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NEW OIL COMPANY REACHES IMPORTANT MILESTONES TO PRODUCE COMMERCIAL ULTRA-CLEAN DIESEL

- Linc Energy commences drilling program this month
- Locks in technology and engineering partners
- Purchases land in Queensland for drilling

Recently-listed Linc Energy Ltd (ASX:Code LNC) has implemented a range of initiatives to reach a crucial milestone in establishing a 20,000 barrels a day ultraclean diesel plant at Chinchilla in Queensland.

The clean fuel producer will commence a six week drilling program this month to augment its existing nine production wells, as another step in its plan to become one of the world's leading clean diesel fuel producers.

Directors expect the Chinchilla plant to produce sulphur-free diesel through two proven processes – Underground Coal Gasification (UCG) and Gas To Liquids (GTL).

When the two processes are combined, the projected production target of a planned full-scale Chinchilla plant is projected to be 7 million barrels (approximately 1 billion litres) of diesel per annum.

Linc also expects its GTL pilot plant design, with flow sheet, computer modelling and detailed engineering to be completed within three months. Initial flow sheets are already completed.

The company has settled its \$1.75 million purchase of 1,277 acres of land at Chinchilla (the site of its successful UCG demonstration field) and an adjoining 1,700 acre site for a \$650,000 purchase price. These transactions greatly expand the land area Linc controls over its coal mining tenements used in the UCG process.

The project at Chinchilla is only one of 14 coal tenements secured by Linc across Queensland for potential diesel production.

MegChem of South Africa, one of world's most experienced engineering groups in GTL and the Fischer-Tropsch catalytic reaction, has been contracted to supply engineering services for the construction of the Chinchilla demonstration plant.

This plant is targeted to be commissioned in May, 2007, however the project currently appears to be one month ahead of this timetable.

In addition, work with Witwatersrand University in South Africa is now focusing on how to obtain the greatest efficiencies possible in extracting diesel from the Syngas produced. Specialist group Syntroleum International Corporation has extended its agreement with Linc to develop the demonstration plant.

In recent talks held at Syntroleum's offices in Houston between Linc Chief Executive Officer, Peter Bond, and Syntroleum's Chief Executive Officer, Jack Holmes, the groups agreed to work together closely to bring the project to a commercial fruition as quickly as possible.

Mr Bond, said "Access to Chinchilla's reserves means Linc can produce a vast quantity of liquid fuels which, when processed, will be sulphur-free and cleaner than any other diesel products in the market", he added.

The UCG (Underground Coal Gasification) process is perfectly suited to turn the coal reserves into diesel by 'gasifying' the coal underground. The resulting gas, called Syngas, is then used as feedstock for the GTL plant. A simple catalytic reaction turns the coal gas into diesel.

The focus will be on the production of liquid fuels, such as diesel and aviation fuel, as well as the generation of electricity.

Mr Bond said "Linc will exploit the cheap and abundant Syngas delivered by the UCG process for the production of ultra-clean diesel fuels. We also have the potential to replicate the combined application of the two processes in other parts of Australia and the rest of the world. At this stage, we are on track and on budget to start producing diesel at Chinchilla next year."

The process of UCG was developed in the former Soviet Union, where it has been used for power generation over the last 60 years. There are currently two significant UCG plants operating in Siberia and Uzbekistan.

Linc has been at the forefront of the UCG process's development over the last six years, with the soon to be constructed \$6 million pilot plant at Chinchilla to turn the Syngas into the sulphur-free diesel.

Directors believe the diesel will be produced for less than \$US25 a barrel, compared with the current retail price of sulphur-free diesel at over \$US90 a barrel, not only proving the economic viability of the operation but ensuring a very profitable future for the company.

Linc Energy, which listed on the Australian Stock Exchange in May, 2006, is planning to commission the construction of the full scale diesel plant, once the economics of the demonstration plant are proven.