Attention ASX Company Announcements Platform: Lodgement of Company Insight

Linc Energy Ltd **Date of Lodgement: 17/10/12**

Title: "Company Insight – Benefits of US$265M Notes Issue"

Highlights of Interview

- **Linc Energy issues new Notes to fund strong production growth for Gulf Coast oil & gas assets plus to pay down existing debt.**
- **Explains strong market support for the new Notes and ability to clearly service the debt.**
- **Explains why Notes not registered under Securities Act or applicable state securities laws.**
- **Linc Energy comfortable raising debt in current world economic environment – avoids issuing equity at a share price well below fair value & also establishes presence in this debt market.**
- **Notes secured against Linc's U.S. oil & gas assets only - with no recourse to Coal, Clean Energy & SAPEX assets.**
- **Discusses relative value of each division – current market cap clearly underpinned by U.S. Gulf Coast assets alone, with the other 3 divisions potentially worth a multiple of current market cap.**
- **Summarises major growth objectives.**

Record of interview:

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Linc Energy Ltd (ASX code: LNC; market cap of ~$310m) recently announced that it had closed its private offering of an aggregate principal amount of US$265 million senior secured notes due in 2017 (the "Notes"). Can you explain the purpose or rationale for issuing this debt? What existing debt will you repay?

Managing Director, Peter Bond
The reason for issuing these high yield Notes in North America is to support the development of our oil and gas division. The oil and gas division has three major project areas being the Gulf Coast, Wyoming and Alaska. We're fortunate to have a very good asset package and this capital will be used to significantly grow our production in the Gulf Coast and continue our Alaskan development program by funding our winter drilling program at our Umiat site.

We believe this to be the most cost effective way of accessing the capital needed to continue to develop our oil and gas assets when our share price is trading at what we believe is a very significant discount to fair value. We do not want to issue equity or convertible debt in the current market, which arguably would be very expensive money based on our current share price. The debt is secured only by our US oil and gas assets with no recourse to the parent company or our other assets (coal, clean energy and SAPEX (oil shale)). The US debt market was comfortable with those assets alone securing the debt – so that's a very positive endorsement for the value of our US business and the key assets underpinning that business.

We had two debt facilities prior to this new issue. One was a Reserve-based 1st lien revolver facility at a low interest rate and totalling US$130 million. This was secured against our Gulf Coast assets and was fully drawn to originally acquire those assets. We've paid this facility back in total and Wells Fargo has given us a new 1st lien revolver facility of US$50 million at similar interest rates, which can increase in size as our production increases. The new Wells Fargo facility is completely undrawn at present. The second debt facility was an A$120 million Australian based revolver facility which had similar rates to the new high yield Notes. We've decreased this to A$90 million, and paid it down to a current outstanding drawn balance of approximately A$20 million. We can continue to access this facility at any time until mid 2015, which gives us plenty of run room to operate our Coal, Clean Energy and SAPEX (oil shale) assets and meet our ongoing corporate needs.

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The Notes will bear interest at 12.5% per annum, are due in October 2017 and will have an issue price of 96.402% of their face amount, resulting in net proceeds of approximately US$255.5 million before fees. Why did you choose this funding option, particularly with the high interest rate? Did you operate within the loan covenants for the previous debt facility?

Managing Director, Peter Bond
Apart from the desire to avoid issuing equity or convertible notes for the reasons I explained before, we chose this facility because it provides the opportunity for us add to it by issuing additional notes at a lower 'all in' rate in the future if needed as we grow production and meet our milestones. We also wanted to establish a presence in the US debt market knowing that in future this will give us greater flexibility to raise additional capital at lower cost, particularly when you consider that we may use more of this "bond" debt type of funding to bring our Umiat oil field (Alaska) into production. Subsequently it made sense to establish a presence with debt bond buyers and traders as early as possible. We are extremely happy that the market has strongly supported us as a first time US issuer with an asset package that has effectively been in production for less than 12 months. These are traded notes so that the par value fluctuates and the Notes were actually trading up at around 98% on the first day of issue, which was good to see. Importantly our U.S. oil and gas assets are conservatively valued at US$680 million based on our Gulf Coast reserve report and a Wood Mackenzie report as at 1 July 2012, so we're not surprised at the support the Notes issue received. It's also worth noting that based on this valuation we've more than doubled the value of our oil business since creating it last year.

We operated both the Australian dollar debt facility and the US dollar facility completely within the loan covenants. There was a technical Current Ratio breach on our US dollar facility during our first audit period on our Gulf Coast assets. However, that was a timing issue as we had to leave our books open during the audit process, so we effectively had a 14 month accrual year. Wells Fargo did not consider it a real breach of the loan covenants and when we brought it to their attention they issued a waiver immediately. This was an accounting issue and was certainly not a catalyst to issue the current new Notes.

