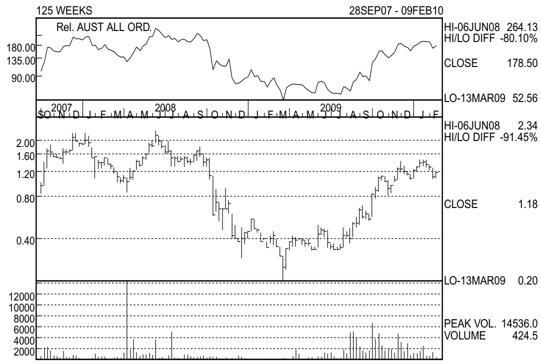

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FY Jun	2009A	2010E	2011E	2012E
EPS (Op) - FD	(0.01)	0.00	(0.03)	0.09
P/E	NM	NM	NM	12.9x
CFPS - FD	(0.01)	0.00	(0.01)	0.14
P/CFPS	NM	NM	NM	8.3x

All values in AUD unless otherwise noted.

RATINGS REVISION | COMMENT

FEBRUARY 10, 2010

Northern Energy Corporation (ASX: NEC)

Upgrade to OP on Higher Coal Prices

Outperform (prev: Sector Perform)
Speculative Risk

Price:	1.16	**Price Target:**	1.40 ↑ 1.30
		Implied All-In Return:	21%
Shares O/S (MM):	112.1	**Market Cap (MM):**	130
Dividend:	0.00	**Yield:**	0.0%
NAVPS:	1.04	**P/NAVPS:**	1.1x
BVPS:	0.30	**P/BVPS:**	3.9x
ROE:	(3.0%)	**Enterprise Val. ($MM):**	125.0
Float (MM):	93.5	**Avg. Daily Volume (MM):**	0.34
Debt to Cap:	0%		

Priced as of market close on 10 February 2010 Australian Eastern Standard Time.

Event

We upgrade NEC to OP from SP following higher coal price forecasts through FY12. Return to target is 21%.

Investment Opinion

- **Coal price revisions:** RBC has increased its coal price forecasts for the next 3 years. For JFY10, we expect US$185/t for hard coking coal and US$90/t for thermal coal, then roll-over in JFY11 for both. For FY12, the first full year of production for NEC, we forecast a hard coking coal price of US$160/t.
- **Material impact on earnings**: FY12 is the first production year for the Maryborough hard coking coal project in southern Queensland. NEC plans to produce 0.5Mtpa of high quality coal for at least 8 years. We have raised our expectations for FY12 profit from A$3m to A$10m and our NAV 12% from A$0.93 to A$1.04.
- **Resource suggests project is scaleable**: the bigger than expected increase in resource to 57Mt for depths down to 100m implies that production greater than 0.5Mtpa and/or longer mine life are a strong possibility. Further resource potential exists at depths between 100-150m and we would not be surprised to see an upgrade to +90Mt in the coming months. If the production rate doubled from 2014 to 1Mtpa, our NAV would increase to A$1.80. The chief risk to our forecasts would be a significant delay beyond the targeted start-up of mid-2011.
- **Return to target**: our target of A$1.40 implies a return of 21%. Since hitting a high of A$1.45 in mid-Jan 2010, the shares have retraced to A$1.16 and we do not believe a return to higher levels is too demanding.
- **Catalysts**: we view key share price drivers as 1). Further resource upgrades; 2). Approval to mine; 3). M&A or JV arrangements; 4). Coal prices.
- **Valuation:** Our target of A$1.40 (A$1.30) is based on 1x NAV of A$1.04 (A$0.93) plus A$0.35/share for the long-term Elimatta project, risk weighted to 25%. NAV is higher due to new coal price forecasts through FY12. We rate NEC Outperform, Speculative risk.

Exhibit 1: Northern Energy Operating and Financial Summary

Northern Energy Corporation Ltd

ASX: NEC		Share Price (A$):	1.16	Rating/Recommendatio	Outperform	Risk Qualifier:	Speculative
Issued Shares (m):	112.1	Market Cap (A$MM	130.0	Price Target:	A$1.40	NPV:	$1.04
Fiscal Year End: June							

ASSUMPTIONS		FY07	FY08	FY09	FY10E	FY11E	FY12E
A$/US$ Exchange Rate		0.79	0.90	0.75	0.88	0.87	0.84
Thermal Coal Price (JFY)	US$/t	57	125	71	90	90	80
Coking Coal Price (JFY)	US$/t	98	300	129	185	185	160
Thermal Coal Price (AFY)	US$/t	53	74	112	76	90	88
Hard Coking Price (AFY)	US$/t	111	149	257	143	185	179
Realised Coking Price (AFY)	US$/t	0	0	0	139	179	173

