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19 January 2009

The Manager
Company Announcements Office
ASX Limited
Fax: 1300 135 638

Dear Sir/Madam

**Takeover offer by AGL Energy Limited by Sydney Gas Ltd -
target's statement**

We act for Sydney Gas Ltd ABN 93 003 324 310 (**SGL**) in relation to the off-market takeover offer by AGL Energy Limited ABN 74 115 061 375 for all the shares in SGL.

In accordance with section 633(1) item 14 of the *Corporations Act 2001* (Cth), we enclose a copy of SGL's target's statement.

SGL's target's statement has today been served on AGL Energy Limited and lodged with the Australian Securities and Investments Commission.

Yours faithfully



Corrs Chambers Westgarth

sydneygas

TARGET'S STATEMENT

of Sydney Gas Ltd ABN 74 003 324 310 (SGL)
in response to the Offer by AGL Energy Limited ABN 74 115 061 375 (AGL)

This Target's Statement has been issued in response to the off-market takeover bid made by AGL Energy Limited (ABN 74 115 061 375) for all the ordinary shares in Sydney Gas Ltd at A\$0.425 per share.

Your Directors unanimously recommend that you

ACCEPT

The Offer by AGL, in the absence of a superior offer

The Directors of Sydney Gas Ltd unanimously recommend that, in the absence of a superior proposal, you **ACCEPT** the Offer by AGL Energy Limited to acquire all your ordinary shares in Sydney Gas Ltd.

The Offer closes at 7.00pm (AEDT) on 13 February 2009, unless extended. Please call 1300 727 413 (for calls made inside Australia) or +61 3 9415 4239 (for calls made outside of Australia) if you require assistance.

This is an important document and requires your immediate attention. You should read this document in its entirety.

If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

Financial Adviser



Legal Adviser



SGL shareholder information

SGL has established a shareholder information line which SGL shareholders may call if they have any queries in relation to AGL's Offer. The telephone number for the shareholder information line is 1300 727 413 (for calls made from Australia), or +61 3 9415 4239 (for calls made from outside Australia) from Monday to Friday, during normal business hours.

Further information relating to AGL's Offer can be obtained from SGL's website at www.sydneygas.com.

Important information

This document is a Target's Statement issued by SGL under Part 6.5 Division 3 of the Corporations Act in response to AGL's Bidder's Statement and Offer.

A copy of this Target's Statement was lodged with ASIC on 19 January 2009. Neither ASIC nor its officers take any responsibility for the content of this Target's Statement.

Investment advice

This Target's Statement does not take into account your individual objectives, financial situation or particular needs. It does not contain personal advice. Your Directors encourage you to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

Disclaimer as to forward looking statements

Some of the statements appearing in this Target's Statement may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. You are cautioned not to place undue reliance on any forward looking statement. The forwarding looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Defined terms

A number of defined terms are used in this Target's Statement. Unless the contrary intention appears, the context requires otherwise or words are defined in section 11 of this Target's Statement, words and phrases in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

Key dates

Announcement Date	24 December 2008
Date of Offer	12 January 2009
Date of this Target's Statement	19 January 2009
Offer closes (unless extended or withdrawn)	7.00pm AEDT on 13 February 2009

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Chairman's Letter

19 January 2009

Dear Shareholders

Takeover Offer by AGL

On 24 December 2008, Sydney Gas Limited (**SGL**) announced AGL Energy Limited's (**AGL**) proposal to make an all cash takeover offer of A\$0.425 per share (**Offer**) for all of the shares in SGL.

This Target's Statement sets out your Directors' formal response to the Offer and contains the unanimous recommendation of the Directors that you **ACCEPT** the Offer in the absence of a superior proposal, the reasons for that recommendation (which the Directors believe is made in the best interests of existing shareholders) and other important information you should consider in deciding whether or not to accept the Offer.

The purpose of my letter is to provide a summary of the reasons as to why your Directors decided to accept AGL's Offer in the absence of a superior proposal. In light of SGL's history, I believe there will be some shareholders who will be disappointed by our decision. A fuller description of events leading up to the Offer being made is set out in sections 4.2 to 4.5 of this Target's Statement, and I encourage you to read it carefully.

In summary, over the past 8 months SGL has been reappraising the capital expenditure requirements and technical risks of its continuing projects, developing new internal models, cutting costs and reinvigorating its exploration programme, and has worked diligently in an attempt to secure new sources of equity capital for the Company to fund its expected expenditure for the next 3 years. Much of this time has been spent on the Hunter Project. In mid-November SGL announced that it estimated total gas-in-place in the Hunter of 25,000 petajoules (PJ), potentially a huge resource.

Subsequently, at my instigation upon becoming Chairman in mid-November, in mid-December SGL prepared an analysis of data from the Camden Project, developed a preliminary, high level drilling and development plan for the Hunter Project and formulated a series of initial financial scenarios to capture all of this fresh data. At around the same time, senior SGL executives and I conducted a series of meetings with financial houses and with institutional investors to determine their appetite for providing the Company with additional funding. We also investigated the support of our major shareholders for future fundraising. These initiatives were ongoing until AGL approached SGL with the prospect of a recommended takeover bid.

In recommending the Offer, your Directors have taken into account, among other things, the findings to date revealed by these initiatives and consider these to be important factors in making our recommendation:

- The Camden Project, which has been a long term cash drain for SGL, continues to have an uncertain financial future. If AGL production targets are met it may turn cash positive in fiscal 2010. However, our analysis indicates that there is risk that these production targets may not be achieved.
- The Hunter Project may require a combined expenditure of about \$300 million by SGL and AGL before meaningful levels of production are achieved, and as a consequence SGL is unlikely to become cashflow positive before fiscal 2016.
- Significant technical, regulatory, development and production risks remain with these two projects. SGL's working models of the Hunter Project assume all of these risks are

surmounted. However, there can be no assurance that all of these risks will be surmounted in a timely manner. In any event, SGL does not believe that it will be able to develop meaningful certified reserves before fiscal 2010.

- These outcomes also assume that SGL continues to have access to capital markets in order to raise new capital. SGL calculates that its total additional capital requirement over the next three years is a minimum of \$60 million.
- Included in this amount is \$15.6 million which is required to redeem the SGL Convertible Notes in September this year. SGL expects to have cash reserves of \$12.8 million as at 31 December 2008 (subject to finalisation of its half year results). Consequently, the Directors believe that in the absence of the Offer from AGL, SGL must raise new capital in the next few months.
- Over the three months prior to AGL's approach to SGL, financial markets and the market value of SGL continued to decline. On 17 September, 2008 before the recent corporate activity in the CSG sector, SGL's share price closed at \$0.310. On 17 December 2008, the day prior to when AGL formally approached SGL, SGL's share price was \$0.200, a decline of 35.5% compared with the 26.3% decline of the ASX All Ordinaries Index over the same period.
- A material consequence of SGL's share price decline and the deteriorating conditions of financial markets was that the Company's cost of capital was expected to increase significantly.
- Without the support of major shareholders or new strategic partners, the Directors consider that SGL will be unable to obtain commercial underwriting of any capital raising in current market conditions on acceptable terms. Your Directors believe that proceeding with a rights issue without a commercial underwriting of the amounts we expect will be required to fund the Company for the next three years would require the support of major shareholders and would be likely to lead to a change of control without a premium bid, and cause significant dilution of shareholders who did not participate in the capital raising.

Your Directors believe that the considerations set out above suggest that prospects for SGL shareholders achieving a better return than the certain value provided under the Offer are most doubtful.

The Offer has only limited conditions attached to it which the Directors believe will be achieved. It is for cash and the cash Offer Price represents substantial premia of:

- 55% to SGL's share price prior to the announcement of the Offer;
- 117% based on SGL's 30 day VWAP; and
- 92% based on SGL's 90 day VWAP.

All of these factors have led your Directors to conclude that accepting the Offer is the best course of action for SGL shareholders.

A Bidder's Statement in relation to the Offer was served on SGL and lodged with ASX on 24 December 2008 and a first supplementary Bidder's Statement was released to ASX on 13 January 2009. You should have received the Bidder's Statement from AGL setting out the detailed terms of the Offer. A copy of the Bidder's Statement is also available on AGL's website at www.agl.com.au. We encourage you to read that document carefully.

The AGL Offer is presently scheduled to close on 13 February 2009, subject to AGL's right to extend the Offer Period in accordance with the Corporations Act. Since announcing the AGL Offer, AGL has stood in the market and purchased SGL shares at its offer price of \$0.425 per share. Assuming no

superior proposal for SGL emerges, based on AGL's filings with ASX as at 15 January 2009, it is now expected that AGL will acquire a shareholding of more than 70.62% of SGL by the close of the Offer. This figure includes AGL's on-market purchases, acceptances under the Offer, acceptances by AJ Lucas and Babcock & Brown (SGL's major shareholders) under pre-bid acceptance agreements with AGL and acceptances by AJ Lucas and Babcock & Brown for the balance of their respective shareholdings in SGL (including any shareholdings resulting from a conversion of SGL Convertible Notes).

We encourage you to read this document carefully. The Offer is open for your acceptance until 7.00pm (AEDT) on 13 February 2009 unless extended or withdrawn. Alternatively, because AGL is continuing to stand in the market, you may choose to sell your SGL Shares on ASX at the Offer Price of \$0.425 per share (but may incur a brokerage fee for doing so).

If you have any questions in relation to the Offer please contact your legal, financial or other professional adviser or call the shareholder information line on 1300 727 413 (for calls made from Australia) or +61 3 9415 4239 (for calls made from outside of Australia) from Monday to Friday during normal business hours.

