

Quarterly Activities Report for Quarter Ended 31 March 2010

30 April 2010

Highlights

- **Substantial increase (up 46%) in Maryborough coking coal resource to 83Mt Indicated and Inferred (9.5Mt Indicated, 73.5Mt Inferred);**
- **Further resource upside potential identified with additional 105 – 137Mt Exploration Target¹;**
- **Modelling of drill hole and quality database continuing with further upgrades to resource anticipated;**
- **Mine planning over Colton Mine Area utilising the revised resource base and geological model is continuing;**
- **Share placement and Maryborough coal off-take agreement with Xinyang Steel announced;**
- **Coal off-take would deliver approximately \$700M in sales revenue to NEC over 10 years at current coal prices and at the initial planned production rate;**
- **Elimatta bankable feasibility study substantially progressed – mining and CHPP studies completed.**

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

Substantial progress was made on the Maryborough Project during the quarter where work has focused on incorporating the results of the drilling program completed in December 2009 into the geological model to allow a re-assessment of the resource and upgrade of resource categories to occur.

NEC announced an increase in the hard coking coal resources at its Maryborough Project to 83 Million tonnes (Mt) comprising an initial Indicated Resource of 9.5Mt, and an Inferred Resource of 73.5Mt (previously 57Mt Inferred Resource). In addition the potential of this area to host a more substantial open cut resource has been further quantified through the identification of an Exploration Target¹ of 105-137Mt to a depth of 250m. Figure 1 illustrates the location of these resource areas within the project area.

Work has also continued during the quarter on progressing the understanding of the resource to include further analysis of available mining options, including margin ranking of the initial mining area and its surrounds. The margin ranking exercise, conducted by Runge Limited, confirms the existence of economic hard coking coal and has allowed a more detailed assessment of feasible mining depths to be commenced. Early work indicates that cumulative ROM coal strip ratios are amenable at depths greater than 150 metres, and potentially extending beyond 200 metres in parts of the deposit.

The margin ranking exercise will be used as a foundation for continued development of the initial mine plan and schedule, with a focus on long term options for the full exploitation of the resource in the immediate area. It is anticipated that the mine planning and scheduling work will result in the confirmation of mining reserves in the coming months.

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.*



Work continued throughout the quarter on development and finalisation of infrastructure design for rail access, connection to the North Coast rail line, development of a road access from the Bruce Highway and access to grid electricity from the Maryborough North sub-station.

Finalisation of the Environmental Management Plan (EMP) has continued to be a focus during the quarter, with formal submission planned early May 2010. Groundwater and surface water modelling was completed during the quarter, following discussions with officers of the Department of Environment and Resource Management (DERM). These discussions were constructive, allowing the completion of a water management strategy for inclusion in the final EMP.

Public consultation in support of the Colton Mine Project was conducted in communities located in the vicinity of the Project during the quarter, with overwhelmingly positive feedback being received. Over 200 people registered at the events, with approximately 76 formal feedback forms being received from members of the public. Of these 69 were positive about the Project, or were enquiring about employment opportunities. A second round of public consultation is planned for late April and project specific phone and email contact points have been established to ensure equitable access to information.

2. Elimatta EPC 650, EPC 1171, EPC 1205, MDLA 373, MLA 50254, MLA50270, MLA 50271 (NEC 100%)

Activity during the quarter continued to focus on finalisation of the Bankable Feasibility Study (BFS) for the proposed 5Mtpa open cut thermal coal mine project centred on EPC 650. Assessment of information gained from the most recent round of drilling, including gas desorption, groundwater and geotechnical information has all been incorporated into the BFS as well as final mine and site infrastructure planning. Incorporation of the revised infrastructure lease (MLA 50270) and transport corridor (MLA 50271) has been progressed. The study will demonstrate an economic mine producing 5Mtpa for over 20 years.

Comments have been received on the Draft Terms of Reference (TOR) for the EIS, mainly from Government departments, and mainly in line with other similar submissions and projects in the area. Collation and response to the comments has been progressed during the quarter, in line with the original timeline for the approval process.

Work on the CHPP feasibility study was completed during the quarter, with the study delivering a robust and fully costed CHPP in support of the mine plan. Design and cost estimation of the supporting mine infrastructure has also been progressed during the quarter. It is anticipated that the BFS will be completed during May 2010.

