



ASX RELEASE

Monday, 2 July 2007

### **Supplementary Prospectus**

Australian Power & Gas Company Limited (ASX: **APK**) advises that it has lodged today with the Australian Securities and Investment Commission (**ASIC**) a supplementary prospectus. This lodgement updates the information contained in the prospectus lodged with ASIC on 8 June 2006.

**The initial prospectus, and this supplementary prospectus, has been prepared for the purposes of satisfying the secondary sale provisions of the Corporations Act 2001. The lodgements are to ensure the previously announced share issues to Cornell Capital Partners, LP and Fortress Credit (Australia) II Pty Limited (Fortress) do not breach the secondary share provisions.**

During its recent restructuring into a leading new entrant to the Australian energy market, APK was suspended for more than 5 days. Accordingly a normally applied exemption of issuing a simple statement under Section 708 of the Corporations Act at the time of new securities issues is not available to APK and a prospectus is required to be lodged from the time securities were issued.

APK will be issuing additional supplementary prospectus when material differences arise between previous lodgements and actual events, until January 2008.

### **For further information please contact:**

Enquiries  
James Myatt  
Chief Executive  
Australian Power & Gas  
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**AUSTRALIAN POWER AND GAS COMPANY LIMITED**  
**ABN 96 077 206 583**

**SUPPLEMENTARY PROSPECTUS**

**1. IMPORTANT INFORMATION**

This Supplementary Prospectus is dated 2 July 2007 and is supplementary to the prospectus dated 8 June 2007 issued by Australian Power and Gas Company Limited (ABN 96 077 206 583) (**Company**) (**Prospectus**).

This Supplementary Prospectus was lodged with the Australian Securities and Investments Commission (**ASIC**) on 2 July 2007. The ASIC does not take any responsibility for the contents of this Supplementary Prospectus.

This Supplementary Prospectus must be read together with the Prospectus. If there is a conflict between the Prospectus and this Supplementary Prospectus, this Supplementary Prospectus will prevail. Terms and abbreviations defined in the Prospectus have the same meaning in this Supplementary Prospectus.

This Supplementary Prospectus will be issued with the Prospectus and may be accessed on the Internet at [www.asx.com.au](http://www.asx.com.au).

This document is important and should be read in its entirety.

**2. FURTHER DISCLOSURE**

This Supplementary Prospectus varies the Prospectus by replacing Section 4.2 with the following and including a new Section, Section 4.6.4:

**4.2 Institutional Offer**

(a) **Fortress A\$10 Million Convertible Note Investment**

Fortress Credit Corporation (Australia) II Pty Ltd (**Fortress**), through a wholly owned subsidiary, has agreed to subscribe for a second ranked secured A\$10 million convertible note in the Company (**Fortress Convertible Note**). The Fortress Convertible Note carries a 6% coupon and a four-year term. The Fortress Convertible Note was executed on 22 June 2007 and is subject to shareholder approval. The A\$10 million will be available in two A\$1 million lots and four A\$2 million lots. The timing of each drawing under the Fortress Convertible Note will be in accordance with the schedule below, subject to the Company meeting the conditions precedent set by Fortress, including the following relevant customer sign-up targets and the Company's Share price meeting minimum price thresholds.

Conditions precedent to draw on Convertible Note Facility	Minimum Share price	Investment A\$
Execution of the Fortress Convertible Note on 22 June 2007	Unconditional	1,000,000
20,000 Customers	Unconditional	1,000,000
40,000 Customers	Unconditional	2,000,000
60,000 Customers	\$1.05	2,000,000
80,000 Customers	\$1.20	2,000,000
100,000 Customers	\$1.40	2,000,000
<b>Total</b>		<b>10,000,000</b>

Share price calculated as the lower of (a) the 10 day historical volume weighted average price (**VWAP**) quoted on the ASX calculated from the date the Company meets the minimum customer number hurdle rates and (b) the closing price of Shares quoted on the ASX on the Business Day immediately preceding the date on which the Company proposes to issue notes.

The Fortress Convertible Note is convertible in accordance with the following terms:

Advance	Conversion Price
1 <sup>st</sup> Advancement of \$1M	<p>Share price calculated as the lower of:</p> <ul style="list-style-type: none"> <li>(a) the 10 day historical VWAP calculated from the date the Company meets the minimum customer number hurdle rates; and</li> <li>(b) the closing price of Shares quoted on the ASX on the Business Day immediately prior to the date on which the Company proposes to issue notes.</li> </ul> <p>The Share price calculated using the above methodology shall have a cap of \$0.75. Upon issue on 22 June 2007, this was calculated as \$0.64.</p>

2 <sup>nd</sup> Advancement of \$1M	<p>Share price calculated as the lower of:</p> <ul style="list-style-type: none"> <li>(a) the 10 day historical VWAP calculated from the date the Company meets the minimum customer number hurdle rates; and</li> <li>(b) the closing price of Shares quoted on the ASX on the Business Day immediately prior to the date on which the Company proposes to issue notes.</li> </ul> <p>The Share price calculated using the above methodology shall have a cap of \$0.75.</p>
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3 <sup>rd</sup> Advancement of \$2M	<p>Share price calculated as the lower of:</p> <ul style="list-style-type: none"> <li>(a) the 10 day historical VWAP calculated from the date the Company meets the minimum customer number hurdle rates; and</li> <li>(b) the closing price of Shares quoted on the ASX on the Business Day immediately prior to the date on which the Company proposes to issue notes.</li> </ul> <p>The Share price calculated using the above methodology shall have a cap of \$1.00.</p>
Remaining Advances	<p>Share price calculated as the lower of:</p> <ul style="list-style-type: none"> <li>(a) the 10 day historical VWAP calculated from the date the Company meets the minimum customer number hurdle rates; and</li> <li>(b) the closing price of Shares quoted on the ASX on the Business Day immediately prior to the date on which the Company proposes to issue notes.</li> </ul> <p>The Share price calculated using the above methodology shall have a collar of \$0.75 and a cap of \$1.00.</p>

If the Fortress Convertible Note is not converted, it shall be mandatorily repaid following the expiration of 4 years from the date of the first advance, being 22 June 2011.

