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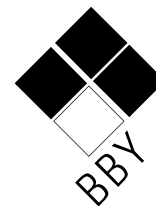
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Linc Energy Limited

A\$28.3M Capital Raising Funds Linc Until Early CY09

LNC

A\$0.92 BUY

31 October 2007

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BBY maintains its BUY recommendation on Linc Energy Limited (LNC) after the company announced that it had raised A\$28.3M through the issue of 37.3M shares at A\$0.76/sh. The majority of the funds raised will be applied to: (i) the 20,000 barrel per day GTL Bankable Feasibility Engineering Study (A\$9M); (ii) Working Capital (A\$7.8M); (iii) a 5mW gas turbine power unit (A\$3.6M); and (iv) Exploration Activities (A\$2M). The additional funds will also allow LNC to expand its other national project in South Australia, as well as international projects in Vietnam, India and China. We understand that LNC's funding requirements are now satisfied through to early CY09. We have slightly lowered our DCF valuation to A\$1.49/sh (prev A\$1.51/sh) to take into account the dilution from the capital raising. However, our share price target has been increased to A\$1.25/sh (prev A\$1.00/sh). We believe that, post the capital raising, LNC's share price should continue to appreciate in the lead up to completing construction of the pilot GTL plant expected by the end of CY07.

Key take-outs from the equity placement

- ▶ **Terms of the capital raising** – Issue of 37.3M shares at A\$0.76/sh (this is at the same share price paid by Marubeni recently in obtaining its US\$5M investment in LNC) to raise A\$28.3M. BBY had forecast a raising of A\$20.0M through the issue of 28.6M shares at A\$0.70/sh. The issue of 8.7M additional shares than BBY forecasts dilutes our DCF valuation by A\$0.02/sh to A\$1.49/sh.
- ▶ **Cash on hand** - We estimate that the company currently has c.A\$7.0M on hand (including the Marubeni investment). Funds raised from this share issue should allow LNC to progress its operations through to the beginning of CY09. We anticipate that funding for the 20,000 barrel per day GTL plant (estimated at between US\$600-700M) will be raised around this time.

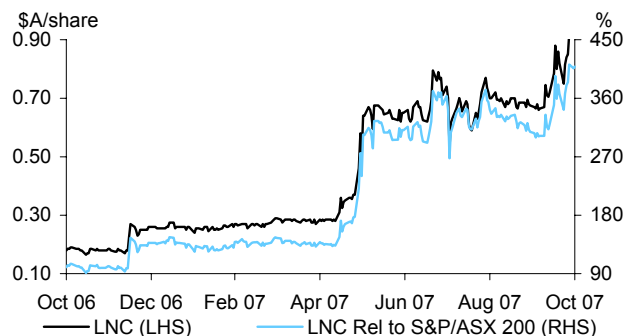
Our View

The announcement today relieves the short term funding requirements required by LNC to progress its operations forward. The current high oil price environment continues to add to the economics of the project. The key short term milestones for the company are to finish construction and commission the pilot GTL plant, which we both expect to be completed over the next few months.

Company Data

Number of shares	367.1M
Market capitalisation	\$337.7M
12 month high/low	\$0.93 / \$0.17
Average monthly turnover	\$5.0M
All Ordinaries Index	6773
% 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	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\$	0.8		

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

Source: BBY/LNC



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BBY acted as manager to the placement for Linc Energy Limited (LNC) as announced to the market on 31 October 2007

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

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