

Linc Energy (LNC)

Funds + Energy + Technology = Control over Destiny

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Paul Jensz
 pjensz@austock.com
 +613 8601 2068

Lawrence Grech
 lgrech@austock.com
 consultant

Three Key Points

- **FUNDED** - Non-core coal asset sales generate \$500m cash now. We expect a further \$500m within 6 months, and over \$400m from royalties over time (that can be monetised earlier if required);
- **PROOF** - Underground Coal Gasification (UCG) technology has produced 1PJ / annum / 500mx50mx10m seam of Syngas at a cost of \$4.50/GJ from previously uneconomic thermal coal deposits below 200m; and,
- **ENERGY** and **GLOBAL LEVERAGE**. LNC is targeting a cost of \$1.80/GJ for multiple coal panels to provide globally competitive energy costs using UCG gas for: a commercial 200MW power plant in South Australian commencing late 2012; Australian or USA 4000bpd gas to diesel refinery in 2015; and, power/diesel projects in Wyoming, Alaska and Queensland

Building Blocks in place - Funds, Energy and Technology

LNC has recently sold its Galilee thermal coal resource (7.8bn tonnes) for \$500m in cash (pre-tax) to India's Adani Mining Pty Ltd plus a \$2 per tonne royalty indexed to Australian inflation for the first 20 years of production. LNC is confident of selling its Emerald coking and thermal resource (JORC 852mt) for a mix of cash (~\$500m) and royalty in the short term and the smaller Pentland thermal resource (266mt) within 12 months.

Following the Galilee deal we have revised our expectation for LNC's divestment of non-core coal assets to realise \$1.4bn after-tax in today's dollars from previous estimate of \$1.0bn.

In our view, LNC is now strongly positioned with Syngas from its own resources at a cost base of A\$2.20/GJ (LNC's target is A\$1.80/GJ). Its building blocks are: funds; USA/Australian coal resources (2bn+mt); and five years in-house Underground Coal Gasification (UCG) development and 160 technical staff*.

(*Plus Yerstogaz's 60 engineers, 49 years of UCG operational experience)

The main hurdles over the next 12 months include:

- Demonstrating ability to produce: UCG Syngas with a \$2.20/GJ cost base (or lower) with its South Australian coal resource; and 11% ROIC with 200MW power plant;
- Obtaining regulatory clearances including environmental clearance from SA and Wyoming Governments; and,
- Transforming an exploration and transaction culture to an operating and commercial business.

Investment View

LNC provides investors a leveraged exposure to developing businesses that convert low cost UCG to high value energy products and to exploration for conventional coal. LNC is adept at managing funding and development risks.

We initiate with a Buy, 12 month price target of \$3.05/share. Medium term LNC could reach over \$6.00/share as it sells additional conventional energy assets, development milestones for UCG monetization are achieved and UCG is recognised as competitive with Coal Seam Methane and Shale Gas.

Recommendation

Buy

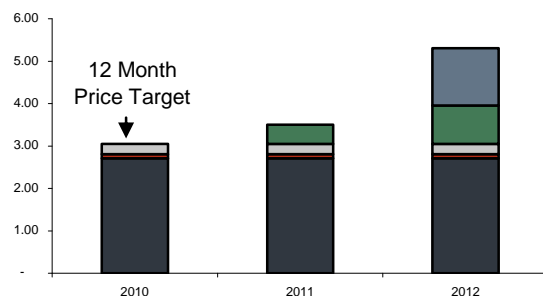
Previous Recommendation	Initiating Report
Risk Rating	Medium
Current Share Price	\$1.71
12 Month Price Target	\$3.05
Price Target Methodology	DCF
Total Return (Capital + Yield)	78%
DCF Valuation	\$3.05
Market capitalization	\$841m
Liquidity – Daily Turnover	\$8m

Financial Forecasts & Valuation Metrics

Y/e Jun (\$m)	2012F	2013F	2014F	2015F
South Australian Power				
Revenue	16.0	58.3	106.5	208.0
EBITDA	(6.2)	24.3	47.5	127.3
ROIC	(5.3%)	4.0%	1.4%	11.0%
Corporate Balance Sheet				
Net cash	754.4	443.7	899.9	851.0
NTA per share	2.23	1.98	3.18	3.12
Corporate Multiple (with only SA Power and interest from cash)				
P/E (x)	20.0	20.0	13.2	7.3

Source: Austock Securities estimates

Valuation Road Map for Milestones - Short Term



- SA Power - derisked
- More energy asset sales - derisked
- SA Power - risked
- More energy asset sales - risked
- Coal asset sales

Source: Austock Securities estimates

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Summary Swot

Strengths	Weaknesses
<ul style="list-style-type: none"> • Funded to prove-up commercial scale Underground Coal gasification (cost base less than A\$2.20/GJ), and acceptable returns from power generation (e.g.: South Australia). • Owns significant coal resources in power hungry regions such as South Australia, Wyoming, Alaska and Queensland • Proven Underground Coal Gasification Technology and the longest experience in continuous operations • Has an additional pipeline of non-core assets (conventional coal, oil and gas prospect to potentially sell or fund to development through joint ventures 	<ul style="list-style-type: none"> • Project management; LNC is untested with large commercial scale developments as experience limited to pilot stages • Key man risk. Peter Bond (MD) has 42% shareholding and is the driving force behind coal asset transactions and initial moves to a commercialisation of UCG focus. (Note: LNC has expanded its senior management team across the group in last 12 months.) • Corporate Governance improvements are underway, and we would welcome independent committees for the selection new directors and staff remuneration
Opportunities	Threats
<ul style="list-style-type: none"> • LNC in USA (Wyoming and Alaska) is well positioned to leverage off the South Australian UCG to power project using its UCG technology and operating expertise. • Gas to Liquids, Hydrogen separation and Carbon Dioxide separation technologies represent product diversifications which add to the product range of Syngas and Electricity 	<ul style="list-style-type: none"> • Regulatory hurdles have been encountered in Queensland for commercial scale power generation from UCG. We anticipate South Australia, Wyoming and Alaska could provide more regulatory support, subject to LNC meeting strict guidelines. • Intellectual property disputes over UCG or Gas to Liquids (GTL) technology. However, LNC owns its Russian UCG information source, and it appears all Australian UCG companies are sensibly positioned with respect to technology.

Executive Summary

Valuation and Recommendation

Initiate with a Buy Recommendation and \$3.05/share price target

Underpinned by \$2.71/share from coal asset sales...

...with \$3.00/share+ option value from \$2.20/GJ UCG Syngas

We initiate coverage with a Buy recommendation on LNC and a 12 Month Target Price of \$3.05/share. The target is supported by the strong cash position, valuation of LNC's conventional coal assets and the option value for more conventional energy asset sales. Our heavily risk-adjusted valuations for UCG technology, and downstream power and liquid fuels operations are likely to rise as project milestones are reached.

Our 12 Month Target price of \$3.05/share are calculated from rigorous cash flow assessments of coal asset sales <\$2.71/share> (Galilee – sold, Emerald-Theresa – to be sold shortly and the smaller Pentland asset, later), risked valuation of additional conventional gas in Alaska and coal mines in Wyoming/Australia sales <\$0.10/share> and risked valuation of South Australian UCG Power <\$0.24/share>.

As LNC hits milestones our DCF valuation expands to unrisks cash flows. For example, we include two milestones below, (10% to 50% unrisks More Energy Asset Sales and unrisks SA Power plant, which would give \$5.30/share.

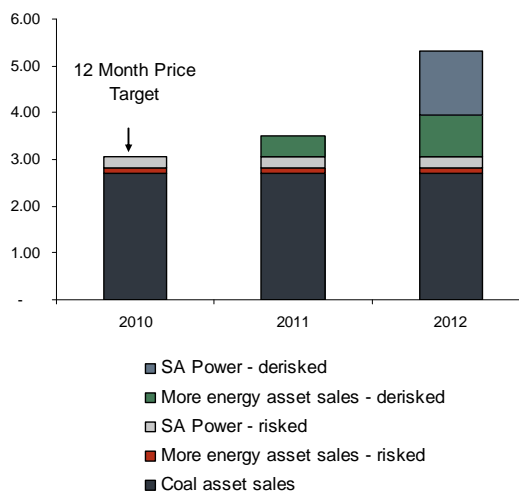
The long term excitement behind LNC is the potential monetization of vast quantities of low cost UCG from stranded coal by conversion to high value energy products. If LNC succeeds in producing Syngas below A\$2.20/GJ cost with high environmental standards, then we could see a substantial lift in LNC share price beyond \$6.00/share.

