain all necessary ASX waivers and ASIC modifications in connection with the Transaction;
- (f) as soon as practicable after preparation of an advanced draft of the Explanatory Material and the Independent Expert's Report submit the Explanatory Material (including the Independent Expert's Report) for review by ASX;
- (g) as soon as practicable at the conclusion of the review by ASX of the Explanatory Material, cause a meeting of the QGC Board to be convened to approve the Explanatory Material for dispatch to QGC Shareholders;
- (h) immediately following such approval, take all steps necessary to convene and hold the Shareholders' Meeting (at which Shareholders will be asked to consider and if thought fit pass the resolutions referred to in the definition of "Shareholders' Meeting" in **clause 1.1**), including the dispatch of the notice of meeting and Explanatory Material to each QGC Shareholder and to all other persons entitled to receive notice of the Shareholders' Meeting;
- (i) as soon as practicable following the Subscription Completion Date, implement the Buy-back Tender; and
- (j) 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 Shareholders' Meeting is passed by the requisite majority.

4 Share Subscription and related obligations

4.1 Subscription Share notice

Immediately following the Shareholders' Meeting, QGC must calculate the number of Subscription Shares that equals 27.5% of the aggregate of:

- (a) the number of issued Shares at that time;
- (b) if the Sentient Allotment has been approved by QGC Shareholders at the Shareholders' Meeting, the number of Shares which have been or will be allotted under the Sentient Allotment prior to the Subscription Completion Date; and
- (c) the number of Shares to be allotted to AGL in accordance with this **clause 4**,

and provide notice in writing to AGL of this number at least two Business Days before the Subscription Completion Date. If the Sentient Allotment is approved by QGC Shareholders at the Shareholders' Meeting, QGC must ensure that the Sentient Allotment is completed prior to the Subscription Completion Date.

4.2 Allotment of Subscription Shares to AGL

On the Subscription Completion Date:

- (a) AGL shall:
 - (i) deliver to QGC a duly executed application for the Subscription Shares in the form set out in **schedule 1**; and
 - (ii) pay the Subscription Amount to QGC in immediately available and cleared funds by electronic transfer into a bank account nominated by, or by other means directed in writing by, QGC not later than two Business Days prior to the Subscription Completion Date;
- (b) QGC shall:
 - (i) allot to AGL the Subscription Shares on the basis that they rank equally with the ordinary shares in QGC on issue on the Subscription Completion Date;
 - (ii) enter the name and address of AGL in the register of members of QGC in respect of the Subscription Shares;
 - (iii) issue a holding statement to AGL for the Subscription Shares; and
 - (iv) ensure that the Subscription Shares (and any additional Shares issued to AGL in accordance with **clause 4.5**) are quoted on the exchange operated by ASX within 5 Business Days of their allotment.

4.3 Covenants pending Subscription Completion Date

- (a) On or before the Subscription Completion Date, QGC will not, and will ensure that each other QGC Group Member does not:

- (i) 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 Sentient Allotment;
 - (ii) make or declare any distribution whether by way of dividend or capital reduction or otherwise and whether in cash or in specie;
 - (iii) convert all or any of its Shares into a larger or smaller number of shares;
 - (iv) reduce its share capital or enter into or resolve to approve the terms of a buy-back agreement, other than the Buy-back Tender;
 - (v) dispose or agree to dispose of the whole or a substantial part of its business or property; or
 - (vi) charge or agree to charge the whole or a substantial part of its business or property.
- (b) On or before the Subscription Completion Date, QGC will not, and will ensure that each other QGC Member will not, conduct its business otherwise than in the ordinary course without the prior written approval of AGL (and for this purpose any action by any QGC Group Member (either individually or in aggregate with other QGC Group Members) of the type described in sub-paragraphs (i) to (vi) of section 11.7.2 of the Bidder's Statement given by Santos to QGC on 10 October 2006 in relation to the Santos Bid will be deemed to be otherwise than in the in ordinary course of business).

