

Northern Energy Corporation (NEC)

Opinion Data

Recommendation	Spec Buy (Initiating coverage)
Risk Rating	High
Current share price	\$0.55
Price range - high/low	\$0.70 - \$0.23
Market capitalisation	\$32m

Company Background

Northern Energy Corporation (NEC) is a Queensland based pure coal company. In 2005, NEC listed on the ASX as a single project explorer, and has since developed a portfolio of active projects, three of which are at the early project development stages.

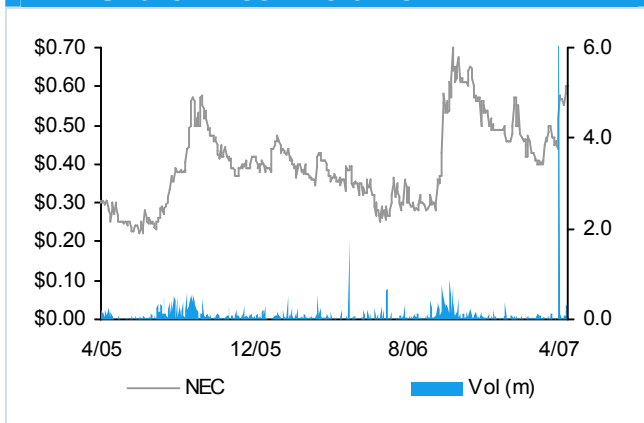
The company's key projects are:

- Elimatta – Inferred 130mt thermal coal resource in the Surat Basin, Queensland. Targeting a 3-5mtpa open cut operation.
- Yamala – JV with Sojitz Corporation, proving up and developing a targeted 410-460mt thermal/PCI coal resource at Emerald, to support a 3-3.5mtpa underground operation.
- Maryborough – hard coking coal resource near Bundaberg. Targeting a small scale (250-500ktpa, open cut operation).

In addition, NEC has a JV with Renison Consolidated Mines (RSN) at Ashford with an inferred resource of 18mt hard coking coal, and a supporting greenfield regional exploration project.

NEC's development timeline is intended to coincide with the commissioning of upgraded rail and port infrastructure in Queensland, including the Southern missing rail link (2011).

NEC Share Price / Volume



Highlights

The March quarter 2007 saw an extension of the seam area at Elimatta while coal quality testing confirmed that the Maryborough coal is high quality coking coal.

NEC's second drill programme at Maryborough is aimed at confirming correlation with historical drilling records for resource calculation purposes. NEC hopes to define a resource of approximately 10mt, and to develop a small scale, open cut operation producing 250k-500ktpa. As a small scale operation, this has potential to provide the company with early cash flow.

NEC's Yamala JV with Sojitz Corporation has been finalised, with Sojitz earning a 30% interest through funding the next \$5.3m of exploration and development work, within the next three years. The first stage programme has now begun, and while the resource is believed to have the potential to support up to three mines, the company is initially aiming to prove sufficient reserves to begin development of one mine.

The company's Elimatta project was previously drilled by MIM, with the 130mt inferred resource based around two seams, A and B. NEC has conducted a drilling program to extend the resource at Elimatta by including the overlying Y seam and the underlying C seam. NEC is awaiting assay results prior to an imminent resource upgrade at Elimatta.

Outlook / Investment View

NEC has experienced management, and while technically an explorer, it is primarily proving up known deposits.

In the case of Elimatta this deposit has historically been stranded by a lack of infrastructure. While a level of infrastructure risk still exists, the Queensland government has now mandated a consortium to design and build a rail link through the Surat Basin to Gladstone, expected to be commissioned in 2011.

NEC has strong industry support: in addition to the JV with Sojitz, Nippon Steel has facilitated Japanese government funding for exploration drilling at Maryborough.

News flow may provide initial price triggers, with an initial resource statement at Maryborough and an upgraded resource at Elimatta both imminent. There is scope for significant share price appreciation (2-3x) as NEC continues to develop its suite of projects.

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DISCLOSURE

Recommendation Criteria

Investment View

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

Strong Buy	Buy	Hold	Lighten	Sell
25% +	25% - 10%	10% - (5%)	(5%) - (15%)	(15%) +

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

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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