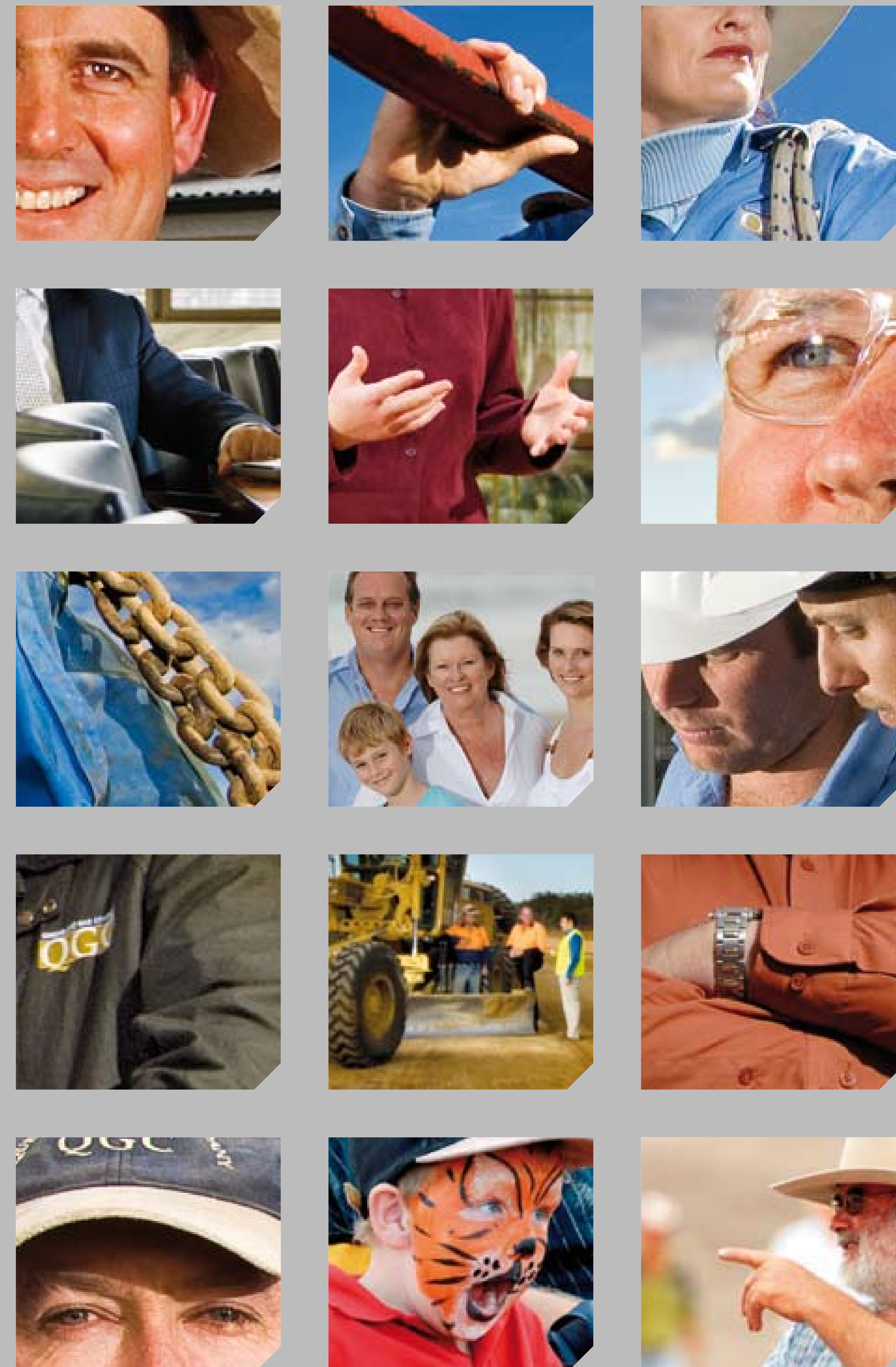
QUEENSLAND GAS COMPANY
QGC

2007 COMPLETE ANNUAL REPORT

the energy

QGC is an Australian success story. In five years, it has become an award-winning coal seam gas producer and one of the country's top 200 listed companies.

A remarkable network of relationships underlies QGC's success, creating an energy that is driving the Company forward. 2007 was just the beginning...



the support

THE ROBINSON FAMILY ARE SURAT BASIN LANDHOLDERS AND SHAREHOLDERS IN QGC. THEIR PATIENCE AND SUPPORT IN BOTH CAPACITIES ENABLED QGC TO COMPLETE ITS SECOND DEVELOPMENT IN 2007 ON TIME AND ON BUDGET.

the experience

QGC'S FIELD SUPERINTENDENT **KEN RIXON** (BACK) KNOWS WHAT IT TAKES TO DEVELOP A GASFIELD AND HE'S SHARING THAT KNOWLEDGE WITH HIS SON **BRIAN RIXON** WHO IS TRAINING TO BE A DRILLING ENGINEER FOR QGC.

the dedication

QGC'S TEAM HAS A STRONG ASSOCIATION WITH THE LAND. **SUE FAWCETT** AND HER FAMILY HAVE BEEN FARMING IN THE AREA FOR GENERATIONS. SHE UNDERSTANDS HOW TO MANAGE QGC'S PROPERTIES AND WORK WITH LOCAL PEOPLE.

the partnerships

JOHN CLARKE IS THE MANAGING DIRECTOR OF ANZ INFRASTRUCTURE SERVICES, THE COMPANY THAT WILL FUND AND OWN CONDAMINE POWER STATION. QGC WILL SUPPLY GAS AND WATER TO THE STATION TO GENERATE CLEANER ELECTRICITY FOR THE NATIONAL MARKET.

the future

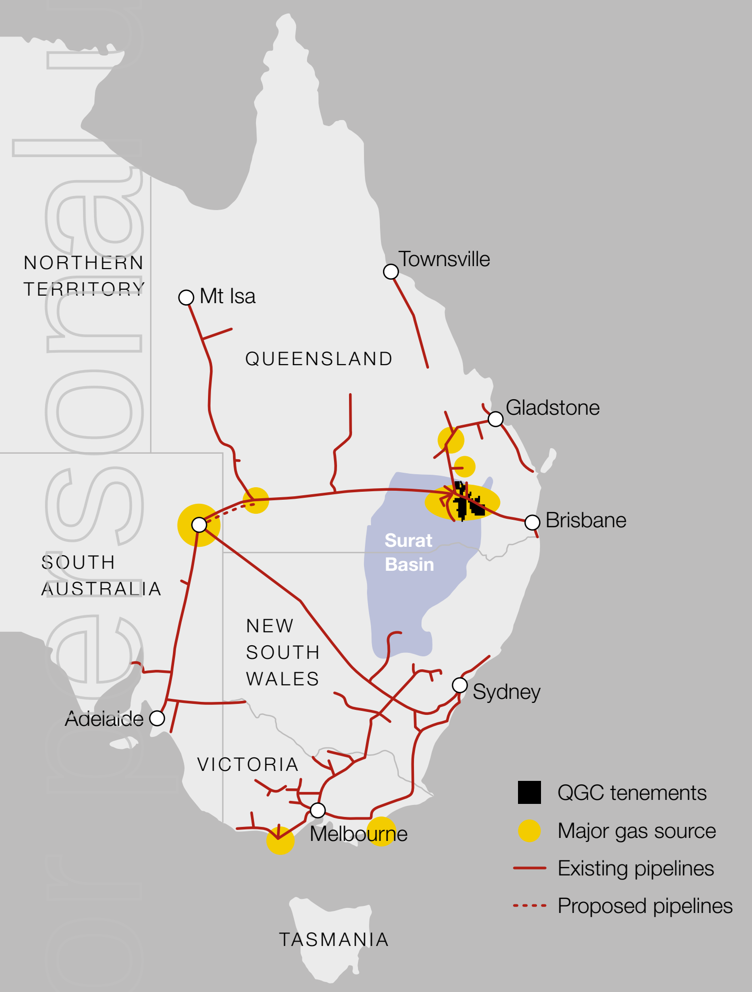
TONITA GRAY AND **JASON CLARKE** WERE SCHOOL CAPTAINS AT MILES HIGH STATE SCHOOL IN 2006 WHEN THEY SPOKE AT THE OPENING OF QGC'S FIRST GASFIELD. IN 2007, QGC IS SUPPORTING THEM IN THEIR ENGINEERING STUDIES AT THE UNIVERSITY OF SOUTHERN QUEENSLAND.

the attitude

PAUL McCLELLAND HAS BEEN IN AUSTRALIA'S GAS GAME FOR 17 YEARS. AS QGC'S COMPRESSOR SUPERINTENDENT, HE LEADS A SIX-MAN TEAM THAT IS 100% FOCUSSED ON DELIVERING GAS TO CUSTOMERS RELIABLY AND SAFELY.

Company profile

Queensland Gas Company (QGC) is a rapidly growing energy business that has developed a massive new source of coal seam gas close to existing infrastructure in southern Queensland.



The Company currently supplies around 15% of the Queensland gas market from two operating areas within the Walloon Fairway and has plans in place to treble its gas sales to 60 petajoules (PJ) a year by 2009. QGC also expects to commence sales of greenhouse-friendly electricity to the National Electricity Market in 2009 from its coal seam gas-fuelled Condamine Power Station.

QGC was listed on the Australian Stock Exchange (ASX) in August 2000 with the aim of exploring and developing the coal seam gas potential of south east Queensland, particularly in the east of the Surat Basin where QGC identified a 'fairway' of gas-rich prospects.

QGC has since matured into a successful gas production company with a continuing and expanding exploration programme. It is focussed on becoming an integrated energy supplier in Australia's growing gas and electricity markets. To complement its gas and electricity businesses, QGC plans to develop a profitable water business based on the large volumes of water produced along with coal seam gas.

The Company has firm contracts for more than 850 PJ of gas to be delivered over the next 20 years, which includes an estimated 190 PJ commitment to supply gas to the Condamine Power Station. Underpinning those contracts, QGC has proved and probable (2P) gas reserves of 1,120 PJ (volumetric figure including 15 PJ produced by 30 June 2007).

With uncommitted supplies of gas, electricity, and water, QGC is optimally positioned to take advantage of Australia's rapidly changing energy scene where the focus and the value will be tied to clean energy such as coal seam gas.

Queensland Gas Company Limited

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From 1 December 2007, QGC's Registered Office and Head Office will relocate to: Level 5, 30 Herschel Street Brisbane Queensland 4000

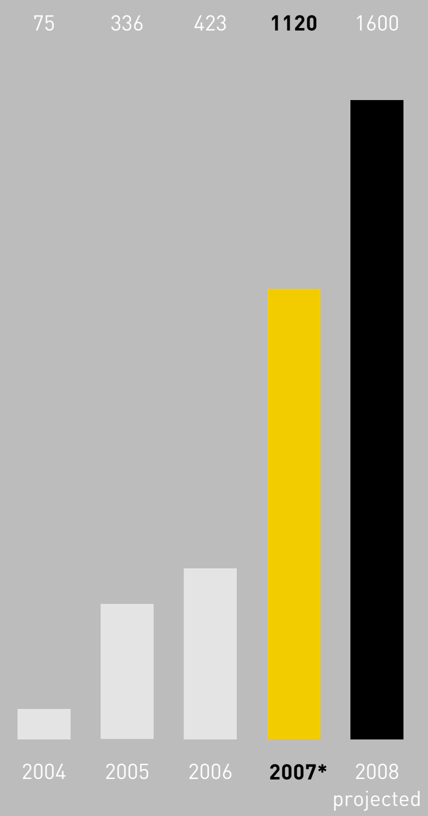
Copies of the 2007 Annual Report are available from QGC's Registered Office. An electronic version of the Annual Report is available on the QGC website.

Contents

the achievements

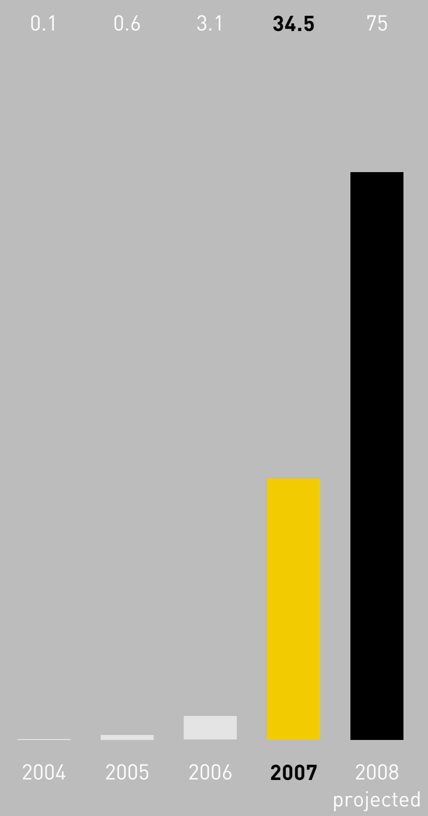
QGC delivered on its promised growth in 2007. In its first full year of production, the Company recorded gas sales of 11.5 petajoules and total revenue of $34.5 million.

QGC exceeded its 1,000 petajoule target for 2P gas reserves, and improved its gas contract position seven fold.



2P reserves (QGC share) (petajoules)
*volumetric figure including 15 PJ produced by 30 June 2007

Market capitalisation ($ million)



Total revenue ($ million)

Gas sales (QGC share) (petajoules)

Letter from the Chairman

It is my great pleasure to report to Queensland Gas Company shareholders on an exciting year of intense and diverse activity, and tremendous corporate growth.

In 2007, QGC made its mark on Australia's gas and energy scene, both as a successful gas production company and as a "vigorous and efficient" market participant. In the face of highly opportunistic takeover bids, the Company successfully maintained its independence by forging a strategic alliance with Australia's largest integrated energy company, AGL Energy. This alliance promises to underpin dramatic future growth.

Throughout the tumultuous events of 2007, our focus has remained steadfastly on commercialising the Company's coal seam gas resources in southern Queensland. It was gas in the Walloon Fairway of the Surat Basin that underpinned the Company's establishment in 2000, and is today delivering such great value to shareholders.

QGC is now Australia's pre-eminent coal seam gas specialist, with an inventory of over 7,200 km^2 of prospects in the Surat Basin. But more importantly, we have a zone in the centre of the Walloon Fairway with especially favourable features that surely contains a world class resource of coal seam gas.

Already QGC is supplying around 15% of the Queensland gas market, after only 16 months of commercial production. The central gas facility at Berwyndale South is processing more than 60 terajoules (TJ) of gas a day, which is equivalent to 22 PJ a year and more than any other coal seam gas producing area in Australia. This is also the fastest rate of production increase of any of Australia's coal seam gas producers and this rate of expansion is sure to be maintained, as QGC prepares to deliver against a 540 PJ long term gas supply agreement with AGL.

Throughout the tumultuous events of 2007, our focus has remained steadfastly on commercialising the Company's coal seam gas resources in southern Queensland.

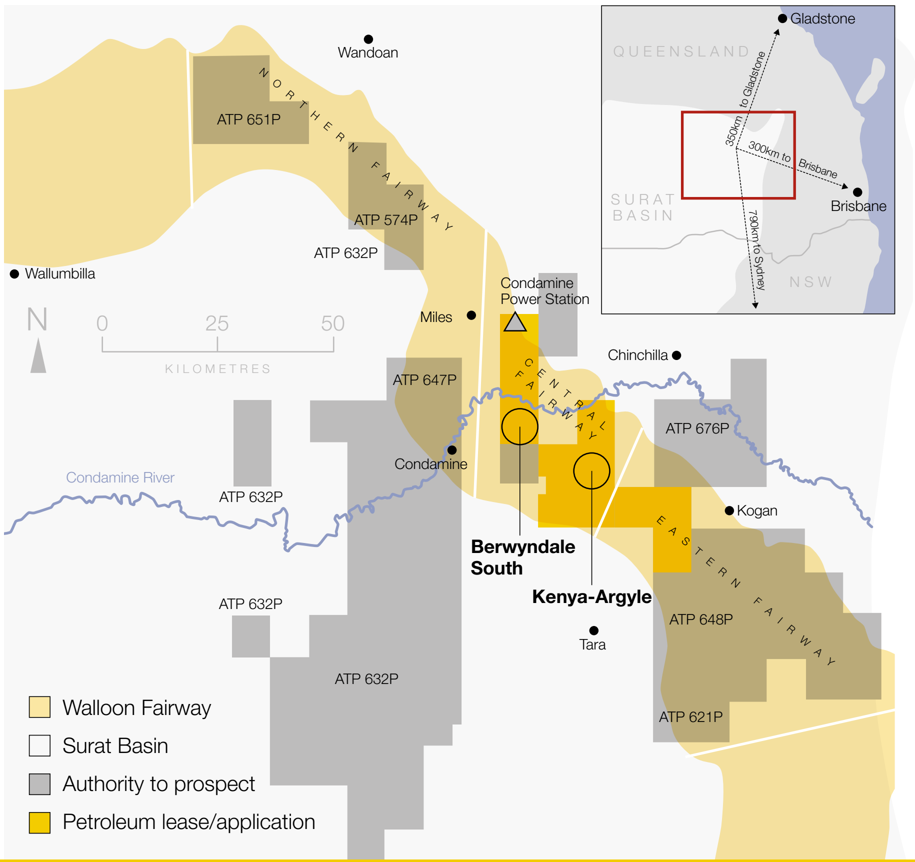
These results underline the importance of the Company's Growth Acceleration Strategy announced in July last year (with the very appropriate acronym GAS). The GAS, which was funded through a capital raising of $60.3 million in September 2006, delivered well above the mark. In mid-August, QGC announced it had been ascribed 2P gas reserves of 1,120 PJ in its own right. This was above the Company's stated 1,000 PJ target for 2P reserves and more than sufficient to cover QGC's existing gas supply commitments for the next 20 years, including the 10 PJ a year energy requirement of the Condamine Power Station.

The GAS was also successful in delivering QGC's second development at Kenya-Argyle on budget and ahead of time, in company with Origin Energy. This new development is supplying gas to the Incitec Pivot fertilizer plant at Gibson Island in the Port of Brisbane.

Two additional gas pilots were also developed to the north of Berwyndale South in this timeframe, and production testing at Berwyndale and Bellevue commenced in October 2006. Both of these pilots are located north of the Condamine River and close to the Condamine Power Station site, and as with the Kenya-Argyle development, they are connected to the Berwyndale South gas processing facility. Effectively, the growth strategy has created a network of gas and water gathering lines across the heart of the Walloon Fairway which has quadrupled the extent of QGC's operations and established an infrastructure backbone for future growth.

The rapid growth in production was not a chance event, but rather due to the major ongoing drilling programme undertaken during the year, and the outstanding results achieved by that programme. In total, 59 wells were drilled in the year with a further 19 wells drilled to the end of August in the current financial year. Flow rates from individual wells at Berwyndale South continued to increase in 2007, with more than half the wells recording average weekly gas flows equivalent to over a third of a petajoule a year per well. Remarkably, five of those wells have produced gas at a rate equivalent to over one petajoule a year. As of 30 June 2007, 77% of the wells at Berwyndale South were successfully configured as free-flowing without the need for any pumping. Shareholders would appreciate that this move simultaneously reduced capital and operating costs for each well and collectively reduced the in-house use of gas to around 5% (compared to a forecast of 11%).

The Walloon Fairway



Efficiency is a consistent driver for QGC and it underpins the Company's desire to enter the National Electricity Market. Generating electricity from gas is much more efficient than conventional coal fired operations, quite apart from the significant environmental benefits. Generating electricity from coal seam gas is even more efficient because it is not dependent on external water supplies – at a time when many Australian power generators are constrained by the worst drought in living memory. In QGC's case, the capacity to generate electricity where both the gas and the water are sourced, and close to existing infrastructure made the proposition irresistible. Market forecasts indicate that energy-hungry industry on Australia's eastern seaboard will be facing shortfalls from 2009 and QGC plans to be ready to meet that need with supplies of clean energy – in the form of gas or electricity.

Construction is already underway on QGC's first power station project – the 135 megawatt (MW) Condamine Power Station – which will be funded and owned by ANZ Infrastructure Services. The project is scheduled to deliver first supplies of electricity to the market in February 2009, some six months earlier than originally planned. QGC will be supplying the gas to the power station and there will be the flexibility to switch sales from electricity to gas if the prices dictate. This is surely the ultimate in flexibility.

The sheer scale of work undertaken by QGC in 2007 is breathtaking and the fruits of these labours did not go unnoticed by the share market.

In his Managing Director's review, Richard Cottee provides a detailed assessment of the Company's outlook and the macro economic environment that presents so many exciting opportunities for QGC in the short to medium term. While I will leave most of the discussion on the future to Richard, I would like to emphasise the strategic advantage to QGC presented by the deal with AGL – which was approved by shareholders in March 2007. That alliance provides a major market for QGC's gas, and also a window of opportunity to achieve rapid growth in the short term without fear of further corporate disruptions. The gas supply agreement with AGL also provides QGC with an opportunity to underwrite additional expansion of its gas business and the Gas Market Development Services Agreement presents an opportunity to increase sales to AGL and leverage their access to infrastructure on favourable terms.

Let me now turn my attention to the ultimate source of QGC's achievements: people. The striking pictorial approach to this year's Annual Report is a deliberate effort to highlight the remarkable web of relationships that underlies QGC's success. The Board, management and entire team at QGC are all critical components of that success – and they deserve to be acknowledged for their contribution to this year's results. But they form only part of the picture. What is driving the Company forward on so many fronts is a myriad of partnerships developed over years; relationships between QGC's people and local landholders, suppliers, joint venturers, investors, shareholders, neighbouring communities and government agencies that have connected the Company to a diverse range of external networks. The sum of these parts is clearly much greater than the whole.

In the wake of the strategic alliance with AGL, QGC welcomed three new directors: Messrs Michael Fraser, Stephen Mikkelsen and Mike Moraza; all three bring to QGC's Board extensive experience in the energy sector in Australia and internationally, and we look forward to working with them in coming years. At the same time, we farewelled Denis Patten, a founding director of QGC; we thank him for his valued contribution to QGC's success and wish him well in the future.

The sheer scale of work undertaken by QGC in 2007 is breathtaking and the fruits of these labours did not go unnoticed by the share market. Market support for QGC's stock over the year saw the share price reach a high of $3.30 in July 2007 and market capitalisation top $2.2 billion. Like the rest of the market, QGC has fallen back in recent weeks, but still represents a 60% premium over the best offer given during the takeover. In the face of favourable market conditions, it was personally satisfying to see so few shareholders participate in the Share Buy-Back offered as part of the AGL transaction in April 2007. It confirms that the great bulk of QGC shareholders share our confidence in the future.

That just leaves our shareholders to be thanked for their continued support and loyalty. At the height of the takeover flurry shareholders were invited several times to take the money and go; but hardly a person moved. With this support from our owners, and the wind behind us, I think we can look forward to an exciting and fulfilling year ahead.

ROBERT BRYAN
Chairman of Directors

the passion

RICHARD COTTEE ENJOYS COMPLEXITY AND FACES IT ON A DAILY BASIS IN EVERY ASPECT OF HIS LIFE. HE AND HIS WIFE SHAUNA HAVE SIX CHILDREN, RANGING IN AGE FROM 9 TO 20. FAMILY IS AT THE HEART OF RICHARD'S AMBITIONS AND IT DRIVES HIS UNRELENTING FOCUS ON THE FUTURE.

Managing Director's report

October 2007 marks my fifth year as Managing Director for QGC and it has given me a great sense of satisfaction to see QGC prosper over that time.

I have made no secret of my belief in the Company's capacity to become a major integrated energy business in Australia and while I'm encouraged by progress to date, I remain myopically focussed on future growth. This growth is not without its challenges and risks. To date, QGC has managed to achieve stellar growth while maintaining a strong balance sheet, thus demonstrating the extent to which we have de-risked the Company. I believe the Surat Basin has the potential to rival Bass Strait within five years and QGC has the best position within this world-class gas resource. Its coal seam gas 'fairway' commences in the north with ATP 651P and extends right across to ATP 648P in the south east. QGC's growth plans are very ambitious, but I am confident that they are achievable because of the speed with which we have been able to grow the business in only our first year of commercial gas production. QGC is positioned like no other to benefit from Australia's growing energy demand. I have no doubt that QGC has the capacity to fuel that demand with abundant supplies of gas and gas-fired electricity from the coal seams of southern Queensland.

The rise of coal seam gas

As my Chairman described, QGC has achieved unparalleled success as a coal seam gas producer. The quality of our resource ranks among the best in the world in terms of its efficiency and productivity. The Company's rapidly growing gas production business has helped to transform the general perception of coal seam gas as an industry. Long-held views that pinned hopes on offshore gas sources were abandoned in 2007 along with the PNG gas pipeline. It is conceivable that QGC's competitiveness contributed to that outcome. We have demonstrated our ability to convert our domestic coal seam gas resource to commercial reserves of over 1,000 petajoules. We have proven that we can deliver on the promise of those reserves by developing gas operations on budget, and in time, to meet our customers' requirements.

Positioned for growth

The successful Growth Acceleration Strategy that drove the expansion of our coal seam gas business in 2007 was just the start of a massive growth phase for QGC.

Shareholder acceptance of the strategic alliance with AGL in March 2007 provided QGC with tangible means to realise its growth potential. AGL's investment in the business placed QGC in a strong financial position with sufficient cash at hand to fund extensive development and repay borrowings. The 20 year gas supply contract with AGL of at least 540 PJ of gas will underpin significant future expansion well beyond what is required to meet the contract. The Gas Market Development Services Agreement with AGL is a further benefit providing QGC with the opportunity to participate in the higher priced southern markets. In July 2007, Epic and AGL unveiled plans to construct a pipeline between Queensland and New South Wales, effectively establishing a national gas market. By the time that link is completed in December 2008, QGC will be in a perfect position to capitalise on the opportunity of participating in that market.

In June, QGC's Board approved a $260 million expansion programme which will see QGC drilling more than a hundred wells to support the doubling of gas sales in 2008 to 30 PJ and doubling sales again in 2009 to 60 PJ. These efforts will require a $56 million exploration programme aimed at increasing QGC's 2007 stock of 2P reserves to around 1,600 PJ. These are ambitious targets, but they are achievable. By the end of August 2007, Berwyndale South was already producing the equivalent of 22 PJ a year and the Company's share of 2P reserves had grown to 1,120 PJ.

I have no doubt that QGC has the capacity to fuel that demand with abundant supplies of gas and gas-fired electricity from the coal seams of southern Queensland.

Managing Director's report (continued)

Outlook

Demand for gas and gas-fired electricity is increasing all along Australia's eastern seaboard. Over 1,000 MW of new gas-fired power generation will be commissioned in Queensland over the next three years, representing 75 PJ of gas demand. New South Wales is also expected to install around 1,000 MW of additional power generation, and the clean, green benefits of natural gas have put it firmly in contention as a fuel source in the face of growing concerns about global warming.

