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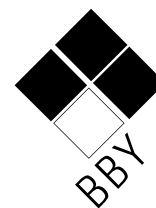
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Linc Energy Limited

Linc set for the Global Stage

LNC

A\$0.58

BUY

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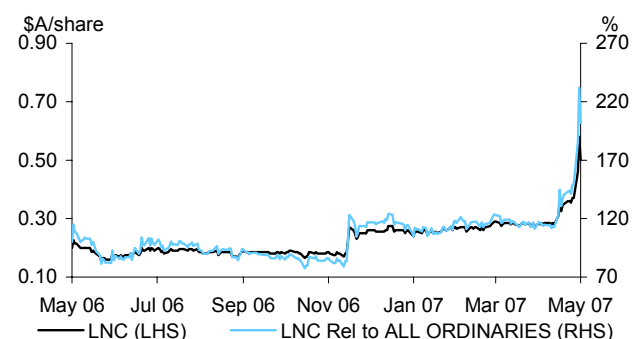
BBY maintains its BUY recommendation on Linc Energy Limited (LNC) after the company announced that it had signed an international Memorandum of Understanding with Shiv-Vani (listed on the Bombay stock exchange), India's largest non-government oil and gas drilling and exploration company. The MOU provides for the establishment of potential JVs between LNC and Shiv-Vani in the field of Underground Coal Gasification (UCG). The aim is to utilise the UCG gas production for power generation, and in the medium term, coal to liquids diesel fuel production. We have lifted our 12 month share price target to A\$0.80/sh (prev A\$0.60/sh) and have left our DCF valuation of A\$1.52/sh unchanged.

- ▶ The immediate focus of the MOU is to ensure that the JV gains and develops coal blocks that the Indian Government is releasing for the specific purpose of UCG development.
- ▶ We understand that the Indian government will be allotting coal blocks suitable for UCG and/or GTL within the next 12 months, in a similar format to the way that the government has apportioned Coal Bed Methane blocks to parties over the past few years. The combination of LNC and Shiv-Vani should allow the JV to secure one of these blocks when they become available.
- ▶ Shiv-Vani's focus to date has been primarily on oil drilling and exploration, however the company has recently been looking to expand its operations to include UCG.
- ▶ In addition to this MOU, LNC is also currently undertaking pre-feasibility and negotiations on other possible UCG fields in a number of countries, with a number of other potential JV partners. Note that the MOU signed with Shiv-Vani is on a non-exclusive basis.
- ▶ The MOU announced today confirms LNC's position as a market leader in the UCG/GTL space, not just domestically but also internationally.
- ▶ The key news-flow for this company should come in the 3QCY07 when the demonstration plant commences production at Chinchilla. However we believe today's announcement puts LNC on the global stage and highlights the potential of LNC's operations.

Company Data

Number of shares	320.8M
Market capitalisation	\$186.1M
12 month high/low	\$0.62 / \$0.15
Average monthly turnover	\$2.2M
All Ordinaries Index	6351
% All Ordinaries	na

LNC versus ALL ORDINARIES Index



Upcoming Key Milestones

- ▶ Further Drilling results
- ▶ Extracting Gas from Chinchilla
- ▶ Commissioning of the GTL pilot plant
- ▶ The potential signing of other international MOU's



ANALYSIS OF INTEGRATED GAS PRODUCTION & GTL (A\$)

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 - Naphttha

Naphtalene Production	10.16 g / Nm ³	Total Naphtalene Production	112,415 tn / year
Sale Value of Naphttha	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

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 \$
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.

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. BBY received fees in respect of this capital raising.

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