Yours sincerely

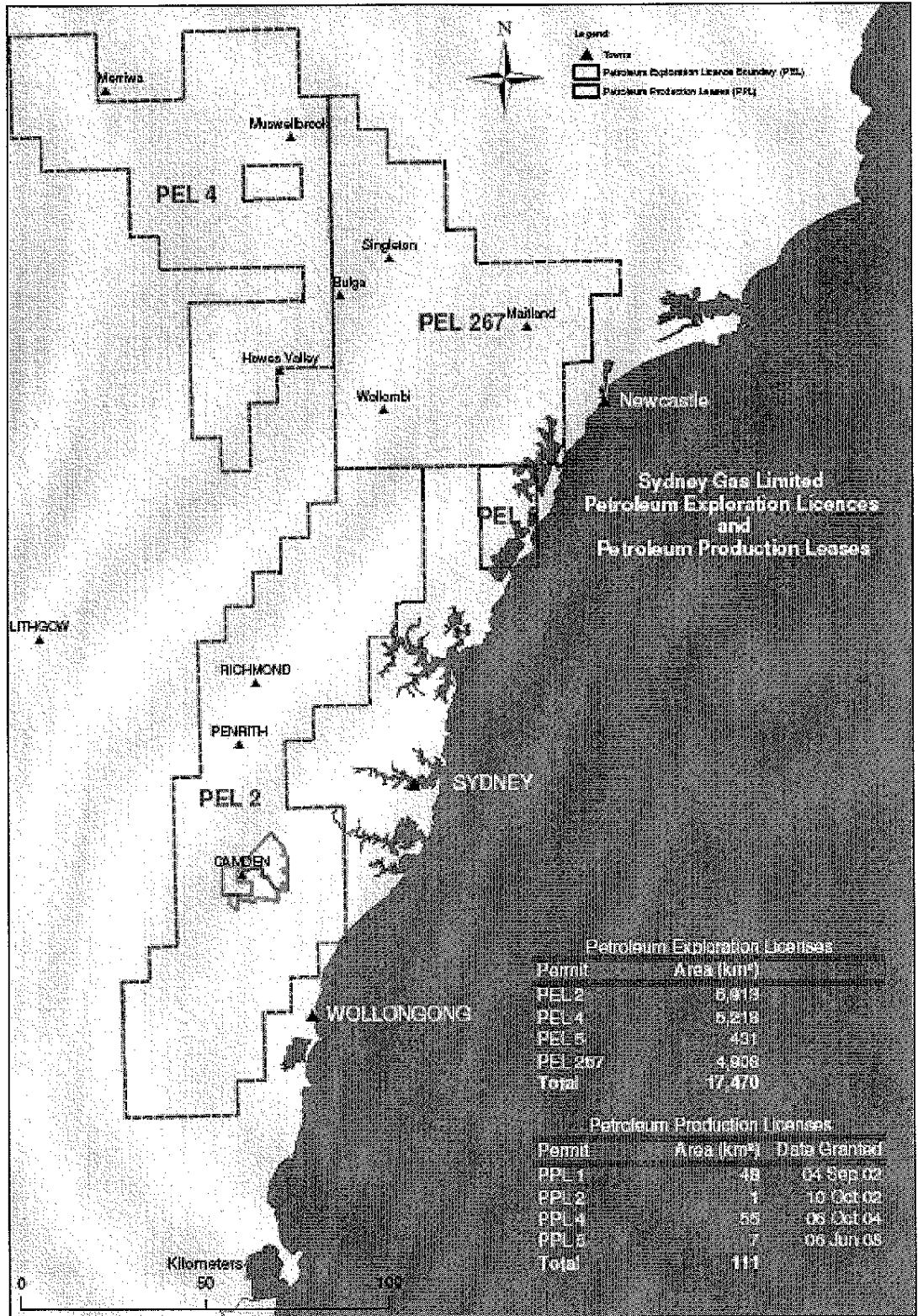


Allan Campbell

Chairman,

Sydney Gas Ltd

Figure 1: Location of Sydney Gas' Petroleum Production Leases and Exploration Licences



SECTION 1

REASONS WHY YOU SHOULD ACCEPT THE OFFER

1 Reasons why you should accept the Offer

1.1 The AGL Offer is supported by SGL directors and major shareholders

Your Directors unanimously recommend that you accept the AGL Offer, in the absence of a superior proposal.

In addition, the Directors have stated that they intend to accept the AGL Offer in respect of SGL Shares they own or control personally, in the absence of a superior proposal.

SGL's two major shareholders, AJ Lucas and Babcock & Brown, have entered into Pre-bid Acceptance Deeds with AGL, as described in section 10.1 of this Target's Statement and in section 8 of the Bidder's Statement.

AJ Lucas has committed to accept the Offer with respect to 59,570,523 SGL Shares held by it (representing approximately 14.8% of SGL Shares as at the Announcement Date) and Babcock & Brown has committed to procure the acceptance of the Offer with respect to 20,000,000 SGL Shares (representing approximately 5.0% of SGL Shares as at the Announcement Date) in which it has interests.

AJ Lucas has also announced its intention to accept the Offer with respect to the balance of its shareholding in SGL, representing approximately 5.2% of SGL Shares as at the Announcement Date, in the absence of a superior proposal. Babcock & Brown has also announced its intention to convert the SGL Convertible Notes it holds into SGL Shares and accept into the Offer the resultant SGL Shares, which will represent approximately 8.4% of SGL Shares based on the SGL Shares expected to be on issue upon conversion, in the absence of a superior proposal.

Based on substantial shareholder announcements made by AGL as at 15 January 2009, AGL is expected to have an Expected Shareholding of more than 70.62% of the issued share capital of SGL by the close of the Offer Period.

1.2 Significant future funding risks exist for SGL

The current financial climate has restricted the availability of finance and the cost of capital has increased significantly. SGL currently has limited remaining cash reserves and a significant capital expenditure budget over the next few years.

Based on current market conditions, the Directors consider it a real risk that SGL would not be able to raise the necessary capital, at reasonable prices, to continue to fund its share of expenditure for the Camden Project and to repay the SGL Convertible Notes which mature in September 2009. In addition, SGL requires additional funding in order to further develop the potential of the Hunter Project.

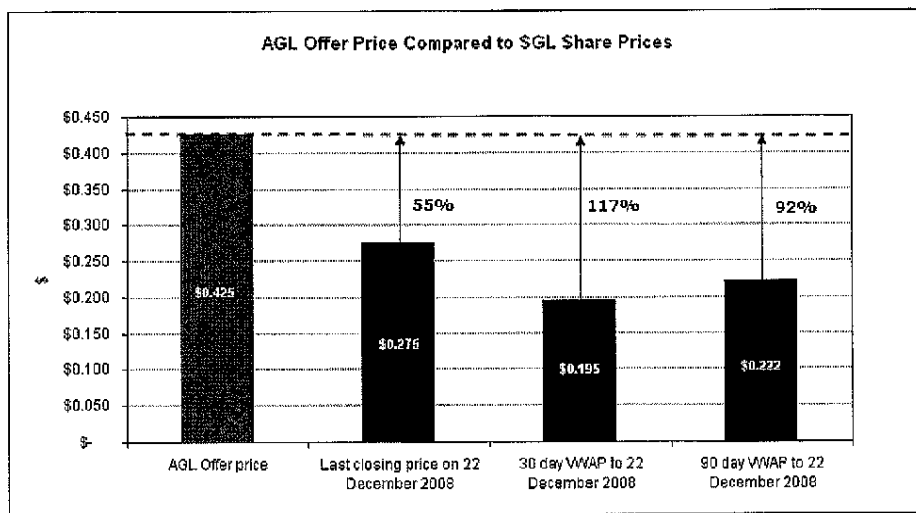
As noted in section 4.3, SGL estimates that total new funding requirements over the next 3 years is expected to be a minimum of \$60 million. To date, SGL has not been able to obtain committed sources of future funding to meet these requirements. Additionally, in the event that SGL is able to raise new capital in the current market conditions, SGL expects that current shareholders who are not able to participate in such capital raising would be materially adversely affected by a significant dilution due to the need to raise capital at a discount to the pre-Offer share price of SGL. See section 4.3 for further details.

1.3 The Offer represents a significant premium to trading prices of SGL Shares

The Offer of \$0.425 per SGL Share represents:

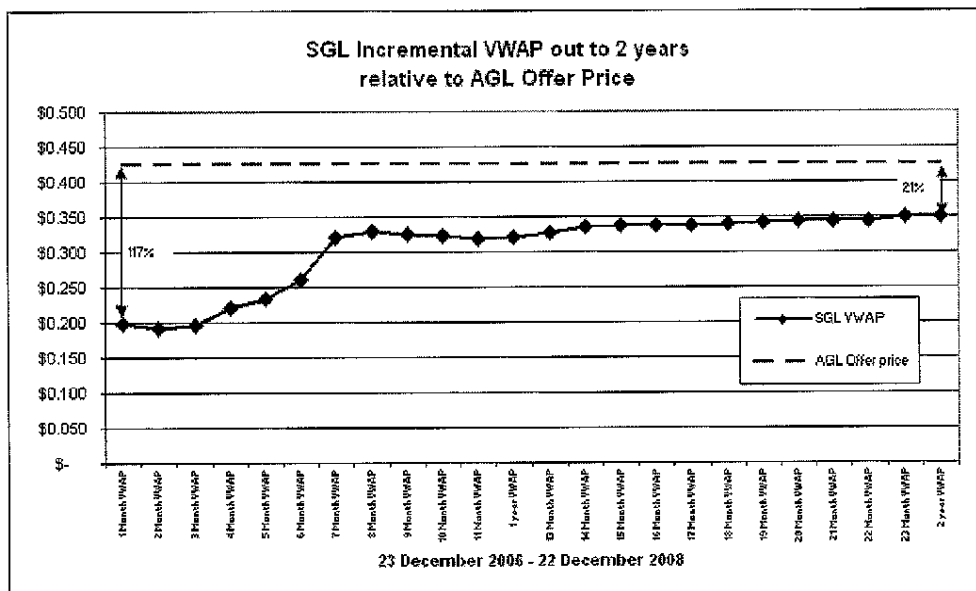
- (a) a 55% premium to the closing SGL share price of \$0.275 cents on 22 December 2008, the last day on which SGL Shares traded prior to the announcement of the Offer;
- (b) a 117% premium to each of the 30 day volume weighted average (VWAP) SGL share price prior to the Offer; and
- (c) a 92% premium to the 90 day volume weighted average SGL share price prior to the Offer.

Figure 2: AGL Offer Price Compared to SGL Share prices



In addition, the Offer is at all times in excess of the volume weighted average SGL share price during the 2 years prior to the Announcement Date.

Figure 3: AGL Offer Price relative to SGL Monthly VWAP over a 2 year period to 22 December 2008



1.4 The Offer is a 100% cash Offer with limited conditions

The Offer is a 100% cash offer funded from AGL's existing cash reserves. The conditions which relate to the Offer mean that the Offer can be withdrawn only in limited circumstances. You may choose to accept the Offer by selling on ASX as AGL has announced it intends to stand in the market and has offered to acquire all SGL Shares not owned by it at prices up to the Offer Price of \$0.425 cash per share during normal trading on ASX. This means that you will receive immediate and certain value, with settlement occurring three Trading Days after your sale in accordance with ASX settlement rules. You should be aware that you may pay brokerage fees for selling to AGL on-market.

1.5 No Superior Proposal has emerged

At the date of this Target's Statement, your Directors have not received a competing proposal from any other potential acquirers, nor are they aware of any party with an intention to make such a proposal.

Given that AGL's Expected Shareholding at the end of the Offer Period is expected to be more than 70.62% of SGL's share capital, the Directors consider it unlikely that a competing proposal will emerge.

1.6 There may be adverse consequences associated with not accepting the Offer

In the absence of a superior proposal emerging or a breach of any of the Conditions to the Offer, at the close of the Offer AGL will acquire majority control of SGL. If you do not accept the AGL Offer and AGL gains effective control of SGL but is not entitled to proceed to compulsory acquisition of the outstanding SGL Shares, then you will remain a minority shareholder of SGL. If SGL remains listed then it is unlikely that the SGL share price would sustain the current takeover premium and, accordingly, would likely fall below the Offer Price. In particular, if only a limited number of minority shareholders remain, it is possible that the market for your SGL Shares will become less liquid, making it more difficult to sell your SGL Shares in the future.

For further details of the consequences of remaining a minority shareholder of SGL, please refer to section 6.4. For further details of AGL's intentions if it acquires more than 50% but less than 90% of SGL Shares, see section 4.3 of the Bidder's Statement.

