



RESOURCES

Linc Energy

Combining Two Technologies to Produce Ultra Clean Diesel and Jet Fuel

Recommendation:

BUY

Jeremy Tobias
+612 9226 0086
jet@bby.com.au

Summary

- Valuation of A\$1.52 per share (DCF valuation) using a conservative long-term WTI Oil Price of US\$42/bbl.
- The company is aiming to be a world leading producer of ultra clean diesel and jet fuels via the development of a **Gas to Liquids (GTL)** processing facility located at Chinchilla, Queensland. This initiative has the potential to deliver significant commercial quantities of gas for the production of ultra-clean, sulphur free diesel and jet fuels to a market exhibiting an ever-increasing demand for these products.
- Linc has developed a **three-stage business** model incorporating 1) the construction of a 5bpd demonstration GTL plant (**Stage 1**); 2) the construction/operation of a commercial level 20kbpd GTL plant (**Stage 2**); and, 3) the expansion of Linc's Underground Coal Gasification (UCG) and GTL diesel production process into global markets (**Stage 3**).
- Linc has forward licensing and offtake arrangements in place with various industry leaders including **Syntroleum Inc, BP Australia Limited** and **Ergo Exergy Technologies Inc.**
- Chinchilla has an estimated coal deposit of 300Mt supporting a 60-year project life.
- Linc's capital expenditure estimate of US\$22k-24kbpd is within the generally accepted US\$20k-40kbpd range.
- The company is led by an experienced and strong management team.

May 2006

ASX: LNC

Issue Price:
\$0.25

Number of Shares:
320.9m

Market Capitalisation:
\$80.2m



Table of Contents

Company Summary	3
Licensing/Offtake Agreements (Stage 2)	3
Proposed IPO and Business Model	4
Coal Resources.....	10
Key Risks.....	10
Valuation/Earnings Summary	11
Sensitivity Analysis	13
BBY Contacts	16



Company Summary

Linc Energy (Linc) is aiming to be a world leading producer of ultra clean diesel and jet fuels via the development of a Gas to Liquids (GTL) processing facility located at Chinchilla, Queensland.

Linc's business plan is to convert stranded (uneconomic) coal reserves into a synthesis gas via Underground Coal Gasification (UCG) then utilise this gas to produce liquid fuels via a GTL plant.

Initially, Linc is raising A\$22m at A\$0.25 per share to evaluate the commercial viability of producing ultraclean syndiesel at a commercial rate of production (20kbpd). The first part of this process will be to produce a demonstration GTL plant with a capacity of 5bpd with commencement of the construction process to begin immediately (Stage 1).

Linc has operated the site at Chinchilla for over six years and has demonstrated efficient and cost effective production of UCG gas during that period.

Chinchilla has an estimated coal deposit of 300Mt supporting a 60-year project life (using 4.4Mtpa coal to produce 20kbpd, 7.3mmbbl pa diesel). There are additional resources on lease to add a potential 20-40 years to the project life supporting Linc's growth plans.

Linc has signed a memorandum of agreement (MOA) with US-based Syntroleum Corporation (Syntroleum) to pursue the development of GTL technology using Syntroleum's unique air-based Fischer Tropsch (FT) technology.

Both the Chinchilla project and the future of the UCG-GTL projects will be aggressively pursued by Linc under a GTL license from Syntroleum with an option for Syntroleum to take an equity participation in these projects.

Linc's management team is headed up by:

- **Peter Bond** (MD and majority owner) - Peter has a successful track record in pursuing resource development opportunities throughout Australia, specifically in coal.
- **Brian Johnson** (Chairman) - deputy chairman of ASX listed Mt Gibson Iron Limited (ASX: MGX) and previously CEO of ASX listed Portman Limited (ASX: PMM); and,
- **Dr Michael Blinderman** (Technical Director) - who has been actively involved in the research, development and commercial operation of Underground Coal Gasification technology in the former Soviet Union for more than 15 years.

Licensing/Offtake Agreements (Stage 2)

Linc Energy has forward licensing and offtake arrangements in place with various service providers including Syntroleum Inc, BP Australia Limited and Ergo Exergy Technologies Inc. These arrangements reduce key project risks by providing 1) technological expertise and 2) potential sales agreements for product offtake.

Syntroleum Corporation

Syntroleum intends to initiate a multi-phase demonstration programme with Linc to test the commerciality of using syngas derived from UCG at Chinchilla in hydrocarbon production. Linc's cost contribution for all phases of this Technology Demonstration programme (i.e. Phase 1 (a), Phase 1 (b), Phase 2 and Phase 3) adds up to approximately A\$7.0m.



