

Quarterly Activities Report for Quarter Ended 30 June 2010

30 July 2010

Highlights

- Initial reserve at Maryborough 5.9Mt Probable Reserve hard coking coal
- Further reserve upside potential identified through conceptual mine planning
- Completion of placement to Xinyang Group – cash injection of \$23M
- Mr Dian Zhou He appointed non-executive director
- Completion of Elimatta feasibility study
- Wiggins Island Stage 1 EOI process completed
- NEC confirmed as participant in Stage 1 implementation process to reach financial close

Project Details

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

The feasibility study for the Elimatta project near Wandoan, Surat Basin was completed during the quarter. The Elimatta Project comprises an open pit mining operation and CHPP producing ~5.0 Mtpa thermal coal for export. The Project is located in the Surat Basin region of southern Queensland, approximately 380km North West of Brisbane. Product coal will be railed 420km to Gladstone for export through the Wiggins Island Coal Export Terminal. The study assumes project sales are to commence in the second half of calendar year 2014. The Project has been designed to produce a thermal coal product of 10-11% (ad) ash and 5,800 - 5,900 kcal/kg calorific value (gar basis).

Key Project Parameters drawn from the Project evaluation are as follows:

Category	Contractor Mine Operation Life of Mine	Years 1-10
Development Capital Investment - A\$M	579	579
Sustaining Capital Investment - A\$M	103	49
Total Sales - Mt	137	48
Project production life - years	29	
ROM strip ratio	5.1	3.4
Product strip ratio	7.9	4.9
Workforce	240-480	avg 280

The Elimatta Project has been planned as an open cut mine extracting up to 8.2 Mtpa ROM coal (average 7.5Mt), to produce on average 5.0 Mtpa of product coal for export. The mine production life is estimated at greater than 25 years based on the cost and investment criteria used in the Project evaluation. Full extraction by open cut methods of the known coal resource available in the mining tenure at the planned 5.0 Mtpa rate would extend operations beyond 35 years.

The raw quality of the Y, A, B and C seams is relatively consistent. The UG seam has a higher ash and lower CV than the other four seams. However, the UG seam makes up only a small percentage of the CHPP feed tonnage over the life of the project and will typically be blended with the main seams for feed purposes. The quality of the washed coal is consistent across all seams as shown in Table 1. It should be noted that the study currently assumes the C seam will not be mined, this assumption will be reviewed during subsequent mine optimization / value engineering studies.

Ausenco Taggart was engaged to design and cost a coal handling and preparation plant to suit the Elimatta mine. A 1200tph Dense Medium Cyclone and Spirals washplant has been designed which will have the capacity to treat the maximum planned throughput of 8Mtpa ROM feed. In the initial years this plant will have surplus capacity.

NEC's Taroom Coal has made three mining lease applications for the mine operations part of the Project as outlined below:

Application Number	Date of Application	Name	Purpose	Area
MLA 50254	2 June 2009	Elimatta	Mine excavations and coal mining	2774 ha
MLA 50270	10 December 2009	Elimatta Infrastructure	CHPP and Mine Infrastructure, Train Loading	1374 ha
MLA 50271	10 December 2009	Elimatta Transport	Haulage and services	128 ha

The Terms of Reference for the Elimatta Environmental Impact Statement were settled in April 2010 and preparation of the EIS is underway.