Figure 1 Plan showing Maryborough Resource and Exploration Target Areas

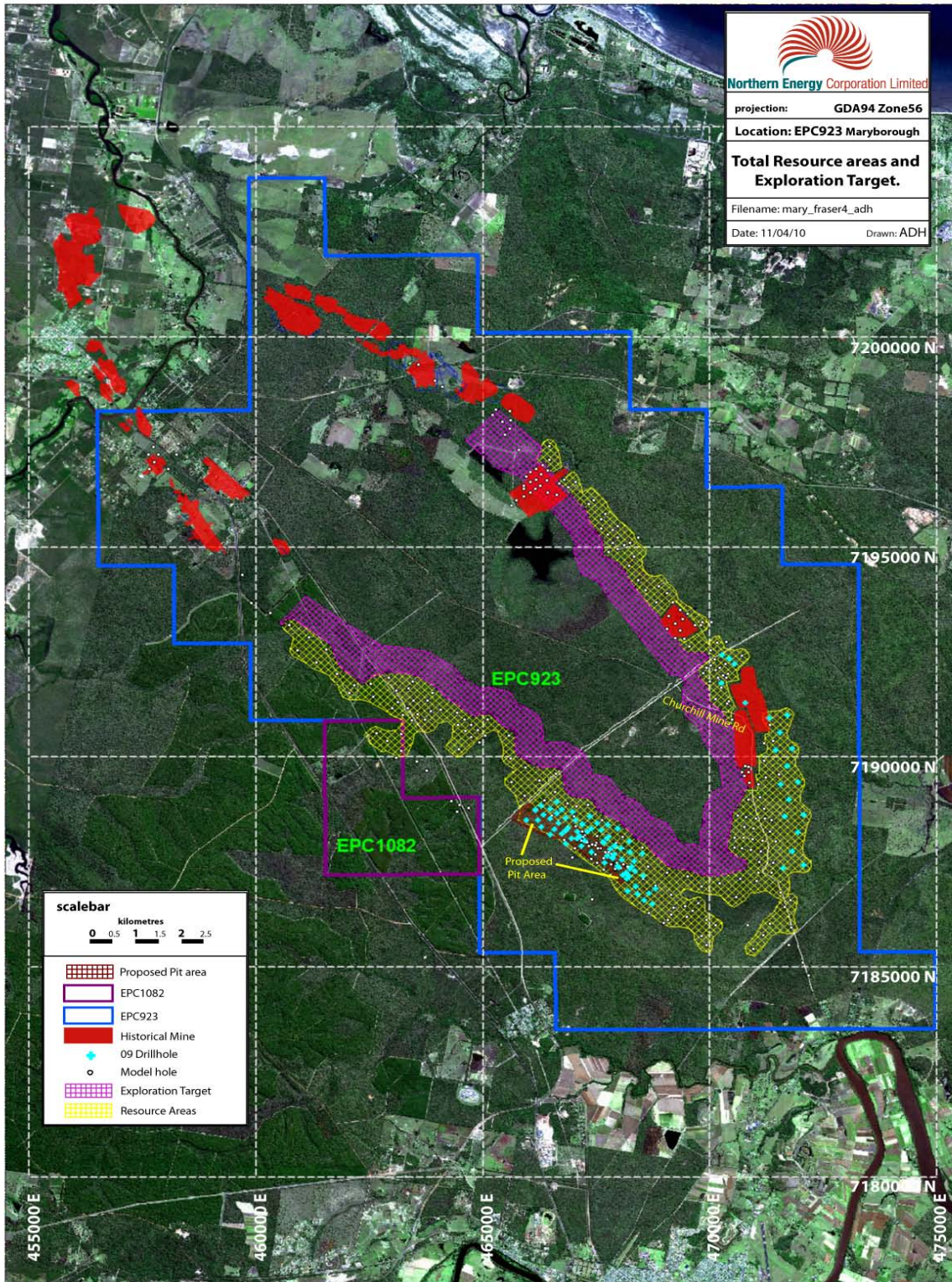


Figure 2 Schematic view of Elimatta 1200tph CHPP

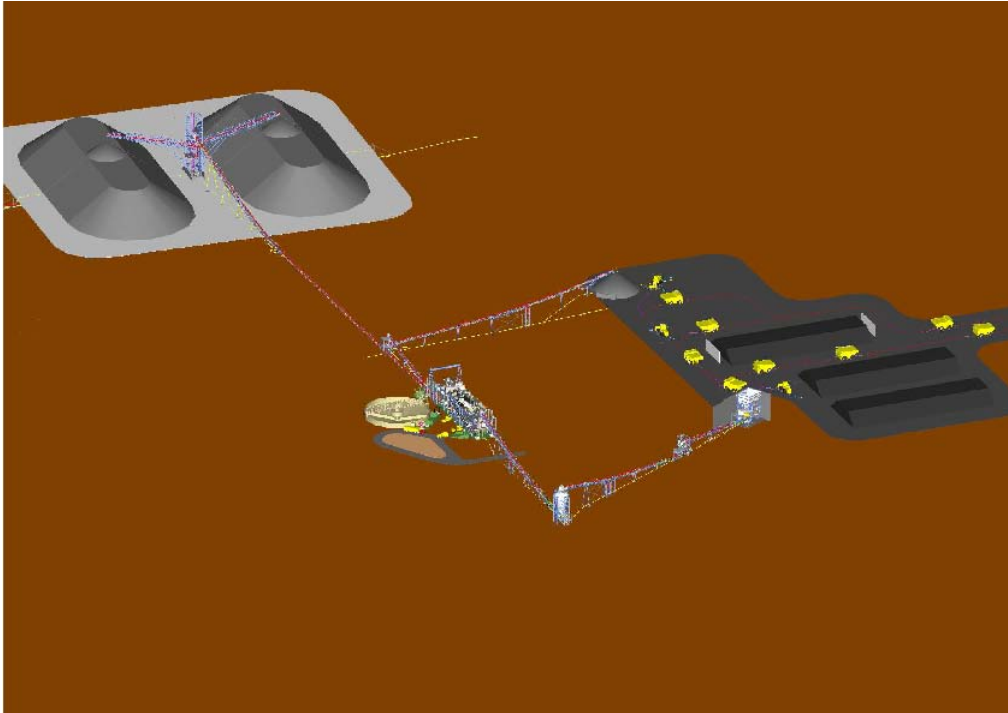
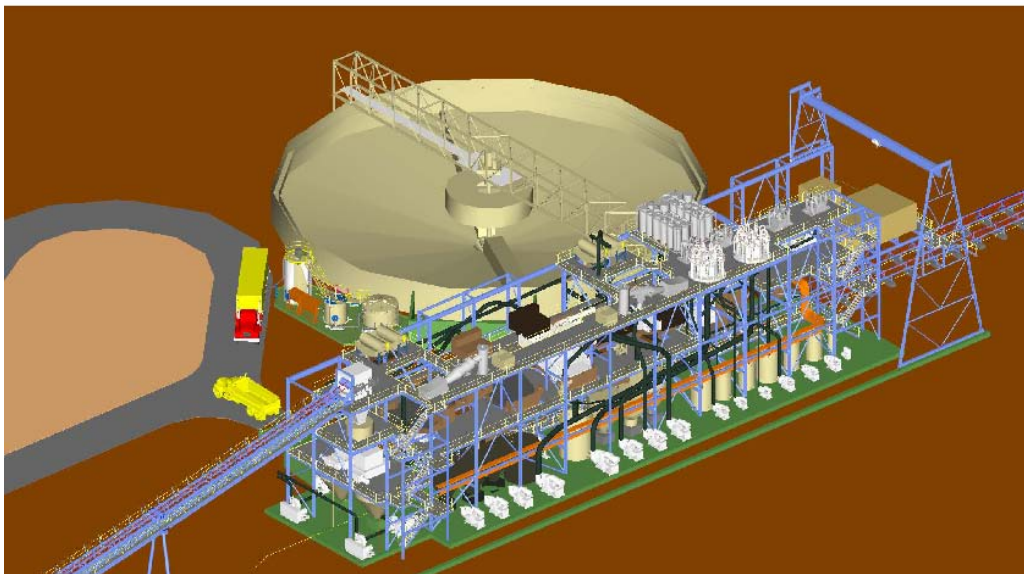


Figure 3 Schematic View of Elimatta CPP



3. Yamala EPC 927 (NEC 83%)

No significant activity was undertaken on Yamala during the quarter. A scope of works has been prepared to conduct further numerical modelling on potential roof support regimes to complement the previously developed sonic velocity / rock strength model.