For these reasons the Directors recommend the Offer.

SECTION 2
FREQUENTLY ASKED QUESTIONS

2 Frequently asked questions

This section answers some commonly asked questions about the Offer. This section should be read together with all other parts of this Target's Statement.

Question	Answer	Further Information
Who is AGL?	AGL Energy Limited is a company listed on the stock market operated by ASX Limited and is the bidder making an offer to acquire all your SGL Shares. For further information about AGL, please refer to AGL's Bidder's Statement.	Section 2 of the Bidder's Statement.
What is the Target's Statement?	This document is a Target's Statement issued by SGL under Part 6.5 Division 3 of the Corporations Act in response to AGL's Bidder's Statement and Offer. It contains information that is relevant to your decision whether or not to accept the Offer, including the recommendation of SGL Directors in respect of the Offer.	
What is the Bidder's Statement?	AGL's Bidder's Statement was prepared by AGL and was dispatched to SGL shareholders on 12 January 2009. The Bidder's Statement describes the terms of AGL's Offer for your SGL Shares and information relevant to your decision whether or not to accept the Offer.	
What is AGL's Offer for my SGL Shares?	AGL is offering A\$0.425 for each SGL Share held by you. Full details of AGL's Offer and the shareholders entitled to participate in the Offer are contained in AGL's Bidder's Statement.	Section 5 of this Target's Statement and sections 1 and 9 of the Bidder's Statement.
What choices do I have as a SGL shareholder?	As a SGL shareholder, you have the following choices in respect of your SGL Shares: <ul style="list-style-type: none"> • accept the Offer; • sell your SGL Shares on the ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance); or • do nothing. 	A summary of the implications for each of these choices is set out in section 6 of this Target's Statement.
What are the directors of SGL recommending?	Each Director recommends that you accept the Offer, in the absence of a superior proposal.	Section 3 of this Target's Statement.
How do I accept the Offer?	Details of how to accept the Offer are set out in section 7 of this Target's Statement and sections 1.2 and 9.4 of the Bidder's Statement.	Section 7 of this Target's Statement and sections 1.2 and

Question	Answer	Further Information
		9.4 of the Bidder's Statement.
What are the consequences of accepting the Offer now?	If you accept the Offer, unless withdrawal rights are available (see below), you will give up your right to sell your SGL Shares on the ASX or otherwise deal with your SGL Shares while the Offer remains open.	Section 6 of this Target's Statement.
If I accept the Offer, can I withdraw my acceptance?	<p>You may only withdraw your acceptance of the Offer if:</p> <ul style="list-style-type: none"> • AGL varies the Offer in a way that postpones, for more than one month, the time when AGL needs to meet its obligations under the Offer. This will occur if AGL extends the Offer Period by more than one month and the Offer is still subject to the Conditions; and • the Conditions have not been waived at the time of your purported withdrawal. 	Section 5.8 of this Target's Statement.
Do I have to pay any fees?	<p>No brokerage, charges or stamp duty will be payable by you on the acceptance of the Offer.</p> <p>You may incur brokerage costs and GST on those costs, if you choose to sell your SGL Shares on ASX.</p>	
What are the consequences of doing nothing / not accepting the Offer?	<p>If you do not accept the Offer and you do not sell your SGL Shares on ASX, you will remain a SGL Shareholder and will not receive any cash consideration.</p> <p>However, AGL has stated that if it becomes entitled to compulsorily acquire your SGL Shares, it intends to do so. This means that AGL may be able to acquire your SGL Shares even if you did not accept the Offer. If this occurs, you will still receive the cash consideration but at a later date than you would have received it if you had accepted the Offer.</p>	Sections 5.11 and 6 of this Target's Statement.
What are the taxation consequences of accepting the Offer?	<p>The taxation consequences of accepting the Offer depend on a number of factors and will vary according to your particular circumstances.</p> <p>A general outline of the taxation consequences of accepting the Offer is set out in section 7 of the Bidder's Statement. However, you are encouraged to seek your own professional advice as to the taxation implications applicable to your circumstances.</p>	Section 7 of the Bidder's Statement and section 9 of this Target's Statement.
When does the Offer close?	<p>The Offer is presently scheduled to close at 7.00pm (AEDT) on 13 February 2009, but the Offer Period can be extended by AGL.</p> <p>AGL may extend the Offer Period at any time before</p>	

Question	Answer	Further Information
	giving the Notice of Status of Conditions (referred to in section 5.3 of this Target's Statement) while the Offer is subject to conditions. However, if the Offer is unconditional AGL may extend the Offer Period at any time before the end of the Offer Period.	
What are the conditions to the Offer?	The Offer is conditional on none of the events set out in section 5.2 of the Target's Statement occurring in the period between the Announcement Date and the end of the Offer Period.	Section 5.2 of the Target's Statement and section 9.8 of the Bidder's Statement.
When will I be paid if I accept the Offer?	If you accept the Offer and the Offer becomes unconditional, AGL will pay you the consideration under the Offer by the earlier of: <ul style="list-style-type: none"> • 21 days after the end of the Offer Period; or • one month after the later of receipt of your valid acceptance and the date on which the Offer becomes unconditional. 	Section 1.1 of the Bidder's Statement.
What is the effect of the Offer on SGL Options?	The Offer relates to SGL Shares which are issued following the exercise of SGL Options prior to the close of the Offer Period. No separate takeover offer is being made for SGL Options.	Section 5.12 of this Target's Statement and section 5.2 of the Bidder's Statement.
What is the effect of the Offer on SGL Convertible Notes?	The Offer relates to SGL Shares which are issued following the conversion of SGL Convertible Notes prior to the close of the Offer Period. No separate takeover offer is being made for SGL Convertible Notes.	Section 5.13 of this Target's Statement and section 5.3 of the Bidder's Statement.

SECTION 3
DIRECTORS' RECOMMENDATION

3 Directors' recommendation

3.1 Directors of SGL

As at the date of this Target's Statement, the directors of SGL are:

Name	Position
Mr Allan Campbell	Non-executive Chairman
Mr John Moore	Non-executive Director
Mr Raymond Fung	Non-executive Director
Mr Warren Murphy	Non-executive Director

Additionally, Mr Garry O'Meally acts an alternate director of SGL from time to time.

3.2 Directors' recommendation

Each of the Directors recommends that you accept the Offer, in the absence of a superior proposal.

In considering whether to accept the Offer, your Directors encourage you to:

- read this Target's Statement and the Bidder's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- obtain financial advice from your broker or financial adviser about the Offer and obtain taxation advice on the effect of accepting the Offer.

3.3 Intentions of your Directors in relation to the Offer

Each director of SGL who holds or controls SGL Shares, intends to accept the Offer in relation to those shares, in the absence of a superior proposal.

Details of the relevant interests of each Director in SGL Shares are set out in section 8.1 of this Target's Statement.

SGL will promptly advise you if there are any material developments in relation to the Offer or if alternative proposals are announced during the Offer Period.

SECTION 4
IMPORTANT MATTERS FOR SGL SHAREHOLDERS TO CONSIDER

4 Important matters for SGL shareholders to consider

4.1 The Offer

AGL's Offer is open for acceptance until 7.00pm (AEDT) on 13 February 2009, unless the Offer Period is extended. The Offer is an all cash offer and is subject to only limited conditions. AGL may only withdraw the Offer with ASIC's consent which would only be given in extremely rare circumstances. Sections 5.5 and 5.6 of this Target's Statement describe the circumstances in which AGL can extend or withdraw its Offer.

SGL announced AGL's intention to make a takeover bid on 24 December 2008. The detailed terms of the Offer are contained in the Bidder's Statement. A summary of the Offer, including its limited Conditions is contained in section 5 of this Target's Statement.

4.2 Review of SGL

4.2.1 Introduction and Summary Description

SGL is an Australian gas exploration company, the current activities of which are the development of coal seam gas (CSG) resources in New South Wales. SGL was established in 1987 and is the first CSG producer in New South Wales. It commenced delivering CSG to the Sydney gas network in May 2001.

SGL is listed on ASX and based on a closing price of \$0.275 on the Trading Day immediately prior to the Announcement Date, had a market capitalisation of approximately \$110.7 million.

During 2005 SGL entered into a joint venture with AGL for the further development of CSG in New South Wales. Under that agreement, Sydney Gas transferred 50% of its ownership of its tenements to AGL for consideration of \$42.25 million, committed to long-term (ten years with the right to a four year extension) gas sales agreements and assumed certain operational and exploration responsibilities.

SGL holds in joint venture with AGL four Petroleum Exploration Licences (PELs 2, 4, 5 and 267) covering nearly 17,468 square kilometres and five Petroleum Production Leases (PPLs 1, 2, 4, 5 and 6) covering 213 square kilometres. The joint venture comprises three projects: the Camden Project, the Hunter Project and the Sydney Project. AGL is the operator of the Camden Project and SGL is the operator of the exploration phase of the Hunter Project and the Sydney Project. Under the terms of the joint venture, SGL must relinquish to AGL operating responsibility of the Hunter Project and Sydney Project for the production phase of each of these projects.

The last certified reserves report by SGL was prepared in December 2005 and released to ASX in March 2006¹. No further reserves report has been prepared. In 2005, SGL's share of the certified reserves, all of which are located within the Camden Project was:

- 2P reserves: 41PJ; and
- 3P reserves: 54PJ.

Since then, gas has been produced from Camden and these existing certified reserves will have diminished.

¹ SGL ASX Announcement 6 March 2006.

In February 2008, SGL entered into a strategic partnership with AJ Lucas under which AJ Lucas became a substantial shareholder in SGL and also agreed to provide technical services and drilling services to SGL. The agreement involved the placement to AJ Lucas of approximately 15% of the then issued capital of SGL for a price of approximately \$18 million or \$0.340 per share and the issue of options exercisable upon certain performance criteria. As part of this partnership arrangement Andrew Lukas, a director of AJ Lucas, was appointed as CEO of SGL and Allan Campbell, the Chairman and CEO of AJ Lucas, was appointed as a non-executive Director of SGL. Mr Campbell is now the Chairman of SGL.

Subsequent to entering into these agreements, AJ Lucas made available to the Company an extra drilling rig and crew and arranged the secondment to SGL of two senior and highly qualified geologists with considerable CSG experience. Under their direction, SGL re-oriented the Company's exploration team objectives and began an intensified effort aimed at re-invigorating the Hunter Project exploration programme. The Company also undertook a corporate cost reduction exercise which reduced head office costs and greatly expanded its community and landowner communications programme in the Hunter. Finally, upon completion of the first phase of the new Hunter Project exploration programme during November 2008, SGL undertook a re-examination of geological and production data for the Camden Project. The results of these key initiatives are set out in this section.

4.2.2 Camden Project

AGL has been the operator of the Camden Project since November 2005. The SGL and AGL joint venture in relation to the Camden Project is currently producing approximately 5.4 petajoules (PJ) of gas annually at Camden which represents approximately 3.8% of the total New South Wales gas market. As at the end of December 2008, 124 wells had been drilled at Camden, of which 77 are now production wells, 7 are being prepared for production and 3 are not yet completed. The Camden Project includes the Rosalind Park Gas Plant (RPGP), completed in December 2004 which has an annual capacity of 9.6 PJ, and 85 kilometres of gathering pipelines.