RATIO ANALYSIS		FY07	FY08	FY09	FY10E	FY11E	FY12E
Shares Outstanding - Avg	MM	60	69	77	112	112	112
Net Profit - pre sig. items	**A$MM**	**(0.5)**	**(0.9)**	**(0.6)**	**(1)**	**(3)**	**10**
EPS	A$	-0.01	-0.01	-0.01	0.00	-0.03	0.09
P/E - Underlying	**x**	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**12.8x**
CFPS	A$	-0.01	-0.01	-0.01	0.00	-0.01	0.14
P/CF	x	n.m.	n.m.	n.m.	-241.0x	-93.0x	8.0x
Dividend per share	A$	0	0	0	0	0	0
Dividend yield	%	0%	0%	0%	0%	0%	0%
Franking	%	0%	0%	0%	0%	0%	0%
Payout ratio	%	0%	0%	0%	0%	0%	0%
Effective Tax Rate	%	n.m.	0%	0%	14%	30%	30%
Book value per share	A$	0.22	0.20	0.30	0.26	0.24	0.34
P/book value	x	5.26	5.78	3.85	4.40	4.74	3.37
ROE - pre sig. items	%	-4%	-7%	-3%	-2%	-9%	24%
ROA - pre sig. items	%	-4%	-6%	-3%	-1%	-4%	14%
Interest Cover	x	n.m.	n.m.	n.m.	n.m.	-3.90	9.13
EBITDA	A$MM	(1)	(1)	(1)	(1)	(2)	23
EBITDA/share	A$	-0.01	-0.01	-0.01	-0.01	-0.02	0.21
EV/EBITDA	x	n.m.	n.m.	n.m.	n.m.	n.m.	5.4x

PROFIT & LOSS		FY07	FY08	FY09	FY10E	FY11E	FY12E
Sales Revenue	A$MM	0	0	0	0	0	61
Cost of Sales	"	0	0	0	0	(1)	(32)
Gross Operating Profit	**A$MM**	**0**	**0**	**0**	**0**	**(1)**	**30**
Other Revenue	"	0.6	0.1	0.1	1	1	1
Royalty	"	0	0	0	0	0	(5)
Corporate & Unallocated	"	(0.9)	(1.3)	(1.0)	(2)	(2)	(2)
EBITDA	**A$MM**	**(0.6)**	**(1.2)**	**(0.9)**	**(1)**	**(2)**	**23**
D&A	"	(0.0)	(0.0)	(0.0)	(0)	(2)	(6)
EBIT	**A$MM**	**(0.7)**	**(1.3)**	**(0.9)**	**(1)**	**(4)**	**17**
Net Interest	"	0.2	0.4	0.3	0	(1)	(3)
Pre-tax Profit	"	(0.5)	(0.9)	(0.6)	(1)	(4)	15
Tax Expense	"	0	0	0	0	1	(4)
Minorities	"	0	0	0	0	0	0
Net Profit - Pre Sig. Items	**A$MM**	**(0.5)**	**(0.9)**	**(0.6)**	**(1)**	**(3)**	**10**
Sig. Items after Tax	"	0	0	0	0	0	0
Net Profit - Reported	**A$MM**	**(0.5)**	**(0.9)**	**(0.6)**	**(1)**	**(3)**	**10**

CASH FLOW		FY07	FY08	FY09	FY10E	FY11E	FY12E
Operating Cash Flow	**A$MM**	**-1**	**-1**	**-1**	**-1**	**-2**	**23**
Net Interest	"	0	0	0	0	(1)	(3)
Tax Paid	"	0	0	0	0	1	(4)
Net Operating Cash Flow	**A$MM**	**-1**	**0**	**0**	**-1**	**-1**	**16**
Exploration & Development	"	(2)	(6)	(6)	(6)	(2)	(2)
Capital Expenditure	"	(0)	(0)	(0)	(5)	(29)	(8)
Payments for Coal Assets	"	0	0	0	0	0	0
Sale of Assets	"	0	0	0	0	7	0
Other	"	1	1	(3)	(3)	7	0
Net Investing Cash Flow	**A$MM**	**(1)**	**(4)**	**(9)**	**(14)**	**(24)**	**(10)**
Equity Issues	"	6	1	10	10	1	1
Borrowings	"	0	0	0	15	25	0
Convertible Notes	"	0	0	0	0	0	1
Repayment of Loans	"	(0)	(0)	(0)	0	0	(5)
Dividends	"	0	0	0	0	0	0
Capital Returns	"	0	0	0	0	0	1
Other	"	(0)	0	(0)	0	0	0
Net Financing Cash Flow	**A$MM**	**6**	**1**	**10**	**25**	**26**	**(4)**
Net Change in Cash	**A$MM**	**4**	**(4)**	**1**	**11**	**0**	**3**
Cash at Start of the Year	"	3	7	3	4	15	16
Cash at Year End	**A$MM**	**7**	**3**	**4**	**15**	**16**	**18**