Under the site licensing arrangement with Linc, Syntroleum is entitled to a fee based on production times and a set royalty rate (per barrel diesel) over 7.5 years. This fee (amounting to around US\$33m) is payable in four tranches up to the commencement of initial production. We also believe that part or all of this fee may be transferred into equity in Linc Energy - this matter is currently subject to discussions between the two companies. There are other fees potentially payable to Syntroleum for technical services and catalyst purchases which we see as likely favourable to the relationship going forward.

Linc has also granted Syntroleum a "first right of refusal" option over equity participation to invest at least 25% up to a maximum of 50% of equity requirements for Chinchilla phase 2.

In 2005, Syntroleum entered into a technical and patent agreement with Exxon Mobil which may further assist the GTL development and demonstration work.

BP Australia Limited

Linc has entered into a non-binding Memorandum of Understanding (MOU) with BP Australia Ltd whereby BP may buy up to 70% of the total diesel production capacity of the facility at Chinchilla (amounting to approximately 14kbpd) at a price based upon Singapore gasoil quotes, for a contract period of five years when Stage 2 production commences.

Ergo Exergy Technologies Inc

Linc has entered into another MOU with Canadian technology provider Ergo Exergy whereby Ergo Exergy licenses its UCG technology to Linc for commercial usage subject to Linc paying Ergo Exergy a general license fee of US\$1.3m plus a payment of US\$1.0m (project license fees) per subsequent CTL project.

As part of the arrangement, Ergo Exergy is to receive royalty payments of US\$0.05/GJ on gas plant energy production. Royalty rates payable on gas production at subsequent CTL plants are to be based on a sliding oil price scale.

Proposed IPO and Business Model

Linc has developed a **three-stage business** model incorporating 1) the construction of a 5bbld demonstration GTL plant (**Stage 1**), 2) the construction/operation of a commercial level 20Kbbld GTL plant (**Stage 2**), and 3) the expansion of Linc's UCG and GTL diesel production process into global markets (**Stage 3**).

Stage 1

The initial raising of A\$22m (Stage 1) funds i) the development of a 5bpd GTL demonstration plant (A\$8m including clean up plant and compressors), ii) further expansion of the UCG gas field tenements via increased drilling, etc (A\$2m), iii) pre-feasibility study costs associated with development of the larger (Stage 2) commercial GTL plant (A\$0.5m), and iv) provides approximately A\$6m of working capital.

TABLE 1: USE OF FUNDS

Activity/Project	Use of Funds (A\$m)
UCG gas field expansion	2.20
Land purchase	1.75
Completion of EIS	0.40
Coal expansion & drilling	1.00
Purchase, installation, commissioning & operation of GTL demonstration plant	6.00
Pre-feasibility study	1.00
Provision for payment to Ergo Exergy	0.65
Costing report for a GTG	0.05
Repayment of debt	1.60
Working capital	5.85
Offer costs	1.50
Total	22.00

Source: Linc Energy

Stage 2

The second commercial phase of the Chinchilla project (Stage 2) plans for a 20kbpd Syntroleum-developed GTL plant. In order for Stage 2 to be developed, Linc will require approximately A\$650m. Contingent on the progress of Stage 1, it is likely that Linc will fund Stage 2 through a mixture of debt and equity (expected to be raised 18 months after listing).

Linc's capital expenditure estimates look reasonable vs recent real world example

Key capital cost and operating cost assumptions for the Stage 2 GTL plant are summarised below:

TABLE 2: CAPEX/DIRECT OPEX ASSUMPTIONS STAGE 2 GTL PLANT

Production	
Diesel (mmbbl/pa)	6.27
Napthalene (Kt/yr)	112.4
Hydrocarbon (Kt/yr)	168.9
Diesel Equivalent, DE (mmbbl/yr)	7.14
Capital Expenditure	
Gas Process Plant (A\$m)	70
Clean Up Plant (A\$m)	180
GTL Plant (A\$m)	400
Total (A\$m)	650
Operating Cost	
Gas Process Plant (A\$/DE)	4.1
Gas Process Plant (A\$m/y)	28.9
Clean Up Plant (A\$/DE)	2.0
Clean Up Plant (A\$m/y)	14.2
GTL Plant (A\$/DE)	7.0
GTL Plant (A\$m/y)	50.0
Total (A\$/DE)	13.1
Total (A\$m/y)	93.1

Source: Linc Energy

Prior to refining capital costs in the pre-feasibility study, Linc has estimated all-up total capital costs at A\$650m (includes associated infrastructure costs) for annual diesel equivalent capacity of 7.14mmbbl (19,560bpd assuming 365 days per year) or US\$22.3kbpd.