In the face of an increasing demand for energy and with offshore gas supply options no longer viable, there is no doubt that Queensland coal seam gas will make up the bulk of the shortfall in clean energy on the Australian eastern seaboard from 2010 and beyond. I am confident that QGC will be better placed than any of its competitors to benefit from these opportunities because it has demonstrated its capacity to deliver reliable gas supplies from its growing stock of quality reserves. Furthermore, the Company's growth strategy is anchored in reality with a strong balance sheet underpinning its expansion and exploration programmes. I firmly believe that there is significant room for movement on domestic gas prices to bring it in line with overseas prices for gas and other energy commodities.

The case for moving into the electricity supply business is increasingly self-evident. By the end of June 2007, average electricity prices were more than triple the prices used in the feasibility study that underpins QGC's Condamine Power Station now under construction. Commissioning the power station six months ahead of our original August 2009 start-date can only reap rewards for QGC at a time when electricity demand is increasing and the capacity of existing coal and conventional gas-fired power generators is constrained by a lack of water.

QGC's team and the diverse range of people who work alongside us have worked incredibly hard to position the Company for the future. I want to thank my colleagues and all of the people we work with for their dedication to this most worthy cause. It has taken a good deal of faith and passion to bring QGC to this point. I urge you all to maintain your focus on the future as we continue to grow rapidly throughout 2008.

RICHARD COTTEE
Managing Director

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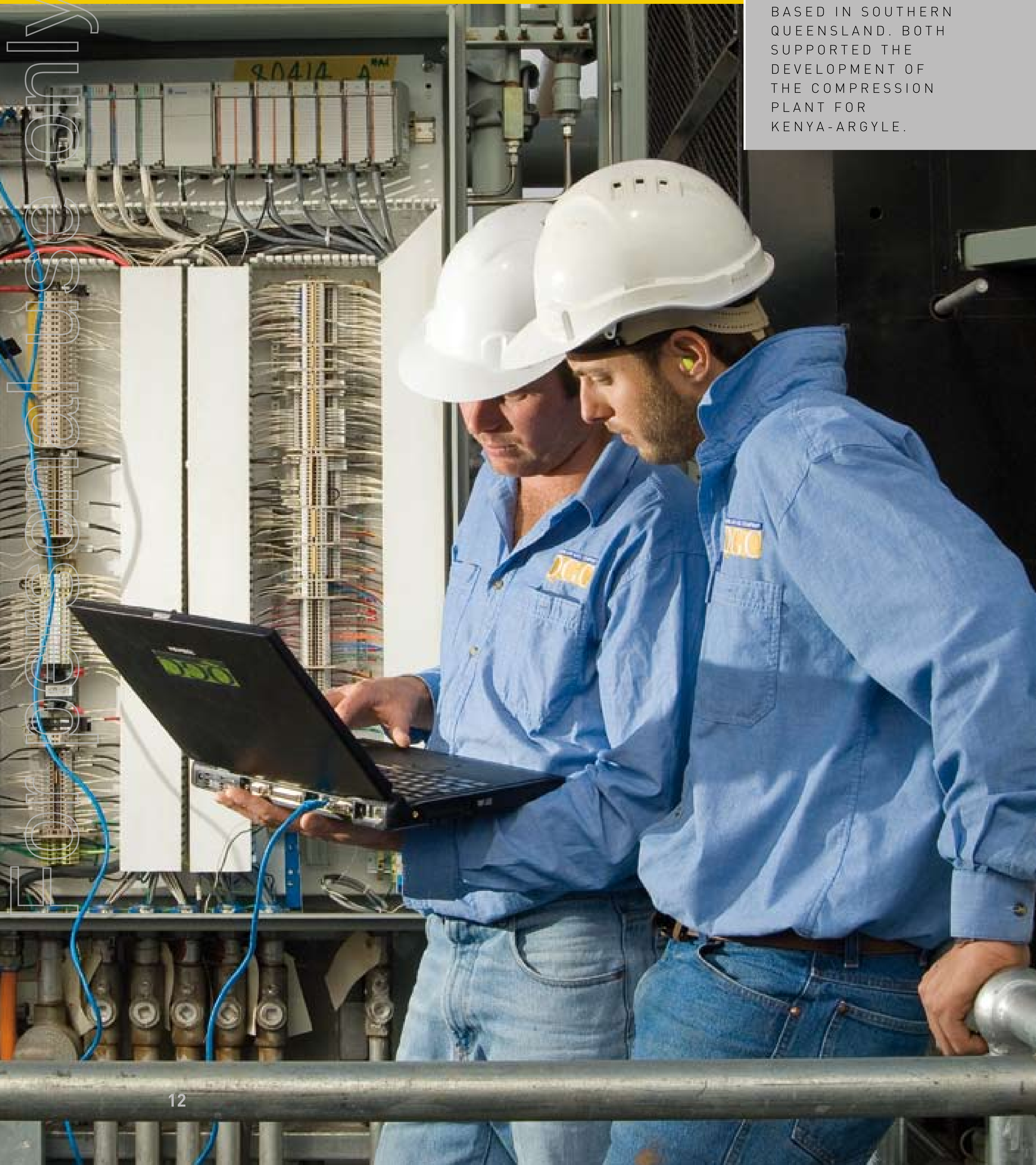
The year at a glance

2006	21 July	Growth Acceleration Strategy (GAS) announced
	4 August	Prospectus released for Share Rights Plan
	27 September	$60.3 million raised from Share Rights Plan and work commenced on GAS
	5 October	Santos announces a $1.26 per share takeover bid
	8 November	QGC's 2P reserves upgraded by 64%
	15 November	QGC's Target's Statement released rejecting Santos offer
	5 December	Proposed alliance with AGL announced, including a $1.44 per share investment for a 27.5% interest
2007	24 January	ACCC decides not to rule against AGL alliance
	30 January	Santos advises of a revised takeover offer
	1 February	Explanatory memorandum sent to shareholders regarding proposed AGL alliance and Sentient transaction
	15 February	Santos submits a formal revised offer
	20 February	ACCC rules against Santos takeover
	28 February	TCW announces a $1.51 per share takeover bid
	1 March	QGC's 2P reserves upgraded by a further 27.5%
	2 March	Shareholders accept an improved AGL deal, where AGL acquires a 27.5% interest for $1.60 per share
	16 March	QGC announces Share Buy-Back at $1.52 per share
	10 April	Share Buy-Back closes with very limited takeup
	26 April	EPC contract awarded for the 135 MW Condamine Power Station
	6 May	QGC celebrates first year of commercial gas production
	1 June	Financial close announced for Condamine Power Station
	21 June	QGC's Board approves a $260 million expansion plan and a $56 million exploration programme
	30 June	QGC ascribed 2P reserves of 1,120 PJ (announced to ASX on 16 August)
	Subsequent to end of 2007 financial year	
	1 July	Gas sales commence to Incitec Pivot from Kenya-Argyle

the technology



JAKE WATSON AND **TRAVIS COLLIE** ARE PART OF QGC'S GROWING TEAM BASED IN SOUTHERN QUEENSLAND. BOTH SUPPORTED THE DEVELOPMENT OF THE COMPRESSION PLANT FOR KENYA-ARGYLE.

Gas production

In its first full year of commercial production, QGC delivered 11.5 PJ of gas to industrial customers in southern Queensland. This result is well above QGC's forecast for the year and equivalent to around 15% of the Queensland gas market.

Gas production ramped up very quickly over the 12 months. On 1 July 2006, daily production totalled 19.2 TJ (equivalent to 7.0 PJ a year). By 30 June 2007, daily production had more than doubled to 53.5 TJ a day (equivalent to 19.5 PJ a year). By the end of August 2007, daily gas production had improved further to 62.0 TJ a day (equivalent to 22.6 PJ a year) as shown in the production chart below.

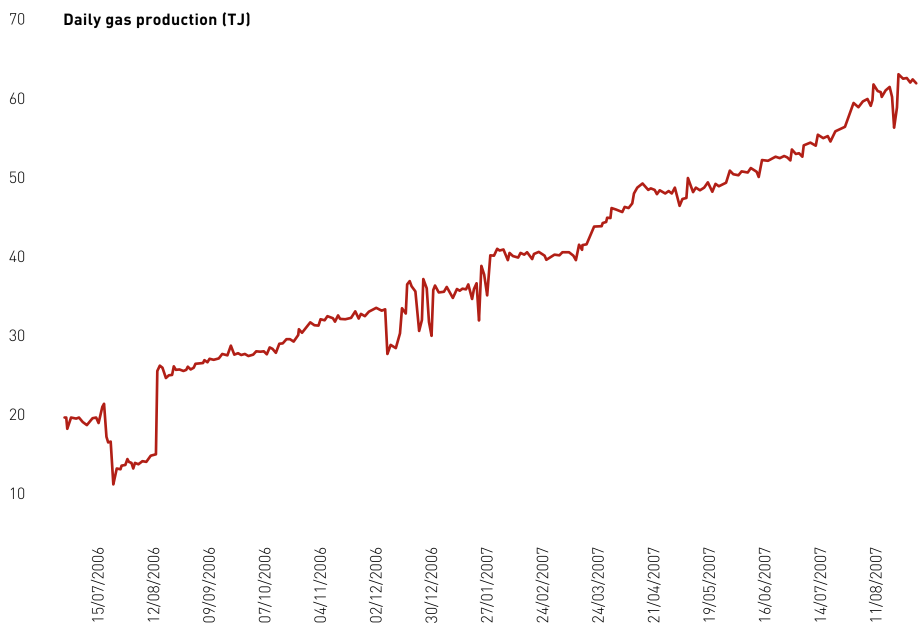
The rapid rate of increase in production is due to a significant expansion of QGC's gas production and processing capability in the Surat Basin. QGC brought 37 new development wells on line in the past year and doubled the capacity of its compression plant to exceed its contract obligations and take advantage of additional gas sales opportunities. By the end of August 2007, QGC had drilled a further 19 wells and more than a 100 new wells are planned to achieve sales equivalent to 60 PJ a year by 2009.

QGC continued to record exceptionally high gas flow rates from its production wells. Average flow rates across all production wells climbed past 1.4 TJ a day in 2007. More than half the wells had achieved daily production peaks of over 1.0 TJ a day and five of those wells had recorded daily peaks above 3.0 TJ a day. This is equivalent to over a petajoule a year, per well.

Production from individual wells was improved through a workover programme that resulted in the majority of production wells being converted to free-flowing wells. This means that wells are configured to flow gas without the need for pumping equipment. Apart from the savings in capital expenditure and maintenance costs, the result is that internal gas usage decreases, environmental performance improves and more gas is available for sale.

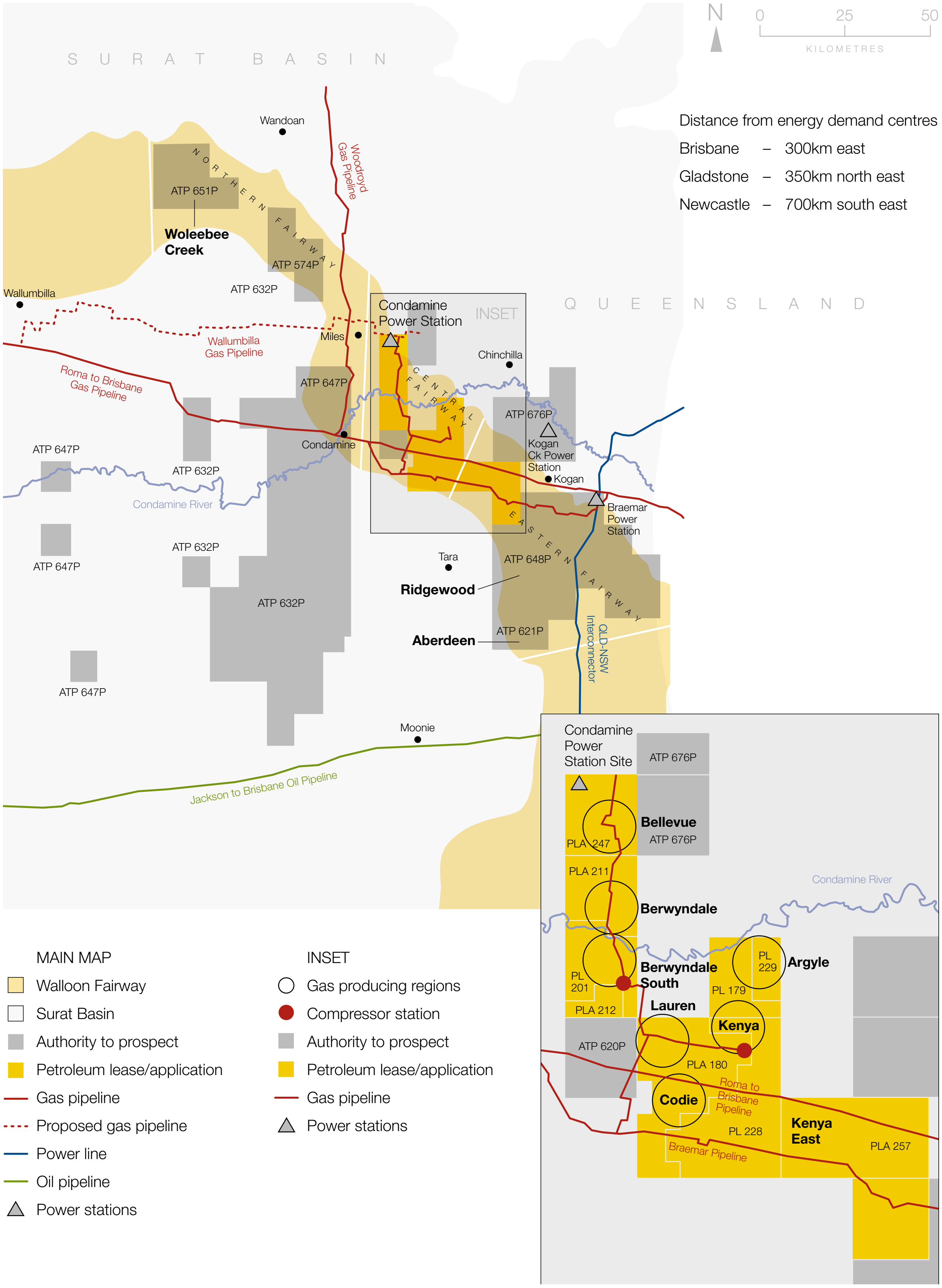
The combination of high flow rates and free-flowing wells improved the overall economics of QGC's gas production operations considerably.

The rapid rate of increase in production is due to a significant expansion of QGC's gas production and processing capability in the Surat Basin.



Gas production (continued)

QGC tenements and the Walloon Fairway



Berwyndale South

Location: ***PL 201 and PLA 211***

Ownership: ***QGC Group (100%)***

Berwyndale South is the heart of QGC's gas production operations in the Surat Basin. It processes gas from production and appraisal wells across QGC's operations and delivers gas to customers via a 14 km link to the Roma to Brisbane Gas Pipeline. In 2007, the processing capacity was upgraded to cater for increased gas production in other QGC sites. Two additional reciprocating compressors and a dehydrator were installed by the end of June 2007 and were being commissioned.

Berwyndale South was QGC's first development in the Surat Basin and celebrated its first full year of commercial production in May 2007. Total production more than doubled in 2007, exceeding gas supply contracts with CS Energy and Braemar Power Project, and deliver additional spot sales of gas to other customers. Average flow rates from individual wells climbed to 1.4 TJ a day making Berwyndale South the best performing coal seam gas area in Australia in terms of productivity. Peak weekly flow rates for the original 23 wells that underpinned the development and have been on production for 12 months have exceeded 2 TJ a day.

At the end of June 2007, 44 production wells were on line and 77% of those wells were configured to free-flow gas. As a result of a major expansion programme in the year, Berwyndale South's processing capability increased to more than 100 TJ of gas per day (equivalent to 36 PJ a year), making it one of the largest coal seam gas operations in Australia.

Kenya-Argyle

Location: ***PL 228, PL 229 and PL 179***

Ownership: ***QGC Group (59.375%) and Origin Energy CSG (40.625%)***

QGC and joint venturer Origin Energy CSG commissioned Kenya-Argyle in June 2007 and commenced gas supplies to Incitec Pivot Limited (IPL) on Sunday 1 July 2007 in line with the customer's requirements. Gas supplies to IPL's fertiliser manufacturing facility at the Port of Brisbane increased to the full contract rate of 20.3 TJ a day (equivalent to 7.4 PJ a year) by late August 2007, in accordance with the 10 year contract with IPL.

Kenya-Argyle is located 15 km to the east of Berwyndale South and was developed rapidly in 2007 as part of QGC's Growth Acceleration Strategy. All essential infrastructure for the development was commissioned by the end of June 2007 including 40 km of gas and water gathering pipeline, 36 PJ of field compression equipment and a 21 km pipeline to the gas processing facility at Berwyndale South.

In 2007, twenty-two production wells were drilled at Kenya in PL 228 and three production wells at Argyle in PL 179 as the first phase of a staged programme to fulfil and exceed the IPL contract. Sixteen of those wells were brought on line by the end of June 2007 and production from the development had reached 6.5 TJ a day (equivalent to 2.3 PJ a year) by the end of August 2007.

the explorers

QGC'S DRILLING MANAGER **CANH NGUYEN** AND RIG OWNER **DES CALING** WORKED TOGETHER IN 2007 TO SECURE A THIRD RIG FOR DES' GROWING BUSINESS AND GUARANTEE THAT QGC COULD MEET ITS DEMANDING DRILLING PROGRAMME IN THE SURAT BASIN.

Exploration

In July 2006, QGC launched a Growth Acceleration Strategy (GAS) and successfully raised $60.3 million through a Share Rights Issue to fund the plan.

The GAS commenced in late September 2006 and focussed on four key areas with a prime target of increasing QGC's share of 2P gas reserves to 1,000 PJ within a year. The GAS objectives and outcomes are summarised in the table below:

	Investment	2P reserves contributed (PJ)
✔ Accelerated commercialisation of Undulla Nose	$12.5 M	214
✔ Early Kenya-Argyle development	$22.0 M	267
✔ Berwyndale South reserves expansion	$14.9 M	216
✔ Enhanced exploration development	$ 7.0 M	–
Total	**$56.4 M**	**697**

Reserves growth

QGC's GAS aimed to increase the Company's share of 2P reserves to 1,000 PJ by August 2007 and stamp the Surat Basin as a world class coal seam gas resource.

The Company exceeded its target in the 12 months to August 2007:

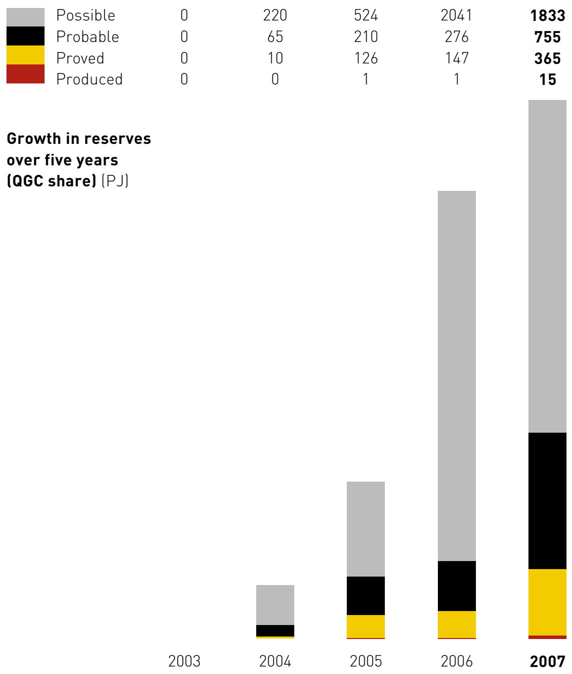
- Three months after announcing the GAS, QGC achieved a 64% upgrade of its 2P reserves to 695 PJ following a review by Netherland Sewell & Associates Inc (NSAI).
- A further review by NSAI in early 2007 resulted in a 27.5% upgrade, with total 2P reserves increasing by 191 PJ to 883 PJ. (Taking into account the Sentient Transaction which was approved at a General Meeting on 2 March 2007, QGC's share of 2P reserves increased by a further 10%, to 923 PJ.)
- On 16 August 2007, QGC announced that it had exceeded its 2P reserves target, with NSAI upgrading the Company's 2P reserves to 1,120 PJ – a 20% increase.

The upgrades were based on the results of QGC's recent exploration, appraisal and development drilling right across its areas of operation and included improvements in volumetric reserves within both the Juandah and Taroom Coal Measures.

These reserves are contained within the following Authorities to Prospect (ATP), Petroleum Lease (PL) and Petroleum Lease Application (PLA) areas:

- Bellevue (PLA 247) (QGC's share 70.625%)
- Berwyndale/Berwyndale South/Berwyndale South Extension (PLA 211/PL 201/PLA 212) (QGC's share 100%)
- Argyle/Argyle East/Kenya/Lauren/Codie (PL 179/PL 229/PL 228/PLA 180) (QGC's share 59.375%)
- Martin (ATP 620P) (QGC's share 59.375%)
- Kenya East/Jammat/Sean/Broadwater (ATP 648P) (QGC's share 68.75%)

QGC has produced 15.2 PJ from its reserves to date, of which 14 PJ has been produced for sale from Berwyndale South and Kenya-Argyle.



Exploration (continued)

Exploration and appraisal activities

QGC conducted a broad range of drilling and exploration activities for the GAS in the 12 months. Work focussed on prospects all along the Walloon Fairway, with a particular emphasis on areas to the north, south and east of Berwyndale South, in the Central Walloon Fairway.

Northern Walloon Fairway

An appraisal well, Woleebee Creek #3, was drilled in ATP 651P and initial testing on the well showed good indications of gas and water flow. On the strength of these initial results, QGC and its partner, Lucas Coal Seam Gas, are planning a substantial exploration and appraisal programme with a view to securing a petroleum lease in the area within 12 months.

Central Walloon Fairway

QGC completed the installation of gas and water gathering lines to the north of Berwyndale South, including a crossing of the Condamine River, to link the Bellevue and Berwyndale Pilots to the existing gas processing facility. This enabled ramp up gas to be sold to customers rather than flared during production testing.

A five-well pilot was completed at Bellevue in PLA 247 and is undergoing production testing. Two of those wells were designed to test only the Taroom coal seams and have shown that the underlying Taroom Coal Measures are productive at least 12 km north of Berwyndale South.

Another five-well pilot was completed at Berwyndale in PLA 211, midway between Bellevue and Berwyndale South. Production testing is underway with the wells contributing to total gas production. QGC also re-entered the Berwyndale #2 core well and deepened the well to collect coal samples in the lower Juandah and Taroom Coal Measures. The samples indicated that the gas contents were in line with expectations (>5m^3/t) in the Juandah Coal Measures and >6m^3/t in the Taroom Coal Measures). Permeability testing indicated high permeabilities in the lower Juandah Coal Measures (~100md) and low permeabilities in the Taroom Coal Measures (<5md).

Several kilometres to the south of Berwyndale South, QGC drilled five step-out development wells to expand the production capability of Berwyndale South (PL 201) and extend the Company's geological understanding of areas to the south.

At Codie in PLA 180, desorption of the coal core from Codie #1A was completed and the results confirm the work from the Lauren wells, 6 km to the north in PLA 180, which showed very high gas contents in both the Juandah and Taroom Coal Measures. Five new wells were drilled in July and August 2007 to create a five-well pilot at Codie.

In PL 179 and PL 228, 25 appraisal/development wells were drilled by the end of June 2007 to meet QGC's gas supply agreement with IPL. The Kenya and Argyle wells provided positive initial indications with several flowing gas and water during drilling.

Eastern Walloon Fairway

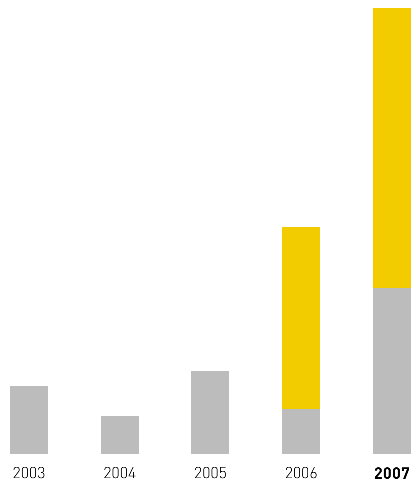
Further east in ATP 648P, QGC drilled Kenya East #2 and Kenya East #3 as production test wells to investigate the coal seam gas potential east of PL 228. Kenya East #2 commenced production testing in late November 2006 and since that time the well has achieved daily gas flows of over 300 GJ per day, which is considered an outstanding result for an isolated appraisal well.

In ATP 621P, an appraisal well (Aberdeen #8) was drilled at the old Aberdeen pilot which had been suspended in 2004. The well was completed across both the Juandah and Taroom Coal Measures and the Juandah Coal Measures were placed on production testing in early November 2006. By the end of February 2007, the well was producing approximately 70 GJ per day. This is far better than the results from the original Aberdeen pilot, particularly considering it is an isolated well. Gas production is certain to increase with the drilling of additional production wells, which will assist in the dewatering of the coal.

A new core well, Ridgewood #2, was drilled in ATP 621P to collect coal samples in the Juandah and Taroom Coal Measures. The samples underwent desorption testing and the results indicated that the gas contents were in line with results from Aberdeen (>7m^3/t) in both the Juandah and Taroom Coal Measures). Permeability testing was also conducted with results indicating low to moderate permeabilities in the upper Juandah Coal Measures (~10md), moderate permeabilities in the lower Juandah Coal Measures (~20md) and low permeabilities in the Taroom Coal Measures (<1md).