Table 1 — Elimatta Product Coal Quality

Parameter	Unit	Basis	Weighted Parameters by Seam				Product	Quality	Whole of Resource
			Seam UG	Seam Y	Seam A	Seam B	Seam C		
Total Moisture	%	ar	14.8	14.8	14.8	14.8	14.8	14.8	
Ash	%	ad	9.6	9.3	10.1	10.1	10.5	9.9	
Moisture (inherent)	%	ad	8.6	7.8	7.8	8.1	8.3	8.0	
Volatile Matter	%	ad	41.0	42.3	41.8	41.2	42.2	41.6	
Fixed Carbon	%	ad	40.8	40.6	40.4	40.7	39.1	40.6	
Volatile Matter	%	daf	50.2	51.0	50.8	50.3	51.9	50.6	
Total Sulfur	%	ad	0.43	0.37	0.35	0.36	0.39	0.37	
Calorific Value	Mj/kg	daf	32.0	32.6	32.4	32.4	32.8	32.4	
Calorific Value	Mj/kg	ad	26.2	27.0	26.7	26.5	26.6	26.6	
Calorific Value	Mj/kg	gar	5,835	5,960	5,880	5,875	5,905	5,890	
Hardgrove	Kcal		32	34	34	34	32	34	
Grindability Index									
Ultimate Analysis									
Carbon	%	daf	76.9	78.0	77.5	77.9	78.2	77.7	
Hydrogen	%	daf	5.9	6.0	6.0	6.0	6.1	6.0	
Nitrogen	%	daf	1.2	1.1	1.0	1.1	1.1	1.1	
Oxygen	%	daf	15.4	14.5	15.0	14.6	14.1	14.8	
Ash Fusion (Reducing Atmosphere)									
Initial Deformation Temperature	°C		1,405	1,335	1,390	1,360	1,330	1,371	
Spherical Temperature	°C		1,436	1,355	1,430	1,390	1,365	1,402	
Hemi-spherical Temperature	°C		1,450	1,370	1,440	1,400	1,380	1,414	
Flow Temperature	°C		1,480	1,420	1,465	1,435	1,400	1,448	

The key determinant of the timing of the project is the timing of the Surat Basin Rail project and Wiggins Island. The Elimatta project is currently not included in Wiggins Island Stage 1 due to uncertainty relating to the timing of rail infrastructure. The WICET consortium has recently called for expressions of interest for Stage 2, to which the Elimatta project has responded. The Surat Basin Rail project is being planned to coincide with capacity at Wiggins Island. The timing of the WICET/ SBR process remains uncertain but current expectations are that rail and port capacity may be available towards the end of 2014.

NEC will continue the EIS and Mining Lease approval process for the Elimatta project and seek to secure rail and port capacity for the project. Value engineering and final project design expenditure will be progressed following commitments to the rail and port projects.

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

A slight revision to the previous Resource Statement has been made with the Indicated Resource increased from 9.5 Mt to 9.8 Mt. The revised Resource Table for the Maryborough Project is provided below in Table 1.1.

Table 1.1 Total Resources of the Maryborough Coal Project

EPC923 + EPC 1082 Less than 150m Depth		Raw									CF1.4		
Resource Category	Seam	In Situ Million Tonnes	ASH %ad	IM %ad	RD g/cc	RDIS g/cc	CSN	TS %ad	VM %ad	SE MJ/kg	ASH %ad	CSN	YLD %
Indicated	Ellangowan	0.61	15.6	1.8	1.4	1.4	6.6	1.8	27.7	29.4	7.5	8.4	77.1
Indicated	Jubilee	0.87	17.7	1.9	1.4	1.4	7.2	0.8	28.7	28.1	6.9	8.5	70.3
Indicated	A1	1.78	20.0	1.8	1.4	1.4	7.2	1.4	27.9	27.3	7.5	8.4	65.3
Indicated	A2	3.56	26.6	2.0	1.5	1.5	6.1	1.2	24.3	24.2	8.3	8.3	55.7
Indicated	A3	2.98	22.0	1.8	1.5	1.4	6.6	1.1	26.0	26.8	7.3	8.3	62.0
Total Indicated		9.80	22.5	1.9	1.5	1.4	6.6	1.2	26.1	26.2	7.6	8.3	62.0
Inferred	Churchill	10.00											
Inferred	Globe	18.00											
Inferred	Ellangowan	12.88											
Inferred	E1	0.29											
Inferred	E2	0.97											
Inferred	E3	0.54											
Inferred	Jubilee	10.30											
Inferred	A1	2.85											
Inferred	A2	5.84											
Inferred	A3	5.40											
Inferred	B	6.18											
Total Inferred		73.24											
Total Indicated + Inferred		83.03											

A Probable Reserve of 5.9 Mt has been calculated by Runge, as presented below in Table 1.2.