4.4 Option to subscribe for Shares

If:

- (a) the QGC Shareholders do not approve the Sentient Resolution by the requisite majority at the Shareholders' Meeting; and
- (b) QGC proceeds to make the Sentient Allotment (or any other allotment of Shares to Sentient other than an allotment to Sentient pursuant to a pro rata offer of Shares by QGC or pursuant to an allotment of Shares to both Sentient 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 Subscription Completion Date,

QGC grants to AGL an option to subscribe for a number of Shares specified by AGL up to 30% of the number of Shares allotted to Sentient at a subscription price equal to the lower of \$1.60 per Share and the volume weighted average price for Shares over the 5 trading days prior to the date of the allotment to Sentient. Any subscription for Shares following the exercise of the option granted under this clause will be subject to the restriction set out in **clause 5.1**.

4.5 Dilution before the Buy-back Tender

If for whatever reason, between the Subscription Completion Date and the record date for the Buy-back Tender (**Record Date**) QGC issues further

Shares, QGC must at the same time issue such further number of Shares to AGL so that as at the Record Date AGL's holding of Shares equals 27.5% of QGC's issued Shares.

5 Standstill

5.1 AGL not to exceed 30% Voting Power

Subject to **clauses 5.2 and 5.3**, at any time during the Standstill Period, AGL must not hold a Voting Power (including an interest that might arise through a derivative instrument including a cash settled equity swap or similar security) in QGC in excess of 30% of the Shares then on issue (as that limit may be increased under **clause 5.4**).

5.2 Exceptions to limit on shareholding

Clause 5.1 will not apply in the following circumstances:

- (a) a Takeover Bid has been made for all or substantially all of the Shares or a scheme of arrangement is proposed by QGC or other transaction has been proposed the result of which would be that a person (either alone or with their Associates) would become the holder of all or substantially all of the Shares; or
- (b) a majority of the Non-AGL Directors determine by resolution that the restriction should not apply.

5.3 Increase as a result of Buy-back Tender

- (a) If AGL's Voting Power exceeds 30% (as that limit may be increased under **clause 5.4**) as a direct result of the Buy-back Tender, AGL must tender such number of Shares into the Buy-back Tender that will ensure that AGL's Voting Power does not exceed 30% (as that limit may be increased under **clause 5.4**) following the Buy-back Tender (including any scale back that may be implemented under the terms of the Buy-back Tender).
- (b) If **clause 5.3(a)** applies, then immediately prior to the closing of the Buy-back Tender, QGC will advise AGL of the number of Shares that AGL must tender into the Buy-back Tender for the purposes of **clause 5.3(a)**.

5.4 Increases by Restricted Shareholders

- (a) If the aggregate percentage of the Shares in which the Restricted Shareholders have Voting Power increases at any time during the period from the Subscription Completion Date to the end of the Standstill Period, the limit referred to in **clause 5.1** is to be taken to be increased by a percentage of Shares equal to the increase in the aggregate percentage of the Restricted Shareholders' Voting Power in Shares.
- (b) For the purposes of calculating the Restricted Shareholders' Voting Power in Shares in **clause 5.4(a)**:

- (i) no increase will be taken to have occurred as a consequence of the Restricted Shareholders' Voting Power increasing as a result of the Buy-back Tender; and
- (ii) 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 in aggregate below 15.9%, is to be taken to be 15.9% of the then Shares on issue.

6 Appointment of AGL nominee directors

6.1 Appointment of directors on approval of Directors Appointment Resolutions

- (a) AGL must ensure that as soon as practicable after the Execution Date it gives notice in writing to QGC of three persons it nominates for appointment to the Board of QGC with effect from the Subscription Completion Date, together with consents to act in a form which satisfies the requirements of the Corporations Act signed by those nominees.
- (b) Subject to receipt by QGC of executed consents to act from the proposed directors in accordance with **clause 6.1(a)**, QGC will propose the Directors Appointment Resolutions at the Shareholders' Meeting.