	2003	2004	2005	2006	**2007**
Exploration	9	5	11	6	**22**
Development	0	0	0	24	**37**
Total	9	5	11	30	**59**

Wells drilled over five years



Tenement[1]	Name	Area	Current interest	Joint Venturer
Authorities to Prospect				
ATP 574P	Pinelands	Shallows[2]	60%	Victoria Petroleum 30% Australian CBM 6.25% SEQ Oil 3.75%
ATP 620P	Martin	Shallows	59.375%	Origin Energy CSG 40.625%
		Deeps[3]	26.25%	Pangaea 73.75%
ATP 621P	Aberdeen & Ridgewood	All of Authority to Prospect area	100%	
ATP 632P[4]		All of Authority to Prospect area	100%	
ATP 647P[5]	Myall Creek East	Myall Creek East[6] (graticular block 2656)	50%	Origin Energy CSG 50%
		All other blocks (other than Myall Creek East block above)	100%	
ATP 651P	Woleebee Creek, Ogle Creek, Mamdal	All of tenement area (Royalty applies)	85%	Lucas Coal Seam Gas 15%
ATP 676P	Owen, Avon Downs, McNulty, Wyalla	Section 1 blocks (ie graticular blocks number 2237, 2386, 2456, 2457 and 2458)	50%	Australian CBM 50%
		Section 2 blocks (ie graticular blocks numbered 2309, 2528, 2529 and 2530)	25%	Australian CBM 75%
ATP 648P[4]	Kenya East	Shallows	68.75%	Origin Energy CSG 31.25%
		Deeps	60%	Pangaea 40%
Petroleum Leases				
PL 179	Argyle	Shallows	59.375%	Origin Energy CSG 40.625%
		Deeps	26.25%	Pangaea 73.75%
PL 201[4]	Berwyndale South	All of Petroleum Lease area	100%	
PL 228	Kenya	Shallows	59.375%	Origin Energy CSG 40.625%
		Deeps	26.25%	Pangaea 73.75%
PL 229	Argyle East	Shallows	59.375%	Origin Energy CSG 40.625%
		Deeps	26.25%	Pangaea 73.75%
Petroleum Lease Applications				
PLA 180	Codie & Lauren	Shallows	59.375%	Origin Energy CSG 40.625%
		Deeps	26.25%	Pangaea 73.75%
PLA 211[4]	Berwyndale	All of Petroleum Lease Application area	100%	
PLA 212[4]	Berwyndale South Extension	All of Petroleum Lease Application area	100%	
PLA 247 (formerly ATP 610P)	Bellevue	Shallows[4]	70.625%	Origin Energy CSG 29.375%
		Deeps	56.25%	Pangaea 43.75%
PLA 257[4]	Jammat & Kenya East	Shallows	68.75%	Origin Energy CSG 31.25%
Pipeline Licences				
PPL 91[7]	Windibri Export Pipeline		100%	
PPL 107	Kenya Export Pipeline (not constructed)		59.375%	Origin Energy CSG 40.625%
PPL 108[7]	Kenya Trunkline		100%	
PPL 119[7]	Berwyndale South Area Pipelines		100%	
Pipeline Licence Applications				
PPLA 123	Wallumbilla Export Pipeline		100%	
PPLA 125	Northern Corridor Pipeline		100%	

Notes
1 QGC is the operator of all areas except the Myall Creek East block in ATP 647P.
2 Shallows are all stratigraphic divisions underlying the surface area down to a depth of 100 feet below the Walloon Coal Measures.
3 Deeps are all stratigraphic divisions below a depth of 100 feet below the Walloon Coal Measures.
4 10% of QGC's interest is held through its wholly-owned subsidiary SGA (Queensland) Pty Limited.
5 QGC's interest in ATP 647P is held through its wholly-owned subsidiary, Starzap Pty Ltd.
6 Operated by Origin.
7 QGC's interest is held through two wholly-owned subsidiaries: QGC (Infrastructure) Pty Ltd (90%) and SGA (Queensland) Pty Limited (10%).

the power

NEW ROADS ARE BEING BUILT IN THE MURILLA SHIRE AS PART OF THE CONDAMINE POWER STATION DEVELOPMENT. **MAYOR RODERICK GILMOUR** AND HIS TEAM AT MURILLA SHIRE GAVE THE PROJECT THE GREEN LIGHT ON 18 JULY 2007.

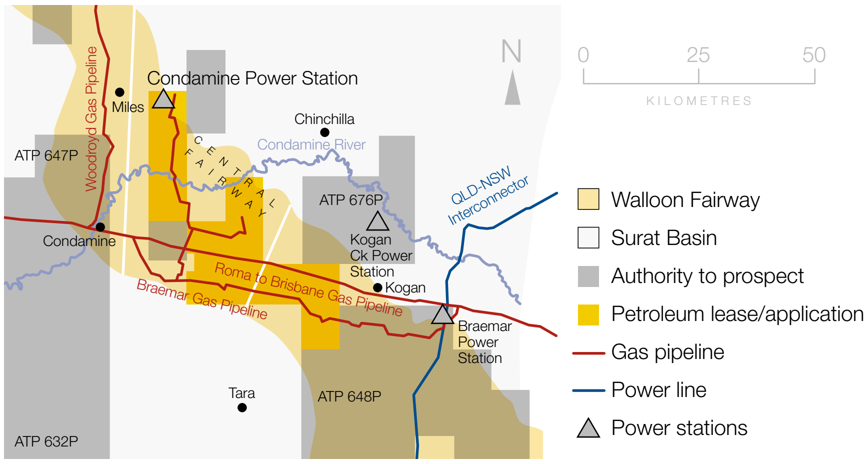
Electricity

Condamine Power Station

QGC is on track to enter the National Electricity Market in 2009. Construction commenced in August 2007 on the 135 MW Condamine Power Station in southern Queensland and it is expected to begin operating in February 2009.

Condamine Power Station will be located on QGC property 8 km east of Miles as shown in the adjacent map. It will be supplied with coal seam gas from QGC's nearby gas operations to generate electricity and will rely entirely on the waste water recovered as part of the gas production process for its water supply needs.

The power station will be fully funded and owned by Energy Infrastructure Trust, a fund managed by ANZ Infrastructure Services (ANZIS), with ownership reverting to QGC after 20 years. QGC will fund necessary production infrastructure to supply the power station with around 10 PJ of gas a year.



Construction

Following a comprehensive tender process in late 2006, QGC and ANZIS appointed Austrian Energy and Environment to build the power station through an Engineer, Procure, Construct (EPC) contract. The EPC contract was signed on 26 April 2007 and on 1 June 2007, QGC achieved financial close when all conditions precedent were satisfied. Under the EPC contract, Siemens will supply two SGT 800 gas turbines and one steam turbine, and the combined cycle gas fired facility will have the capacity to generate 135 MW.

On 18 July 2007, QGC received development approval from the Murilla Shire Council to proceed with the power station development and construction on the project began in late August.

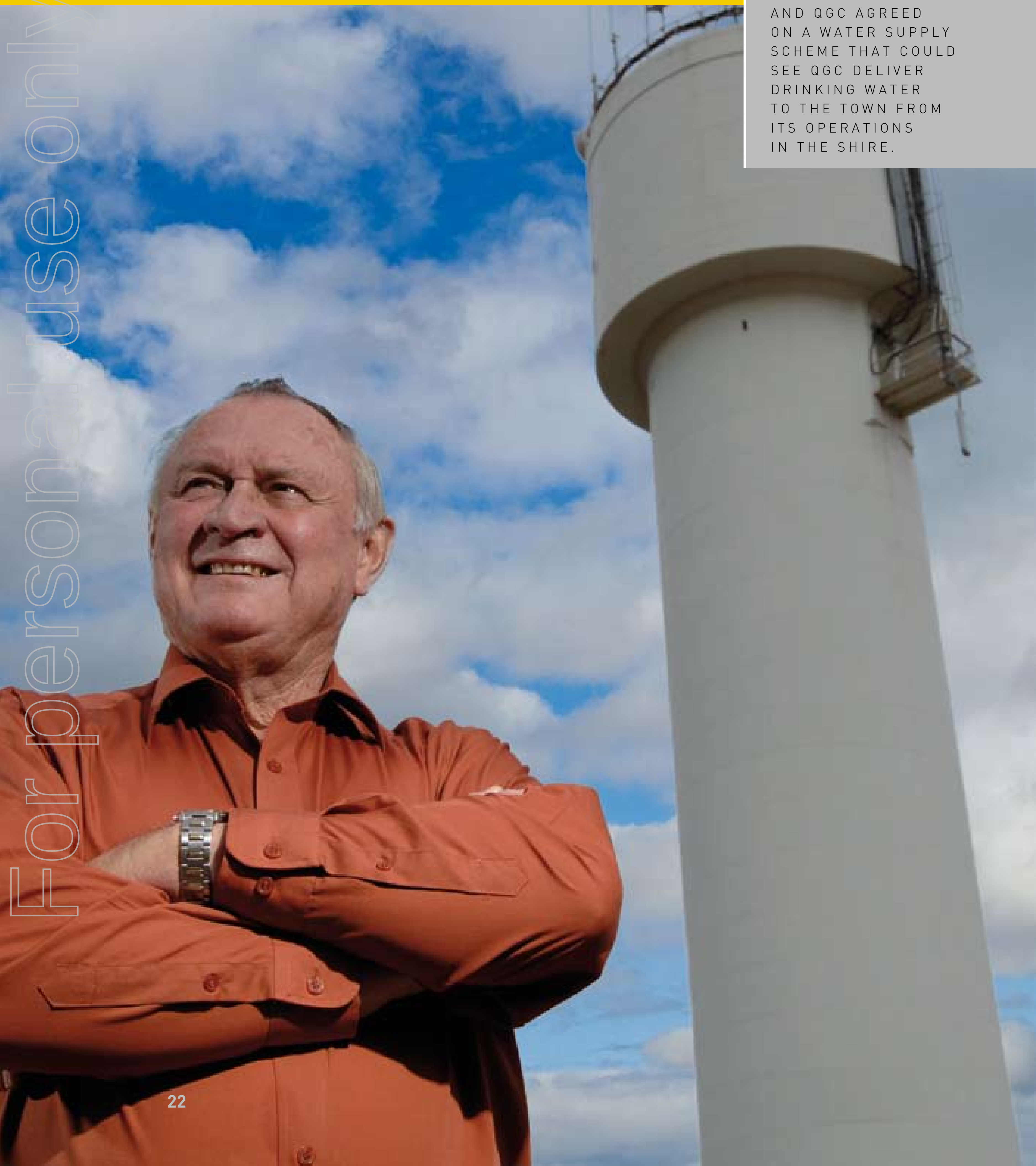
Commissioning

At the end of July 2007, QGC and ANZIS approved a plan to commence electricity sales from the plant six months earlier than the original August 2009 target. At the extra cost of $7 million, the design will be revised to enable the power station to commence generating electricity in open-cycle from February 2009 and in closed-cycle from August 2009.

Operation

Condamine Power Station has been designed to operate as a base load power station, operating 24 hours a day, but it will not be constrained by long term supply and transportation agreements. As the operator of the power station, QGC will be able to participate in the gas and electricity markets at its discretion – selling gas and electricity into the most favourable market at any given point in time.

CHINCHILLA **MAYOR BILL McCUTCHEON** HAS REASON TO SMILE. IN 2007, HIS COUNCIL AND QGC AGREED ON A WATER SUPPLY SCHEME THAT COULD SEE QGC DELIVER DRINKING WATER TO THE TOWN FROM ITS OPERATIONS IN THE SHIRE.



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Water

QGC recognises that the water produced as a result of its coal seam gas business is a valuable commodity, particularly in drought-starved southern Queensland.

In 2007, QGC continued to investigate ways to maximise the value of this precious resource for the business and for neighbouring communities.

A water management team within QGC has been established with responsibility for addressing the challenges associated with harvesting water in an economical and environmentally responsible way. This multi-disciplinary team is working on a range of commercial opportunities in southern Queensland including water supply to power stations, coal mines and local councils as well as various agricultural applications including feedlots, aquaculture and pastoral use.

In 2007, three major water use projects were investigated:

Treated water supply to Chinchilla Shire Council

Chinchilla Shire Council, QGC and joint venturer Origin Energy CSG are working together to secure funding for the development of a 3 megalitre per day water pipeline and reverse osmosis water purification plant to supply the town of Chinchilla with drinking water from QGC's existing coal seam gas operations in Chinchilla Shire. A joint project team is working to determine the optimum purification method, water pipeline route and commercial terms. They are also holding discussions with Queensland Government agencies to secure necessary approvals to proceed.

Treated water supply to Condamine Power Station

The water required by the Condamine Power Station will be supplied from QGC's nearby gas operations using water harvested from coal seams. This will avoid any need to use water from other sources such as existing artesian bores, rivers or other surface water flows. While the harvested water in its untreated state contains some dissolved salts, it can be used in the cooling tower of the power station, and after treatment, it will be used in the boiler. The supply of drinking water to the town of Miles will also be considered as part of the Condamine Power Station development.

Use of untreated water from coal seams for local crop production

Throughout 2007, QGC worked with agricultural scientists investigating whether untreated water from the gas production process could form the basis of a sustainable farming system. QGC conducted a 20 hectare crop trial at Berwyndale South using harvested water to irrigate conventional crops on the regional soil types. Preliminary results of the trial show that sustainable use can be achieved through field rotation, mixing with treated or river water or reverse osmosis treatment. Further analysis is underway.

Water storage

Until long-term water supply arrangements are finalised with potential customers, QGC will continue its practice of storing water in evaporation ponds close to its operations. To this end, QGC established a comprehensive water storage and transportation network in 2007:

- A 91 hectare dam was completed at Berwyndale South in September 2006.
- Following successful applications to the Environmental Protection Agency, construction of a second large dam began at Kenya-Argyle in August 2007.
- An extensive system of water pipelines has been installed across QGC's tenements to facilitate the movement of water across its operations and thus minimise the number of storage facilities required. This water network will further facilitate the development of opportunities for beneficial water reuse.

A water management team within QGC has responsibility for addressing the challenges associated with harvesting water in an economical and environmentally responsible way.

the knowledge

PETER DOUGALL KNOWS CATTLE AND HE UNDERSTANDS THE SUBTLETIES OF THE LOCAL ENVIRONMENT. WITH ONGOING DROUGHT MAKING LIFE TOUGH FOR MANY IN THE REGION, PETER TEAMED UP WITH QGC TO MANAGE THE COMPANY'S GROWING AGRIBUSINESS – ANOTHER BY-PRODUCT OF ITS GAS BUSINESS

People, safety and environment

QGC is a values-driven business where people recognise that the success of the business depends on the way it cares for people and interacts with the environment.

The Company's management team is working to cultivate a culture where the people associated with QGC's operations respect one another, look out for each other and have the training and equipment to undertake their work safely and responsibly.

In 2007, this has been a considerable challenge given the rapid expansion of the business. The geographical extent of the business quadrupled in the year and QGC's core team increased from 47 to 85 within 12 months. Nonetheless, the Company was successful in establishing the framework for core systems, processes and training programmes that will enable the Company's planned future growth.

Managing a growing team

In 2007, QGC almost doubled its core team and saw its network of contractors and consultants expand considerably to encompass new areas of expertise. To manage that growing team, QGC appointed in-house resources to manage human resource functions and implemented a human resource management system when it installed a new company-wide information management system, SAP, in July 2007. The technology-based system is expected to deliver significant benefits in coming years, providing a comprehensive platform for employee services and relationships with contractors, consultants and suppliers. The effectiveness of the platform will be crucial given further expected increases in team numbers in 2008.

Safety performance

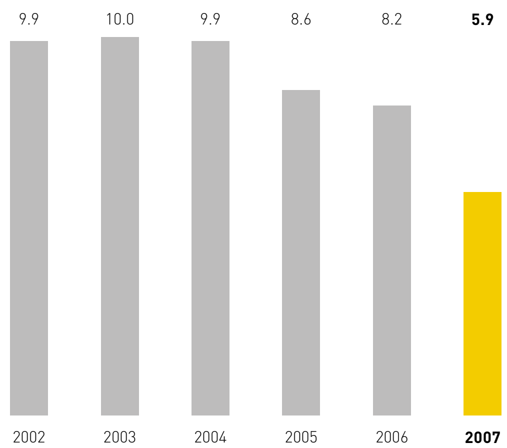
QGC maintains a comprehensive incident database that records incidents and allocates responsibilities for remedial actions which are reviewed monthly. Of the total number of incidents recorded in 2007, 60% resulted in no injury at all and the remaining 40% resulted in either trivial or minor injury, requiring simple medical intervention. Of those injury-related incidents, only two involved lost time. This is a very positive achievement given that the total number of hours worked by QGC employees and contractors more than doubled for the year.

The adjacent chart illustrates the reduction in the lost time injury frequency rate for QGC employees since 2002. QGC achieved a significant reduction in 2007 despite a major increase in employee numbers.

During the year, QGC established the framework for an innovative health and safety management system to ensure it adopts best practice in all areas of its operations. The system is being designed to meets the criteria specified in legislation and by a variety of risk management standards. In addition, QGC developed a comprehensive risk management process through a consultative process with operational staff, management staff and suitably qualified and experienced third parties.

QGC prepares safety management plans for all of its activities including the development of its gas business, construction of pipelines and exploration activities. Each plan outlines the specific safety requirements, recommendations and expectations for QGC staff, contractors, visitors and service providers. All safety management plans are actively reviewed and amended as required to ensure they contain the necessary components, structure and tools to provide a safe place of work. QGC established and implemented an operations and maintenance plan to provide a detailed account of the structure and processes associated with operation and management of its gas production assets. As part of this plan, QGC contracted its plant operating and maintenance activities to Universal Compression, the company that supplies the reciprocating compression units.

Lost time injury frequency rate (3 year rolling average)



People, safety and environment (continued)

Environmental performance

Both State and Federal laws regulate QGC's environmental obligations. The Company's policy is to meet all compliance requirements and, where practicable, exceed environmental expectations. In 2007, QGC operations were carried out with only one minor incident being notifiable to the Queensland Environmental Protection Agency (EPA). This related to the decommissioning of a small production water pond and QGC has submitted an Environmental Management Program to the EPA which was accepted by the EPA for implementation.

In 2007, QGC initiated a series of environmental reviews and improvements which included increasing its in-house environmental resources, upgrading environmental awareness training and implementing additional water management measures. The review confirmed that QGC is working toward a high standard of environmental management at all QGC operated locations. Relevant improvements from the review have been incorporated into an Environmental Improvement Plan which is now 70% implemented.

QGC has been keen to work closely and cooperatively with the EPA and this has led to improvements in environmental conditions for the Company's tenements. QGC is now quickly moving towards a goal of exceeding its environmental performance obligations, recognising that environmental management will be key to the success of the Company, both as a financial entity and a corporate citizen.

QGC maintains a complex network of partnerships with people in the communities surrounding its operations, including landholders, traditional owners, local councils and local businesses.

Supporting community and the arts

QGC maintains a complex network of partnerships with people in the communities surrounding its operations, including landholders, traditional owners, local councils and local businesses. As a growing business in southern Queensland, the Company is making a real contribution to improving regional economies by employing local people, buying goods and services locally and attracting business opportunities to the region by developing viable gas and electricity supplies.

In October 2007, 500 people attended a free community event at Berwyndale South hosted by QGC to thank the community for their part in enabling the Company's rapid growth. "Drama at the Gasfield" was centred on a musical play produced and presented by La Boite Theatre Company called "Way out West". The event also featured stalls and entertainment by local service groups and schools, and offered local people an opportunity to tour QGC's 20 hectare crop trial. On 18 September 2007, QGC was recognised for its community–focussed partnership with La Boite Theatre Company when it was awarded the Toyota Community Partnership Award for Queensland by the Australian Business Arts Foundation.

WELCOME TO
DRAMA
AT THE
GASFIELD

the results

In its first full year of commercial gas production, QGC achieved sales well above budget on the back of strong gas flows, efficient production techniques and improving economics.

Sales

For the 12 months to 30 June 2007, QGC achieved sales revenue of $27 million from total sales of 11.5 PJ of gas. The weighted average sales price for the year was $2.35 per gigajoule.

Gas sales during the year were primarily to two Queensland power companies: CS Energy and the Braemar Power Project. Sales to these customers were underpinned by two 10 year gas supply contracts to deliver a minimum of 8 PJ a year. In September 2006, QGC secured additional short-term sales contracts with the Braemar Power Project that increased firm gas sales by more than 50%.

In the June quarter, gas sales of 4.15 PJ represented an increase of 70% on the average of the previous three quarters. QGC achieved a weighted average sale price of $2.43 per gigajoule for the June quarter including a small amount of spot gas sales at prices as high as $10 per gigajoule. While the volume of spot gas sales at higher prices was not significant, it is indicative of the potential for upward movement on QGC's average gas price in the coming year. Initiating spot gas sales also increased QGC's customer base and diversified its gas revenue streams. Gas sales for the year were enhanced through the efficient design, reconfiguration and operation of QGC's wells. Internal gas usage was 5% of total gas production, which was significantly lower than the forecast of 11%. This was achieved by configuring the majority of wells to free-flow gas, thus negating the need for gas-fired pumps and increasing the total volume of gas available for sale.

Costs

Cost of sales including plant and operating costs, royalties and tolling costs amounted to $10.7 million or 93 cents per gigajoule. Operating and corporate costs increased in 2007 in line with the Company's rapid growth over the 12 months. Considerable energy was focussed on establishing processes and systems to enable the business to meet its growth strategy. This included commencing implementation of SAP to update its business systems as well as processes for operations, health and safety, and environmental management. Staff numbers almost doubled in the period, increasing from 47 at 30 June 2006 to 85 at 30 June 2007.

Profitability

Total income including interest earned was $34.5 million compared to $3.1 million in the previous year. Gross profit (after cost of sales) including interest earned was $23.8 million compared to $1.7 million in the previous year. QGC's strengthening financial performance as gas production and sales ramped up during the year reflects QGC's low-risk and low-cost operating model. Whilst QGC has reported a statutory net loss of $12.2 million for the year, this result includes the costs of defending an opportunistic takeover offer by Santos which cost QGC $14.5 million. Next year QGC is targeting annual gas sales of 30 PJ and expects to report its first statutory net profit to shareholders in the 2008 financial year.

Financial position

Cash reserves at 30 June 2007 amounted to $248 million. As a result of a number of strategic transactions during the year, QGC's net assets have grown by over 600% and, with no significant debt, QGC is well placed to secure funding when required for its on going expansion plans. The transactions included:

Share rights issue

In September 2006, QGC raised $60.3 million in capital from the issue of 95.7 million shares through a 1 for 4 pro rata rights issue to shareholders. This issue was well over-subscribed and the funds raised were used for the successful Growth Acceleration Strategy (GAS) to increase 2P gas reserves to 1,000 PJ by August 2007. The target was exceeded by 12% when NSAI upgraded QGC's share of 2P reserves to 1,120 PJ (volumetric figure including 15 PJ produced by 30 June 2007).

Sentient transaction

In March 2007, shareholders approved a plan to acquire all of the Sentient Group's coal seam gas joint venture interests with QGC. The transaction simplified the ownership of these assets and allowed QGC to streamline its future financing arrangements and gas marketing efforts. In consideration for giving up its legal and beneficial permit interests in various tenements and dissolving unitisation arrangements, the Sentient Group was issued 53.4 million shares at a value of $1.48 per share.

AGL alliance

QGC shareholders approved a plan to form a strategic alliance with AGL in March 2007, encompassing:

- a subscription agreement under which AGL acquired a 27.5% interest in QGC at $1.60 per share. This resulted in QGC issuing 204.6 million shares for a total consideration of $327.4 million,
- a 20 year gas sale agreement, commencing in January 2008, under which AGL will buy at least 540 PJ of gas and has the right to exercise options totalling 200 PJ from December 2008, and
- a Gas Market Development Service Agreement which, under certain circumstances, entitles QGC to utilise AGL's excess pipeline capacity in certain pipelines for a period of three years.

Share buy-back

In conjunction with the AGL transaction, QGC conducted an off-market share buy-back of up to 14.7% of its expanded capital where shareholders were invited to tender all or part of their stock at $1.52 per share. A very limited number of shareholders elected to participate in the buy-back, with the result that QGC bought back only 3.8 million shares for a consideration of $5.7 million.

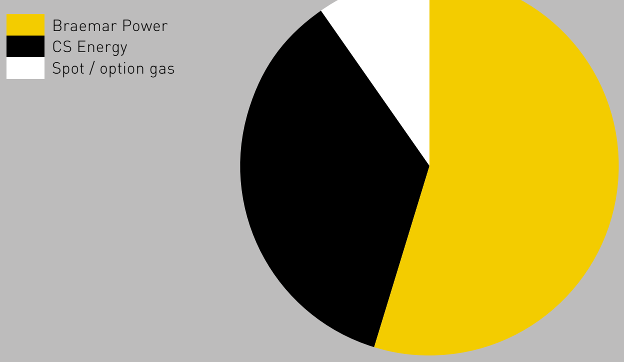
Outlook

By the end of August 2007, gas sales from QGC-operated production areas had increased to around 58 TJ a day (equivalent to 21 PJ a year) to meet its third gas supply contract. QGC expects to have more than doubled sales to 30 PJ a year by the end of June 2008 in line with a $260 million development plan to expand its gas production and processing capability. This includes drilling more than 100 wells and increasing its gas processing capacity to 120 PJ by September 2008. QGC's share of gas sales are expected to double again in the 2009 financial year to more than 60 PJ a year as a result of the expansion and additional expenditure on new wells.

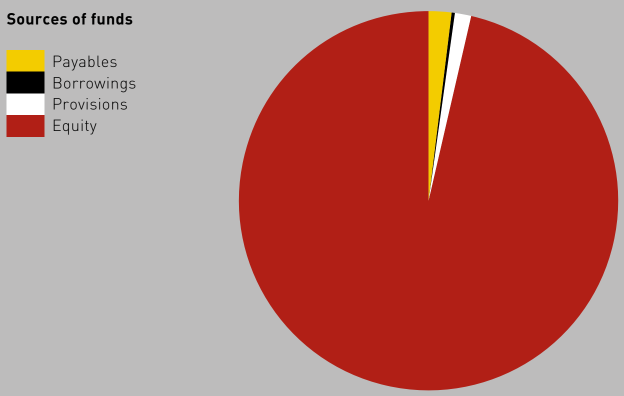
To increase its 2P reserves position, QGC will commit $56 million on exploration activities in the 2008 financial year, focussing on various prospective areas along the northern, central and eastern parts of the Walloon Fairway to determine its outer boundaries. The expansion and exploration programmes will be funded out of cashflows and cash reserves to be replaced by an appropriate borrowing programme to be negotiated in the next 12 months.

Demand for gas is expected to increase significantly in the next three years as new gas-fuelled power stations are constructed and brought on line along Australia's eastern seaboard, and electricity demand from the resources sector increases. Opportunities to meet existing gas demand are also expected to increase as gas supply from existing sources begins to decrease in the 2010 – 2012 period. QGC expects to be in a perfect position to capitalise on these opportunities.

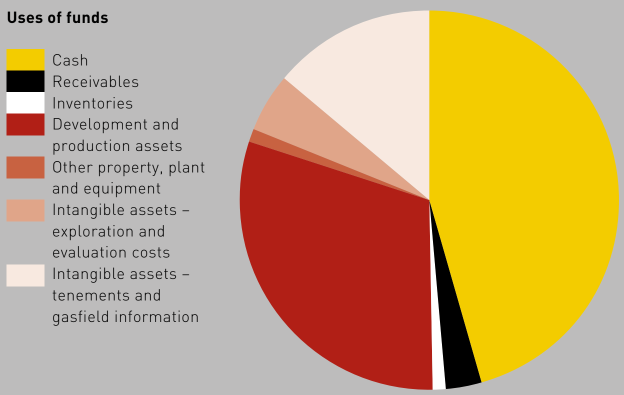
Sales ($)



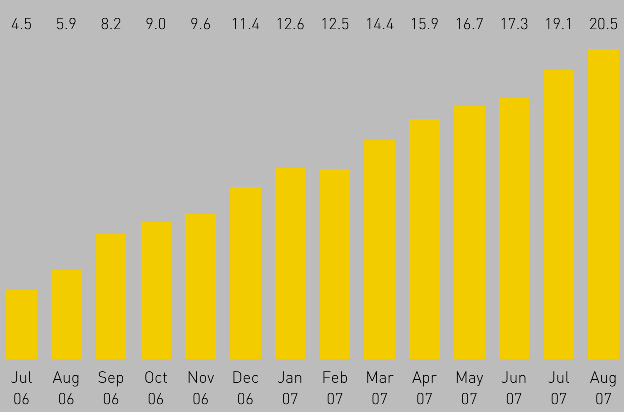
Sources of funds



Uses of funds



Annualised gas sales (PJ)



the vision

Directors

ROBERT BRYAN **Chairman** BSC (HONS, GEOLOGY) AGE 73

Mr Bryan is a geologist by training, and has a lifetime of experience in the mining industry in Australia and overseas. After founding Pan Australian Mining in the early 1980s, he oversaw the very successful development of the Mt Leyshon goldmine near Charters Towers, selling out his controlling interest in 1989. The proceeds underpinned the Australian Property Growth Fund that he founded.