Valuation Road Map – Short Term

LNC's challenge is to scale-up its pilot sized operations to a commercial scale UCG Syngas (SA Power Project) and sale of assets

SA Power Project Milestones include:

- 1 – Coal Panel #5 (first coal panel in South Australia) by end CY'10.
- 2 – Regulatory approval for commercial scale UCG and Power plant by early CY'11



Source: Austock estimates

Key milestone and risks

3 - July 2011 go ahead for 200MW power plant...

...relies on commercial management...

...and earning the right to operate in South Australia

July 2011 should see the go ahead given for LNC to commence building a 200MW Power plant in South Australia fed by UCG gas.

Internal risks are associated with the managing complex process interfaces and maintaining a commercial focus with UCG (costs < A\$2.20/GJ), Power and downstream processing to liquid fuels.

External risks related to UCG are mostly regulatory in nature, with LNC having to earn the right to operate with new power generation/diesel technology in Australia and USA. **In addition, a continuance of strong macroeconomic growth**, particularly in resource intensive developing countries will be required to maintain energy pricing and a ready demand for LNC's non-core coal assets.

Austock Differentiation

Operational, finance and project management...

...experience and close analysis of LNC for a year

Paul Jensz has worked in Primary Industries for 22 years with 10 years in operations and project management (at Rio Tinto) and 12 years in sell side broking research analysing resource, chemical and emerging technologies. Paul has spent the last year getting to know LNC and the UCG industry.

The wider Austock team includes energy/resource specialists including a consultant, Lawrence Grech, with over 25 years experience analysing global energy and resources industry.

Funding – Coal asset sales deliver at least \$1,400m

Raising market confidence in LNC management

LNC sells its 7.8billion tonne Galilee thermal coal resource for cash and an escalating royalty

Price of A\$500m in cash (10 August 2010) and CPI linked \$2/t royalty for 20 years

Gautam Adani's Adani Enterprises, a rapidly growing fully integrated energy provider in India and its largest coal importer, has acquired LNC's Galilee coal lease with 7.8 billion tonne of thermal coal resource. The price was A\$500m in cash and a royalty amounting to a CPI indexed \$2/t of product coal for the first 20 years of mine operation on the lease.

Importantly, the sale increases the market's confidence that LNC management can monetize other coal assets after a confidence sapping, previously aborted deal and protracted period of negotiations.

Our valuation of the Galilee Deal ~ \$915m or \$1.80/share has upside to >\$2.00/share

This is an excellent outcome for a mine in a new coal province with limited infrastructure and a pre-mine approval stage of development. It is also tax effective as it utilises LNC's accumulated expenditures.

The royalty could be monetised after early stage milestones are achieved

The market may have been hoping for more cash component to the deal. However the ~\$448m after tax still amounts to ~\$0.88ps after tax (51% of today's share price). In addition, we expect LNC to monetise the royalty interest, particularly when its value rises as Adani moves towards development of the Galilee coal field over the next one or two years. Alternatively, LNC could be collecting up to \$100m pa (real 2010 dollars) in royalties to help fund its growth in UCG, power and gas to liquids developments.

The key to fully valuing this transaction is estimating the royalty stream and taxation status.

We examine three likely scenarios resulting from the transaction. Firstly, no mine development; secondly, a proposed Galilee operation of 25mtpa thermal coal mine of unwashed product starting in 2015; and a third case of a larger capacity mine ramping up to 50mtpa mine by the fourth year of production. We have not valued a further upside case to 60mtpa if Adani adds a longwall to its vision of five open pits for the lease.

Galilee royalty valuation based on 50mtpa case, however Adani are targeting 60mtpa...

We attach the highest probability to the 50Mtpa case as the Adani Group's stated ambitions are to produce 50mtpa and eventually 60mtpa. Our confidence in such a large mine development succeeding is supported by Adani's recent preferred proponent status for developing a new port at Dudgeon Point (near Hay Point, Mackay). It also has additional options at a proposed Abbot Point expansion, plus its own shipping and receival port in India currently under development.

...and are very prompt with project development activity for India's power demand

The market for Galilee thermal coal is Adani Power (533096.BY), in which Adani Enterprises has a 70% stake. Adani Power has four thermal power plants under various stages of development with combined planned capacity of 9,900MW. Adani's funding capacity this month was aided by an \$850 million institutional share sale and also has secured additional lines of credit.

We use a 9.0% real or 11.5% nominal discount rate to valuation and apply an income tax rate at 30%. LNC has advice that its current \$250m of accumulated expenditures and losses are fully deductible against the taxable value of the transaction, with ~\$75m of additional losses to be deductible by fiscal year end. On the cash consideration we assess only a \$53m tax bill.

Products from Underground Coal Gasification

We assume a Galilee coal mine start-up in 2015 – Adani aiming for 2014

Galilee Sale	Discount Rate %pa real	Production Rate	No Mining Case	Low Prodn Case	High Prodn Case
	9.0%	mtpa	A\$m.	A\$m.	A\$m.
Cash			500	500	500
Galilee Royalty: no mine developed		0	0		
Galilee Royalty: low production rate		25		534	
Galilee Royalty: high production rate		50 (by yr 4)			1,014
<i>Royalty A\$2/t. for 20 yr, CPI escalated, start 2015</i>					
Total Pre-Tax Valuation: A\$m			500	1,034	1,514
Tax @ 30% of NPV	<i>Less cost offsets=</i>	<i>\$325</i>	-53	-213	-357
Total After-Tax Valuation: A\$m			448	822	1,158
Total After-Tax Valuation: A\$/share			\$0.88	\$1.61	\$2.27
Scenario Risking			20%	30%	50%
Risk Weighted Valn: A\$m.	915	\$1.80			

Source: Austock Securities estimates and Linc Energy

Risk weighted value is \$1.80/share

The valuation range is \$0.88, \$1.61 and \$2.27 per share for the three scenarios. Our risk weighted valuation for Galilee is \$915m or \$1.80ps.

Coal – its a sellers market

Galilee sale signals a higher risk tolerance from buyers...

The Galilee transaction valuations were considerably above our “risky” value of \$381m and more in line with our assessment of an “un-risked” Galilee project valuation of \$905m.

...as the acquisition price was in line with our un-risked value

We believe that also provides an indication of the potential price realisation for LNC’s two other non-core coal tenements currently for sale, the Theresa development near Emerald and a smaller block near Pentland. Achieving prices at or above our un-risked valuations for early stage project developments is a marker of the current eagerness of coal users to secure long term supply off-take.

The strong coal acquisition market has also been evidenced by recent takeover offers including Centennial Coal and a mooted bid for Whitehaven

Theresa and Pentland Coal Deposits – Our \$0.77ps “risky” valuation has upside

Our un-risked valuation for Theresa is \$1.30/share well above our risky \$0.77/share valuation ...

The Emerald-Theresa soft coking coal/high quality thermal coal deposit with a 3.8mtpa pre-feasibility mine concept has 852mt of resource. We believe the Galilee sale upgrades the potential for the higher unit value coals within the Theresa deposit to be sold in excess of our risky valuation of \$375m (\$0.73ps) and possibly reach closer toward our un-risked value of \$665m (\$1.30ps).

The 266mt Pentland thermal coal resource is a much smaller and lower quality resource. Our un-risked valuation only amounts to \$46m, however the well located operation is close to both rail/road, power and town of Pentland and should command a premium to this conservative assessment.

Potential projects with detailed drilling – valuation estimates

Linc Energy Ltd - Coal Mine Projects Discounted Cash flow Valuation - After Tax

Val @ Disc.Rate 9.0%	Project IRR	Coal Resource mt	Product Coal mt	Confidence Level %	Unrisked Value A\$m	Risked Value A\$m
Potential Projects						
	20.7%	852	114	66%	267	176
	11.5%	266	75	33%	38	13
		1,118	189			
Exploration / Project Upside						
			340	50%	398	199
			31	33%	8	3
			371			
		1,118	560		711	390
					\$1.39	\$0.77
<i>Diluted Shares (m)</i>		<i>510</i>				

Source: Austock Securities estimates and Linc Energy

Coal Sales – our estimate for the three coal assets totals ~\$1.38 billion or \$2.71 per share

...a likely realization could be \$0.92/sh

The Emerald-Theresa and Pentland deposit are likely to realize over \$650m pre-tax. We estimate the costs to be 5% of the transaction amount and the after-tax proceeds to be \$467m or \$0.92ps.

