

19 April 2007

# NORTHERN ENERGY CORPORATION LIMITED

NEC.ASX

**SHARE PRICE AU\$0.665**  
 52 Week High AU\$0.700  
 52 Week Low AU\$0.235  
**TARGET PRICE AU\$1.86**

## RESEARCH REPORT

Shares Outstanding 58.5m  
**Market Cap ~38.9m**

### PROJECT SUMMARY AND VALUATION

	ASHFORD (50%)	ASHFORD REGIONAL	ELIMATTA	MARYBO-ROUGH	YAMALA	ATHOLWOOD	TOTAL VALUATION
AREA KM <sup>2</sup>	27	1,300	27	300	300	42	
COAL TYPE	Hard Coking	Target Hard Coking	High Volatile Perhydrous Export Thermal or Coal to Oil	Coking	High Vol PCI/ Thermal	Low Vol PCI	
TONNAGE (CURRENT)	18 Million Tons	N/A	220 Mt - 22Mt Indicated 200Mt Inferred	N/A	410-460Mt Exp.Target	N/A	
IMPLIED VALUATION	\$9m	\$2m	\$55m	\$16m	\$24m	\$1m	Cash \$1.9m
IMPLIED VALUATION PER SHARE	\$0.15	\$0.03	\$0.94	\$0.27	\$0.41	\$0.02	<b>\$1.86</b>

### CORPORATE INFORMATION

#### DIRECTORS

Mr Keith Barker (Chief Executive Officer and Director)  
 Dr Christopher D. Rawlings (Non-Executive Chairman)  
 Mr Samuel J. C. Willis (Non-Executive Director)

#### MANAGEMENT

Mr Keith Barker (Chief Executive Officer and Director)

#### SUBSTANTIAL SHAREHOLDERS

Belgravia Strategic Equities 8.4%  
 Samuel Capital 8%  
 Fraters Nominees 7.7%

#### CAPITAL

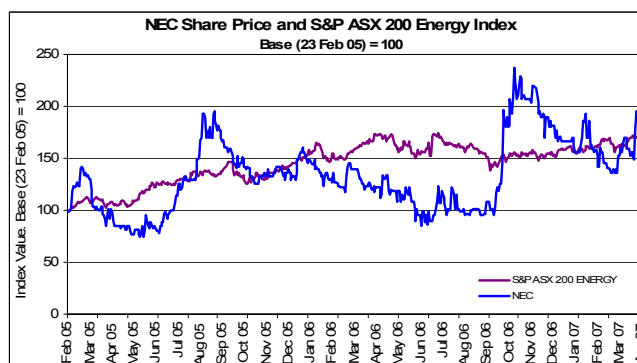
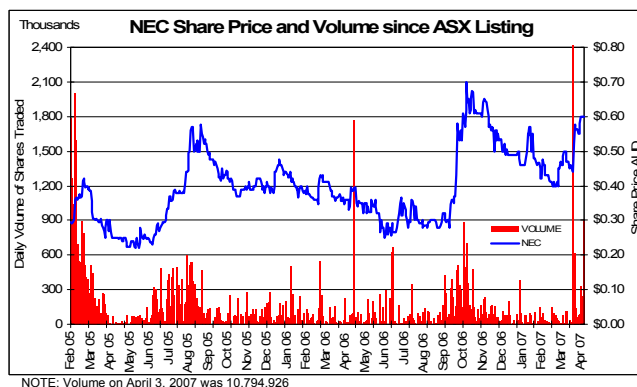
DATE	DESCRIPTION	SHARES (m)
Feb 2005	IPO (20¢)	53.6
Oct 2005	Placement (45¢)	4.9
<b>April 2007</b>	<b>Total</b>	<b>58.5</b>

#### OPTIONS

DATE	PRICE	No.(m)
01 Feb 2008	25 cents	2.5
01 Feb 2008	30 cents	1.56
<b>Total</b>		<b>4.06m</b>

Cash Balance ~AU\$1.9m

### SHARE PRICE INFORMATION



## NORTHERN ENERGY CORPORATION LIMITED

### BRIEF HISTORY

Listed in February 2005, Northern Energy Corporation Limited (NEC) is an Australian coal exploration and development company based in QLD. NEC has 14 granted exploration tenements in both Northern NSW and South-East/Central QLD within which lies a portfolio of coking and thermal coals. The Company currently has four active projects; Ashford/Ashford Regional, Yamala (formerly, Emerald), Maryborough and Elimatta. Of these, Yamala, Maryborough and Elimatta are all projects at the beginning of project development.