Table 1.2 Probable Reserves for the Colton Mine Area

Seam	Product Coal Million tonnes	Product Moisture (% adb)	Product Ash (% adb)	Product CSN
Churchill P1 Globe Ellangowan	0.44	2.5	8.3	8.6
E1 E2 E3				
Jubilee	0.56	2.5	6.8	8.4
A1	1.16	2.5	7.3	8.4
A2	1.88	2.5	8.3	8.5
A3	1.83	2.5	7.3	8.3
TOTAL	5.87	2.5	7.6	8.4

The Maryborough Project and Colton Mine

The Maryborough project currently comprises EPC 923 and EPC 1082, within which the Colton Mine area has been identified.

The Colton Mine (MLA 50273, 50274) is planned to produce 0.5 Mtpa of hard coking coal. NEC plans to undertake further exploration and evaluation within the Maryborough Project area to increase the Resource and provide for the future mine development. Expansion of output from the Maryborough Project will require additional mining lease areas which will be subject to an approval process separate to that currently under way for the Colton Mine Project.

Following the Resource announcement by NEC in April (ASX release 28 April 2010), NEC has continued its mine planning and evaluation work to progress the Maryborough project, with focus on the Colton mine, as the initial mining operation. NEC engaged mining consultants Runge Limited (Runge) to assist in the mine planning and evaluation process for the Colton mine project in the light of the substantial increase in the resource announced in April. This work is ongoing, in addition to investigations being conducted by NEC into further potential within the wider Maryborough project area.

Runge has prepared a Reserve Statement under the JORC code, the results of which are reported in this announcement. As at 26th July 2010 the estimated Probable Open Cut Reserve is 5.87 Mt of hard coking coal. This Probable Reserve of 5.87 million tonnes represents 55% of a pit shell containing 10.69 Mt of product coking coal which has an average strip ratio of 7.2



bcm/ROM tonne or 18.1 bcm /product tonne. The remaining 45% is made up of 40% within the Inferred Resource area and 5% within the Unclassified area.

Detailed design work for the project is continuing, particularly in relation to access, power and water infrastructure and the Coal Handling and Process Plant (CHPP). To ensure that sufficient capacity is available in the CHPP, the mine plan currently assumes that several working sections include inter-burden material between groups of thin seams. It is anticipated that as development of the mine progresses and more experience is gained in the mining of these thin seams, the amount of non-coal material presented to the CHPP will reduce significantly in future.