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Who were the Notes issued to? What level of support did you receive for the issue?

Managing Director, Peter Bond
There were two book runners and the Notes were issued to around 30 institutions specializing in debt instruments in the US. We received excellent support from major institutions and the issue was oversubscribed by about US$75-100 million. We didn't believe we needed to take up that over subscription, particularly when we can 'tack on' additional notes or re-issue more notes at cheaper rates in the future.

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The Notes were issued by the Company's wholly-owned subsidiaries Linc USA GP and Linc Energy Finance (USA), Inc. Why were the Notes offered in a private placement and why won't they be registered under the Securities Act of 1933 or applicable state securities laws?

Managing Director, Peter Bond
The first step in issuing notes in the high yield debt market is to announce it publicly and then have our book running banks place the debt with institutions privately. We did not register the Notes because we simply don't yet have the required financial history in our oil & gas division to support registration. I believe that around two full operating years are required before we can register notes. Though again I believe it's worth repeating that the Notes we issued are tradeable "bonds".

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How will you fund the interest payments of more than US$33 million per annum? Can the Notes be repaid earlier than 2017? Can they be converted to equity?

Managing Director, Peter Bond
Our ability to service the debt was reviewed comprehensively by our bankers and we are confident that we can comfortably service the Notes at our current rates of oil production and obviously we are even more confident as we grow that oil production. We also have an active hedging program to underpin revenues and service debt interest.

The Notes are due to be repaid in five years, but that can be done earlier. There is a schedule of payment amounts if we pay back before 5 years. No penalties apply as these are normal discounted proceeds amounts that apply to these types of bonds if we elect to repay them early. The Notes are purely debt and can't be converted to equity. And, as I've said, ensuring that we don't unnecessarily dilute shareholders by issuing very expensive equity whilst still getting on with the job of reaching milestones, such as the drilling of Umiat (Alaska), was very important to us.

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How do you intend to draw down the debt? What are the penalties if the interest is not paid on time? Is that a risk?

Managing Director, Peter Bond
It's not like a revolving debt facility where we can draw down funds as required. Once the Notes were issued the total proceeds were paid to us; that's just the way bond deals work. This is why we paid down the other debt facilities, they are revolving lines of credit, so we can re-draw on them as we need to going forward. The usual penalty terms apply if interest is not paid on time. As I said the Notes are secured against our US oil and gas assets.

We looked at this new debt facility very conservatively before we went ahead. As I've explained before, we will comfortably be able to cover the interest payments at current levels of oil production, particularly with hedging in place, and we are increasing oil production further from current levels.

With the hedging in place, we have avoided the oil commodity price risk so that the risk of servicing the debt comes down to production risk and, with such strong production growth forecast, we believe that the production risk is minimal.

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As at 30 June 2012, Linc had Net Assets of A$454 million and currently has a market capitalization of ~$310 million. Is it risky to potentially take on this amount of debt, particularly in the current world economic environment?

Managing Director, Peter Bond
The current macroeconomic environment means that it is very difficult to raise any kind of funding, whether it is debt or equity, only the better quality companies with very good stories, very good assets and the ability as mentioned to pay interest are gaining funding. So it's a great vote of confidence in Linc Energy and our assets that we've been able to secure US$265m worth of funding. We have good assets which we want to invest in and grow for the benefit of our shareholders. We have already invested around US$310 million in our oil and gas assets, which as I stated before are currently valued at more than twice that amount, and we took this opportunity to raise debt in order to further grow the value of this asset package and subsequently the overall value of the Company for shareholders.

We are comfortable raising debt rather than equity which would significantly dilute current shareholders at a share price which we believe is undervalued. We thoroughly analysed our ability to take the debt on and the banks did likewise. We are very comfortable that taking on this debt is appropriate and will significantly grow shareholder value. In fact we believe that in taking this debt on now – in order to grow production and progress the development of our Alaskan project – that we are de-risking the business in terms of exposure to future economic cycles. We've actually already doubled our oil production since acquiring the Gulf Coast assets in late October 2011 and plan to have tripled it by the end of this year. That is quite impressive growth. Also as mentioned, the amount of debt is far less than the recent valuation of our US oil and gas assets of $680 million and that valuation of course excludes any value for our other three operating divisions in Clean Energy, Coal and SAPEX (oil shale).

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The Notes are secured by Linc's US oil and gas assets and are fully non-recourse to Linc Energy Ltd. Can you give a guide on the value of your US oil and gas assets relative to the entire Linc asset portfolio?