In 1996, Mr Bryan founded a second mining company Pan Australian Resources Ltd and remains Chairman of that company. In 2000, Mr Bryan and several associates founded the Queensland Gas Company (QGC) and Mr Bryan has been the Chairman of QGC from the outset. He is a member of QGC's Audit Committee and Chairman of the Remuneration Committee.

Mr Bryan currently serves as the Chairman of Queensland Gas Company, Pan Australian Resources Limited and Highlands Pacific Ltd and is a director of the Australian Property Growth Fund. In industry-related activities, Mr Bryan is an Honorary Life Member of the Queensland Resources Council, a Fellow of the Australasian Institute of Mining and Metallurgy, and a director of the Sustainable Minerals Institute within the University of Queensland.

RICHARD COTTEE **Managing Director** BA, LLB (HONS) AGE 52

Mr Cottee has more than 20 years experience in resources and energy, and he has been involved in the development of over 2,400 megawatts of generation capacity in Queensland and the United Kingdom. He also has wide experience in project financing and other financing instruments. Before joining QGC, he served as Managing Director of NRG Energy Ltd (United Kingdom and Eire), Chief Executive Officer of CS Energy Limited, Executive Director of Cyprus Australian Coal and Oakbridge Pty Ltd, and Commercial Manager of Santos Limited. Mr Cottee is also a Director of Monto Minerals and the President of the Australian Coal Seam Gas Council.

PETER CASSIDY **Non-executive Director** BSC (HONS), PHD SIA (AFF) AGE 53

Mr Cassidy is Chairman of The Sentient Group Limited, a Cayman-based private capital investor in the global resources sector. Under his stewardship, Sentient has taken an active interest in the Australian resources sector and specifically QGC's coal seam gas business. Mr Cassidy has worked with the government on industry development, with the Ford Motor Company, and has experience in the synthetic fuels industry. Prior to establishing Sentient he worked in the finance sector for a number of years. Mr Cassidy is also a Director of Ivernia Inc and SDIC Xiyang Energy Co Ltd.

FRANCIS CONNOLLY **Non-executive Director** BA, LLB (HONS), GRAD DIP APPLIED FINANCE & INVESTMENT, MAICD, F FIN AGE 50

Mr Connolly is Director Corporate Finance with investment house Ord Minnett Ltd, and has skills and experience in investment banking, corporate finance, corporate advice, corporate law and corporate governance. In his earlier career he was a Partner of national law firm

Left to right: Robert Bryan, Peter Cassidy, Michael Fraser, Dale Elphinstone, Richard Cottee, Michael Moraza, Francis Connolly, Timothy Crommelin and Stephen Mikkelsen.

Corrs Chambers Westgarth, and worked in corporate finance roles with Wilson HTM and Macquarie Bank. Mr Connolly chairs QGC's Audit Committee and is a member of the Remuneration Committee.

TIMOTHY CROMMELIN Non-executive Director
BCOM, FSIA, FSLE AGE 59

Mr Crommelin is Chairman of ABN AMRO Morgans Limited and Deputy Chair of CS Energy Limited. In addition to being a director of QGC, he is also a director of the Australian Cancer Research Foundation, Advisory Board of Australian National University, and Abney Limited. He is on the Board of Trustees of Brisbane Grammar School, a trustee of the Queensland Museum Foundation and a member of the Senate, University of Queensland. Mr Crommelin is a member of QGC's Audit Committee.

DALE ELPHINSTONE Non-executive Director FAICD AGE 56

Mr Elphinstone is the Managing Director of the Elphinstone/William Adams group of companies, which includes the Caterpillar dealership in Victoria and Tasmania, and other business interests in Australia and New Zealand. He is a Director of Caterpillar Underground Mining Pty Ltd.

MICHAEL FRASER Non-executive Director BCOM, CPA AGE 50

Mr Fraser is Group General Manager, Merchant Energy of AGL Energy Limited. He has responsibility for AGL's power generation, wholesale gas and electricity portfolios and energy sales to major industrial and commercial customers. Mr Fraser has more than 20 years energy industry experience and also has extensive experience in customer service, regulatory management, distribution and corporate services. He is a Fellow of the Taxation Institute of Australia, Deputy Chairman of ActewAGL, a Director of Elgas Limited and a member of the UnitingCare Ageing Board.

STEPHEN MIKKELSEN Non-executive Director BBS, CA AGE 43

Mr Mikkelsen is the Chief Financial Officer of AGL Energy Limited. He is a Chartered Accountant with extensive experience in both the private and public sectors in Australia and New Zealand, and has held a range of senior roles in the energy sector. Prior to joining AGL, Mr Mikkelsen held senior management positions at Snowy Hydro and Contact Energy. He also has experience as a treasury advisor within the banking and accounting sectors.

MICHAEL MORAZA Non-executive Director BE, MBA AGE 46

Mr Moraza has over 20 years experience in the oil and gas industry in Australia and overseas. He is currently General Manager, Gas Development for AGL's Merchant Energy Group and has held several senior management roles since joining AGL in 1996. He led the team that successfully acquired a 10% interest in the upstream Papua New Guinea Gas Project, a 50% joint venture in the Sydney Basin and a 50% interest in the Moranbah Gas Project in Queensland. 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.

the expertise

Left to right: Steven Scott, Mike Herrington, Mukesh Panchal and Leon Devaney.

Senior management

STEVEN SCOTT **General Manager, Exploration and Technical Services** BSC (HONS), PHD (CANDIDATE) AGE 51

Mr Scott joined QGC in 2000, leading QGC's initial evaluation of the Walloon Subgroup and its coal seam gas potential, and subsequently overseeing the exploration and appraisal of QGC's operations in the Surat Basin. He has more than 30 years geoscience experience in Queensland's resources industry and this included 12 years working on numerous coal exploration projects in the Bowen Basin and 11 years administering petroleum and coal seam gas exploration and development within Queensland. Mr Scott has been involved in the development of coal seam gas resources since 1987.

MIKE HERRINGTON **Chief Operating Officer**

BS (CIVIL ENGINEERING) PROFESSIONAL ENGINEER (PE) AGE 53

Mr Herrington has more than 30 years diversified industry experience in the petroleum industry including oil and gas exploration in New Mexico's San Juan Basin, Alaska's North Slope and the Gulf of Mexico. He has particular expertise in the establishment of coal seam gas operations in Australia, USA, Europe and Asia. Mr Herrington was previously Managing Director for Jabiru Energy and held senior roles with Enron Exploration Australia Pty Ltd (based in Queensland) and Enron Oil & Gas (based in China). In Australia, he has drilled coal seam gas wells in the Galilee, Gunnedah and Surat Basins and designed and constructed gas gathering systems for the Comet Ridge development.

MUKESH PANCHAL **Chief Financial Officer and Company Secretary** BCOM (ACC), CA, CTP AGE 40

Mr Panchal has over 19 years experience in finance related roles and prior to QGC held a number of senior finance and corporate positions in the New Zealand gas and electricity sector. He has extensive experience in strategic and financial management, capital and debt raising, financial risk management and operational improvement. He joined QGC in August 2006 after three years as the Chief Financial Officer, Treasurer & Group Finance Manager of NGC Holdings Limited, a listed energy company in New Zealand (now part of Vector Limited).

LEON DEVANEY **General Manager, Commercial and Financing** BCOM (FIN), MBA (FIN) AGE 38

Mr Devaney has over 15 years of commercial and financial experience within the infrastructure and energy sectors, including seven years of direct experience in Australia's coal seam gas sector. Mr Devaney joined QGC in 2005 and is responsible for structuring and implementing their commercial and financing strategies. Prior to joining QGC, Mr Devaney spent five years in the Sydney office of Deloitte Corporate Finance Pty Limited where he led a Corporate Finance Advisory Team that specialised in providing capital-raising and project finance advisory services to the resource and infrastructure sectors.

Queensland Gas Company Limited
Annual financial report for the year ended 30 June 2007
ACN 089 642 553

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Queensland Gas Company Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

Directors

The following persons were Directors of Queensland Gas Company Limited during the whole of the financial year and up to the date of this report, unless otherwise noted, and the number of ordinary shares in which the Directors hold a relevant interest, are:

	Changes during the year	Ordinary shares
R Bryan (Chairman)		18,232,835(1)
P Cassidy		147,963
F Connolly		336,259
R Cottee		6,111,537
T Crommelin	Appointed 2 October 2006	123,744
D Elphinstone		52,521,110(2)
M Fraser	Appointed 8 March 2007	–
S Mikkelsen	Appointed 8 March 2007	–
M Moraza	Appointed 8 March 2007	–
D Patten	Retired 2 March 2007	244,490
V De Santis (alternate for D Elphinstone)		24,337
M de Leeuw (alternate for P Cassidy)		–

(1) The shares in which Mr R Bryan holds a relevant interest include 1,727,671 held by Leyshon Equities Pty Ltd, a company in which Mr Bryan has greater than 20% voting power and 2,847,000 shares in which Mr Bryan has a right of pre-emption under a deed between Mr Bryan, Mr N Zillman, GFK Investments Pty Ltd, QGAS Pty Ltd and Queensland Gas Company Ltd dated 14 April 2000.

(2) Mr D Elphinstone has a relevant interest in 52,513,720 shares, of which 51,963,939 are held by Elph Pty Ltd and 471,708 by Elphinstone Holdings Pty Ltd, both being companies in which Mr Elphinstone and his associates have a controlling interest.

The qualifications, experience and special responsibilities of the Directors and Company Secretary are shown on pages 30 to 32 of the Annual Report.

Directorships of listed companies

Mr R Bryan has been Chairman of Pan Australian Resources Ltd since 1994 and Highlands Pacific Ltd since 1998. Mr R Cottee has been a Non-executive Director of Monto Minerals NL since 2002.

Principal activities

During the year the principal continuing activities of the Group consisted of the ongoing development of the Berwyndale South producing area, the development of the Berwyndale, Bellevue and Kenya-Argyle producing area, and the ongoing exploration and appraisal for coal seam gas in the Surat Basin in southern Queensland.

Dividends

During the financial year no amounts have been paid or declared by way of dividend (2006: nil). No dividend will be recommended by the Directors for declaration at the forthcoming Annual General Meeting.

As a matter of policy, the Board is conscious of the desirability of delivering returns to shareholders via dividends in addition to any appreciation of the share price. However, in view of the expected capital requirements for future exploration, appraisal and development activity, payment of a dividend would not be appropriate prior to establishing a long term profit stream which is capable of supporting both capital expenditure and dividend distribution.

Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 2 to 29 of this Annual Report.

The net loss after income tax for the Group amounted to $12.22 million (2006: $6.25 million). This loss includes significant one-off items incurred during the year resulting from the Santos takeover proposal and other corporate activity.

Significant changes in the state of affairs

During the year, AGL Energy Limited ("AGL") acquired 204,616,102 ordinary shares at $1.60 per share, which equated to a 27.5% stake in QGC, confirming QGC's presence as a major independent coal seam gas producer in the southeast Queensland market.

Matters subsequent to the end of the financial year

Other share issues

Since year end, the Company issued 44,341 ordinary shares to Non-executive Directors pursuant to a Deferred Non-executive Director Share Plan in lieu of fees for the quarter ended 30 June 2007. In July 2007, 429,911 ordinary shares were issued to employees pursuant to a Deferred Employee Share Plan as performance incentives for the year to 30 June 2007.

No other matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the Group are described in the Annual Report at: page 9 "Positioned for growth"; page 13 to 15 "Gas production"; page 21 "Electricity" and page 23 "Water business".

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this Annual Report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

Both State and Federal laws regulate QGC's environmental obligations. The Company's policy is to meet all compliance requirements and, where practicable, exceed environmental expectations. In 2007, QGC operations were carried out with only one minor incident being notifiable to the Queensland Environmental Protection Agency (EPA). Further information on enviromental performance is presented on page 26 of this report.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2007, and the numbers of meetings attended by each Director were:

Director	Board meetings		Audit Committee		Remuneration Committee	
	A	H	A	H	A	H
R Bryan	14	15	1	2	2	2
P Cassidy	10	15	1 (1)	*	*	*
F Connolly	14	15	2	2	2	2
R Cottee	15	15	*	*	*	*
T Crommelin	11	13	*	*	*	*
D Elphinstone	11	15	*	*	1	2
M Fraser	2	2	*	*	1	1
S Mikkelsen	1	2	*	*	*	*
M Moraza	2	2	*	*	*	*
D Patten	11	11	*	*	*	*
M de Leeuw (alternate for P Cassidy)	13	15	*	*	*	*
V De Santis (alternate for D Elphinstone)	11	15	*	*	1	2

A – Attended H – Number of meetings held during the time the Director held office or was a member of the Committee during the year

* – Not a member of the relevant Committee (1) – P Cassidy attended on behalf of R Bryan for one of the audit committee meetings

Retirement, election and continuation in office of Directors

Mr R Bryan and Mr D Patten retired by rotation in accordance with clause 13.4 of the Constitution and were re-elected at the Annual General Meeting on 13 November 2006.

Remuneration report

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the Financial Report and have been audited. The disclosures in section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

A Principles used to determine the nature and amount of remuneration (audited)

The Board, within the maximum amount approved by the shareholders from time to time, determines remuneration of non-executive Directors with advice from external compensation advisors as required. Non-executive Directors are entitled to sacrifice their Directors' fees each quarter, with shares in the Company being issued to the trustee of the Deferred Non-executive Director Plan (DDSP). An election is required to be made by each non-executive Director at the beginning of each quarter regarding whether their fees are to be paid by way of cash or shares.

Executive remuneration and other terms of employment are reviewed annually having regard to performance, relevant comparative information and independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Company's operations.

Remuneration and other terms of employment for the Managing Director and other senior executives are formalised in service agreements. Incentive-based remuneration packages linked to personal and corporate key performance indicators are in place for each executive. These incentives are structured to align executive reward with the achievement of strategic objectives and the creation of shareholder value.

The personal and corporate key performance indicators and other targets for the Managing Director and other senior executives are reviewed at least annually to ensure that they remain relevant and appropriate, and may be varied to ensure that the short-term rewards and long-term rewards offered to each executive incentivise performance and achievement and are consistent with the Company's goals and objectives. The long-term incentive plan for senior executives is linked to the increase in share value, and benefits are provided by way of shares in the Company through a Deferred Employee Share Plan and a proposed new Employee Share Option Plan which seeks to align executive performance with shareholders' interests.

The remuneration policy is designed to align management's performance, and therefore the Company's performance, with shareholder wealth. During the 2007 financial year, the Company's management was primarily focussed on a growth acceleration strategy to increase gas reserves, as well as consolidating production from the Berwyndale South area and developing the Kenya/Argyle area. In addition, QGC progressed plans to construct its first gas-fired power station and was forced to undertake significant takeover defensive activites as a result of a takeover offer by Santos on 4 October 2006. In particular, incentive plans during this period were structured to achieve the growth acceleration strategy and ensuring shareholders achieved the best available outcome from the Santos takeover proposal.

The table below shows the relationship between gas reserves, contracted gas volumes, share price and market capitalisation:

	Financial year ended 30 June				
	2003	2004	2005	2006	2007
Certified proved and probable gas reserves (2P) (QGC share)	–	75 PJ	336 PJ	423 PJ	1,120 PJ[1]
Contract position (QGC share)	30 PJ	30 PJ	84 PJ	123 PJ	855 PJ
Share price	$0.185	$0.18	$0.44	$0.69	$2.80
Share buyback	–	–	–	–	$5.7 m[2]
Market capitalisation	$30 m	$31 m	$155 m	$261 m	$2,073 m[3]

(1) includes 15 PJ produced to 30 June 2007
(2) the share buyback was completed in April 2007 at $1.52 per share
(3) includes quoted and unquoted shares of the Company

Key performance indicators are generally set so that targets can be measured objectively, thus allowing simple and unambiguous assessment of achievement.

B Details of remuneration (audited)

Amounts of remuneration

Details of the nature and amount of each element of remuneration of each Director and the key management personnel (as defined in AASB 124 *Related Party Disclosures)* of Queensland Gas Company Limited and the Queensland Gas Company Group are set out in the following tables.

Amounts disclosed for remuneration of Directors and other key management personnel exclude insurance premiums of $47,080 (2006: $58,952) paid by the Group in respect of Directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual Directors and officers. Information relating to the insurance contracts is set out in the Directors' Report.

Details of the remuneration of each Director of the Company and Group are set out in the following table.

		Short-term employee benefits		Post-employment benefits	Share-based payments	
Name	**Cash salary or fees $**	**Short-term incentives $**	**Non-monetary benefits $**	**Super-annuation (employer contribution) $**	**Shares – in lieu of fees $**	**Shares – long term incentive plans $**
R Bryan						
2007	–	–	–	–	90,000	–
2006	25,000	–	–	2,250	45,000	–
R Cottee						
2007	407,303	345,000[1]	32,116	35,876	–	3,257,775[3]
2006	355,322	104,676[2]	57,886	35,532	–	463,016
P Cassidy						
2007	–	–	–	–	45,000	–
2006	9,199	–	–	827	22,500	–
F Connolly						
2007	–	–	–	–	45,000	–
2006	12,500	–	–	1,125	22,500	–
T Crommelin[4]						
2007	–	–	–	–	33,750	–
D Elphinstone[5]						
2007	–	–	–	–	45,000	–
2006	12,500	–	–	–	22,500	–
M Fraser[6]						
2007	–	–	–	–	–	–
S Mikkelsen[6]						
2007	–	–	–	–	–	–
M Moraza[6]						
2007	–	–	–	–	–	–
D Patten[7]						
2007	–	–	–	–	30,125	–
2006	12,500	–	–	1,125	22,500	–
Total 2007	**407,303**	**345,000**	**32,116**	**35,876**	**288,875**	**3,257,775**
Total 2006	427,021	104,676	57,886	40,859	135,000	463,016

(1) STIs applicable to the current financial year vested in full in March 2007 following a material change in the composition of the Board of Directors.

(2) Actual bonuses of $108,000 vested during the year, less a $3,324 reversal of bonuses accrued in the previous year for bonuses which did not ultimately vest.

(3) Share-based remuneration forms part of a long-term incentive plan. LTIs applicable to the current and future financial years vested in full in March 2007 following a material change in the composition of the Board of Directors. The value brought forward from future years was $2,931,392. Refer to "Components of remuneration" for more information.

(4) Remuneration for Mr T Crommelin is from 2 October 2006, the date he was appointed a Director.

(5) Director's fees for Mr D Elphinstone were payable to Elphinstone Pty Ltd.

(6) Messrs S Mikkelsen, M Fraser and M Moraza were appointed as Directors from 8 March 2007 and did not receive any remuneration from Queensland Gas Company Limited or any of its subsidiaries during the period.

(7) Remuneration for Mr D Patten is for the period to 2 March 2007, being the date he retired as a Director.

Details of the remuneration of each of the Company's and Group's key management personnel who are not Directors for the year ended 30 June 2007 are set out in the following table. This includes the five highest-paid executives of the Company and Group with the exception of the Managing Director whose remuneration is disclosed with other Directors above.

	Short-term employment benefits			Post-employment benefits		Share-based payments	
Name and position	**Cash salary or fees $**	**Short-term incentives[1] $**	**Non-monetary benefits $**	**Super-annuation (employer contribution) $**	**Termination benefits $**	**Shares $**	**Shares – long-term incentive plans[1] $**
L Devaney, General Manager – Commercial & Financing							
2007[2]	60,099	43,806	–	4,955	–	322,000	183,138
M Herrington, Chief Operating Officer							
2007	264,198	150,000	8,440	35,801	–	–	199,679
2006[3]	263,615	57,016	–	12,385	–	17,500	84,104
P Jans, Company Secretary & General Counsel[4]							
2007	323,176	147,500	9,605	24,288	715,000	–	296,925
2006	222,927	43,807	19,931	20,063	–	11,745	28,752
M Panchal, Chief Financial Officer							
2007[5]	237,225	135,377	6,439	21,350	–	–	186,435
K Quinlan, Manager – Strategic Planning							
2007[6]	211,115	118,800	8,440	17,930	179,100	25,672	127,141
2006[7]	17,250	2,083	–	–	–	–	–
S Scott, General Manager – Exploration & Technical Services							
2007	197,363	115,000	31,908	17,348	–	–	171,564
2006[8]	30,385	1,349	6,368	2,735	–	1,321	–
Total 2007	**1,293,176**	**710,483**	**64,832**	**121,672**	**894,100**	**347,672**	**1,164,882**
Total 2006	534,177	104,255	26,299	35,183	–	30,566	112,856

(1) STIs and LTIs applicable to the current financial year vested in full in March 2007 following a material change in the composition of the Board of Directors. Refer to "Components of remuneration" for more information.

(2) Mr L Devaney's remuneration is from 6 March 2007, the date from which he was appointed to the role of General Manager – Commercial & Financing.

(3) Mr M Herrington's remuneration of $126,000 to 31 December 2005 was paid by way of consultancy fees to Jabiru Energy Development & Innovation Pty Ltd. Remuneration from 1 January 2006 was paid to Mr Herrington as an employee.

(4) Mr P Jans ceased employment with the company on 2 July 2007.

(5) Mr M Panchal's remuneration is from 31 July 2006, the date from which he commenced employment with the Company as Chief Financial Officer.

(6) Mr K Quinlan commenced as a permanent employee of the Company on 1 July 2006. Mr K Quinlan continued to perform in the role of Acting Chief Financial Officer until 31 July 2006 after which he resumed the role of Manager – Strategic Planning. Mr K Quinlan ceased employment with the company on 6 July 2007.

(7) Mr K Quinlan's remuneration is from 31 May 2006, the date from which he was appointed Acting Chief Financial Officer. Mr K Quinlan's remuneration is by way of consultancy fees to QMK Consulting Pty Ltd.

(8) Mr S Scott's remuneration is from 24 April 2006, the date from which he was appointed Acting General Manager – Exploration & Technical Services.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	**Fixed remuneration[1]**		**At risk – STI[2]**		**At risk – LTI[3]**	
	2007	2006	**2007**	2006	**2007**	2006
Executive directors						
R Cottee	**12%**	44%	**8%**	10%	**80%**	46%
Other key management personnel						
L Devaney	**11%**	–	**60%**	–	**29%**	–
M Herrington	**47%**	64%	**23%**	17%	**30%**	19%
P Jans	**40%**	76%	**20%**	16%	**40%**	8%
M Panchal	**45%**	–	**23%**	–	**32%**	–
K Quinlan	**49%**	89%	**24%**	11%	**27%**	–
S Scott	**46%**	94%	**22%**	6%	**32%**	–

(1) Cash salary or fees, non-mandatory benefits and super-annuation

(2) Short-term incentives and shares

(3) Shares – long-term incentive plans

The total remuneration for the Managing Director and key management personnel has three elements:

- Base Package is the amount of non-variable compensation specified in an employee's contract of employment. Superannuation contributions are deducted from the employee's Base Package. The cost (including any component for Fringe Benefits Tax) of salary sacrifice items such as laptop computers or novated motor vehicle lease payments is also deducted. The amount of Base Package is reviewed in July each year and established with reference to comparative market research, considering the scope and nature of the roles, resource availability and the individual employee's performance and experience.
- 2006/07 short-term incentives (STI) were awarded upon achievement of individual performance targets based on personal and corporate objectives which were set at the beginning of the financial year. These targets were chosen for their relevance to QGC business performance, as well as the achievement of personal performance criteria. Such objectives were identified as Threshold, Target and Stretch. STI can vary annually based on individual performance against the specified target levels as noted in the table below. The STI can be paid in cash and/or at the employee's election (in accordance with relevant ATO legislation) salary sacrificed as a contribution to the employee's superannuation fund.

STI target level	***Managing Director***	***Key management personnel***
Attainment of Threshold target	n/a	15% of Base Package (before tax)
Attainment of Target	50% of Base Package (before tax)	30% of Base Package (before tax)
Attainment of Stretch target	75% of Base Package (before tax)	50% of Base Package (before tax)

Note: a pro-rata apportionment will apply between threshold and target as well as between target and stretch.

- 2006/07 long-term incentives (LTI) were awarded in the form of share rights in accordance with the terms of individual contracts and the Queensland Gas Company Limited Deferred Employee Share Plan (DESP) Trust Deed for 2006/07. Key management personnel received the same set of objectives as that set for the Managing Director. Such objectives were identified as Threshold, Target and Stretch. These objectives related expressly to the growth in share price value as noted in the table below:

Performance level	***Share price growth***
n/a	Greater than 7.5%
Threshold	7.5%
Pro-rata *	Greater than 7.5% and less than 15%
Target	15%
Pro-rata *	Greater than 15% and less than 30%
Stretch	Greater than or equal to 30%

* A pro-rata apportionment will apply between threshold and target as well as between target and stretch

In the event that the Company undertakes a capital reconstruction including issuing of any shares, the number of LTI entitlements shall be adjusted up to ensure that the LTI entitlements remain of equivalent value and opportunity after the issue of shares in the Company as they were on the date of the granting of the entitlements.

In the event that the Company is taken over, all entitlements (including STI and LTI) which remain unvested at the time of the takeover shall vest immediately. Takeover shall mean a change in control of the Company which shall be determined by a material change in the composition of the Board of Directors of the Company, such change being initiated as a result of a change in ownership of the Company's shares and the purchaser of the shares requiring (or agreeing with other shareholders to require) that change in Board composition.

C Service agreements (audited)

Remuneration and other terms of employment for the Managing Director and other key management personnel are generally by way of employment contracts. These agreements may provide for the provision of performance-related cash bonuses, shares under the Company's Deferred Employee Share Plan (DESP) (LTI) or share option bonuses. Other benefits can be salary-sacrificed, and life insurance cover is provided by the Company. Details of contract duration, notice period for termination and termination payments (where relevant) are set out below.

R Cottee, Managing Director

- Term of agreement – extended to 30 June 2011 subsequent to year end.
- The agreement can be terminated by the Company with one day's notice or immediately in the case of material misconduct, or by Mr Cottee with six months written notice. The Company has an option to renew the agreement for a further term of 3 years.
- Provision for a termination payment consisting of the following components:
  – Severance payment of the annual base package applicable at the time;
  – Payment of the STI to the extent applicable;
  – Payment of the balance of any unvested long-term performance bonuses issued in prior years; and
  – Payment of 50% of long-term performance bonuses for the contract year in which termination occurs.

L Devaney, General Manager – Commercial & Financing (from 6 March 2007)

- Term of agreement – up to 30 June 2009.
- Employment can be terminated by the Company with six months' written notice or by the employee with three months' written notice.

