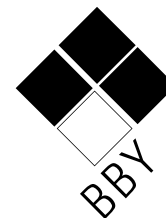


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Linc Energy Limited

Australia, Vietnam, India and Now China....

LNC

A\$2.94 BUY

26 May 2008

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Linc Energy Limited (LNC) today announced that it has executed an MOU with the Huadian Coal Industry Group from China (owned by both the China Huadian Corporation and Huadian Power International Corporation). This latest MOU reaffirms our view that LNC is fast becoming the partner of choice in the UCG/GTL sector, both domestically and internationally. We have also increased our 12 month price target to A\$3.53/sh (prev A\$2.95/sh), in line with our DCF valuation of A\$3.53/sh (prev A\$2.95/sh), primarily due to reducing our WACC to 13% (prev 14%) as we are now only weeks away from completing commissioning of the company's pilot GTL facility in Chinchilla, QLD.

MOU with Huadian Coal

- ▶ Huadian Coal produces over 30M tonnes of coal p.a. and owns in excess of 23B tonnes of coal across China.
- ▶ Under the MOU, both companies intend to pursue opportunities to utilise LNC's UCG technology and expertise in GTL within China. In addition, they will investigate investment opportunities whereby Huadian Coal may invest in LNC. The MOU is non-exclusive and it is anticipated that LNC and Huadian Coal will commence detailed negotiations during 2008 to establish their first JV.

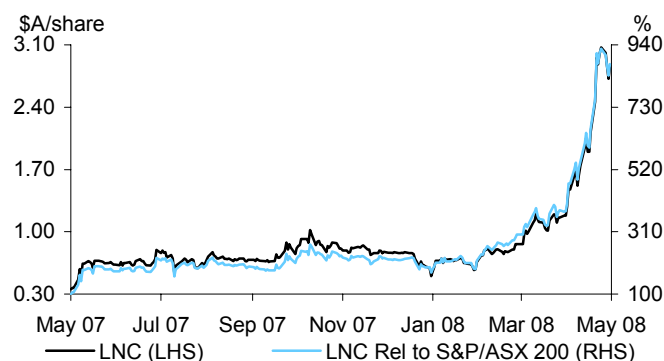
Our View

- ▶ This is another positive development for LNC. The company has now signed MOU agreements with Huadian Coal, Marubeni, VINACOMIN, Shiv-Vani and Sapex (ASX: SXP) to develop JV's to utilise UCG/GTL expertise. We now await formal JV's to be signed between LNC and the respective parties.
- ▶ The increased interest in UCG as a means of obtaining "cheap gas" has meant that LNC's UCG technology and know-how will put them ahead of the other competitors in the sector. The PricewaterhouseCoopers (PwC) report released earlier in May 2008 entitled "Industry Review and an Assessment of the Potential of UCG and UCG Value Added Products" also highlighted the viability and potential of the industry.
- ▶ We now await the successful commissioning of LNC's pilot GTL facility, expected to be announced in the next few weeks. This is a vital period for the company.

Company Data

Number of shares	389.6M
Market capitalisation	\$1145.42M
12 month high/low	\$3.25 / \$0.36
Average monthly turnover	\$13.3M
All Ordinaries Index	5833
% All Ordinaries	n/a

LNC versus S&P/ASX 200 Index



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Financial Summary

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 * 65 US\$ / bbl	92.86 \$ / barrel	Total Diesel Revenue (Year 3+):	582,214,550 \$
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre

Economic Factors

Debt	70.0 %
Equity	30.0 %
Exchange Rate \$/US\$	0.7

WACC: 13.0 %

Capital Expenditure Details

Gas Process Plant	70,000,000 \$		
Clean Up Plant	180,000,000 \$	Total Capital Required	850,000,000 A\$
GTL Plant	600,000,000 \$		

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+)	644,079,000 \$ / 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 @ 13 %	1,479,809,384 \$
Internal Rate of Return	37.65 %
Discounted Payback	7 years = 2013
Plant Capacity to Break Even	1,616 bbl/day

EBITDA 539,979,000 \$ / year

Source: BBY, Company Reports

Base Case Assumptions for our DCF Valuation

Our Base Case DCF valuation for LNC is A\$3.53/sh (prev A\$2.95/sh). This is based on the following key assumptions:

- ▶ A WACC of 13% (prev 14%);
- ▶ A long term oil price of US\$65/barrel (in-line with the Jefferies WTI oil price assumptions); and
- ▶ LNC conducting an equity capital raising for its commercial plant at a conservative A\$2.75/sh (prev A\$2.00/sh) assuming a 70/30 debt to equity split. We anticipate that this would occur at the end of CY08/1QCY09. Note that we have not ascribed any value from the coking coal deposit (announced to the market on 9 April 2008) to fund CAPEX requirements at this stage.

We provide sensitivity analysis to our DCF valuation based on different: (i) long term oil prices; and (ii) adjustments to the WACC.

TABLE 1: SENSITIVITY ANALYSIS 1 – DCF VALUATION (A\$/SH)

		Flat Long Term Oil Price (per barrel)							
		US\$50	US\$60	US\$65	US\$70	US\$80	US\$90	US\$100	US\$110
WACC	10%	3.61	4.68	5.21	5.74	6.81	7.87	8.94	10.01
	11%	3.13	4.08	4.56	5.03	5.98	6.93	7.88	8.84
	12%	2.72	3.57	4.00	4.43	5.28	6.13	6.99	7.84
	13%	2.37	3.14	3.53	3.91	4.68	5.45	6.22	6.99
	14%	2.07	2.77	3.12	3.46	4.16	4.86	5.55	6.25
	15%	1.81	2.45	2.76	3.08	3.44	4.08	4.98	5.61

Source: BBY estimates

We note that the analysis above only takes into account forecasts for LNC's 20,000 barrel per day GTL facility.

Our View

The announcement today continues to show that LNC is fast becoming the partner of choice in the UCG/GTL sector, both domestically and internationally. We await successful commissioning of the company's pilot GTL facility expected in the next few weeks. Maintain BUY.



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BBY has received during the past 12 months compensation for financial and advisory services from the company, its parent or its wholly owned or majority owned subsidiary. BBY received fees in acting as Lead Manager in relation to the Placement as announced to the Market on 31 October 2007.

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

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