Industry research shows GTL plant capital expenditure needs to be below around US\$30,000/bpd in order to be competitive (with alternative fuel production routes). The 2006 Technical Due Diligence report for Stage 2 completed by Shedden Uhde Australia (leading engineers with a reputation for delivering quality plants in the petrochemical, refining and oil and gas sectors including coal gasification and gas synthesis technology areas) on behalf of Linc Energy concluded that:

- ▶ typically GTL projects are economic at oil prices >US\$25/bbl; and,
- ▶ capital cost estimates for natural gas-based GTL plants range between US\$20k and US\$40k/bpd, of which around 40% is committed to the Fischer Tropsch (FT) process, 25-35% for "clean up" and 25-35% for gasification.

Recent GTL plant developments' costs support Linc's capital cost estimates - Royal Dutch Shell and Qatar Petroleum are currently constructing a 140kbpd plant to produce diesel, by-product naphthalene and lubricant oils for a purported US\$2.8bn (equivalent US\$20,000 per annual barrel of capacity).

Linc's capital expenditure estimate of US\$22k-24k/bpd is within the generally accepted US\$20k-40k/bpd range.

Linc also has cost advantages arising from the proximity and ease of deliverability of feedstock gases from its coal leases given the GTL plant is likely to be sited on existing coal lease properties.

GTL Process Description

Gas-to-liquids is the term used to describe the process of converting gas into a liquid hydrocarbon product and is generally achieved through one of two processes:

- 1) the direct liquefaction of a gas, such as in the production of LNG, or
- 2) the chemical conversion of a gas to a liquid using the FT process.

The GTL process incorporates the usage of solid, liquid or gas feed stocks.

The two main GTL technologies are:

- 1) **Direct Conversion**, whereby methane is converted directly to synthetic crude oil (syncrude) without going via the syngas route – this is energy intensive and difficult to control and not yet fully commercialised.
- 2) **Indirect Conversion**, whereby natural gas (methane) is converted via reforming to produce hydrogen and carbon monoxide (syngas) which is then passed through an FT reactor containing an iron or cobalt catalyst prior to conversion into straight chain waxy paraffins (syncrude). This is then passed through a conventional hydrocracker to produce the petroleum by-products.

Recently, there has been renewed interest in the use of FT technology for the conversion of natural gas to liquids on the back of:

- i) An increase in the known reserves of natural gas;
- ii) Monetisation of remote or stranded natural gas reserves;
- iii) Environmental pressure to minimize the flaring of associated gas; and
- iv) Improvements in the cost-effectiveness of FT technology resulting from the development of more active catalysts and improved reactor designs.

The FT Process has been commercially developed over a considerable period of time

The FT process is a polymerisation reaction that takes place over a catalyst (typically iron, cobalt or ruthenium) producing either longer or shorter chained hydrocarbons. Syngas ideally has a hydrogen to carbon monoxide ratio of $>2:1$.

Shedden Uhde has identified a number of commercial GTL plants currently under consideration with a total global installed capacity of around 750-950kbpd between now and 2011 (excluding Linc Energy).

Several major companies have developed proprietary GTL/FT technology for commercial applications including:

Sasol (South Africa) – over 50 years' operating experience with high temperature and low temperature FT synthesis – currently providing over 25% of South Africa's fuel requirements by GTL and CTL,

Royal Dutch Shell – one GTL plant in Malaysia (Bintulu producing 14Kbpd), currently building a 150Kbpd facility in Qatar,

Exxon Mobil – AGC technology – pilot scale work for over 10 years,

Chevron – building a large GTL plant in Qatar,

Conoco Phillips – 400bpd demonstration plant and research facility in Oklahoma, and

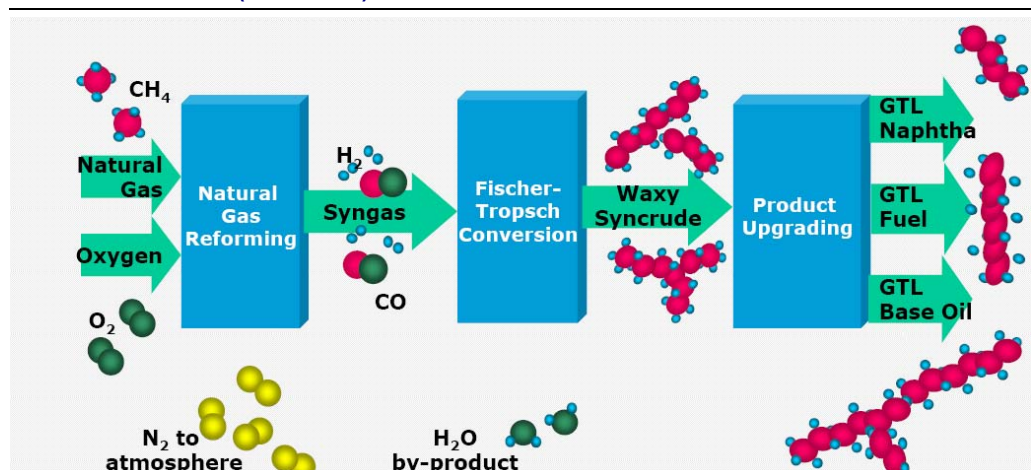
Syntroleum – has operated pilot facilities since 1990 – licensees of Syntroleum technology include Aust Govt. - syngas technology is highly compatible with air blown UCG (underground coal gasification).

