



Northern Energy Corporation Limited Quarterly Activities Report for Quarter Ended 31 December 2009

31 January 2010

Highlights

- **Substantial increase in Maryborough coking coal resource to 57.4 Million Tonnes (Mt) Inferred and 25-35Mt Exploration Target¹**
- **Completion of 12,700m drilling programme at Maryborough resulting in resource extension and category upgrade and the collection of large core washability data for wash plant design;**
- **Mining Lease Applications lodged for 0.5Mtpa Colton hard coking coal operation within the Maryborough project area;**
- **Elimatta feasibility study for a 5Mtpa open cut mine progressed;**
- **Draft Terms of Reference and Initial Advice Statement for Elimatta released for public comment;**
- **Additional Mining Lease applications lodged as part of the Elimatta Project;**
- **Industry takes ownership of Wiggins Island Coal Terminal through WICET Holdings agreement with the Queensland Government and the Gladstone Ports Corporation;**
- **Agreement to underwrite a share of the cost of QR's engineering studies for the upgrade of the Banana – Wooderson section of the Moura rail corridor for the Elimatta project;**
- **Appointment of former Tarong Energy Corporation executive Mark Turner as Chief Operating Officer commencing February 1, 2010.**

1. Maryborough EPC 923 EPC 1082 (NEC 100%)

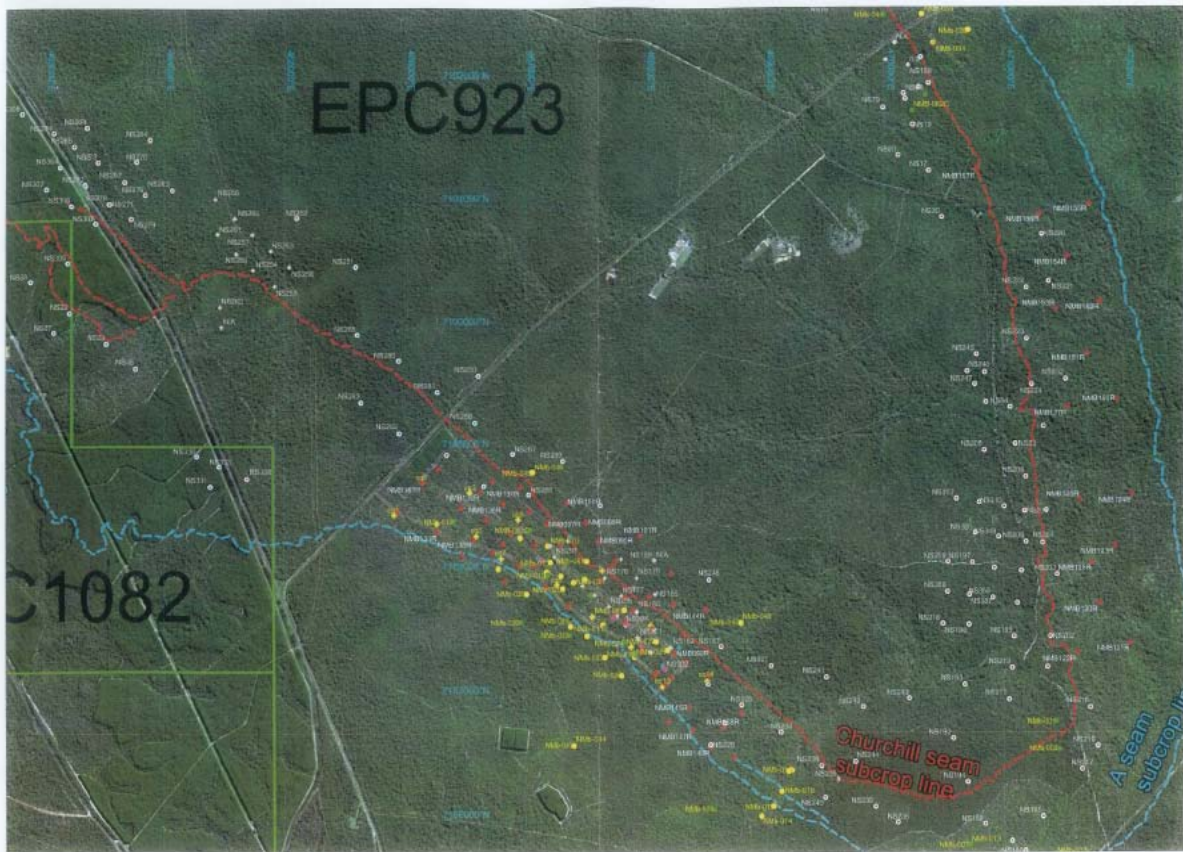
Substantial progress was made on the Maryborough Project where work is focused on both progressing the planning and evaluation for the Colton 0.5Mtpa open cut operation as well as further defining the total resource within the Maryborough exploration area contained within the two EPC's.