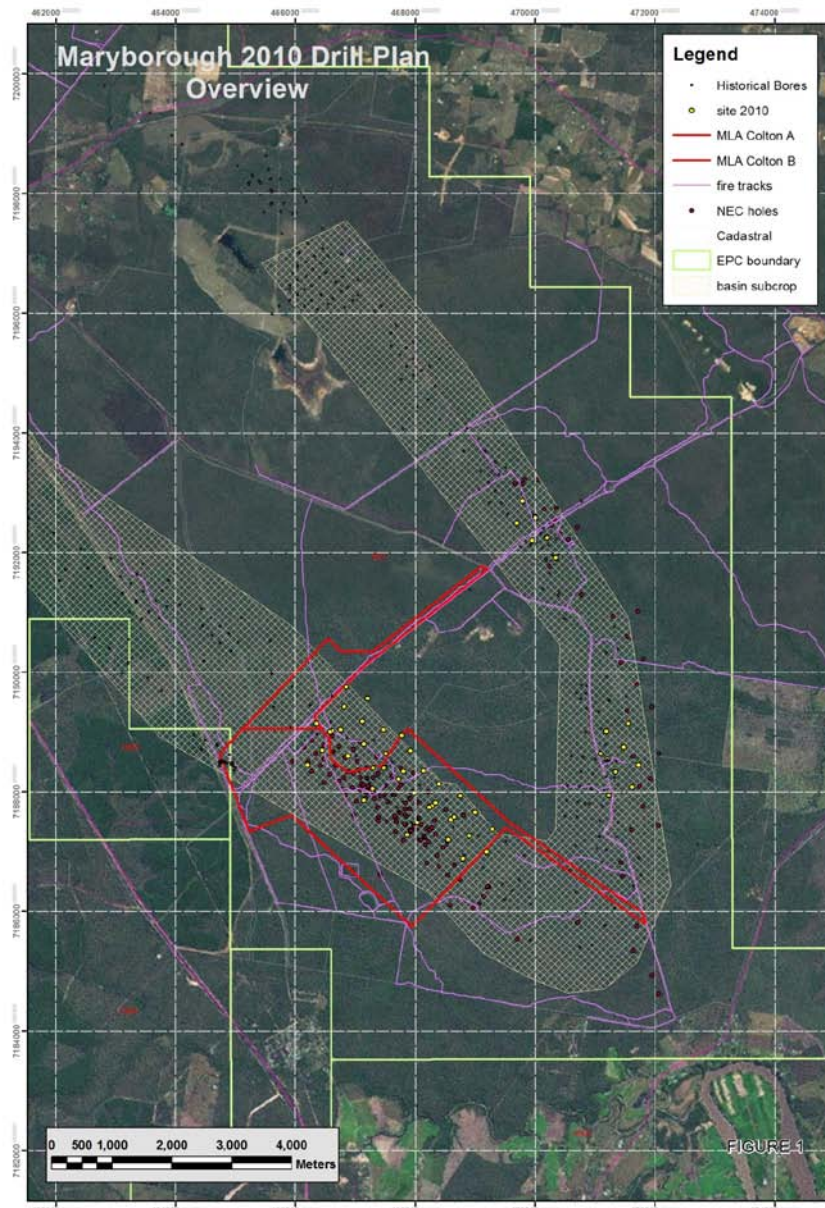
Detailed design work based on recently received coal quality and washability information has resulted in a revision of the headline capital cost of the project from \$60M to \$84M including contingencies. The increase is directly attributable to changes made to the coal handling infrastructure of the CHPP, particularly in the reject stream, and to the inclusion of contingencies that have not previously been included.

NEC's community consultation process in the Maryborough / Hervey Bay region has highlighted significant community support for the project. For example, NEC has received more than 1000 employment enquiries largely from people living in the region even though recruitment has not commenced. Local businesses are keen to service the project and have been submitting a steady stream of expressions of interest.

Additional information raised by residents during the consultation sessions and design changes to the CHPP, have delayed submission of the Environmental Management Plan (EMP), which is now expected to be finalised in August. NEC is confident that the EMP will demonstrate that concerns raised by a few local residents have been considered and included in the project design process. Consultation with the local community may add time to the approval process.

NEC's current assessment of earliest project timing is for project approval 3Q 2011 which would result in first shipments around mid 2012.

A further exploration and evaluation program within the Maryborough Project area is about to commence, with the main aim being to increase the Resource and investigate the capacity for future expansion of the mine. A plan showing the location of the Mining Lease Applications (MLA) for the Colton Mine, which contain the Reserve Area, the wider Resource Area and the drill-holes planned for the current exploration program is shown below.



The project design and evaluation has continued over recent months with progress on the key parameters outlined below:-

- Coal quality** - further analysis of core samples has been undertaken. The ROM feed characteristics are highly variable in terms of ash content and size fractions due principally to increased dilution assumptions in the mine working sections. As a result the wash plant must accommodate substantial variations in size fractions and material type.

Yields will be variable but overall the average wash plant yield will be below 50%. The product coal shows consistent high coking qualities – CSN, fluidity, dilatation as shown in the table

below, which summarises the clean coal quality from float sink analysis. Optimisation of the product ash / yield relationship remains under assessment.