The sales agreement with AGL originally planned that gas sales from the Camden Project would amount to 14.5 PJ of gas per annum by mid-2008. In addition, the joint venture with AGL provided for payment by AGL of up to a further \$51 million upon the proving up of up to an additional 500 PJ of Proved (P1) Reserves at Camden before 31 December 2008. Despite combined expenditure by the joint venture partners of approximately \$60 million on development and production infrastructure on the Camden Project from November 2005 to December 2008, neither the 14.5 PJ production target nor any increase in 1P reserves was achieved.

This description of the Camden Project reflects the limited involvement of SGL in the planning, management and operations of the Project since AGL assumed the role of operator at the end of 2005.

In 2006 the Camden Project produced 4.0 PJ of gas. In 2007 it produced 4.6 PJ of gas and in 2008 5.3 PJ of gas. In each of these years actual production did not meet original budgeted or projected production for that year, due mostly to delays in obtaining planning consents, the time required for AGL to become familiar with the Project geology, and the targeting of new production fairways to overcome the poor permeability of the original production targets.

As previously announced, in 2008 AGL as operator initiated a switch in production drilling technology from vertical wells to Surface-to-in-Seam (SIS) wells in order to increase production rates and make more efficient use of the limited drilling areas available to the joint venture. SIS wells are more expensive to drill than vertical wells but are expected to produce gas more

cheaply. AGL also proposed an increase in the number of wells to be drilled. As a consequence, SGL's drilling and development expenditure on the Camden Project has increased compared with previous years and is expected to stay at relatively high levels for at least the next two years. In addition, if the proposed SIS wells do result in materially higher levels of production, the Company anticipates that further capital expenditure may be required to increase the capacity of production infrastructure, particularly compressor capacity at the RPPG or at a new compressor station.

AGL has proposed drilling 12 SIS wells in each of 2009 and 2010 compared with 5 up until 2008. In 2006 and 2007 there were 23 wells drilled in the Camden Project, 18 of which were vertical wells. As a consequence of the increased drilling activity, AGL has forecast that production rates from the Camden Project will increase during the current year and over the next two years.

Although early results do indicate that the SIS wells will be more productive than the vertical wells previously drilled, earliest production results from the first three SIS wells now in production indicate that these wells may not be as productive as originally forecast. Nevertheless, SGL does believe that total gas production from the Camden Project will continue to increase over the next three years as a result of the SIS drilling programme.

To SGL's knowledge, AGL has not provided detailed production forecasts for the next three years because an insufficient number of the SIS wells (upon which the increase in production depends) have been brought into production. However, as advised to SGL shareholders at SGL's last AGM and announced to ASX, AGL intends to target an annual production rate of 7 PJ by the end of 2009 and 12 PJ by the end of 2011.

As disclosed in the Company's Appendix 5B reports filed with ASX, the Camden Project has historically produced negative cash flows to SGL when corporate overhead, exploration and development expenditures are taken into account. In 2007/2008, SGL's share of the Camden Project net revenue was \$6.2 million. However, SGL's share of field development expenditure was \$7.6 million, resulting in a cash flow shortfall of \$1.4 million before allocation of other fixed asset expenditure, overhead and financing costs.

In 2008/2009, if preliminary and indicative AGL production forecasts are achieved, SGL expects that the Camden Project will continue to generate negative cash flows after projected capital expenditures of \$4.1 million. Thereafter, assuming forecast production rates are maintained (which requires continual drilling of new production wells), the Company expects the Camden Project to become cash flow positive, and at an increasing rate, but not sufficiently so to offset forecast exploration and development expenditure expected to be required by the Hunter Project.

A review by the Company of historical Camden geological, exploration and production data completed in early December 2008 has led it to be concerned about the possible risk that AGL's future production targets may not be achieved, or that in order for the broad production targets to be achieved a significantly larger drilling programme may need to be established. In either event, the consequences of not achieving these targets on SGL's cash flow and funding requirements over the next three years would be significantly adverse to SGL.

4.2.3 Hunter Project

SGL is the operator of the Hunter Project. The SGL and AGL joint venture in relation to the Hunter Project covers two PELs, PEL 267 and PEL 4, over 10,126 square kilometres in the Hunter Region of New South Wales. Under the terms of the joint venture agreement with AGL, SGL must relinquish the operating responsibility of the Hunter Project upon it becoming a producing field.

An exploration programme is underway with seismic surveys, drilling of core holes and test wells and reservoir characterisation. As at the end of 2008, SGL, as operator, had drilled 13 core holes

and developed 194 kilometres of seismic data. Much of this activity has occurred since SGL entered into the drilling and technical services agreements with AJ Lucas.

Based on an internal analysis of the results of this programme and of approximately 150 additional core holes drilled by previous exploration of this area, in November 2008 SGL announced that it had calculated that total gas in place from 'accessible areas' in the Hunter Project amounted to 25,000PJ. These potential reserves are largely derived from three principal coal measures in the permit areas.

In order to develop a formal estimate of reserves in the Hunter consistent with industry practice and guidelines, significant further exploration activity is required. The Company has previously informed shareholders that initial 2P certification of approximately 70 PJ might be feasible in 2009, a total 2P certification of 200 PJ might be feasible in 2010 and a total 2P reserve of 500 PJ might be feasible in 2011.

SGL has a preliminary, high level drilling and development plan and ongoing financial model for the Hunter Project, which has allowed it to estimate the costs of proving up reserves and of developing the project as a production field at a targeted long term production rate of 30 PJ per annum. From preliminary estimates, SGL has calculated that a combined expenditure by the joint venture partners in the region of \$100 million over the next three years would be required to meet its reserve reporting targets. In addition, up to a further \$125 million of capital expenditure over the subsequent 3 years might be necessary to bring the Hunter Project into production at a meaningful level.

Should this programme be entirely successful, and assuming appropriate gas sales contracts are put in place in a timely manner, the plan indicates that first gas from the Hunter Project might flow in the 2012 fiscal year. However, the high level and preliminary financial model derived from the development plan indicates that it would take until 2016 before the Hunter Project becomes cash flow positive, and that total project expenditure of about \$300 million may be required to bring it to this stage.

All scenarios developed by the Company assume, unlike Queensland, that the NSW gas sales market will remain a domestic market, and there will be sufficient additional domestic demand in NSW to absorb up to 30 PJ per annum of gas from the Hunter Project by 2016. Any export market will require substantial 2P reserves to be established. The cost of establishing these reserves will be considerable and has not been considered at this time.

4.2.4 Sydney Project

The SGL and AGL joint venture in relation to the Sydney Project has two PELs, PEL 2 and PEL 5, covering 7,342 square kilometres in the Central Coast and Sydney region of New South Wales. SGL considers it unlikely that the Sydney Project will result in the establishment of reserves or production of CSG over the next few years, as the Company has concentrated its exploration resources in the Hunter Project.

4.2.5 Financial Profile of SGL

SGL's full year results for the year ending 30 June 2008 were published in SGL's 2008 Annual Report, which is available on SGL's website, www.sydneygas.com, and on ASX's website, www.asx.com.au.

SGL relies on certain information from AGL in respect of its joint venture with AGL to prepare its financial statements. As at the date of this Target's Statement, SGL does not have all of the information it requires to publish its half-yearly results for the period to 31 December 2008. SGL

expects to publish these half-yearly results in late February or early March 2009. Once published, the results will be available on SGL's website, www.sydneygas.com and on ASX's website, www.asx.com.au.

4.3 SGL Capital Requirements and Capital-Raising Initiatives

SGL estimates that as at 31 December 2008 cash on hand was \$12.8 million, subject to finalisation of SGL's half-yearly results for the period to 31 December 2008, as noted in section 4.2.5 above.

Following completion of its investigation of Camden Project production prospects and of the first phase of the new Hunter Project exploration programme, together with the related analysis of further exploration and development options for the Hunter Project, SGL developed a number of financial scenarios. These scenarios have allowed the Company to examine the expected ongoing capital requirements of each of its projects, the expected returns of those projects, the consequential cash flow requirements for the Company and, therefore, the total anticipated funding requirements of the Company over the next several years. Based on this review, SGL estimates that its total new funding requirements over the next three years is expected to be a minimum of \$60 million.

Over the four months to 22 December 2008, the Company held meetings with several financial advisory and broking firms to discuss possible sources of new capital for SGL and to assess the feasibility of raising approximately \$60 million. While the Company's efforts are continuing, to date the Company has been unable to obtain any assurances that the necessary amounts will be obtained and it has been unable to find a financial firm willing to underwrite any issue of new shares, at reasonable prices, in the prevailing market conditions. In addition, the Company has had meetings and discussions with Babcock & Brown to discuss alternatives to repayment of the SGL Convertible Notes due in September this year. The Company has also explored potential corporate transactions, including acquisitions for shares of similar assets with more immediate potential for realising positive cash flows. The Company has also explored the potential sale of some of its assets. None of these initiatives have been successful.

In addition, SGL has held several meetings with AJ Lucas in order to determine whether AJ Lucas would be a source of funding. The Company has been informed that AJ Lucas will support any fund-raising activity by contributing its pro-rata share of any amount to be raised, but AJ Lucas has indicated it does not intend to provide funding beyond its pro-rata share or to underwrite any share issue or provide any loans to the Company.

During November and December 2008, following the Annual General Meeting when the announcement of 25,000 PJ of gas-in-place in the Hunter Project was made, senior management and the Chairman of the Company gave presentations and conducted meetings with several institutional investors in order to further assess the possibility of raising new capital. An original presentation was provided to shareholders at the AGM on 27 November 2008 and a revised presentation used for meetings in December was lodged with ASX on 9 December 2008. In that presentation, the Company provided to shareholders and potential investors indications of a possible future market value of SGL based on its forecast of expected 2P Reserve development, by reference to recent transactions in the industry and expected gas prices at that time.

Despite this, during the period from 1 September 2008 to mid-December 2008, SGL's share price declined from \$0.335 to \$0.185 and its total market value declined from around \$135 million to around \$74 million. Due to the total amount being sought relative to the Company's market

capitalisation at the time, however, the potential dilutionary impact on existing shareholders of raising a minimum of \$60 million of new equity capital became more significant.

In addition to the funding review referred to above, the Company has also estimated economic and ownership dilutionary impact on shareholders of various capital-raising alternatives and has concluded that any new capital raising in current market conditions at a discount to the pre-Offer SGL share price would materially adversely affect current shareholders who do not participate in that capital raising.

