Linc Energy Ltd **Date of Lodgement: 9/4/13**

Title: "Company Insight – Explains Convertible Bond Issue of US$200m"

Highlights of Interview

- **US$200m convertible bond raising to underpin strong growth over next 2-3 years.**
- **Explains the benefits of using convertible bonds including as a lower cost of funding.**
- **Parent company to avoid the need to raise additional funds over next 2-3 years.**
- **Explains where it will use the funds across many emerging projects.**
- **Can cash settle bonds to avoid diluting existing shareholders.**
- **View on recent fall in share price & how it should recover – Company undervalued.**

Record of interview:

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Linc Energy Ltd (ASX: LNC, market capitalisation of ~$940 million) has just successfully completed a US$200 million convertible bond issue. What was the purpose of raising US$200 million with an option for a $50 million upsize?

Managing Director, Peter Bond
The main purpose for undertaking the convertible bond offering, including the US$50 million upsize option which we've granted to the Lead Manager, was in anticipation of the significant growth the Company will be going through over the next two to three years, across several assets. These include the commercialisation of our various Underground Coal Gasification (UCG) assets, drilling the Umiat oil field in Alaska, expanding our oil production in the U.S. and progressing our shale oil asset in the Arckaringa Basin in South Australia.

So with several exciting growth options ahead of us, part of our planning was to bolster the balance sheet accordingly. In my mind, the best time to raise capital is when you don't need it. By raising the money now we won't have to do say two or three smaller fund raisings, which would take up a lot of management time and money. We can now just concentrate on adding value to the assets by maturing them operationally and financially. Also when we're negotiating with joint venture partners on UCG or shale oil projects, we'll be coming to the discussions with a stronger balance sheet, and that should ensure that we can achieve the best terms possible.

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Why did you choose that amount of funding?

Managing Director, Peter Bond
The main reason, which I alluded to before, was that we believe the US$200 (to US$250) million raised is sufficient to ensure the Company is cashed up to achieve our planned growth over the next two to three years. We didn't want to come back to the market every year or so. This is a strategic and definitive fiscal move for the Company to move forward. We have calculated that this should be an adequate amount for the parent company based on our current development plans.

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And why convertible bonds as the form of funding?

Managing Director, Peter Bond
Using convertible bonds was seen as the best way of raising a large amount of money with the smallest possible dilution for shareholders. Also, five years is a long time to pay off the debt, bearing in mind how quickly Linc Energy can grow. Five years of growth can be significant for this Company. So in five years' time, the aim is that as we achieve more and more of our development objectives and the business expands, we can start to buy back the bonds or we have the option of using cash to settle and not use stock, thus keeping dilution to a minimum. It has given us a great deal of financial flexibility and also at a lower interest rate (7%) than, for example, the senior notes we raised last year at 12.5%.

One common downside in the week or so after issuing convertible notes is that the funds that buy them will sometimes hedge their positions, creating a short term weakness in the share price, but only for a week or so. That's an unfortunate side effect of using convertible bonds, but we are building a company to add great value over the longer term and we're willing to wear a short term hit on the share price to secure long term financial security. The share price will recover strongly I believe.

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Will you need to raise additional funds in the next two to three years?

Managing Director, Peter Bond
The whole aim of raising a large amount now is to avoid our parent company being forced to raise additional capital in the next two to three years. We are completing this convertible bond so as a Company, we are set-up to take advantage of the next two to three years.

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How do you see the US$200 million in funds being used to unlock value in your key assets?

Managing Director, Peter Bond
It will allow Linc Energy optionality in developing its asset base. It is very important to have that optionality when we have so many good assets. For example, we may wish to fast track

the sub-salt oil drilling project in Texas, or the CO_2 Enhanced Oil Recovery (EOR) business in Wyoming, or the various joint ventures on our UCG projects, to name a few. The point is that any of our businesses can be more quickly advanced by having the cash to progress them and that will also unlock value more quickly. It doesn't mean we will spend all the money in the short term; but it gives us the ability and optionality to fund any of the projects. It's also worth making a point here that Linc Energy, as the Parent Company, has not issued equity to raise money since June 2009 and yet we've been able to expand the Company's assets considerably in that time.

