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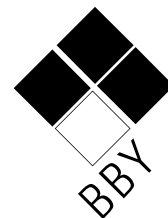
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Linc Energy Limited

On Track to Convert Clean Coal into Diesel Fuel

LNC

\$0.18

BUY

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BBY maintains its BUY recommendation on Linc Energy (LNC) with a DCF valuation of A\$1.52/s and 12-month price target of A\$0.60/s. At its recent AGM, the company issued a progress report on its operations. We highlight that the company is now less than 7 months away from the commissioning of its pilot plant (May/June 2007 - significantly ahead of prospectus forecasts). BBY expects a re-rating of the stock as the company progresses towards this key milestone. We also note a considerable amount of media interest in clean-coal technology, driven by the worldwide focus on climate change. The company is well advanced in: (i) its coal drilling exploration program, (ii) the initial design of the Gas to Liquids (GTL) demonstration plant, (iii) EIS and Approvals, and (iv) the appointment of experienced personnel to drive the project.

Key areas of progress

- ▶ **Drilling Exploration Program** – 31 open holes of drilling and 11 core drilling holes have now been completed. The company has said that the early results are very pleasing but have not yet released the details. The company will extend the drilling program which is anticipated to be completed in early 2007. LNC has bought its own drill well to fast-track this process.
 - Interim drilling results to be released within the next 2-3 weeks. (Chinchilla has an estimated coal deposit of 300Mt)
- ▶ **GTL Pilot Plant** – Initial design of c.90% of the plant has now been completed through design engineers and world renown MegChem. LNC will now be moving onto the procurement of the necessary equipment. (Costs to be broadly in line with initial budget estimate of between A\$5m-6m)
- ▶ **Environmental Impact Statement (EIS) and Approvals** – LNC has completed its terms of reference for the EIS and this has now been submitted for the 20,000 barrel per day plant. It is expected that this will take another 12-18 months to complete, as expected.
- ▶ **LNC's Team and Personnel** – Experienced team assembled to date to lead the company to the next level of the project.

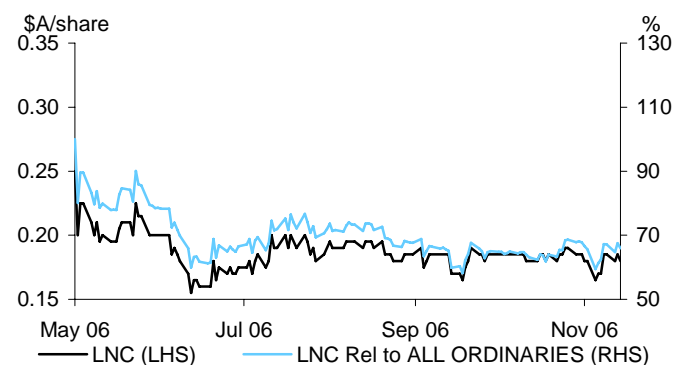
Our View

It is BBY's view that the company is on track to construct a world-class GTL project. BBY anticipates that the company will have cash of c.A\$5m once the pilot plant has been constructed, in-line with prospectus forecasts. We anticipate the cash burn thereafter being c.A\$0.3m per month. The company continues to de-risk the project as it progresses through the development stages. There are new members of the management team and strong relationships already established with credible parties including BP Australia, MegChem, Syntroleum Corporation and Witts University. We would expect the stock to trade higher in the near term.

Company Data

Number of shares	320.8M
Market capitalisation	\$57.74M
12 month high/low	\$0.25 / \$0.15
Average monthly turnover	\$0.25 / \$0.15
All Ordinaries Index	\$1.1M
% All Ordinaries	5433
% of S&P/ASX 200 Index	n/a

LNC versus ALL ORDINARIES



Key Milestone Timing

- ▶ **Interim drilling results** – within the next 2-3 weeks
- ▶ **Pilot Plant Pouring of Cement** – within the next 4-8 weeks
- ▶ **Finalisation of management team** – within the next 2 months
- ▶ **Commissioning of GTL pilot plant** – May/June 2007

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ANALYSIS OF INTEGRATED GAS PRODUCTION & GTL (A\$)

Gas Production

Plant capacity	20,000 bbl/day		
Availability Factor	90.4 %	Plant Availability Time	7,920 hours / year
Gas Production	1,397,023 Nm3 / hour	Total Gas Production	11,064,424,587 Nm3 / year
Gas Calorific Value	5.23 MJ / Nm3	Total Energy Output	57,866,941 GJ / year

By-Product Production - Hydrocarbons

Hydrocarbon Production	15.27 g / Nm3	Total Hydrocarbon Production	168,996 tn / year
Sale Value of Hydrocarbons	100 \$ / tn	Total Hydrocarbon Revenue	16,899,589 \$ / year

By-Product Production - Naphtha

Naphtalene Production	10.16 g / Nm3	Total Naphtalene Production	112,415 tn / year
Sale Value of Naphtha	400 \$ / tn	Total Naphtalene Revenue	44,965,822 \$ / year

Diesel Production

GTL Plant Energy Efficiency	70 %	Diesel Calorific Value	6.137 GJ / barrel
Maximum Energy Output	40,506,858 GJ / year	Maximum Diesel Production	6,600,003 barrels / year
Availability Factor - year 1	85.0 %	Diesel Production - year 1	5,610,003 barrels / year
Availability Factor - year 2	90.0 %	Diesel Production - year 2	5,940,003 barrels / year
Availability Factor - years 3+	95.0 %	Diesel Production - years 3+	6,270,003 barrels / year
Diesel Selling Price * 52 US\$ / bbl	74.29 \$ / barrel	Total Diesel Revenue (Year 3+):	465,771,640 barrels / year
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre

Economic Factors

Debt	60.0 %
Equity	40.0 %
Exchange Rate \$/US\$	0.7

WACC:

15.0 %

Capital Expenditure Details

Gas Process Plant	70,000,000 \$		
Clean Up Plant	180,000,000 \$	Total Capital Required	650,000,000 \$
GTL Plant	400,000,000 \$		

Operating Costs

Gas Process Plant	28,900,000 \$ / year		
Clean Up Plant	14,200,000 \$ / year		
GTL Plant	50,000,000 \$ / year	Total Opex	93,100,000 \$ / year

Summary per year (no inflation)

Total Revenues (year 3+)	527,637,051 \$ / year
Total Opex	93,100,000 \$ / year
Total Site Admin Cost	4,000,000 \$ / year
Total HQ Admin Cost	7,000,000 \$ / year
Federal Tax Exemption	0 \$ / year

DCF @ 15 %	884,206,596 \$
Internal Rate of Return	37.41 %
Discounted Payback	7 years = 2013
Plant Capacity to Break Even	1,616 bbl/day

EBITDA 423,537,051 \$ / year

Note: * based on 42 US\$ / oil barrel

Source: BBY/LNC



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On 27 September 2005, Linc Energy entered into an agreement with BBY under which BBY agreed to act as lead manager to the Linc Energy Initial Public Offering of Shares. BBY received fees in respect of this capital raising.

Contact with LNC has been made during the preparation of this report for assistance with verification of facts.

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