¹ *The potential quality and quantity shown within is conceptual in nature and there has been insufficient work done at present to define a Mineral Resource in this area under the JORC (2004) Code. The nature of an Exploration Target is such that it is uncertain if further exploration will result in the determination of a Mineral Resource in this area.*

Following the delineation of the 50-70Mt Exploration Target (ASX announcement 23 September 2009) and as foreshadowed in the September quarter activities report, the company committed to a further exploration programme within the Maryborough Project area. This was completed immediately prior to Christmas.

In total 108 holes were drilled totalling approximately 12,700m of open hole, 4" and 8" core drilling. Approximately 700m of 4" core and 150m of large diameter (8") core were extracted as part of this programme and will be used to provide additional coal quality and washability data.

Figure showing extent of drilling at Maryborough



All of the drill log information has been input to the Maryborough geological model and a re-correlation of all structural data, including the pre NEC data, has been completed. More detailed topographic and survey data has also been added to the model including the results of further ground truthing of the historical drill holes that were added to the geological model earlier in 2009.

As a result of this programme the Company has determined a substantial upgrade to the previously reported resource, which has been announced separately (ASX announcement 29 January 2010). The resource now stands at 57.4Mt Inferred Resource at depths less than 100m and an Exploration Target² of an additional 25-35Mt between 100-150m depth and there remains additional exploration potential in this depth range in areas yet to be drilled to this depth.

² The potential quality and quantity shown within is conceptual in nature and there has been insufficient work done at present to define a Mineral Resource in this area under the JORC (2004) Code. The nature of an Exploration Target is such that it is uncertain if further exploration will result in the determination of a Mineral Resource in this area.

Both the 8" and 4" cores are currently being analysed in the laboratory and the coal quality information, once received, will be added to the resource model and is expected to result in a further upgrade to the resource category, particularly within and in the vicinity of the proposed Colton Mine area. This work is expected to be completed in the current quarter.

Following completion of the new structural model the Colton Mine Plan is being reviewed in the light of the new information and is expected to result in the delineation of a marketable reserve.

The immediate focus is on the Colton mine area itself where a mine producing 0.5Mtpa of coking coal for at least 8 years has been outlined.

The core samples are being processed through the laboratory for both standard raw and product-quality tests and in addition extensive sizing and ply by ply analysis, including testing of partings (which will be dilution in the washplant feed), is included in the programme. This will provide the required information to derive an appropriate process flowsheet design and form the data set for washplant design and costings.

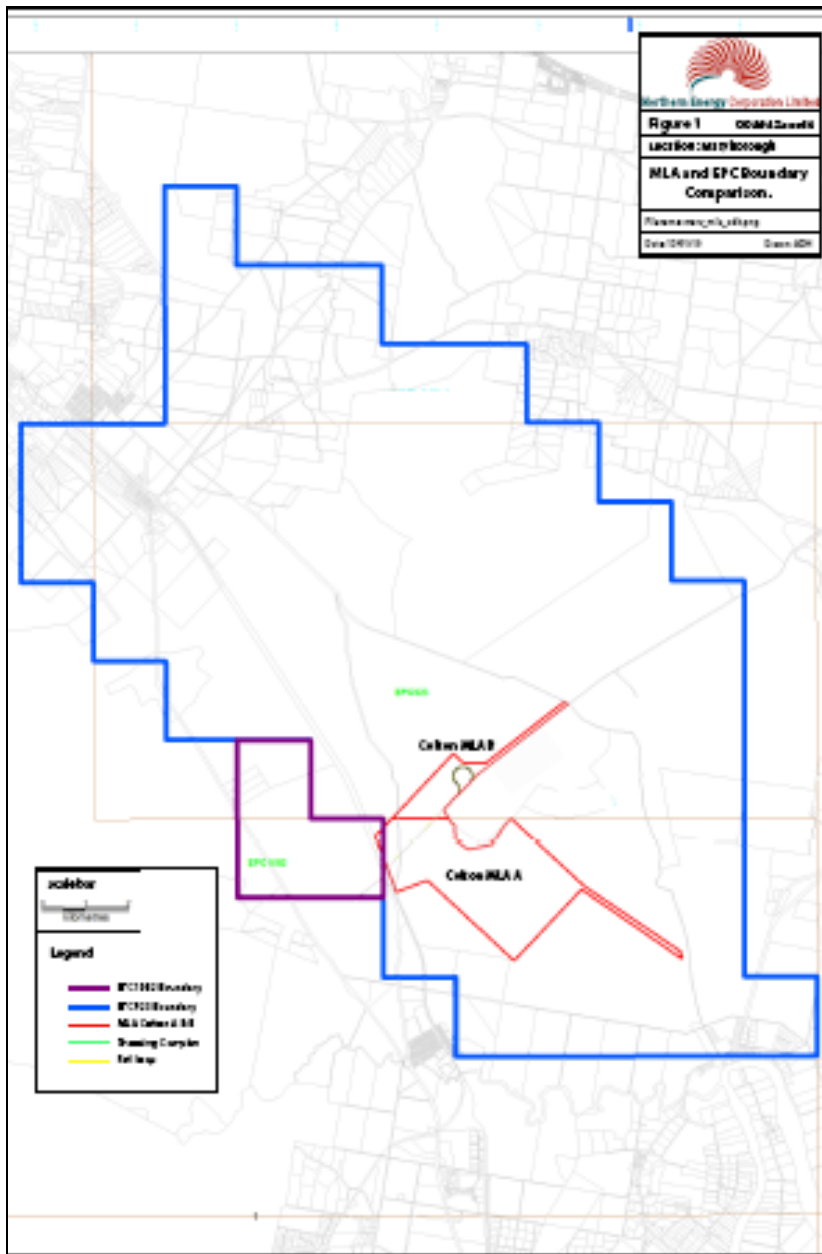
Based on the work to date the company is confident that establishment of a 0.5Mtpa mine at Colton will be viable and Mining Lease Applications have been lodged over an area within EPC's 923 and 1082 to cover the initial mining activities proposed for this project. The figure below illustrates the proposed Mining Leases in relation to the total Maryborough Project. The identification of a much larger resource within the Maryborough Project area clearly offers scope to consider the establishment of a longer life and a larger mining operation within the total project area in the medium term future.