Discussions continue with the joint venture partners on how best to progress the further exploration and evaluation of the deposit.

4. Infrastructure

Wiggins Island Coal Export Terminal

During the quarter WICET Holdings the industry owned owner of the Wiggins Island Project completed its due diligence on the projects that had expressed an interest for capacity at Wiggins Island from the planned commencement date of 2013.

The assessment of NEC's projects identified that there was a relatively high level of confidence in the geology, resources and development plans with less confidence in the regional infrastructure services in the Northern Surat basin area where the Elimatta project is located.

WICET is expected to identify the projects that it considers "bankable" and capable of supporting Stage 1 of Wiggins Island development during the current quarter.

Recently WICET shareholders approved the Terminal Access Policy for the port which represented a further step towards meeting the conditions imposed by the Queensland Government as part of the agreement for transferring project ownership to Wiggins. The project continues to strive towards reaching financial close in July 2010. To date the Company has lodged cash backed guarantees totalling \$6.4M for its share of the underwriting of the feasibility, engineering design and WICET costs.

Surat Basin Rail

During the quarter the Surat Basin Rail Joint Venture (SBR) sought expressions of interest from parties seeking rail capacity on the proposed rail from Wandoan to Banana. It has recently indicated it is about to commence the next step in its own EOI and due diligence process. SBR is now indicating that it is expecting to reach financial close during the final quarter of calendar 2010. This timing is inconsistent with the current July 2010 target for Stage 1 Wiggins Island. The implications for the Elimatta project are that rail capacity is now unlikely to be available before the end of 2013 and should Wiggins Island Stage 1 proceed on its current timetable Elimatta would look to participate in Stage 2, scheduling for which is being planned to follow in conjunction with SBR.

Moura Line Upgrade

During the quarter the Banana to Wooderson Track Upgrade project was progressed by QR with the costs underwritten by rail capacity seekers including the Company. The project has identified the combinations of formation strengthening; passing loops and track duplication required to meet various levels of additional capacity to accommodate growth in demand from both the Moura region and from the Surat Basin. Associated signalling and telecommunication service requirements have also been identified.

The next step is to match the capacity steps with the proposed Wiggins Island and Surat Basin Rail capacity allocation process and determine a project cost and development timeline consistent with the rest of the coal chain. To date the company has lodged a total of \$2.6M in cash backed guarantees to underwrite its share of the costs of engineering study.

5. Partner Search

During the quarter NEC announced it had reached agreement with the Xinyang Iron and Steel Group (Xinyang Steel) for the following:

- A long term coal off-take agreement which will see Xinyang Steel purchase 65% of the coking coal output of any mine development associated with the Maryborough Hard Coking Coal project including the proposed Colton Mine for which a mining lease has been applied;
- A placement of 16,315,000 shares to Xinyang Steel @ \$1.41 per share to raise approximately \$23M; and
- The placement will result in Xinyang Steel holding approximately 12.7% of the expanded capital of NEC and Xinyang Steel will be offered a seat on the board of NEC.

The share placement and off-take agreement are important milestones in the ongoing evolution of the Maryborough Hard Coking Coal Project, which is commencing with the Colton Mine development. Assuming a Colton mine life of at least 10 years, at current coking coal prices the off-take agreement would result in revenue of approximately A\$700 million. Further production expansions within the Maryborough project will increase the revenue under this agreement.

NEC is currently committed to developing the Maryborough Hard Coking Coal Project on a 100% ownership basis 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 have continued through the quarter with several interested parties, with the lack of a definitive commitment to the Surat Basin coal chain remaining an inhibitor to reaching agreement. NEC remains convinced that continued incremental commitment and definition to the Surat Basin coal chain will increase the likelihood of reaching agreement with potential third party investors.

For further information please contact
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or visit our website www.northernenergy.com.au

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.