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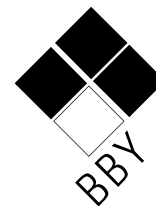
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Linc Energy Limited

Successfully Produces UCG Gas

LNC

A\$0.70
BUY

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BBY maintains its BUY recommendation on Linc Energy Limited (LNC) after the company announced that it had commenced flaring gas from its Underground Coal Gasification (UCG) site located at Chinchilla, QLD. Importantly, LNC's own team has been responsible for the successful commissioning of the UCG gas field and have also been responsible for the design and construction overview of the field as well. Today's announcement is a significant milestone for the company because it partially de-risks the project, however we note that there are still some hurdles to overcome. We retain our 12 month price target of A\$0.90/sh and DCF valuation of A\$1.52/sh (Chinchilla only).

Key take-outs from the announcement

- ▶ LNC has commenced flaring gas from its UCG site located at Chinchilla.
- ▶ LNC will continue to improve and adjust the current UCG operation over the coming weeks to ensure the best quality of syngas is available to be used as gas feedstock into the company's GTL demonstration plant which is currently under construction. We now anticipate that construction will be completed by the end of October 2007.
- ▶ In successfully obtaining gas from the field, LNC developed its own IP rather than obtain a license from a third party to use their technology.
- ▶ As the company has now been successful in producing UCG gas from its field in QLD, LNC will now also seek to accelerate its plans for commercial power production (electricity generation) at Chinchilla. These details have not been finalised as yet, but if final approval is obtained, it could provide early cash-flow to the company. Note that BBY have not modelled this in our DCF analysis.

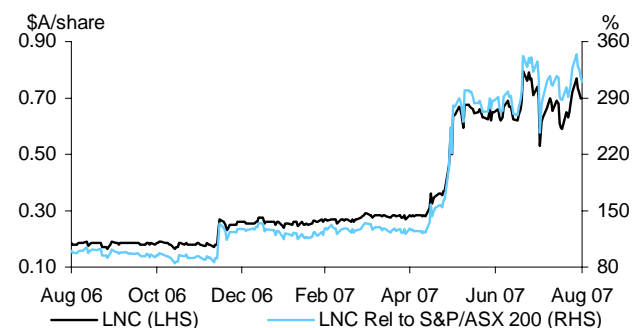
Our View

Today's announcement is a significant milestone for the company. The skills, know-how and experience that the LNC team have developed during this process will stand them in good stead to potentially roll out further UCG fields out around the world (as well as in South Australia with their JV partner Sapex (ASX: SXP)). We now await completion of the demonstration GTL plant.

Company Data

Number of shares	328.8M
Market capitalisation	\$230.2M
12 month high/low	\$0.89 / \$0.17
Average monthly turnover	\$4.3M
All Ordinaries Index	6266
% All Ordinaries	n/a

LNC versus S&P/ASX 200 Index



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ANALYSIS OF INTEGRATED GAS PRODUCTION & GTL

Gas Production

Plant capacity	20,000 bbl/day		
Availability Factor	90.4 %	Plant Availability Time	7,920 hours / year
Gas Production	1,397,023 Nm ³ / hour	Total Gas Production	11,064,424,587 Nm ³ / year
Gas Calorific Value	5.23 MJ / Nm ³	Total Energy Output	57,866,941 GJ / year

By-Product Production - Hydrocarbons

Hydrocarbon Production	15.27 g / Nm ³	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 / Nm ³	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 \$
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre

Economic Factors

Debt	60.0 %	WACC:	15.0 %
Equity	40.0 %		
Exchange Rate \$/US\$	0.7		

Capital Expenditure Details

Gas Process Plant	70,000,000 \$		
Clean Up Plant	180,000,000 \$	Total Capital Required	650,000,000 A\$
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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Contact with LNC has been made during the preparation of this report for assistance with verification of facts.

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