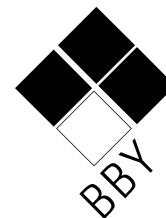


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Linc Energy Limited

LNC Makes its Move – Expands Australian Presence through SXP Merger

LNC

A\$4.10 BUY

12 June 2008

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Linc Energy Limited (LNC) today announced a proposed merger, to be conducted through a scheme of arrangement, with South Australian based Sapex Limited (SXP). BBY views the proposed merger positively as it will allow LNC to cement its presence as the leader in Underground Coal Gasification (UCG) and Gas to Liquids (GTL) by taking a position in a strategic location. We expect LNC to pursue a number of other deals in respect to stranded coal assets suitable for UCG, both domestically and internationally over the coming year. Our DCF valuation is A\$5.50/sh, in line with our 12 month share price target, after rolling over our financial model to the FY09 year.

SXP Merger Terms

- ▶ SXP shareholders will be offered one of the following options: (a) a cash payment of A\$0.72/sh; (b) a scrip offer, based on an effective price per SXP share of A\$0.72/sh, with the number of shares issued to be determined on the VWAP of LNC shares in the five days up to and including the approval of the scheme by SXP shareholders; or (c) a mixture of cash and scrip. SXP options holders will be offered A\$0.50 cash per option. The deal effectively values SXP at A\$104M (SXP shares: 90.5M, SXP options: 77.3M).
- ▶ Acceptance by more than 75% of SXP shareholders is required. Importantly, under the scrip deal, it would give SXP shareholders an entry into LNC. SXP directors have also indicated that they will accept the merger terms.

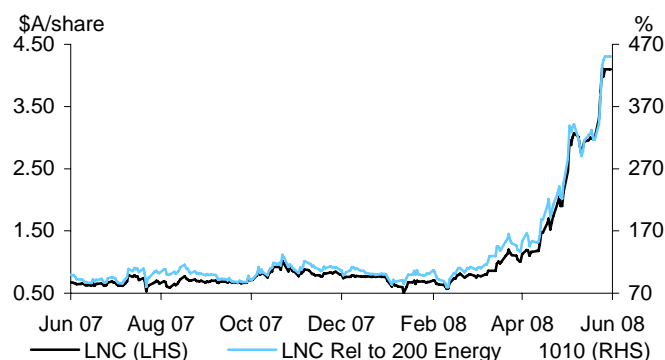
Main Benefits to LNC from the Merger

- ▶ The merger will allow LNC to cement its presence domestically. Also, due to the close proximity of SXP's tenements to Olympic Dam and other mines in South Australia we view the location as strategic given the potential upcoming power needs of South Australia. Power supply will become a major issue for the state in the next few years and these tenements give LNC the chance to become a major supplier of power to that region through UCG.
- ▶ Under the merger, LNC will have full control over the upcoming drilling program in South Australia and future strategic decisions including GTL and UCG developments going forward. This will allow LNC to fast track operations (rather than being potentially constrained by the MOU signed last year).

Company Data

Number of shares	389.6M
Market capitalisation	\$1,514.1M
12 month high/low	\$4.40/\$0.48
Average monthly turnover	\$16.1M
All Ordinaries Index	5453
% All Ordinaries	n/a

LNC versus 200 Energy 1010 Index



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FINANCIAL SUMMARY

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 Naphtalene	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 * 65 US\$ / bbl	92.86 \$ / barrel	Total Diesel Revenue (Year 3+):	582,214,550 \$
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre

Economic Factors

Debt	70.0 %	WACC:	13.0 %
Equity	30.0 %		
Exchange Rate \$/US\$	0.7		

Capital Expenditure Details

Gas Process Plant	70,000,000 \$		
Clean Up Plant	180,000,000 \$	Total Capital Required	850,000,000 A\$
GTL Plant	600,000,000 \$		

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+)	644,079,000 \$ / 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 @ 13 %	2,184,895,109 \$
Internal Rate of Return	83.95 %
Discounted Payback	5 years = 2011
Plant Capacity to Break Even	1,616 bbl/day

EBITDA 539,979,000 \$ / year

Source: BBY, Company reports

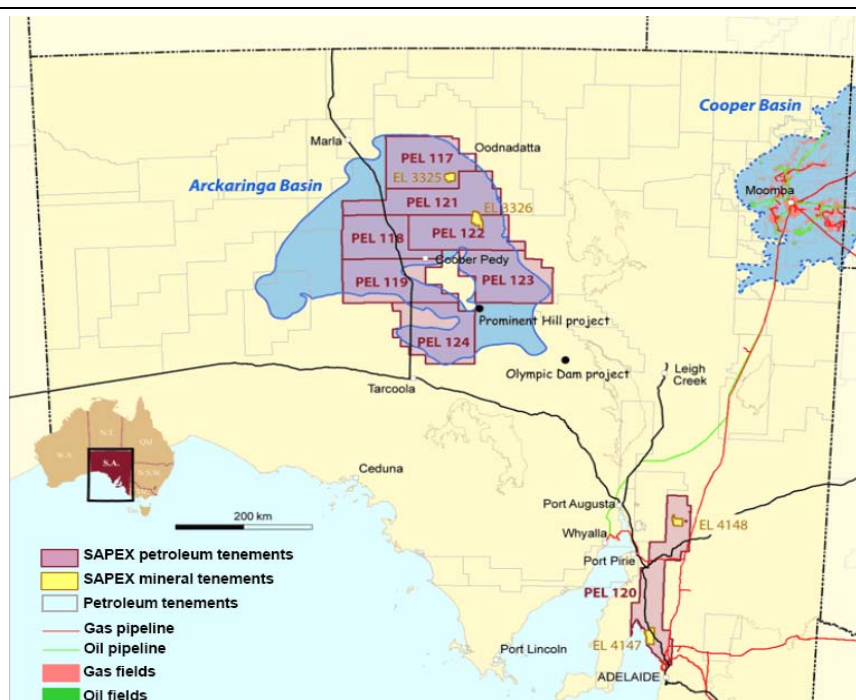
SXP Tenements

SXP has been targeting three commodities in parallel, being:

- ▶ Coal including UCG and GTL;
- ▶ Coal Seam Methane (CSM); and
- ▶ Oil and Gas

SXP's acreage is detailed in Figure 1.

