

31 January 2008

## A Growing Coal Resources Base for Export

### Investment Highlights

- NEC is an exploration company with a large thermal coal resource in Queensland, totalling 155Mt of indicated resources and a further 338Mt of inferred resources. Using conservative Enterprise Value per tonne of \$0.50 and a 50% discount for inferred resources, we value the company at \$123m. Adding \$6m cash at bank equates to a market cap of \$129m or \$1.80 per share.
- Accordingly we are initiating coverage on NEC with a **Speculative Buy** recommendation.
- The Yamala deposit is adjacent to existing Ensham mine and existing rail in the Bowen basin. Elimatta is in the Surat, surrounded by Xstrata leases near Wandoan. Significant resource increases and category upgrades are expected during the course of the 2008 exploration and feasibility programme.
- Current coal prices are exceptionally strong. Amid ongoing demand from North Asia for both metallurgical and thermal coal and the continuing bottlenecks in supply, the spot market has experienced unprecedented price levels. Likewise, expectations for next year's contracts are now for increases of over 50% compared to this year. Long term prices are also expected to remain above historical averages.
- Takeover activity in the coal sector remains high and resources are achieving high values in corporate deals.
- Biggest risks are around the magnified volatility of smaller companies and/or non-cashflow generating companies in the current equity market environment. The stock also has relatively low liquidity.

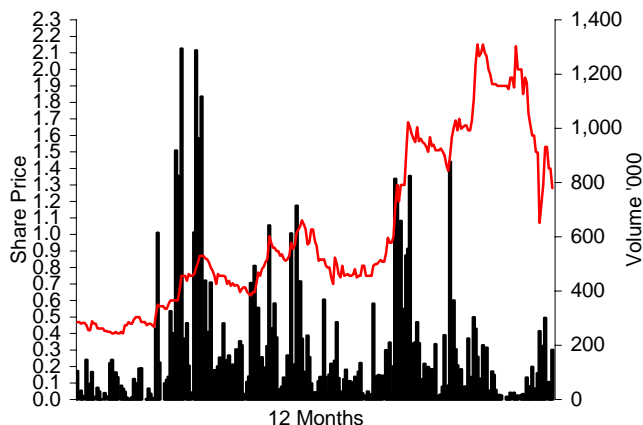
Company	
Stock code:	NEC
Share price:	\$1.26
Recommendation:	Speculative Buy

S&amp;P/ASX 300 = 5624

Analyst	
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### Company Statistics & Performance

Shares on Issue	71.3m	Daily Vol.	157,000
Market Cap.	\$91.3m	Debt	\$0.0m
52 Week Range	40c - 215c	Cash	\$6.1m



### Directors & Shareholders

<b>Non-executive Chairman</b>	Christopher Rawlings
<b>Managing Director</b>	Keith Barker
<b>Non-executive Director</b>	Kevin Maloney
<b>Non-executive Director</b>	Sam Willis
<b>Company Secretary</b>	Paul Marshall
<b>Non-Executive Director</b>	Geoff Lord
<b>Substantial Shareholders</b>	
	<b>Shares (m)</b> <b>%</b>
Kevin Maloney	6.8      9.7
Fraters Nominees	6.6      9.4
Belgravia Strategic Equities	4.9      4.0
Contango Assets Mgt	3.4      4.8
Christopher Rawlings	1.5      2.1
Keith Bartker	1.3      1.9
Willing Samuel John Co	0.2      0.3

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## Investment Case

### Valuation

Northern Energy is not yet advanced enough to be analysed using a discounted cashflow of its development projects. So we have used a valuation based on its coal resources and comparables. Following the fall in equity prices during January, we are using an Enterprise Value of A\$0.50 per tonne of resource in the ground. This is lower than many of its exploration and in-production contemporaries but we believe this is appropriate because the vast majority of its deposits are of thermal coal and in the case of Yamala, underground rather than opencut.

We use only measured and indicated resources in our calculation. This means that for Elimatta we have used the indicated resource of 155Mt even though there are significantly more resources in the inferred category. For the Yamala deposit, we have discounted the 190Mt of inferred thermal resources by 50%, assuming only 95Mt will be classified as measured or indicated. Similarly for the Ashford deposit we have discounted the 18Mt of inferred coking coal resources by 50%.

NEC and its joint venture partners will be spending over \$5m in the coming year on exploration at its three most prospective deposits, Yamala, Elimatta, and Maryborough, with the expectation of growth in the Measured and Indicated resource category as more in-fill drilling is conducted on ground with already inferred resources. We have not included in our valuation any value for exploration upside. Our breakdown of the valuation is set out on the table below.

**Figure 1: NEC Attributable Resource Valuation**

EV/t of Resource (A\$/t)		0.50		No. Shares		71.99	
	Measured & Indicated Resources (Mt)		Proven & Probable Reserves (Mt)		EV (\$m)	EV/Share	
	Therm coal	Met coal	Therm coal	Met coal			
<b>Elimatta (100%)</b>	155	0	0	0	77.5	1.08	
<b>Yamala (92%)</b>	87.4	0	0	0	43.7	0.61	
<b>Ashford (50%)</b>	0	4.5	0	0	2.3	0.03	
<b>Maryborough (100%)</b>	0	0	0	0	0.0	0.00	
<b>Totals</b>	<b>242.4</b>	<b>4.5</b>	<b>0</b>	<b>0</b>	<b>123.45</b>	<b>1.71</b>	
<b>NEC Net Cash</b>						6.1	0.08
<b>Total Value</b>						<b>129.55</b>	<b>1.80</b>

Source: Patersons Securities

Even though we have not ascribed value for exploration upside it must be noted that there is a strong possibility of further increases at Elimatta in particular. During the second half of 2007, NEC has drilled 67 holes and the increase to resources announced in October was based only on the first 20 holes. The remaining 47 holes are currently being input into the resource model

