Linc Energy Ltd ABN 60 076 157 045
Interim Financial Report
for the half year ended 31 December 2011

Linc Energy Ltd ABN 60 076 157 045
Interim Financial Report
for the half year ended 31 December 2011

Contents

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) for the six months ended 31 December 2011.

Directors

Unless otherwise stated, the following persons were Directors of Linc Energy Ltd during the whole of the reporting period and up to the date of this report:

- Mr Peter Bond (Managing Director) – appointed October 2004.
- Mr Ken Dark (Non-Executive Director) – appointed October 2004 and appointed Acting Chairman September 2011.
- Mr Jon Mathews (Non-Executive Director) – appointed December 2009.
- Mr Craig Ricato (Executive Director) – appointed October 2010.

Mr Oliver Yates was a Non-Executive Director and Acting Chairman during the year until his resignation on 28 November 2011 and 6 September 2011 respectively.

Review of operations

Oil & Gas

Production (Linc net interest – note first year of production)

Area	Half year ended 31 December 2011 Total Barrels	Half year ended 31 December 2010 Total Barrels	Half year ended 31 December 2011 Average BOPD	Half year ended 31 December 2010 Average BOPD
Gulf Coast (3 months)	168,812	-	1,835	-
Wyoming (6 months)	26,196	-	142	-
Total	**195,008**	**-**	**1,977**	**-**

Upon initial acquisition of the assets, production was reduced marginally until a full review of the assets and resources was complete. A drilling program was developed with the goal of significantly increasing production over the remainder of the financial year. At 31 December 2011 daily oil production capacity was approximately 2,350 (Net) / 3,175 (Gross).

Gulf Coast
An initial production deficiency following acquisition of the fields from ERG Resources LLC is attributable to a decline across older production wells within the portfolio and a temporary short-term loss of approximately 250 Barrels of Oil Per Day (BOPD) (Gross) as a result of the loss of a natural gas pipeline in the Port Neches Field in Orange County, Texas. The Port Neches Field has now resumed production.

Wyoming
The 'CO_2 Huff and Puff' operation, designed to test the CO_2 Enhanced Oil Recovery (EOR) properties of the geological structure, began on 23 November 2011. This operation involved injecting 500 tonnes of liquid CO_2 into the South Glenrock B #34 well, which was then allowed to 'soak' for 21 days to stimulate production from this well. On 13 December 2011 the well was flowed back to tanks on location until the CO_2 pressure was bled off, followed by the removal of standing fluid in the wellbore. Approximately 30 barrels of oil was recovered in the 36 hours.

Since the initial flow back, operations have been focused on putting the well on production using a conventional rod pump. The pumping unit was started on 6 January 2012 and on 12 January 2012; 77 barrels of 'new' oil were sold from the South Glenrock B#34. Current daily average production for the well is approximately 35 barrels of oil per day. Prior to the CO_2 EOR treatment, the well was producing 1 barrel of oil per day (a significant increase in percentage due to the CO_2 injection).

During the period, the Group and ExxonMobil entered into an agreement whereby Linc Energy will purchase CO_2 from ExxonMobil on an interruptible basis, allowing for the continued development of EOR at Linc Energy's Glenrock assets. The two companies will be working over the next few months to develop a CO_2 delivery point near Jeffery City, Wyoming, with the intent of initially trucking CO_2 and beginning a CO_2 flooding pattern at the South Glenrock B Unit in 2012, with the aim of taking this field from a gross production of 200 BOPD to over 2,000 to 4,000 BOPD.

Exploration and development

Gulf Coast (Texas & Louisiana)
The Group has successfully completed three new wells and re-completions on an additional two wells. Two of the new wells are

now in production, producing approximately 300 BOPD (Gross) combined, with the remaining new well and re-completed wells scheduled to come online following upgrades to production surface infrastructure.

Additional re-completions, drilling operations and production planning continued across the Gulf Coast asset portfolio, with the immediate focus being upon the Barbers Hill and Black Bayou fields. These works are expected to deliver significant increases in total production over 2012.

Alaska
The Umiat asset development continues to be the focus for Linc Energy in this region, despite the 2011-2012 winter drilling program being postponed due to logistical and weather (low snow levels which affected snow road development) issues. The Group plans to commence a comprehensive delineation drilling, well testing and deep exploration program in the 2012-2013 winter season on the Umiat site and has contracted a drill rig to undertake this work.

In the meantime, the Group is actively engaged in all permitting activities, community and agency consultation, and development of the Project Description and Plan of Development in anticipation of the 2012-2013 drilling season with the goal of having Umiat in production in a timely manner.

South Australia – Arckaringa Basin
Exploration in the Arckaringa Basin included the processing and interpretation of the 2011 seismic data and the evaluation of the results of the drilling programs conducted during the period. On 27 September 2011 Linc Energy announced the discovery of an oil shale deposit within the Stuart Range Formation located in Linc Energy's Petroleum Exploration Licence (PEL) 122. Analysis of samples from Wirrangula Hill 1/1A and Arck 1 indicated the presence of a shale with high Total Organic Content which is considered to be a prospective oil shale resource. An oil shale deposit approximately 124 metres thick was intersected at a depth of over 854 metres and covers an area of approximately 93.5 kilometres by 12.3 kilometres. The most prospective black shale/siltstone within the deposit is around 70 metres thick with preliminary analysis indicating potential oil yields of 25 litres to 45 litres per tonne. Further work will be undertaken to continue evaluating this potential resource.

Raw processing and depth time migration was completed on the 1,152 line kilometres of two dimensional (2D) seismic and the interpretation of the lines are due to be completed in early 2012. This data has already assisted geological team members to identify a significant number of new conventional oil target locations and is expected to to add value to the Arckaringa Basin assets whilst providing a solid platform for the next extensive exploration program in the Arckaringa Basin. At this stage, no further drilling will occur in the Arckaringa Basin before the end of the financial year.

Coal

Teresa
Discussions concerning the sale of the Teresa coal asset, near Emerald in Queensland, are continuing with several potential new buyers emerging in late 2011. A number of offers were reviewed by the Group during 2011; however, they were declined for a number of reasons including suitability of the value of the proposed transactions and post-transaction ownership structures. To ensure the best outcome for the Group and shareholders, Linc Energy is continuing to explore a number of options, including full divestment and partial divestment/joint venture opportunities with interested parties.

At the same time, the development of the Teresa mine is proceeding to plan. Development of the project in parallel with the sale process makes the asset more appealing to potential purchasers and increases the value of the asset to all parties.
Drilling continued on the Emerald resource upgrade program, with an emphasis on collecting additional coal quality and geotechnical data. Drilling and field work at Emerald/Teresa will continue into 2012.

The collection of base line environmental data for the Environmental Impact Statement (EIS) also continued. The Group expects the EIS to be completed during 2012 with the document to be submitted in late 2012 for government review and approval.

The Group has also made significant progress in developing a complete infrastructure package for the Teresa mine, including investigating accommodation options, negotiating port and rail access and securing water and power supplies. Based on current development progress, the Group considers that mine construction could commence in late 2013 after all necessary approvals have been granted.

