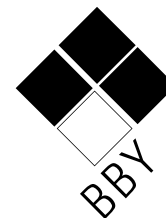


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Linc Energy Limited

Coal Sale Negotiations Continue....

LNC

A\$2.26

BUY

23 April 2009

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Linc Energy Limited (LNC) this week announced that it has recently agreed to negotiate on an exclusive basis with one party in relation to the coal tenement sale process. The company also said that the negotiations now cover three of its coal mining tenements, being the Emerald, Galilee and Pentland tenement areas. Negotiations over the past few months have progressed much more slowly than we had expected. However the company has received all non-Australian government approvals for the sale, which is a key milestone. Our sum-of-the-parts valuation of LNC's non-core coal assets is A\$3.20/sh, in line with our price target. As a result, we maintain our BUY recommendation. We have excluded LNC's UCG and GTL operations in forming our price target at this stage.

Coal Tenements Sale

- ▶ LNC has expanded the discussions to include three of its non-core coal tenements, and negotiations are to be held on an exclusive basis. The entity which LNC has been in these negotiations with was not named, leading BBY to believe that it is another Chinese entity other than Xinwen Mining Corporation (whom LNC originally signed a LOI with).
- ▶ LNC will update the market further as soon as additional material information is available. We believe the market will lose patience if a deal is not signed within the next month.

Performance of the GTL Plant

- ▶ LNC's pilot GTL plant has had numerous production runs since first liquids were produced last October. LNC's third UCG generator is supplying the syngas to the plant, which is producing at around 3.5 - 4.5 bbl/d (below the 5 bbl/d name-plate capacity which could be achieved using one UCG generator). LNC will continue to use one generator until the GTL facility reaches output of 5 bbl/d on a consistent basis before upgrading to 10 bbl/d (through the use of a second generator), the name-plate capacity of the plant.
- ▶ LNC's laboratory on site is being used to test the efficiencies of the catalyst, the gas produced and the quality of the end product produced.

Our View

The key catalyst for the stock remains the successful sale of LNC's coal tenement/s. We believe that the stock will remain volatile until the deal has been successfully completed and the key risk remains the inability to complete a satisfactory deal. Maintain BUY.

Company Data

Number of shares	415.0M
Market capitalisation	\$937.9M
12 month high/low	\$5.39 / \$0.98
Average monthly turnover	\$66.2M
All Ordinaries Index	3668
% All Ordinaries	0.06
GICS Industry Group	Energy

Earnings Summary

Year End June	FY08A	FY09E	FY10E	FY11E	FY12E
NPAT (A\$M)	(8.0)	(15.0)	(17.0)	(18.0)	20.0
EBITDA	(4.5)	(10.5)	(12.0)	(12.5)	70.8
EPS (A\$)	n/a	n/a	n/a	n/a	n/a
Dividend	n/a	n/a	n/a	n/a	n/a
Dividend (A\$)	0	0	0	0	0

LNC versus S&P/ASX 200 Energy Index

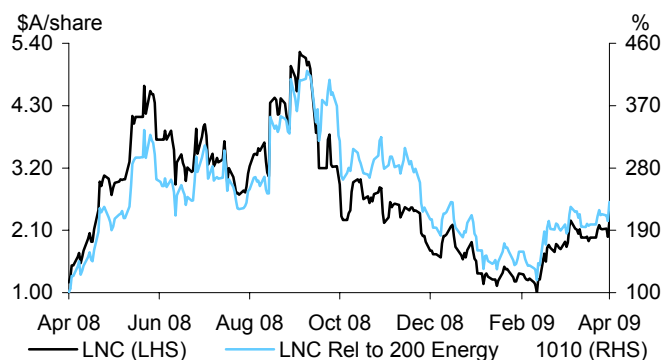


Table 1: Sum-of-the-Parts Valuation for LNC's non-core coal assets

Tenements	Value per Share (A\$/sh)
Emerald	2.02
Pentland	0.48
Galilee	0.50
Arckaringa	0.20
Total Value	3.20

Source: BBY Estimates

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FINANCIAL SUMMARY BASED ON LNC'S PLANT OPERATING AT 10,000 BARRELS PER DAY (50% OF NAME-PLATE CAPACITY)

Gas Production			
Plant capacity	10,000 bbl/day		
Availability Factor	90.4 %	Plant Availability Time	7,920 hours / year
Gas Production	698,511 Nm ³ / hour	Total Gas Production	5,532,212,293 Nm ³ / year
Gas Calorific Value	5.23 MJ / Nm ³	Total Energy Output	28,933,470 GJ / year
By-Product Production - Hydrocarbons			
Hydrocarbon Production	15.27 g / Nm ³	Total Hydrocarbon Production	84,498 tn / year
Sale Value of Hydrocarbons	100 \$ / tn	Total Hydrocarbon Revenue	8,449,794 \$ / year
By-Product Production - Naphtha			
Naphtalene Production	10.16 g / Nm ³	Total Naphtalene Production	56,207 tn / year
Sale Value of Naphtha	400 \$ / tn	Total Naphtalene Revenue	22,482,911 \$ / year
Diesel Production			
GTL Plant Energy Efficiency	70 %	Diesel Calorific Value	6.137 GJ / barrel
Maximum Energy Output	20,253,429 GJ / year	Maximum Diesel Production	3,300,002 barrels / year
Availability Factor - year 1	85.0 %	Diesel Production - year 1	2,805,001 barrels / year
Availability Factor - year 2	90.0 %	Diesel Production - year 2	2,970,001 barrels / year
Availability Factor - years 3+	95.0 %	Diesel Production - years 3+	3,135,001 barrels / year
Diesel Selling Price	75 US\$ / bbl	Total Diesel Revenue (Year 3+):	293,906,384 \$
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre
Discount Rate			12.0 %
Capital Expenditure Details			
Gas Process Plant	70,000,000 \$		
Clean Up Plant	180,000,000 \$	Total Capital Required	900,000,000 A\$
GTL Plant	650,000,000 \$		
Operating Costs			
Gas Process Plant	15,895,000 \$ / year		
Clean Up Plant	7,810,000 \$ / year		
GTL Plant	27,500,000 \$ / year	Total Opex	51,205,000 \$ / year
Summary per year (no inflation)			
Total Revenues (year 3+)	324,839,089 \$ / year	DCF @ 12 %	3,593,704,048 \$
Total Opex	51,205,000 \$ / year		
Total Site Admin Cost	4,000,000 \$ / year		
Total HQ Admin Cost	7,000,000 \$ / year		
Federal Tax Exemption	0 \$ / year		
EBITDA	262,634,089 \$ / year		

Source: BBY, Company Reports



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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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