

**AUSTRALIAN EQUITIES RESEARCH**

**NORTHERN ENERGY CORPORATION LIMITED  
UPDATE**

<b>ASX code:</b>	<b>NEC</b>	<b>12 month price range:</b>	<b>\$0.20-\$1.12</b>
<b>Current price:</b>	<b>\$1.07</b>	<b>PER (x):</b>	<b>-</b>
<b>Ordinary shares on issue:</b>	<b>112.1m</b>	<b>Yield (%):</b>	<b>-</b>
<b>Market capitalisation:</b>	<b>\$120m</b>	<b>Cash backing per share:</b>	<b>\$0.10</b>
<b>Web-site address:</b>	<b>www.northernenergy.com.au</b>		

Northern energy is a coal company with 4 projects. It is developing an extensive resource base and is in the process of moving from explorer to producer.

Prices for both coking coal (used in steel making) and thermal coal (power generation) are strong and expected to remain robust for the foreseeable future.

We value the company at **\$4.33 to \$4.67** on a risked valuation (includes around \$0.10 per share in cash or approx \$12m).

This value will increase significantly once a mining lease is granted on Maryborough and an NPV valuation can be applied. Below is a break up on each project.

**Elimatta (100%) – THERMAL COAL**

The Elimatta Thermal Coal project (100% Northern Energy) is located in the northern part of the Surat Basin in the Taroom Shire.

Mining development at Elimatta is proposed to be open cut, producing 100% thermal coal. Current indications are of a highly volatile, low nitrogen and low sulphur product, which would be suitable for export.

**VALUATION**

Category	Measured	Indicated	Inferred	Exploration Target	TOTAL Value
Mt	129	75	40	30 to 50	274 to 294
Value (\$)/t	\$6	\$6	\$1	\$1	
RISK Factor (%)	80%	80%	80%	80%	80%
<b>Total (\$m)</b>	<b>\$155</b>	<b>\$90</b>	<b>\$8</b>	<b>\$6 to \$10</b>	<b>\$259 to \$263</b>
<b>Value \$/Share</b>	<b>\$1.38</b>	<b>\$0.80</b>	<b>\$0.07</b>	<b>\$0.05 to \$0.09</b>	<b>\$2.31 to \$2.35</b>

**\*\* 82mt PROVEN and 24mt Probable (MARKETABLE RESERVES)**

For our valuation purposes we will apply a \$6/t valuation on Measured and Indicated Marketable Resources and \$1/t for inferred and exploration targets. These valuations are within the range of recent valuations on market based transactions. We will also apply a very conservative risk factor of 80%. We expect that PRODUCTION at a rate of 5mtpa should occur by late 2012/early 2013 IF current infrastructure plans are maintained.

## Maryborough (100%) – HARD EXPORT QUALITY COKING COAL

The Maryborough EPC923 is 100% owned by Northern Energy Corporation. It is located approximately 20km north of the town of Maryborough and west of Hervey Bay, along the Queensland coast. Japan's Department of New Energy and Industrial Technology Development Organization, also known as NEDO funded the initial drilling programme at Maryborough. NEC has confirmed that the coal within the area has coking properties, which should make it attractive to the global steel industry and will therefore put the resource at the higher end of the coal price spectrum.

The area was historically mined using underground techniques to produce coal for domestic power generation. However, NEC is proposing an open-cut, multi seam operation.

The Maryborough area has some advantages because it is close to the coast, serviced by road and rail, and is approximately only 220km from Gladstone by rail. Therefore infrastructure does not appear to be an issue.

A 50Mt TO 70Mt exploration Target has recently been identified along with a 5Mt Inferred resource. Most of the target is at shallow depths making the initial 500,000tpa mine production rate now look EXTREMELY CONSERVATIVE. Current Drilling is under way to upgrade the resource and Exploration Target and provide input to the washplant design. Currently an environmental plan and mining leases are being worked on with a POTENTIAL PRODUCTION COMMENCEMENT BEING ABOUT 12 MONTHS AWAY.