Fig 1. Tenement Resources Region



### ASHFORD (50% with option to acquire up to 75%)

The Ashford Project is a 50/50 Joint venture between NEC and Renison Consolidated Mines (RSN). The project is subject to an earn-in agreement whereby NEC can earn an additional 25% by completing a bankable feasibility study and issuing 5 million NEC shares to Renison.

The project covers a 27km<sup>2</sup> tenement in Northern NSW. The current Inferred Resource of 18 million tonnes is located adjacent to the previously mined area of the old Ashford Colliery and covers an area of approximately 1.6 square kilometers on a strike of 3.4km.

Tested samples from this area show a high yielding, mid volatile hard coking coal which forms a coke with an average Coke Strength after Reaction (CSR) of 53.4 (based on a single slim core test). The combination of coal and coke characteristics compare well with other hard coking coals exported from Australia and indicate the coal would receive a price at the upper end of coal market values.

A scoping study has been completed favouring open cut, truck and shovel mining to produce washed hard coking coal. Before undertaking a feasibility study, the company intends to determine transport economics, examine highwall mining along strike and explore the potential by-product from basal ply.

### INDICATIVE VALUATION: \$9m

It is too early for a rigorous valuation, but an 18mt resource may be valued at \$18m, based upon an indicative value of AU\$1.00/t in the ground for high quality coking coal. On the basis that NEC have a 50% stake in Ashford we value NEC's stake at \$9m. This value could increase significantly if additional resources were identified or if developments in relation to regional infrastructure occurred.

## ASHFORD REGIONAL (100% except Atholwood)

The Ashford Regional tenement comprises 1300km<sup>2</sup> of land stretching from Northern NSW to Southern QLD. NEC holds a 100% interest in the project except for Atholwood EL6526 (see Fig 2.), in which it has a 50% JV interest with RSN. The Company is pursuing a theory that the Ashford deposit may be repeated across its holdings extending into QLD and is currently working on refining its data to pursue targets with similar characteristics to those shown at the Ashford resource.

### INDICATIVE VALUATION: \$2m

We value the Ashford Regional project at \$2m based upon the potential of regional exploration and the possibility of a larger regional presence of coal possessing scale to enable development.

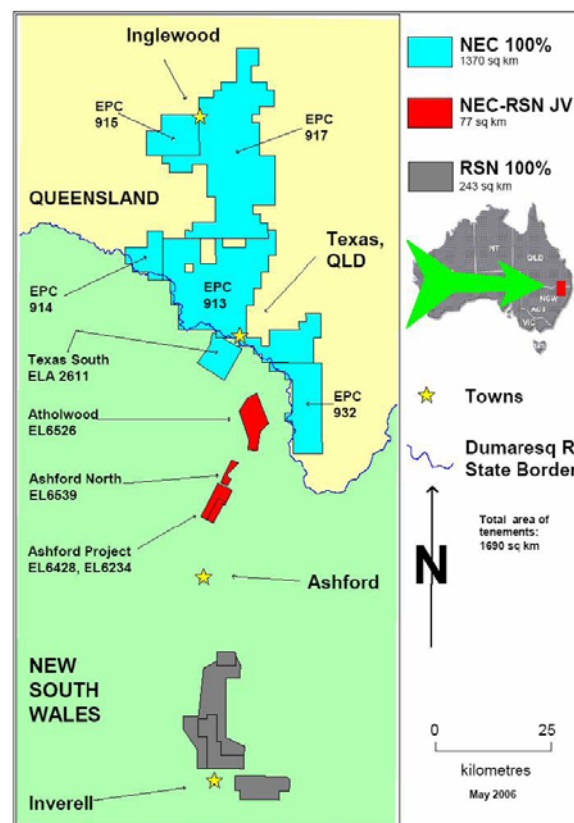
## ATHOLWOOD (50% JV with RSN)