BALANCE SHEET		FY07	FY08	FY09	FY10E	FY11E	FY12E
Cash & Equivalents	**A$MM**	**7**	**3**	**4**	**15**	**16**	**18**
Other Current Assets	"	0	1	1	1	1	1
PPE & Mine Development	"	0	0	0	5	25	27
Exploration & Evaluation	"	6	11	15	20	22	24
Other Non-current Assets	"	0	0	0	0	0	0
Total Assets	**A$MM**	**14**	**15**	**24**	**45**	**68**	**74**
Total Debt	"	0	0	0	15	40	35
Other Liabilities	"	1	1	1	1	1	1
Total Liabilities	**A$MM**	**1**	**2**	**1**	**16**	**41**	**36**
Total Net Assets	"	13	14	23	30	28	39
Net Debt/(Cash)	"	(7)	(3)	(4)	(0)	24	17
Gearing (nd / nd + equity)	"	-117%	-32%	-22%	-1%	44%	29%
Gearing (nd / equity)	"	-54%	-24%	-18%	-1%	79%	40%

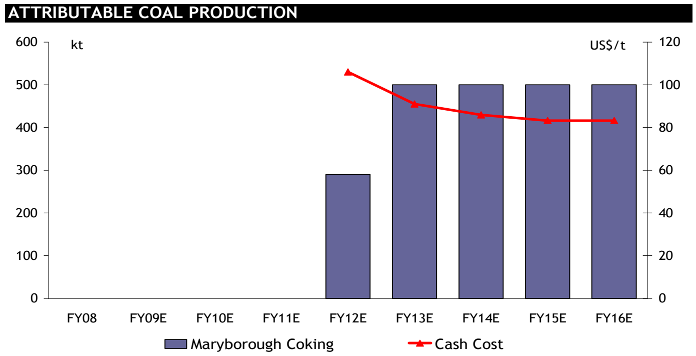
ATTRIBUTAL MINE STATS		FY07	FY08	FY09	FY10E	FY11E	FY12E
ROM Production by Mine							
Maryborough	kt	0	0	0	0	45	591
Elimatta	"						
Coal Sales							
Coking	"						290
Thermal	"						
Cash Costs							
Coking Coal	US$/t						106
Thermal Coal	US$/t						

RESERVES & RESOURCES				
Mine/Project (Mt)	**Resources**	**Reserves**	**Marketable Reserves**	**EV/t Reserve**
Elimatta	244	106		$1.18
Yamala*	112			
Ashford	9			
Maryborough	57			**EV/t**
Total	**422**	**106**		**Resource**
				$0.30

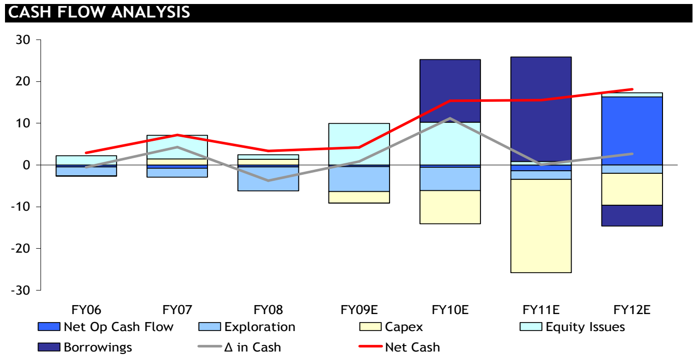
Note: Resources are inclusive of Reserves
**Assumes Sojitz completes full farm-in of 49%*

EARNINGS SENSITIVITY		FY11E	FY12E	FY11E	FY12E
		A$m		%	
Coking Coal Price	+10%	8.5	25.7	-391%	152%
	-10%	1.6	13.4	-155%	31%
Thermal Coal Price	+10%	5.0	19.5	-272%	92%
	-10%	5.0	19.5	-272%	92%
A$/US$	+10%	1.9	26.3	-165%	158%
	-10%	8.9	14.0	-405%	37%

ATTRIBUTABLE COAL PRODUCTION



CASH FLOW ANALYSIS



VALUATION	A$MM	A$/share	
Coal Mining Operations	65	0.58	
Exploration	60	0.53	
Corporate & Unallocated	-14	-0.13	
Cash	6	0.06	
Debt	0	0.00	**P/NPV**
Net Asset Value	**$116**	**$1.04**	**1.12**
Enterprise Value	**$125**		

Source: Company reports and RBC Capital Markets estimates

Valuation

Our target of A$1.40 (A$1.30) is based on 1x NAV of A$1.04 (A$0.93) plus A$0.35/share for the long-term Elimatta project, risk weighted to 25%. NAV is higher due to new coal price forecasts through FY12. We rate NEC Outperform, Speculative risk.