Great Northern Leases
Exploration recommenced on EPC1526 within the Great Northern Leases during the period. One chip hole was drilled to basement (794m). Further drilling is planned based on the findings to date, and will be reviewed on completion of the separate Emerald / Teresa drilling program.

Adani Royalty
Linc Energy notes the progress made by India's Adani Group in developing the Carmichael Coal tenement (formerly Galilee) for which Linc Energy is entitled to a $2 per tonne royalty (indexed to CPI) for the first 20 years of coal production.

Adani has conducted an extensive drilling campaign, progressed with mine planning studies and started work on the EIS for both the mine and the rail. Adani has also commenced an extensive exploration programme on the asset in order to finalise the mine plan ahead of development and construction work in 2013. Adani has made significant progress on the infrastructure (port and rail access) to support the development.

Clean Energy

Chinchilla
Operation of multiple gasifiers into the downstream processing facility at Chinchilla was achieved on 17 November 2011. Synthesis gas from Fourth Generation Gasifier (G4) and Fifth Generation Gasifier (G5) was simultaneously used to produce Syncrude in Linc Energy's Gas to Liquids (GTL) facility in South East Queensland.

This provided valuable design confirmation and operational experience and is one of the last steps towards commercialisation of the value chain. The operation of multiple simultaneous gasifiers to supply syngas for downstream beneficiation is a key element in the commercialisation of Linc Energy's Underground Coal Gasification (UCG) technology and a number of patent applications have been lodged.

This follows the successful start-up of G5 on 22 October 2011. Exceptionally stable operation has been achieved with G5 consistently producing good quality synthesis gas. G5 showed improved temperature and pressure control with gas delivered within the hydrogen (H_2) to carbon monoxide (CO) ratio (H_2/CO) target of around 2, which is ideal for the downstream liquids manufacture in the GTL demonstration plant. Especially encouraging has been the high concentration of CO above the 10 per cent, by volume, levels achieved with air injection. The latest campaign of liquids production in the GTL plant commenced on 31 October 2011 with a progressive start-up of the gas and liquid separation and clean-up processes, followed by the Fischer Tropsch (FT) synthesis reactor start-up on 2 November 2011.

Since the start-up, Syncrude production rates have been consistently two to three times higher than previously achieved. The synthesis gas conversions were at the levels expected with the new catalyst that was loaded. Contributing to these good results has been the improved preparation of the FT synthesis catalyst where a substantially higher catalyst reduction level has been achieved. The stability of the plant has been good with an online availability of higher than 98 per cent to date (not accounting for the planned shutdown for external power network construction activities).

The Syncrude liquids will be used for product testing and promotional campaigns Linc Energy has scheduled for 2012, the first of which is the planned flight from Chinchilla to Perth on a Linc Energy powered jet to demonstrate the continued improvement of its GTL product.

Wyoming
Work is progressing on the development of a UCG demonstration plant in the area of Wyoming's Powder River Basin (PRB) coal reserves. As announced in October last year, the approval process with the Wyoming Department of Environmental Quality (WDEQ) has commenced and builds on 16 months of work and collection of baseline data around the demonstration site. The application approval process by the WEDQ, after submission of the R&D License Application, takes approximately 180 days.

Exploration and development

Alaska
The Company has started drilling the first core well in its Alaska UCG exploration drilling program. The goal of the exploration program is to acquire quality resource data that will help identify locations suitable for further evaluation and commercial UCG development.

Seismic work planned for 2012 will include approximately 40 line miles (64km) of 2D profiles collected over the Interior and Cook Inlet UCG license areas. Additionally, 43 line miles of modern full-coverage 2D seismic data which the Company has purchased will be processed and interpreted along with the new profile data.

Wyoming
Concurrent with the Sixth Generation Gasifier (G6) permitting work, the Wyoming Clean Energy UCG team is actively drilling exploration wells throughout the Company's PRB leases in northeast Wyoming. The team has successfully drilled a total of 17,612 feet (5,368 metres) and subsequently installed 12 wells within seven (7) key areas of the PRB. Wells are completed into the target coal to provide Linc Energy's UCG Technical team valuable information concerning the coal's hydrogeologic characteristics and allowing for the collection of water quality samples. Of these 12 wells, two (2) of the wells were also cored for the purpose of rock strength analysis of the overburden and underburden, along with analysis of the target coal. Results from rock strength analysis and coal analysis are used to evaluate whether a commercial scale UCG project is feasible within the PRB.

Linc Energy will continue to evaluate its PRB leases during 2012. As part of this program, Linc Energy geologists are utilising well logs from the approximately 50,000+ wells previously drilled in the PRB by coal bed methane and conventional oil and gas operators.

Linc Energy has also completed 2D seismic surveys on two areas being considered for commercial development in the PRB. A high resolution output will allow the Company to "map" the subsurface without multiple borings which can be costly and time consuming.

International
Linc Energy continued to work with UK Coal to assess the potential for UCG at three of UK Coal's sites in Warwickshire, Yorkshire and Leicestershire.

Europe also presents significant opportunities for Linc Energy with a unique combination of high gas prices, significant volumes of stranded coal (particularly in Eastern Europe), growing demand for natural gas and decreasing local gas supply. These factors are strong drivers in choosing Poland as a key early region for the potential commercialisation of UCG. During the period, the Group acquired an exploration concession in Poland which in the Directors opinion may contain approx. 1.2 billion tonne coal deposit. Exploration activities and a pre-feasibility assessment is scheduled for the current year.

Financial Performance

Sales
Total Group revenues increased significantly, from $674,000 to $18,928,000, reflecting the inclusion of six months of Wyoming and three months of Gulf Coast oil sales revenues. The corresponding period in the prior year was limited to syngas sales at Yerostigaz in Uzbekistan. The average oil sales price achieved for the period was US$97.28 per barrel, excluding oil price hedges. Under the terms of its Reserve Based Lending facility, Linc Energy is required to hedge a certain portion of its oil production to ensure that interest and field operating costs are fully covered. Further details of these oil hedges are included in note 11 of the Interim Financial Report.

Gross Profit
Gross profit for the Group increased from a loss of $28,000 to a profit of $9,762,000. Cost of sales relates predominantly to the US oil business and includes oilfield lease operating expenses, workover costs, production taxes and royalties. Cost of sales for the period were higher than would normally be expected due to the preparation of the Big Muddy field in Wyoming for the first CO_2 EOR injection trial that was carried out in December. This necessitated repairs and maintenance to field infrastructure as well as oil processing facilities. Overall cash production costs (including production taxes) for the Group for the reporting period were US$28.98 per barrel. This average cost is expected to decline over time as more oil is produced from the Gulf Coast relative to Wyoming and higher production flows offset relatively stable field infrastructure and labour costs.

Operating Expenses
Administration and corporate costs for the period increased from $19,402,000 to $35,091,000 reflecting the significant increase in staff numbers and administrative costs as a result of the continued global expansion of the business, particularly in the United States with the acquisition of the ERG Gulf Coast oil business and the expansion of the Alaskan office to commence development of the Umiat project.

Included within this figure was a non-cash share based payment expense of $7,317,000 (2010: $6,508,000) reflecting the cost of options and performance rights recognised over their vesting period.

