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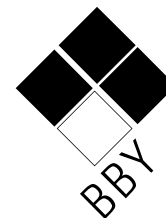
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Linc Energy Limited

GTL Demo Plant Remains on Track and JORC Resource Released

LNC

A\$0.64

BUY

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Linc Energy Limited (LNC) has provided an update on the progress of its Gas-to-Liquids (GTL) Demonstration plant located in Chinchilla, QLD and also released a JORC Compliant resource statement. Importantly, LNC's GTL demonstration plant remains on track for early commissioning to commence by 28 February 2008. We maintain our BUY on LNC with a 12 month price target of A\$1.25/sh and a DCF valuation of A\$1.49/sh.

Company Data

Number of shares	367.1M
Market capitalisation	\$234.9M
12 month high/low	\$1.05 / \$0.24
Average monthly turnover	\$7.2M
All Ordinaries Index	5646
% All Ordinaries	n/a

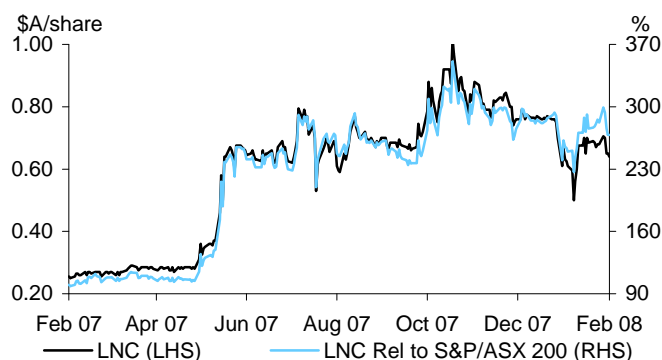
Key Highlights

- ▶ **GTL Demonstration Plant** – The expected start date of early commissioning is by 28 February 2008 which is in line with previous company guidance issued in November 2007 and again in January 2008. It is expected that commissioning will last between 6-9 weeks until first diesel is produced. We note that the GTL Demonstration plant is over 70 metres long and eight storeys high.
- ▶ **JORC Compliant resource statement** – LNC has also announced a JORC coded resource of 401M tonnes of coal at its Chinchilla site in QLD, based on an indicated resource of 228.1M tonnes and an inferred resource of 172.9M tonnes. The JORC report was based on 106 drill holes completed by LNC and its contractors over the past twelve months. LNC's prospectus forecasts anticipated at least 300m tonnes of coal at Chinchilla (which would satisfy a 50-60 year life for the GTL plant), so already this figure released yesterday is in excess of that.
- ▶ **Future Drilling and JORC reports** – The company expects to release an updated JORC compliance report every six to eight weeks. This coincides with the appointment of an exploration manager, Mr Tim Jones, in January 2008. We expect to see c.1Bn tonnes of coal JORC coded by the end of CY08/early CY09 from LNC's tenements. This is in addition to LNC's JV with ASX-listed Sapex Limited (SXP) in South Australia. We should see some drilling on these tenements commencing during 1QCY08.

Our View

This announcement is positive for LNC. Despite the substantial amount of rain in QLD, LNC's GTL Demonstration plant remains on track despite difficult conditions. LNC's coal resource (JORC coded) is growing and will continue to increase over the coming year with the appointment of a designated exploration manager and LNC having the luxury of its own drilling rig. The key remains the successful commissioning of the demonstration GTL Plant which, when successfully completed, should cause a re-rating in the stock. BUY.

LNC versus S&P/ASX 200 Index



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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	Nm3 / hour	Total Gas Production	11,064,424,587 Nm3 / year
Gas Calorific Value	5.23	MJ / Nm3	Total Energy Output	57,866,941 GJ / year

By-Product Production - Hydrocarbons

Hydrocarbon Production	15.27	g / Nm3	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 / Nm3	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	\$
Federal Tax Exemption	no		Federal Tax Rate	0.36	\$/litre

Economic Factors

Debt	60.0	%
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
GTL Plant	400,000,000	\$		A\$

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

Source: BBY/LNC



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BBY acted as manager to the placement for LNC as announced to the market on 31 October 2007 for which it received fees.

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

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