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Why is this a low cost form of funding and were you happy with the conversion price of A$3.40 per share, representing a 27.5% premium to the closing share price on 26 March 2013?

Managing Director, Peter Bond
We have chosen to access lower cost funding through convertible bonds as an alternative to say, raising the funds the way we did last year with a high yield bond at 12.5%, which also traditionally comes with various covenants. Convertible bonds don't generally have any covenants to speak of. It's also recognition by funding providers that we have progressed as a company significantly over the last year and have projects that people now recognise as having great value, which is reflected in the lower interest rate. It's important to mention that this new facility is not only lower cost, but it has very few restrictions such as needing to provide security by pledging assets.

It's also quite a quick way of raising funds, taking only around three weeks to finalise.

In regards to the conversion price premium, I believe getting a premium on any issuance is a pretty reasonable outcome. A 27.5% premium is a reflection of a strong company with a strengthening share price in the future. However, funding deals are just part of business and it's not really how you get the money, it's what you do with the money. I can say though, if we had raised equity instead, I believe it would have been done at market at best, or at a discount, and therefore diluted shareholders further. The convertible bond has potentially no or minimal dilution to it, and what dilution there may be, is at a premium.

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What is the likelihood of being able to cash settle the bonds in lieu of issuing shares on conversion?

Managing Director, Peter Bond
There is provision in the terms of the convertible bonds that enables us to cash settle them and we deliberately asked for that clause because as we grow our businesses operationally and financially, we believe we will be able to do just that. This will minimise and/or avoid unnecessarily diluting our shareholders – particularly considering the significant growth we expect over the life of the bonds. There is also the flexibility to call the bonds after two years, and the ability to buy the bonds back on market at any time during the term.

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The coupon rate is 7% per annum. What total fees are payable?

Managing Director, Peter Bond
There are no hidden fees in the deal. There's no bonus payable and the notes will have a simple 7% coupon rate. The total actual fees and costs will be approximately 3% of the amount raised.

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Linc Energy's share price was trading at close to A$3.00 in mid-March, but is now at less than $2.00. Why do you think that is the case? What will be the main upside drivers from here for shareholders?

Managing Director, Peter Bond
A combination of issues happened at roughly the same time to push the share price down. I've explained the downward pressure caused through issuing convertible bonds, and we believe that CB investors completed their hedging activities early last week. You'll notice on the day we announced the finalisation of the deal (28 March) that the day's trading volume was the highest for any day over the last couple of months, and in subsequent days the volumes dropped quite significantly. There has also been downward sentiment in the market due to issues in the EU around the Cyprus crisis and the fact that resource companies are out of favour with investors at the moment.

We believe the Company is significantly undervalued and we'll be conducting road shows to articulate why we say that is the case. We also expect a few positive announcements over coming months as we continue to achieve milestones. I believe that the downward movement should be reasonably short-lived.

The upside drivers for the share price will be as we continue to successfully drill Umiat and then report the outcomes; we are continuing to experience a high level of engagement with potential partners for our shale assets in the Arckaringa Basin; we expect announcements about joint venture partners to commercialise our various UCG projects; and then there's the continued increase in oil production in our US operations. These are the obvious handful of major share price drivers for investors to look forward to.

It's important to understand that our share price does not reflect the enormous progress we have made over the last couple of years. It actually fell to less than 50 cents last year when we were achieving very good things at a rapid rate. I believe it's the nature of the stock market in recent years since the initial global financial crisis for unrealistic valuations to occur at times. But as I've said, we are here to create value for our investors over the longer term. We are growing a generational company, built across decades, measured on major milestone achievements and increasing cash flow year-on-year, not a company that is judged by a daily share price movement. Any shareholder or potential investor who takes a step back and looks at the immediate value within Linc Energy will see the value and the potential. You don't have to look for long to see it.

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Thank you Peter.

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