4.4 SGL Share Price Performance

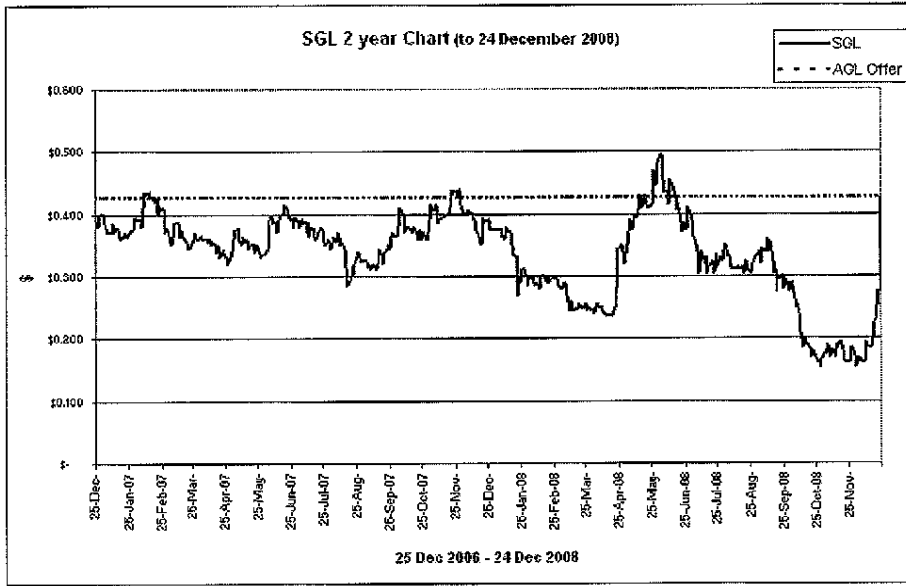
4.4.1 Recent Absolute Share Price Performance

As figure 4 below demonstrates, the SGL share price has traded in a range between \$0.150 and \$0.550 over a 2 year period. Prior, in 2006, when Queensland Gas Company Limited (**QGC**) made a scrip-based offer for SGL, the share price closed at \$0.331 on 23 January 2006 when the offer was announced and didn't exceed \$0.400 during the offer period.

The Directors note that the SGL share price appeared to respond favourably during that period to increased corporate activity in the Australian CSG sector, including the Offer by BG Group for a court approved scheme of arrangement for Origin Energy in April 2008 and subsequent off market bid for Origin Energy in June 2008 and Santos's announcement of a joint venture with Petronas on 29 May 2008. On 2 June 2008, SGL's share price reached \$0.550 per share; being the highest price in three and a half years. Thereafter, SGL's share price declined, reaching a low of \$0.150 per share in early December 2008.

Notably, in the opinion of the Directors, SGL's share price did not react significantly to the recent acquisition of the Gloucester Basin CSG project by AGL on 17 December 2008, despite the close proximity to SGL's Hunter Project. The Directors believe the sale of the Gloucester Basin Project should have been an important catalyst for value recognition of SGL and the failure of SGL's share price to respond indicates, in the Directors' view, that the market may consider factors which are additional to the Company's development prospects to be relevant to SGL's share price.

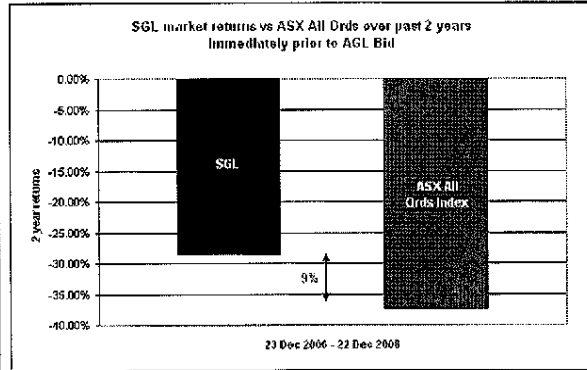
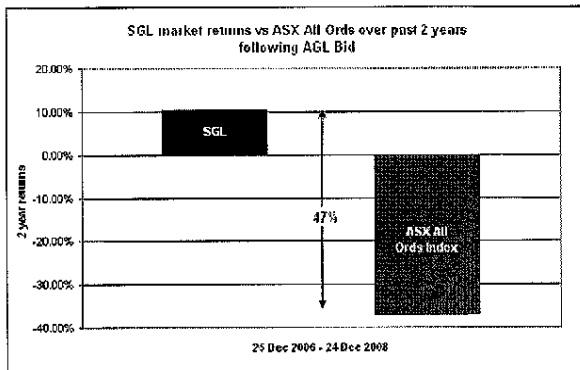
Figure 4: Sydney Gas – 2 Year Share Price (daily closing price)



4.4.2 Recent Relative Share Price Performance

In terms of relative returns to SGL shareholders over a 2 year period (see figures 5 & 6), the \$0.425 per share Offer Price provides SGL shareholders with an absolute return of approximately 10%, while the accumulated loss on the benchmark ASX All Ordinaries Index was approximately 37% for the same period, a 47% outperformance (see figure 5).

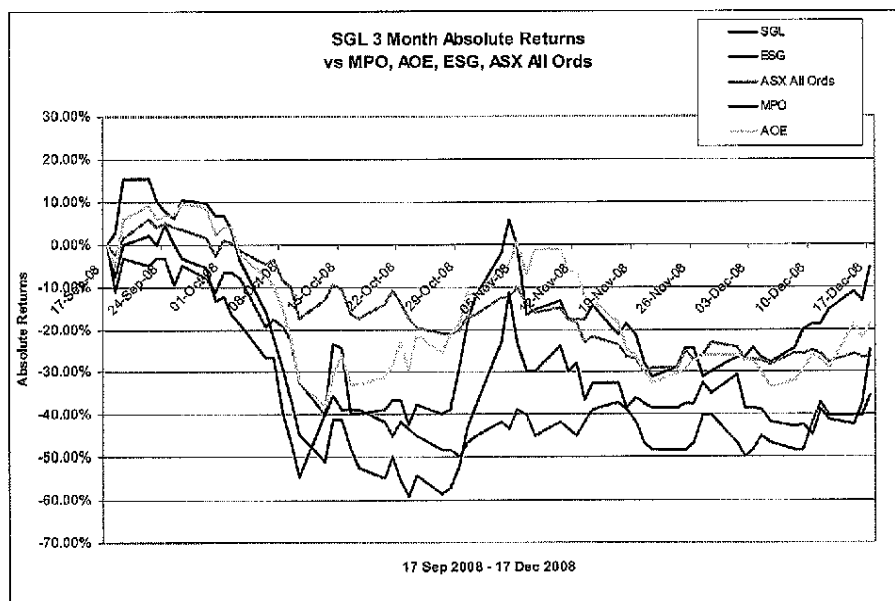
Figure 5: SGL market returns vs. ASX All Ords Index prior to AGL Bid Figure 6: SGL market returns vs. ASX All Ords index following AGL Bid



In the absence of the Offer, the loss in relative terms for SGL shareholders is approximately 29%, an outperformance of only 9% relative to the benchmark ASX All Ordinaries Index (see figure 6).

However when the performance of SGL is compared with other pure CSG explorers over the most recent 3 month period preceding the Offer, SGL's share price performs poorly relative to its peers of Arrow Energy, Molopo Australia and Eastern Star Gas and the benchmark ASX All Ordinaries Index (see figure 7 below). This relative poor performance is even more disappointing given the fact that the Company's prospects had been strongly promoted by senior management and a new board after recent reappraisal of its prospects, but still failed to engender significant support of investors in the sector.

Figure 7. SGL 3 Month Absolute returns vs. MPO, ESG, AOE and ASX All Ord's Index



4.5 Information in relation to AGL

AGL is one of Australia's major integrated energy companies with a market capitalisation of approximately \$6.9 billion as at the close of the last Trading Day prior to the Announcement Date.

During 2005 SGL entered into a joint venture with AGL to further develop its NSW coal seam natural gas assets. AGL operates the Camden Project and supports SGL's exploration of the Hunter Project.

AGL has offices and businesses in every Australian state (excluding Western Australia) and the Australian Capital Territory and as at the date of the Bidder's Statement has about 1,900 employees (excluding contractors). AGL's head office is in Sydney.

Section 2 of the Bidder's Statement provides background and information regarding AGL.

For further information regarding AGL, please visit its website at www.agl.com.au

4.6 Other alternatives to the Offer

At this stage, the Board has not received any superior proposals to AGL's Offer. However, the Board will keep shareholders informed of any material developments in that regard.

4.7 Sydney Gas share price absent the Offer

While there are many factors that influence the market price of SGL Shares, your Directors anticipate that the market price of SGL Shares may fall if AGL's Offer does not complete because the Offer does not become unconditional.

SECTION 5
KEY FEATURES OF AGL'S OFFER

5 Key features of AGL's Offer

5.1 Consideration payable to shareholders who accept the Offer

The consideration being offered by AGL is A\$0.425 cash for each SGL Share.

5.2 Conditions to the Offer

AGL's Offer is conditional on none of the following events happening between the Announcement Date and the end of the Offer Period:

- SGL converting all or any of its shares into a larger or smaller number of shares under section 254H of the Corporations Act;
- SGL or a subsidiary of SGL resolving to reduce its share capital in any way;
- SGL or a subsidiary of SGL entering into a buyback agreement or resolving to approve the terms of a buyback agreement under section 257C(1) or 257D(1) of the Corporations Act;
- SGL or a subsidiary of SGL making an issue of its shares (other than an issue of shares pursuant to the exercise or conversion of options or other securities which have been issued and notified to ASX prior to the Announcement Date) or granting an option over its shares or agreeing to make such an issue or grant such an option;
- SGL or a subsidiary of SGL issuing, or agreeing to issue, convertible notes;
- SGL or a subsidiary of SGL disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- SGL or a subsidiary of SGL charging, or agreeing to charge, the whole, or a substantial part, of its business or property;
- SGL or a subsidiary of SGL resolving that it be wound up;
- the appointment of a liquidator or provisional liquidator of SGL or of a subsidiary of SGL;
- the making of an order by a court for the winding up of SGL or of a subsidiary of SGL;
- an administrator of SGL or of a subsidiary of SGL being appointed under section 436A, 436B or 436C of the Corporations Act;
- SGL or a subsidiary of SGL executing a deed of company arrangement; or
- the appointment of a receiver, receiver and manager, other controller (as defined in the Corporations Act) or similar official in relation to the whole, or a substantial part, of the property of SGL or of a subsidiary of SGL.

(together the **Conditions**).

The Conditions are conditions subsequent. The non-fulfilment of a condition subsequent does not, until the end of the Offer Period, prevent a contract to sell your SGL Shares from arising, but it does entitle AGL by written notice to you, to rescind the contract resulting from acceptance of the Offer.

Further details on the Conditions are set out in full in section 9 of the Bidder's Statement.

As at the date of this Target's Statement, no event has occurred which would cause any of the Conditions not to be fulfilled.

5.3 Notice of Status of Conditions

Section 9.8(d) of the Bidder's Statement indicates that AGL will give a Notice of Status of Conditions to the ASX and SGL on 5 February 2009.

AGL is required to set out in its Notice of Status of Conditions:

- whether the Offer is free of any or all of the Conditions;
- whether, so far as AGL knows, any of the Conditions have been fulfilled; and
- AGL's voting power in SGL.

If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, AGL is required, as soon as practicable after the extension, to give a notice to the ASX and SGL that states the new date for the giving of the Notice of Status of Conditions.

If a Condition is fulfilled (so that the Offer becomes free of that Condition) during the bid period but before the date on which the Notice of Status of Conditions is required to be given, AGL must, as soon as practicable, give the ASX and SGL a notice that states that the particular condition has been fulfilled.