This represents less than half of the valuation difference between our “risky” and “un-risky” discounted cash flow based valuations for the two deposits. LNC has indicated part of the Emerald-Theresa sale price could be in the form of a royalty, and this may encourage the tenement buyer to bid a higher amount as ultimate cash outlay is delayed until production and reduces up-front risk.

**\$0.5bn is banked.
We expect \$0.5bn
more cash and
\$0.4bn in royalties**

Adding our \$915m valuation for Galilee to the overall estimate of realization for LNC’s other non-core coal tenements amounts to \$1,382m or \$2.71/share. We expect payment by a mixture of cash (up to \$1.0 billion pre-tax) and royalty interests, which LNC is likely to monetise as tenement buyers mature plans to develop mines and this in turn boosts the value of the royalty interests.

**The main risk is a
deterioration in
global coal markets**

Risks to the realisation of this value include deterioration of coal markets in the near future (transactions aborted) and also over the next few years as this may delay mine commissioning and the collection of royalties streams. Infrastructure impediments can also delay royalty payments.

Potential projects with detailed drilling – valuation estimates

Linc Energy Ltd - Coal Mine Projects: DCF Valuation and Recent Transactions

		Coal Resources	Unrisked Value	Risked Value	Pre-Tax sale	After-Tax Transaction value	
	Status	mt	A\$m	A\$m	A\$m	A\$m	A\$/tRes
Galilee	Sold	7,800			1,168	915	\$0.12
Emerald	For sale	852	665	375	572	409	\$0.67
Pentland	For sale	266	46	15	82	58	\$0.31
Sub-total			711	390		467	
Total Projects	8,918			1,821	1,382	\$0.15	
Total Projects: per share					\$2.71		

Source: Austock Securities estimates and Linc Energy

Conventional Gas and Coal in the US & Australia – more in the pipeline!

Our risked valuation is \$50m but exposes shareholders to ~\$1.0bn of value in a full success case

LNC is developing a good track record with exploration...

...and there is useful flexibility with UCG options

1st milestone is Alaskan gas Oct'10

LNC has demonstrated its ability to cost-effectively acquire and explore mineral leases and then sell the asset for cash and valuable royalty streams. LNC has added an impressive array of additional “conventional” mining/energy assets to its pipeline of opportunities in prospective oil & gas exploration and known coal bearing leases. The flexibility of tackling tenements with conventional energy and UCG development could be a great fit.

We believe that a combination of modest funding by LNC e.g. drilling for coal in Queensland or to farm-out to oil explorers in South Australia can expose LNC shareholders to over \$1.0 billion worth of value creating opportunities.

Austock’s valuation approach has been to heavily risk weight each opportunity and re-assess after test results. Consequently we value these opportunities at \$50m or 10cps. We anticipate a stream of news over the next 18 months from these little known ventures, with real chances for significant upside surprise.

The first major event is the drilling of gas prospect Lea #1, an onshore well in Alaska’s Cook Inlet starting around October 2010.

Potential projects with detailed drilling – valuation estimates

Linc Energy Ltd - Conventional Gas & Coal Mine Valuation

	LNC share	Gas Target	Oil Target	Coal Target	Confidence Level	Unrisked Value		Risked Value		
	%	BCF	mbbl	mt	%	A\$/unit	A\$m	A\$m	A\$/share	
Potential Projects										
Alaska Cook Inlet	79%#	500			5%	\$1.11	439	22	\$0.04	
Arckaringa Basin	100%		10		5%	\$5.00	50	3	\$0.00	
Powder River Basin	100%			500	5%	\$0.28	139	7	\$0.01	
Qld coal exploration	100%			750	5%	\$0.50	375	19	\$0.04	
Total Conventional Gas & Coal Assert Valuation								1,003	50	\$0.10
AUDUSD rate \$0.90										

Source: Austock Securities estimates and Linc Energy NB # effective net economic interest after private and government royalties

Cook Inlet Basin – Alaska: conventional gas

The region is well known for oil and gas...

...and is well suited to a junior like LNC due to majors being only mildly interested in gas plays

This region has produced hundreds of millions of barrels of oil equivalent of oil and gas. Gas flows are sourced from the prolific Tertiary Period coals that have migrated into conventional sandstone hydrocarbon traps and supplied the world’s first commercial LNG-export plant at nearby Kenai, a local power station/gas utility and a (now mothballed) fertilizer plant.

Uneconomic gas prices combined with risk-averse exploration practices and field depletion has seen an exodus of oil company majors. These conditions combined with the GFC constraining funds to smaller explorers such as GeoPetro Alaska LLC (NYSE Amex: GPR) allowed LNC to cost-effectively acquire the petroleum rights to 122,000 acres of prime gas exploration leases. The terms were for a 10% overriding royalty, US\$1m in cash, a commitment well (costing \$3 to \$5m) and US\$4.0m payable only from the proceeds of petroleum sales. Light fiscal terms mean LNC will have a net economic interest of ~79% of any hydrocarbon production.

Lea #1 is a wildcat exploration well within 20km of Anchorage city, targeting multi-hundred billion cubic feet

of gas. The structure is expected to host source and reservoir rocks similar to the Miocene multiple stacked coals/sandstones at Kenai. GeoPetro and LNC have interpreted from Amoco collected 2-D seismic a defined conventional four-way dip closure. The site is within 5 miles of an inlet valve to an under-utilised 20inch gas pipeline which feeds to the power station and beyond to Sarah Palin's neighbours! Due to a regional shortage, gas prices have recently been reported to be ~US\$7/mmbtu (~US\$42/boe). Without further discoveries, these shortages will worsen.

Winter-drilling capable drilling rigs are locally available and we expect LNC to conclude contract and drill permitting to enable a start to drilling by October 2010. Well costs are expected to be ~US\$3m (dry well cost) and \$5m to suspend for full production.

The main pre-drill risk in this hydrocarbon rich region is structure/seal integrity as source and methane generation maturity is well proven in wells within 10 miles of this prospect.

Gas is a precursor to UCG coal permit

LNC will obtain valuable data on coal seams in the region and importantly strengthen their claim to obtain the full mineral rights to coal in their petroleum leases.

Drill success would assist a farmout of its 122,00 acre lease

We "risk" value the opportunity at \$22m (see table above – 500BCF x A\$1.11/BCF x 5%) but note that even a modest commercial success would be worth in excess of \$100m and radically upgrade the value of other seismically identified structure in its 122,000 acre lease position and facilitate advantageous farmouts.

South Australian conventional oil – Arckaringa Basin - Early drilling for coal has encountered oil shows

LNC's 2009 exploration of multiple seams, including Permian coals for its suitability in UCG uncovered 6 metres of residual oil shows in cored sandstones at ~366m and 393m depth in Maglia #1.

LNC make important find of in the Arckaringa Basin

Analysis of the discovered oil indicates it to be of older origin than drilled Permian coals, with algal and thermal maturation markers indicating a carbonate source from the deeper (and very old) Cambrian rocks equivalent to the adjoining Officer Basin west of LNC's PEL117.

Potential for new oil play and to attract a joint venture partner

The significance is that it may open up an entirely new onshore Australian oil play. LNC controls 74,000 square km of leases with 100% equity, purchased from SAPEX, and now has the opportunity to seek farm outs to oil and gas explorers for carried exploration programs.

7 hole coal drilling program may find more oil clues

We calculate a nominal \$3m value for the hydrocarbon potential (see chart above). This value will be reassessed either upon a farm out deal or LNC discovering more clues to commercially unlock its oil potential with an upcoming 7 hole coal drilling program in 2010.

Powder River Basin thermal coal – open-cut mine potential on western flank of tenements

PRB is a known area for large scale open-cut coal

Linc Energy has acquired 180,000 acres of coal leases for \$25m to potentially establish a UCG trial operation in Wyoming's coal prolific Powder River Basin. Work to date includes the evaluation of site geology, hydrogeology, environmental conditions, access, and infrastructure for potential UCG sites. This work can identify potential economic open-cut mine sites – critically where coal seams merge and are close to surface.