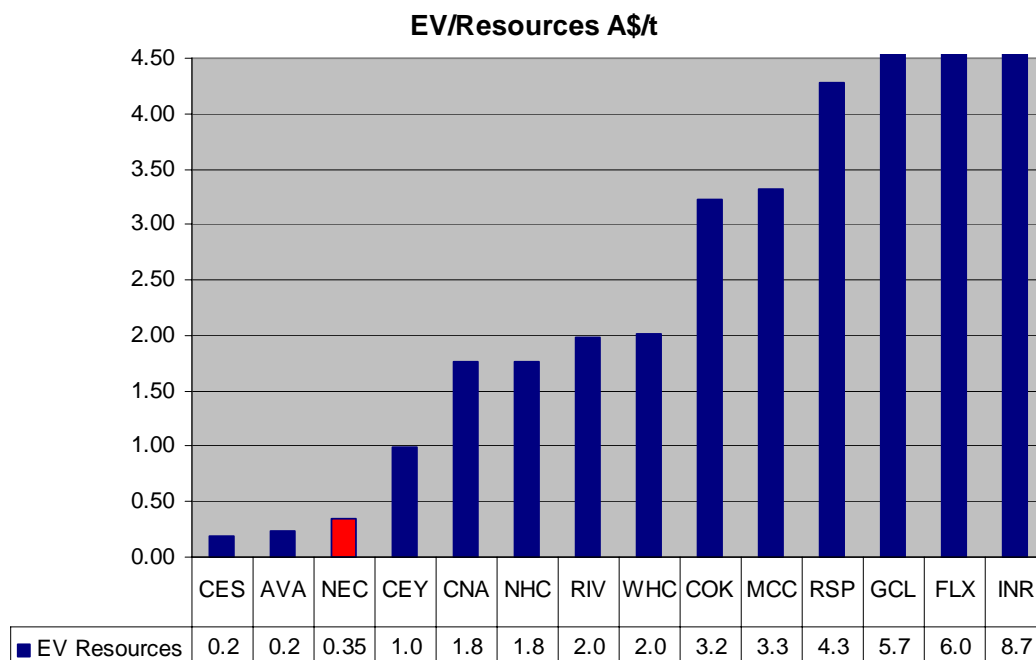
### Peer Comparison

On a peer comparison of Enterprise Value to resources, NEC now sits near the bottom of the range. It must be noted in the graph below that it shows in general the greater value placed on metallurgical resources over thermal coal resources and producing assets over exploration. For example CEY is nearly all (domestic) thermal, while INR is nearly all metallurgical. Currently NEC, which is nearly all thermal coal, is valued at \$0.35/t. we believe that this is too great a

discount for significant new resources in the Bowen Basin, Yamala especially, is not stranded from rail, with the line passing through the northern edge of the property, and is only dependant on expanded port capacity at Gladstone. The Wiggins Island port is moving closer to reality, with State Government environmental approvals granted recently.

NEC does not have any very close listed peers. On EV-to-resources basis it trades at a wide discount to fellow explorers Riversdale and Cockatoo, which are at \$2.00/t and \$3.20/t respectively. We expect that as resource definition improves and project development plans are advanced through 2008 the value of NEC's resources will begin to approaching its competitors.

**Figure 2: EV to Resource Ratios**



Source: Bloomberg and Patersons Securities estimates

## Coal Market Fundamentals Very Strong

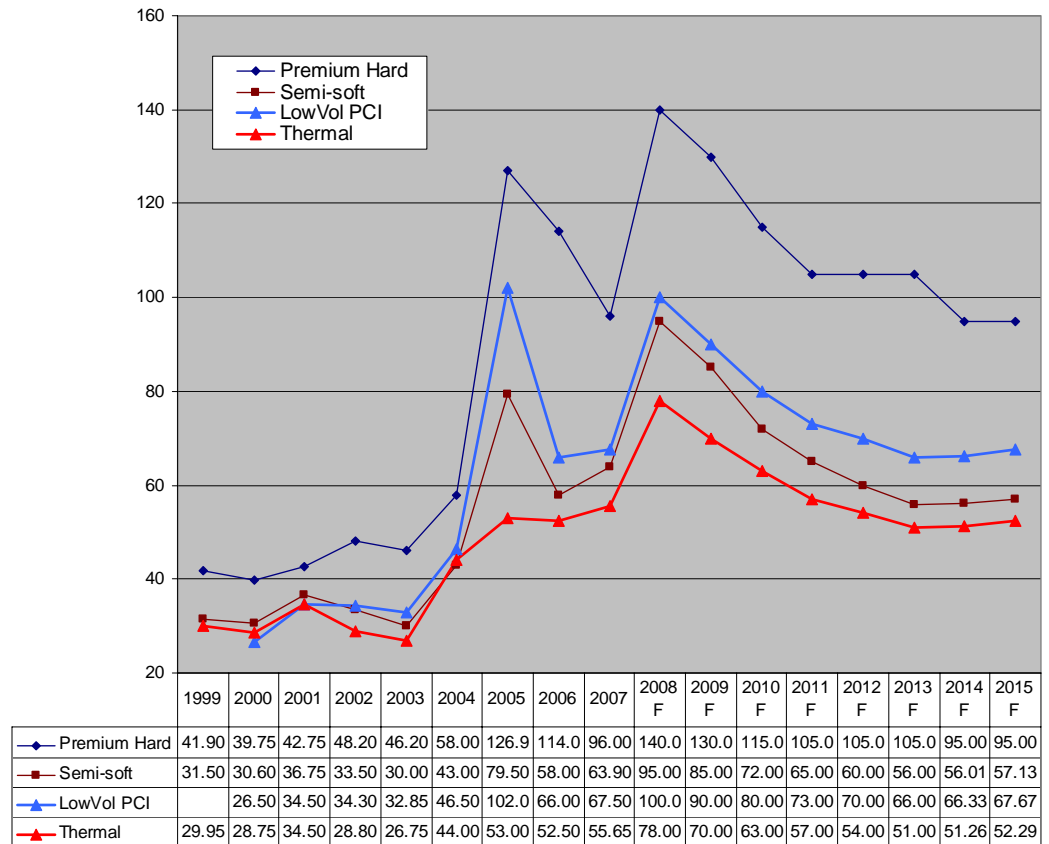
Prices for all grades of coal have been strong for all of 2007 and 2008 contracts are expected to break all records, increasing by at least 50%. NEC will be largely a thermal coal producer and the thermal coal market has been surprised by the strength of net demand from Europe and China, and while current trends continue, high prices (i.e. US\$90/t and above) are well supported.