In addition to the Shares, Fortress will receive 3,500,000 Options pursuant to an Option Deed dated 22 June 2007 (Option Deed) upon shareholder approval. The Options are convertible at the lower of \$0.75 and the 10 day VWAP on the Business Day immediately preceding the date of the Option Deed. The Options have an exercise period of 5 years from the date of the Option Deed. Further to the execution of the agreement on 22 June 2007, the conversion price is calculated at \$0.64.

The Convertible Note is secured by a second ranking fixed and floating charge. The Company has paid an establishment fee of \$500,000, with provision for a portion of this amount to be rebated to the Company in certain defined circumstances. If the Company has not made use of the Fortress Convertible Note by the second anniversary of the Fortress Convertible Note, it must immediately pay to Fortress a break fee of \$500,000.

#### **4.6.4 General Effect on Proforma Balance Sheet and Capital Structure**

Since the date of the Prospectus, various conditions in the Fortress Convertible Note and Cornell Standby Equity Facility and Convertible Loan agreements have been calculated and set. The following original assumptions have been clarified as follows:

- (a) under the Cornell Standby Equity Facility, the advance of \$100,000 has been issued at a price of \$0.59878 through the allotment of 167,006 Shares;
- (b) under the Cornell Standby Equity Facility, a total of \$324,750 in expenses was previously assumed to be paid in cash. A portion totalling \$166,667 has been paid through the issue of Shares at \$0.67 or 248,757 Shares;
- (c) the conversion price of the 3,500,000 Options granted to Fortress as outlined in Section 4.2 has been set at \$0.64, being the 10 day VWAP of the Shares prior to the execution of the Fortress Convertible Note; and
- (d) Section 4.6.4(c) has a resultant effect on calculating the embedded derivative liability and corresponding Other Financial Asset in accordance with AASB139 Financial Instruments: Recognition and Measurement.

The main effects of the above items on the Capital Structure set out in 4.5 of the Prospectus and the Proforma Balance Sheets set out in Section 4.6.2 of the Prospectus are:

#### **Capital Structure**

Assuming that the Company issues Shares under the Institutional Offer, the capital structure of the Company following completion of the Offer and the Institutional Offer based on the assumptions originally noted and revisions above and assuming full conversion of all facilities into Shares will be as set out below:

<b>Shares</b>	<b>Base Case</b>	<b>Scenario A</b>	<b>Scenario B</b>	<b>Scenario C</b>
Current Shares on issue	84,647,342	84,647,342	84,647,342	84,647,342
Shares offered pursuant to the Offer	20,000	20,000	20,000	20,000
Standby Equity Facility with Cornell Capital Partners	167,006	167,006	167,006	167,006
Expenses of Standby Equity Facility with Cornell Capital Partners paid through Shares	248,757	248,757	248,757	248,757
Convertible Note Facility with Cornell Capital Partners	6,024,096	4,016,064	3,012,048	5,271,084
Convertible Note Facility with Fortress	2,991,071	6,800,595	10,800,595	11,657,738
<b>Total</b>	<b>94,098,272</b>	<b>95,899,764</b>	<b>98,895,748</b>	<b>102,011,927</b>

### **Pro-forma Consolidated Balance Sheet**

The effect on the Pro-forma Consolidated Balance Sheet is summarised below:

- (a) Cash and cash equivalents increases by \$166,667;
- (b) Other financial assets decreases by \$89,397;
- (c) Total non - current liabilities under no conversion assumption increases by \$4,236;
- (d) Total non - current liabilities under full conversion assumption remain unchanged;
- (e) Issued capital increases by \$162,431;
- (f) Reserves decreases by \$89,397;
- (g) Accumulated losses under no conversion assumption remains unchanged; and
- (h) Accumulated losses under full conversion assumption decreases by \$4,236.

On completion of the Institutional Offer, 4,700,000 Options will be issued. If these Options are exercised, the Company may receive up to an additional \$3,233,600 prior to the expiry date of the Options, a decrease of \$175,000 from the amount stated in Prospectus.

### **3. ADDITIONAL MATTERS**

The Company also notes that subsequent to the lodgement of the Prospectus with ASIC, Mr John Marshall has resigned as a director of the Company, effective as at 25 June 2007.

#### 4. DIRECTORS' AUTHORISATION

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with the ASIC.

A handwritten signature in black ink, appearing to read 'R. Poole', with a long horizontal flourish extending to the right.

Signed for and on behalf of  
**AUSTRALIAN POWER AND GAS COMPANY LIMITED**  
by Richard Poole

Note: All other details in relation to the terms of the Offers and other matters under the Prospectus remain unchanged.