Planning for the Colton Mine operation continued during the quarter focusing on finalisation of the Environmental Management Plan. Groundwater monitoring, which commenced in late 2008, continued and the groundwater model for the proposed Colton Mine was completed. It is assessed that there will be sufficient groundwater available to supply the mine and processing operations requirement. Alternatively, treated water could be supplied from the nearby Wide Bay Water treatment plant and discussions continue with Wide Bay Water on the volumes, quality and infrastructure required for water supply and delivery. The appropriate balance of quantity, quality and security of supply is currently being assessed, but the Company is confident that sufficient water will be available from either of these sources to support the Colton operation.

Engineering design work for the reopening of the Takura branch line immediately to the north of the initial Colton mine area commenced during the quarter. This will provide the rail loading siding for the proposed mine and will require an interface with the North Coast rail line to Gladstone.

The objective for the Colton Mine from now will be to finalise the project technical and commercial details with the objective of commitment to the project during the June quarter.

Figure Showing Colton Mining Lease Applications within EPC923 and 1085



2. Elimatta (EPC 650, 1171, 1205) MDL 373 (App) ML 50254 (App) NEC 100%

Activity during the quarter focused on progressing the feasibility study for the proposed 5Mtpa open cut thermal coal mine project centred on EPC 650. The additional coal quality programme designed to provide more detailed ply by ply analysis for both product quality optimisation and input to the washplant process design was completed during the quarter. This programme also provided samples of both coal and dilution material for specialised testing for input to the washplant process design for both raw coal and product coal and waste treatment.

On completion of the coal quality holes further geotechnical drilling was carried out to provide additional engineering data for the planned box cut and early year mining areas.

Gas test drilling is currently underway to provide data for the company's obligations in the assessment and reporting of fugitive emissions of CO₂ equivalent during the mining process.