In summary, the GTL process:

- ▶ takes otherwise stranded or flared gas and converts it to high quality, high value petroleum products,
- ▶ enables small otherwise uncommercial gas/coal fields to be monetised,
- ▶ utilises the proven FT which produces products with almost no impurities offering numerous competitive advantages to existing products.

Figure 1 below is a schematic flowchart showing conversion of natural gas to liquid products. Linc's process differs from that depicted in that it converts gas produced **by underground coal gasification (UCG)**.

FIGURE 1: DIAGRAM (EX TRI ZEN)



Source: Tri-Zen (consulting business focussing on energy/utilities sectors)



Underground Coal Gasification (UCG) Process Description

Coal gasification is the process by which coal reacts with steam and air (or oxygen) under high temperatures to form a combustible gaseous mixture.

Underground Coal Gasification (UCG) is the process whereby coal is gasified in situ without the need to first mine the coal and transport it to a surface coal gasifier. UCG is less capital intensive than conventional coal gasification since no surface gasification reactor(s) is(are) needed for the process.

Linc Energy's UCG project has been under development since 1999 and is the first project in the Western world to use UCG as a syngas producer.

Linc's UCG technology partner (Ergo Exergy) is based in Montreal and is a leader in global UCG technology.

Linc's Technical Director in charge of the UCG programme (Dr. Michael Blinderman) is a key Russian scientist at the centre of the former Soviet Union's UCG programme and has over 25 years' experience in the practical application of UCG technology.

Whilst UCG has been used extensively in the former Soviet Union for over 40 years, so far no commercial UCG facilities have ever been developed in the West. Our view is that this has been due to:

- ▶ risk of translating "socialist" economic fundamentals to the West, and the differences in approaching UCG as a result – UCG in Russia was done largely for socio political reasons in the past,
- ▶ environmental restrictions/ecological risk,
- ▶ limited access to technology, and
- ▶ pricing.

Process

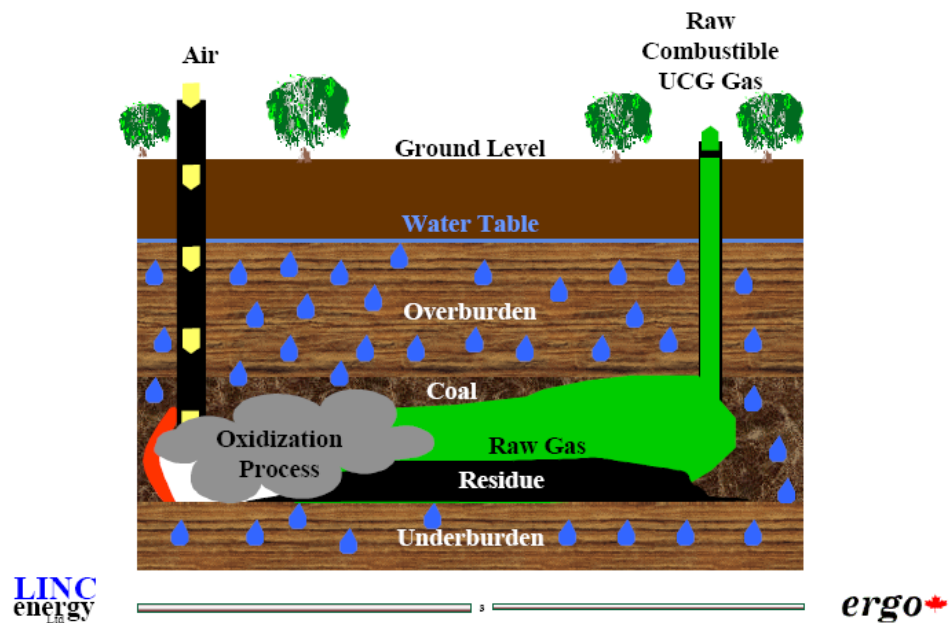
The UCG process utilised at Linc Energy's current Chinchilla operation is similar to commercial techniques that have been used in Russia for over 30 years:

- initial process wells are drilled into virgin coal seams,
- a connection is created between wells to allow circulation of an oxidant gas from the air injection well through to the production well,
- the coal seam is ignited and air (oxidant) is injected through injection wells,
- the oxidant then reacts with coal and groundwater to form a combustible gas,
- gas produced is then cooled and condensable components (water/organic liquids) are separated for further processing and use – gas is then processed for power generation (Stage 1) and GTL processing (Stage 2),
- the gasification system is expanded by the drilling of further process wells and the connection of further production wells. Cavities tend to form in ovoidal shapes which enable overall recoveries of around 70% of available coal.