Hotly contested purchase...

The area is hotly contested with Peabody, Arch and ex-Rio Tinto Cloud Peak Energy. All would be eager to add to additional commercial coal to inventory and production, which LNC could monetize.

...points to potential valuation uplift

We value the conventional coal mine at just \$7m (see chart above), however an early development stage commercial 15mtpa/25yr mine could be worth over US\$120m (at just \$0.33/t).

Queensland coal exploration leases – Bowen and Surat Basins

LNC has built an inventory of 23 coal Exploration Permits (plus 6 applications) covering 9,469 km² mostly centred in Queensland's Surat and Bowen Basins.

LNC has a deep inventory of Qld coal leases

Exploration staff is concluding drilling and evaluation work at the Theresa deposit in preparation for its sale. The conclusion of the Galilee sale will also release senior executive's time to ramp-up exploration and marketing of additional promising leases, particularly in the Surat Basin.

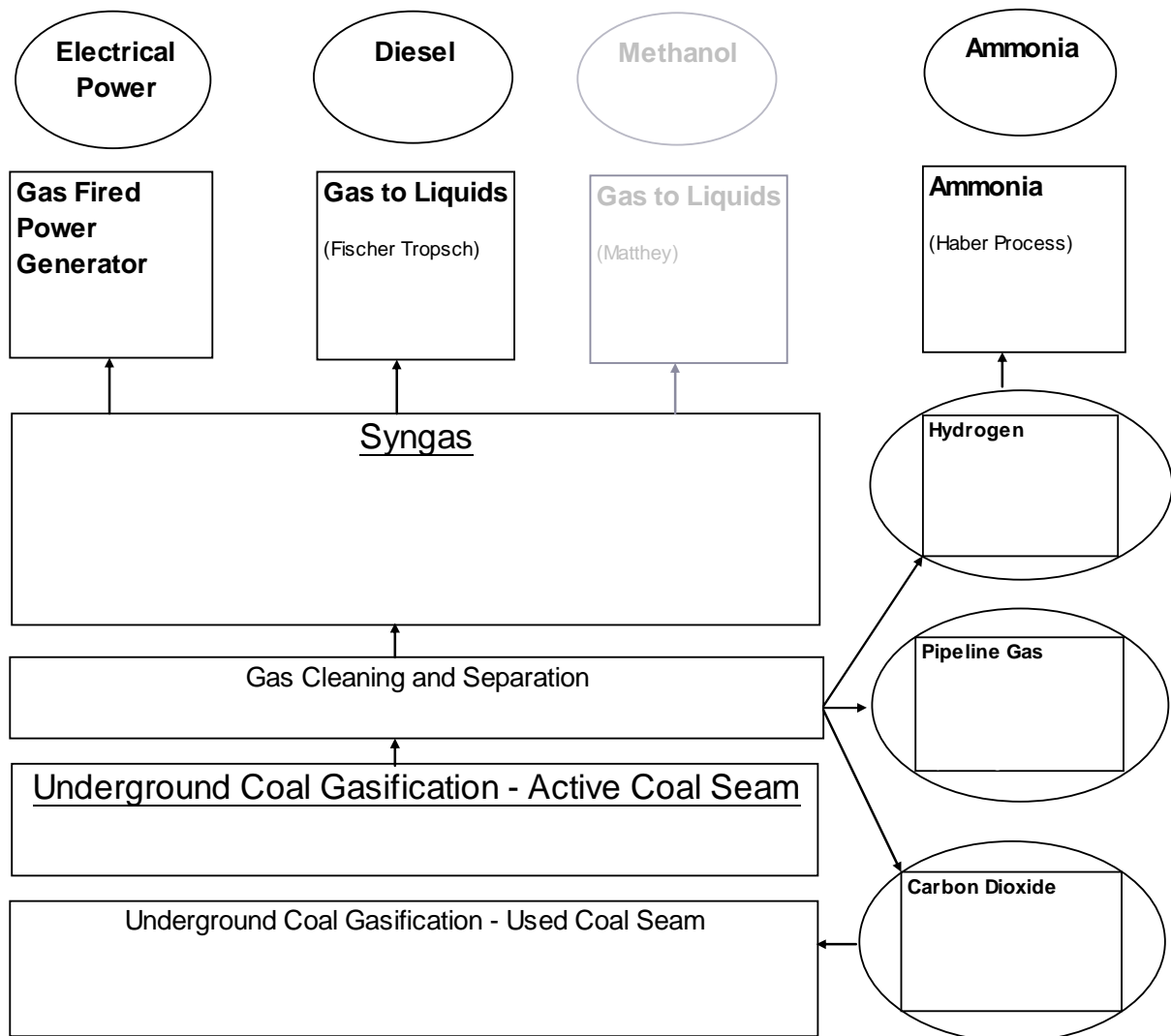
LNC well honed in these regions and have many leads

LNC's Galilee sale and recent takeover offers (e.g. Centennial Coal) demonstrates the strong market for coal mines and coal development projects. LNC's exploration team is likely to uncover additional potentially commercial coal mine projects.

We value the exploration inventory at \$19m (see chart above).

Technology – UCG is proven hub

Products from Underground Coal Gasification



Source: Austock Securities estimates

Underground Coal Gasification – unlocks cheap gas from “stranded” asset

85% of known coal reserves are stranded

85% coal of the global 6,000Bn tonnes of global coal cannot be accessed economically because the cost (environmental, financial and social) outweigh the energy benefit (Ref: Energy Edge 2007).

22% of this may be extracted by UCG

US Lawrence Livermore National Laboratory estimates that energy from 1,300Bn tonnes of “deep thermal coal” could be extracted with Underground Coal Gasification (UCG - see above chart).

But just one commercial UCG plant operates...

Over the last 80 years there have been 50 projects testing Underground Coal Gasification (Ref: PwC 2008), but there is just one commercial UCG power plant is running now. Yerostigaz – Uzbekistan (owned 92% by LNC) has operated for the last 49 years and feeds a 650MW power plant.

...due to sporadic research and two contamination issues

UCG has suffered sporadic research and development support over much the 20th Century as the generally low price of oil, gas and coal had proved a disincentive to invest in new UCG technology. In addition, there have been contamination issues in Wyoming UCG trials in 1970’s and 1995.

Higher energy costs have now refocused efforts back on UCG

However, the advent of sustained higher oil above US\$50/bbl, gas over US\$4/mmbtu and US\$80/t plus thermal coal prices these past 5 years are enabling more room for UCG to be commercialised. In addition, UCG promise greenhouse emission savings.

Underground coal gasification

Typical state of art UCG extracts energy via:

Two wells 500 to 1,000 m long at top (production) and bottom (injection) of the seam are drilled back into page.

This coal panel provides 5 to 10 years of 1PJ/annum Syngas



Source: Linc Energy

Australian UCG is at forefront due to significant 15 year effort...

...careful environmental management...

...and directional drilling

The broader initiatives of Australian based UCG companies over the last 15 years have enabled this region to move ahead of global peers. The major challenge tackled and mostly overcome during this period is creating consistent flow of Syngas from deep thermal coal via the following:

- 8 years of environmental tests during 4 coal panels (LNC) and one panel (CNX – Carbon Energy) have shown acceptable water and waste management;
- 1PJ/annum production with controllable composition from coal panels over a six months period (LNC);
 - A key assistance in this development was the advent of directional drilling over long horizontal distances through the early 2000's.
- Cleaning of Syngas through pilot plants over six months (LNC) to quantify the cost base of producing “clean Syngas” to a standard gas fired power station.

UCG cost

LNC, CNX and CXY (Cougar Energy) all now claim that Syngas can be produced for A\$1.70 to A\$2.20/GJ at large scale, e.g. 10 coal panels producing 10PJ/annum. We use A\$2.20/GJ real in 2010.

This is at least a 50% reduction on the A\$4.50/GJ capital and operating costs incurred by LNC with its six months operation of the single panel in 2009.

We estimate that capital costs can be driven down more than 50% and operating costs around 30% lower with scale. Drilling multiple wells at the same time, doing away with need of ignition well (LNC now use a Coil Tubing Unit), larger scale oxygen and steam generators and particularly larger scale gas cleaning equipment should see at least 70% cost reduction per energy unit as panels go from 1 to 10 and scale of processing input and output gases goes up by 5 to 10 times.