Seam			All	A1	A2	A3
No. of WS			28	8	11	9
To	m		18.91	5.25	8.06	5.60
Thickness	m		0.68	0.66	0.73	0.62
Raw RD		ad	1.54	1.52	1.51	1.60
Raw Ash	%	ad	31.0	28.5	28.4	36.6
Top Size	mm		50	50	50	50
Size Range	mm		50x 0	50x 0	50x 0	50x 0
Floats Density			1.40	1.40	1.40	1.40
Floats Yield % of Sample	mass %	ad	53.6	56.1	56.1	47.9
Proximate Analysis						
Moisture	mass %	ad	1.8	1.8	1.8	1.7
Ash	mass %	ad	6.8	7.4	6.1	7.4
Volatile Matter	mass %	ad	30.3	30.4	30.5	29.9
Fixed Carbon	mass %	ad	61.1	60.4	61.6	61.1
Volatile Matter	mass %	daf	33.1	33.5	33.1	32.9
Fuel Ratio (FC/VM)			2.02	1.98	2.02	2.04
Total Sulphur	mass %	ad	0.74	0.76	0.76	0.71
CSN			8.9	9.1	8.9	8.8
Gray King			G4-G12	G8-G12	G4-G12	G7-G11
Gieseler Plastometer						
Maximum Fluidity	dd/min		1800	1900	1620	2040
Dilatometer						
Max Dilatation	%		103	104	107	97

- ROM feed, washability and process design;**- The current production and financial model is based on assumptions of increased interburden waste between thin coal plies being mined as a single working sections. This results in an increase in dilution in the Run of Mine (ROM) feed quality and hence lower wash plant yields with higher feed ash. The inclusion of substantial non coal material to the wash plant feed does not affect product quality or yield of the coal fraction. The optimisation of the relationships between mine working sections, CHPP performance and cost is undergoing further detailed assessment.
- Infrastructure** has been substantially advanced:-

Mine access – site access has been designed and costed for both road and rail (including refurbishment of the Takura branch line and connection to north coast rail line to the Port of Gladstone);

Electricity – assumed to start with onsite diesel power generation until grid connection is made by Ergon;

Water – site will be self sufficient. A disposal pipeline and pump station has been designed and costed;

Rail Access – QR Network Access – Freight will provide access to north coast line. A draft access agreement is under consideration;



Rail Haulage – Negotiations are continuing with a number of potential rail operators;

Port – Barney Point capacity is available and a draft agreement has been offered for consideration. Capacity at Barney Point is available until Wiggins Island is operational. NEC (Colton Mine) is participating in the WICET Stage 1 process to secure future capacity at Wiggins Island.

Cultural Heritage and Native Title - a Right to Negotiate (RTN) process has commenced with the Butchulla people who are the registered Native Title claimants for the mine area. NEC has an excellent working relationship with the Butchulla people and based on discussions to date NEC is confident that an agreement will be reached within the statutory time frames;

Community Consultation – NEC has held several public consultation meetings with communities in the general area of the planned Colton mine. These have been well attended and NEC has welcomed the feedback which has been largely positive. The company is working towards addressing issues that some members of the community have raised about the impact of the proposed mine on their community. These will be incorporated in the Environmental Management Plan (EMP) which is expected to be formally lodged next month.

3. Yamala EPC 927 (NEC 83%)

A numerical modelling exercise on potential roof support regimes and strata behaviour under certain mining scenarios has been commissioned and is currently underway. The results will be incorporated into the conceptual mine planning conducted to date and will provide guidance for the exploration / technical study requirements for progressing the Yamala project.

4. Infrastructure

Wiggins Island Coal Export Terminal

During the quarter the industry group owner of the Wiggins Island Project (WICET Holdings) invited a number of project proponents to move the Wiggins Island Coal Terminal forward to financial close through the implementation phase for Stage 1. This commitment will involve entering a Capacity Commitment Deed which, among other things, will see the participants fund the implantation phase, lodge bid bonds and commit to entering a Take or Pay contract under certain conditions.

The company's Maryborough project is one of the projects participating in Stage 1 and will commit approximately \$1M in funding and bid bond to reach financial close. When Stage 1 reaches financial close and the Take or Pay contract has been signed these funds will be returned.

Recently WICET announced a second EOI process for the next stage of Wiggins Island. NEC has responded in relation to the Elimatta, Maryborough and Yamala projects.