M Herrington, Chief Operating Officer

- Term of agreement – extended to 30 June 2010 subsequent to year end.
- The agreement can be terminated with one month's written notice by either party or with three month's written notice where there has been a change in the control of the Company.

P Jans, Company Secretary and General Counsel (to 2 July 2007)

- Term of agreement – ceased employment effective 2 July 2007.

M Panchal, Chief Financial Officer (from 31 July 2007)

- Term of agreement – up to 30 June 2011.
- Employment can be terminated with three month's written notice by either party.

K Quinlan, Manager – Strategic Planning (to 6 July 2007)

- Term of agreement – ceased employment effective 6 July 2007.

S Scott, General Manager – Exploration & Technical Services

- Term of agreement – extended to 30 June 2010 subsequent to year end.
- The agreement can be terminated by the Company with three months' written notice or by the employee with one month's written notice.

D Share-based compensation (audited)

Options

No options were issued during the 2006/07 financial year and all options issued previously were either exercised or expired during the course of the financial year. Refer to note 24(d) of the financial statements accompanying this report.

Shares

The amounts disclosed for remuneration relating to shares in the tables in section B "Details of Remuneration" of this report are the assessed fair value at grant date of the shares granted to Directors and specified executives, allocated equally over the period from grant date to the actual or expected vesting date. In the case of shares or rights whose performance conditions are market-related, such as the share rights granted under the Company's long term incentive plan, the fair value of share rights granted are determined using a 'Monte Carlo' simulation pricing model that takes into account the price of the underlying share at grant date, the term of the vesting period, expected price volatility of the underlying share, the specific share price measurement base, target share price, risk free interest rate (five year Australian Government Treasury Bonds) and expected dividend yield (nil). Shares granted with performance conditions not related to market share prices are valued at the price of the underlying share at grant date and allocated over the expected vesting period, with the quantity of shares being included in the measurement of the transaction being adjusted to reflect the number of shares which are expected to, or actually vest.

E Additional information (unaudited)

Details of remuneration: cash and equity bonuses

For each cash and share bonus and grant of options included in the employment contracts of the Managing Director and key management personnel, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the performance criteria is set out below. All short-term and long-term performance incentives applicable to the 2006/07 financial year (and future years for the Managing Director) vested in full in March 2007 following a material change in the composition of the Board of Directors.

As at 30 June 2007, no cash bonuses or grants of shares were remaining to be vested in future financial years.

	Cash			Shares		
Name	Paid %	F %	N %	Vested %	F %	N %
R Cottee						
– Short term performance bonuses	100%	0%	0%	100%	0%	0%
– Long term performance bonuses	100%	0%	0%	100%	0%	0%
L Denaney						
– Short term performance bonuses	100%	0%	0%	100%	0%	0%
– Long term performance bonuses	100%	0%	0%	100%	0%	0%
M Herrington						
– Short term performance bonuses	100%	0%	0%	100%	0%	0%
– Long term performance bonuses	100%	0%	0%	100%	0%	0%
P Jans						
– Short term performance bonuses	100%	0%	0%	100%	0%	0%
– Long term performance bonuses	100%	0%	0%	100%	0%	0%
M Panchal						
– Short term performance bonuses	100%	0%	0%	100%	0%	0%
– Long term performance bonuses	100%	0%	0%	100%	0%	0%
S Scott						
– Short term performance bonuses	100%	0%	0%	100%	0%	0%
– Long term performance bonuses	100%	0%	0%	100%	0%	0%

Paid – Paid, payable or vested F – Forfeited; N – Not yet payable, vested or forfeited

Shares issued on the exercise of options

Shares issued on the exercise of options during and since the end of the financial year are set out below:

Date options granted	Date of exercise	Exercise price (cents per share)	Number of shares issued
10 August 2001	19 July 2006	30.4	300,000
10 August 2001	28 July 2006	25.0	500,000
10 August 2001	9 August 2006	25.9	300,000
17 September 2001	15 August 2006	22.6	2,000,000
28 November 2002	15 August 2006	25.0	1,000,000
26 November 2003	15 August 2006	25.0	540,000
7 May 2004	11 September 2006	16.7	400,000
17 September 2001	15 September 2006	22.6	1,000,000

Insurance of officers

Insurance and indemnity arrangements are in place for officers of the Company. The Company paid an insurance premium of $47,080 (2006: $58,952) in respect of Directors and officers liability insurance.

To the extent permitted by law, the Company indemnifies every person who is or has been an officer against:

- any liability to any person (other than the Company, related entities or a major shareholder) incurred while acting in that capacity and good faith; and
- costs and expenses incurred by that person in that capacity in successfully defending legal proceedings and ancillary matters.

For this purpose 'officer' means any Director or Secretary of the Company or any subsidiary of the Company.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the group are important.

The Board has considered the position and, in accordance with the advice received from the Audit Committee is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work or acting in a management or a decision-making capacity for the Company.

A copy of the Auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 44.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

	Consolidated 2007 $
Assurance services	
Due diligence services	7,200
Accounting services	50,500
Total remuneration for assurance services	**57,700**
Taxation services	
Tax compliance services, including review of company income tax returns	25,500
Tax advice on acquisitions	32,500
Tax advice on operational matters	60,700
Tax advice on takeover issues	6,000
Total remuneration for taxation services	**124,700**
Advisory services	
Advice on Sentient unitisation	46,700
Total remuneration for advisory services	**46,700**

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

ROBERT BYAN

Director

BRISBANE 18 SEPTEMBER 2007

Auditor's independence declaration

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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As lead auditor for the audit of Queensland Gas Company Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Queensland Gas Company Limited and the entities it controlled during the period.

Martin T Linz

MARTIN LINZ
Partner

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

BRISBANE 18 SEPTEMBER 2007

Income statements | for the year ended 30 June 2007

		Consolidated		Parent entity	
		2007	2006	2007	2006
	Notes	$'000	$'000	$'000	$'000
Revenue from continuing operations					
Revenue	3	**34,449**	2,857	**40,752**	4,813
Other income	4	**59**	216	**51**	216
Expenses	5	**(29,606)**	(8,999)	**(31,925)**	(8,386)
Results from operating activities before financing costs, depreciation, amortisation and significant items		**4,902**	(5,926)	**8,878**	(3,357)
Depreciation, depletion and amortisation	6	**(5,876)**	(1,200)	**(3,558)**	(1,064)
Net gain on disposal of interest in tenements	7	**8,305**	1,714	**14,720**	1,714
Takeover response costs		**(14,491)**	–	**(14,491)**	–
Results from operating activities before finance costs		**(7,160)**	(5,412)	**5,549**	(2,707)
Finance costs	8	**(5,062)**	(842)	**(5,043)**	(1,229)
Profit/(loss) before income tax		**(12,222)**	(6,254)	**506**	(3,936)
Income tax expense	9	**–**	–	**–**	–
Profit/(loss) for the year		**(12,222)**	(6,254)	**506**	(3,936)
Profit/(loss) attributable to minority interest		**–**	–	**–**	–
Profit/(loss) attributable to members of Queensland Gas Company Limited		**(12,222)**	(6,254)	**506**	(3,936)

		Cents	Cents
Loss per share for loss attributable to the ordinary equity holders of the Company:			
Basic & diluted earnings per share	34	**(2.17)**	(1.7)

The above Income statements should be read in conjunction with the accompanying notes.

Balance sheets | as at 30 June 2007

		Consolidated		Parent entity	
		2007	2006	2007	2006
	Notes	$'000	$'000	$'000	$'000
ASSETS					
Current assets					
Cash and cash equivalents	10	**248,252**	13,082	**248,242**	13,082
Trade and other receivables	11	**16,956**	4,037	**76,235**	34,421
Inventories	12	**6,518**	3,097	**6,518**	3,097
Derivative financial instruments	21	**–**	28	**–**	28
Total current assets		**271,726**	20,244	**330,995**	50,628
Non-current assets					
Development and production assets	13	**164,835**	101,317	**109,808**	72,276
Other property, plant and equipment	14	**5,245**	1,083	**3,264**	1,083
Intangible assets – exploration and evaluation costs	15	**27,605**	7,131	**27,390**	7,131
Intangible assets – tenements and gasfield information	16	**74,335**	–	**32,677**	–
Investments	17	**–**	–	**52,813**	–
Total non-current assets		**272,020**	109,531	**225,952**	80,490
Total assets		**543,746**	129,775	**556,947**	131,118
LIABILITIES					
Current liabilities					
Trade and other payables	18	**10,868**	13,210	**9,759**	12,408
Borrowings	19	**756**	11,887	**756**	11,887
Provisions	20	**816**	292	**816**	292
Derivative financial instruments	21	**67**	285	**67**	285
Total current liabilities		**12,507**	25,674	**11,398**	24,872
Non-current liabilities					
Borrowings	22	**1,590**	30,628	**1,590**	30,628
Provisions	23	**6,027**	2,763	**5,291**	2,590
Total non-current liabilities		**7,617**	33,391	**6,881**	33,218
Total liabilities		**20,124**	58,065	**18,279**	58,090
Net assets		**523,622**	70,710	**538,668**	73,028
EQUITY					
Contributed equity	24	**556,784**	92,379	**556,784**	92,379
Reserves	25	**5,612**	4,883	**5,612**	4,883
Accumulated losses	26	**(38,774)**	(26,552)	**(23,728)**	(24,234)
Parent entity interest		**523,622**	70,710	**538,668**	73,028
Minority interest		**–**	–	**–**	–
Total equity		**523,622**	70,710	**538,668**	73,028

The above Balance sheets should be read in conjunction with the accompanying notes.

Statement of changes in equity | for the year ended 30 June 2007

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Total equity at the beginning of the financial year		**70,710**	66,987	**73,028**	66,987
Adjustment to the hedging reserve on adoption of AASB 132 and AASB 139, net of tax, to reserves	25	**–**	445	**–**	445
Restated total equity at the beginning of the financial year		**70,710**	67,432	**73,028**	67,432
Changes in the fair value of cash flow hedges, net of tax	25	**195**	(707)	**195**	(707)
Net income recognised directly in equity		**195**	(707)	**195**	(707)
Profit/(loss) for the year		**(12,222)**	(6,254)	**506**	(3,936)
Total recognised income and expense for the year		**(12,027)**	(6,961)	**701**	(4,643)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	24	**404,480**	9,392	**404,480**	9,392
Rights issue	24	**60,273**	–	**60,273**	–
Employee shares	25	**5,892**	847	**5,892**	847
Share buyback	24	**(5,706)**	–	**(5.706)**	–
		464,939	10,239	**464,939**	10,239
Total equity at the end of the financial year		**523,622**	70,710	**538,668**	73,028
Total recognised income and expense for the year is attributable to:					
Members of Queensland Gas Company Limited		**523,622**	(6,254)	**538,668**	(3,936)
Minority interest		**–**	–	**–**	–
		523,622	(6,254)	**538,668**	(3,936)

The above Statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements | for the year ended 30 June 2007

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of applicable goods and services tax)		**23,514**	488	**20,499**	488
Receipts of refunds of goods and services tax		**3,598**	4,872	**3,287**	4,271
Payments to suppliers and employees (inclusive of goods and services tax)		**(33,492)**	(10,313)	**(31,010)**	(8,948)
Takeover response costs		**(11,471)**	–	**(11,471)**	–
Interest received		**3,984**	1,767	**3,979**	1,767
Interest paid		**(4,146)**	(641)	**(4,140)**	(1,028)
Net cash outflow from operating activities	10(a)	**(18,013)**	(3,827)	**(18,856)**	(3,450)
Cash flows from investing activities					
Receipts from joint venture participants (inclusive of goods and services tax)		**13,539**	13,578	**(20,337)**	13,578
Payments for exploration and evaluation		**(23,314)**	(3,092)	**(28,860)**	(3,092)
Payments for development costs		**(37,870)**	(66,004)	**(28,907)**	(38,139)
Payments for property, plant and equipment		**(44,954)**	(3,679)	**(36,119)**	(3,678)
Loans to related parties		**–**	–	**(18,217)**	(28,243)
Proceeds from sale of tenement interests		**9,500**	3,750	**9,500**	3,750
Payments for costs of proposed acquisition		**–**	(1,659)	**–**	(1,659)
Net cash outflow from investing activities		**(83,099)**	(57,106)	**(82,266)**	(57,483)
Cash flows from financing activities					
Proceeds from issues of shares		**327,385**	9,490	**327,385**	9,490
Proceeds from rights issue		**60,273**	–	**60,273**	–
Proceeds from exercise of options		**1,424**	–	**1,424**	–
Payments for share buy-back		**(5,706)**	–	**(5,706)**	–
Payments of share issue costs		**(3,432)**	(476)	**(3.432)**	(476)
Proceeds from borrowings		**1,405**	41,997	**1,405**	41,997
Repayments of borrowings		**(42,247)**	(1,345)	**(42,247)**	(1,345)
Payments of financing costs		**(836)**	(1,211)	**(836)**	(1,211)
Repayments of finance leases		**(539)**	(598)	**(539)**	(598)
Net cash inflow from financing activities		**337,727**	47,857	**337,727**	47,857
Net increase / (decrease) in cash and cash equivalents		**236,615**	(13,076)	**236,605**	(13,076)
Cash and cash equivalents at the beginning of the financial year		**13,082**	26,150	**13,082**	26,150
Effects of exchange rate changes on cash and cash equivalents		**(1,445)**	8	**(1,445)**	8
Cash and cash equivalents at the end of the year	10	**248,252**	13,082	**248,242**	13,082

The above Cash flow statements should be read in conjunction with the accompanying notes.

Notes to the financial statements for the year ended 30 June 2007

This Annual financial report covers both Queensland Gas Company Limited as an individual entity and the consolidated entity consisting of Queensland Gas Company Limited and its subsidiaries. The Annual financial report is presented in Australian currency.

Queensland Gas Company Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 11, 307 Queen Street, Brisbane, Queensland, 4000.

A description of the nature of the consolidated entity's operations and its principal activities is included in the attached Annual report on pages 2 to 29 and in the Directors' report on pages 34 to 43, both of which are attached to, but do not form part of this Annual financial report.

The Annual financial report was authorised for issue by the Directors' on 18 September 2007. The Company has the power to amend and reissue the financial report.

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Annual financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Queensland Gas Company Limited as an individual entity and the consolidated entity consisting of Queensland Gas Company Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of Queensland Gas Company Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and accompanying notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation.*

Measurement basis

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, include the estimation of future costs to access gas reserves and the estimation of economically recoverable gas reserves used for calculation of the depletion rate. Further information regarding critical accounting estimates is provided in note 1(bb).

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Queensland Gas Company Limited ("Company" or "parent entity" or "QGC") as at 30 June 2007 and the results of all subsidiaries for the year then ended. Queensland Gas Company Limited and its subsidiaries together are referred to in this Annual financial report as the "Group" or the "consolidated entity".

(b) Principles of consolidation (continued)

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(f)).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Queensland Gas Company Limited.

Joint ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings.

(c) Trade and other receivables

All trade and other debtors are recognised initially at fair value and subsequently measured at amortised cost less provisions for doubtful debts. Collectibility is reviewed on an ongoing basis. A provision for doubtful debts is made where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Trade receivables are due for settlement no more than 30 days from the date of invoice.

(d) Inventories

Stores and consumables are stated at the lower of cost and net realisable value. Cost comprises direct materials and labour incurred and includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of inventory items. The costs are assigned to individual items on the basis of weighted average cost.

(e) Exploration, evaluation, development and restoration costs

Exploration and evaluation costs

Exploration and evaluation expenditure incurred by or on behalf of the entity is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable petroleum resource. Currently the Group operates in multiple areas of interest in the Surat Basin in Queensland, and each is generally defined by tenement permit boundaries. The Group's interests in tenements are set out on page 19 of the attached Annual Report.

Exploration expenditure for each area of interest, other than that acquired from the purchase of another mining or exploration company, is carried forward as an asset provided that one of the following conditions is met:

(e) Exploration, evaluation, development and restoration costs (continued)

- such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off.

Expenditure is not carried forward in respect of any area of interest unless the Group's rights of tenure to that area of interest are current.

The ultimate recoupment of exploration and evaluation expenditure is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area.

Development and production assets

When the technical feasibility and commercial viability of extracting the resource is demonstrable, the exploration and evaluation costs carried forward for that area of interest are assessed for impairment and reclassified as development and production assets. 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 costs – not producing" relating to that producing area are reclassified as either "property, plant and equipment" or "gasfield assets", depending on their nature.

Depletion and depreciation of development and production assets

Depletion charges are calculated using a unit of production method based on the estimated economical gas reserves relating to the area of interest. The depletion charge will amortise the written-down cost of carried-forward gasfield assets, together with the expected future costs required to develop and extract the remaining estimated economical gas reserves in that area of interest, over the total estimated economical gas reserves.

Property, plant and equipment are depreciated over the estimated useful lives of the respective assets as set out in note 1(h).

Restoration, rehabilitation and environmental costs

Future estimated costs for the restoration and rehabilitation of areas affected by exploration and development activities are recognised at the present value of those future costs. Increases in the provision each year which result from the passage of time are recognised as borrowing costs.

Restoration, rehabilitation and environmental obligations recognised include the costs of reclamation, plant and waste site closure and subsequent monitoring of the environment.

Estimates are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off.

(f) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of assets given up, shares issued or liabilities undertaken at the date of acquisition plus any incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date unless it can be demonstrated that the published price at the date of acquisition is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(g) Impairment of assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Intangible assets, including exploration and evaluation assets, gasfield info and tenements, are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

(h) Property, plant and equipment

Land and buildings are shown at historical cost less subsequent depreciation for buildings.

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset, including any gains or losses from qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Depreciation

Land is not depreciated. Depreciation on other assets is provided on a straight-line basis to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. Estimates of residual values and remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

□ Development and production assets – plant and equipment (including those under finance lease)	2-30 years
□ Other plant and equipment (including those under finance lease)	1-6 years
□ Fixtures and fittings	1-6 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

(i) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter. Current leasehold improvements (fixtures and fittings) are being amortised over 6 years (note 1(h)).

(j) Leases of property, plant and equipment

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The lease payments of operating leases, where the lessor effectively retains a significant portion of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis over the life of the lease.

Finance leases

Leases that effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. The corresponding lease obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest component of the lease payment is charged to the income statement over the lease period as each payment falls due.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term.

(k) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which remain unpaid. The amounts are unsecured and are usually paid within 30 days from date of invoice.

(l) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

Long service leave liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, projected employee movements and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other payables when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of the completion of the financial statements; or
- Past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Equity-based compensation benefits

Equity-based compensation benefits are provided to employees via QGC's Exempt Employee Share Plan, Deferred Employee Share Plan and Deferred Non-executive Directors' Share Plan. Some employees have also been issued with employee options and granted shares.

The fair value of employee options which vest after 1 January 2005 or shares issued to employees for no cash consideration is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised in the share-based payment reserve over the period during which the employees become unconditionally entitled to the options or shares. When the shares are issued, or the options exercised, the value is transferred to contributed equity.

The fair value of employee options is determined using a Black-Scholes option pricing model that takes into account the exercise price, term of the options, the share price at grant date, expected price volatility of the underlying share and the risk free interest rate for the term of the option.

The assessed fair value at grant date of the shares granted to employees is allocated equally over the period from grant date to the actual or expected vesting date. In the case of shares or rights whose performance conditions are market-related, such as the share rights granted under the Company's long term incentive plan, the fair value of share rights granted is determined using a 'Monte Carlo' simulation pricing model. Shares granted with performance conditions not related to market share prices are valued at the price of the underlying share at grant date and allocated over the expected vesting period, with the quantity of shares being included in the measurement of the transaction being adjusted to reflect the number of shares which are expected to, or actually vest.

(m) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the share proceeds received.

(n) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable, net of goods and services tax (GST), to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Sale of gas revenue

Sale of gas revenue is recognised on the basis of the Group's interest in a producing field when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of the product entering the pipeline.

Infrastructure tolling revenue

Tolls charged to other entities for use of pipelines and facilities owned by the Group are recognised as revenue as they accrue in accordance with the terms of the tolling agreements.

Other revenue

Interest income is recognised on a time proportion basis using the effective interest method.

Lease income from operating leases is recognised as other income on a straight-line basis over the lease term.

(o) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in the deferred tax assets and liabilities attributable to temporary differences between the tax bases and liabilities and assets respectively and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. The deferred tax assets are not recognised for deductible temporary differences and unused tax losses unless it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

QGC and its wholly-owned Australian entities have implemented the tax consolidation legislation. As a consequence, QGC and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right. In addition to its own current and deferred tax amounts, QGC as the head entity also recognises the current tax liabilities or assets and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are incurred for the construction of a qualifying asset, in which case they are capitalised during the time that is required to complete and prepare the asset for its intended use. Capitalised borrowing costs are amortised over the useful life of the relevant asset and included in depreciation and amortisation.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(r) Maintenance and repairs

Plant and equipment of the Group is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated. Other routine operating maintenance, repair and minor renewal costs are also charged as expenses as incurred.

(s) Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of each of the Group companies.

Transactions and balances

Foreign currency transactions are translated into the functional currency at the rate of exchange at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items are reported as either part of the fair value gain or loss, or are included in the fair value reserve in equity.

(t) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. The treatment of categories relevant to these financial statements is as follows:

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in the category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset as such if the possibility exists that it will be sold in the short term and the asset is subject to frequent changes in fair value. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(u) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities (fair value hedge); or hedges of highly probable forecast transactions or a firm commitment (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast expense that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(v) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using a variety of valuation techniques and assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, and Binomial option valuation models are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using market exchange rates and published forward margins at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables is assumed to approximate their fair value. For disclosure purposes the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(w) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(x) Earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share adjusts the amounts used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Potential ordinary shares are not considered dilutive where the Group incurs a loss per share.

(y) Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(z) Financial risk management

The Group seeks to minimise potential adverse effects on the financial performance of the Group arising from currency risk, interest rate risk, price risk, credit risk and funding risk. The Group has implemented a range of strategies, policies and procedures designed to assess and mitigate these risks.

Foreign exchange risk

The Group aims to limit its exposure to foreign currency fluctuations for major firm orders of equipment and inventories and loans denominated in foreign currency. A combination of forward exchange contracts, funds held in foreign currency bank accounts and foreign currency term deposits are used to manage this risk. Further details are set out in note 21.

Commodity price risk

The majority of the Group's gas supply contracts are for fixed prices over periods of up to 10 years with CPI-related escalation factors. This reduces the Group's exposure to fluctuations in gas prices in the short to medium term.

Interest rate risk

The Group does not have a formal policy of fixing interest rates, but maintains a prudent mix of fixed and variable rates on its cash investments and borrowings when required.

Credit risk

The Group has a limited number of customers and joint venturers, and policies are in place to ensure that sales of gas are made to customers with an appropriate credit history. Additional security such as bank guarantees is obtained where there is limited or poor credit history.

Where Group companies act as the operator of a joint venture, deeds of cross-charge over joint venturers' interests in tenements and Petroleum Leases are obtained as security in some circumstances.

Derivative transactions are only conducted with reputable financial institutions.

Funding risk

The Group maintains a system of controls which provides for continual monitoring of future cash flow requirements, allowing it to put in place appropriate facilities to ensure that sufficient funds are available to fund the Group's activities in the short to medium term.

(aa) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

Reference	Title and topic	Applicable from*	Impact on financial report
UIG 7	Applying the restatement approach under AASB 129 Financial Reporting in Hyperinflationary Economics	01/03/2006	(3)
UIG 8	Scope of AASB 2	01/05/2006	(1)
UIG 9	Reassessment of Embedded Derivatives	01/06/2006	(1)
AASB-I 10	Interim Financial Reporting and Impairment	01/11/2006	(1)
AASB 7	Financial Instruments: Disclosures	01/01/2007	(2)
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]: consequential amendments as a result of the release of AASB 7	01/01/2007	(2)
AASB 101 (Revised)	Presentation of Financial Statements	01/01/2007	(1)
AASB-I 11 AASB 2	Group and Treasury Share Transactions	01/03/2007	(1)
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11	01/03/2007	(1)
AASB-I 12	Service Concession Arrangements	01/01/2008	(3)
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12	01/01/2008	(3)
UIG 4 (Revised)	Determining whether an Arrangement contains a Lease	01/01/2008	(1)
UIG 129 (Revised)	Service Concession Arrangements: Disclosures	01/01/2009	(3)
AASB 8	Operating Segments	01/01/2009	(1)
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB Interpretation 8	01/01/2009	(1)
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]	01/07/2007	(1)
AASB 2007-5	Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities [AASB 102]	01/01/2007	(3)
AASB 123 (Revised)	Borrowing Costs	01/01/2009	(1)
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & Interpretations 1 & 12]	01/01/2009	(1)
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	01/01/2007	(1)
AASB-I 13	Customer Loyalty Programmes	01/07/2008	(3)
AASB-I 14	The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction	01/01/2008	(3)

* The Consolidated Entity expects to implement these standards from their applicable dates.

(1) Implementation is not expected to change the accounting for any of the Group's current arrangements.

(2) Application of the standard will not affect any of the amounts recognised in the Financial Statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(3) Not applicable.

(bb) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(bb) Critical accounting estimates and judgements (continued)

Estimated costs of accessing estimated economical gas reserves

As described in note 1(e), expected future costs required to develop and extract the estimated economically recoverable gas reserves in a producing area of interest are taken into account when determining the annual depletion charge raised against the carrying value of gasfield assets. This estimate is based on recent historical costs of the existing producing area development. The actual future costs required to access the volume of estimated economical gas reserves not addressed by the existing production wells will ultimately be determined by the number of wells required (a function of well productivity) and the actual cost to drill, complete and connect the new wells. This estimate will be reviewed at least annually, and any revisions could materially impact both the depletion charge in the income statement and the carrying value of gasfield assets.

If the costs to drill, complete and connect each new well were to differ from management's estimates by 10%, then the depletion charge for the year to 30 June 2007 could be expected to be $150,000 lower/higher, with a corresponding increase/decrease in the carrying value of gasfield assets.

Estimated economically recoverable gas reserves for depletion of producing areas

As described in note 1(e), estimated economically recoverable gas reserves in a producing area of interest are taken into account when determining the annual depletion charge raised against the carrying value of gasfield assets. This estimate is based on the material balance method using actual well performance with respect to gas flow rates and pressure data from producing wells within the producing area development. This estimate will be reviewed at least annually and any revisions could materially impact both the depletion charge in the income statements and the carrying value of producing area assets.

If the volume of estimated economically recoverable gas reserves were to differ from management's current estimate by 10%, then the depletion charge for the year to 30 June 2007 could be expected to be $243,000 lower/higher, with a corresponding increase/decrease in the carrying value of producing area assets.

2 Segment information

The Group operates in one business segment, being the petroleum industry. Activities include the exploration, evaluation, development and production of coal seam gas. The Group's activities are conducted in one geographical segment, being the Surat Basin located in Queensland.