5.4 Offer Period

Unless AGL's Offer is extended or withdrawn, it is open for acceptance from 12 January 2009 until 7.00pm (AEDT) on 13 February 2009.

The circumstances in which AGL may extend or withdraw its Offer are set out in sections 5.5 and 5.6 respectively of this Target's Statement.

5.5 Extension of the Offer Period

AGL may extend the Offer Period at any time before giving the Notice of Status of Conditions (referred to in section 5.3 of this Target's Statement) while the Offer is subject to conditions. However, if the Offer is unconditional (that is, all the Conditions are fulfilled or freed), AGL may extend the Offer Period at any time before the end of the Offer Period.

5.6 Withdrawal of Offer

AGL may not withdraw the Offer if you have already accepted it. Before you accept the Offer, AGL may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

5.7 Effect of acceptance

The effect of acceptance of the Offer is set out in section 9.6 of the Bidder's Statement. SGL shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the rights attaching to their SGL Shares and the representations and warranties which they give by accepting of the Offer.

5.8 Your ability to withdraw your acceptance

You only have limited rights to withdraw your acceptance of the Offer.

You may only withdraw your acceptance of the Offer if:

- AGL varies the Offer in a way that postpones, for more than one month, the time when AGL needs to meet its obligations to pay for SGL Shares under the Offer. This will occur if AGL extends the Offer Period by more than one month and the Offer is still subject to the Conditions; and
- the Conditions have not been waived at the time of your purported withdrawal.

5.9 When you will receive your consideration if you accept the Offer

AGL will provide the consideration due to you for your SGL Shares at the earlier of 21 days after the end of the Offer Period or the later of one month after the receipt of your valid acceptance and the date on which the Offer becomes unconditional. Full details of when you will be issued your consideration are set out in section 9.9 of the Bidder's Statement.

5.10 Lapse of Offer

The Offer will lapse if the Conditions are breached, and not waived, at the end of the Offer Period; in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your SGL Shares as you see fit.

5.11 Compulsory acquisition

AGL has indicated in section 4.2 of its Bidder's Statement that if it satisfies the required thresholds, it intends to compulsorily acquire any outstanding SGL Shares.

AGL will be entitled to compulsorily acquire any SGL Shares in respect of which it has not received an acceptance of its Offer on the same terms as the Offer if, during or at the end of the Offer Period:

- AGL and its associates have a relevant interest in at least 90% (by number) of the SGL Shares; and
- AGL and its associates have acquired at least 75% (by number) of the SGL Shares that AGL offered to acquire.

If this threshold is met, AGL will have one month after the end of the Offer Period within which to give compulsory acquisition notices to SGL shareholders who have not accepted the Offer. SGL shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant shareholder to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for their SGL Shares. If compulsory acquisition occurs, SGL shareholders who have their SGL Shares compulsorily acquired are likely to be paid their consideration approximately 5 to 6 weeks after the compulsory acquisition notices are dispatched to them.

5.12 SGL Options

SGL has on issue as at the date of this Target's Statement:

- 41,254,344 AJ Lucas Options; and
- 3,855,000 additional SGL Options.

The AJ Lucas Options comprise 2 equal tranches of options (each comprising 20,627,172 options) with the first tranche having an exercise price of \$0.600 and the second tranche having an exercise price of \$0.750. The AJ Lucas Options can only be exercised if certain performance hurdles are satisfied (which relate to the level of 2P reserves of SGL and the price at which SGL Shares trade on ASX) and after the expiration of a period of time from their date of issue (2 years from issue in the case of the first tranche of AJ Lucas Options and 3 years from issue in the case of the second tranche of AJ Lucas Options).

All of the AJ Lucas Options will become immediately exercisable if any person acquires control (as that term is defined in the Corporations Act) of SGL.

The additional SGL Options on issue have exercise prices between \$0.885 and \$1.040 per SGL Share. Some of the additional SGL Options will not vest until 2010 or 2011. The Board has the discretion, in certain circumstances, subject to the Listing Rules, to vary the exercise conditions of the additional SGL Options. In the circumstances, the Board does not propose to vary the exercise conditions of the additional SGL Options.

AGL has stated in sections 5.2 and 5.3 of its Bidder's Statement that it does not intend to make takeover offers for the AJ Lucas Options and the additional SGL Options. However, if AGL proceeds to compulsory acquisition of outstanding SGL Shares at the end of the Offer Period, it is required to, and intends to, make offers to acquire all outstanding AJ Lucas Options and additional SGL Options in accordance with Part 6A.1 of the Corporations Act.

5.13 SGL Convertible Notes

In September 2006, SGL issued to Babcock & Brown 155,944 convertible notes with a maturity date of September 2009 and having a face value of \$100 per note. The SGL Convertible Notes are convertible (at the election of Babcock & Brown) into SGL Shares on the maturity date or on a redemption event which includes a change of control of SGL. The conversion price if Babcock & Brown elects to convert the SGL Convertible Notes into SGL Shares is A\$0.425 per share.

Babcock & Brown has announced its intention to convert the 155,944 SGL Convertible Notes it holds into SGL Shares and accept the resultant SGL Shares into the Offer in the absence of a superior proposal. On this basis, AGL has stated in its Bidder's Statement that it does not intend to make a separate takeover offer for the SGL Convertible Notes.

SECTION 6
YOUR CHOICES AS A SGL SHAREHOLDER

6 Your choices as a SGL shareholder

As a SGL shareholder you have three choices currently available to you:

6.1 Accept the Offer

SGL shareholders may elect to accept the Offer. SGL shareholders who accept the Offer (once the conditions are satisfied or waived) will be paid \$0.425 for each Share by the earlier of:

- 21 days after the conclusion of the Offer period; or
- one month after the later of receipt of your valid acceptance and the date on which the Offer becomes unconditional.

SGL shareholders who accept the Offer will not incur any brokerage charge.

Section 1 of the Bidder's Statement and section 7 of this Target's Statement contains further details of how to accept the Offer.

6.2 Sell your SGL Shares on market

SGL shareholders can sell their shares on the market operated by the ASX for the market price at the time. This may be above or below the Offer Price of \$0.425 per share.

AGL has stated in its Bidder's Statement that it intends to stand in the market to acquire all SGL Shares not owned by it at prices up to the Offer Price of \$0.425 cash per share during normal trading on ASX.

On 16 January 2009, SGL's Share price closed at \$0.425, which is the same as AGL's Offer Price of A\$0.425 per Share. The latest price for SGL Shares may be obtained from the ASX website www.asx.com.au.

Shareholders who sell their SGL Shares on market may incur a brokerage charge.

SGL shareholders who wish to sell their SGL Shares on market should contact their broker for information on how to effect that sale. Cash consideration for the sale of those shares will generally be available at T+3 days or 3 Trading Days after the sale.

SGL shareholders that sell their SGL Shares on market cannot subsequently accept the Offer in respect of their SGL Shares sold on market.

6.3 Do not accept the Offer and do not sell your SGL Shares on market

If you do not wish to accept the Offer or sell your SGL Shares on market you may do nothing.

Shareholders should note that if AGL satisfies the required thresholds, it will be entitled to compulsorily acquire the SGL Shares that it and its associates do not already own (see section 5.11 for further details).

If you decide to retain your SGL Shares and AGL does not become entitled to compulsory acquisition of those shares, you should consider the risk associated with a continuing investment in SGL.

If, at the end of the Offer Period, AGL is not entitled to proceed to compulsory acquisition, then any SGL Shares acquired by AGL under the Offer will reduce the number of SGL Shares which

can be expected to be available for trading on the ASX. This is likely to reduce the liquidity (the volume of trading) of SGL Shares, and may adversely affect the price at which they might otherwise be expected to trade. Directors also expect that the price of your SGL Shares will fluctuate and fall below the Offer Price, depending on SGL's operating performance, issues affecting its remaining businesses, liquidity and changes in market sentiment generally.

See section 6.4 of this Target's Statement for further details on the consequences of retaining your SGL Shares and see section 4.3 of the Bidder's Statement for details of AGL's intentions if it acquires more than 50% but less than 90% of SGL Shares.

6.4 Retaining your shares in SGL: minority shareholder consequences

AGL has indicated in its Bidder's Statement that if it becomes entitled under the Corporations Act to compulsorily acquire the remaining shares in SGL, it intends to do so. If at the end of the Offer Period AGL becomes entitled to, and does, compulsorily acquire all outstanding SGL Shares, SGL will become 100% owned by AGL and no minority shareholders will remain.

If, at the end of the Offer Period, AGL is not entitled to proceed to compulsory acquisition, then any SGL Shares acquired by AGL under the Offer will reduce the number of SGL Shares which can be expected to be available for trading on the ASX. This is likely to reduce the liquidity (the volume of trading) of SGL Shares, and may adversely affect the price at which they might otherwise be expected to trade.

Based on substantial shareholder announcements made by AGL as at 15 January 2009, AGL is expected to have an Expected Shareholding of more than 70.62% at the end of the Offer Period. In this event, AGL will be in a position to cast the majority of votes at a general meeting of SGL, even if it is not entitled to proceed to compulsory acquisition. This would enable AGL to control the composition of the SGL board, determine SGL's dividend and capital management policies and control the strategic direction of the business of SGL. Additionally, if AGL acquires more than 75% of SGL Shares, it will be in a position to cast the votes required for a "special resolution" at a meeting of SGL members. This would enable it to pass resolutions, for example, to amend the SGL constitution, approve a voluntary winding up or change SGL's name.

See section 4.3 of the Bidder's Statement for details of AGL's intentions if it acquires more than 50% but less than 90% of SGL Shares.

Additionally, if AGL acquires more than 50% of SGL Shares, this may have implications for certain material contracts to which SGL is a party, which may in turn affect SGL's future operations. In particular, a change in control of more than 50% of the shares of SGL:

- may entitle the operating committee as constituted under the terms of the Hunter Project joint venture with AGL to replace SGL as operator of the Hunter Project; and
- will entitle SGL to terminate (with no less than six months' notice) the agreements entered into with AJ Lucas to provide technical services and drilling services to SGL.

See section 10.5 of this Target's Statement for further information about these arrangements.

6.5 Directors' recommendation

However, your Directors recommend that you accept the Offer, in the absence of a superior proposal.

SECTION 7
HOW TO ACCEPT AGL'S OFFER

7 How to accept AGL's Offer

Please see section 1.2 of the Bidder's Statement for full information on how to accept the Offer.

You may only accept the Offer for all of your SGL Shares. Acceptances must be received before the 7.00pm (AEDT) on 13 February 2009 (unless the Offer Period is extended).

7.1 For issuer sponsored holdings of SGL Shares (Securityholder Reference Number beginning with "I")

To accept the Offer, complete the issuer Acceptance Form in the AGL Bidder's Statement in accordance with the instructions on it and return it to the address indicated on the issuer Acceptance Form so that it is received before 7.00pm (AEDT time) on 13 February 2009 (unless the Offer Period is extended).