UCG Intellectual Property

Intellectual Property protection is becoming important as several groups are close to reaching commercial operations and the Russian UCG technology appears to be the “breeding” ground for all UCG technologies.

We do see significant IP disputes against the early winners but believe these claims will likely fail as the Russian technology was not patented. LNC has taken a proactive position by operating the plant and owning the majority of Yerostigaz since 2007 and now has 92%.

A more significant IP protection issue to watch is in the application of low cost and safe UCG practices. Early adopters will be the ones to get Government approval, and the operating practices may be used as gold standard in OECD countries.

UCG Environmental Hurdle

Whilst the Queensland Government (DERM) has recently shutdown of CXY pilot plant for a benzene “leak”, our search through documentation has found only two UCG operations (1976/79 Hoe Creek, 1995 Carbon County) that has actually released benzene into the water table at harmful levels.

The key now is to lower A\$4.50/GJ cost...

...to less than A\$2.20/GJ via multiple coal panels, less wells per panel and large scale gas cleaning

IP will become a focus as commercialisation phase looms

Most significant IP is application related

Despite recent Qld activity the UCG leaders have...

...learnt from the Wyoming mistakes by...

Hoe Creek trialled UCG at a shallow depth of 85m with a discontinuous coal seam, and leaked benzene and other hydrocarbons into the water table which was the potable water source for the surface. Carbon County, another shallow coal seam trial, allowed the cavity pressure to rise above the hydrostatic pressure and combustion products entered the ground water.

...following natures rules

The Hoe Creek and Carbon County operations failed two basic rules of UCG:

1. UCG must be done at a depth of at least 100m (preferably 200m) where the water pressure is high enough to keep the combustion zone under pressure so that gas production flows to the production well's low pressure and not into the surrounding rock.
 - The water is a fail safe backstop. When the coal burn stops the water will seep back into the reaction zone and extinguish the reaction and push gases to the production well.
2. UCG must be done in a reasonably continuous coal seam which enables control of gas flow and containment of re-invading water in-seam after UCG and roof settlement.

129 successful trials have been done <100m

129 trials have been reported since Hoe Creek and Carbon County (Ref: PwC 2008). They have been done at depths below 100m and no significant breaches of water contamination have persisted.

The aromatic "leak" at the CXY site remains under investigation DERM with CXY operations suspended.

Recent Qld "leak" appears localised to one well head fault...

From the facts reported by CXY to DERM it appears a small amount of benzene and toluene were released onto the surface region of a trial well when the well head expanded sufficiently to possibly breach the sub-surface well casing. As the well was shut down some Syngas is likely to have been converted to aromatic hydrocarbons and may have escaped from a breach.

Toluene was present in the first test and above the permissible level (benzene was present but below).

...and did not affect the surrounding water table

CXY performed three more tests of the site and the levels reverted to below the permissible aromatic levels, and were actually not detectable. Possibly this indicates faults in the first tests or measuring a small quantity in a spill. Authorities have since lifted restrictions on agriculture using the water within the 2 km exclusion zone from the detected water quality breach.

We note LNC and CNX use less risky coal gas wells and have several years of safe operations

We note LNC and CNX use horizontal wells in-seam to direct the underground coal heating process. CXY use different technology that relies upon hydraulically fracturing the coal which introduces additional risks. Further, LNC have tested its wells and well heads for thermal expansion and found these to meet operating conditions whilst fully meeting its environmental reporting requirements without serious breach. CXY will likely need to improve its well head design and improve water testing procedures.

Gas to Liquids - Sasol and Shell have forged ahead

For all the attraction of gas to liquids there are only two major players

Sasol (Above Ground coal gasification - 150kbbbl/day - 2000) and Shell (Natural Gas - Qatar Pearl 184kbbbl/day - 2010) have been the major players pushing this gas to liquid industry and have built up significant IP and technical knowhow barriers.

Each of these players has suggested that operating costs are US\$50/bbl diesel (159 litres) with capital expenditure of \$80k /installed bbl/annum.

Large plants ~10% lower cost to crude oil diesel...

With depreciation of 20 years we estimate cost base of around US\$0.44/litre (operating US\$0.31/litre, capital US\$0.08/litre, royalty allowance US\$0.05/litre, margin US\$0.02/litre) or US\$70/bbl diesel.

...and LNC seeks to replicate this cost advantage at small scale of 5kbbbl/day

This cost looks reasonable against retail price for diesel of ~US\$1.20/litre. When tax (US\$0.508) and distribution/retail margin (US\$0.20/litre) is taken out the wholesale price of US\$0.49/litre (US\$78/bbl diesel) is around 10% above large scale GTL. LNC sees opportunity to keep cost advantage at small scale gas to liquids (5,000bbl/day) and is working up module design to compliment in house expertise.

Clean burning of SynDiesel could add another 10% advantage

Shell and Sasol's claim that the SynDiesel burns cleaner than crude oil refined diesel is due to the lower sulphur and other impurities content. SynDiesel meets increasingly stringent specifications for diesel emissions and can command a premium to refinery diesel of ~10%. This brings the delta to around US\$0.10/litre (20%). Blends of crude oil diesel and SynDiesel are easily achieved would ease transition.

Other Technologies – Hydrogen, Methanol and Carbon Sequestration

Zero emission hydrogen for fuel cells is a possible next generation energy source

Hydrogen typically makes up around 15% of Syngas by mass and is readily burned as a fuel. Pure Hydrogen can be separated using cryogenics and solvent extraction. Hydrogen is the perfect feedstock for ammonia and then a range of nitrogen chemicals like ammonium nitrate and urea. A next generation use for hydrogen will be for zero emission power from fuel cells which produce an "exhaust" of water and may be able to generate carbon credits. Carbon sequestration is a potential boon for UCG post-combustion CO₂ plants retrofitted to coal fired power plants are significantly more expensive than the UCG CO₂ separation and treatment.

In the meantime hydrogen a very useful feed source for ammonia

Commercialisation – South Australia Power is focus

South Australian Focus

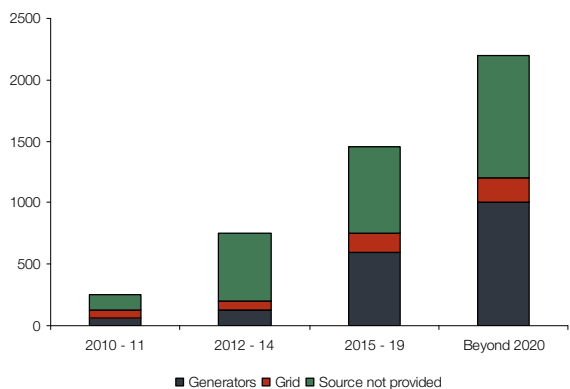
LNC has options across four significant regions

SA looks the most attractive due to energy need and access to resource and LNC people

LNC has many options to commercialise UGC for power generation in the short term with South Australia (SA) Power, and later with Wyoming Diesel/Power Alaskan Gas and Queensland UGC.

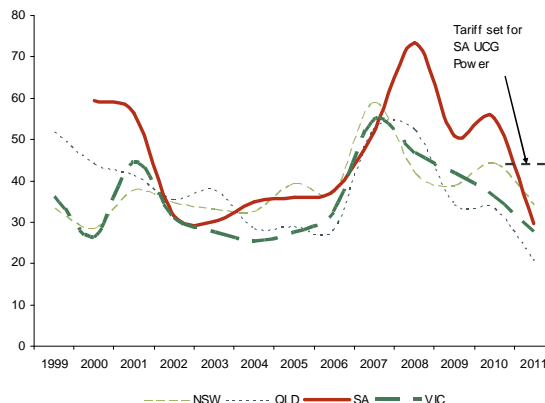
We suggest SA power is the easiest one to manage for an Australian based head office. The acute shortages within SA power grid, low population density and less overlap of land use make it ideal for rapid commercialisation. LNC may need time to firm up costing for more challenging moves into gas to liquids and build technical/operational credibility to operate in the USA.

South Australian Resource Sector Power Demand (MW)



Source: Electranet – Draft Discussion Paper – November 2009

Eastern Australian Wholesale Electricity Tariffs – yearly ave



Source: AEMO

50% power imports...

...and possible dramatic resource industry led demand growth...

...makes it tough to see sustainable retraction is tariffs below A\$45/MWh

The South Australian resource industry is import dependent for ~50% of its 125MW power.