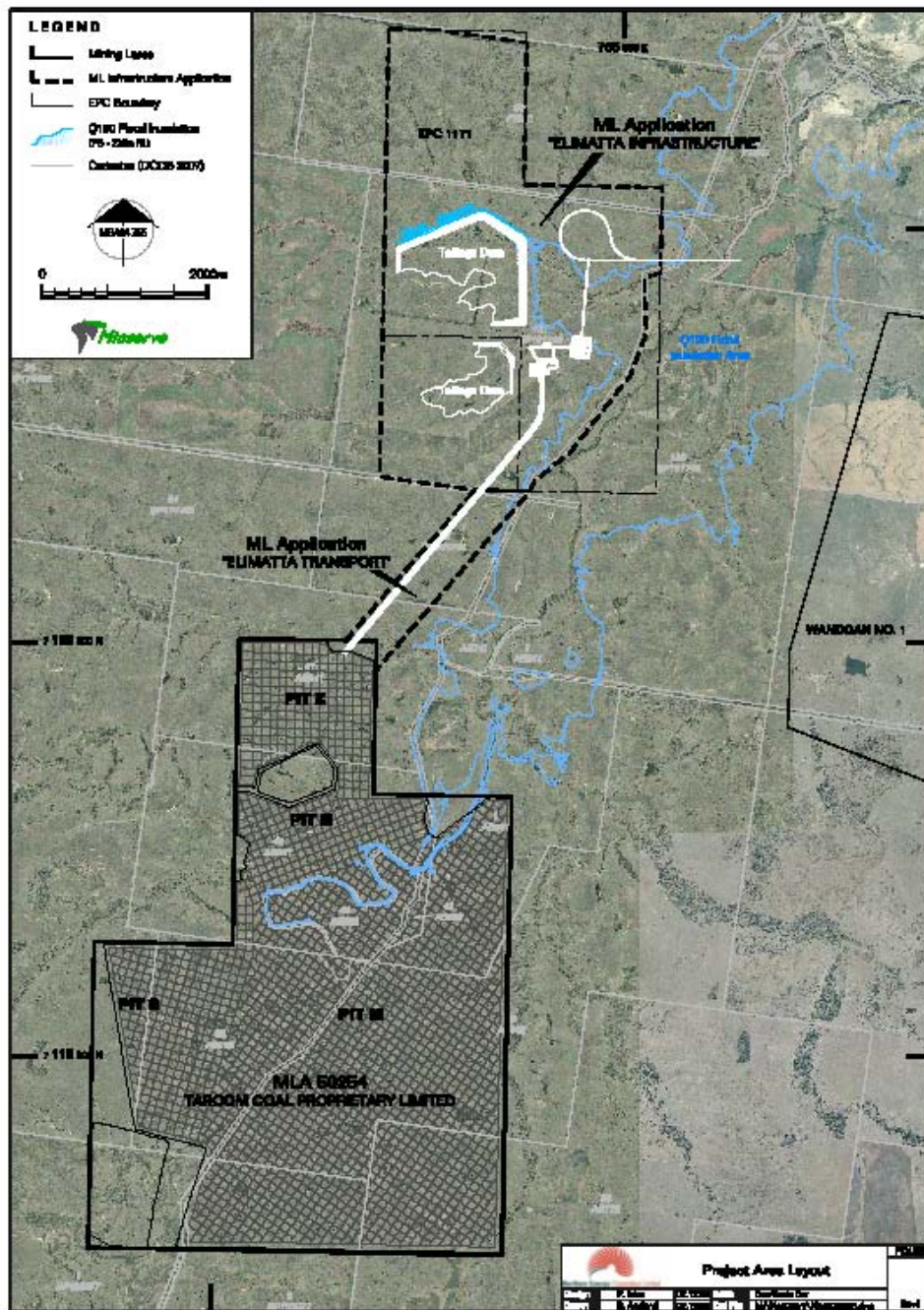
As a result of the drilling of groundwater monitoring holes which were also used for sterilisation drilling and the additional coal quality holes, additional occurrences of coal at shallow depth were identified. A subsequent review of the mine plan has resulted in a revision of the proposed mine layout with the Coal Handling and Preparation Plant (CHPP) and mine infrastructure area now proposed to be located slightly remote from the mine. Additional Mining Lease Applications for infrastructure and transport have been lodged. The figure below illustrates the proposed mine and infrastructure layout for the Elimatta project.

The Draft TOR (Terms of Reference for the EIS) and Project IAS (Initial Advice Statement) were opened for public comment from 21 November.

Mine Feasibility study work continues. The mine plan from the pre-feasibility study is being upgraded and detailed operations scheduling and costing is underway. This work incorporates the latest results from the targeted drilling campaign in the Elimatta geological model. On completion of the geological and mine modelling it is expected that there will be an upward revision to resources and reserves although the broad parameters of the proposed Elimatta project are unchanged – namely a 5Mtpa (saleable) open cut project with a mine life in excess of 20 years.

During the quarter work progressed on the CHPP feasibility study. Operating specifications for the washing and handling processes have been determined and design and cost estimates are being worked up. In addition general mine infrastructure specifications have been determined and design and cost estimation work is underway. The objective is to complete the feasibility study by the end of the current quarter.

Figure showing Elimatta project layout and tenure



3. Yamala EPC 927 (NEC83%)

Application of the sonic velocity / rock strength relationship model utilising all available geophysical data for the project was completed during the quarter. Planning for the next exploration and evaluation stage is currently underway.