Financial income and expenses
Finance income of $3,023,000 was significantly lower than the corresponding period in the prior year ($11,707,000) which benefited from both the interest earned on coal sale funds $9,747,000 and a net gain of $1,954,000 recognised on settlement of the Springtree Convertible Loan Agreement.

Finance expenses of $13,450,000 (2010: $199,000) increased as a result of interest payable on borrowings and the recognition of an accounting loss of $12,222,000 on the net change in the fair value of derivative financial instruments. This loss reflects both the realised ($783,000) and unrealised ($11,439,000) fair value of oil hedges taken out by Linc Gulf Coast as a requirement of its Reserve Based Lending Facility. The unrealised amount will fluctuate over time as the hedges are "marked to market" against the prevailing oil price at each reporting date.

Tax
The Group recognised a tax benefit of $14,204,000 (2010: tax expense of $142,166,000). No amount has been included in income tax expense in respect of the material contingent tax liability related to the Adani Galilee coal production royalty. For further details on this contingency please refer below.

Other Comprehensive Income/(Loss)

The Group recognised an accounting loss of $4,060,000 (2010: gain of $9,171,000) for the decrease in the value of its listed equity investments. This unrealised accounting loss was recognised in reserves.

Net Profit/(Loss)
The Group recorded a net loss after tax of $44,574,000 (2010: profit of $327,648,000). The Group recorded its first material oil sales revenues in this reporting period and expects these revenues to continue to increase over the next twelve months. The Group expects to be generating operating profits on a monthly basis by the second half of calendar 2012.

Note the result in the prior period reflected the sale of the Galilee non-core coal tenement, with a net gain of $495,001,000 recognised on disposal of that asset.

Financial Position

The Group's balance sheet is in a strong position following the sale of the Galilee coal tenement in August 2010. Net assets at 31 December 2011 totalled $471,885,000 (30 June 2011: $513,721,000), including $32,476,000 (30 June 2011: $310,343,000) of cash and cash equivalents. Oil & Gas assets increased significantly to $357,793,000 (30 June 2011: $25,288,000) reflecting the acquisition of the ERG Gulf Coast oil business and Umiat asset.

Total liabilities amounted to $221,857,000 (30 June 2011: $87,232,000) including $127,530,000 (30 June 2011: $1,866,000) of non-current borrowings and $11,604,000 (30 June 2011: Nil) of unrealised hedge liabilities relating to derivative instruments such as swap agreements used to manage exposure to commodity price risk as required by the Linc Gulf Coast Reserve Based Lending Facility which was used to partially fund the acquisition of the ERG business.

Cash Flows

The Group had a total of $32,476,000 (30 June 2011: $310,343,000) of cash and cash equivalents on hand at the end of the reporting period. Net cash outflows from operating activities were $32,580,000 (2010: outflow of $22,025,000). This included $13,939,000 (2010: $1,095,000) of receipts from customers predominantly related to US oil sales, offset by $33,664,000 (2010: $15,488,000) of payments to suppliers and employees and the final 2011 tax instalment of $9,860,000 relating to tax on the coal sale in 2010.

Material cash inflows and outflows during the half year were as follows:

- $254,701,000 was paid during the period for the acquisition of the ERG Gulf Coast assets (note: deposit of $9,438,000 was paid prior to 30 June 2011).
- $44,660,000 was paid (net of cash acquired) during the period to complete the acquisition of the Umiat assets (note: deposit of $4,719,000 was paid prior to 30 June 2011).
- $20,701,000 payments for exploration and evaluation, including drilling and seismic acquisition in South Australia ($14,118,000), exploration drilling at Teresa ($2,883,000) and the Great Northern Leases ($759,000)
- $40,075,000 payments for development activities, predominantly technology development costs including Gasifier 5 at Chinchilla ($12,659,000), Gasifier 6 in Wyoming ($3,130,000), Gulf Cost oil and gas ($2,446,000), Wyoming oil and gas ($2,363,000) and costs associated with the technology development team.
- $131,433,000 (US$130,000,000) received from the Reserve Based Lending facility.
- $11,812,000 paid for shares purchased under the Company's on-market share buy-back.

Dividends

No dividends have been declared, provided for or paid during the period.

Coal Resources

The Group currently holds a large number of exploration tenements in Australia, the United States and Poland. The Group's strategy is to actively explore these tenements and identify the best method of commercially exploiting any resources found, either through underground coal gasification, conventional open cut or underground mining or any other available means of extraction.

Where the resource is not suitable for exploitation by UCG, or would be more economically suited to another method of commercial extraction, the Group may seek to divest its interest in the tenement by way of direct sale or indirect participation (e.g. joint venture or farm-out).

Of the tenements controlled by the Group, at the date of this report the following tenements had a JORC certified resource:

Tenement name / reference	Size and location	Exploration target Mt	Measured resources Mt	Indicated resources Mt	Inferred resources Mt	Total resource[1] Mt	Type of coal	Mining method
Teresa EPC 980, 1267, 1226	357 sq km, Bowen Basin Qld	-	-	25	285	310	Thermal / PCI	Under-ground
Pentland MDLa 361	27 sq km, Galilee Basin, Qld	-	-	176	90	266	Thermal	Open cut
Chinchilla EPC 635, 897	245 sq km, Surat Basin, Qld	-	24	383	368	775	Thermal	UCG

[1] Resources certified in accordance with the JORC code. Competent Person's Statement - The information in this report relating to resources is based on information compiled by Troy Turner, who is a member of the Australian Institute of Mining and Metallurgy and who is employed by Xenith Consulting Pty Ltd. Troy Turner has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a competent person as defined in the 2004 Edition of the "Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves". Troy Turner consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Oil Reserves

Linc Energy acquired a number of producing oil fields in Texas and Louisiana during the period from ERG Resources Inc in addition to the reserves acquired in Wyoming in the prior period from Rancher Energy Corporation. Linc also completed the acquisition of the Umiat development asset in Alaska during the period. Linc Energy's net oil reserves at 31 December 2011 are set out in the table below:

Area	Proved (1P) Million barrels[4]
Gulf Coast[1]	16.2
Wyoming[2]	1.0
Alaska (Umiat)[3]	-
Total	**17.2**

[1] These figures are based on an independent third party reserves report prepared by Haas Petroleum Engineering Services, Inc. dated 1 April 2011 and have not been adjusted for subsequent production. Reserves were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers Petroleum Resources Management System (SPE-PRMS).
[2] These figures are based on an independent third party reserves report prepared by Ryder Scott Company, L.P. dated 22 July 2011 and have not been adjusted for subsequent production. Reserves were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers Petroleum Resources Management System (SPE-PRMS).
[3] Umiat field has estimated OOIP of 1.0 billion barrels with estimated Probable and Possible reserves (3P) attributed to Linc's interest of 201 MMboe.
[4] These figures do not include any associated gas reserves that may be present and produced along with the oil.

