



NORTHERN ENERGY CORPORATION LTD (NEC)

RESEARCH

TOLHURST

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term >12m
\$1.65	\$2.77	Coal	HIGH	BUY	BUY

Company update Resource Upgrade at Elimatta

Recommendation Change No

Target Price Change To \$2.77 from \$2.50

Forecast Change Na

NEC delivers resource upgrade

NEC has announced a 30% resource upgrade to their Elimatta thermal coal project (NEC 100%) located in the Surat Basin, Queensland. This raises the JORC compliant resource at Elimatta to 285Mt from 222Mt.

The table below shows the new resource statement and targets for Elimatta.

Market Stats

Market Capitalisation	\$m	111
12 Month Price Range		\$0.38 - \$1.87
Monthly Turnover	\$m	8.4
Monthly Volume	#m	6.5
% of SOI traded per month	%	9.7

	Indicated	Inferred	Total Resource	Expl Target	Total
Current	155Mt	130Mt	285Mt	70Mt	355Mt
Previous	22Mt	200Mt	222Mt	100Mt	322Mt
Change	133Mt	-70Mt	63Mt	-30Mt	33Mt

Valuation & Price Target Summary

	Unrisked Valuation	Risked Valuation	12 mth Price Tgt
Liquid Assets	\$0.11	\$0.11	
Elimatta	\$4.98	\$1.31	\$1.80
Yamala	\$4.42	\$0.81	\$0.92
Ashford	\$0.13	\$0.01	\$0.01
Maryborough	\$0.14	\$0.02	\$0.04
Total	\$9.77	\$2.26	\$2.77

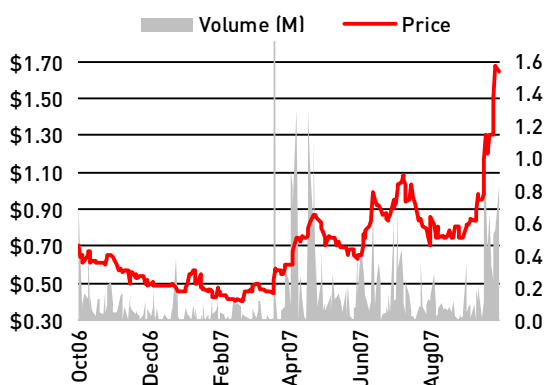
Key Points

- There has been a significant +600% increase in the Indicated resource category at Elimatta from 22Mt to 155Mt. This provides a solid foundation for the next stage of pre-feasibility work due to commence in 2HFY07/08.
- Approximately 54% of the total JORC resource at Elimatta is now in the Indicated category. This demonstrates strong resource conversion from the Inferred category which has been a positive feature of the exploration work completed to date.
- Drilling at Elimatta has increased the overall size of the JORC compliant resource base and a further increase in targeted exploration tonnage of 33Mt. The company has stipulated the increase to the exploration target is in a range of 25-40mt. A midpoint of 33Mt has been assumed for valuation purposes.
- NEC has used a cut-off stripping ratio of 10:1 on Elimatta (moderate level) although over 90% of the stated resource can be accessed at stripping ratios of less than 7:1.
- The company also advised that development of Elimatta will be dependant on the completion date of the Wiggins Island port terminal at Gladstone which has been delayed until 2012. This was foreshadowed in our Initiation of Coverage on NEC and represents no surprise.

Valuation and Recommendation

The recent announcement was anticipated in our Initiation of Coverage although not quantified. It is further evidence Elimatta is evolving into a high quality, long life and low cost thermal project. The increase of JORC resources, resource conversion and additional exploration targets at the prospect demonstrate that management is driving a successful exploration and development program. This is reflected in an upgrade to our risked valuation to **\$2.26** from \$2.02 and an increase to our 12 month price target to **\$2.77** from \$2.50. Combined with other exploration activities at Yamala, Maryborough and Ashford, Tolhurst believes the outlook for the company is excellent and offers compelling value for growth investors willing to accept a HIGH risk rating. We reiterate our short term **BUY**, long term **BUY** on NEC.