Over the next 10 years SA’s resource industry is set to consume an additional 1200MW (~60% of this is BHP’s Olympic Dam expansion) of power and half (600MW) is planned to come from Victoria and NSW. LNC’s 400MW is an attractive addition for SA power’s flexibility to attract resource sector expansion.

Wholesale electricity tariffs have fallen ~30-50% since 2009 with industry players pointing to softening political stance on carbon tax. We estimate that the significant push up in SA resource industry demand for power will allow LNC’s 200MW SA power plant to achieve \$45/MWh 2010 real (see chart above).

Commercialisation steps

LNC is already on ground establishing target...

...and is likely to push straight to 200MW power plant scale

December 2010 – Target date for Coal Panel #5 (first in SA) to be ignited in Walloway Basin and run to prove a 1PJ/annum UGC gas flow from the SA coal seam.

December 2012 – LNC’s likely target date for commissioning of 200MW power plant. This requires around 20 coal panels, with 16 operating at any one time (16PJ/annum) by the end of CY’11. We allow an extra 12 months until start-up and supply into the grid at 200MW from 1 December 2012.

Queensland’s Chinchilla commercial scale UGC panel (#4)



Source: Linc Energy

LNC SA tenement and UGC Power Site (35km to power line)



Source: Linc Energy

Financial Model

South Australian Power Generation – Financial model

We model LNC's P&L solely on SA Power Plant project in order to show the key operational and financial milestones and Return on Invested Capital (ROIC) target

LNC's Head Office costs outside of SA Power are highlighted

Valuation given to the other projects is in the valuation road map below

We assume LNC only produces Syngas for the power plants and sells for A\$2.90/GJ (real 2010)

The \$4.50/GJ gas produced in FY'11 will be flared as LNC shows UCG works well in SA

FULL YEAR DIVISIONAL PROFILE - Energy only from SA Power Project

Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F	2015F
Revenue							
Services	0	0	4	16	18	19	21
Energy	2	0	0	0	41	87	187
Total	2	0	4	16	58	107	208
EBITDA							
Services	(19.7)	0.0	0.2	0.8	0.9	1.0	1.1
Energy	0.0	0.0	0.0	0.0	30.5	53.8	133.9
Corporate	0.0	0.0	(19.0)	(7.0)	(7.0)	(7.3)	(7.6)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	(19.7)	0.0	(18.8)	(6.2)	24.3	47.5	127.3
<i>LNC Head Office - Development outside SA</i>			(60.0)	(60.0)	(60.0)	(60.0)	(60.0)
EBITDA Margin %							
Services					5.0%	5.0%	5.0%
Energy					74.8%	61.7%	71.7%
Group Margin					41.7%	44.6%	61.2%
<i>Energy - Only from South Australian Power and SynGas</i>							

Key Assumptions

Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F	2015F
South Australia - Power Plant		UCG coal panels		200MW			400MW
Output (MWh/a)			0	0	41	87	187
Tariff (A\$/MWh)			45	48	52	55	59
Power Plant EBITDA (A\$/MWh)					23	26	34
Power Plant cost base (A\$/MWh)					28	29	25
SynGas supplied (PJ/a)			0.0	0.0	8.1	16.2	32.4
South Australia - SynGas sold to Power Plant							
Syngas sold (PJ/a)			0.0	0.0	16.2	16.2	32.4
Syngas Price (\$/GJ)			2.91	2.98	3.06	3.13	3.21
Syngas Gross Margin (\$/GJ)			(1.59)	(1.63)	0.75	0.76	0.78
Syngas cost base (\$/GJ)			4.50	4.61	2.31	2.37	2.43

Source: Austock estimates

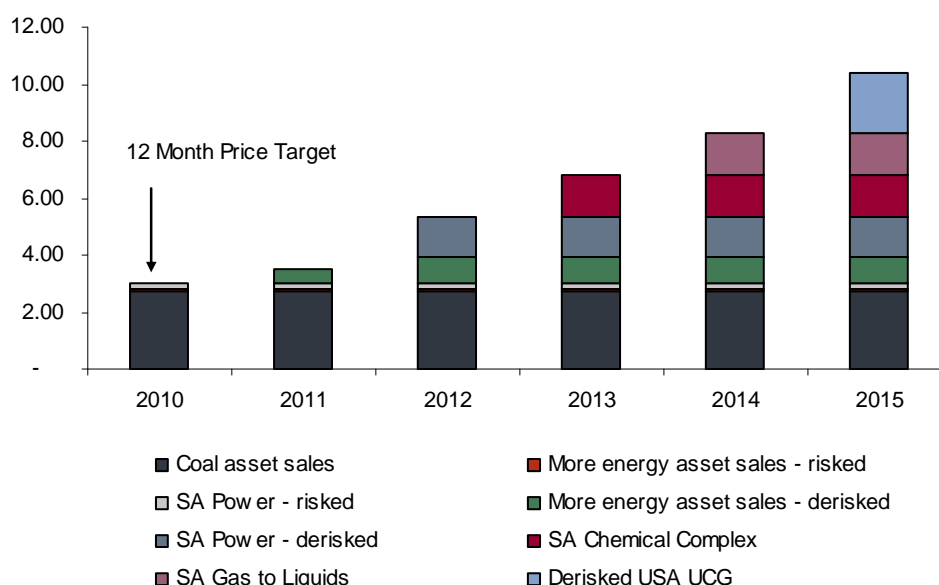
Austock valuation roadmap if milestones are met – Long Term

We have expanded the short term valuation road map from the front page to show how de-risking of the UCG technology accelerates valuation past \$6.00/share

Once LNC has unlocked cheap gas from a stranded coal asset and applies to its own resources... the leverage is significant

The drivers we have here are adding Gas to Liquids and Chemical Complex (using hydrogen) to the SA Power Plant operation.

This could just as easily be similar projects in USA, which we have coming in 2015.



Source: Austock estimates

Competitive Landscape –

Australian Underground Coal Gasification – Top Three

	Linc Energy	Carbon Technology	Cougar Energy
	LNC.AX	CNX.AX	CXY.AX
Aim	Low cost gas and diesel producer	Provider of UCG technology	Implement of UCG technology
Main target products (Main Partners)	Syngas Diesel	Power Hydrogen (Incitec Pivot - Global)	Power
Main Shareholders	Peter Bond (MD) - 42%	Initec Pivot (11%) Pacific Road (10%) CSIRO (5%)	Len Walker (MD) 11%
Cash August 2010 (\$m)	515	18	5
Cash Burn (\$m/annum)	20 to 70	15 - 30	5 - 10
Market Capital (\$m)	841	214	69
<i>Share Price (\$/share)</i>	1.710	0.350	0.075
<i>Shares (m)</i>	492	610	919
Funding	Conventional energy asset sales ~\$1,400m in cash and royalties (\$20m/annum exploration spend)	Energy contracts for 5MW p/plant Equity Raisings Partner investing	Equity Raisings Potential Partner investing
Personnel	160	45	20
UCG Technology provider	Yerostigaz (owned 92% by LNC)	CSIRO + Russian Expertise	Ergo Exergy
Other Technology provider	Diesel - internal development		
Number of coal panels run	4 since 2003	1 since 2008	1 in 1999 to 2003
Next UCG trial	Two Horizontal Wells - Unlined Coil Tubing Unit ignition 1000mx50mx10m coal panel 1PJ/annum for 10 years South Australia - End 2010	Two Horizontal Wells - lined Vertical ignition well (s) 500mx50mx10m coal panel 1PJ/annum for 5 years Queensland - August 2010	Fracking with vertical wells Central ignition well 50-100m circle 0.1 PJ for 3 years Queensland - late 2010
Next Product Trial	200MW power plant South Australia - End 2012	5MW power plant Queensland - September 2010	30MW power plant Queensland - 2012/13
Environmental Record	8 years of trials without any issues	2 years of trials without any issues	"Possible" water contamination Being investigated August 2010 Surrounding regions given all clear
Resources	<i>See earlier LNC section</i> <i>For valuation of conventional energy</i>		
Queensland	500Mt Chinchilla - (Indicated - UCG) 852Mt Theresa (Emerald) - Non-core 226Mt Pentland - Non-core	668 Mt Chinchilla HOA - Liberty Resources - Galilee	6.7 km ² Kingaroy
Other Australia	South Australia - UCG Coal - Walloway Basin (Indicated 1.15bn tonne) - Arckaringa basin (Coal, Some oil shows)		
Rest of World	USA Power River Basin 173kacres coal* * Indicate coal resource of several bn tonnes Alaska 123kacres oil/gas**	Chile JV (Antofagasta) Chile for power	Inner Mongolia LOI with QDI
	**Seeking mineral rights to indicated 18bn tonne coal		

Source: Austock Securities estimates

Risks

Coal Asset Sales

A deterioration of coal markets in the near future may see coal transactions aborted and also over the next few years may delay mine commissioning and the collection of royalty streams.

