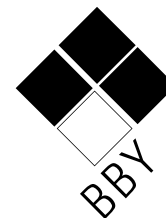


# BBY Limited

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## Linc Energy Limited

Still the Premier No 1 UCG and GTL Company

# LNC

# A\$2.87

# BUY

12 August 2008

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Over the past week, the entire domestic UCG sector has been under pressure as various negative and inaccurate media articles have emerged. A number of the statements have since been retracted or amended, however we believe that there is still significant confusion in the market place as can be seen by the decrease in share prices across the whole sector over the past week (LNC – 21%). At BBY, we maintain our BUY recommendation and have a 12 month share price of A\$5.50/sh. LNC is only weeks away from first liquids from its Gas to Liquids pilot plant which will be a major milestone for the company.

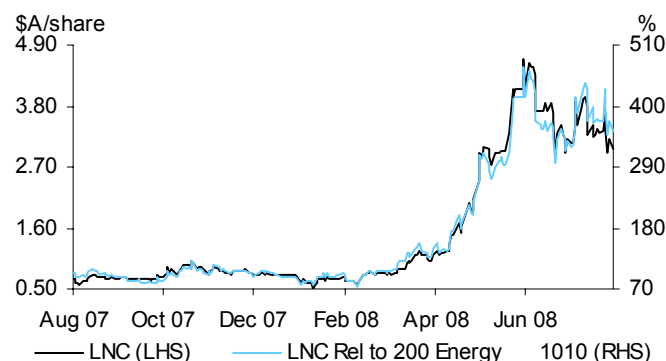
### Key Take-Outs

- ▶ **No Moratorium on the Granting of UCG Tenements** – rather the Queensland Mines and Energy Minister Geoff Wilson issued a statement saying that they “would only do what was best for Queensland in relation to underground coal gasification technology on trial in the state”. We believe that due to LNC having conducted UCG trials at Chinchilla since 1998, this stands the company in good stead.
- ▶ **No EPA issues and no new demonstration trials needed** – Since 1998, LNC has been supplying monitoring data every quarter to the EPA, including all groundwater monitoring data. During that time LNC has never been required to undertake any “new demonstration trials” or been asked to provide further data to the EPA or any other Government agency.
- ▶ **EIS remains on track to be approved by mid CY09** – There is no reason to suggest that LNC’s EIS approvals for the 20,000 barrel per day plant will not be granted by May/June 2009 (in line with previous estimates). The fact that LNC’s project was declared a “Project of State Significance” by Qld Premier Anna Bligh will allow the company to have the Government co-ordinate and help facilitate the approval process. This declaration still stands and the Government has not changed its position.
- ▶ **Overlapping Tenements** – We understand that the overlapping tenement issue with Queensland Gas (QGC) only relates to a non-material part of Chinchilla, i.e. only 1-2%. Whilst we await a resolution on this matter, we highlight that it is not crucial to LNC’s project and does not effect our valuation in any way.
- ▶ **Liquids Around the Corner** – While these issues described above have dominated the discussion, we highlight that LNC is only a few weeks away from a significant milestone for the company, the first liquids from the Gas to Liquids pilot plant. Syngas from LNC’s UCG field will start to be fed through the plant in the next few days.

### Company Data

Number of shares	397.6M
Market capitalisation	\$1,141.1M
12 month high/low	\$4.92 / \$0.48
Average monthly turnover	\$27.4M
All Ordinaries Index	5089
% All Ordinaries	n/a

### LNC versus 200 Energy 1010 Index



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## Financial Summary

### ANALYSIS OF INTEGRATED GAS PRODUCTION AND 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 * 75 US\$ / bbl	107.14 \$ / barrel	Total Diesel Revenue (Year 3+):	671,786,020 \$
Federal Tax Exemption	no	Federal Tax Rate	0.36 \$/litre

#### Economic Factors

Debt	70.0 %
Equity	30.0 %
Exchange Rate \$/US\$	0.85

#### 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+)	733,651,430 \$ / 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 %	2,632,696,508 \$
Internal Rate of Return	100.31 %
Discounted Payback	5 years = 2011
Plant Capacity to Break Even	1,616 bbl/day

**EBITDA** 629,551,430 \$ / year

Source: BBY, Company Reports



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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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Buy – Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold – Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus or minus 15% within a 12-month period.

Underperform – Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or BBY Limited policies.

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Speculative Underperform – Describes stocks we view with a negative bias, whose company fundamentals and financials are being monitored, but for which there is insufficient information for BBY Limited to assign a Buy, Hold or Underperform rating.

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