Likely Developments

The Group will continue to advance each of the three core business divisions throughout 2012. A summary of the key priorities for the next twelve months is set out below:

Oil & Gas

- Increase total oil production in the Gulf Coast and Wyoming regions with a target of 5,900 to 7,000 barrels of oil per day (BOPD) (Gross) by the end of 2012;
- progress the development of the pipeline and drilling at Umiat in Alaska;
- progress the development of the CO_2 Enhanced Oil Recovery (EOR) program on the Glenrock oil fields in Wyoming;
- complete seismic interpretation work and continue to develop a long term conventional oil and oil shale exploration program in the South Australian petroleum exploration licences; and
- investigate strategic partnerships within the Oil & Gas portfolio in the USA and Australia.

Coal

- conduct a strategic review of the Group's coal tenements in Australia and investigate commercial partnerships within the asset portfolio;
- establish a dedicated subsidiary entity to hold and manage the Group's Australian coal assets portfolio;
- monetise one or more non-core coal assets by full or partial divestment; and
- continue to progress the Teresa mining lease application in Queensland in parallel with the management of the ongoing commercial negotiations.

Clean Energy

- the commercialisation of UCG and GTL with the identification of the first project location and completion of required feasibility studies;
- continue to progress the UCG permitting processes in Queensland and Wyoming; and
- continue to evaluate coal resources for commercial UCG project suitability upon the Group's tenements in Australia, the USA and Poland and with strategic partners in Europe, Asia and Africa.

Share buy-back

On 12 September 2011 Linc Energy announced its intention to buy back up to five percent of the Company's fully paid ordinary shares as part of a capital management strategy due to the opportunity presented by the Company's share price at that time. The buy-back commenced on 26 September 2011 and may occur at any time during the following twelve months. During the reporting period 6,835,000 shares were bought for a total consideration of $11,812,048.

Matters subsequent to the end of the half-year

Share buy back

Subsequent to 31 December 2011 Linc Energy purchased an additional 250,000 shares for a total consideration of $281,254 under its on-market share buy-back announced on 12 September 2011.

Corporate Line of Credit Facility

On 31 January 2012 Linc Energy announced that it had entered into a $120,000,000 Line of Credit facility agreement with an affiliate of Fortress Investment Group, LLC. The facility can be drawn at any time and is available for a period of twelve months.

Amounts drawn under the facility are secured by certain assets of the Group, but the terms of the agreement allow the Group to deal with those assets and to repay any amount drawn down at any time during the period. The borrowing cost of the facility is approximately 7 percent over the 1 month BBSY rate. At the date of this report, $30,000,000 had been drawn.

Contingent liability

The Group has disclosed a contingent liability in respect of potential income tax payable on the market value at 3 August 2010 of the right to the royalty receivable from Adani from future coal production from the Galilee tenement. Linc Energy does not believe that the contingent royalty income is taxable. However, due to uncertainty over the treatment of this amount under Australian tax law, the Company has requested a private binding ruling from the Australian Taxation Office (ATO) in respect of this transaction given its potentially material value. This ruling has not yet been received, however it is expected to be received shortly.

Should the ATO ruling be unfavourable to Linc Energy, the potential additional tax payable in 2012 in respect of the 2011 financial year would be based on the market value of the royalty as at 3 August 2010. The market value of the royalty takes into account the significant risks and challenges associated with the development of a greenfields mining and infrastructure project of the scale proposed by Adani in the Galilee Basin. Due to the complex nature of the valuation and the significant uncertainties associated with its calculation, the Directors do not believe that it is practicable to provide an estimate of the value of the contingent liability at this time.

Related party transactions

During the period the Group entered into the following related party transactions:

- A loan of $250,000 was provided to Ken Dark, a Non-Executive Independent Director, for the purposes of exercising options granted under the Employee Share Plan. The loan was provided on commercial terms, with interest calculated monthly at a current rate of 11.41 percent. The loan is repayable no later than four years from the date of the loan and is secured by a holding lock over the shares. At the date of this report the outstanding balance of the loan is $254,655.
- $205,570 (31 December 2010: $0) was incurred with Bond Air Charters, a company associated with Executive Director Mr Peter Bond, for the provision of charter flights. $3,508 (2010: Nil) remains unpaid at the end of the reporting period.
- $333,000 (31 December 2010: $250,000) was paid to Bond Bros Contracting Pty Ltd, a company associated with Executive Director Mr Peter Bond, for the provision of executive management services. No amounts remain unpaid at the end of reporting period (2010: Nil).
- $245,250 (31 December 2010 $95,375) was paid to Executive Management Services Discretionary Trust, an entity associated with Executive Director Mr Craig Ricato, for the provision of executive management services. No amounts remain unpaid at the end of reporting period (2010: Nil).

No other loans have been provided to key management personnel. All transactions have been made at arms length

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the six month period ended 31 December 2011.

Rounding of amounts

Linc Energy Ltd is a company of a kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that class order amounts in the condensed consolidated interim financial report and Directors' Report have been rounded off to the nearest thousand dollars.

This report is made in accordance with a resolution of the Directors.

Peter Bond
Director
Brisbane
15 March 2012

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Linc Energy Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2011 there have been:

a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Simon Crane
Partner

Brisbane
15 March 2012

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Linc Energy Ltd ABN 60 076 157 045
Interim Financial Report
For the half year ended 31 December 2011

This interim financial report covers the consolidated entity (the "Group") consisting of Linc Energy and its subsidiaries. The interim financial report is presented in Australian currency.

Linc Energy Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

32 Edward Street
Brisbane, Qld 4000

The interim financial report was authorised for issue by the Directors on 15 March 2012. Linc Energy Ltd has the power to amend and reissue the interim financial report.

Through the use of the internet, our corporate reporting is timely, complete, and available globally at minimum cost to Linc Energy and its shareholders. All press releases, financial reports and other information are available at our Investors Centre on our website: www.lincenergy.com

	Note	Consolidated Half-year to 31 December 2011 $'000	Consolidated Half-year to 31 December 2010 $'000
Revenue		18,928	674
Cost of sales		(9,166)	(702)
Gross profit		9,762	(28)
Gain on sale of coal tenement, net of costs		-	495,001
Other income		526	317
Expenses:			
Business development		(1,908)	(1,063)
Administration and corporate		(35,091)	(19,402)
Site operating costs		(14,507)	(12,142)
Exploration and evaluation		(1,547)	(1,273)
Technology development		(5,586)	(3,104)
Results from operating activities		(48,351)	458,306
Financial income		3,023	11,707
Financial expenses		(13,450)	(199)
Net financial income/(expenses)		(10,427)	11,508
Profit/(loss) before income tax		(58,778)	469,814
Income tax (expense)/benefit		14,204	(142,166)
Profit/(loss) for the period		(44,574)	327,648
Other comprehensive income/(loss)			
Net change in the fair value of available-for-sale financial assets, net of transaction costs and tax		(4,060)	9,171
Foreign currency translation differences for foreign operations		(111)	(4,315)
Other comprehensive income/(loss) for the period, net of income tax		(4,171)	4,856
Total comprehensive income/(loss) for the period		(48,745)	332,504
Profit/(loss) attributable to:			
Equity holders of Linc Energy Ltd		(44,576)	327,655
Non-controlling interest		2	(7)
Profit/(loss) for the period		(44,574)	327,648
Total comprehensive profit/(loss) attributable to			
Equity holders of Linc Energy Ltd		(48,747)	332,530
Non-controlling interest		2	(26)
Total comprehensive profit/(loss) for the period		(48,745)	332,504
		Cents	Cents
Earnings/(loss) per share attributable to the ordinary equity holders of Linc Energy Ltd:			
Basic earnings/(loss) per share		(8.8)	66.1
Diluted earnings/(loss) per share		(8.8)	64.6

