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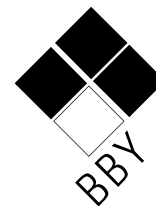
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## Linc Energy Limited

### Signs MOU with SAPEX Limited

# LNC

# A\$0.76

# BUY

24 July 2007

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BBY maintains its BUY recommendation on Linc Energy Limited (LNC) after the company late last week signed an Memorandum of Understanding (MOU) with ASX-listed SAPEX Limited (ASX: SXP). This announcement comes after LNC last month signed international MOUs with Marubeni Corporation (one of Japan's largest trading houses) and Shiv-Vani (one of India's largest oil and gas drilling and exploration companies) for the establishment of potential JVs. The aim of the JVs would be to utilise Underground Coal Gasification (UCG) for power production, and in the medium term, coal-to-liquid diesel fuel production. LNC is fast becoming the partner of choice in the UCG and coal-to-liquids arena. We expect a continual re-rating in the share price leading into late September 2007 when the company's demonstration plant will be in production. We have increased our price target to A\$0.90/sh (prev A\$0.80/sh) and have left our DCF valuation at A\$1.52/sh (Chinchilla only).

#### Key take-outs from the MOU with SAPEX Limited

- ▶ LNC to identify suitable locations within SAPEX's South Australian licence areas to establish UCG fields for the production of low greenhouse gas emissions power, and environmentally friendly coal-to-liquids diesel.
- ▶ SAPEX holds seven petroleum exploration leases (PELs) and two mining exploration leases (ELs) that together cover almost the entire prospective area of the Arckaringa Basin in Central South Australia. BBY understands that up to 9bn tonnes of coal may exist in the two ELs and there may be up to 32bn tonnes of coal in total contained on all leases. Note that these are not JORC coded at this stage.
- ▶ It is the intention of both companies to enter into a formal JV (LNC:75%, SXP:25%) to commercialise these resources. We understand that this should be concluded within the next six months.

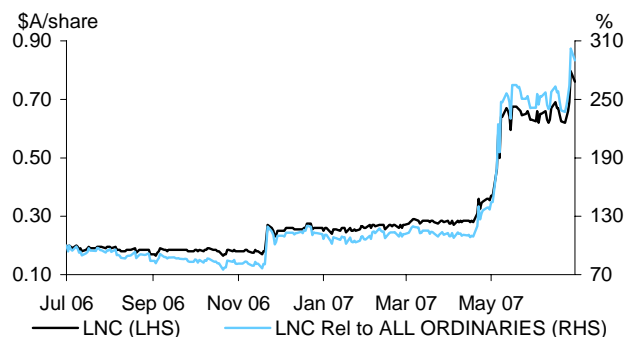
#### Our View

The MOU with SAPEX confirms LNC's position as a market leader in the UCG/GTL space and gives LNC access to a substantial coal field. In the coming weeks we await confirmation that gas extraction from Chinchilla has begun. The main milestone for this company will come in the 3QCY07 when the demonstration plant commences production at Chinchilla. **We maintain our BUY recommendation.**

#### Company Data

Number of shares	328.8M
Market capitalisation	\$250.0M
12 month high/low	\$0.89 / \$0.17
Average monthly turnover	\$3.5M
All Ordinaries Index	6454
% All Ordinaries	n/a

#### LNC versus S&P/ASX 200 Index



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## ANALYSIS OF INTEGRATED GAS PRODUCTION &amp; 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 <sup>3</sup> / hour	Total Gas Production	11,064,424,587 Nm <sup>3</sup> / year
Gas Calorific Value	5.23 MJ / Nm <sup>3</sup>	Total Energy Output	57,866,941 GJ / year

**By-Product Production - Hydrocarbons**

Hydrocarbon Production	15.27 g / Nm <sup>3</sup>	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 <sup>3</sup>	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+):	465,798,512 barrels / year
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre

**Economic Factors**

Debt	70.0 %
Equity	40.0 %
Exchange Rate \$/US\$	0.7

**WACC:** 15.0 %**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+)	527,663,922 \$ / 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 %	884,293,218 \$
Internal Rate of Return	37.41 %
Discounted Payback	7 years = 2013
Plant Capacity to Break Even	1,616 bbl/day

**EBITDA** 423,563,922 \$ / 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.

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