Price Target Impediment

As with all mining companies, world economic growth, commodity prices and currency fluctuations could materially affect NEC's earnings. Production is at least one year away and significant funding and infrastructure hurdles exist. A delay in the construction schedule of the company's projects may result in the need for additional project funding or equity. NEC is yet to be awarded a mining license for Maryborough and thus project timing remains open to change. Transport is a risk for medium-term projects and Elimatta in particular requires construction of the 42Mtpa Surat Basin Rail Project and 90Mtpa Wiggins Island Coal Terminal. Energy prices and environmental considerations could potentially influence operational costs. Any variations to these considerations represent risks to our earnings and equity performance expectations.

Company Description

Northern Energy Corporation is an emerging coal producer based in Brisbane, Australia that listed on the ASX in February 2005 after raising A$4m. It owns a number of thermal and coking coal projects in Queensland and northern New South Wales. All of the company's coal projects are early stage but are supported by JORC compliant resources of ~365Mt. NEC's smallest asset is the 500ktpa Maryborough (Colton) open-pit hard coking coal project in SE Queensland. It is likely to be the company's first producing mine with the initial shipments targeted for late-2010. NEC has estimated development of Colton would cost A$40m. Beyond this start-up, NEC plans to produce 4Mtpa of export thermal coal from the A$600m Elimatta open-cut project over 20 years from 2012. In addition, it owns 83% of the Yamala Joint Venture with Japan's Sojitz Corporation. Yamala is located in the southern Bowen Basin, Queensland and typical of mines in the region, has coal qualities that include HV PCI and thermal coal. Production is expected to reach up to 2Mtpa from both open pit and underground operations. NEC faces a number of significant challenges before it becomes a coal exporter, not least development funding. It has held discussions with interested parties to joint venture its 100%-owned projects to aid construction but to date, JV agreements for Maryborough and Elimatta have been elusive. In addition, the development timetable for Elimatta is contingent upon construction of the new 90Mtpa Wiggins Island Coal Terminal and new, 210km, 42Mtpa Surat Basin rail link.

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RBC Capital Markets, Equity Research

			Investment Banking Serv./Past 12 Mos.	
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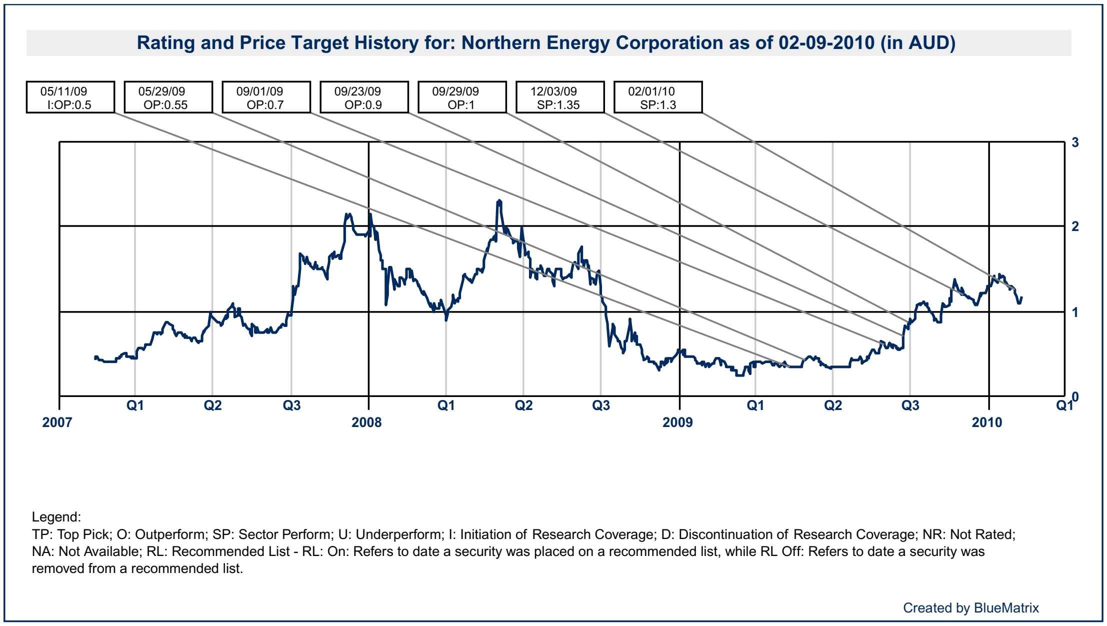
HOLD[SP]	526	44.30	122	23.19
SELL[U]	71	6.00	9	12.68



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