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Note	Consolidated 31 December 2011 $'000	Consolidated 30 June 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents		32,476	310,343
Trade and other receivables		13,465	2,654
Inventories		2,705	936
Assets classified as held for sale	8	-	9,032
Other assets		1,490	15,814
Total current assets		50,136	338,779
Non-current assets			
Receivables		14,089	5,856
Intangibles	6	237,300	195,108
Property, plant and equipment		15,256	12,775
Oil and gas assets	7	357,793	25,288
Available for sale investments		19,132	23,128
Deferred tax assets		36	19
Total non-current assets		643,606	262,174
Total assets		693,742	600,953
LIABILITIES			
Current liabilities			
Trade and other payables		22,949	14,927
Borrowings		910	2,786
Provision for income tax		-	10,781
Provisions		3,227	2,894
Other financial liability	11	6,054	-
Total current liabilities		33,140	31,388
Non-current liabilities			
Borrowings		127,530	1,866
Deferred tax liability		33,403	48,331
Provisions		22,234	5,647
Other financial liability	11	5,550	-
Total non-current liabilities		188,717	55,844
Total liabilities		221,857	87,232
Net assets		471,885	513,721
EQUITY			
Share capital	12	304,460	309,493
Reserves		38,613	40,377
Retained earnings		119,218	163,794
Total equity attributable to equity holders of the company		462,291	513,664
Non-controlling interest		9,594	57
Total equity		471,885	513,721

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes

in thousands $'000	Share capital	Foreign currency translation reserve	Convertible note reserve	Other reserves	Share based payments reserve	Retained Earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the company								
Balance as at 1 July 2010	287,388	(102)	-	5,309	23,655	(83,018)	233,232	93	233,325
Total comprehensive income for the period									
Profit for the period	-	-	-	-	-	327,655	327,655	(7)	327,648
Other comprehensive income									
Foreign currency translation differences for foreign operations	-	(4,296)	-	-	-	-	(4,296)	(19)	(4,315)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	9,171	-	-	-	9,171	-	9,171
Total other comprehensive income	-	(4,296)	9,171	-	-	-	4,875	(19)	4,856
Total comprehensive income for the period	-	(4,296)	9,171	-	-	327,655	332,530	(26)	332,504
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Contributions of equity, net of transaction costs	4,500	-	-	-	-		4,500	-	4,500
Dividends to equity holders	-	-	-	-	-	(49,643)	(49,643)	-	(49,643)
Share-based payment expense	-	-	-	-	6,508	-	6,508	-	6,508
Shares issued and transfer from share based payment reserve on vesting of performance rights	1,794	-	-	-	(1,794)	-	-	-	-
Shares issued and transfer from share based payment reserve on exercise of options	7,094	-	-	-	(3,375)	-	3,719	-	3,719
Shares issued as compensation for land access	81	-	-	-	-	-	81	-	81
Deferred tax recognised directly in equity	-	-	-	-	-	-	-	-	-
Total contributions by and distribution to owners	13,469	-	-	-	1,339	(49,643)	(34,835)	-	(34,835)
Total transactions with owners	13,469	-	-	-	1,339	(49,643)	(34,835)	-	(34,835)
Balance as at 31 December 2010	**300,857**	**(4,398)**	**9,171**	**5,309**	**24,994**	**194,994**	**530,927**	**67**	**530,994**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes

	Attributable to equity holders of the company								
in thousands $'000	Share capital	Foreign currency translation reserve	Available-for -sale reserve	Other reserves	Share based payments reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 July 2011	309,493	474	5,726	5,309	28,868	163,794	513,664	57	513,721
Total comprehensive income for the period									
Profit for the period	-	-	-	-	-	(44,576)	(44,576)	2	(44,574)
Other comprehensive income									
Foreign currency translation differences for foreign operations	-	(111)	-	-	-	-	(111)	-	(111)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	(4,060)	-	-	-	(4,060)	-	(4,060)
Total other comprehensive income	-	(111)	(4,060)	-	-	-	(4,171)	-	(4,171)
Total comprehensive income for the period	-	(111)	(4,060)	-	-	(44,576)	(48,747)	2	(48,745)
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Share-based payment expense	-	-	-	-	7,317	-	7,317	-	7,317
Shares issued and transfer from share based payment reserve on vesting of performance rights	3,553	-	-	-	(3,553)	-	-	-	-
Shares issued and transfer from share based payment reserve on exercise of options	3,226	-	-	-	(1,357)	-	1,869	-	1,869
Share buy-back	(11,812)	-	-	-	-	-	(11,812)		(11,812)
Total contributions by and distribution to owners	(5,033)	-	-	-	2,407	-	(2,626)	-	(2,626)
Changes in ownership interests in subsidiaries									
Acquisition on non-controlling interests	-	-	-	-	-	-	-	9,535	9,535
Total transactions with owners	(5,033)	-	-	-	2,407	-	(2,626)	9,535	6,909
Balance as at 31 December 2011	**304,460**	**363**	**1,666**	**5,309**	**31,275**	**119,218**	**462,291**	**9,594**	**471,885**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes

	Note	Consolidated Half-year 31 December 2011 $'000	Consolidated Half-year 31 December 2010 $'000
Cash flows from operating activities			
Receipts from customers and other debtors (inclusive of goods and services tax)		13,939	1,095
Payments to suppliers and employees (inclusive of goods and services tax)		(33,664)	(15,488)
Interest and borrowing costs paid		(2,599)	(398)
Payments for commodity swaps		(396)	-
Income taxes paid		(9,860)	(7,234)
Net cash (outflow) from operating activities		(32,580)	(22,025)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,874)	(1,282)
Proceeds from disposal of property, plant and equipment		35	-
Acquisition of software		(1,278)	(118)
Payment for exploration and evaluation		(20,701)	(2,970)
Payments for development activities		(40,075)	(15,490)
Payment for investment in AFC Energy Ltd		-	(4,857)
Acquisition of Powder River Basin (USA) tenements		-	(5,694)
Proceeds from sale of coal tenement		-	500,000
Payment for investment in Firestone Energy Ltd		(1,804)	-
Payment for acquisition of oil and gas assets	9	(254,701)	-
Payment for Umiat acquisition net of cash acquired	7	(44,660)	-
Loan to non-executive director		(250)	-
Net cash transferred (to)/from term deposits held as investments		1,211	(350,000)
Net cash transferred (to)/from term deposits held as security for guarantees and bonds		(3,162)	(1,858)
Interest received		3,088	4,984
Net cash inflow / (outflow) from investing activities		(365,171)	122,715
Cash flows from financing activities			
Proceeds from the exercise of share options		1,426	4,322
Proceeds from extinguishment of convertible loan facility		-	5,018
Dividends paid		-	(49,643)
Proceeds from borrowings		131,433	-
Repayment of finance lease liabilities		(2,577)	(371)
Payment for share buy-backs net of costs	12	(11,812)	-
Net cash inflow / (outflow) from financing activities		118,470	(40,674)
Net increase / (decrease) in cash and cash equivalents		(279,281)	60,016
Cash and cash equivalents at the beginning of the period		310,343	7,365
Effect of exchange rate fluctuations on cash held		1,414	36
Cash and cash equivalents at end of the period		32,476	67,417

The above condensed consolidated interim statement of cash flows should be read in conjunction with the accompanying notes

1 Reporting entity

Linc Energy Ltd (the "Company") is a company incorporated and domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated annual financial report of the Group for the year ended 30 June 2011 is available upon request from the Group's registered office at 32 Edward Street, Brisbane, Qld 4000 or at www.lincenergy.com.au.