6.2 Appointment of directors if Directors Appointment Resolutions not approved

If the QGC Shareholders do not approve one or more of the Directors Appointment Resolutions appointing one or more nominees of AGL to the QGC Board, then:

- (a) if the resolution to increase the maximum number of directors that may be appointed to the QGC Board to nine has been passed at the Shareholders' Meeting:
 - (i) immediately following the Subscription Completion Date and subject to receipt of executed consents to act from the proposed director(s), QGC will by resolution of the QGC Board, appoint such number of individuals nominated by AGL (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 the approval of any of the Directors Appointment Resolutions at the Shareholders' Meeting); and
 - (ii) at the next scheduled meeting of QGC Shareholders QGC will propose one or more further resolutions putting forward that number of directors nominated by AGL and appointed pursuant to **clause 6.2(a)(i)** for re-election to the QGC Board;
- (b) if the resolution to increase the maximum number of directors that may be appointed to the QGC Board to nine has not been passed at the Shareholders' Meeting:

- (i) immediately following the Subscription Completion Date and subject to receipt of executed consents to act from the proposed director(s), QGC will by resolution of the QGC Board, appoint such number of individuals nominated by AGL (being persons other than those previously nominated by AGL) to the QGC Board that is required to ensure that AGL has three directors appointed following approval of any of the Directors Appointment Resolutions at the Shareholders' Meeting), provided that QGC will not be required to appoint any nominee where to do so would breach the maximum number of directors allowed under QGC's constitution; and
- (ii) at the next scheduled meeting of QGC Shareholders QGC will propose a further resolution to increase the maximum number of directors that may be appointed to the QGC Board to nine pursuant to clause 13.1(a) of QGC's constitution and propose one or more resolutions for the re-election of the directors nominated by AGL and appointed pursuant to **clause 6.2(b)(i)**, 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.

6.3 Appointment of alternate director

The nominees of AGL appointed to the QGC Board may appoint an alternate director. When not acting at meetings of the QGC Board in his or her capacity as an alternate director, QGC will provide the alternate director with a standing invitation to attend all meetings of the QGC board as an observer.

7 Warranties

7.1 Warranties by QGC

- (a) QGC represents and warrants to AGL that each of the Warranties set out in **schedule 2** is true and complete as at the Execution Date and as at the Subscription Completion Date (subject to any amendment to the number of Shares in issue as a result of the Sentient Allotment).
- (b) QGC agrees to indemnify AGL from any liability or loss that may be incurred or sustained by AGL as a result of any of the warranties set out in **schedule 2** not being true and complete when made.

7.2 Warranties by AGL

AGL represents and warrants to QGC that each of the warranties set out below is true and complete as at the Execution Date and as at the Subscription Completion Date:

- (a) it is a body corporate duly incorporated under the laws of Australia;
- (b) it has the power to own its assets and to carry on its business as now conducted or contemplated;

- (c) it has the corporate power to enter into and perform or cause to be performed its obligations under this document and to carry out the transactions contemplated by this document;
- (d) it has taken or will take all necessary corporate action to authorise the entry into and performance of this document and to carry out the transactions contemplated by this document;
- (e) this document is a valid and binding obligation enforceable in accordance with its terms, subject to any necessary stamping;
- (f) the execution and performance by it of this document and the Transaction did not and will not breach its constitution or any other document or agreement that is binding on it or its assets or give any person any rights of termination or cancellation of any document or agreement.

AGL agrees to indemnify QGC from any liability or loss that may be incurred or sustained by QGC as a result of any of the warranties set out in this **clause 7.2** not being true and complete when made.

8 Confidentiality

8.1 Confidentiality

Subject to **clause 8.2**:

- (a) the negotiations of the parties relating to the Transaction and subject matter and terms of this document must be kept confidential and may only be disclosed by a party to its professional advisers on condition that they agree to be bound by the terms of this clause, or to other persons with the prior approval of all the other parties; and
- (b) no party may make any press release or announcement in relation to the Transaction without the prior approval of the other parties (which must not be unreasonably withheld).