The recent serious flooding in the Bowen Basin has added further heat to both the metallurgical and thermal coal markets. The damage is expected to take up to 6 months to repair for some badly affected mines. This comes at a time when the 2008 contract negotiations are well underway and may spark higher re-assessments from coal consumers.

Already high prices of oil and gas have encouraged higher coal consumption in nearly all of the world's economies, including oil producing Mexico and Indonesia. The main driver has been, again, China, which is a substantial producer and was historically an important exporter. During the first half of 2007 China imported more coal than it exports and finished the year as a net exporter of only 2Mt. This has driven all of the traditional North Asian consumers like Japan, Korea, and Taiwan, as well as Europe and India to bid aggressively for all available spot supplies.

The capacity constraints in Australia have exacerbated the situation and spot thermal prices are approaching an unprecedented US\$100/t. As can be seen below even though prices may weaken going forward as supplies increase, they are still going to be at very high levels compared to historical levels. Patersons long term price assumptions is US\$51/t.

**Figure 3: Patersons Coal Price Assumptions (US\$/t Contract year starting 1 April)**



Source: Bloomberg and Patersons Securities estimates

## Key Risks

All exploration companies involve higher than average risk. In the current equity market climate small cap stocks and stocks not already in production and generating cashflow may suffer more than established companies. Northern Energy, despite solid additions to resources and the growing value of coal, may suffer increased volatility.

NEC will have to achieve many milestones in the following 12-18 months as will the allied rail and port infrastructure. In order to eventually sell its product the Southern missing Link and the Wiggins Island Terminal will have to proceed on schedule for completion by 2012.

At Yamala, despite the preliminary promising results, we note that the company will be undertaking a more focused exploration program to upgrade and confirm the resource to the indicated category. This can be a lengthy process given the type of analysis required and we await a full coal quality evaluation, which given the current congestion at fully accredited coal quality laboratories can take up from 45 to 60 days.

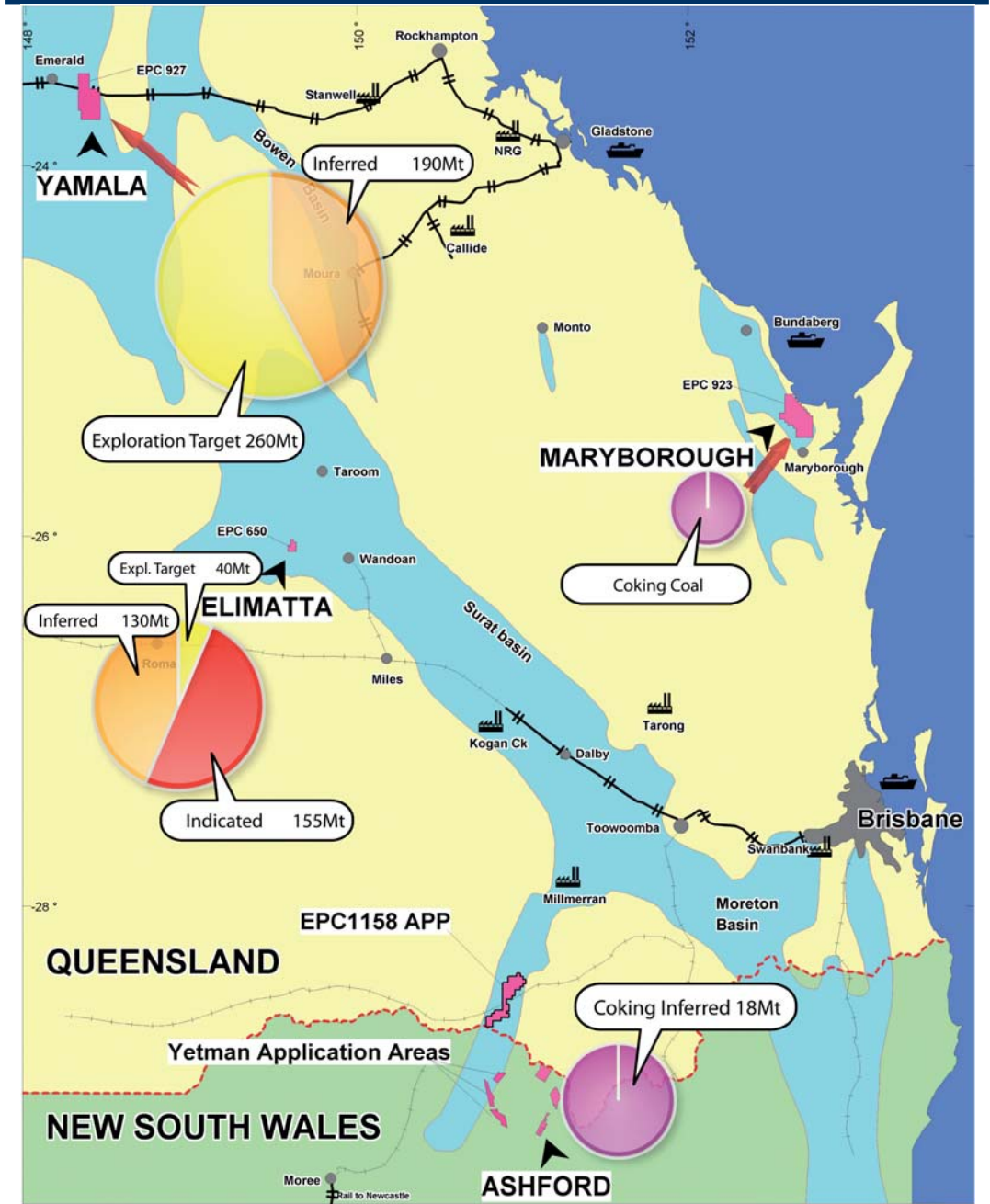
NEC, has about \$6.1m in cash and will be spending about half this amount in the following 12 months. With accelerated exploration and feasibility work, we expect that there is going to be a need for additional cash after 2008.