2 Statement of compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* , the Corporations Act 2001 and with IAS 34 *Interim Financial Reporting.*

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2011.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 2008 and in accordance with the Class Order, amounts in the interim financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The consolidated interim financial report was approved by the Board of Directors on 15 March 2012.

3 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2011, except as set out in note 5.

4 Basis of preparation – operational performance and funding

The Group recorded an operating loss after tax for the half year of $44,574,000 and cash outflows from operating activities of $32,580,000. At 31 December 2011 the Group had cash and cash equivalents of $32,476,000 and total current assets of $50,136,000, while it had accounts payable of $22,949,000 and total current liabilities of $33,140,000. The Group also announced on 31 January 2012 that it had obtained access to a Line of Credit facility for $120,000,000, repayable in one year.

The Directors are confident that the combination of the $120,000,000 line of credit facility, the forecast increases in oil production and cash flows from the Gulf Coast oil assets (discussed in the Directors' Report), ongoing commercial negotiations for the divestment of non-core assets and the ability of the Group to reduce discretionary project expenditure and overheads, satisfies the going concern assumption in respect of the appropriateness of the preparation of the financial statements at 31 December 2011.

5 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the interim financial report are the same as those applied in the consolidated financial report as at and for the year ended 30 June 2011, except as noted below.

Derivative Financial Instruments

The Group holds derivative financial instruments to hedge its exposure to commodity price risk. The Group records all derivative instruments as either assets or liabilities at fair value, other than the derivative instruments that meet the normal purchase and sales exclusion. The Group has not elected to designate its derivative instruments in a hedge relationship and, therefore, recognises all changes in fair value of its derivative financial instruments immediately through financial expenses in profit and loss.

6 Intangibles

	31 December 2011 $'000	30 June 2011 $'000
Balance at the start of the period	195,108	181,963
Additions	41,295	30,099
Acquisitions	286	-
Amortisation	(6,260)	(11,067)
Reclassified from assets held for sale	9,032	-
Exploration costs refunded (Alaska)	(3,826)	-
Effects of movements in exchange rates	1,665	(5,887)
Balance at the end of the period	237,300	195,108

Exploration and development expenditure is capitalised in accordance with the Group's accounting policies as set out in the full financial report for the year ended 30 June 2011.

The main additions are comprised of $16,543,000 (30 June 2011: $9,479,000) for coal-to-liquids technology development, $23,632,000 (30 June 2011: $19,981,000) for exploration and evaluation and the balance for software additions.

7 Oil and gas assets

	Note	31 December 2011 $'000	30 June 2011 $'000
Balance at the start of the period		25,288	-
Additions		3,099	9
Acquisitions as part of business combinations	9	261,132	24,426
Asset acquisitions		55,560	-
Provision for closure costs		16,026	2,616
Disposals/derecognition		(65)	-
Depletion expense		(4,356)	(330)
Effects of movements in exchange rates		1,109	(1,434)
Balance at the end of the period		357,793	25,288

Umiat Acquisition (asset acquisition)

On 8 July 2011, Linc Energy acquired a 100% interest in Renaissance Alaska, LLC which holds an 84.5% membership and voting interest in Renaissance Umiat. Total consideration for the acquisition was $52,529,000 (US$56,416,000) of which $44,660,000 net of cash acquired (US$47,965,000) was paid during the current period to complete the acquisition (following working capital adjustments at closing). Renaissance Umiat holds 19,358 undeveloped acres leased in the Umiat Oil Field, which is located in the National Petroleum Reserve, Alaska. Renaissance Umiat owns a 100% working interest and 80% net revenue interest in the Umiat lease position.

The acquisition was treated as an asset acquisition as the acquired entities did not meet the definition of a business as described by the relevant accounting standard (AASB 3 *Business Combinations*). Linc Energy recorded the fair value of the 15.5% non-controlling interest in Renaissance Umiat on the date of close of $9,038,000 (US$9,707,000).

There are no known contingent assets or liabilities and no further contingent consideration is payable to the seller. The Group does not expect any material changes to the amounts disclosed on the next page

7 Oil and gas assets (continued)

.

Assets acquired	Carrying amount	Fair value adjustments	Fair value
	$'000s	$'000s	$'000s
Cash	4,383	-	4,383
Accounts receivable (net of allowance)	261	-	261
Unproved oil and gas properties	55,560	-	55,560
Equipment inventory	954	-	954
Property, plant, and equipment	31	-	31
Bonds	498	-	498
Other assets	41		41
Liabilities (accounts payable)	(161)	-	(161)
Net identifiable assets	61,567		61,567
Purchase consideration paid in cash			(52,529)
Non-controlling interest			(9,038)

There would not have been an impact to the statement of financial performance had the acquisition been made at the beginning of the year. Linc incurred transaction costs of $116,729 (US$120,476) with respect to this transaction.

8 Assets classified as held for sale

Given the significant increase in development activity planned for 2012 at the Teresa mine and the length of time that both the Teresa (Bowen Basin) and Pentland (Galilee Basin) tenements have been classified as 'held for sale' these assets of $9,032,000 have been reclassified to Exploration and Evaluation Intangible Assets. The Group continues to pursue the sale of the Teresa (Bowen Basin) and Pentland (Galilee Basin) non-core coal tenements and active negotiations are ongoing with a number of domestic and overseas parties for the sale of these assets either by full or partial divestment. However, the Group continues to progress development of these assets so as to continue to add value to them and improve their prospects for sale. Activities conducted in the current half year period include additional infill drilling and the continuation of an Environmental Impact Study for the Teresa mine development

9 Business combinations

On 11 October 2011, Linc Gulf Coast Petroleum, Inc. a wholly owned subsidiary of Linc Energy USA, acquired thirteen oil and gas fields in Texas and Louisiana along with related assets and certain employees from ERG Resources LLC, securing immediate oil production. The effective date of the purchase was 1 October 2011.

Total consideration for the acquisition was$264,230,000 (US$261,350,000) of which $254,701,000 (US$251,920,000) was paid during the current period to complete the acquisition. The fair value of the proved oil and gas properties was based on comparable Gulf Coast transactions and a risk adjusted third party reserve report prepared by Haas Petroleum Engineering Services, Inc. The fair value of the related oil and gas assets such as compression, transportation, and processing facilities was based on a third party valuation analysis prepared by WCG Consulting, LLC.