FIGURE 1: SXP'S ACREAGE IN SOUTH AUSTRALIA



Source: SXP Presentation dated 26 May 2008

UCG and GTL

We believe that the primary reason that LNC is pursuing a merger with SXP is to get its hands on EL3325 and EL3326 which are expected to have significant amounts of coal suitable for UCG. EL3325 currently has an inferred JORC resource of 690M tonnes and EL3326 has an inferred JORC resource of 1bn tonnes. This compares with LNC's JORC Chinchilla resource in QLD of 400M tonnes. We expect LNC to launch a significant drilling program over the coming months to significantly increase the resource base in South Australia.

The strategic location of these tenements can also not be overlooked. With a significant amount of development and mining to occur in the area over the next few years (including BHP's Olympic Dam, Oxiana's Prominent Hill and Marathon's uranium mine), the area will need significant amounts of power. LNC will be in a position to be able to tender for some of this supply. The knowledge base and expertise that LNC has gained through: i) the acquisition of Yerostigaz in Uzbekistan last year, which has been operating a UCG field for the past forty years; and ii) its own experience in running its UCG field at Chinchilla will stand the company in good stead when it rolls out a field in South Australia. It is also anticipated that a commercial GTL facility will also be built on site.

What does LNC do with SXP's CSM and Oil Assets?

Assuming that the merger does go ahead, LNC will also acquire SXP's CSM and oil assets. In regards to CSM, SXP earlier this year entered into a farm-out agreement with Eastern Star Gas (ESG) in PEL's 117, 121 and 122. A drilling program is being finalising with drilling/coring/logging all expected to commence in mid 2008.

SXP's other ground tenements are oil and gas prospects in the Arckaringa Basin, also in South Australia. A seismic survey has commenced (carried out by Terrex Seismic) and will total up to 484 line kilometres. Completion of the survey is expected to be completed in the next few months, with processing and interpretation to then follow. SXP had intended to drill two petroleum exploration wells by the end of CY2008.

Whilst these assets do not fit into LNC's business plan of commercial UCG and GTL operations, we point out a few options that LNC may pursue in relation to these assets:

- ▶ Obtain a farm-in partner for the oil and gas assets;
- ▶ Sell the CSM assets and/or the oil and gas assets to a company to realise cash;
- ▶ Spin-off the assets into an IPO; or
- ▶ Develop the assets themselves.

Base Case Assumptions for our DCF Valuation

Our Base Case DCF valuation for LNC is A\$5.50/sh after we have rolled over our financial model to the FY09 period. This is based on the following assumptions:

- ▶ A WACC of 13%;
- ▶ A long term oil price of US\$65/barrel (in-line with the Jefferies WTI oil price assumptions); and
- ▶ LNC conducting an equity capital raising for its commercial GTL plant at a conservative A\$4.15/sh, assuming a 70/30 debt to equity split. We anticipate that this would occur at the end of CY08/1QCY09. Note, we have ascribed a conservative A\$100M value to the coking coal deposit (announced to the market on 9 April 2008) to help fund CAPEX requirements at this stage.

We provide sensitivity analysis to our DCF valuation based on different: (i) long term oil prices; and (ii) adjustments to the WACC.

TABLE 1: SENSITIVITY ANALYSIS 1 – DCF VALUATION (A\$/SH)

		Flat Long Term Oil Price (per barrel)									
		US\$50	US\$60	US\$65	US\$70	US\$80	US\$90	US\$100	US\$110	US\$120	US\$130
WACC	10%	5.13	6.44	7.09	7.75	9.06	10.37	11.68	12.79	14.30	15.61
	11%	4.66	5.86	6.46	7.06	8.27	9.47	10.67	11.87	13.07	14.27
	12%	4.26	5.36	5.48	6.47	7.58	8.68	9.79	10.90	12.00	13.11
	13%	3.90	4.93	5.50	5.95	6.98	8.00	9.03	10.05	11.08	12.10
	14%	3.59	4.55	5.02	5.50	6.45	7.40	8.36	9.31	10.26	11.21
	15%	3.32	4.21	4.65	5.10	5.99	6.88	7.77	8.66	9.54	10.43

Source: BBY estimates

We note that the analysis above only takes into account forecasts for LNC's 20,000 barrel per day GTL facility.



Potential Risks to the Merger

We outline potential risks to the merger below:

- ▶ SXP shareholder acceptance does not reach the minimum level of 75% under the scheme of arrangement;
- ▶ A higher bidder emerges.

Our View

The transaction gives LNC significant acreage to conduct GTL and UCG operations in an area where substantial mining and infrastructure operations will be conducted over the next few years. LNC's knowledge and expertise combined with SXP's strategic coal resource makes the merger a good fit. The further short term driver for LNC will be the successful commissioning of the company's pilot GTL facility in Chinchilla, QLD expected in the next few weeks.



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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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