We have inspected the Chinchilla UCG operation and can attest to the observable operational simplicity of the above-ground gas recovery process.

Figure 2 below shows the basic UCG process

FIGURE 2: THE UCG PROCESS



Source: Linc Energy



Coal Resources

Linc holds twelve granted exploration permits for coal (EPCs), a Mineral Development Licence (MDL), one application for an additional EPC and an additional application for an MDL all in Queensland, Australia.

The tenements are located primarily in the Surat-Moreton Basin, with some tenements in the Ipswich, Biloela and Galilee basins.

Indicated coal resources at MDL 309 (JORC compliant) stand at **16Mt**.

The company **Coalsearch Consultants** was contracted by Linc to determine the overall quantity and quality of coal in Linc Energy's tenements.

Linc Energy's EPCs and MDLs cover a strategic area which has the "*potential for the company to exploit large coal tonnages beyond the foreseeable future*" (Coalsearch Consultants). Additionally, the company's EPCs within the Surat Basin "*are prospective for very large deposits of coal which await appropriate exploration work*" (Coalsearch Consultants). Risks including the contiguity of coal measures within the Surat Basin are considered to be inferior to those of other known Queensland coal provinces (such as the Bowen Basin).

Key Risks

Although the risks to Linc are largely related to commercial, environmental and technical aspects, BBY believes they are largely manageable. They include:

- ▶ Stages 2 and 3 of the company's business plan will require significant further investment of capital, c. A\$650m. There is a risk that the company may not be able to raise such capital.
- ▶ The scale-up of a commercial GTL plant from the pilot plant. For a detailed review, please refer to Section 8 of the prospectus entitled "Independent gas to liquids consultants report" prepared by RS Consult (dated 8 March 2006) which reviews this in detail.
- ▶ There is potential for the UCG operations to result in: groundwater contamination, surface subsidence and productive soil contamination. If any of these issues were to arise, this could have a detrimental effect on Linc's operations. For a detailed review, please refer to Section 7 of the prospectus entitled "Independent Environmental Report" prepared by Golder Associates (dated 9 March 2006) which discusses these risks.
- ▶ In the event that the Syntroleum technology is not suitable for production of fuels using UCG Syngas (fairly inexperienced in the market), Linc may need to enter into agreements with other GTL technology providers in order to obtain appropriate technology. However, it is noted in the 'Review of Independent Consultants Reports for Linc Energy's IPO for UCGTL Pilot Plant' prepared by HCP Pty Ltd (dated April 2006) that "*Syntroleum GTL technology, with its air blown approach, is appropriate to (Linc's) non-oxygen enriched UCG concept*".
- ▶ The successful implementation of Linc's business plan and objectives could be adversely affected by: a) insufficient coal reserves, b) inconsistent gas quality, c) variable gas quantity, d) interruption in gas supply due to underground processing problems, or e) breach of supply contract due to inconsistent product production. Within the prospectus, please refer to Section 6 entitled "Independent Geologists Report" prepared by Shedden Uhde (dated 15 November 2005) which discusses these issues.
- ▶ Linc plans for its source of revenue in Stage 2 and 3 of its business plan to be derived mainly from the sale of diesel and other liquid fuel product. Typically GTL projects are economic at oil prices >US\$25/bbl. Therefore, any adverse shift in the oil price could make the project uneconomic.
- ▶ The potential for design and construction of efficient mining and processing facilities to exceed capital budgets. As discussed above, Linc has estimated all-up total capital costs at A\$650m (includes associated infrastructure costs) for annual diesel equivalent capacity of 7.14mmbbl (19,560bpd assuming 365 days per year) or US\$22.3kbpd. Industry research shows GTL plant capital expenditure needs to be below around US\$30k/bpd in order to be competitive (with alternative fuel production routes). Any overruns on CAPEX could materially impact the economics of the project.



Valuation/Earnings Summary

We have valued both stages of Linc's project development using a DCF valuation. Project modelling summaries are based on information provided by the company. BBY has incorporated its own assumptions (long-term oil/diesel prices, WACC, equity to debt split of the Stage 2 raising and long-term exchange rates) into the final figures.