NEC, is a tightly held stock and average daily volume is only around 155,000 shares, which does pose some liquidity risk.

## Projects: ELIMATTA EPC 650

EPC 650 is 100% owned by Northern Energy Corporation. The Elimatta Thermal Coal project (100% Northern Energy) is located in the northern part of the Surat Basin in the Taroom Shire, about 35km west of Wandoan and 55km south of Taroom, on the Southern Central Highlands of Queensland and covers an area of approximately 7km<sup>2</sup>. Mining development at Elimatta will be of an opencut producing 100% thermal coal. Current indications are of a high volatile, low nitrogen and low sulphur product which would be suitable for export. Resources at Elimatta are 155Mt in the indicated category and a further 130Mt in the inferred category.

**Figure 4: NEC – Deposit Locations**

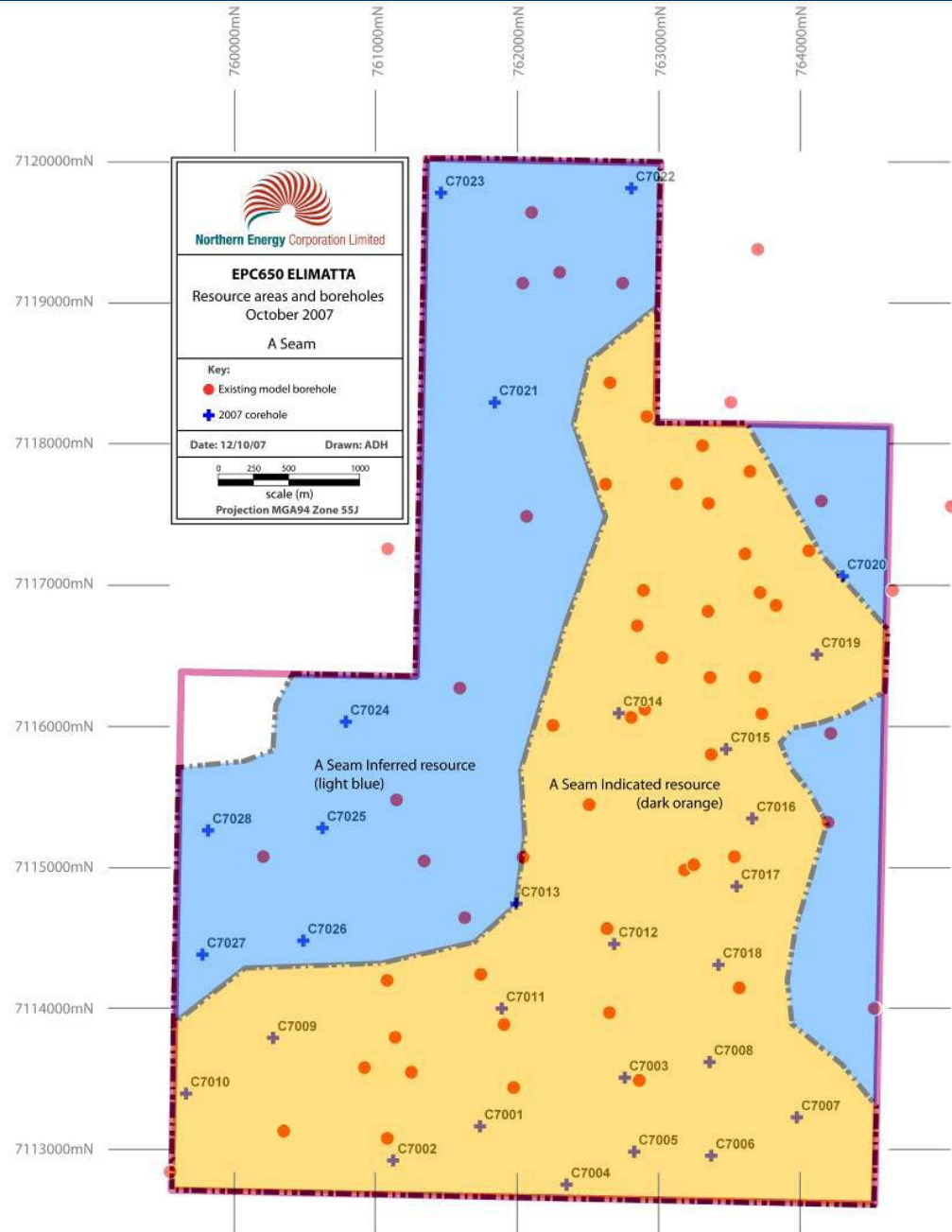


Source: Northern Energy Company

## Geology & Mineralisation

In April 2007, modelling of the results of the drilling programme completed in December 2006, identified a 70% increase in the Resource, from 130Mt to 222Mt. At the time the resource comprised 22Mt Indicated and 200Mt Inferred.

