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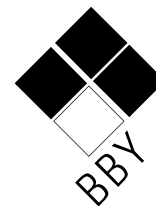
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Linc Energy Limited

Strategic Acquisition Enhances LNC's UCG Knowledge and Experience

11 October 2007

BBY maintains its BUY recommendation on Linc Energy Limited (LNC), following an announcement that LNC has acquired a 60% controlling interest in the company Yerostigaz, located in Angren, Uzbekistan. Yerostigaz is currently the only commercial Underground Coal Gasification (UCG) operation in the world, having run continuously for over 40 years. The UCG gas produced from the site is currently fed into a power station adjacent to the operation in Angren. This is a positive strategic acquisition for LNC and will position the company as the world's largest UCG company. We maintain our 12 month price target of A\$1.00/sh and DCF valuation (Chinchilla only) of A\$1.51/sh.

Key benefits to LNC from the acquisition

- ▶ **International Opportunities** – The acquisition will allow LNC access to a substantial number of personnel (approximately an additional 240 employees), all with existing experience and expertise in running a commercial UCG operation. This will not only help optimise LNC's current UCG operations at Chinchilla but will give LNC the required personnel skills to operate facilities when the company expands its operations internationally.
- ▶ **Protection of Intellectual Property** – The acquisition will also allow LNC's UCG processes and know-how to be patented. Up until now, Yerostigaz employees had worked on the LNC site and LNC employees had visited the site in Uzbekistan, obtaining the knowledge and expertise in order to commercialise the company's own UCG operation. Going forward, LNC will acquire the Yerostigaz IP. This will be useful for potential license agreements or JV's in the future.

Other Acquisition Information

- ▶ The purchase price was not disclosed but BBY estimates that the number of shares and cash issued in consideration by LNC is not material to our DCF valuation. We note that Yerostigaz generated a small profit last year.
- ▶ We understand that both companies have been in discussions for the past few months over this acquisition.

Our View

We view the acquisition positively. By acquiring a majority stake in the only commercial UCG operation currently in the world LNC will acquire the skills and expertise first hand that will allow it to successfully roll out its own UCG operations worldwide.

LNC

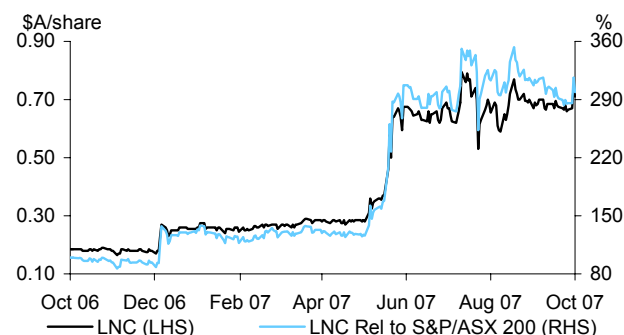
A\$0.71 BUY

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Company Data

Number of shares (fully diluted)	329.6M
Market capitalisation	\$234.0M
12 month high/low	\$0.89 / \$0.17
Average monthly turnover	\$4.6M
All Ordinaries Index	6780
% 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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