3 Revenue

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Product sales				
Sale of gas	**27,042**	1,235	**25,657**	1,235
Infrastructure tolling revenue	**197**	72	**–**	–
Other revenue				
Rents and sub-lease rentals	**143**	123	**143**	123
Interest income				
Subsidiaries	**–**	–	**7,890**	2,028
Other entities	**7,067**	1,427	**7,062**	1,427
	34,449	2,857	**40,752**	4,813

The Company depended on two major customers, CS Energy Ltd and Braemar Power Project Pty Ltd for the majority of its gas sales revenue during the year.

4 Other income

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Sundry income	**13**	–	**5**	–
Proceeds on sale of assets	**46**	–	**46**	–
Fair value gains on other financial liabilities at fair value through profit or loss	**–**	216	**–**	216
	59	216	**51**	216

5 Expenses

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
(a) Net gains and expenses				
The operating loss from ordinary activities before income tax expense includes the following specific net gains and expenses after capitalisation of amounts attributable to development, exploration and evaluation activities or recovered from joint venturers:				
Cost of sales	**10,676**	1,414	**14,342**	1,183
Administration costs	**202**	254	**110**	254
Bid costs	**–**	1,696	**–**	1,696
Deferred exploration, evaluation and other costs written off	**1,905**	–	**1,405**	–
Fair value losses on other financial liabilities at fair value through profit or loss	**2,083**	–	**2,083**	–
Foreign exchange losses	**1,445**	47	**1,445**	47
Legal, management and consulting costs	**1,821**	1,485	**1,676**	1,202
Marketing costs	**2,004**	325	**2,001**	325
Non-executive Directors' fees	**289**	212	**289**	212
Salaries and employee benefits expenses*	**7,577**	2,759	**7,120**	2,667
Other expenses	**1,604**	807	**1,454**	800
	29,606	8,999	**31,925**	8,386

* the figure for salaries and employee benefits expenses is net of $3,252,000 in relation to LTI rights shown as takeover response costs.

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
(b) Profit before income tax includes the following specific expenses:				
Expenses arising from share-based payment transactions:				
Shares granted to employees and Directors*	**5,892**	914	**5,892**	914
Amount capitalised	**(818)**	(145)	**(818)**	(145)
Expenses arising from share-based payment transactions*	**5,074**	769	**5,074**	769

* this figure includes $3,252,000 in relation to LTI rights that have been shown as takeover response costs.

	Consolidated 2007	Consolidated 2006	Parent entity 2007	Parent entity 2006
Defined contribution superannuation contributions:				
Defined contribution superannuation expense	**691**	367	**691**	367
Amount capitalised	**(214)**	(63)	**(214)**	(63)
	477	304	**477**	304

6 Depreciation, depletion and amortisation

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Depletion of gasfield assets	2,225	418	2,015	418
Depreciation of gasfield plant and equipment	2,609	519	1,019	383
Depreciation of other property, plant and equipment	524	263	524	263
Amortisation of intangible assets	518	–	–	–
	5,876	1,200	3,558	1,064

7 Net gain on disposal of interest in tenements

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Gain on disposal of interest in tenements	–	1,714	–	1,714
Gain on unitisation of interest in tenements	8,305	–	8,305	–
Gain on deunitisation of interest in tenements	–	–	6,415	–
	8,305	1,714	14,720	1,714

8 Finance costs

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Interest and finance charges paid/payable	4,396	1,659	4,377	1,659
Finance facility costs	116	–	116	–
Lease exit costs	550	–	550	–
Amount capitalised (weighted average interest rate 15.9%)	–	(817)	–	(430)
	5,062	842	5,043	1,229

9 Income tax expense

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
(a) Income tax expense				
Current tax	(3,620)	(1,290)	(3,449)	(1,031)
Deferred tax	2,045	(331)	4,074	105
Current year tax losses not recognised	2,915	1,621	1,341	926
Prior year adjustments	(1,341)	–	(1,966)	–
Income tax benefit attributable to loss from continuing operations	–	–	–	–
Deferred income tax (benefit) / expense included in income tax expense comprises:				
Increase in deferred tax assets	(5,804)	(1,438)	(5,597)	(1,424)
Increase in deferred tax liabilities	7,849	1,107	9,671	1,529
	2,045	(331)	4,074	105
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(loss) from continuing operations before income tax expense	(12,222)	(6,254)	506	(3,936)
Tax at the Australian tax rate of 30% (2006: 30%)	(3,667)	(1,876)	152	(1,181)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Share issue costs allowable	(256)	(60)	(256)	(60)
Profit on sentient unitisation	–	–	(1,926)	–
Entertainment	7	6	7	6
Legal and professional fees	–	55	–	55
Share-based payments	1,631	254	1,631	254
	(2,285)	(1,621)	(392)	(926)
Prior year adjustments	(630)	–	(949)	–
Current year tax losses not recognised	2,915	1,621	1,341	926
Income tax expense	–	–	–	–
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	63,680	49,511	63,308	48,649
Potential tax benefit @ 30%	19,104	14,853	18,982	14,595

All unused tax losses were incurred by Australian registered entities.

9 Income tax expense (continued)

(d) Net deferred tax liabilities comprises temporary differences attributable to:

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Takeover response costs	2,697	–	2,697	–
Provision for restoration	1,807	–	1,586	–
Unitisation	28	–	28	–
Finance leases	704	693	704	693
Foreign exchange gains/(losses)	434	–	434	–
Bid fees	305	407	305	407
Loan establishment fees	–	225	–	225
Employee benefits	245	221	245	221
Fundraising costs	106	162	106	162
Accruals	342	44	342	44
Legal fees	59	18	59	18
Share issue costs	915	4	915	4
Deferred tax assets	7,642	1,774	7,421	1,774
Depreciation, depletion and amortisation	10,409	6,249	9,538	6,191
Deferred exploration and appraisal costs	8,281	5,431	8,217	5,338
Interest receivable	927	24	4,106	611
Deferred tax liabilities	19,617	11,704	21,861	12,140
Net deferred tax liability	11,975	9,930	14,440	10,366
Unused tax losses not brought to account	(11,975)	(9,930)	(14,440)	(10,366)
Net deferred tax liabilities brought to account	–	–	–	–

(e) Tax consolidation legislation

Queensland Gas Company Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(o).

10 Current assets – Cash and cash equivalents

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Cash at bank and in hand	3,121	5,061	3,111	5,061
Term and call deposits	245,131	8,021	245,131	8,021
	248,252	13,082	248,242	13,082

The cash at bank and in hand are bearing interest at rates between nil and 6.50% (2006: nil and 3.94%).

The Australian dollar deposits are bearing interest at rates between 6.25% and 6.88% (2006: 5.50% and 5.91%). These deposits have a range of average maturity from call to 284 days.

The US dollar deposits are bearing interest at rates between 5.20% and 5.25%. These deposits have a range of average maturity from call to 240 days.

10 Current assets – Cash and cash equivalents (continued)

(a) Reconciliation of profit/(loss) after income tax to net cash outflow from operating activities

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Profit/(loss) for the year	**(12,222)**	(6,254)	**506**	(3,936)
Net gain on disposal of interest in tenements	**–**	(1,714)	**–**	(1,714)
Bid costs	**–**	1,696	**–**	1,696
Non-cash employee benefits expense – share-based payments	**5,357**	914	**5,357**	914
Fair value loss/(gain) on other financial liabilities at fair value through profit or loss	**2,083**	(216)	**2,083**	(216)
Depreciation, depletion and amortisation	**5,876**	725	**3,558**	572
Excess of effective interest rate charge over actual interest paid	**–**	46	**–**	46
Net exchange differences	**1,445**	1	**1,445**	1
Impairment of tenement costs	**1,905**	–	**1,405**	–
Unitisation	**(8,305)**	–	**(14,720)**	–
Change in operating assets and liabilities:				
Increase in trade debtors and other current assets	**(11,652)**	(1,491)	**(16,136)**	(3,172)
Increase / (decrease) in trade and other payables	**(2,310)**	2,022	**(2,164)**	1,915
Decrease in derivatives	**(190)**	–	**(190)**	–
Increase in provisions	**–**	238	**–**	238
Net cash outflow from operating activities	**(18,013)**	(3,827)	**(18,856)**	(3,450)

(b) Non-cash investing and financing activities

During the year, the Company and Consolidated entity acquired plant and equipment to the value of $2,341,000 (2006: $2,466,000) by means of finance lease, as well as assets to the value of $79,075,000 (2006: $Nil) by way of issue of shares.

11 Current assets – Trade and other receivables

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Trade receivables	**5,157**	410	**5,983**	3,080
Receivables from subsidiaries	**–**	–	**48,578**	26,684
Other receivables	**11,115**	3,175	**21,135**	4,180
Prepayments	**670**	508	**525**	463
Other debtors	**14**	14	**14**	14
	16,956	4,037	**76,235**	34,421

Parent entity related party receivables bear interest at 18.20% pa (2006: 18.18%) and are repayable at call. All other trade and other receivables are non-interest-bearing.

The aggregate carrying values of financial assets approximate the net fair values.

The Group monitors and controls its credit risks as set out in more detail in note 1(z).

12 Current assets – Inventories

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Stores and consumables – at cost	**6,518**	3,097	**6,518**	3,097

13 Non-current assets – Development and production assets

Consolidated – 2007	Freehold land	Development assets – not producing	Gasfield assets	Gasfield plant and equipment: At cost	Gasfield plant and equipment: Under finance lease	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost at 30 June 2007	8,495	39,609	54,795	66,906	1,789	171,594
Less: accumulated depreciation and depletion expense	–	–	(2,697)	(3,768)	(294)	(6,759)
Balance at 30 June 2007	8,495	39,609	52,098	63,138	1,495	164,835
Reconciliation of movements						
Balance at 1 July 2006	3,715	20,509	35,976	39,444	1,673	101,317
Additions	4,795	53,258	3,629	1,075	–	62,757
Transfer from exploration and evaluation costs	–	537	–	–	–	537
Transfer to gasfield assets	–	(13,958)	13,958	–	–	–
Transfer to gasfield information	–	–	(1,492)	–	–	(1,492)
Transfer to property, plant and equipment	–	(20,876)	–	20,876	–	–
Acquisition of assets	–	870	2,252	4,199	–	7,321
Disposals / written-off	(15)	(1,425)	–	(25)	–	(1,465)
Depreciation and depletion expense	–	–	(2,225)	(2,431)	(178)	(4,834)
Provision for restoration	–	694	–	–	–	694
Balance at 30 June 2007	8,495	39,609	52,098	63,138	1,495	164,835

Consolidated – 2006	Freehold land	Development assets – not producing	Gasfield assets	Gasfield plant and equipment: At cost	Gasfield plant and equipment: Under finance lease	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost at 30 June 2006	3,715	20,509	36,394	40,702	1,789	103,109
Less: accumulated depreciation and depletion expense	–	–	(418)	(1,258)	(116)	(1,792)
Balance at 30 June 2006	3,715	20,509	35,976	39,444	1,673	101,317
Reconciliation of movements						
Balance at 1 July 2005	–	2,138	–	–	–	2,138
Additions	3,137	64,804	–	180	1,789	69,910
Transfer from exploration and evaluation costs	–	28,950	–	–	–	28,950
Transfer to gasfield assets	–	(36,394)	36,394	–	–	–
Transfer to property, plant and equipment	–	(38,989)	–	38,989	–	–
Transfer from other property, plant and equipment	578	–	–	678	–	1,256
Depreciation and depletion expense	–	–	(418)	(403)	(116)	(937)
Balance at 30 June 2006	3,715	20,509	35,976	39,444	1,673	101,317

13 Non-current assets – Development and production assets (continued)

Parent – 2007	Freehold land	Development assets – not producing	Gasfield assets	Gasfield plant and equipment: At cost	Gasfield plant and equipment: Under finance lease	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost at 30 June 2007	8,495	30,002	52,517	21,658	1,789	114,461
Less: accumulated depreciation and depletion expense	–	–	(2,460)	(1,899)	(294)	(4,653)
Balance at 30 June 2007	8,495	30,002	50,057	19,759	1,495	109,808
Reconciliation of movements						
Balance at 1 July 2006	3,715	19,036	35,976	11,876	1,673	72,276
Additions	4,795	32,396	3,374	805	–	41,370
Transfer from exploration and evaluation costs	–	537	–	–	–	537
Transfer to gasfield assets	–	(12,722)	12,722	–	–	–
Transfer to property, plant and equipment	–	(7,940)	–	7,940	–	–
Disposals / written-off	(15)	(1,305)	–	(21)	–	(1,341)
Depreciation and depletion expense	–	–	(2,015)	(841)	(178)	(3,034)
Balance at 30 June 2007	8,495	30,002	50,057	19,759	1,495	109,808

Parent – 2006	Freehold land	Development assets – not producing	Gasfield assets	Gasfield plant and equipment: At cost	Gasfield plant and equipment: Under finance lease	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost at 30 June 2006	3,715	19,036	36,394	12,978	1,789	73,912
Less: accumulated depreciation and depletion expense	–	–	(418)	(1,102)	(116)	(1,636)
Balance at 30 June 2006	3,715	19,036	35,976	11,876	1,673	72,276
Reconciliation of movements						
Balance at 1 July 2005	–	2,138	–	–	–	2,138
Additions	3,137	35,676	–	131	1,789	40,733
Transfer from exploration and evaluation costs	–	28,950	–	–	–	28,950
Transfer to gasfield assets	–	(36,394)	36,394	–	–	–
Transfer to property, plant and equipment	–	(11,334)	–	11,334	–	–
Transfer from other property, plant and equipment	578	–	–	678	–	1,256
Depreciation and depletion expense	–	–	(418)	(267)	(116)	(801)
Balance at 30 June 2006	3,715	19,036	35,976	11,876	1,673	72,276

14 Non-current assets – Other property, plant and equipment

Consolidated – 2007	Capital work in progress	Plant and equipment at cost	Plant and equipment under finance lease	Office fixtures and fittings at cost	Total
	$'000	$'000	$'000	$'000	$'000
Cost at 30 June 2007	1,966	1,879	1,632	614	6,091
Less: accumulated depreciation and depletion expense	–	(411)	(435)	–	(846)
Balance at 30 June 2007	1,966	1,468	1,197	614	5,245
Reconciliation of movements					
Balance at 1 July 2006	–	281	790	12	1,083
Additions	1,966	1,516	668	657	4,807
Disposals	–	(43)	(23)	(55)	(121)
Depreciation and depletion expense	–	(286)	(238)	–	(524)
Balance at 30 June 2007	1,966	1,468	1,197	614	5,245

Consolidated – 2006	Freehold land	Plant and equipment at cost	Plant and equipment under finance lease	Office fixtures and fittings at cost	Total
	$'000	$'000	$'000	$'000	$'000
Cost at 30 June 2006	–	631	1,076	124	1,831
Less: accumulated depreciation and depletion expense	–	(350)	(286)	(112)	(748)
Balance at 30 June 2006	–	281	790	12	1,083
Reconciliation of movements					
Balance at 1 July 2005	578	787	315	12	1,692
Additions	–	292	614	4	910
Transfer to development and production assets	(578)	(678)	–	–	(1,256)
Depreciation and depletion expense	–	(120)	(139)	(4)	(263)
Balance at 30 June 2006	–	281	790	12	1,083

Parent – 2007	Capital work in progress	Plant and equipment at cost	Plant and equipment under finance lease	Office fixtures and fittings at cost	Total
	$'000	$'000	$'000	$'000	$'000
Cost at 30 June 2007	–	1,864	1,632	614	4,110
Less: accumulated depreciation and depletion expense	–	(411)	(435)	–	(846)
Balance at 30 June 2007	–	1,453	1,197	614	3,264
Reconciliation of movements					
Balance at 1 July 2006	–	281	790	12	1,083
Additions	–	1,501	668	657	2,826
Disposals	–	(43)	(23)	(55)	(121)
Depreciation and depletion expense	–	(286)	(238)	–	(524)
Balance at 30 June 2007	–	1,453	1,197	614	3,264

14 Non-current assets – Other property, plant and equipment (continued)

Parent – 2006	Freehold land	Plant and equipment at cost	Plant and equipment under finance lease	Office fixtures and fittings at cost	Total
	$'000	$'000	$'000	$'000	$'000
Cost at 30 June 2006	–	631	1,076	124	1,831
Less: accumulated depreciation and depletion expense	–	(350)	(286)	(112)	(748)
Balance at 30 June 2006	–	281	790	12	1,083
Reconciliation of movements					
Balance at 1 July 2005	578	787	315	12	1,692
Additions	–	292	614	4	910
Transfer to development and production assets	(578)	(678)	–	–	(1,256)
Depreciation and depletion expense	–	(120)	(139)	(4)	(263)
Balance at 30 June 2006	–	281	790	12	1,083

15 Non-current assets – Intangible assets – exploration and evaluation costs

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Balance at the start of the year	**7,131**	35,791	**7,131**	35,791
Additions	**24,023**	2,326	**23,530**	2,326
Acquisitions of assets	**218**	–	**–**	–
Disposals	**(2,598)**	(2,036)	**(2,384)**	(2,036)
Transfer to development and production assets	**(537)**	(28,950)	**(537)**	(28,950)
Transfer to intangible assets – gasfield information	**(1,058)**	–	**(751)**	–
Provision for restoration	**906**	–	**881**	–
Amounts written-off	**(480)**	–	**(480)**	–
Balance at the end of the year	**27,605**	7,131	**27,390**	7,131

Non-current assets pledged as security

Refer to note 19(a) for information on non-current assets pledged as security by the parent entity and its Controlled Entities.

16 Non-current assets – Intangible assets – tenements and gasfield information

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Balance at the start of the year	**–**	–	**–**	–
Additions – tenements	**72,303**	–	**31,926**	–
Additions – gasfield information	**2,550**	–	**751**	–
Amortisation expense – tenements	**(518)**	–	**–**	–
Balance at the end of the year	**74,335**	–	**32,677**	–

17 Acquisition of assets

On 5 March 2007 the Group acquired all of the shares in SGA (Queensland) Pty Limited, SGAI Pty Limited and Gas Resources Limited, by way of an issue of 53,429,373 shares to Sentient Executive GP1 Limited and Sentient (Aust) Pty Limited. These companies are investment companies which hold joint venture interests in the following joint ventures as follows:

Joint Venture	Principal activities	Ownership interest
Surat Basin ATP 610P / PLA247	Gas exploration	10%
Surat Basin ATP 632P / PL201 [(i)]	Gas production, gasfield development and exploration	10%
Surat Basin ATP 648P	Gas exploration	10%

(i) The joint venture relates only to PL201 and graticular blocks numbered 2380 and 2452 in ATP 632P.

Accordingly, this transaction has been accounted for as an acquisition of assets, and had the following effect on the Group's assets and liabilities at acquisition:

	Consolidated	Parent entity
	2007	2007
	$'000	$'000
Investments	–	52,813
Intangible assets	74,853	32,677
Non-current assets	8,368	–
Net current liabilities	(4,146)	–
Consideration paid via share issue	79,075	85,490
Gain on deunitisation	–	(6,415)

18 Current liabilities – Trade and other payables

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade payables and accruals	10,868	13,210	9,759	12,408
	10,868	13,210	9,759	12,408

19 Current liabilities – Borrowings

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Secured				
Foreign currency loans	–	7,890	–	7,890
Bank loans	–	225	–	225
Lease liabilities (note 29(c))	756	623	756	623
Total secured current borrowings	756	8,738	756	8,738
Unsecured				
Advances	–	3,150	–	3,150
Total unsecured current borrowings	–	3,150	–	3,150
Total current borrowings	756	11,887	756	11,887

Further details of the security, interest, fair values and repayment terms relating to each class of secured financial liability are set out in note 22.

20 Current liabilities – Provisions

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Employee benefits	**816**	292	**816**	292
	816	292	**816**	292

21 Derivative financial instruments

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Current assets				
Forward foreign exchange contracts – cash flow hedges	**–**	28	**–**	28
Total current derivative financial instrument assets	**–**	28	**–**	28
Current liabilities				
Forward foreign exchange contracts – cash flow hedges (note 21(i))	**67**	254	**67**	254
Share warrant liability	**–**	31	**–**	31
Total current derivative financial instrument liabilities	**67**	285	**67**	285

Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates. The Group enters into agreements with suppliers of equipment where the prices are fixed in foreign currency – predominantly US Dollars. In order to protect against exchange rate movements, the Group uses a combination of US Dollar bank accounts, US Dollar term deposits and forward exchange contracts to purchase US Dollars to match the expected timing of foreign currency payments where firm orders have been placed.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

(i) Forward exchange contracts – cash flow hedges

The cash flows are expected to occur at various dates within 12 months of the balance date. At balance date, the details of outstanding contracts are:

Buy US dollars (currency sold measured at the contracted rate)	Sell Australian dollars		Average exchange rate	
	2007	2006	**2007**	2006
Maturity	**$'000**	$'000	**$**	$
Within 1 year	**743**	17,375	**0.7686**	0.7314

(ii) Foreign currency deposits – cash flow hedges

The Group holds foreign currency to cover specific firm orders and loan repayments denominated in foreign currency. As at 30 June 2007, there were no firm commitments (2006: $2,181,000).

22 Non-current liabilities – Borrowings

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Secured				
Foreign currency loans	**–**	613	**–**	613
Bank loans	**–**	28,327	**–**	28,327
Lease liabilities (note 29(c))	**1,590**	1,688	**1,590**	1,688
	1,590	30,628	**1,590**	30,628

(a) Assets pledged as security

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements (notes 13 and 14) revert to the lessor in the event of default.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

		Consolidated		Parent entity	
		2007	2006	**2007**	2006
	Notes	**$'000**	$'000	**$'000**	$'000
Non-current					
Finance lease					
Plant and equipment	14	**1,197**	790	**1,197**	790
Development and production assets – plant and equipment	13	**1,495**	1,673	**1,495**	1,673
		2,692	2,463	**2,692**	2,463

(b) Fair value

The carrying amounts of borrowings at balance date are a reasonable approximation of fair value.

The fair value of borrowings is based upon market prices where a market exists, Binomial valuation models or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

23 Non-current liabilities – Provisions

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Provision for restoration and rehabilitation	**6,027**	2,763	**5,291**	2,590
Movements in provision				
Carrying amount at the start of the year	**2,763**	1,640	**2,590**	1,640
Additional provisions recognised	**2,996**	1,039	**2,476**	866
Increase in the discounted amount due to the passage of time	**268**	84	**225**	84
	6,027	2,763	**5,291**	2,590

24 Contributed equity

	Notes	Parent entity 2007 Shares	Parent entity 2006 Shares	Parent entity 2007 $'000	Parent entity 2006 $'000
(a) Share capital					
Issued ordinary shares – fully paid	24(b),(c)				
Quoted		**733,389,585**	376,592,376		
Unquoted		**6,971,605**	1,069,574		
Total contributed equity		**740,361,090**	377,661,950	**556,784**	92,379

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price (cents)	$'000
1 July 2006	Opening balance		377,661,950		92,379
10 July 2006	Shares issued*	(i)	87,660	77.0	68
19 July 2006	Exercise of employee options	(ii)	300,000	30.4	91
25 July 2006	Shares issued*	(iii)	305,213	67.4	206
28 July 2006	Exercise of employee options	(ii)	500,000	25.0	125
9 August 2006	Exercise of employee options	(ii)	300,000	25.9	78
15 August 2006	Exercise of employee options	(ii)	2,000,000	22.6	452
15 August 2006	Exercise of employee options	(ii)	1,540,000	25.0	385
11 September 2006	Exercise of employee options	(ii)	400,000	16.7	68
14 September 2006	1:4 rights issue	(iv)	95,671,710	63.0	60,273
15 September 2006	Exercise of employee options	(ii)	1,000,000	22.6	226
4 October 2006	Shares issued*	(v)	1,000,000	44.0	440
4 October 2006	Shares issued*	(i)	97,824	69.0	68
8 March 2007	Shares issued	(vi)	53,429,373	148.0	79,075
8 March 2007	Shares issued*	(i)	78,750	100.0	79
8 March 2007	Shares issued	(vii)	204,616,102	160.0	327,386
8 March 2007	Shares issued*	(viii)	5,069,970	87.1	4,422
19 April 2007	Share buyback	(ix)	(3,753,710)	152.0	(5,706)
4 May 2007	Shares issued*	(i)	56,248	134.0	75
	Less: Transaction costs arising on share issue and share buyback				(3,406)
30 June 2007	Balance		740,361,090		556,784

* The amount booked to contributed equity has been transferred from the share-based payment reserve.

(i) Shares issued in lieu of Directors' fees under the Company's Deferred Non-executive Director Share Plan are set out in more detail in note 24(e).

(ii) A total of 6,040,000 employee options were exercised during the year to 30 June 2007, raising $1.4 million. Details of options exercised are provided in more detail at note 24(e).

(iii) Shares issued as a performance bonus under the Company's Deferred Employee Share Plan are set out in more detail in note 24(e). Values are initially booked against the share-based payment reserve, and transferred to contributed equity at the time the shares are issued.

(iv) Four to one renounanceable rights issue resulted in 95,671,710 shares being issued raising $ 60.3 million to be used to bring the gasfields into production at the earliest stage, advance revenue opportunities and lock in a low cost of capital for the future.

(v) Exercise of unquoted employee share options.

(vi) 53,429,373 shares issued for the acquisition of direct and indirect interests in Gas Resources Limited, SGA (Queensland) Pty Limited and SGAI Pty Limited as approved by shareholders on 2 March 2007.

(vii) Subscription of 204,616,102 shares by AGL Energy Limited pursuant to the subscription agreement as approved by shareholders on 2 March 2007, raising $ 327.4 million.

(viii) Shares issued pursuant to the vesting of rights under the employment contracts of a number of executives following the share issue to AGL Energy Limited.

(ix) 3,753,710 shares where tendered and accepted into the Buy-back of Company shares.