8.2 Exceptions

Clause 8.1 does not apply to the extent reasonably necessary:

- (a) to enable a party to comply with the law or the requirements of any stock exchange;
- (b) to enable it to enforce its rights or to defend any claim under or in connection with this document; and
- (c) subject to **clause 3(b)**, to enable QGC to obtain the Independent Expert's Report or for the purposes of the preparation of the Explanatory Material.

In each of the above circumstances the parties will, to the extent that it is practicable to do so, endeavour to keep the other reasonably informed about the circumstances giving rise to the disclosure obligation and notify the other of

the disclosure requirement and consult with that party prior to making the disclosure.

9 Termination rights

9.1 AGL Termination Events

AGL may terminate this Agreement by notice in writing to QGC if any of the following events occur:

- (a) there is a material breach or non-fulfilment of QGC's obligations under **clause 4.3**;
- (b) there is a material breach or non-fulfilment of any of QGC's warranties in **clause 7.1** and **schedule 2**;
- (c) if at any time after the Execution Date, the Transaction ceases to be recommended by a majority of the directors on the QGC Board;
- (d) there is a material breach by QGC of any other of its obligations under this Agreement and QGC has failed to remedy that breach within five Business Days of notice from AGL specifying the breach and requiring remedy of the breach;
- (e) there is an Insolvency Event in relation to any QGC Group Member

9.2 QGC Termination Events

QGC may terminate this Agreement by notice in writing to AGL if any of the following events occur:

- (a) there is a material breach or non-fulfilment of any of AGL's warranties in **clause 7.2**;
- (b) there is a material breach by AGL of any other of its obligations under this Agreement and AGL has failed to remedy that breach within five Business Days of notice from QGC specifying the breach and requiring remedy of the breach;
- (c) there is an Insolvency Event in relation to AGL.

9.3 Effect of termination

If the agreement evidenced by this document is terminated under this **clause 9** this document (except for **clauses 7, 8** and **12**) is of no further effect and:

- (a) the parties are released from any further obligations under this document; but
- (b) the parties remain liable for any breach committed before that termination.

10 Notices

10.1 General

A notice, demand, certification, process or other communication relating to this document must be in writing in English and may be given by an agent of the sender.

10.2 How to give a communication

In addition to any other lawful means, a communication may be given by being:

- (a) personally delivered;
- (b) left at the party's current address for notices;
- (c) sent to the party's current address for notices by pre-paid ordinary mail or, if the address is outside Australia, by pre-paid airmail; or
- (d) sent by fax to the party's current fax number for notices.

10.3 Particulars for delivery of notices

- (a) The particulars for delivery of notices are initially:

QGC

Address: Level 11, 307 Queen Street, Brisbane QLD 4000

Fax: (07) 3012 8411

Attention: Company Secretary

AGL

Address: 72 Christie Street, St Leonards NSW 2065

Fax: (02) 9921 2465

Attention: Company Secretary

- (b) Each party may change its particulars for delivery of notices by notice to each other party.

10.4 Communications by post

Subject to **clause 10.6**, a communication is given if posted:

- (a) within Australia to an Australian address, three Business Days after posting; or
- (b) in any other case, ten Business Days after posting.

10.5 Communications by fax

Subject to **clause 10.6**, a communication is given if sent by fax, when the sender's fax machine produces a report that the fax was sent in full to the addressee. That report is conclusive evidence that the addressee received the fax in full at the time indicated on that report.

10.6 After hours communications

If a communication is given:

- (a) after 5.00 pm in the place of receipt; or
- (b) on a day which is a Saturday, Sunday or bank or public holiday in the place of receipt,

it is taken as having been given at 9.00 am on the next day which is not a Saturday, Sunday or bank or public holiday in that place.