The Group has accrued $217,632 (US$221,419) for potential claims associated with unpaid vendors who performed services prior to the acquisition date on behalf of ERG Resources, LLC. While the Group has been indemnified against all such claims and judgments by the seller, it may be required to settle future claims for continued operational purposes. Also, in accordance with the purchase and sale agreement, Linc Gulf Coast Petroleum, Inc. is required to reimburse ERG Resources, LLC for costs related to the Higgins #18 well which was drilled and completed by ERG Resources, LLC prior to the close date on behalf of Linc Gulf Coast Petroleum, Inc. A final settlement statement is to be delivered to the Group 90 days subsequent to the close date. The Group accrued $871,911 (US$887,082) for the expected costs at 31 December 2011.

9 Business combinations (continued)

There are no other known contingent assets or liabilities and no further contingent consideration is payable to the seller. Note that under the relevant accounting standard (AASB 3 *Business Combinations*), the acquisition fair values are deemed to be provisional and may be adjusted for up to one year following the date of acquisition should there be any changes in the identified assets and liabilities or their fair values. This may occur for example in relation to confirmation with relevant authorities of title over certain petroleum leases and Linc's associated net revenue interest. The Group does not expect any material changes to the amounts disclosed below.

Assets acquired	Carrying amount	Fair value adjustments	Fair value
	$'000s	$'000s	$'000s
Property, plant and equipment	222	-	222
Oil and gas plant and equipment	17,509	-	17,509
Oil and gas assets (producing)	261,132	-	261,132
Other assets	3,883	-	3,883
Liabilities	(2,443)	-	(2,443)
Asset retirement obligation	(16,073)	-	(16,073)
Net identifiable assets	264,230	-	264,230
Purchase consideration paid in cash			(264,230)

Had the assets been acquired at the beginning of the period, the estimated impact on the Group's revenue from oil sales would have been an increase of $16,000,000, with a resulting increase in net profit of $5,320,000. Linc incurred transaction costs of $1,949,301 (US$2,011,874) which have been recognised in profit and loss in accordance with AASB 3 *Business Combinations*.

10 Borrowings

To partially finance the ERG Resources, LLC acquisition and to provide working capital to develop the assets, Linc Gulf Coast Petroleum, Inc. entered into a US$300,000,000 non-recourse credit agreement with BNP Paribas. The credit facility provides for a maximum borrowing of up to US$300,000,000, with an initial borrowing base of US$130,000,000. The credit facility has a four year term and the borrowing base will be re-determined semi-annually. The determination of the borrowing base is made by the lenders, taking into consideration the estimated value of Linc Gulf Coast's oil and gas properties. The facility is secured by Linc Gulf Coast Petroleum, Inc. assets which include the Wyoming, Texas, and Louisiana oil and gas assets. As at 31 December 2011, the total amount outstanding was $127,777,000 (US$130,000,000).

Borrowings under the credit facility currently bear interest at approximately 3.1%, with the rate dependant on a number of factors including borrowing base utilisation. The credit facility includes terms and covenants customary of a Reserve Based Lending facility. The Group is currently in compliance with all of its requirements.

The Group incurred $2,125,516 (US$2,162,500) of financing costs directly associated with the acquisition including an agency fee of $49,145 (US$50,000), an upfront fee of $798,604 (US$812,500), and a $1,277,767 (US$1,300,000) underwriting fee. Debt issuance costs are offset against the borrowing on the statement of financial position and amortised over the period of the borrowings on an effective interest basis.

11 Financial Instruments

The Group periodically enters into derivative instruments such as swap agreements in an attempt to moderate the effects of fluctuations in commodity prices on the Group's cash flow and to manage the exposure to commodity price risk. The Group's commodity derivative instruments generally serve as effective economic hedges of commodity price exposure; however, the Group has elected not to designate its derivatives as hedging instruments. As such, the Group recognises all changes in fair value of its derivate instruments as unrealised gains or losses on derivative instruments in profit and loss.

11 Financial Instruments (continued)

The table below sets forth the Group's outstanding commodity swaps as of 31 December 2011.

	Oil (NYMEX WTI)	
Swaps:	**Barrels per day**	**Weighted Average Hedged Price per Bbl (USD)**
Financial year 2012	1,354	86.20
Financial year 2013	1,169	86.49
Financial year 2014	895	86.96
Financial year 2015	728	87.28
Financial year 2016	654	87.55

The table below summarises the location and fair value amounts of the Group's derivative instruments reported in the Consolidated Statement of Financial Position as at 31 December, 2011.

Liabilities:	**31 December 2011 $'000s**	30 June 2011 $'000s
Current		
Other financial liability	6,054	-
Non-current		
Other financial liability	5,550	-
Total	11,604	-

For the six month period ending 31 December 2011, the Group recognised realised and unrealised losses in profit and loss on derivative instruments of $783,000 (US$808,000) and $11,439,000 (US$11,807,000), respectively totalling $12,222,000 (US$12,615,000).

12 Share capital

	Consolidated		Consolidated	
	31 December 2011 Number	30 June 2011 Number	**31 December 2011 $'000**	30 June 2011 $'000
Share Capital				
Ordinary shares – fully paid	**505,830,771**	506,809,790	**304,460**	309,493

Movements	**No of shares**	**Value $'000**
Opening balance as at 30 June 2011	506,809,790	309,493
Shares issued on exercise of options	3,489,834	3,226
Shares issued on vesting of performance rights	2,366,147	3,553
Share buy-back	(6,835,000)	(11,812)
Closing Balance at 31 December 2011	**505,830,771**	**304,460**

Share buy-back
On 12 September 2011 Linc Energy announced its intention to buy back up to five percent of the Company's fully paid ordinary shares as part of a capital management strategy due to the opportunity presented by the Company's share price at that time. The buy-back commenced on 26 September 2011 and may occur at any time during the following twelve months. During the reporting period 6,835,000 shares were bought for a total consideration of $11,812,048.

13 Contingent assets and liabilities

Contingent assets

Adani Royalty

On 3 August 2010 Linc Energy announced that it had entered into a contract with Adani Mining Pty Ltd ("Adani"), a subsidiary of Adani Enterprises of India, to sell the non-core Galilee coal exploration tenement for $500,000,000. As part of this transaction Linc are also entitled to receive A$2.00 per tonne, indexed to inflation from the date of sale, for the first 20 years of production from the tenement.

As the receipt of income from the royalty is dependent on future production from a mine in the tenement, it currently does not meet the criteria for recognition as an asset in the financial statements. Given the inherent uncertainty in estimating the ultimate quantum and timing of production from a mine in the tenement, it is not practicable to quantify the present value of the contingent asset.

Contingent liabilities

As previously disclosed in the 30 June 2011 annual report a contingent liability exists in respect of tax that may be payable on the market value as at the date of Galilee tenement sale of the right to receive a royalty in future from Adani Mining Pty Ltd in respect of production from the Carmichael coal mine. The Group does not believe that the contingent royalty income is taxable in the 2011 income tax year. However, due to uncertainty over the treatment of this amount under Australian tax law, the Company has requested a private binding ruling from the Australian Taxation Office in respect of this transaction given its potentially material value. This ruling has not yet been received however is expected to be received shortly.