**Figure 5: NEC EPC650 Lease**



Source: Northern Energy Company

Preliminary geological work together with pre-feasibility study indicate a site amenable to open cut mine method. The 5 coal seams identified range in thickness from 0.7 to up to 4.5 metres and are inter-bedded with semi-soft to soft sandstone/siltstone units only moderately lithified. The recent drilling program undertaken as a part of Stage-2 development program not only enhanced the understanding of the general geology of the deposit but importantly upgraded the indicated and inferred resources by 70% to 155mt of indicated resources plus 130mt of inferred.

Two major faulting systems have also been identified in the tenure producing a down-throw graben style block. The resulting geometry affects only the upper seams. The main seam's limits are not affected by the faulting. This is a clear advantage as it will help to delineate and hence, extract, the coal resources with much more accuracy and less exploration.

The drilling results indicate a high washing yield, producing a relatively low ash, low sulphur and low nitrogen, high volatile thermal coal. See table below. The Elimatta coal quality also has low impurities and would be attractive to the global power utility market. It would offer higher combustion efficiencies and lower emissions per unit of electricity.

**Figure 6: EPC650 2006 Drilling Typical Raw Coal Quality**

Seam	Inherent Moisture %	Volatile Matter %	Raw Ash%	Fixed Carbon%	Total Sulphur
Y	8.8	30.8	29.2	31.3	0.26
A	8.2	34.3	25.5	32.0	0.24
B	8.0	28.7	33.0	30.4	0.31
C	8.1	31.8	33.1	27.0	0.26

Source: Northern Energy

**Figure 7: Product Quality from 2006 Borecore Drilling**

Seam	Yield % @ 1.55 RD	Product Ash % @ 1.55 RD	Total Sulphur %	SE MJ/Kg	Volatile Matter %	Hardgrove Index	Vitrinite%	Vitrinite Ro Max
Y	78	11	0.37	26.1	40	33	80	0.41
A	83	9	0.29	27	42	33	81	0.42
B	77	11	0.33	26.1	40	34	84	0.42
C	82	10	0.38	26.7	42	34	89	0.43

Source: Northern Energy

## Current Exploration & Resource Definition

Currently the company is undertaking further drilling to acquire enough data to commence pre-feasibility and feasibility studies. It is our estimate that, if those are successful, the company should be able to get in production by late 2011. This also represents the timeframe proposed by the Queensland Government to complete the Southern Missing Link Rail Project and upgraded capacity at Gladstone port. Furthermore, the company has highlighted potential production rates from Elimatta of 5Mtpa which is comparable to most mid-tier Australian coal producers across the Bowen Basin.

The project is located about 40km west of Wandoan, which is about 400km by rail from the port of Brisbane. The project lease EPC650 was originally owned by Taroom Coal NL and the original non-JORC estimates were 115Mt. In October 2007 the company announced a noticeable increase in the total coal resources which now totalling 285 Mt, of which 155Mt are Indicated and 130Mt inferred. With the current drilling plan beginning in February, we believe there is a very high chance to move from inferred to indicated and measured resources during 2008.

Existing deposits developed in the Jundah Coal Measure include the Wilkie Creek open-cut mine, about 45km north-west of Dalby. The mine produces coal for both domestic and export thermal coal markets. Significant resources of thermal coal have been delineated at Kogan Creek and Chinchilla. Wandoan and Taroom areas have a total coal inventory exceeding 4Bt of surface mineable coal.

## Project Development Plan

NEC's base case is for a 4Mtpa export thermal mine. Detailed washability and sizing work is currently underway. This will ultimately lead to a product washing model which will ultimately determine the type of washplant required. Quality wise, the Jundah Coal measure coals in the Surat basin are high-volatile with excellent combustion and burnout characteristics, ideal for blending with lower quality coals to improve boilers performance and at the same time lower stack emissions for power generation.

A preliminary study suggests that more than 100Mt of coal could be recoverable in a cost effective manner at a relatively low strip ratio cut-off of 5:1 and a 20 year minelife. We note however that to recover the entire current estimated resources (285Mt) the strip ratio will deteriorate to 10:1. Depending on the economics, extracting this extra coal would require a substantial increase in Capex. We estimate that mining costs at 5:1 stripping ratios could be as low as less than \$20/t. Rail and loading charges would add a further \$15-20/t, meaning FOB costs of about \$35-40/t.

The company has already broadly identified the areas required for further infill drilling for its exploration program that will be ramped up during 2008. NEC is planning to spend \$5m, out of a budget of \$6m, in the coming year at Elimatta for exploration and feasibility studies.

This project is about 9 months ahead of Yamala, but needs to move quickly in order to be in a position to place orders for long lead time items and to secure rail and port access allocations for the new southern missing link rail line and Wiggins Island Terminal. NEC would like to be ready to order a dragline (approx. cost \$150m) within 18 months (mid-2009 for delivery in 2011) if that is the preferred mining option. NEC are looking to develop a mine with saleable production of 4-5Mtpa by 2012. Will need Proven reserves of about 50Mt and Probable reserves of a further 100Mt.

The economics and geology of the deposit still need to be clarified. Decisions such as Dragline versus truck & shovel are yet to be made. A truck and shovel operation is currently estimated to have an operating cost of about 3 times per bank cubic metre as compared to a Dragline. Depending on the final mining method, Capex/Opex could vary significantly, with the highest Capex/lowest operating cost option likely to require in the order of \$400m in initial investment. NEC will require funding regardless of the options chosen.

NEC will begin process for mining lease applications and EIS within the first quarter of 2008 and expects that this will be about a 2 year process.

NEC's Elimatta lease is completely surrounded by Xstrata tenements. The potential exists of a risk of legal hindrances, similar to what occurred to Felix at Moolarben in NSW, because NEC requires access through neighbouring EPCs. Conversely, it also raises the possibility that EPC650 could be a potential target for acquisition as the project progresses towards development.

## Infrastructure Requirements

NEC intends to participate in the Wiggins Island Terminal A\$45m Port Feasibility study and will be funding part of the cost. Both Elimatta and Yamala will have to export through this new terminal. The Queensland government recently granted environmental approvals.