4. Infrastructure

Wiggins Island

As previously announced (ASX release 14 December, 2009) negotiations between the industry consortium WICET Holdings (WICET), of which NEC is a shareholder, and the Queensland Government progressed to the point where a Framework Deed was entered into as the next stage of passing the ownership and control of the Wiggins Island Project to the WICET consortium. This is considered an important milestone for the industry and the project. WICET subsequently called for expressions of interest (EOI) from parties seeking port capacity through Wiggins Island as the next step in progressing the project to financial close. NEC responded by submitting an EOI for its projects.

WICET will now evaluate the responses to the request for EOI to determine the appropriate size of Wiggins Island Stage 1 and identify the projects that will support it. WICET's timetable continues to target reaching financial close for Stage 1 in July 2010. Meeting this objective would see first shipments through Wiggins Island begin around mid 2013.

Surat Basin Rail

As reported in the last quarterly report, the Surat Basin Rail consortium (SBR) submitted its business case to the Queensland Government at the end of September as required under its mandate. It is understood that the business case was accepted by the Government and under the mandate SBR is now required to progress to financial close. In early 2010 SBR sought non-binding EOIs from potential customers, to which NEC responded for the Elimatta project. The SBR process is expected to progress a binding EOI process with potential customers, as a further step towards entering into long term take or pay contracts that will underwrite the financing of this new rail project that will open up the northern Surat Basin with access to Gladstone. The key challenge from NEC's perspective is that the commitments and timing for this project are consistent with those of the other components of the coal chain.

Moura line Upgrade

Negotiations between Queensland Rail and parties seeking access to rail capacity on the underwriting of the engineering studies to upgraded rail infrastructure capacity between Banana and Gladstone were completed during this quarter. NEC is a party to the Moura Prefeasibility Study Funding Agreement (PFSA) and has lodged a bank guarantee of \$2.59 million to QR to cover NEC's share of the obligations under the agreement. Engineering design work is now underway to determine the scope and cost of the upgrade work required to increase the standard of the Moura line to be compatible with the larger train sizes planned to utilise the Surat Basin (increased length and axle load) and to increase the train path capacity to meet the additional tonnage requirements to service the Surat Basin operations. These engineering studies and costings are planned to be completed to a sufficient stage of definition to enable the drawing up of rail access contracts on a timetable consistent with the Wiggins Island timetable.

5. Partner Search

As previously disclosed NEC has been conducting a partner search for both the Elimatta and Maryborough projects over the course of 2009.

Over the last twelve months the results of the exploration and data modelling of the Maryborough project have resulted in the company having much greater confidence in plans for the establishment of a long term mining operation to commence with the Colton Mine. The company considers that there are several options available to it to take this project forward to development including developing the Colton Mine project itself. The introduction of a third party investor is another option that could be considered. The level of interest in the project from

potential investors increased significantly following the previous announcement in September 2009 and the latest resource upgrade is expected to further increase the level of interest.

The company is currently progressing the definition and evaluation of the project on the basis of proceeding with 100% ownership with the option of introducing a third party investor should appropriate value be realised.

In relation to Elimatta NEC's preference remains to proceed with the project in Joint Venture with one or more third parties. Discussions with potential Joint Venture parties have continued during the quarter with the lack of a definitive commitment to and therefore a definite timetable for the Surat Basin coal chain infrastructure being an apparent inhibitor to these parties. As reported above there has been further progress on each part of the chain and it is expected that greater definition regarding the development timing and cost of the chain will be achieved during the current quarter. This in turn should provide greater confidence to potential investors, many of whom are seeking to invest in a project such as Elimatta for security of supply for their power generation projects currently under development.

6. Chief Operating Officer

NEC is pleased to announce the appointment of Mr Mark Turner as Chief Operating Officer commencing February 1 2010. Mark joins the company with an impressive track record in operational and executive management in the Queensland mining industry. Mark is well placed to assist NEC take the next step to becoming a coal producer, having just completed a role as the General Manager of Mining Operations at the Queensland State Government-owned Tarong Energy Corporation, where he played a key role in the provision of future coal needs for one of the state's largest power generators..

His extensive operational and management experience also includes a senior role at Macarthur Coal, where he was the General Manager Operations and Site Senior Executive of the Coppabella Mine, and operational project management roles with Leighton Contractors.

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Compliance Statement

The information in this report that relates to Coal Resources at Maryborough is based on information compiled by Mr Lyon Barrett, who is a Member of the Australian Institute of Mining and Metallurgy. Mr Barrett is a qualified geologist (B.Sc. (Hons) Adelaide University, 1996) and is an employee of Salva Resources.

Mr Barrett has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Barrett consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.