The company has stated expected delivered gas costs of US\$0.50/GJ **including** allowance of around US\$0.14/ltr (US\$22/bbl) for sale of hydrocarbon by-products (specifically creosote). Our calculations have assumed no creosote sales (conservative given **minimum** further refining requirements and **high** calorific value). Gas processing costs comprise drilling costs, labour, pipework, gas monitoring and air compression (being the largest component).

BBY assumptions vs Linc Energy's internal assumptions are noted below:

- ▶ BBY has taken a WACC of 15.0% vs Linc's 13.1%. We have assumed a higher level of risk due to the issues relating to the scale up from a 5bpd project to a 20kbpd project. However, it should be noted that a "Review of Independent Consultants Reports for Linc Energy's IPO for UCGTL Pilot Plant" report prepared by HCP Pty Ltd which was commissioned by BBY Ltd quotes that "a target 20kbpd is considered a viable scale for a UCG GTL, subject to location factors" and that "UCG like CSM (coal seam methane) is essentially by replication."
- ▶ BBY has used a conservative long-term oil price of WTI US\$42/bbl vs Linc's WTI oil price of US\$45/bbl and therefore a long-term diesel price (nominal) of US\$52/bbl vs Linc's US\$55/bbl (diesel trades at a US\$10/bbl premium to the oil price).
- ▶ BBY has estimated a long-term exchange rate of A\$/US\$0.70 vs Linc's forecast of A\$/US\$0.75
- ▶ BBY has forecast a 40%/60% Equity to Debt split (in line with most CAPEX intensive projects) for Stage 2 funding vs Linc's assumption of 100% debt funding.

Moreover, BBY has assumed that a potential second stage raising will be conducted at A\$1.00p/s. As the Stage 1 5bpd GTL pilot plant passes through the necessary hurdles and performs in line with expectations, the market will likely de-risk the Stage 2 project. BBY assumes that this will lead to a share price appreciation equal to c.A\$1.00/s at the time when the second stage financing is required (c.A\$650m). Using this assumption, and assuming 40% equity being issued, the number of new shares that would need to be issued is c.260m shares.

Therefore, there will be c.580m shares on issue after the placement of the second tranche.

This gives a **valuation (fully diluted) of A\$1.52p/s** based on a DCF valuation.

In the short to medium term, BBY envisages that the completion of the following items will lead to a re-rating in the share price:

- Proving up the coal resource – indicated coal resources at MDL 309 currently stands at 16Mt and this is expected to be gradually upgraded to 300Mt;
- Securing the necessary additional personnel to achieve the construction of the demonstration plant and for the future growth; and,
- The commencement of construction of the 5bpd plant and significant milestones relating to the project coming in on budget and on time.

All assumptions for production and earnings forecasts for combined Stages 1 and 2 are shown in Table 3.



TABLE 3: ANALYSIS OF INTEGRATED GAS PRODUCTION 4 GTL

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 barrels / year
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre
Economic Factors		WACC:	15.0 %
Debt	60.0 %		
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	DCF @ 15 %	884,206,596 \$
Total Opex	93,100,000 \$ / year	Internal Rate of Return	37.41 %
Total Site Admin Cost	4,000,000 \$ / year	Discounted Payback	7 years = 2013
Total HQ Admin Cost	7,000,000 \$ / year	Plant Capacity to Break Even	1,616 bbl/day
Federal Tax Exemption	0 \$ / year		
EBITDA	423,537,051 \$ / year	Note: * based on 42 US\$ / oil barrel	

Source: Linc/BBY

Sensitivity Analysis

We have conducted three sensitivity analyses. We have used the same assumptions as above adjusting for:

- the future long-term oil price,
- the share price at which the second raising will be conducted, and
- changes in CAPEX requirements.

As seen below, Linc's earnings are highly sensitive to changes in the oil price.

TABLE 4: SENSITIVITY 1 – THE OIL PRICE

Scenario	WTI Oil Price (US\$/bbl)	Diesel Price (A\$)	DCF @ 15 % (A\$)	IRR (%)	Discounted Payback
Base Case	42	74.3	884,206,596	37.4	7
-29%	30	57.1	537,721,484	29.4	8
-17%	35	64.3	682,090,281	32.8	8
-5%	40	71.4	826,459,078	36.1	7
7%	45	78.6	970,827,874	39.3	7
19%	50	85.7	1,115,196,671	42.5	6
31%	55	92.9	1,259,565,467	45.5	6
43%	60	100.0	1,403,934,264	48.5	6
55%	65	107.1	1,548,303,061	51.3	6
67%	70	114.3	1,692,671,857	54.2	6
79%	75	121.4	1,837,040,654	56.9	5
90%	80	128.6	1,981,409,450	59.6	5
102%	85	135.7	2,125,778,247	62.3	5
114%	90	142.9	2,270,147,044	64.9	5
126%	95	150.0	2,414,515,840	67.4	5
138%	100	157.1	2,558,884,637	69.9	5

Source: BBY

Sensitivity 2: Stage 2 Capital raising price

We are assuming that the company will need to raise A\$650m for Stage 2 to proceed. We have also assumed as a base case that the second raising will be issued at A\$1.00p/s (using a 40%/60% equity to debt split). Below are other valuation alternatives varying the Stage 2 capital raising price.