Atholwood is approximately 10km to the North of the Ashford project and covers an area of approximately 42km<sup>2</sup> (see Fig 2.). Ten holes have been drilled with four coal intersections. Results indicate that a multi-seam sequence occurs similar to Ashford. The coal is not hard coking but a low volatile PCI. The company is encouraged that these intersections provide an indication that the Permian coal measures extend north and that there remains potential for hard coking coal in the region.

### ATHOLWOOD POTENTIALLY ANOTHER ASHFORD

Atholwood is the first step in NEC's broader regional program. NEC expects that the inclusion of additional resources of Ashford quality coal would significantly enhance the Ashford project economics.

Fig 2. Ashford Project and Atholwood



### INDICATIVE VALUATION: \$1m

We value the Atholwood potential at \$2m with NEC's 50% stake valued at \$1m.

## ELIMATTA PROJECT (100%)

The Elimatta deposit of a 200Mt Inferred Resource and 22Mt of Indicated Resource of low sulphur thermal coal is contained in the company's 27km<sup>2</sup> tenement situated in the Northern Surat Basin in South East Queensland. In addition to the JORC resource the drilling and geological assessment has also identified further upside of an additional 80 – 105Mt Exploration Target. Some of this upside is in an upper seam, which is not currently included in the resources and would therefore have a positive impact on the strip ratio. The resource and exploration target are open to the South and West. Drill results indicate a low strip ratio suitable for open cut mining. The project is adjacent to Xstrata's Wandoan project which is understood to be targeting the same seam sequence.

Elimatta coal samples showed a distinct separation at high density, with little near density material present and a clear partition between coal and rock waste. This low sulphur, high volatile coal similar to other Surat Basin coals currently being exported to the Asian power utility market. Such coals are highly suitable for the latest in coal fired power generation technology –combined cycle coal gasification, which allows increased thermal efficiency and the potential for carbon capture.

### NEW RAIL LINK ADDS SIGNIFICANT VALUE

The Queensland Government announced late last year a new rail link from Wandoan to Gladstone expected to be available by mid 2011. The Elimatta deposit is located approximately 30km west of Wandoan and the announcement regarding regional infrastructure development and the recent confirmation of the development consortium should have a significant and favourable effect on the economics of the project.

### COAL TO LIQUID POTENTIAL

Tests on adjacent Wandoan coal indicate a high yield for coal to liquids. The tests include a greater than 90% conversion rate and indicated yields of 45-50% (compared with Sasol of 25%). Cores from the current Elimatta drilling program are being assessed in comparison to the Wandoan coal which has been shown to be suitable for coals to liquid processing previously.. If Elimatta coal proves suitable for coal to liquids, the project value could be significantly increased as such technology offers the potential to provide world energy consumers a substitute for crude oil.

### ELIMATTA PROJECT – COMPARATIVE PROJECT VALUATIONS

COMPANY	PROJECT	TYPE OF MINING	TYPE OF COAL	\$ VALUE	RESOURCE	VALUATION / TONNE AT RESOURCE
Felix	Moolarben	Open Cut	Thermal	\$115m	300mt	\$0.38
Felix/Sojitz	Minerva	Open Cut	Thermal	\$150m	80mt	\$1.88
MacArthur	Monto	Open Cut	Thermal	\$115m	500mt	\$0.23
Newhope*	Acland	Open Cut	Thermal	\$250m	500mt	\$0.50
Felix/IMC	Ashton	Open Cut	Semi soft	\$90m	40mt	\$2.25
Felix	Yarrabee	Open Cut	Semi Soft	\$136m	100mt	\$1.36
<b>NEC</b>	<b>ELIMATTA</b>	<b>Open Cut</b>	<b>Thermal</b>	<b>\$55m</b>	<b>220mt</b>	<b>\$0.25</b>

\* This mine has been operating for a while and the value is based on the market capitalisation less, non-coal assets, less an allowance for capital to build the mine. All the other valuations are based on a valuation as an undeveloped resource so that they are directly comparable to NEC's project.