The potential additional tax payable in 2012 in respect of the 2011 financial year would be based on the market value of the royalty as at 3 August 2010. The market value of the royalty would take into account the significant risks and challenges associated with the development of a greenfields mining and infrastructure project of the scale proposed by Adani in the Galilee Basin. Should a negative ruling be received, the Group will employ external consultants to calculate the market value of the royalty. Due to the complex nature of the valuation and the significant uncertainties associated with its calculation, the Directors do not believe that it is practicable to provide an estimate of the value of the contingent liability at this time.

Should an amount of tax be paid or payable in 2012, the impact on the Group's financial statements would be to increase income tax expense and to increase the provision for current tax payable.

14 Related party transactions

During the period the Group entered into the following related party transactions:

- A loan of $250,000 was provided to Ken Dark, a Non-Executive Independent Director, for the purposes of exercising options granted under the Employee Share Plan. The loan was provided on commercial terms, with interest calculated monthly at a current rate of 11.41 percent. The loan is repayable no later than four years from the date of the loan and is secured by a holding lock over the shares. At the date of this report the outstanding balance of the loan is $254,655.
- $205,570 (31 December 2010: $0) was incurred with Bond Air Charters, a company associated with Executive Director Mr Peter Bond, for the provision of charter flights. $3,508 (2010: Nil) remains unpaid at the end of the reporting period.
- $333,000 (31 December 2010: $250,000) was paid to Bond Bros Contracting Pty Ltd, a company associated with Executive Director Mr Peter Bond, for the provision of executive management services. No amounts remain unpaid at the end of reporting period (2010: Nil).
- $245,250 (31 December 2010 $95,375) was paid to Executive Management Services Discretionary Trust, an entity associated with Executive Director Mr Craig Ricato, for the provision of executive management services. No amounts remain unpaid at the end of reporting period (2010: Nil).

No other loans have been provided to key management personnel. All transactions have been made at arms length

15 Events occurring after reporting date

Corporate Line of Credit Facility
On 31 January 2012 Linc Energy announced that it had entered into a $120,000,000 Line of Credit facility agreement with an affiliate of Fortress Investment Group, LLC. The facility can be drawn at any time and is available for a period of twelve months. Amounts drawn under the facility are secured by certain assets of the Group, but the terms of the agreement allow the Group to deal with those assets and to repay any amount drawn down at any time during the period. The borrowing cost of the facility is approximately 7% over the 1 month BBSY rate.

On 15 February 2012, $30,000,000 was drawn. At the date of this report no further amounts have been drawn.

Share buy back
Subsequent to 31 December 2011 Linc Energy purchased an additional 250,000 shares for a total consideration of $281,254 under its on-market share buy-back announced on 12 September 2011.

16 Operating Segments

Reportable segments

Operating segments have changed to reflect the strategic business areas as discussed in the Director's report. Comparative data has been restated to reflect these changes in operating segments. The Group's Oil and Gas division is involved in the exploration for development and production of oil and gas in North America and South Australia. The Group's Coal division is responsible for the acquisition, exploration and development of the Group's significant coal resources. The Group's Clean Energy operations involve the development and commercialisation of Coal-to-Liquids (CTL) processes through the combined utilisation of Underground Coal Gasification (UCG) and Gas to Liquids (GTL) technologies.

in thousands $'000	Oil & Gas		Coal		Clean Energy		Other unallocated		Total	
	31 December 2011	31 December 2010	**31 December 2011**	31 December 2010	**31 December 2011**	31 December 2010	**31 December 2011**	31 December 2010	**31 December 2011**	31 December 2010
External revenues	**18,016**	-	**-**	-	**912**	674	**-**	-	**18,928**	674
Depreciation, amortisation and depletion	**(4,767)**	-	**-**	-	**(6,063)**	(5,426)	**(852)**	(598)	**(11,682)**	(6,024)
Reportable segment profit before income tax	**9,600**	-	**-**	495,001	**(17,902)**	(15,332)	**(50,476)**	(9,855)	**(58,778)**	469,814
Material items of income or expense:										
Gain on disposal of coal tenement	**-**	-	**-**	495,001	**-**	-	**-**	-	**-**	495,001
Material non-cash items of income or expense										
Share based payment expense	**-**	-	**-**	-	**-**	-	**7,317**	6,508	**7,317**	6,508

	Oil & Gas		Coal		Clean Energy		Other unallocated		Total	
	31 December 2011	30 June 2011	**31 December 2011**	30 June 2011	**31 December 2011**	30 June 2011	**31 December 2011**	30 June 2011	**31 December 2011**	30 June 2011
Reportable segment non-current assets	**363,827**	26,169	**19,432**	3,674	**84,336**	70,914	**176,011**	161,417	**643,606**	262,174
Total reportable segment assets	**383,850**	40,597	**19,432**	12,706	**85,914**	71,851	**204,546**	475,799	**693,742**	600,953
Goodwill	**-**	-	**-**	-	**1,292**	1,292	**-**	-	**1,292**	1,292
Capital expenditure[1]	**339,367**	40,192	**6,726**	889	**19,458**	11,749	**18,407**	13,829	**383,957**	66,660

[1]Comparative capital expenditure for the six months ended 30 June 2011.

16 Operating Segments (continued)

Geographical Segments

The worldwide operations of the Group are managed from the Brisbane head office, but the group's operations are located in four principal locations: Australia; North America; Europe and Asia. In Australia, the Group operates in Queensland and South Australia. In Asia, the operations of the Group are at Yerostigaz in Angren, Uzbekistan. In North America the Group operates in Colorado, Wyoming, Montana, Texas, Louisiana and Alaska. In Europe the Group operates from a regional base in London, with subsidiaries established in Poland and Hungary.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Revenues		Non-Current Assets	
Geographical segments	**31 December 2011**	31 December 2010	**31 December 2011**	30 June 2011
	$'000	$'000	**$'000**	$'000
Australia	**-**	-	226,048	192,871
USA	**18,016**	-	415,954	67,980
Asia (Uzbekistan)	**912**	674	1,110	1,058
Europe	**-**	-	494	95
Total	**18,928**	674	643,606	262,174

In the USA, all oil produced from the Glenrock fields in Wyoming is currently delivered to and sold to a third party refiner. On the Gulf Coast (Texas and Louisiana) oil is sold to two third party refineries. In Asia, all syngas produced at Yerostigaz is currently sold to the Angren power station which is a State-owned utility company.

In the opinion of the directors of Linc Energy Ltd ("the Company"):

(a) the financial statements and notes set out on pages 11 to 24 are in accordance with the *Corporations Act 2001,* including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the six month period ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001;* and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Peter Bond
Director

Brisbane
15 March 2012

KPMG

Independent auditor's review report to the members of Linc Energy Ltd

We have reviewed the accompanying interim financial report of Linc Energy Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2011, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Linc Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Linc Energy Ltd is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Simon Crane
Partner

Brisbane
15 March 2012