The Southern 'Missing Link' is crucial for coal mine development. ATEC Southern Rail is the developer and has been seeking commitments for about 17Mtpa of coal on the line. NEC is

focused on Elimatta so that it can be in a position to make tonnage commitments on the back of upgraded resources and pre-feasibility studies.

Rail to Wiiggins Island is 400km. At the expected rate of 2c/t/km, it equates to A\$8/t transportation cost to the terminal but could be much higher due to this being a newly constructed line. Elimatta is about 30-50km from the proposed route of the new rail line. NEC is still considering alternatives to either construct a rail loop and rail loader or to haul coal to the line. Note that Burton and Yarabee already haul to the nearest rail siding a distance of about 30km.

### **Off-take**

NEC has not announced any Offtake agreements do date for any of its Elimatta production. The company enjoys 100% ownership of the deposit development would likely involve participation by coal consuming partners.

### **Coal-to-Liquids Alternative**

NEC has also assessed the economic potential of a Coal-to-Liquids (CTL) development based on the Elimatta coal resource. Such an alternative would be highly capital intensive and would require capex in the order of several billions and the likely involvement of a petro-chemicals partner. However, the recently completed preliminary study has concluded that Elimatta contains approximately 400Mmbbl of recoverable liquids and, including capital costs, would have a breakeven price at US\$42/bbl. At current oil prices of about \$90/bbl this suggest significant potential value in such an alternative to a traditional coal mine development. Accordingly NEC has approved spending on a further conceptual study, commissioning GHD consultants.

In our view a CTL plant would be a remote possibility but the studies undertaken so far and the current interest in alternatives to Mid-East oil provide a further positive (but hard to quantify) element to the value of coal resources at Elimatta.

## Projects: YAMALA COAL JOINT VENTURE EMERALD EPC927

Yamala is a JV between Northern Energy (92%) and the Japanese commodities trading house Sojitz (8%). Under the terms of the JV, Sojitz will fund a three stage AU\$5.3m exploration and evaluation program to earn a 30% interest in the project with an option to acquire another 19% for \$6.65 million cash.

The JV has spent \$1m on exploration to achieve a resources of 190Mt inferred and a large exploration target of 260Mt. In 2008 NEC will be spending \$2m on infill drilling, with one rig onsite, to elevate the resource category to measured and indicated as well as pay for the conceptual and geotechnical studies. In 2009 a further \$2.3m will be spent for the engineering and development studies. NEC is targeting a deposit with a 100Mt reserve.

At Yamala, the conceptual and pre-feasibility will focus on initially a small opencut mine with direct shipping of thermal coal. The mine will be extracting the subcrop at a 1Mtpa rate and starting with only a 5Mt reserve. Subsequently an underground mine off the highwall using either punch continuous mining or a longwall will be developed.

The project is located in the Southern part of the Bowen Basin along the Capricorn Highway, in between Emerald and Blackwater. Yamala is in a very prospective neighbourhood, with Ensham adjacent to the North, Xstrata's Togara North to the south, and Felix's Minerva to the southwest of the Yamala tenement.

### Geology & Mineralisation

The initial drilling in EPC 927, combined with existing data, defined a resource in the targeted Aries seam (Aries II) which is contained in the late Permian Rangal Coal Measures. The Aries II seam is 1.7m to 2.0m thick and primarily represents an underground mining resource. Initial quality results indicate a high quality thermal coal and the potential for a low-ash, semi-soft metallurgical coal product.

**Figure 8: Yamala Coal Quality**

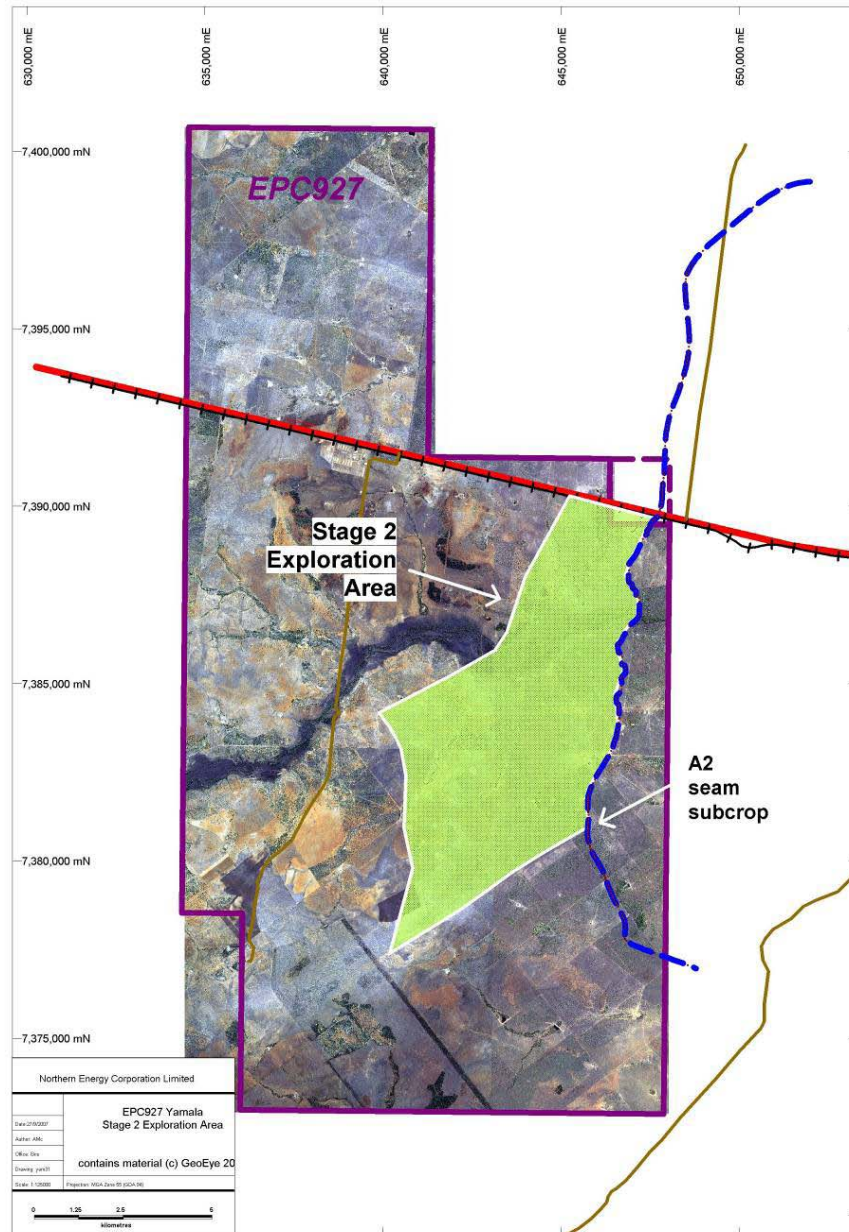
Aries II Thickness Range (m)	Air Dried Moisture	RD	Raw Ash %	Raw SE Mj/kg	Raw VM	Raw Total Sulphur%	F1.50 Mass Yield%	F1.50 Ash%	Thick (m)
1.5-1.75m	6.6	1.29	10.7	27.6	28.6	0.47	93.6	8.4	1.67
>1.75m	6.7	1.29	10.8	27.5	28.6	0.47	93.6	8.5	1.92