TABLE 5: SENSITIVITY 2 – STAGE 2 CAPITAL RAISING PRICE

Scenario	Raising conducted at (A¢)	No of shares to be issued (m)	Total Number of shares on	DCF Valuation (A¢)
			issued after Second raising (m)	
Base Case	100	260	580	152
-60%	40	650	970	91
-50%	50	520	840	105
-40%	60	433	753	117
-30%	70	371	691	128
-20%	80	325	645	137
-10%	90	289	609	145
10%	110	236	556	159
20%	120	217	537	165
30%	130	200	520	170

Source: BBY

Sensitivity 3: Changes in CAPEX requirements

In our analysis, BBY assumes that the company will need to raise \$A650m for Stage 2 to proceed. Due to the “cost squeeze” environment currently being exhibited, BBY has conducted a sensitivity analysis showing how an increase/decrease in CAPEX will impact our valuation.

TABLE 6: SENSITIVITY 3 - CHANGES IN CAPEX REQUIREMENTS

Scenario	CAPEX (A\$m)	DCF Valuation (A\$/s)
Base Case	650	1.52
-15%	550	1.63
-8%	600	1.58
8%	700	1.47
15%	750	1.42
23%	800	1.37
31%	850	1.31

Source: BBY



This document has been prepared (in Australia) by BBY Limited ABN 80 006 707 777 (BBY), a Participant of Australian Stock Exchange Group and regulated by the Securities & Futures Authority of the United Kingdom (SFA).

Analyst Certification

I, Jeremy Tobias, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

The information on which the research is based is drawn from the prospectus dated 10 March 2006.

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

Disclosure

BBY and its associates (as defined in Chapter 7 of the Corporations Law), officers, directors, employees and agents, from time to time, may hold securities in any of the companies to which this document refers and may trade in the securities mentioned either as principal or agent.

BBY does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Disclaimer

This report may contain general securities advice or recommendations which, while believed to be accurate at the time of publication, are not appropriate for all persons or accounts. Before acting on any advice or recommendations, a person should contact a BBY adviser to determine whether or not the recommendations are appropriate; or should form his/her own view given the person's investment objectives, financial situation and particular needs. Although every attempt has been made to verify the accuracy of the information contained in the document, liability for any errors or omissions (except any statutory liability which cannot be excluded) is specifically excluded by BBY, its associates, officers, directors, employees and agents.

BBY and its associates (as defined in Chapter 7 of the Corporations Law), officers, directors, employees and agents, from time to time, may hold securities in any of the companies to which this document refers and may trade in the securities mentioned either as principal or agent.

On 27 September 2005, Linc Energy entered into an agreement with BBY under which BBY agreed to act as lead manager to the Linc Energy Initial Public Offering of Shares. The agreement provides for a mandate period ending 30 June 2006, which may be extended. Under the agreement, Linc Energy has agreed to pay BBY:

- a capital raising fee of 5% of the total funds raised by Linc Energy (except in relation to the major cornerstone investors);
- a management fee equal to 1% of total funds raised;
- corporate advisory fees of \$15,000 per month; and
- reasonable out of pocket expenses.

Linc Energy has also agreed to grant BBY 1,000,000 unlisted \$0.25 options in the Company exercisable two years from the date of listing.

Further disclosures concerning fees and future potential fees are contained on pages 103 and 104 of the prospectus dated 10 March 2006.

US Investors

This material is intended for use by major U.S. institutional investors (as such term is defined in the U.S. Securities Exchange Act of 1934) and "\$100 million investors" only and not the general investing public or retail customers. "\$100 million investors" means any entity, including any investment adviser (whether or not registered under the U.S. Investment Advisers Act of 1940) that owns or controls (or in the case of an investment adviser, has under management) in excess of US\$100 million in aggregate financial assets (i.e. cash, money-market instruments, securities of unaffiliated issuers, futures and options on futures and other derivative instruments). Transactions by or on behalf of any US person in any security mentioned in this document may only be effected through Jefferies & Company, Inc. ("Jefferies"), a U.S. broker dealer.