10.7 Process service

Any process or other document relating to litigation, administrative or arbitral proceedings relating to this document may be served by any method contemplated by this **clause 10** or in accordance with any applicable law.

11 GST

11.1 Construction

In this **clause 11**, and unless the context requires otherwise in this document:

- (a) words and expressions which are not defined in this document but which have a defined meaning in GST Law have the same meaning as in the GST Law; and
- (b) **GST Law** has the same meaning given to that expression in the *A New Tax System (Goods and Services Tax) Act 1999*.

11.2 Consideration GST exclusive

Unless otherwise expressly stated, all prices or other sums payable or consideration to be provided under this document are exclusive of GST.

11.3 Payment of GST

If GST is payable by a supplier or by the representative member for a GST group of which the supplier is a member, on any supply made under this document, the recipient will pay to the supplier an amount equal to the GST payable on the supply.

11.4 Timing of GST payment

The recipient will pay the amount referred to in **clause 11.3** in addition to and at the same time that the consideration for the supply is to be provided under this document.

11.5 Tax invoice

The supplier must deliver a tax invoice or an adjustment note to the recipient before the supplier is entitled to payment of an amount under **clause 11.3**. The recipient can withhold payment of the amount until the supplier provides a tax invoice or an adjustment note, as appropriate.

11.6 Adjustment event

If an adjustment event arises in respect of a taxable supply made by a supplier under this document, the amount payable by the recipient under **clause 11.3** will be recalculated to reflect the adjustment event and a payment will be made

by the recipient to the supplier or by the supplier to the recipient as the case requires.

11.7 Reimbursements

Where a party is required under this document to pay or reimburse an expense or outgoing of another party, the amount to be paid or reimbursed by the first party will be the sum of:

- (a) the amount of the expense or outgoing less any input tax credits in respect of the expense or outgoing to which the other party, or to which the representative member for a GST group of which the other party is a member, is entitled; and
- (b) if the payment or reimbursement is subject to GST, an amount equal to that GST.

12 General

12.1 Duty

- (a) AGL as between the parties is liable for and must pay all duty (including any fine or penalty except where it arises from default by the other party) on or relating to this document, any document executed under it or any dutiable transaction evidenced or effected by it.
- (b) If a party other than AGL pays any duty (including any fine or penalty) on or relating to this document, any document executed under it or any dutiable transaction evidenced or effected by it, AGL must pay that amount to the paying party on demand.

12.2 Legal costs

Except as expressly stated otherwise in this document, each party must pay its own legal and other costs and expenses of negotiating, preparing, executing and performing its obligations under this document.

12.3 Amendment

This document may only be varied or replaced by a document executed by the parties.

12.4 Waiver and exercise of rights

- (a) A single or partial exercise or waiver by a party of a right relating to this document does not prevent any other exercise of that right or the exercise of any other right.
- (b) A party is not liable for any loss, cost or expense of any other party caused or contributed to by the waiver, exercise, attempted exercise, failure to exercise or delay in the exercise of a right.

12.5 Rights cumulative

Except as expressly stated otherwise in this document, the rights of a party under this document are cumulative and are in addition to any other rights of that party.

12.6 Consents

Except as expressly stated otherwise in this document, a party may conditionally or unconditionally give or withhold any consent to be given under this document and is not obliged to give its reasons for doing so.

12.7 Further steps

Each party must promptly do whatever any other party reasonably requires of it to give effect to this document and to perform its obligations under it.

12.8 Governing law and jurisdiction

- (a) This document is governed by and is to be construed in accordance with the laws applicable in New South Wales.
- (b) Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of New South Wales and any courts which have jurisdiction to hear appeals from any of those courts and waives any right to object to any proceedings being brought in those courts.

12.9 Assignment

- (a) A party must not assign or deal with any right under this document without the prior written consent of the other parties.
- (b) Any purported dealing in breach of this clause is of no effect.

12.10 Liability

An obligation of two or more persons binds them separately and together.