### VALUATION

Category	Inferred	Exploration Target	TOTAL Value
Mt	5	50 to 70	55 to 75
Value (\$)/t	\$3	\$3	
RISK Factor (%)	50%	50%	50%
<b>Total (\$m)</b>	\$8	\$75 to \$105	<b>\$83 to \$113</b>
<b>Value \$/Share</b>	\$0.07	\$0.67 to \$0.94	<b>\$0.74 to \$1.01</b>

We have used a \$3/t valuation for inferred and exploration target resources and assumed most will be brought up into JORC classification.

The premium over Elimatta and Yamala resources is due to the coking characteristics of the coal and the premium that they would receive in export markets. We will apply a lower risk factor of 50% due to better access to infrastructure.

We believe that the market has not fully appreciated the value in this asset and as such it is not reflected in the current share price of the company.

**We will change our valuation method to an NPV basis once the mining lease is granted.**

**This will have a MATERIALLY POSITIVE impact on our valuation for this project.**

## Yamala is a JV between Northern Energy (83%) and Japanese commodities trading house Sojitz (17%) – THERMAL, SEMI SOFT COAL

Under the terms of the JV, Sojitz will fund a three stage AUD\$5.3m exploration and evaluation program to earn a 30% interest in the project with an option to acquire another 19% for \$6.65 million cash.

The JV has spent \$3m on exploration to achieve a resource of 220Mt inferred and a large exploration target of 190Mt to 220Mt.

NEC is targeting a deposit with a 100Mt reserve. At Yamala, the conceptual and pre-feasibility study will focus on initially a small open cut mine with direct shipping of thermal coal. We assume the mine will be extracting the subcrop at a 1Mtpa rate, starting with only a 5Mt reserve. Subsequent to this an underground mine of the highwall, using either punch continuous mining or a longwall, will be developed.

The project is located in the Southern part of the Bowen Basin along the Capricorn Highway, between Emerald and Blackwater. Yamala is in a very prospective neighbourhood, with the Ensham project adjacent to the North, Xstrata's Togara North to the south, and Felix's Minerva to the southwest of the Yamala tenement.

#### VALUATION

Category	Indicated	Inferred	Exploration Target	TOTAL Value *83% attributable to NEC
Mt	40	180	190 to 220	340 to 365
Value (\$)/t	\$6	\$1.50	\$0.75	
RISK Factor (%)	80%	80%	80%	80%
<b>Total (\$m)</b>	\$48	\$54	\$29 to \$33	<b>\$131 to \$135</b>
<b>Value \$/Share</b>	\$0.43	\$0.48	\$0.26 to \$0.29	<b>\$1.17 to \$1.20</b>

We have used a \$6/t valuation for indicated as the coal is a higher energy thermal coal and has the potential to produce low ash PCI / export thermal coal in a 55/45 proportion. Additionally the exploration target has been limited to a 300m depth, however the coal extends below this depth. We have also applied a risk factor of 80% due to the mining risk associated with this deposit.

#### Ashford (50%) – HARD EXPORT QUALITY COKING COAL and exploration ground

This project is 50% owned and managed by Northern Energy with the other 50% owned by Renison Consolidate Mines. It is located 10km north of Ashford in northern New South Wales, approximately 60km north of Inverell. The company had been considering a development based on the 18mt inferred resource previously outlined at Ashford, possibly in conjunction with other deposits identified by third parties in the region. However, given the high priority currently given to the Elimatta and Yamala projects, development is currently on stand by. No further exploration work is expected in the near future.

Ashford is currently stranded and the new proposed rail line linking Moree in NSW to Toowoomba in QLD is unlikely within the next 10 years. The company is currently exploring all options with the Ashford project including exporting through the Port of Brisbane. As a result a disposal of the project may be possible in the future. The company has stressed that alternative transportation options may still also be possible at Ashford.

**We value this project at \$3/t of coking coal \* 9mt = \$27m and have applied a discount of 90% due to infrastructure constraints. This values this project at around \$2.7m or \$0.012/share for NEC's 50% interest.**

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