Source: Northern Energy

### Current Exploration & Resource Definition

The \$2-million Stage 2 budget includes approximately 60 additional drill holes (approx. 6000m), quality and geotechnical testing; some 20 line kms of 2D seismic followed up with 3D seismic over key areas. The underlying objective is to upgrade approximately 100Mt of the existing identified Resource area to higher Resource categories and subsequently to reserves, following appropriate mining and other engineering studies.

**Figure 9: NEC Yamala Deposit (EPC927).**



Source: Northern Energy

## Project Development Plan

Product from the mine will be either be 100% thermal or have a fraction of 25-30% semi-soft coal depending on the relative economics of washing yield and product prices.

It is fair to say, that the Raglan Coal Measures host the best thermal coal quality currently extracted from the Bowen Basin. The thermal coal product is expected to have raw ash content of only 11% which could be amenable to direct shipping, removing the need for a wash plant.

This option however would carry with it much greater geotechnical risk because problems with mining could see a higher ash product that would not be beneficiated and so suffer price penalties in the export market. A coal prep plant adds to the capex and the opex but provides for more flexibility in mining and consistency in the final product coal. In order to sell a proportion as semi-soft coking coal product would reduce yields and likely require an even more expensive prep plant.

An underground mine requires higher Capex per production capacity and has higher mining risk. The operating costs for underground also tend to be higher. Given the early stages of the project it is not clear if the company will require a wash plant and this will obviously have a very high impact of the final project feasibility. In summary we believe there is a lot more work to be done to identify the strength of the project.

### **Infrastructure Requirements**

The proximity of the project with the Blackwater rail line, adds significant value to the project. Upgrades in both port facilities at Gladstone and the Blackwater rail line have been approved by Queensland Government and will become operative by 2010-2011.

NEC is expecting official paperwork for Wiggins Island allocations before the end of fiscal 07-08. This will be further evidence of the progress towards commercialising the Yamala deposit.

### **Offtake**

With Sojitz, after farm-in, as a potential 49% partner in the Yamala project, we expect that project funding and offtake will be supported by the trading company.

## Projects: Ashford EL6234 and EL6428

This project is 50% owned and managed by Northern Energy and the other 50% is owned by Renison Consolidate Mines. It is located 10km north of Ashford in northern New South Wales, approximately 60km north of Inverell.

Company had been considering a development based on the 18mt inferred resource previously outlined at Ashford, possibly in conjunction with other deposits identified by third parties in the region. However, given the high priority currently given to the Elimatta and Yamala projects, development is currently in stand by. No further exploration work is expected in the near future.

Ashford is currently stranded and the new proposed rail line linking Moree in NSW to Toowoomba in QLD is unlikely within the next 10 years. In the words of the company 'other options are being explored', so a disposal may be possible in the future, but the company stresses that alternative transportation options may still also be possible.

**Figure 10: Ashford Coal Quality**

Coal Quality Parameters	Average of 9 core samples	Core subject to coke oven test
Washing yield%	72%	
Product Ash%	7.3%	7.9%
VM%	23.6%	24.9%
IM%	1.1%	1.1%
Mean Maximum Reflectance	1.15	1.15%
Crucible Swell Number	6.5	5.5
Gray King	G4-G6	Na
Sulphur%	0.4%	0.4%
Phosphorous%	0.03%	0.03%
Coke Strength	>60 (predicted)	53.4
Coke Yield	79%	78%

Source: Northern Energy

## Projects: Maryborough EPC923

The Maryborough EPC923 is 100% owned by Northern Energy Corporation. It is located approximately 20km north of the town of Maryborough and west of Hervey Bay, along the Queensland coast.

The exploration program so far has been largely (2/3) funded by Japan's Department of the New Energy and Industrial Technology Development Organization, also known as NEDO, and has confirmed that the coal within the area has coking properties which should make them attractive to the global steel industry and will therefore put them at the high end of the coal price spectrum. These early results have provided confidence for further exploration work.

Exploration down only to a depth of 70m and there is not yet any JORC resource. NEC expects to need only a short drilling campaign to be able to deliver first resources in combination with old exploration work conducted several decades ago. The future exploration is being funded by NEC to a tune of about \$200,000.