Surat Basin Rail

Progress on the Surat Basin Railway (SBR) was disrupted during the quarter as a result of uncertainty regarding the Federal Government's proposed Resource Super Profits Tax. Following the change to the Mineral Resources Rent Tax SBR has resumed its development of the commercial arrangements with prospective shippers. This process is continuing.

5. Xinyang Iron & Steel Group

As outlined in the previous quarterly report, NEC came to an agreement with the Xinyang Iron & Steel Group for a long term coal sales agreement for 65% of the output from the Colton Mine and the Maryborough project. In conjunction with this deal the Xinyang Group agreed to a placement of shares in NEC. The placement was completed during the quarter and as a result NEC received a capital injection of \$23M from Xinyang Group, which now holds 12.7% of NEC.

Mr Dian Zhou He was appointed to the Board of NEC on July 1 as an appointee of the Xinyang Group. The NEC directors welcome the Xinyang Group as an investor in and major customer of, NEC and anticipate this relationship will be mutually beneficial to both parties in progressing their respective business interests.

6. Resource Taxation

Over the last two months the Federal Government announced proposed changes to resource taxation in Australia with the proposal to introduce a resource rent type tax at the Federal level. Substantial uncertainty arose in the market from changes in the proposed policy during negotiations undertaken at the political level. The proposed introduction of a Mineral Resource Rent Tax (MRRT) represents an additional tax in addition to state royalties rather than the tax reform that was foreshadowed at the time of the Henry Review.

Details of the proposed MRRT are yet to be provided but it will be applied to coal mines and therefore has the potential to impact on the company's projects. With an effective rate of 22.5% after the extraction allowance, crediting state royalty payments, an immediate deduction of project capital (after July 2012) and a threshold return of 7% above the long term bond rate the current MRRT proposal appears less onerous than the Resources Super Profits Tax (RSPT) originally proposed. The proposal to exempt small companies (<\$50M profit) is also of potential relevance for the initial stage of the Maryborough Project.

Our current assessment of the impact of the proposed MRRT on our projects is that it will increase the tax burden on the project under certain price scenarios but that its impact is not sufficient to undermine the viability of the projects. Nevertheless this issue has generated significant uncertainty in the investment market and until the full details of the MRRT structure are determined uncertainty will remain. This in turn will impact on the decision making process and the company's ability to raise funds.



The current state royalty on coal of up to 10% of sales value already represents a significant return to the state and the company opposes the imposition of an additional tax. If the new Federal Government continues the current path towards the introduction of the MRRT it is important that the details of its operation are clarified quickly to enable project proponents and investors to fully understand the impact on project economics.

For further information contact:
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Statement of Compliance

The estimates of Coal Reserves for the Colton Mine Area as presented in this statement have been prepared in accordance with the Guidelines of the "Australasian Code for the Reporting of Mineral Resources and Ore Reserves", prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Minerals Council of Australia, December 2004. The information in this statement, which relates to the Colton Mine Reserves, is based on information reviewed by Mr Fred Parker, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Parker is a full time employee of Runge Ltd. Mr Parker 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 the Reporting of Mineral Resources and Ore Reserves". Mr Parker is signing off on the Coal Reserve portion of this statement and consents to the inclusion in this statement of the matters based on this information in the form and context in which it appears.

The estimate of Coal Resources for the Maryborough Project (EPC 923 & 1082) as presented in this report has been carried out in accordance with the Guidelines of the "Australian Code for Reporting of Mineral Resources and Ore Reserves" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Minerals Council of Australia, December 2004. The information in this statement that relates to the Maryborough Coal resources is based on information provided by Northern Energy Corporation and reviewed and validated by Mr Lyon Barrett. Mr Barrett is a full time employee of Salva Resources and is a member of the Australasian Institute of Mining and Metallurgy. Mr Barrett has reviewed the geological data, constructed the geological model and estimated the coal 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 Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Mineral Resources and Ore Reserves. Mr Barrett is signing off on the Coal Resource portion of this statement as a Competent Person and consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.