7.2 For CHESS Holdings of SGL Shares (Holder Identification Number beginning with "X")

To accept the Offer, either contact your Controlling Participant (usually your broker) and instruct them to accept the Offer on your behalf, or complete the CHESS Acceptance Form (Green) in the AGL Bidder's Statement in accordance with the instructions on it and return it to the address indicated in the CHESS Acceptance Form.

7.3 SGL shareholder information line

If you have any questions in relation to this document, the Offer or how to accept the Offer, please call the SGL shareholder information line on 1300 727 413 (toll free calls made within Australia) or +61 3 9415 4239 (for calls made from outside Australia) from Monday to Friday during business hours.

SECTION 8
INFORMATION RELATING TO YOUR DIRECTORS

8 Information relating to your Directors

8.1 Interests and dealings in SGL Securities

As at the date of this Target's Statement, your Directors had the following relevant interests in SGL securities:

Director	Shares - Direct	Shares - Indirect	Options
Mr Allan Campbell	NIL	300,000	NIL
Mr John Moore	NIL	100,000	NIL
Mr Raymond Fung	500,000	NIL	NIL
Mr Warren Murphy	NIL	NIL	NIL
Mr Garry O'Meally	NIL	100,000*	NIL
Total	500,000	500,000	NIL

* Note as at the date of this Target's Statement these shares have been accepted into the Offer.

Each Director above intends to accept the Offer in respect of the SGL Shares owned or controlled by them in the absence of a superior proposal.

8.2 Dealings in SGL Shares

Except as disclosed below, no director of SGL has acquired or disposed of a relevant interest in any SGL Shares in the 4 month period ending on the date immediately before the date of this Target's Statement:

Holder of relevant interest	Date of dealing	Description of dealing
Mr Allan Campbell	None	
Mr John Moore	None	
Mr Raymond Fung	None	
Mr Warren Murphy	16 September 2008	Disposal of 500,000 SGL Shares @ \$0.3131 per share
Mr Garry O'Meally	None	

8.3 Directors interest in AGL shares

Other than as disclosed below, at the date of this Target's Statement, no Director had a relevant interest in any shares of AGL:

Director	AGL shares - Direct	AGL shares - Indirect
Mr Garry O'Meally	102,075	7,330

8.4 Dealings in AGL shares

No Director has, in the four month period immediately preceding the date of this Target's Statement, acquired or disposed of a relevant interest in any shares of AGL.

8.5 Benefits and agreements

(a) Benefits in connection with retirement from office

No person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of SGL or related body corporate of SGL.

(b) Agreements connected with or conditional on the Offer

There are no agreements made between any director of SGL and any other person in connection with, or conditional upon, the outcome of the Offer other than in their capacity as a holder of SGL Shares.

(c) Interests of Directors in contracts with AGL

No Director has any interests in any contracts with AGL save as disclosed in sections 10.2 and 10.3.

SECTION 9
TAXATION CONSEQUENCES

9 Taxation Consequences

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of taxation consequences of accepting the Offer is set out in section 7 of the Bidder's Statement.

The outline provided in the Bidder's Statement has been prepared by or on behalf of AGL (and not SGL or its Directors). It is of a general nature only and you are encouraged to seek your own specific professional advice as to the taxation implications applicable to your circumstances.

SECTION 10
OTHER MATERIAL INFORMATION

10 Other material information

10.1 Pre-bid acceptance deeds and major shareholders' intentions

As set out in section 8.2 of the Bidder's Statement, on 23 December 2008, SGL's largest shareholders, AJ Lucas and Babcock & Brown, entered into separate Pre-bid Acceptance Deeds with AGL, under which AJ Lucas and Babcock & Brown have agreed to accept or procure the acceptance of AGL's Offer by no later than 2 Business Days after the date of this Target's Statement an aggregate number of 79,570,523 SGL Shares comprising 59,570,523 SGL Shares held by AJ Lucas (representing approximately 14.8% of SGL Shares as at the Announcement Date) and 20,000,000 SGL Shares held by associates of Babcock & Brown (representing approximately 5.2% of SGL Shares as at the Announcement Date). The Pre-Bid Acceptance Deeds terminate in a number of circumstances, including where AGL fails to increase the Offer Price to match the price offered under a superior proposal. Complete copies of the Pre-Bid Acceptance Deeds are attached to a substantial holder notice in respect of SGL lodged by AGL with ASX on 24 December 2008.

As disclosed in the Bidder's Statement, AJ Lucas has also announced its intention to accept the Offer with respect to the balance of its shareholding in SGL, representing approximately 5.2% of SGL Shares as at the Announcement Date, in the absence of a superior proposal. Babcock & Brown has also announced its intention to procure the acceptance of the Offer for the balance of its shareholding in SGL and to convert the SGL Convertible Notes it holds into SGL Shares and accept the resultant SGL Shares, (which will represent approximately 8.4% of SGL Shares based on the SGL Shares on issue upon conversion), in the absence of a superior proposal.

10.2 Relationship with AJ Lucas

Allan Campbell, the Chairman of SGL, is also Chairman, CEO and a shareholder of AJ Lucas. SGL's CEO, Andy Lukas, is a non-executive director and a shareholder of AJ Lucas.

As noted above, AJ Lucas is a substantial shareholder of SGL and has entered into a Pre-bid Acceptance Deed with AGL. AJ Lucas Group Limited (AJ Lucas) is a company listed on ASX, which provides infrastructure engineering, project management, drilling, and construction services to various sectors including for coal seam methane projects. AJ Lucas provides drilling services to AGL and AGL joint ventures under a number of agreements, which were in place prior to the announcement of the Offer, all of which are on arms length terms. AJ Lucas is a party to a certain agreements with SGL in relation to drilling and technical services, further details of which are set out in section 10.5 of this Target's Statement.

10.3 Relationship with Babcock & Brown

Raymond Fung and Warren Murphy, who are directors of SGL, are senior executives of and hold securities in Babcock & Brown. As noted above, Babcock & Brown is a substantial shareholder of SGL and holds SGL Convertible Notes and has entered into a Pre-bid Acceptance Deed with AGL.

10.4 Bid implementation agreement

On 23 December 2008, SGL entered into an agreement with AGL in respect of the Offer. Under that agreement:

- (a) the board of SGL has agreed to unanimously recommend that SGL shareholders accept the Offer in respect of their SGL Shares and not change that recommendation, in the absence of a superior proposal emerging;
- (b) SGL must provide on a timely basis any assistance and information reasonably requested by AGL to enable AGL to prepare and finalise its Bidder's Statement;
- (c) SGL must provide AGL and its advisors with a reasonable opportunity to review and comment on a draft of this Target's Statement prior to lodgement of this Target's Statement with ASIC;
- (d) SGL has agreed to lodge this Target's Statement with ASIC by the 7th day after AGL has given notice under section 633 item 9 of the Corporations Act that it has completed its despatch of its Bidder's Statement to SGL shareholders but in any event not before 19 January 2009; and
- (e) SGL covenants that it will, in the period between the Announcement Date and the close of the Offer, conduct the business of SGL in the ordinary course and keep all SGL petroleum titles in good standing.

10.5 Material contracts

- (a) **AGL Joint venture agreements** - In November 2005 SGL entered into a joint venture with AGL (comprised of three joint venture agreements) covering the petroleum assets of SGL in NSW. Under the terms of the joint venture agreements SGL and AGL agreed to share in all exploration and production development expenses, as well as all sales revenues. AGL paid SGL \$42.25 million for its 50% share of the joint venture.

A change of control of SGL may entitle the operating committee as constituted under the terms of the Hunter Project joint venture arrangements with AGL to replace SGL as operator of the Hunter Project.
- (b) **SGL Convertible Notes** - In September 2006, SGL entered into a convertible note facility agreement with Babcock & Brown to issue the SGL Convertible Notes to Babcock & Brown. See section 5.13 of this Target's Statement for further details of the SGL Convertible Notes.
- (c) **AJ Lucas agreements** - In May 2008, SGL entered into agreements with AJ Lucas to provide technical services and drilling services to SGL. A change of control of SGL will entitle SGL to terminate (with no less than six months' notice) these agreements.

10.6 Retention arrangements

As at the date of this Target's Statement, no retention arrangements have been entered into. SGL may enter into retention arrangements with some SGL employees who are not Directors in the form of retention payments to protect the business of SGL during the Offer Period. These payments will be subject to Board approval.

10.7 Issued capital

As at 16 January 2009, the issued capital of SGL consisted of:

- 402,543,433 fully paid ordinary shares
- 45,109,344 SGL Options and
- 155,944 SGL Convertible Notes.

10.8 Substantial holders

As at 16 January 2009, SGL has 3 substantial shareholders:

Shareholder	Number of Shares	% Voting power
AGL Energy Limited	256,135,574	63.63%
AJ Lucas Group Limited	80,508,207	19.99%
ANZ Nominees Limited	22,235,902	5.52%

Babcock & Brown also holds shares in SGL as referred to in section 3.3 of the Bidder's Statement. The shareholdings of AJ Lucas and Babcock & Brown will change in accordance with the arrangements described in the Bidder's Statement and in sections 1.1 and 10.1 of this Target's Statement.

10.9 Consents

AGL, AJ Lucas, Tricom Equities Limited and Corrs Chambers Westgarth have given and have not, before the date of this Target's Statement, withdrawn their consent:

- to be named in this Target's Statement in the form and context in which they are named;
- for the inclusion of their respective reports or statements (if any) attributed to them and the references to those reports or statements in the form and context in which they are included in this Target's Statement; and
- the inclusion of other statements in this Target's Statement which are based on or referable to statements made in those reports or statements, or which are based on or referable to other statements made by those persons in the form and context in which they are included.

Each of the above persons:

- does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this section with the person's consent.

As permitted by ASIC Class Order 01/1543 this Target's Statement contains statements which are made, or based on statements made, in documents lodged by AGL with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX, by AGL. Pursuant to the Class Order, the consent of AGL is not required for the inclusion of such statements in this Target's Statement. Any SGL shareholder who would like to receive a copy of any of those

documents may obtain a copy (free of charge) during the Offer Period by contacting the SGL shareholder information line on 1300 727 413 (for calls made from Australia), or +61 3 9415 4239 (for calls made from outside Australia) from Monday to Friday during normal business hours.

In addition, as permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or a published book, journal or comparable publication.

10.10 Continuous Disclosure

SGL is a disclosing entity under the Corporations Act and subject to regular reporting and disclosure obligations under the Corporations Act and the listing rules of the ASX. These obligations require SGL to notify the ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, SGL has an obligation (subject to limited exceptions) to notify the ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of SGL Shares.

Copies of the documents filed with the ASX may be obtained from the ASX website at www.asx.com.au and SGL's website at www.sydneygas.com.

In addition, SGL will make copies of the following documents available for inspection at Level 11, 1 O'Connell Street, Sydney, New South Wales, Australia (between 9.00am and 5.00pm on Business Days):

- its 2008 Annual Report;
- its constitution; and
- any continuous disclosure document lodged by SGL with the ASX between the lodgement of its 2008 Annual Report on 28 October 2008 and the date of this Target's Statement. A list of these documents is included in the Annexure.