Managing Director, Peter Bond
It's a difficult question to answer as each of our assets is at a different stage of development. Clearly the US oil and gas assets can be more readily valued because they are producing and generating positive cash flow. We've published valuations of these assets recently as I referred to before. In particular, our Alaskan oil and gas assets are potentially extremely valuable indeed and we look forward to drilling these this winter.

It's not appropriate to value the other three operating divisions just yet other than to say that we believe they have significant value. I think that each of our other three operating divisions would have a value of a multiple of our current market capitalization. We would refer investors to various stock broker analyst reports for an independent view of the value of these assets.

We have a significant coal asset in Queensland's Bowen Basin called the 'Teresa' mine project. Our coal division is moving this towards production whilst also managing a large package of additional coal lease acreage in Australia which we own. I think that the Teresa asset alone is worth something not dissimilar to our current market capitalisation. We also hold a $2/t royalty indexed to CPI over Adani Group's (a large Indian company) Carmichael project (formerly Galilee) which is expected to be a 60 million tonne per annum mine. It is obvious that this royalty is extremely valuable. Adani are currently aiming to bring the Carmichael mine into production in 2014, with exports occurring in 2016 on completion of the rail development.

We have around 66,000 sq km of petroleum exploration acreage in South Australia within our SAPEX operations, covering almost the entire Arckaringa Basin. We think that this is an extremely valuable asset, but we will only begin to understand its real value once we further explore it. We have already encountered oil shows and have discovered a significant oil shale deposit.

Then there is the Underground Coal Gasification (UCG) technology in our Clean Energy division which we see as having the greatest longer term value of any of our assets. Our shareholders have already invested over $150 million in developing our UCG technology. Having restructured the Company into our four focused operating divisions, we believe we are now in a strong position to commercialise our UCG technology and launch it globally. This technology is almost impossible to value at the moment, but its value will become more apparent as it is commercialised. Overall, we believe that the Company's assets, particularly when you include our oil and gas assets, are worth many multiples of our current market capitalization.

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What has been the market reaction (brokers, funds, media) to your Notes issue?

Managing Director, Peter Bond
The reaction has been very positive from those sections of the market you mention, but also from other companies within our sector. People have been impressed that we've been able to issue the Notes in such a short period. The reaction has been stronger from overseas where the US market is very familiar with these debt facilities, while we have had to explain the facility to brokers and retail investors in Australia who are less familiar with this type of debt. Unfortunately, when making public announcements about this type of debt offering, the Company is constrained by US legal requirements as to the contents of the initial announcement. I don't think that this constraint has assisted us in explaining what is a great achievement for the Company and a serious vote of confidence in our underlying asset value to investors outside of the USA.

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Can you summarise Linc's major growth objectives over the next year and beyond?

Managing Director, Peter Bond
When looking at the growth objectives for Linc Energy we really have to look at each of the four divisions.

Our objectives for the Gulf Coast oil and gas assets are pretty straightforward in that we will be investing capital to further grow production. We will conduct our first winter drilling on our Alaskan assets in Umiat at the end of this year through to next year. Our long term goal is to bring Umiat into production by 2017. That will require a large amount of capital and only by undertaking these winter drilling programs to define reserves and progress production permits will we be able to access the capital required to develop this oil field. We're moving ahead with detailed engineering and planning for our Wyoming project. Although this is the smallest of our three main oil and gas assets, it will still be a strong cash flow generator in the future. We will deploy more capital to Wyoming once we have reached our production objectives with the Gulf Coast assets.

Our Clean Energy business is completely focused on commercializing the UCG technology. There are a number of opportunities in Australia, Africa, Asia, Europe and North America which we are investigating to form partnerships to develop the technology. There are a handful of priority opportunities in which we currently have active dialogue. There are two quite advanced opportunities with GCL in China and Exxaro in Africa.

We are confident that we can deliver significant shareholder value from our Coal division. We are continuing to look at options to joint venture or divest these assets while, in the meantime, continuing to develop and add value to them.

Finally, we have done a lot of work on our SAPEX (oil shale) assets with a lot of drilling and an extensive seismic program. These results are currently being reviewed and our longer term objective is to bring in a strong joint venture partner to assist in developing this asset package.

Overall, the outlook for our shareholders is extremely positive. As I've tried to explain, our current oil and gas producing assets in the Gulf Coast easily underpin the current value of the Company. On top of that we have additional oil and gas assets to develop in Alaska and Wyoming, the Adani Royalty which is closing in on first production and significant value to unlock from each of the other three divisions – Clean Energy, Coal and SAPEX.

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Thank you Peter.