### INDICATIVE VALUATION: \$55m

We view Elimatta as a potential low risk operating project. With Xstrata indicating their intentions to develop the Wandoan project and confirmation of the new rail link being built, an indicated resource of 22Mt and an inferred resource of 200Mt, at Elimatta to total 220Mt gives a value of \$55m based upon our value of 25¢ in situ value.

## YAMALA (formerly Emerald 100% diluting to 51%)

The Yamala project is a joint-venture with the Sojitz Corporation. The Sojitz Corporation is a large Japanese trading house with a direct investment portfolio that includes substantial coal trading. Under a farm-in agreement, Sojitz Corporation earns 30% via the sole-funding of a \$5.3m exploration program and has the option to acquire a further 19% for \$6.65m cash on completion of the farm-in. In addition, Sojitz receive coal marketing rights.

The project covers a 300km<sup>2</sup> tenement located in the Bowen Basin, Central Queensland. The north border of the tenement is adjacent to Ensham and the South border adjoins Togara North. A review of previous exploration records and further modeling has generated a significant Exploration Target of 410-460Mt of in situ thermal coal. Coal is good quality with raw ash of 11%, raw energy of 27.5Mj/kg gad, volatiles 28-29% and sulphur of 0.4%.

The company is targeting the same coal sequence as Ensham and Togara North. Coal rail haulage infrastructure passes through the tenement. The company's objective is to progress toward a BFS in 2-3 years.

The Sojitz farm-in is a favourable outcome for NEC progressing the development while freeing up funds for other projects. Sojitz also bring global trading expertise.

### YAMALA PROJECT (formerly Emerald)

COMPANY	PROJECT	TYPE OF MINING	TYPE OF COAL	\$ VALUE	RESOURCE	VALUATION / TONNE AT RESOURCE
Felix	Athena	Underground	Thermal	\$6m	500mt	\$0.01
Felix	Moolarben	Underground	Thermal	\$71m	180mt	\$0.39
Felix	Ashton	Underground	Semi soft	\$25m	60mt	\$0.42
BHPB	Caroona	Underground	Thermal	\$105m	300mt	\$0.35
<b>NEC</b>	<b>YAMALA</b>	<b>Underground</b>	<b>Thermal</b>	<b>\$24m</b>	<b>460mt</b>	<b>\$0.05</b>

### INDICATIVE VALUATION: \$24m

If Sojitz exercise its option, then it implies the value of the project to be at least \$35m.

NEC would own 51% of this ie \$17.8m plus it would receive \$6.7m in cash. This implies NEC's 51% stake has a total value of \$24m. Our valuation will increase significantly as the project develops towards production.

## MARYBOROUGH (100%)

The Maryborough Project is a high quality hard coking coal target covering a 300km<sup>2</sup> tenement in the Burrum Coalfields of Southeast Queensland. The quality analysis following the first coring program, targeting shallow high-quality coking coal, has provided positive results which give the Company confidence to continue the evaluation of open cut mining economics in the area. The Company has also completed an exploration report for the Japanese Government Agency NEDO which results in funding up to 67% of the cost of this initial exploration program.

The Company has indicated that relatively short development may be possible once resources are delineated and if alternative infrastructure options are feasible. The tenement is adjacent to major roads and rail and is approximately 80km from the Bundaberg Port and some 250km from Gladstone.