24 Contributed equity (continued)

(c) Ordinary shares

Ordinary shares have no par value.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

At 30 June 2007, there were no unexpired options on issue (2006: 6.54 million). During the year each option was able to be converted into an ordinary share upon payment of the exercise price if the terms summarised below had been satisfied:

Employee options

Employee options had been issued to senior employees and Managing Directors under the terms of their employment contracts. To provide incentive to these senior employees to maximise shareholder value, the options could not be exercised within one year of issue and then only after the Company's share price exceeds certain hurdles. All employee options lapse (unless indicated otherwise below) three months after an employee resigns from the Company or immediately upon termination resulting from the employee's serious and wilful misconduct, although the parties may agree to allow the options to remain exercisable to the expiry date in certain circumstances. Options may be exercised if a takeover bid is made for shares of the Company, but they have no voting or dividend rights. Set out below are summaries of Employee Options issued:

2007			**Number of options**			
Grant date	**Expiry date**	**Exercise price**	**Balance at the start of the year**	**Expired during the year**	**Exercised during the year**	**Balance at the end of the year**
Consolidated and Parent Entity – 2007						
10 August 2001	10 August 2006	$0.250(ii)	750,000	(250,000)	(500,000)	–
10 August 2001	10 August 2006	$0.259(iii)	400,000	(100,000)	(300,000)	–
10 August 2001	10 August 2006	$0.304(iv)	450,000	(150,000)	(300,000)	–
17 September 2001	17 September 2006	$0.226(v)	3,000,000	–	(3,000,000)	–
28 November 2002	28 November 2007	$0.250(vi)	1,000,000	–	(1,000,000)	–
26 November 2003	26 November 2008	$0.250(vi)	540,000	–	(540,000)	–
7 May 2004	7 May 2009	$0.167(vii)	400,000	–	(400,000)	–
Total 2007			**6,540,000**	**(500,000)**	**(6,040,000)**	**–**
Average exercise price ($)			$0.24	$0.29	$0.24	

2006			**Number of options**			
Grant date	**Expiry date**	**Exercise price**	**Balance at the start of the year**	**Expired during the year**	**Exercised during the year**	**Balance at the end of the year**
Consolidated and Parent Entity – 2006						
18 October 2000	18 October 2005	$0.200(i)	1,200,000	(600,000)	(600,000)	–
10 August 2001	10 August 2006	$0.250(ii)	850,000	–	(100,000)	750,000
10 August 2001	10 August 2006	$0.259(iii)	400,000	–	–	400,000
10 August 2001	10 August 2006	$0.304(iv)	600,000	–	(150,000)	450,000
17 September 2001	17 September 2006	$0.226(v)	3,000,000	–	–	3,000,000
28 November 2002	28 November 2007	$0.250(vi)	1,000,000	–	–	1,000,000
26 November 2003	26 November 2008	$0.250(vi)	540,000	–	–	540,000
7 May 2004	7 May 2009	$0.167(vii)	1,600,000	–	(1,200,000)	400,000
Total 2006			9,190,000	(600,000)	(2,050,000)	6,540,000
Average exercise price ($)			$0.23	$0.20	$0.19	$0.24

24 Contributed equity (continued)

(i) These options are divided into four equal tranches and are convertible into new ordinary shares at the exercise price at any time up to the expiry date where the Company's ordinary shares have traded on the Australian Stock Exchange on at least five consecutive trading days at a volume weighted average price in excess of:
- For the first tranche, 40 cents;
- For the second tranche, 60 cents;
- For the third tranche, 80 cents; and
- For the fourth tranche, $1.00.

By 30 June 2006, all of these options had either expired or had been exercised.

(ii) These options are divided into four equal tranches of 250,000 options and are convertible into new ordinary shares at the exercise price at any time up to the expiry date where the Company's ordinary shares have traded on the Australian Stock Exchange on at least five consecutive trading days at a volume weighted average price in excess of:
- For the first tranche, 40 cents;
- For the second tranche, 60 cents;
- For the third tranche, 80 cents; and
- For the fourth tranche, $1.00.

By 30 June 2007, all of these options had either expired or had been exercised. On 28 July 2006, 500,000 options were exercised (share price 77 cents). In the previous year, 100,000 options were exercised on 25 January 2006 (share price 70 cents).

(iii) These options are divided into four equal tranches and are convertible into new ordinary shares at the exercise price at any time up to the expiry date where the Company's ordinary shares have traded on the Australian Stock Exchange on at least five consecutive trading days at a volume weighted average price in excess of:
- For the first tranche, 40 cents;
- For the second tranche, 60 cents;
- For the third tranche, 80 cents; and
- For the fourth tranche, $1.00.

By 30 June 2007, all of these options had either expired or had been exercised. On 9 August 2006, 300,000 options were exercised (share price 78 cents).

(iv) These options are divided into four equal tranches and are convertible into new ordinary shares at the exercise price at any time up to the expiry date where the Company's ordinary shares have traded on the Australian Stock Exchange on at least five consecutive trading days at a volume weighted average price in excess of:
- For the first tranche, 40 cents;
- For the second tranche, 60 cents;
- For the third tranche, 80 cents; and
- For the fourth tranche, $1.00.

By 30 June 2007, all of these options had either expired or had been exercised. On 19 July 2006, 300,000 options were exercised (share price 73.5 cents). In the previous year, 150,000 options were exercised on 7 July 2005 (share price 48 cents).

(v) These options are divided into three equal tranches and are convertible into new ordinary shares at the exercise price at any time up to the expiry date where the Company's ordinary shares have traded on the Australian Stock Exchange on at least five consecutive trading days at a volume weighted average price in excess of:
- For the first tranche, 40 cents;
- For the second tranche, 70 cents; and
- For the third tranche, $1.00.

By 30 June 2007, all of these options had been exercised. On 15 August 2006, 2,000,000 options were exercised (share price 82 cents), and on 15 September 2006, 1,000,000 options were exercised (share price 92.5 cents).

(vi) These options were convertible into new ordinary shares at a fixed price of 25.0 cents per share at any time up to the expiry date where the Company's ordinary shares have traded on the Australian Stock Exchange on at least five consecutive trading days at a volume weighted average price in excess of 40 cents per share. By 30 June 2007 all of these options had been exercised. On 15 August 2006, 1,540,000 options were exercised (share price 82 cents).

24 Contributed equity (continued)

(vii) These options were issued on the same terms as set out in (i) above. Once the pricing hurdles have been reached for a particular tranche of options they will not lapse until the expiry date, regardless of whether the option holder continues to be engaged by the Company. By 30 June 2007 all of these options had been exercised. On 11 September 2006, 400,000 options were exercised (share price 96 cents). In the previous year, 1,200,000 options were exercised on 3 May 2006 (share price 70 cents).

(e) Employee share plans

Deferred Employee Share Plan

The Company operates a performance incentive scheme for employees under which eligible employees can earn ordinary shares in the Company upon achievement of individual and corporate performance targets. Ordinary shares issued to the benefit of employees under the Deferred Employee Share Plan (DESP) are held by the DESP trustee until the employee ceases to be employed by the Company or the employee receives approval from the Board of Directors to withdraw the shares from the DESP, whichever occurs first. Alternatively, the Board may cause the shares to be forfeited where the employee is dismissed for theft, fraud or defalcation in relation to the affairs of the Company.

The shares cannot be dealt with while they are held in the DESP and the shares are not quoted on the Australian Stock Exchange until they are withdrawn from the DESP. Shares held in the plan have the same dividend and voting rights as other ordinary shares.

At the Company's Annual General Meeting on 13 November 2006, the Company's shareholders approved the issue of rights to 2.248 million shares to the Managing Director for the performance periods ended 30 June 2008 and 30 June 2009, and up to 5 million shares for the benefit of employees of the Company, under the Deferred Employee Share Plan to be used before 13 November 2009 without the requirement for the Company to obtain further approval from shareholders for the issue of shares under the plan.

	Number of shares	
	2007	2006
Shares granted but not issued at the start of the year	**2,497,213**	2,027,740
Granted during the year	**4,307,881**	2,577,213
Vested and issued during the year	**(6,375,183)**	(337,740)
Lapsed and unused during the year	**–**	(1,770,000)
Shares granted but not issued at the end of the year	**429,911**	2,497,213
Weighted average fair value of shares granted during the year ($ per share)	**$1.16**	$0.52

The weighted average fair value of shares granted above is the assessed fair value at grant date. In the case of shares or rights whose performance conditions are market-related, the fair value of share rights granted are determined using a 'Monte Carlo' simulation pricing model that takes into account the price of the underlying share at grant date, the term of the vesting period, expected price volatility of the underlying share, the specific share price measurement base, target share price, risk free interest rate (five year Australian Government Treasury Bonds) and expected dividend yield (nil). Shares granted with performance conditions not related to market share prices are valued at the price of the underlying share at grant date.

Exempt Employee Share Plan

The Company operates an Exempt Employee Share Plan (EESP) to give employees the opportunity to acquire an ownership interest in the Company. An employee cannot withdraw shares from the EESP for three years, or until the employee ceases to be employed by the Company, whichever occurs first.

The shares cannot be dealt with by the employee while they are held in the EESP and the shares are not quoted on the Australian Stock Exchange until they are withdrawn from the EESP. Shares held in the EESP have the same dividend and voting rights as other ordinary shares.

During the current year no shares were issued under the EESP (2006: Nil).

Deferred Non-executive Director Share Plan

At the Company's Annual General Meeting on 16 November 2005, the Company's shareholders approved the issue of shares to Directors under a Deferred Non-executive Director Share Plan (DDSP) without the requirement for the Company to obtain further approval from shareholders for the issue of shares under the plan.

24 Contributed equity (continued)

Deferred Non-executive Director Share Plan (continued)

The trustee of the DDSP holds shares issued to the account of Directors who elect to sacrifice part, or all of their quarterly Directors' fees. Ordinary shares issued to the benefit of Directors under the DDSP are held by the trustee until the Director ceases to be a Director of the Company. The shares are not quoted on the Australian Stock Exchange until they are withdrawn from the DDSP and shares held in the plan have the same dividend and voting rights as other ordinary shares. Directors may withdraw their shares from the plan in the event of a takeover or scheme of arrangement in respect of the Company, compulsory acquisition of shares or voluntary winding up of the Company.

The price at which the shares are issued is the volume weighted average market price of the Company's ordinary shares traded over the last five days on which sales in the shares are recorded prior to the start of the quarter in which the Director makes the election to participate in the plan. During the year, 320,482 shares were issued under this plan, representing Directors' fees of $288,875 and a further 44,341 shares were issued subsequent to year end in respect of Directors' fees of $67,500 forgone for the quarter to 30 June 2007.

Other shares issued to management

In addition to the share plans detailed above, no other ordinary shares (2006: 170,000 ordinary shares) had been granted or issued in the year ended 30 June 2007

(f) Equity Line facility

The Company has an Equity Line facility with Cornell Capital Partners Offshore LP which gives the Company the right, but not an obligation, to issue shares to Cornell Capital Partners at any time up to June 2010, to a maximum of $25 million. Under this facility, the Company can issue shares up to a value of $500,000 in any ten business day period. Shares issued will be priced at the lowest daily volume weighted average price of QGC shares traded on each of the five days which follow a placement notice by the Company. A commission of 5% of the funds raised is payable at the time of issue. As at 30 June 2007, $750,000 (2006: $750,000) had been drawn under this facility.

25 Reserves

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Option reserve	**330**	330	**330**	330
Share-based payments reserve	**5,349**	4,815	**5,349**	4,815
Hedging reserve – cash flow hedges	**(67)**	(262)	**(67)**	(262)
Total reserves	**5,612**	4,883	**5,612**	4,883
Movements:				
Option reserve				
Balance at the start of the year	**330**	330	**330**	330
Employee option expense	**–**	–	**–**	–
Balance at the end of the year	**330**	330	**330**	330
Share-based payments reserve				
Balance at the start of the year	**4,815**	4,197	**4,815**	4,197
Reversal of share-based remuneration expense which did not ultimately vest	**–**	(10)	**–**	(10)
Share-based remuneration expense	**5,892**	857	**5,892**	857
Transfer to share capital (shares issued)	**(5,358)**	(229)	**(5,358)**	(229)
Balance at the end of the year	**5,349**	4,815	**5,349**	4,815
Hedging reserve – cash flow hedges				
Balance at the start of the year	**(262)**	–	**(262)**	–
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**–**	445	**–**	445
Revaluation – gross	**(67)**	(262)	**(67)**	(262)
Transfer to inventory and other assets – gross	**262**	(445)	**262**	(445)
Balance at the end of the year	**(67)**	(262)	**(67)**	(262)

25 Reserves (continued)

Nature and purpose of reserves

(i) *Option reserve*

The option reserve is used to recognise the fair value of options granted or issued.

(ii) *Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of equity instruments granted but not issued. The reserve includes $4,116,773 which is the difference between the fair value and the proceeds received in relation to convertible notes that were converted to ordinary shares in a prior year.

(iii) *Hedging reserve – cash flow hedges*

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1u(ii). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss, or transferred to inventories or fixed assets as appropriate.

26 Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Balance at the start of the year	**(26,552)**	(20,298)	**(24,234)**	(20,298)
Net loss for the year	**(12,222)**	(6,254)	**506**	(3,936)
Balance at the end of the year	**(38,774)**	(26,552)	**(23,728)**	(24,234)

27 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following operating and non-trading subsidiaries in accordance with the accounting policy described in note 1(b):

			Equity holding[1]	
			2007	2006
Name of entity	**Country of incorporation**	**Class of shares**	**%**	%
QGC (Berwyndale South) Pty Ltd	Australia	Ordinary	**100**	100
QGC (Infrastructure) Pty Ltd	Australia	Ordinary	**100**	100
QGC Sales Qld Pty Ltd	Australia	Ordinary	**100**	90
Starzap Pty Ltd	Australia	Ordinary	**100**	100
SGA (Queensland) Pty Limited[2]	Australia	Ordinary	**100**	–
SGAI Pty Limited[2]	Australia	Ordinary	**100**	–
Gas Resources Limited[2]	Cayman Islands	Ordinary	**100**	–
NUN Pty Ltd[3]	Australia	Ordinary	**100**	–
Queensland Petroleum Company Ltd[3]	Australia	Ordinary	**100**	100
QGC IPT Pty Ltd[4]	Australia	Ordinary	**100**	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.
(2) Refer to note 17 for further information on the acquisition of these subsidiaries during the year.
(3) Non-trading subsidiary.
(4) Trustee for employee share plans.

28 Interests in joint ventures

Jointly controlled assets

Joint venture	Principal activities	Consolidated 2007 %	Consolidated 2006 %	Parent 2007 %	Parent 2006 %
Surat Basin ATP 574P	Gas exploration	**60.00**	60.00	**60.00**	60.00
Surat Basin ATP 610P / PLA247 (i)	Gas exploration	**70.625**	60.625	**60.625**	60.625
Surat Basin ATP 620P / PL179, PL228 & PL229	Gas exploration and producing area development	**59.375**	59.375	**59.375**	59.375
Surat Basin ATP 632P / PL201 (i), (ii)	Gas production, producing area development and exploration	**100.00**	90.00	**90.00**	90.00
Surat Basin ATP 647P (iii)	Gas exploration	**50.00**	50.00	**50.00**	50.00
Surat Basin ATP 648P (i)	Gas exploration	**68.75**	58.75	**58.75**	58.75
Surat Basin ATP 651P	Gas exploration	**85.00**	85.00	**85.00**	85.00
Surat Basin ATP 676P (Section 1)	Gas exploration	**50.00**	50.00	**50.00**	50.00
Surat Basin ATP 676P (Section 2)	Gas exploration	**25.00**	25.00	**25.00**	25.00
Berwyndale South Gas Compression and Transportation Facilities Joint Venture (i)	Operation of gas pipeline and compression facilities	**100.00**	90.00	**–**	–

(i) Refer to note 17 for further information on changes in the ownership percentage of these joint ventures during the year.
(ii) The joint venture relates only to PL201 and graticular blocks numbered 2380 and 2452 in ATP 632P.
(iii) The joint venture relates only to the Myall Creek East block, being graticular block numbered 2656 of ATP 647P.

The Company's interests in the assets employed by the joint ventures are included in the Company's balance sheets in accordance with the accounting policy described in note 1(b), under the following classifications:

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent entity 2007 $'000	Parent entity 2006 $'000
Current assets				
Cash and cash equivalents	**322**	698	**322**	698
Trade and other receivables	**6,564**	2,278	**8,798**	3,488
Non-current assets				
Intangible assets – exploration and evaluation costs	**15,340**	6,243	**15,126**	6,243
Development and production assets	**141,204**	94,704	**81,534**	66,051

For capital expenditure commitments relating to joint ventures refer to note 29(a).

Joint venturers hold deeds of cross–charge over each of the other participants' interests in joint venture tenements and petroleum leases as security for amounts owing between joint venturers.

Other contingent liabilities relating to joint ventures are set out in note 30.

29 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Property, plant and equipment				
Payable within one year	**25,276**	8,714	**25,276**	–
	25,276	8,714	**25,276**	–
Development of producing areas(1)				
Payable within one year	**5,185**	32,995	**2,363**	32,995
	5,185	32,995	**2,363**	32,995
Intangible assets – exploration and appraisal costs(2)				
Payable:				
Within one year	**631**	806	**631**	806
Later than one year but not later than five years	**684**	590	**684**	590
	1,315	1,396	**1,315**	1,396

(1) Although the Company has not necessarily contracted with suppliers for the above construction work, the Company is committed to developing producing areas in order to supply customers under binding supply agreements. These amounts represent expected expenditure required to honour these contracts.

(2) Exploration tenements in which QGC has an interest are periodically due for renewal by the Queensland Department of Mines and Energy. As the renewal terms are unknown at this time, the commitments disclosed above only include QGC's share of commitments up to the renewal date.

These estimates do not necessarily represent the actual expenditure that is expected to be made by the Company. In some instances it is expected that the minimum work commitments will be exceeded, in other instances these obligations may be reduced by renegotiation of the permit or farm-in obligations applying to the tenement.

The above commitments include capital expenditure commitments of $31,776,000 (2006: $43,371,000) relating to the joint ventures listed in note 28.

(b) Operating lease commitments

The Group leases various offices and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**1,709**	513	**1,709**	513
Later than one year but not later than five years	**5,777**	1,266	**5,777**	1,266
	7,486	1,779	**7,486**	1,779

29 Commitments (continued)

(c) Finance leases

The Group leases various plant and equipment under finance leases and hire purchase agreements. Under the terms of the agreements, the Group has the option to acquire the leased assets for a fixed residual amount on expiry of the leases.

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Commitments in relation to finance leases are payable as follows:				
Within one year	**985**	824	**985**	824
Later than one year but not later than five years	**1,811**	1,954	**1,811**	1,954
Minimum lease payments	**2,796**	2,778	**2,796**	2,778
Future finance charges	**(450)**	(467)	**(450)**	(467)
Total lease liabilities	**2,346**	2,311	**2,346**	2,311
Representing lease liabilities:				
Current (note 19)	**756**	623	**756**	623
Non-current (note 22)	**1,590**	1,688	**1,590**	1,688
	2,346	2,311	**2,346**	2,311

The average interest rate implicit in the leases is 12.11% (2006: 9.30%).

(d) Remuneration commitments

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities payable:				
Within one year	**1,363**	1,011	**1,363**	1,011
Later than one year but not later than five years	**–**	295	**–**	295
	1,363	1,306	**1,363**	1,306

30 Contingencies

Contingent liabilities

The Company has a $6,000,000 (2006: $836,000) Indemnity Guarantee Facility whereby its financiers have provided guarantees to various entities that the Company will honour its obligations under specific agreements. At balance date, guarantees totalling $5,338,591 (2006: $835,000) had been used under this facility.

The Company has a Foreign Currency Dealing Limit Facility with its financiers, providing the Company with the ability to enter into forward exchange contracts to fix the exchange rate to be used for the acquisition of equipment. The financier requires a proportion of the value of the forward exchange contracts to be applied against the foreign currency dealing limit. At 30 June 2007, the Company had $Nil (2006: $2,180,000) committed against the facility limit of $2,180,000 (2006: $2,180,000).

The Company has a $2,518,000 (2006: $Nil) Standby Letter of Credit Facility whereby its financiers have provided guarantees to various entities that the Company will honour its obligations under specific agreements. At balance date, guarantees totalling $2,518,000 (2006: $Nil) had been used under this facility.

30 Contingencies (continued)

Of the facilities above, $230,000 (2006: $222,000) of the Indemnity Guarantee Facility, and all of the Foreign Currency Dealing Limit Facility relate to joint ventures operated by the Company.

In April 2007 Queensland Gas Company and ANZ Infrastructure Services (ANZIS) entered into an Engineering Procurement Construction (EPC) contract with Australian Energy and Environment to build the Condamine Power Station. From the estimated completion date of the Power Station, February 2009, QGC will effectively lease the Power Station from ANZIS through the payment of a tolling charge for a period of 20 years. The value of this charge will be confirmed upon final successful completion of the construction of the Power Station.

No material losses are expected in respect of the above contingent liabilities.

Sales contingencies

Certain gas sales customers have an option to purchase additional gas over their relevant contract periods subject to certain conditions.

31 Related party transactions

(a) Parent entity and related parties

The parent entity, and ultimate Australian parent entity within the Group, is Queensland Gas Company Limited.

Interests in subsidiaries are set out in note 27.

Interests in joint ventures are set out in note 28.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 32.

(c) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Costs incurred as operator on behalf of, and on-charged to joint ventures	**104,832,298**	74,560,353	**104,832,298**	74,560,353
Contributions to joint venture costs	**87,843,455**	60,675,325	**61,171,451**	29,246,321
Loans advanced to subsidiary	**–**	–	**20,247,151**	26,683,850
Interest accruing on loan to subsidiary	**–**	–	**7,890,678**	2,028,446

Loans advanced to subsidiaries have no fixed term of repayment and interest is charged at 18.20% (2006: 18.18% pa).

Other transactions were made on normal commercial terms and conditions.

31 Related party transactions (continued)

(d) Outstanding balances arising from transactions with related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Current receivables				
From joint ventures for operator-incurred costs	**6,564,254**	6,973,637	**8,798,085**	6,973,637
From subsidiary as interest receivable	**–**	–	**7,890,678**	2,028,446
From subsidiary for loan receivable	**–**	–	**46,931,001**	26,683,850
Current payables				
To joint ventures for contributions to joint venture costs	**–**	5,627	**–**	5,627

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

32 Key management personnel disclosures

(a) Directors

The following persons were Directors of Queensland Gas Company Limited during the financial year:

(i) *Chairman – Non-executive*
Robert Bryan

(ii) *Executive Directors*
Richard Cottee, Managing Director

(iii) *Non-executive Directors*
P Cassidy
F Connolly
T Crommelin (appointed 2 October 2006)
D Elphinstone
M Fraser (appointed 8 March 2007)
S Mikkelsen (appointed 8 March 2007)
M Moraza (appointed 8 March 2007)
D Patten (retired 2 March 2007)
V De Santis (alternate for D Elphinstone)
M de Leeuw (alternate for P Cassidy)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company and the Group, directly or indirectly, during the financial year:

Name	**Position**	**Period of responsibility**	
		2007	**2006**
L Devaney	General Manager – Commercial & Financing	**From 6 March 2007**	–
M Herrington	Chief Operating Officer	**Full year**	Full year
P Jans	Company Secretary & General Counsel (ceased employment 2 July 2007)	**Full year**	Full year
M Panchal	Chief Financial Officer	**From 31 July 2006**	–
K Quinlan	Manager – Strategic Planning (ceased employment 6 July 2007)	**From 31 July 2006**	–
S Scott	General Manager – Exploration & Technical Services	**Full year**	From 24 April 2006

32 Key management personnel disclosures (continued)

(c) Key management personnel compensation

	Consolidated and Parent entity	
	2007	2006
	$	$
Short-term employee benefits	2,852,910	1,254,314
Post-employment benefits	157,548	76,042
Termination benefits	894,100	–
Share-based payments*	5,059,204	741,438
	8,963,762	2,071,794

* LTIs applicable to the current and future financial years vested in full in March 2007 following a material change in the composition of the Board of Directors. The component of share-based payments relating to takeover response costs was $3,251,536.

The Company has taken advantage of the relief provided by the *Corporations Act 2001* and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in sections A-C of the remuneration report, included with the Directors' report attached to the financial statements.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D "Share-based compensation" of the remuneration report, included with the Directors' report attached to the financial statements.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Queensland Gas Company Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2007 Name	Balance at the start of the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year	Vested and unexercisable at the end of the year
Directors of Queensland Gas Company Limited						
R Cottee	1,540,000	(1,540,000)	–	–	–	–

2006 Name	Balance at the start of the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year	Vested and unexercisable at the end of the year
Directors of Queensland Gas Company Limited						
R Bryan	2,000,000	(2,000,000)	–	–	–	–
R Cottee	1,540,000	–	–	1,540,000	1,540,000	–
D Elphinstone(1)	1,000,000	–	(1,000,000)	–	–	–

(1) One million Elphinstone options lapsed on 30 September 2005.

32 Key management personnel disclosures (continued)

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Queensland Gas Company Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2007	Number of shares				
Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year upon exercise of options	Other changes during the year	Balance at the end of the year
Ordinary shares					
Directors of Queensland Gas Company Limited					
R Bryan	15,498,671	101,175	–	1,498,879	17,098,725
P Cassidy	69,067	50,587	–	20,919	140,573
F Connolly	219,704	50,587	–	58,578	328,869
R Cottee	488,190	3,958,000	1,540,000	124,607	6,110,797
V De Santis	35,470	–	–	(11,133)	24,337
D Elphinstone	61,513,544	50,587	–	(9,050,411)	52,513,720
T Crommelin	–	19,673	–	96,681	116,354
Key management personnel of the Group					
L Devaney	–	327,586	–	(327,586)	–
M Herrington	70,000	508,710	–	(38,750)	539,960
P Jans	138,000	501,829	–	(313,000)	326,829
M Panchal	–	323,280	–	–	323,280
K Quinlan	–	281,387	–	–	281,387
S Scott	18,760	310,538	–	10,095	339,393
Ordinary shares – unissued					
Directors of Queensland Gas Company Limited					
R Bryan (1)	29,220	86,736	–	(101,175)	14,781
P Cassidy (1)	14,610	43,367	–	(50,587)	7,390
F Connolly (1)	14,610	43,367	–	(50,587)	7,390
R Cottee	1,710,000	2,248,000	–	(3,958,000)	–
T Crommelin (1)	–	27,063	–	(19,673)	7,390
D Elphinstone (1)	14,610	43,367	–	(50,587)	7,390
D Patten	14,610	33,263	–	(47,873)	–
Key management personnel of the Group					
L Devaney (2)	190,000	252,586	–	(327,586)	115,000
M Herrington	125,000	383,710	–	(508,710)	–
P Jans	292,000	209,829	–	(501,829)	–
M Panchal	–	323,280	–	(323,280)	–
K Quinlan (2)	–	291,387	–	(281,387)	10,000
S Scott	16,360	294,178	–	(310,538)	–

(1) These shares have been granted under the terms of the Deferred Non-executive Director Share Plan, but had not been issued at 30 June 2007.

(2) The balance of shares unissued at the end of the year was issued in July 2007.

32 Key management personnel disclosures (continued)

(iii) Share holdings (continued)

2006	Number of shares				
Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year upon exercise of options	Other changes during the year	Balance at the end of the year
Ordinary shares					
Directors of Queensland Gas Company Limited					
R Bryan	13,460,536	–	2,000,000	38,135	15,498,671
P Cassidy	–	–	–	69,067	69,067
F Connolly	197,137	–	–	22,567	219,704
R Cottee	485,470	–	–	2,720	488,190
V De Santis	35,470	–	–	–	35,470
D Elphinstone	21,138,008	–	–	40,375,536	61,513,544
D Patten	254,776	–	–	23,067	277,843
Key management personnel of the Group					
M Herrington	–	–	–	70,000	70,000
P Jans	103,000	–	–	35,000	138,000
S Scott	–	–	–	18,760	18,760
Ordinary shares – unissued					
Directors of Queensland Gas Company Limited (1)					
R Bryan (1)	–	67,355	–	(38,135)	29,220
P Cassidy (1)	–	33,677	–	(19,067)	14,610
F Connolly (1)	–	33,677	–	(19,067)	14,610
R Cottee (2)	1,660,000	1,710,000	–	(1,660,000)	1,710,000
D Elphinstone (1)	–	33,677	–	(19,067)	14,610
D Patten (1)	–	33,677	–	(19,067)	14,610
Key management personnel of the Group (2)					
M Herrington	–	255,000	–	(130,000)	125,000
P Jans	30,000	302,000	–	(40,000)	292,000
S Scott	–	2,122	–	14,238	16,360

(1) These shares have been granted under the terms of the Deferred Non-executive Director Share Plan, but had not been issued at 30 June 2006.