Infrastructure impediments can have a similar effect in delaying royalty payments.

Regulation

Regulatory hurdles for commercial scale power generation from UCG in South Australia, Wyoming, Alaska and Queensland have not yet been granted.

External risks are most regulatory and earning the right to operate with new power/diesel generation in Australia and USA. (Note: Uzbekistan's Yerostigaz (92% LNC) had UCG/power for over 49 years.)

Interface and Commercial management

Project management of interfaces in commercial development are untested with large projects

Key man risk. Peter Bond (MD) has 42% shareholding and is the driving force behind coal asset transactions and initial moves to a commercialisation focus. (LNC has upgraded senior management team across the group in last 12 months.)

Power utility partner has not been selected yet.

Internal risks are associated with the managing complex interfaces and commercial focus with UCG, Power and downstream processing.

Intellectual Property

Intellectual property disputes over UCG or Gas to Liquids (GTL) technology. LNC owns its Russian/Uzbekistan UCG source, and it appears all Australian UCG companies are sensibly positioned.

Corporate Governance

Fast growing and changing companies need to upgrade their corporate governance in order to give confidence to a wider range of investors and stakeholders.

Peter Bond (MD) and Kenneth Dark (Non Executive Director) were initial director appointments on 20 October 2004.

LNC added a strongly credentialed Chairman, Brian Johnson (ex: large scale iron ore and other primary industry developments), in October 1995.

Jon Matthews (Non Executive Director) with 30 years of coal project development experience was added in December 2009.

Across the four members there is limited other public company directorship experience. With a significant asset sale done, LNC will be able to follow through on its plan to attract quality board members to lift its level of corporate governance to ASX100 standards.

As an example we would see the development of an independent committee for remuneration, and independent committee for nomination for new directors as positive steps in corporate governance.

The remuneration levels for board and executives appear very reasonable. The reviewing functions also appear to be working well since the failure to consummate the announced sale of Theresa in late 2008.

Financial Model

Linc Energy

Shares on Issue
Fully Diluted Shares

Price \$/share 1.71
Market Cap \$m 841

Date: 13-Aug-10
Model Updated: 13-Aug-10

PROFIT & LOSS (\$m)						
Old Coal Asset Sales and South Australian Power Plant						
Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F
Revenue	2.2	0.0	4.0	16.0	58.3	106.5
EBITDA	(19.7)	0.0	(18.8)	(6.2)	24.3	47.5
Depreciation & Amortisation	(16.0)	(2.0)	(3.0)	(4.0)	(5.0)	(40.0)
EBIT	(35.7)	(2.0)	(21.8)	(10.2)	19.3	7.5
Net Interest	4.4	1.2	26.4	37.4	21.9	44.7
FBT	(31.3)	(0.8)	4.6	27.2	41.2	52.2
Income Tax	2.0	0.9	14.5	14.8	0.8	11.5
Asset Sales	0.0	0.0	450.0	409.0	562.7	77.2
NPAT Reported	(42.1)	0.1	919.1	860.0	1,167.3	218.1
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
NPAT Core - South Australia	(42.1)	0.1	19.1	42.0	42.0	63.7
LNC Head Office cost after tax - development outside SA		-42.0	-42.0	-42.0	-42.0	-42.0

KEY RATIOS						
Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F
EBITDA Margin	-897.2%	-470.0%	-38.8%	41.7%	44.6%	61.2%
EBIT Margin	-1627.3%	-545.0%	-63.8%	33.2%	7.0%	42.0%
ROE - inc cash	-27.2%	0.1%	2.2%	3.3%	3.7%	6.8%
ROA - inc cash	-17.5%	-0.3%	0.5%	2.1%	3.5%	7.4%
ROIC - South Australia				-5.3%	4.0%	1.4%
NTA per share	0.00	0.16	1.43	2.23	1.98	3.18
Eft Tax Rate	6.5%	115.1%	-312.8%	-54.2%	-1.9%	-22.1%
Interest Cover (x)	4.5	0.0	0.7	0.2	-1.1	-3.0
Net Debt / EBITDA	-0.6		28.4	121.7	-18.2	-19.0
Gearing (D / E)	7.8%	-13.3%	-62.8%	-60.0%	-39.1%	-52.2%

BALANCE SHEET (\$m)						
Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F
Cash	4.8	47.6	552.2	771.8	461.1	917.3
PP&E	7.9	31.3	147.8	333.3	523.6	658.3
Debtors & Inventory	0.9	0.0	0.5	1.8	6.7	12.3
Intangibles	154.6	154.6	159.3	159.3	159.3	159.3
Other assets	10.6	10.6	10.6	10.6	10.6	10.6
Total Assets	178.9	244.2	870.3	1,277	1,161	1,758
Borrowings	16.9	17.4	17.4	17.4	17.4	17.4
Trade Creditors	4.2	0.3	0.7	2.1	6.7	12.0
Other Liabilities	3.0	0.0	0.1	0.5	1.9	3.5
Total Liabilities	24.2	17.7	18.2	20.0	26.0	32.9
Net Assets	154.7	226.5	852.1	1,257	1,135	1,725

VALUATION PARAMETERS						
Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F
Core EPS	(10.3)	0.0	3.9	8.5	8.5	12.9
PER (Core EPS)	(16.5)	6,319.2	43.5	20.0	20.0	13.2
EV / EBITDA	(42.2)		(15.1)	(10.5)	15.4	(1.7)
EV / EBIT	(23.3)	(394.7)	(13.1)	(6.4)	19.4	(10.8)
Price / NTA	7,178.4	10.7	1.2	0.8	0.9	0.5
DPS	-	-	-	-	-	1.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
Franking	0%	0%	0%	0%	0%	10%
Free Cashflow PS	(2.5)	(3.9)	(33.6)	(28.7)	(31.7)	5.0

CASHFLOW STATEMENT (\$m)						
Old Coal Asset Sales and South Australian Power Plant						
Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F
Operating EBITDA	2.5	0.3	4.0	16.0	58.3	106.5
Receipts from customers	2.5	0.3	4.0	16.0	58.3	106.5
- Payments to suppliers	0.0	0.0	(20.8)	(20.2)	(32.0)	(78.5)
- Administration Costs	(8.5)	(14.9)	(2.0)	(2.0)	(2.0)	(2.2)
- Interest & Tax Paid	(2.2)	(2.7)	40.9	52.2	22.7	56.2
+ outflow of W/K/ other	0.0	0.0	(0.1)	(0.4)	(1.4)	(2.3)
Operating C/Flow	(8.1)	(17.4)	22.0	45.6	45.6	102.1
- Maintenance Capex	0.0	0.0	0.0	(2.0)	(4.2)	(42.0)
Free Cashflow	(8.1)	(17.4)	22.0	43.6	41.4	96.9
- Exploration expenditure	(11.3)	(14.4)	(15.0)	(3.0)	(3.0)	(3.1)
- Development (Technology)	(30.1)	(23.5)	(2.0)	(2.0)	(2.0)	(2.2)
- Ordinary Dividends	0.0	0.0	0.0	0.0	0.0	(4.9)
+ Coal/Gas Asset Sales ex tax			450.0	409.0	562.7	77.2
- Net Expansion Capex	(87.9)	(8.9)	(190.0)	(185.0)	(197.5)	(72.5)
+ Equity Issues / (Buybacks)	140.2	67.3	0.0	0.0	0.0	0.0
+ Proceeds from Borrowings	(0.4)	0.0	0.0	0.0	0.0	1.0
+/- Other	32.2	(15.8)	(45.3)	(45.3)	(45.3)	(45.3)
Net Cashflow	42.7	4.6	219.6	217.2	356.2	51.0
LNC Head Office cash flow			(60.0)	(60.0)	(60.0)	(60.0)