A copy of these documents may be requested to be provided free of charge by contacting the SGL shareholder information line on 1300 727 413 (for calls made from Australia), or +61 3 9415 4239 (for calls made from outside Australia), Monday to Friday during normal business hours.

Copies of documents lodged with ASIC in relation to SGL may be obtained from, or inspected at, an ASIC office.

10.11 No other material information

This Target's Statement is required to include all the information that SGL shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any director of SGL.

The directors of SGL are of the opinion that the information that SGL shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in SGL's releases to the ASX, and in the documents lodged by SGL with ASIC before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The Directors of SGL have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate. However, the Directors of SGL do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors of SGL have had regard to:

- the nature of the SGL Shares;
- the matters that shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to shareholders' professional advisers; and
- the time available to SGL to prepare this Target's Statement.

SECTION 11
GLOSSARY AND INTERPRETATION

11 Glossary and interpretation

11.1 Glossary

In this Target's Statement defined terms have the meanings set out below:

Term	Meaning
1P	reserves with at least a 90% probability that the quantities actually recovered will meet or exceed the estimate.
2P	reserves which consist of 1P reserves plus probable reserves and which, taken together, have at least a 50% probability that, the quantities actually recovered will meet or exceed the estimate.
3P	reserves which consist of 2P reserves plus possible reserves and which, taken together, have at least a 10% probability that the quantities actually recovered will meet or exceed the estimate.
\$, A\$ or AUD	Australian dollar.
Acceptance Forms	the form of acceptance of the Offer enclosed with the Bidder's Statement or, as the context requires, any replacement or substitute acceptance form provided by or on behalf of AGL (and includes, to avoid doubt, both the Issuer Acceptance form (Blue) and the CHES Acceptance Form (Green)).
AEDT	Australian Eastern Daylight Savings Time.
AGL	AGL Energy Limited ACN 115 061 375
AJ Lucas	AJ Lucas Group Limited ACN 060 309 104
AJ Lucas Options	the options issued to AJ Lucas as described in Section 5.2 of the Bidder's Statement.
Announcement Date	24 December 2008
Associate	has the meaning given to that term in Section 12 of the Corporations Act.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange Limited.
ASX All Ordinaries Index	The All Ordinaries index is Australia's premier market indicator. The index represents the 500 largest companies listed on the Australian Stock Exchange.
Bidder's Statement	means the bidder's statement of AGL dated 24 December 2008 as supplemented by the First Supplementary Bidder's Statement, unless the context otherwise requires.
Board	the board of directors of SGL.

Term	Meaning
Business Day	a day on which banks are open for business in Sydney, excluding a Saturday, Sunday or public holiday.
Camden Project	the joint venture between AGL and SGL covering Petroleum Production Licences 1, 2, 4, 5 and 6.
CGT	capital gains tax.
Conditions	The conditions set out in section 5.2 of this Target's Statement.
Corporations Act	the Corporations Act 2001 (Cth) (as modified or varied by ASIC).
CSG	means coal seam gas (or methane), being gas (principally methane) extracted from coal seams and being suitable (generally after treatment) for sale as natural gas.
Directors	the directors of SGL.
Expected Shareholding	<p>means the expected shareholding of AGL at the close of the Offer Period², of at least 310,215,118 SGL Shares or approximately 70.62% of SGL's share capital³, which includes:</p> <ul style="list-style-type: none"> • 172,779,924 SGL Shares acquired by AGL through on-market acquisitions as disclosed in substantial shareholder notices filed by AGL as at 15 January 2009; • a relevant interest in 234,281 SGL Shares as a result of AGL's receipt of acceptances of the Offer as disclosed in substantial shareholder notices filed by AGL as at 15 January 2009; • a relevant interest in 79,570,523 SGL Shares through acceptances or the procurement of acceptances by AJ Lucas and Babcock & Brown under the Pre-bid Acceptance Deeds⁴; • 36,692,706 SGL Shares⁵ through the acceptance by Babcock & Brown into the Offer of SGL Shares which result from the conversion of its SGL Convertible Notes, as noted in AGL's Bidder's Statement; and • 20,937,684 SGL Shares through the acceptance by AJ Lucas of the Offer in respect of the balance of its shareholding in SGL, as noted in AGL's Bidder's Statement. <p>Babcock & Brown have also announced that they intend to accept the Offer in respect of the balance of their shareholding in SGL.</p>

² Assuming no superior proposal for SGL emerges, there are no breaches of Conditions and there are no withdrawals of acceptances.

Term	Meaning
First Supplementary Bidder's Statement	means the first supplementary bidder's statement of AGL dated 13 January 2009.
Hunter Project	the joint venture between AGL and SGL covering Petroleum Exploration Licences 267 and 4.
Listing Rules	Listing rules of the ASX.
Notice of Status of Conditions	AGL's notice disclosing the status of the conditions to the Offer which is required to be given by subsection 630(3) of the Corporations Act.
Offer or AGL's Offer	the Offer by AGL for the SGL Shares, which Offer is contained in section 8.1 of the Bidder's Statement.
Offer Period	the period during which the Offer will remain open for acceptance in accordance with section 9.3 of the Bidder's Statement.
Offer Price	the price offered by AGL under the Offer, being \$0.425 per SGL Share.
PJ	petajoules, being one million gigajoules. A measure of energy.
possible reserves	means those additional reserves which analysis of geosciences and engineering data suggest are less likely to be recoverable than probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of proved plus probable plus possible (3P) reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
probable reserves	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserve (2P). In this context, when probabilistic methods are used, there should be at least of 50% that the actual quantities recovered will equal or exceed the 2P estimate.
Pre-bid Acceptance Deeds	The pre-bid acceptance deeds entered into between AGL and each of AJ Lucas and Babcock & Brown on 23 December 2008 as further described in section 8 of the Bidder's

³ Based on the diluted total issued share capital of SGL (439,236,139 SGL Shares) upon conversion of the SGL Convertible Notes. Babcock & Brown have announced that they intend to convert the SGL Convertible Notes and accept the resultant shares into the Offer.

⁴ As disclosed in AGL's notice of initial substantial holder notice dated 24 December 2008.

⁵ Based on the exchange ratio in the terms of the SGL Convertible Notes and assuming no interest has accrued.

Term	Meaning
	Statement.
Reserve	means those estimated quantities of natural gas which it is anticipated can be recovered from a given date forward and categorised as proved reserves plus probable reserves using the 1997 definitions of oil and gas reserves adopted by the Society of Petroleum Engineers (SPE) and World Petroleum Congress.
SGL or Company	Sydney Gas Ltd ACN 003 324 310
SGL Convertible Notes	convertible notes issued by SGL to Babcock & Brown as described in section 5.13 of this Target's Statement.
SGL Options	any options to acquire SGL Shares that have been granted by SGL and includes the AJ Lucas Options.
SGL Shares	fully paid ordinary shares in the capital of SGL.
Sydney Project	the joint venture between AGL and SGL covering Petroleum Exploration Licences 5 and 2.
Target's Statement	this document (including the annexures), being the statement of SGL under Part 6.5 Division 3 of the Corporations Act.
Trading Day	Has the meaning given to it in the Listing Rules.
VWAP	volume-weighted average share price.
2008 Annual Report	SGL's Annual Report for the year ended June 2008, which was lodged with the ASX on 28 October 2008.

11.2 Interpretation

In this Target's Statement:

- (a) Other words and phrases have the same meaning (if any) given to them in the Corporations Act.
- (b) Words of any gender include all genders.
- (c) Words importing the singular include the plural and vice versa.
- (d) An expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa.
- (e) A reference to a section, clause, annexure and schedule is a reference to a section of, clause of and an annexure and schedule to this Target's Statement as relevant.
- (f) A reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them.
- (g) Headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement.
- (h) A reference to time is a reference to Sydney time.

SECTION 12
AUTHORISATION OF TARGET'S STATEMENT

12 Authorisation of Target's Statement

This Target's Statement has been approved by a resolution passed by the Directors of SGL. All SGL Directors voted in favour of that resolution.

Signed for and on behalf of SGL:

A handwritten signature in black ink, appearing to read "Allan Campbell". The signature is written in a cursive style with a large initial 'A'.

Allan Campbell
19 January 2009

Annexure

ASX Announcements

The following announcements have been made to the ASX concerning SGL since the release of its 2008 Annual Report on 28 October 2008.

Date	Announcement
19/01/2009	Change in substantial holding from AGK
16/01/2009	Change in substantial holding from AGK
15/01/2009	Change in substantial holding from AGK
14/01/2009	Change in substantial holding from AGK
14/01/2009	Change in substantial holding from AGK
13/01/2009	Change in substantial holding from AGK
13/01/2009	AGL Supplementary Bidder's Statement
12/01/2009	AGK: Dispatch of Bidder Statement
12/01/2009	Change in substantial holding from AGK
09/01/2009	Change in substantial holding from AGK
08/01/2009	Form 605 - Notice of ceasing to be a substantial holder
08/01/2009	Change in substantial holding from AGK
07/01/2009	Change in substantial holding from AGK
06/01/2009	Change in substantial holding from AGK
06/01/2009	Change in substantial holding from AGK
02/01/2009	Change in substantial holding from AGK
31/12/2008	Change in substantial holding from AGK
30/12/2008	Change in substantial holding from AGK
29/12/2008	Change in substantial holding from AGK
24/12/2008	Becoming a substantial holder from AGK
24/12/2008	Change in substantial holding-SGL (Sched2)
24/12/2008	Change in substantial holding
24/12/2008	BNB Signs Pre-Bid Agreement Over Sydney Gas Securities
24/12/2008	AGK: Offer by AGL Energy Limited to acquire Sydney Gas Ltd
24/12/2008	AJL: AJ Lucas stake in Sydney Gas valued at \$34 million
24/12/2008	Takeover offer by AGL

Date	Announcement
24/12/2008	AGK: AGL announces \$171m takeover offer for Sydney Gas Ltd
23/12/2008	Trading Halt
12/12/2008	Appointment of Alternate Director
09/12/2008	Investor Update - December 2008
08/12/2008	Hunter Exploration Update
27/11/2008	Sydney Gas - Results of AGM
27/11/2008	Appendix 3Z - Final Directors Interest Notice x 2
27/11/2008	Sydney Gas announces 25,000 PJ in the Hunter Valley
27/11/2008	Sydney Gas` Chairman`s and CEO`s presentation at AGM
24/11/2008	OPEN BRIEFING. SYDNEY GAS. CEO ON GROWTH STRATEGY
20/11/2008	Sydney Gas announces new Chairman and Board Renewal
18/11/2008	Sydney Gas AGM - Additional Resolution
31/10/2008	First Quarter Activity Reports to 30 September 2008
29/10/2008	Hunter exploration further update

Corporate Directory

Company

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www.sydneygas.com

Directors

Allan Campbell – Non-executive Chairman
John Moore – Non-executive Director
Raymond Fung – Non-executive Director
Warren Murphy – Non-executive Director

Company Secretary – Frank Krstic

Financial Advisers

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Governor Phillip Tower
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Australia

Legal Adviser

Corrs Chambers Westgarth
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

Share Registry

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