(2) These shares have been granted, but vesting is subject to satisfaction of performance targets under employment contracts.

(e) Other transactions with key management personnel

- Companies associated with Mr D Elphinstone received $242,338 (2006: $338,125) from the Company during the year in respect of commitment, underwriting and placement fees for equity issues. These fees were on the same terms and conditions as for other underwriters and investors similarly involved in the equity issues.
- A company associated with Mr M Herrington provided services in producing areas totalling $Nil (2006: $157,825). The services were provided on normal commercial terms and conditions.
- A company associated with Mr P Jans provided consulting services totalling $62,563 (2006: $67,981). The services were provided on normal commercial terms and conditions.

32 Key management personnel disclosures (continued)

	2007 $	2006 $
Aggregate amounts of each of the above types of other transactions with key management personnel of Queensland Gas Company Limited		
Amounts recognised as expense	**76,776**	434,067
Aggregate amounts of assets at balance date relating to the above types of other transactions with key management personnel of the Group		
Non-current assets	**–**	161,513
Current liabilities	**–**	228,125
Equity	**–**	110,000

33 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity:

	Consolidated		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Audit services				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**135,500**	125,000	**135,500**	125,000
Total remuneration for audit services	**135,500**	125,000	**135,500**	125,000
Assurance services				
Due diligence services	**7,200**	77,769	**7,200**	77,769
Accounting services	**50,500**	26,500	**50,500**	26,500
Total remuneration for assurance services	**57,700**	104,269	**57,700**	104,269
Taxation services				
Tax compliance services, including review of Company income tax returns	**25,500**	14,000	**25,500**	14,000
Tax advice on acquisitions	**32,500**	59,420	**32,500**	59,420
Tax advice on financing structures	**–**	23,290	**–**	23,290
Tax advice on operational matters	**60,700**	30,300	**60,700**	30,300
Tax advice on takeover	**6,000**	–	**6,000**	–
Total remuneration for taxation services	**124,700**	127,010	**124,700**	127,010
Advisory services				
Advice on Sentient unitisation	**46,700**	–	**46,700**	–
Advice on the National Energy Market	**–**	37,880	**–**	37,880
Total remuneration for advisory services	**46,700**	37,880	**46,700**	37,880

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

34 Earnings per share

(a) Basic and diluted earnings per share

	Consolidated	
	2007	2006
	Cents	Cents
Loss from continuing operations attributable to the equity holders of the Company	**(2.17)**	(1.7)

(b) Reconciliation of earnings used in calculating earnings per share

	Consolidated	
	2007	2006
	$'000	$'000
Basic and diluted earnings per share		
Loss attributable to the ordinary equity holders of the Company used in calculating the basic and diluted earnings per share	**(12,222)**	(6,254)

(c) Weighted average number of shares used as the denominator

	Consolidated	
	2007	2006
	Number	Number
Basic and diluted earnings per share		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**562,793,727**	370,372,526

(d) Information concerning the classification of securities

Potential shares that may arise from share options, warrants or other instruments, in relation to the Company's recorded loss for the year, are antidilutive and have not been used to calculate diluted loss per share.

35 Events occurring after the balance sheet date

Other share issues

Since year end, the Company issued 44,341 ordinary shares to non-executive Directors pursuant to a Deferred Non-executive Director Share Plan in lieu of fees for the quarter ended 30 June 2007. In July 2007, 429,911 ordinary shares were issued to employees pursuant to a Deferred Employee Share Plan as performance incentives for the year to 30 June 2007.

Directors' declaration | 30 June 2007

In the Directors' opinion:

a) the financial statements and notes set out on pages 45 to 87 are in accordance with the *Corporations Act 2001*, including:

   i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

c) the audited remuneration disclosures set out on pages 36 to 42 of the Directors' report comply with Accounting Standard AASB 124 Related Party Disclosures and the *Corporations Regulations 2001*.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the Directors.

R BRYAN
Director

BRISBANE 18 SEPTEMBER 2007

Independent audit report | 30 June 2007

PricewaterhouseCoopers

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Independent audit report to the members of Queensland Gas Company Limited

Report on the financial report and AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Queensland Gas Company Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Queensland Gas Company Limited and the Queensland Gas Company Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ''remuneration disclosures", required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading ''remuneration report" in pages 36 to 42 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

Liability limited by a scheme approved under Professional Standards Legislation

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion, the financial report of Queensland Gas Company Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in pages 36 to 42 of the directors' report comply with Accounting Standard AASB 124.

Martin T Linz

MARTIN LINZ
Partner

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

BRISBANE 18 SEPTEMBER 2007

The shareholder information set out below was applicable as at 18 September 2007.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Number of securities held	Shareholders
1 – 1,000	1,594
1,001 – 5,000	3,765
5,001 – 10,000	2,385
10,001 – 100,000	4,197
100,001 – and over	342

There were 303 holders of less than a marketable parcel of ordinary shares.

(b) Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary Shares	
Name	Number held	Percentage of issued shares
AGL Energy Limited	204,616,102	27.81%
Elph Pty Ltd	51,963,939	7.06%
ANZ Nominees Limited	47,980,016	6.52%
National Nominees Limited	34,852,140	4.74%
J P Morgan Nominees Australia Limited	30,983,146	4.21%
Sentient Executive GPll Limited	24,897,197	3.38%
Mr R Bryan	15,214,906	2.07%
HSBC Custody Nominees (Australia) Limited	14,790,097	2.01%
Sentient Executive GP1 Limited	12,121,080	1.65%
Congent Nominees Pty Limited	10,922,177	1.48%
HSBC Custody Nominees (Australia) Limited – GSI ECSA	10,479,645	1.42%
Australian Foundation Investment Company Limited	6,643,107	0.90%
Sentient Executive GP1 Limited	5,373,888	0.73%
Sentient (Aust) Pty Ltd	3,805,032	0.52%
Citicorp Nominees Pty Limited	3,580,000	0.49%
Mr R Cottee	3,000,000	0.41%
QGAS Pty Ltd	2,856,035	0.39%
Djerriwarrh Investments Limited	2,583,513	0.35%
Queensland Investment Corporation	2,545,185	0.35%
Australian Foundation Investment Company Ltd	2,500,000	0.34%
Total	491,707,205	66.84%

(b) Equity security holders (continued)

Unquoted equity securities

	Number on issue	Number of holders
Exempt Employee Share Plan	31,578	6
Deferred Employee Share Plan	4,622,883	55
Non-executive Director Deferred Share Plan	479,226	6

(c) Substantial holders

Substantial holders in the Company are set out below:

	Ordinary Shares	
Name	**Number of shares in which relevant interest held**	**Percentage of issued shares**
AGL Energy Limited	204,616,102	27.81%
Elph Pty Ltd	51,963,939	7.06%
ANZ Nominees Ltd	47,980,016	6.52%

(d) Voting rights

The voting rights attaching to each class of equity securities are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(e) Shares issued under shareholder approval

Approval for the issue of the following shares as obtained under Listing Rule 10.14.

Type of ordinary shares issued	Number issued during the year	Date approval obtained
Deferred Employee Share Plan	6,375,183	13 November 2006
Deferred Non-executive Director Share Plan	320,482	16 November 2005
Ordinary shares	258,045,475	2 March 2007

Corporate governance statement | 30 June 2007

The Board of Queensland Gas Company Limited (QGC) is committed to maintaining the highest standards of corporate governance and has established a framework of principles to provide guidance to Directors, executives and staff in the day to day management of QGC's operations.

QGC's Directors are responsible to the shareholders for the performance of the Company and their overriding aim is to enhance the interests of shareholders and to ensure the Company is properly managed.

QGC has adopted the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" to the extent that they are considered applicable to a company of QGC's size as a significant energy producer. These principles have been in operation for the full year unless otherwise indicated.

After taking into account that the generic ASX Best Practice Recommendations are drafted to cover all of Australia's listed companies across every industry, the Board has elected to tailor the principles where necessary to provide good corporate governance practices for QGC without incurring unnecessary compliance costs.

The table below sets out the areas where QGC has adopted corporate governance principles which differ from those recommended by the ASX Corporate Governance Council.

ASX recommendation	QGC principle	Reason for difference
A Director cannot be independent if they are a substantial shareholder (ie. greater than 5%).	A Director cannot be independent if they hold greater than 10% of the voting rights in the Company.	The Board believes that a Director still has the ability and willingness to operate independently and objectively, notwithstanding a shareholding of up to 10% of the Company. The ownership of shares in QGC by Directors serves to align the financial interests of the Directors with those of all shareholders, and demonstrates the financial, technical and commercial support of major stakeholders.
Nomination Committee should be established.	The Board currently performs the duties in relation to the nomination of new Directors.	To be established following the Annual General Meeting in November 2007.

Summaries of QGC's Corporate Governance policies are set out on the Company's website at www.qgc.com.au.

A description of the Company's main corporate governance practices is set out below.

The Board

A formal Directors' Code of Conduct sets out the practices by which Directors are expected to abide so as to maintain confidence in the Company's integrity.

The Board Charter sets out the Board's role, responsibilities, structure, delegations of authority and the specific roles of the Chairman and Managing Director.

Role of the Board

The Board has primary responsibility to shareholders for the welfare of the Company by guiding and monitoring the Company's business and affairs.

The Board must at all times act honestly, fairly and diligently in all respects in accordance with the law and all relevant policies of the Company. When representing QGC, each Director must act in the best interests of the Company and the Company's shareholders.

Responsibilities of the Board

The Board of Directors is responsible for:

- Setting the strategic direction and establishing the policies of the Company;
- Overseeing the financial position and for monitoring the business and affairs on behalf of the shareholders;
- Ensuring that management has in place appropriate processes for corporate governance, risk management and internal control;
- Appointing, monitoring, managing the performance of, and if necessary terminating the employment of the Managing Director; and
- Reviewing the composition of the Board.

The Board delegates responsibility for day-to-day management to the Managing Director.

Structure of the Board

The Board should comprise Directors with an appropriate range of skills, experience, qualifications, expertise and vision to enable it to operate the Company's business with excellence. The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board should comprise at least three Directors and should maintain a majority of non-executive Directors;
- At least two of the non-executive Directors should be independent; and
- The Chairman must be an independent, non-executive Director.

All Directors (with the exception of the Managing Director) must retire from office no later than the third Annual General Meeting (AGM) following their last election. Where eligible, a Director may stand for re-election.

The skills, experience and expertise relevant to the position of Director and the term of office of each Director at the date of this report is set out on pages 30 to 31 of this Annual Report.

Division of authority between Chairman and Managing Director

Consistent with its commitment to best practice corporate governance, QGC recognises the importance of separating the office of Chairman and of Managing Director.

The Chairman and the Managing Director have defined roles in the organisation and function in accordance with clear functional lines.

The Chairman will chair meetings of the Board, Finance Committee (discontinued on 30 July 2007), Remuneration Committee and shareholders, and facilitate the Board's relationship with the Managing Director. The Chairman has primary responsibility for overseeing the performance evaluations of the Board and the Managing Director.

The Managing Director has primary responsibility to the Board for the affairs of the Company and manages the business on behalf of the Board and shareholders. The Managing Director carries out the objectives of the Board in accordance with its instructions, and reports to the Board all matters the Managing Director considers to be material to the affairs of the Company.

Independent professional advice

The Company has established procedures enabling any Director or Committee of the Board to seek external professional advice as considered necessary, at the Company's expense.

Conflicts of interest

In the event that a potential conflict of interest may arise, the involved Director or Directors must immediately make appropriate disclosures and the Board must consider the issues in accordance with the *Corporations Act 2001* and the Listing Rules.

Board performance

The Board believes that regular assessment of the Board's effectiveness and the contribution of individual Directors is essential to improve governance of the Company. The Board has not yet fully implemented all of the formal aspects of the Company's performance evaluation process, but informal assessment and review is ongoing. When fully implemented, at least once in each financial year, there will be a performance evaluation of the Board, the Board's Committees and the contribution of individual Directors.

Independence of Directors

All Directors are required to bring independent judgement to bear in decision-making.

A majority of the Board must be non-executive Directors and at least two of the non-executive Directors should be classed as independent, notwithstanding that the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" indicate that the majority of the Board should be independent. The Board of QGC believe that the technical and financial support of major stakeholders is essential in maximising the value of the Company's assets and in serving the interests of all shareholders.

Each member's independence is assessed at the time of appointment and on a continuous basis throughout the term of their appointment. In assessing the independence of Directors, the following factors are considered:

(a) Director's shareholding: A Director cannot be considered to be independent if they, their associates or a company of which they are an officer of, controls greater than 10% of the voting rights in QGC.

    This threshold is higher than the 5% "substantial shareholder" threshold set out in the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations". QGC believes that a Director still has the ability and willingness to operate independently and objectively, notwithstanding a shareholding of up to 10% of the Company.

    Importantly, the ownership of shares in QGC by Directors serves to align the financial interests of the Directors with those of all shareholders, and demonstrates the financial, technical and commercial support of major stakeholders during the early years of the Company's development.

    An ownership stake of greater than 10% may indicate that the shareholder can exert a significant influence on the decisions of the Company. With that level of influence, a Director's independence may not be assured.

    This threshold will be reviewed regularly by the Board in relation to the spread of shareholdings in the Company to assess at what level significant influence could be exerted and the stage of development of the Company.

(b) Previous executive capacity: A Director cannot be considered to be independent if they have been employed by the Company in an executive capacity in the previous three years.

Independence of Directors (continued)

(c) Material supplier or customer: A Director cannot be considered to be independent if they are:
- Principal of a material professional advisor;
- A material consultant to the Company;
- An employee of a material advisor or consultant materially associated with the service provided;
- A material supplier of the Company, or an officer or associate of the supplier; or
- A material customer of the Company, or an officer or associate of the customer.

The relationship is considered to be material where, during the previous three years, or forecast for the forthcoming 12 months:
- The relevant services or goods acquired by QGC amount to 5% or more of total purchases by QGC;
- The relevant services or goods acquired by QGC amount to 10% or more of the total income of the Director or associated company / advisor / consultant; or
- The relevant sales of QGC's products amount to 10% or more of total sales by QGC or of total purchases by the customer.

The Board should regularly review whether previous relationships of any Director do, in fact, or are perceived to, compromise the Director's independence.

(d) Material contractual relationships: A Director cannot be considered to be independent if they have a material contractual relationship with the Company.

(e) Length of service: A Director cannot be considered to be independent where they have served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

(f) Other relationships: To be considered independent, a Director must be free from any interest and any business or other relationship which could, or reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Upon application of these guidelines, the following Directors at the end of the reporting period are considered to be independent:

R Bryan
P Cassidy
F Connolly
T Crommelin
D Elphinstone

Other committees

To assist the Board in its role, and to provide for detailed consideration of complex matters, the Board has delegated its authority to the Audit, Remuneration and Finance Committees.

Details of the Directors' qualifications and experience are set out at pages 30 to 31 of this Annual Report, while record of their attendances at meetings is located in the Directors' report at page 36.

Audit Committee

The Audit Committee Charter specifies that the Audit Committee must consist of at least three members who are not executive Directors. The members of the Audit Committee must be appropriately financially literate and at least one member must have accounting or associated financial and management expertise, have an understanding of the industry in which the entity operates and be independent of management. A majority must be independent in accordance with the guidelines for Director independence as set out in QGC's Board Charter.

The Chairman of the Audit Committee cannot be the Chairman of the Board.

During the year, the Audit Committee consisted of the following non-executive Directors:

F Connolly (Chairman)
R Bryan

Since the Audit Committee's third member left the Board in March 2005, the Audit Committee has consisted of two members. The Board was satisfied that the Audit Committee could fulfil its responsibilities with the two members during the year. Mr T Crommelin and Mr S Mikkelsen joined the Audit Committee on 30 July 2007.

The Audit Committee's objective is to assist the Board of QGC to fulfil its responsibilities in relation to the Company's accounting and financial reporting practices. The Committee oversees:

- The integrity and quality of the Company's financial information including financial information provided to ASIC, ASX and shareholders;
- The adequacy of the internal control environment of the Company;
- The scope and quality of the external audit;
- Compliance with relevant laws, regulations, standards and codes; and
- The review of significant financial and non-financial risks and ensures appropriate risk management procedures are in place in accordance with the Company's Risk Management Guidelines and Policy.

Remuneration Committee

The Remuneration Committee Charter requires that the Remuneration Committee consist of at least three members consisting of a majority of independent non-executive Directors.

The Remuneration Committee consists of the following non-executive Directors:

R Bryan (Chairman)
F Connolly
D Elphinstone
M Fraser

The role of the Committee is to review and make recommendations to the Board in respect of remuneration policies and practices generally, including the review of the recruitment, remuneration, retention, performance measurement, incentive plans, equity participation schemes and termination policies and procedures for all Directors, the Managing Director and senior executives reporting directly to the Managing Director.

Specific details in relation to the amount of remuneration and incentives paid or payable to Directors, the Managing Director and senior executives, along with descriptions of their remuneration arrangements and statements of expected outcomes of performance incentives are set out in the Directors' report attached to the financial statements.

Finance Committee

The Finance Committee was discontinued on 30 July 2007. No committee meetings were held during the year.

Risk assessment and management

The identification and proper management of risk within QGC is an important priority for the Board and management. Formal risk management guidelines and policies are documented and in place.

The Board is responsible for approving, implementing and reviewing QGC's overall risk management framework.

Executive management monitors risk within the Company to ensure high standards of operational quality and compliance with QGC's approved strategies, policies and procedures. The principal objectives are to ensure there is a clear understanding across the Company of all relevant obligations, to monitor compliance and, where issues are identified, to take prompt action to ensure compliance. The Board is made aware of any material risk issues and appropriate procedures and plans are put in place to mitigate the risks to acceptable levels.

Executive management has overall responsibility for the Company's internal control environment, and ensures that QGC has an integrated framework of control, based on formal procedures and appropriate delegation of authority and responsibility. QGC is not yet of a size, or its operations of sufficient complexity, to require a dedicated internal audit function.

Risk management statement

The integrity of QGC's financial reporting relies upon a sound system of risk management and control. Accordingly, to ensure management accountability, the Managing Director and Chief Financial Officer, are required to provide a statement stating that the financial reports of the Company are based upon a sound risk management policy.

Code of conduct

The Company's corporate Code of Conduct is designed to maintain confidence in the integrity of QGC and the responsibilities and accountability of individuals for reporting and investigating reports of unethical practices.

The Code of Conduct expresses certain basic principles that QGC, its officers, employees and external consultants should follow. They should show the highest business integrity in their dealings with others, including preserving the confidentiality of other peoples' information and should conduct QGC's business in accordance with the law and principles of good business practice.

QGC strives to maintain the highest standards of conduct in its business practices. As a fundamental condition of employment, every Director, officer and employee is required to act in a manner consistent with this principle.

Securities trading

In order to preserve the reputation and integrity of QGC, it is vital that when people associated with QGC deal in the Company's securities, those dealings are not only fair, but are seen to be fair. The Company's Security Trading Policy sets guidelines to achieve this objective.

In summary, employees and Directors must:

- Not deal in the Company's securities while in possession of price sensitive information;
- Restrict their buying and selling of the Company's securities to within a 'trading window,' of 14 days following: a General Meeting; the date that significant ASX releases are made; or dates that the Company's annual, half yearly and quarterly reports are lodged;
- Never engage in short term trading (selling within six months of purchasing) of QGC's securities; and
- Notify the Company Secretary of any material intended transactions involving the Company's securities.

A person in possession of inside information about the Company has a duty to keep that information confidential and must not in any way disclose or communicate that information to any person.

Shareholder communication and continuous disclosure

QGC aims to promote a fair market for the Company's shares through honest management and full, fair and timely disclosure. The Disclosure Policy and Shareholder Communications Policy formalise the procedures for disclosure of information to shareholders and other interested parties.

The Company immediately releases information to the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the Company's securities. There are certain exceptions to this principle, as allowed by ASX Listing Rules if each of the following conditions is and remains satisfied:

- A reasonable person would not expect it to be disclosed;
- The information is confidential;
- One or more of the following conditions apply:
  - it would be a breach of a law to disclose the information;
  - the information concerns an incomplete proposal or negotiation (for example, a negotiation to enter into a new contract);
  - the information comprised matters of supposition or is insufficiently definite to warrant disclosure; and/or
  - the information is a trade secret.

QGC will release to the ASX information required to correct a false market.

QGC aims to provide shareholders, and other interested parties with relevant, timely information through the Company's website, which provides access to all recent announcements, reports and notices of meetings.

QGC's Annual Report is the main vehicle for communicating activities and performance for the previous 12 months and is distributed to all shareholders who have not asked to be excluded from its circulation.

Shareholders at the Annual General Meeting are encouraged to ask both QGC and its auditor questions regarding the Company's governance and business.

Definitions and glossary

$ or dollars	Australian dollars
1P Reserves	All Reserves certified to be proved in accordance with the SPE/WPC definitions
2P Reserves	All Reserves certified to be proved and probable in accordance with the SPE/WPC definitions
3P Reserves	All Reserves certified to be proved, probable and possible in accordance with the SPE/WPC definitions
AGL	AGL Energy Limited ACN 115 061 375
ANZ	Australia and New Zealand Banking Group ACN 005 357 522
ANZIB SAM	ANZ Investment Bank Special Asset Management Limited ACN 098 827 671 – a subsidiary of ANZ and trustee for EIT
ANZIS	ANZ Infrastructure Services Limited ACN 071 923 423 – a subsidiary of ANZ and manager of EIT
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited ACN 008 624 691
ATP	An Authority to Prospect under the Petroleum Act
Board	The Board of Directors of the Company
Coal seam gas	Natural gas (mostly methane) contained within coals
Company or QGC	Queensland Gas Company Limited ACN 089 642 553 or its controlled entities as the context requires
Core	A cylindrical piece of rock taken as a sample by a special hollow drill bit
CS Energy	CS Energy Ltd ACN 078 848 745, a company owned by the State of Queensland
Dewatering	The pumping of water from coal seams to facilitate gas production
Director	A Director of the Company
EIT	Energy Infrastructure Trust (managed by ANZIS)
Elph	Elph Pty Ltd ACN 070 012 252
Fairway	A region of the Surat Basin where he depth to the top of the Walloon Subgroup is between 150 m and 600 m and the coals display good potential for coal seam gas production.
Farm-in agreements	Negotiated agreements that the Company has entered into and under which the Company can earn interests in the tenements
Founder Options	The 15 million options issued to the Founders under the terms of the Initial Public Offering
Founders	Mr Robert Bryan, Mr Norman Zillman, GFK Investments Pty Ltd and QGAS Pty Ltd
GJ	Gigajoule – a measurement of the energy value of gas (1 GJ is approximately equal to 960 cubic feet of gas)
Incitec Pivot	Incitec Pivot Limited ACN 004 080 264
Initial Public Offering	The issue of 60 million new shares to the public and the issue of the Founder Options and the Thiess Options offer on 28 August 2000

Methane	The lightest hydrocarbon gas, CH4
ML	Megalitres
NSAI	Netherland Sewell and Associates Inc
Options	Options to subscribe for shares
Origin Energy	Origin Energy CSG Ltd ACN 001 646 331
Original Gas in Place	The total quantity of gas that is estimated to exist originally in naturally occurring reservoirs
Pangaea	Pangaea Oil & Gas Pty Ltd ACN 068 812 171
Permeability	The capacity of a rock (coal) to transmit a fluid
PJ	petajoule, equivalent to one million GJ
PL	A Petroleum Lease under the Petroleum and Gas (Production and Safety) Act 2004 (Queensland)
PLA	A Petroleum Lease Application under the Petroleum and Gas (Production and Safety) Act 2004 (Queensland)
PPL	A Pipeline Licence under the Petroleum and Gas (Production and Safety) Act 2004 (Queensland)
Reserves	The volume of hydrocarbons contained in a trap or stored in coals that is estimated to be economically-recoverable
Resource	The volume of hydrocarbons estimated to be contained in a trap or stored in coals
Santos	Santos CSG Pty Ltd ACN 121 188 654
Sentient	Sentient Pty Ltd ACN 074 455 520
Shares	Ordinary shares in the Company
SPE/WPC definitions	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)
Stratigraphic divisions	The sub-division of sub-surface rocks into differing layers according to age and type
Surat Basin	Sedimentary basin of Jurassic to Cretaceous age in southern Queensland and northern New South Wales
Tenement	An ATP or PL
Thiess	Thiess Pty Ltd ACN 010 221 486
TJ	terajoule, equivalent to one thousand GJ
Undulla Nose	A unique geological feature characterised by highly-permeable Walloon Coals
VWAP	Volume weighted average price
Walloon Coal Measures	A formation in the Surat Basin which contains abundant coals and is of Middle Jurassic age

Corporate directory

ACN 089 642 553

Directors

R Bryan (Chairman)
R Cottee (Managing Director)
P Cassidy
F Connolly
T Crommelin
D Elphinstone
M Fraser
S Mikkelsen
M Moraza
V De Santis (Alternate Director)
M de Leeuw (Alternate Director)

Company Secretary

Mukesh Panchal

Registered Office and Head Office

Level 11, 307 Queen Street
Brisbane Queensland 4000

From 1 December 2007,
QGC's Registered Office and
Head Office will relocate to:
Level 5, 30 Herschel Street
Brisbane Queensland 4000

GPO Box 3107 Brisbane
Queensland 4001

Telephone:	+61 7 3004 1000
Facsimile:	+61 7 3012 8411
Website:	www.qgc.com.au
Email:	qgc@qgc.com.au

Berwyndale South Office

'Windibri' 5286 Kogan Condamine Road
Condamine Queensland 4416
PO Box 266 Chinchilla Queensland 4413

Telephone:	+61 7 4627 7228
Facsimile:	+61 7 4627 7226

Stock Exchange Listing

Queensland Gas Company Limited
Shares are listed on the Australian Stock
Exchange (Home Branch – Brisbane)
ASX Code: QGC

Auditors

PricewaterhouseCoopers
Level 15, Riverside Centre
123 Eagle Street Brisbane
Queensland 4000

Bankers

Australia and New Zealand Banking
Group Limited
324 Queen Street Brisbane
Queensland 4000

Solicitors

Corrs Chambers Westgarth
Level 35, Waterfront Place 1 Eagle Street
Brisbane Queensland 4000

McCullough Robertson
Level 11, Central Plaza 2, 66 Eagle Street
Brisbane Queensland 4000

Share Register

Link Market Services
Level 12, 300 Queen Street
Brisbane Queensland 4000

QUEENSLAND GAS COMPANY

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