FULL YEAR DIVISIONAL PROFILE - Energy only from SA Power Project						
Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F
Revenue	0	0	4	16	18	19
Services	0	0	4	16	18	19
Energy	2	0	0	0	41	87
Total	2	0	4	16	58	107
EBITDA	(19.7)	0.0	0.2	0.8	0.9	1.0
Services	(19.7)	0.0	0.2	0.8	0.9	1.0
Energy	0.0	0.0	0.0	0.0	30.5	53.8
Corporate	0.0	0.0	(19.0)	(7.0)	(7.0)	(7.6)
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total	(19.7)	0.0	(18.8)	(6.2)	24.3	47.5
LNC Head Office - Development outside SA			(60.0)	(60.0)	(60.0)	(60.0)
EBITDA Margin %					5.0%	5.0%
Services					5.0%	5.0%
Energy					74.8%	61.7%
Group Margin					41.7%	44.6%
Energy - Only from South Australian Power and SynGas						

Key Assumptions						
Y/E 30 June	2009A	2010F	2011F	2012F	2013F	2014F
South Australia - Power Plant						
Output (MWh/a)					41	87
Tariff (A\$/MWh)			45	48	52	55
Power Plant EBITDA (A\$/MWh)					23	26
Power Plant cost base (A\$/MWh)					28	29
SynGas supplied (PJ/a)			0.0	0.0	8.1	16.2
South Australia - SynGas sold to Power Plant						
SynGas sold (PJ/a)			0.0	0.0	16.2	32.4
SynGas Price (\$/GJ)			2.91	2.98	3.06	3.13
SynGas Gross Margin (\$/GJ)			(1.59)	(1.63)	0.75	0.76
SynGas cost base (\$/GJ)			4.50	4.61	2.31	2.37

LNC total company - DCF VALUATION - With Austock Assumptions

PV of Cashflow s 2011F to 2014F	728	Risk Free Rate	6.0%
PV of Cashflow s 2015F to 2019F	218	Equity Risk Premium	6.0%
PV of Term Year Cashflow	558	Equity Beta	1.5
Total PV of Cashflow s	1,503	Cost of Equity	15.0%
Less Net Debt	30	WACC	11.9%
Wyoming UCG - 20% SA Power	105		
Alaska UCG - 5% SA SA Power	26		
Energy assets - Conventional	50		
Corp. Costs for development	(161)		
PV of Equity	1,554	Terminal WACC	11.9%
Fully Diluted Shares	510		
PV of Equity per share	\$ 3.05	Terminal Growth	3.0%

Risked value for non South Australian Assets and expenditure

TV WACC				
Terminal Growth	9.9%	10.9%	11.9%	12.9%
2.0%	\$ 3.55	\$ 3.19	\$ 2.90	\$ 2.67
2.5%	\$ 3.68	\$ 3.29	\$ 2.97	\$ 2.72
3.0%	\$ 3.83	\$ 3.39	\$ 3.05	\$ 2.78
3.5%	\$ 4.00	\$ 3.51	\$ 3.14	\$ 2.85
4.0%	\$ 4.19	\$ 3.65	\$ 3.24	\$ 2.92

VALUATION AND NPAT SCENARIOS FOR LNC			NPAT			
	DCF	Risked	Unrisked	2013F	2014F	2015F
	WACC	11.9%	10.0%			
Base Case		3.05	5.30	42.0	63.7	115.6
Base Case with two year delay		3.00	5.21	19.1	42.0	42.0
Base case with two year pull forward		4.20	7.29	115.6	128.5	146.3
		\$ 3.05	5.30			
		12 Mth Target				
Chemical Complex Added + 50%		1.50	2.60			
Gas to Liquids Added + 50%		1.50	2.60			

DIRECTORS	
Director	Role
Brian Johnson	Chairman
Peter Bond	Managing Dir.
Ken Dark	Non-Exec.
Jon Mathews	Non-Exec.

MAJOR SHAREHOLDERS	
Shares (m)	
1) Peter Bond	190.9

Directory

Equities Research Team

Melbourne

Craig Stranger	613 8601 2010	Head, Emerging Companies
Paul Jenz	613 8601 2068	Agribusiness & Energy
Heath Andrews	613 8601 2644	Engineers & Contractors
John Burgess	613 8601 2018	Consumer Services
Andrew Chambers	613 8601 2605	Infrastructure
Andrew Cleeland	613 8601 2065	Quantitative/Data
David Grossman	613 8601 2616	Professional Services
Maribel Quiza	613 8601 2085	Emerging Companies
Andrew Shearer	613 8601 2624	Resources

Sydney

Lawrence Grech	612 9233 9635	Resources
Stefan Hansen	612 9233 9612	Energy
Anna Kassianos	612 9233 9603	Resources
Rohan Sundram	612 9233 9638	Gaming / Small Property
David Barilla	612 9233 9652	Assistant

Institutional Sales

Melbourne

Tony Smith	613 8601 2041	Co-Head of Institutional Sales
Stuart Low	613 8601 2022	Research Sales
Chris Walker	613 8601 2038	Research Sales
Matthew White	613 8601 2624	Sales Trading
Robert Wood	613 8601 2031	Head of Sales Trading

Sydney

Bruce Rolin	612 9233 9651	Co-Head of Institutional Sales
Mark Pashley	612 9233 9641	Senior Sales Trader
Leo Borovilas	612 9233 9606	Sales Trading
Doc Cromme	612 9233 9608	Sales Trading
Gavin Todd	612 9233 9639	Research Sales
James Wilson	612 9233 9607	UK and Domestic Research Sales
Chris Chia	612 9233 9605	Asian Research Sales

Private Clients

Melbourne

Simon Taylor	613 8601 2069	Head of Private Clients & Private Portfolio
Merrick Abraham	613 8601 2077	Client Adviser
John Axsentieff	613 8601 2042	Senior Client Adviser
Ryan Batros	613 8601 2614	Client Adviser
Damien Brown	613 8601 2636	Client Adviser
Richard Endersbee	613 8601 1954	Client Adviser
Nick Fitzsimmons	613 8601 2029	Client Adviser
Thomas Ha	613 8601 2658	Client Adviser
Kate Hanrahan	613 8601 2058	Client Adviser
Melanie Hawgood	613 8601 2055	Client Adviser
Michael Heffernan	613 8601 2053	Senior Client Adviser
Xiaoming Huang	613 8601 2088	Client Adviser
Peter King	613 8601 2002	Client Adviser
Peter Mason	613 8601 2015	Client Adviser
Daniel McFarlane	613 8601 2639	Client Adviser
Luke Pavone	613 8601 2071	Client Adviser
Paul Shen	613 8601 2677	Client Adviser
Stephen Sun	613 8601 2001	Client Adviser
Patrick Trindade	613 8601 2669	Client Adviser

Sydney

Owen Beattie	612 9233 9621	Client Adviser
David Dwyer	612 9233 9643	Client Adviser - Options
Josh Graham	612 9233 9645	Client Adviser - Options
Jason Norval	612 9233 9625	Client Adviser
Mark Schwarz	612 9233 9642	Client Adviser - Options
Peter Semaan	612 9233 9649	Client Adviser
Edward Tao	612 9233 9609	Client Adviser

Corporate Finance

Melbourne

Dale Moroney	613 8601 2035	Managing Director
Harry Kingsley	613 8601 2089	Director
Stephen Nossal	613 8601 2017	Director
Jonathan Tooth	613 8601 2006	Director
Terence Wong	613 8601 2651	Associate
John So	613 8601 2033	Analyst
Yehuda Gottlieb	613 8601 2618	Analyst

Sydney

Andrew Champion	612 9233 9647	Director
Jamie Green	612 9233 9613	Director
Paul Levitt	612 9233 9626	Analyst
Grant Wong	612 9233 9656	Analyst

Equity Capital Markets

Robert Thomson	613 8601 2078	Head of ECM
Enzo Salvatore	613 8601 2081	ECM
Brooke Picken	613 8601 2025	ECM

OFFICE LOCATIONS AND DISCLOSURE

Melbourne

Level 1, 350 Collins Street
Melbourne VIC 3000
Phone: 613 8601 2000
Fax: 613 9600 1138

Sydney

Level 9, 56 Pitt Street
Sydney NSW 2000
Phone: 612 9233 9600
Fax: 612 9251 9368

Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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- one author (Lawrence Grech) of this report

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