Share Price Chart 1 Year





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Northern Energy Corporation (NEC) – Risked Valuation

Liquid Assets	Equity	Value	Unrisked Value		Proby	Risked Value					
			A\$m	eps*		A\$m	eps*				
Current cash:	100%	\$ 7.15	\$ 7	\$ 0.10	100%	\$ 7	\$ 0.10				
Debt	100%	\$ -	\$ -	\$ -	100%	\$ -	\$ -				
NPV Options:											
01/02/2008 Expiry, \$0.25-0.30	100%	\$ 1.045	\$ 1	\$ 0.01	100%	\$ 1	\$ 0.01				
- Corporate o/hd (1 yr)	100%	\$ (0.3)	\$ (0)	\$ (0.00)	100%	\$ (0)	\$ (0.00)				
Producing/ liquid assets			\$ 8	\$ 0.11		\$ 8	\$ 0.11				
Approved Development Projects	Equity	Gross Reserves	Net Resources	Unit Value Reserves	Resources	Unrisked Value A\$m	eps*	Proby	Risked Value A\$m	eps*	
None yet approved											
Approved Development Projects		-	-	-	-	\$ -			\$ -		
Producing + Approved Developments		-	-	-	-	\$ 8			\$ 8		
Potential Development Projects	Equity	Potential Reserves		Unit Value Reserves	Resources	Unrisked Value A\$m	eps*	Proby	Risked Value A\$m	eps*	
		Gross Reserves	Net Resources								
Yamala											
Base Case	70%	190	-	133	\$ -	\$ 1.00	\$ 133	\$ 1.87	30%	\$ 40	\$ 0.56
Upside to high case	70%	260	-	182	\$ -	\$ 1.00	\$ 182	\$ 2.55	10%	\$ 18	\$ 0.26
Yamala Total - 100% basis	70%	-	450.0	-	315.0		\$ 315	\$ 4.42		\$ 58	\$ 0.81
Elimatta											
Base	100%	285	-	285	\$ -	\$ 1.00	\$ 285	\$ 4.00	30%	\$ 86	\$ 1.20
Upside to high case	100%	70	-	70	\$ -	\$ 1.00	\$ 70	\$ 0.98	10%	\$ 7	\$ 0.10
Elimatta Total	100%	-	355	-	355		\$ 355	\$ 4.98		\$ 93	\$ 1.30
Ashford											
Base Case	50%	18	-	9	\$ -	\$ 1.00	\$ 9	\$ 0.13	10%	\$ 1	\$ 0.01
Upside to high case	50%	-	-	-	\$ -	\$ 1.00	\$ -	\$ -	0%	\$ -	\$ -
							\$ -	\$ -		\$ -	\$ -
Ashford Total	50%	-	18	-	9		\$ 9	\$ 0.13		\$ 1	\$ 0.01
Potential Development Projects							\$ 679	\$ 9.52		\$ 152	\$ 2.12
Exploration	Equity	Potential Resource		Unit Value Resources	Resources	Unrisked Value A\$m	eps*	Proby	Risked Value A\$m	eps*	
		Gross Resources	Net Resources								
Maryborough	100%	10	10	\$ 1.00	\$ 10	\$ 0.14	15%	\$ 2	\$ 0.02		
Five Mile	100%	-	-	\$ 1.00	\$ -	\$ -	0%	\$ -	\$ -		
Yamala East	100%	-	-	\$ 1.00	\$ -	\$ -	0%	\$ -	\$ -		
Perrett's Road	100%	-	-	\$ 1.00	\$ -	\$ -	0%	\$ -	\$ -		
Trigamon	100%	-	-	\$ 1.00	\$ -	\$ -	0%	\$ -	\$ -		
Ena Creek	100%	-	-	\$ 1.00	\$ -	\$ -	0%	\$ -	\$ -		
Exploration potential		-	10	-	10		\$ 10	\$ 0.14		\$ 2	\$ 0.02
Total Valuation							\$ 697	\$ 9.77		\$ 161	\$ 2.26

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Tolhurst's Recommendation and Risk Rating system:

Recommendations are assessments of each Tolhurst Analyst's view of potential total returns over Short Term and/or Long Term time horizons. A Short Term time horizon is less than 12 months; a Long Term time horizon is greater than 12 months.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into four main categories:

Buy: Expected Total Return more than 20%

Accumulate: Expected Total Return between 5% - 20%

Hold: Expected Total Return between -5% and 5%

Sell: Expected Total Return less than -5%

Risk Ratings:

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size.

We divide our risk into three categories:

High: Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

Medium: Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

Low: Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation.

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This report has been reviewed by peers within the research department.