The area was historically mined using underground techniques to produce thermal coal for domestic power generation. NEC however is proposing an opencut, multi seam operation. The company wants to establish 10Mt reserve for a 300-500ktpa mine. The deposit is 'lenticular' which means it has many seams, with the thickest being 1m, indicating a difficult geology and any mine in the area will have a high strip ratio. Even though it is likely to be a high cost operation, the current and future metallurgical coal environment is likely to support what once would have been un-economic mining.

NEC believe that it will not need a full EIS for such a small operation, and could potentially commence mining after relatively quicker Development and Environmental approvals. There is however the risk of opposition because of its location near environmentally sensitive Fraser Island and Hervey Bay. There is also a Native Title claim over Fraser and the nearby mainland.

The Maryborough area has some advantages because it is close to the coast, serviced by road and rail, and is approximately only 220km from Gladstone by rail. Alternatively, it is 90km to Bundaberg and the possibility exists of barging or trucking to the existing sugar loading facilities. This would target consumers using Handymax ships especially those in India and China, with this class of vessel less popular at larger ports because they slow the overall loading rates.

**Figure 11: Ashford deposit coal quality**

	Ellagowan	E1-E3	A Seam	B Seam	Typical
Ash% adb	7.3-9.1	2.1-5.0	4.6-5.4	6	5.5
Yield%	58-79	75	50-79	43	65
CSN	8	8.5	8	7.5	8
Geisler Fluidity ddpmm	470	563	400	1400-2000	>450
Plastic Range oC	75	71	72	75	73
Gray-King Coke type	G8-G10	G10-G12	G9	G9	G9-G10
Dilatation%	+38 to +90	+36 to +105	+64 to +79	+62	+60
Vitrinite Reflectance % Romax	0.96	0.97	1.0	0.97	0.97
Vitrinite%	78	77	84	75	78
Hardgrove Grindability	67	71	79	66	70

Source: Northern Energy

## Company Summary

Northern energy Corporation Limited (NEC, formally POLTECH International Limited) is a Brisbane based company engaged in coal and exploration activities with a number of tenements in SE Queensland and Northern NSW. NEC plans to produce thermal coal and hard coking coal for both export and domestic markets. The likely order of development is Elimatta, Yamala, and Maryborough. Ashford is currently stranded and the new proposed rail line is unlikely within the next 10 years.

NEC has been listed in the ASX since February 2005. When initially established, the main asset of the company was the 50% interest in the Ashford Coking Coal project and through the purchase of a private company, Taroom Coal Pty Ltd, it contained the Elimatta and Maryborough tenements and applications over the Yamala prospect.

**Figure 12: NEC Existing Resources**

PROJECT	NEC Interest %	Coal Type	Resource Category		
			Indicated Mt	Inferred Mt	Exploration Target Mt
Elimatta	100	Thermal	155	130	40
Yamala	98	Thermal	0	190	260
Ashford	50	Hard Coking	0	18	0
Maryborough	100	Coking	0	0	0

Source: Northern Energy

## Capital Structure

The company has very little debt, only about \$37,000, and about \$7m in cash. There are 69.31m shares on issue, 1m 25c and 1m 30c options expiring on 1 February and further 267,661 105.05c options expire on 30 June 2010.

## Board of Directors

### Dr Christopher Rawlings - Non-executive Chairman

Dr Chris Rawlings has over 25 years experience in the mining industry, 19 of them in the coal industry. Until late 2000, he was Managing Director of one of Australia's leading mining companies, QCT Resources Ltd. Chris has previously held board positions with numerous industry bodies including President of the Queensland Mining Council, Chairman of the Australian Coal Association and Director of the World Coal Institute. He is also currently the Executive Chairman of Renison Consolidated Mines NL, Non-Executive Chairman of Queensland Energy Resources and Non-Executive Director of UniQuest Ltd and JK Technology Pty Ltd.

### Keith Barker- Managing Director

Keith has over 25 years experience in the mining industry in engineering, investment and evaluation roles. Until recently, he was with the Queensland Resources Council where he was employed as Industry Policy Advisor. Previously he was employed with QCT Resources, then Australia's largest publicly listed coal mining companies as Manager Corporate Development where he was responsible for project evaluation, infrastructure contracts and investor relations.

### Kevin Maloney - Non-executive Director

Kevin has an extensive career in retail banking, finance and resources. Kevin is the Executive Chairman of the MAC Services Group Limited which was established in 1988 to supply accommodation services to the coal mining, construction, resource and tourism industries. He joined Elders in 1981 after 20 years with ANZ Bank. held numerous positions including Chief

Executive Officer of Elders Resources Finance Ltd. Current other Directorships include Uluru Capital Partners Ltd, Rich Red Holdings Pty Ltd and Belgravia Associates (NSW) Pty Ltd. Previous Directorships include Southern Districts Rugby Club Ltd, St Francis Group Ltd, CIF Capital Ltd, Consolidated Investment and Finance Ltd, Diversified Mineral Resources NL and Elders Resources Finance Ltd.

**Sam Willis - Non-executive Director**

Sam consults to Cygnet Capital in its corporate advisory group in Perth. Prior to joining Cygnet, Sam worked in the corporate advisory field for over 4 years where his primary duties involved providing corporate advice, completing opportunity evaluation, investment analysis, capital raising and co-ordination (including seed capital), broker liaison and deal co-ordination and structuring.

**Paul Marshall - Company Secretary**

Paul is a Chartered Accountant. He has more than 15 years experience in the accountancy profession both in England and Australia, mainly with the accountancy firm Ernst and Young.

**Geoff Lord - Non-Executive Director**

Geoff has significant experience as an independent public-company director in both the mining and industrial sectors. His role with Elders Resources Ltd in the late 1980s was pivotal to its significant growth and success. He is the current Executive Chairman of UXC Limited, as well as sitting on the Boards of Institute of Drug Technology Ltd, MaxiTrans Ltd, MAC Services Ltd, Ausmelt Ltd and KLM Group.

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