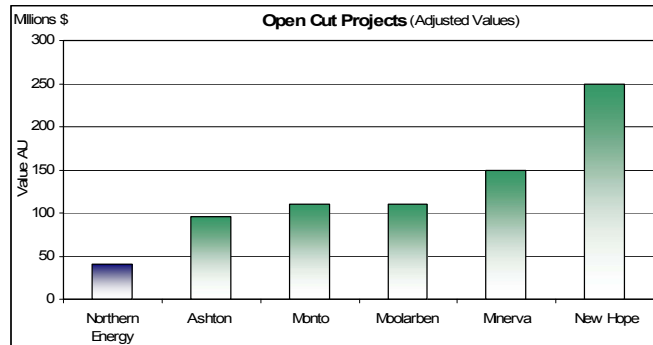
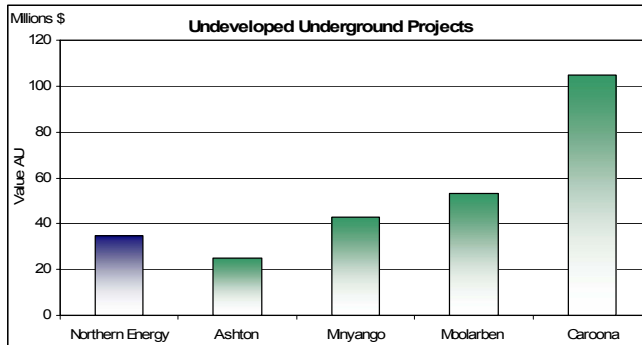
The coals are assessed as a high volatile (30-31%) coking coal. The Company has announced that the strong coking characteristics of this project justifies further investigation into the prospects for project development. Burrum syncline coals exhibit a very high proportion of vitrinite, high swell good plastic properties and low ash content.

### INDICATIVE VALUATION: \$16m

As the coking coal has been confirmed as a high export quality coal, we consider that a 400,000 to 500,000 tpa production scenario is possible once tonnage and infrastructure alternatives are further defined.

The capital requirements would be low considering proximity to infrastructure. A wash plant would be required at a capital cost of about \$10m. We consider such an operation could possibly generate AU\$40 – AU\$50/t margins, potentially generating \$16m to \$25m/per annum in free cash flow. We attribute a value of AU\$16m on a base case scenario to the project. Significant valuation leverage would occur as the project meets certain development milestones.

## VALUE COMPARISON



(Data Source: NEC) Note New Hope is an adjusted figure to allow for capital expenditure

As a value comparison, the above charts highlight the value gap between the individual projects involved in transactions over the last two years compared to the total market capitalization of Northern Energy. Although these are individual projects at various stages of development, this highlights the valuation gap between these stand alone projects and Northern Energy's portfolio which consists of two substantial thermal coal development projects and two small but very high quality coking coal projects.

This highlights the fact that NEC possess enormous upside as a result of its resource base.

## RECENT CORPORATE DEVELOPMENTS

Renison have recently divested it's founding cornerstone shareholding of 10m NEC shares. This holding was recently purchased at 50¢ per share by Belgravia Strategic Equities and Fraters Nominees. Belgravia Strategic Equities are long-term investors with a very successful track record of building business. In our view, and has been evidenced in the market since, this should be a catalyst to remove any perceived overhang in the market and provide a positive and solid foundation for the Company to move forward.

In addition, Xstrata plc has recently made a A\$391 million all cash bid for Gloucester Coal representing a 33% premium to the one month volume weighted average share price. The bid has been unanimously supported by the board of directors of Gloucester. Whilst Gloucester is in production as opposed to NEC assessing commencement of development on each of its projects, we believe that the current enthusiasm and the premium represented in the Xstrata transaction should flow through into other companies in the coal sector. The bid demonstrates that in this strong pricing environment for both thermal and coking coal, the recent negative sentiment towards the coal sector has left companies undervalued. In our view, as NEC develops its respective projects and moves closer to production, it could also be the target of corporate activity from larger mining companies.

### RECOMMENDATION:

In our view NEC is undervalued and with recent cornerstone shareholder investments and news flow we have an initial price target of \$1.86 per share.

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