12.11 Counterparts

This document may consist of a number of counterparts and, if so, the counterparts taken together constitute one document.

12.12 Entire understanding

- (a) This document contains the entire understanding between the parties as to the subject matter of this document.
- (b) All previous negotiations, understandings, representations, warranties, memoranda or commitments concerning the subject matter of this document are merged in and superseded by this document and are of no effect. No party is liable to any other party in respect of those matters.
- (c) No oral explanation or information provided by any party to another:
 - (i) affects the meaning or interpretation of this document; or
 - (ii) constitutes any collateral agreement, warranty or understanding between any of the parties.

12.13 Relationship of parties

This document is not intended to create a partnership, joint venture or agency relationship between the parties.

Executed as a deed.

**Executed by Queensland Gas
Company Limited**)
)

[signed by Peter Jans]
Company Secretary/Director

Peter Jans
Name of Company Secretary/Director
(print)

[signed by Richard Cottee]
Director

Richard Cottee
Name of Director (print)

Executed by AGL Energy Limited)
)

[signed by Michael McWilliams]
Company Secretary/Director

Michael Paul McWilliams
Name of Company Secretary/Director
(print)

[signed by Paul Anthony]
Director

Paul Anthony
Name of Director (print)

Schedule 1

Application for Shares

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

Dear Sirs,

AGL Energy Limited, ACN 115 061 375 (**AGL**) applies for [*] fully paid ordinary shares in Queensland Gas Company Limited (**QGC**) at an issue price of AUD\$1.60 each. The total subscription price of AUD\$[*] is to be paid in accordance with the Subscription Agreement between QGC and AGL dated [*] 2006 (as amended).

AGL agrees to be bound by the constitution of QGC.

Date

Executed by AGL Energy Limited)
)

.....
Company Secretary/Director

.....
Director

.....
Name of Company Secretary/Director
(print)

.....
Name of Director (print)

Schedule 2

Warranties

1 Disclosure

QGC is in compliance with its continuous disclosure obligations under the Corporations Act and the Listing Rules and that no information which would currently require disclosure under ASX Listing Rule 3.1 has been withheld from disclosure under the exception in ASX Listing Rule 3.1A.

2 Corporate structure and power

QGC warrants that:

- (a) it and each other QGC Group Member is a body corporate duly incorporated under the laws of Australia;
- (b) it and each other QGC Group Member has the power to own its assets and to carry on its business as now conducted or contemplated;
- (c) it has the corporate power to enter into and perform or cause to be performed its obligations under this document and to carry out the transactions contemplated by this document;
- (d) it has taken or will take all necessary corporate action to authorise the entry into and performance of this document and to carry out the transactions contemplated by this document (including the Transactions and the Buy-back Tender);
- (e) this document is a valid and binding obligation enforceable in accordance with its terms, subject to any necessary stamping;
- (f) the execution and performance by it of this document and the transactions contemplated by it (including the Transaction and the Buy-back Tender) did not and will not breach its constitution or any other document or agreement that is binding on it or its assets or give any person any rights of termination or cancellation of any document or agreement;
- (g) QGC's issued securities as at the Execution Date are 480,864,357 Shares and neither QGC nor any other QGC Group Member is under any obligation (including, without limitation, any obligation which is conditional or which may arise in the future upon the occurrence or non-occurrence of any event) to issue any shares or securities convertible into shares to any person other than:

- (i) the issue of up to 5 million Shares to, for, or for the benefit of employees of QGC under QGC's Deferred Employee Share Plan, pursuant to the approval obtained from QGC Shareholders at the annual general meeting on 13 November 2006; and
 - (ii) the issue of rights to 2,248,000 Shares and the issue of up to 2,248,000 Shares pursuant to those rights to Mr Richard Cottee under the Deferred Employee Share Plan;
- (h) the Explanatory Material will not be misleading or deceptive in any material respect (whether by omission or otherwise).