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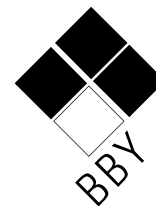
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## Linc Energy Limited

Vote of Confidence - Marubeni Invests US\$5M in LNC

LNC

A\$0.67  
BUY

9 October 2007

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BBY maintains its BUY recommendation on Linc Energy Limited (LNC) after the company announced that Marubeni Coal Pty Limited (a wholly owned subsidiary of Marubeni Corporation) has agreed to take a placement of US\$5M (A\$5.6M) in the company at a price of A\$0.76/sh for 7.37M shares. This is a positive development for LNC. It is a vote of approval in the company's business model and operations. It gives BBY further confidence that the existing MOU between Marubeni and LNC will shortly be turned into a definitive agreement. As a result we have increased our 12 month price target to A\$1.00/sh (prev A\$0.90/sh) and slightly lowered our DCF valuation to A\$1.51/sh (prev A\$1.52/sh) to take into effect the small dilution from the equity investment.

### Key take-outs from the Marubeni Investment

- ▶ The price paid per security is a 13.4% premium to the last traded price of A\$0.67 on 8 October 2007 before the announcement. The investment equates to c.2.0% of the share capital in LNC.
- ▶ The equity investment by Marubeni was first flagged to the market on 12 June 2007, when the two parties entered an MOU to explore opportunities to co-operate on the utilisation of LNC's UCG process.
- ▶ We believe that at a later stage Marubeni may take a larger stake in LNC.
- ▶ The company had A\$7.7M in cash at 30 June 2007 (cash burn of approximately A\$4.0M per quarter). We estimate that before this investment by Marubeni, the company would currently have had c.A\$3.5M in cash; post investment c.A\$9.1M. We believe that this equity investment now gives the company the required capital to continue funding its operations until the 1QCY08.

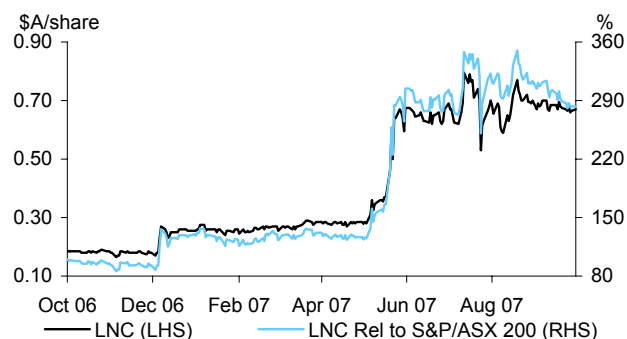
### Our View

Today's announcement is a positive development for LNC. LNC's relationship with Marubeni has now been strengthened as a result of the equity investment. The short term price drivers remain finishing construction and successfully commissioning the pilot GTL plant, both expected to be completed before the end of CY07.

### Company Data

Number of shares	329.6M
Market capitalisation	\$220.8M
12 month high/low	\$0.89 / \$0.17
Average monthly turnover	\$4.5M
All Ordinaries Index	6888
% All Ordinaries	n/a

### LNC versus S&P/ASX 200 Index



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## ANALYSIS OF INTEGRATED GAS PRODUCTION &amp; 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 <sup>3</sup> / hour	Total Gas Production	11,064,424,587 Nm <sup>3</sup> / year
Gas Calorific Value	5.23 MJ / Nm <sup>3</sup>	Total Energy Output	57,866,941 GJ / year

**By-Product Production - Hydrocarbons**

Hydrocarbon Production	15.27 g / Nm <sup>3</sup>	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 <sup>3</sup>	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 %	<b>WACC:</b>	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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