The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. BBY or Jefferies or Jefferies International Limited and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

United Kingdom and Canadian Investors

This document may be distributed in the United Kingdom by BBY or Jefferies International Limited (regulated by SFA). None of the investments or investment services referred to in this document are available in the United Kingdom to private customers, as defined by the rules of the SFA. This document is not to be provided to private customers in the United Kingdom.

The investments or investment services referred to in this document are available in Canada only to "Designated Institutions", as defined by the Securities Act (Ontario).

Other International Investors

International investors outside the US, UK or Canada are encouraged to contact their local regulatory authorities to determine whether any restrictions apply to their ability to purchase this investment.

Approved for release by BBY Limited

RESEARCH

BBY Limited - Participating organisation of Australian Stock Exchange Limited Regulated by the Securities and Futures Authority ABN 80 006 707 777
Melbourne Level 45, Rialto South Tower, 525 Collins Street, Melbourne, Victoria 3000 Telephone 613) 9226 0000 Facsimile 613) 9226 0222
Sydney Level 17, Westpac Plaza, 60 Margaret Street, Sydney NSW 2000 Telephone 612) 9226 0000 Facsimile 612) 9226 0066
London Level 4, Bracken House, 1 Friday Street, London EC4M 9JA Telephone 44 207) 618 3730 Facsimile 44 207) 618 3777
New York C/- Jefferies & Co Inc, Level 12, 520 Madison Avenue, New York NY 10022, USA Telephone 1 212) 284 2460 Facsimile 1 212) 284 2445
Internet <http://www.bby.com.au/>

BBY Contacts

EXECUTIVES

Managing Director & CEO

Glenn Rosewall 02 9226 0032 gar@bby.com.au

Chief Financial Officer

Arun Maharaj 02 9226 0044 anm@bby.com.au

Director Corporate Services

Lorraine Phelan 02 9226 0035 lep@bby.com.au

RESEARCH DEPARTMENT

Banking & Finance

John Buonaccorsi 02 9226 0033 jkb@bby.com.au

Darren Odell 02 9226 0100 dpo@bby.com.au

Healthcare / Life Sciences

Dennis Hulme 02 9226 0083 djh@bby.com.au

Industrials

John Welsh 02 9226 0067 jnw@bby.com.au

Real Estate

Dean Gomel 02 9226 0137 drg@bby.com.au

Resources – Metals

John Veldhuizen 02 9226 0043 jxv@bby.com.au

Resources – Oil & Gas

Scott Ashton 02 9226 0051 sha@bby.com.au

Jeremy Tobias 02 9226 0086 jet@bby.com.au

Telecommunications, Media and Technology

Mark McDonnell 02 9226 0090 mmm@bby.com.au

Darren Odell 02 9226 0100 dpo@bby.com.au

Bei Bei Hu 02 9226 0041 bbh@bby.com.au

Transport & Infrastructure

John Veldhuizen 02 9226 0043 jxv@bby.com.au

Compliance Editor/Research Manager

Mary Ackerman 02 9226 0006 mja@bby.com.au

INSTITUTIONAL SALES & TRADING

Australia

Richard Wolff 02 9226 0046 rxw@bby.com.au

Jenny Mullineux 02 9226 0027 mjm@bby.com.au

Paul Bryan 03 9226 0224 pab@bby.com.au

Peter Copeland 02 9226 0021 pmc@bby.com.au

Nicholas Whiteley 02 9226 0062 nxw@bby.com.au

Equity Sales Trading

Patrick Telfer 02 9226 0114 pxt@bby.com.au

Asia

Alex Domone 02 9226 0038 ald@bby.com.au

UK/Europe

Mike Shortland +44 207 618 3731 mas@bby.com.au

USA

Bruce Stewart +1 212 284 2007 bas@bby.com.au

Eddie Sugar +1 212 284 2430 exs@bby.com.au

Alex Domone 02 9226 0038 ald@bby.com.au

EQUITY CAPITAL MARKETS

David Smith 02 9226 0112 des@bby.com.au

Brett Boynton 02 9226 0047 rbb@bby.com.au

CORPORATE

James Garton 02 9226 0004 jdg@bby.com.au

Jeremy Dunlop 02 9226 0036 jdd@bby.com.au

Matt Storey 02 9226 0079 mns@bby.com.au

PRIVATE CLIENT BROKING & EXECUTION

David Bosci 03 9226 0235 drb@bby.com.au

David Corlette 02 9226 0022 dmc@bby.com.au

David Linden-Smith 02 9226 0074 dls@bby.com.au

Ian Templeton 03 9226 0290 ixt@bby.com.au

Paul Jacobs 02 9226 0008 paj@bby.com.au

Rob King 02 9226 0064 rgk@bby.com.au