



ASX Announcement

November 23, 2010

Target Statement

As required by item 14 of section 633(1) of the *Corporations Act 2001 (Cth)*, we attach a copy of the Target's Statement served today by Northern Energy Corporation Limited (ASX:NEC) on Arkdale Pty Limited (ABN 99 118 299 522) in response to its Bidder's Statement dated 9 November 2010. The Target's Statement was lodged with the Australian Securities & Investments Commission earlier today.

On behalf of the Board

A handwritten signature in blue ink that reads "Paul Marshall". The signature is written in a cursive, flowing style.

Paul Marshall
Company Secretary

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Northern Energy Corporation Limited

Target's Statement

of Northern Energy Corporation Limited ABN 90 081 244 395 in response to the Offer by New Hope to acquire all of your Shares in Northern Energy Corporation

**The Directors of Northern
Energy Corporation
unanimously recommend
that you**

REJECT

**New Hope's Inadequate
and Unsolicited Offer**



This document contains important information and requires your immediate attention. It should be read in its entirety.

If you are in doubt about how to deal with this document, you should consult your legal, financial or other professional adviser immediately.

Financial Adviser

Merrill Lynch 

Legal Adviser


HopgoodGanim
LAWYERS

Important Notices

Nature of this document

This Target's Statement is dated 23 November 2010 and is given under Part 6.5 of the Corporations Act 2001 (Cth) by Northern Energy Corporation Limited ABN 90 081 244 395 (Northern Energy) in response to the Bidder's Statement and Offer dated 25 October 2010 which replaced the original Bidder's Statement dated 22 October 2010 from Arkdale Pty Ltd AB 99 118 299 522.

You should read this Target's Statement in its entirety.

Australian Securities and Investments Commission (ASIC) and ASX

A copy of this Target's Statement was lodged with ASIC and provided to the ASX on 23 November 2010. Neither ASIC, ASX nor any of their officers takes any responsibility for the content of this Target's Statement.

Investment Decision

This Target's Statement does not take into account the individual investment objectives, financial situation and particular needs of each Northern Energy shareholder. You may wish to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer for your Northern Energy Shares.

Maps and Diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available as at the date of this Target's Statement.

Interpretation

Terms used in this Target's Statement are defined in Section 11 of this document.

Information line

If you have any questions in relation to the Offer or this document, please call 1300 560 339 (for callers within Australia) or +61 2 8011 0354 (for callers outside Australia).

Announcements relating to the Offer can be obtained from Northern Energy's website: www.northernenergy.com.au.

Forward Looking Statements

This Target's Statement contains forward looking statements. Such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which Northern Energy is involved as well as general economic conditions and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected. None of Northern Energy, any of its officers, or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood in any forward looking statement, and you should not place undue reliance on these statements.

Forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Key Dates

Date of the Offer
9 November 2010

Date of this Target's Statement
23 November 2010

Scheduled close of Offer Period (unless extended)
7pm (Sydney time)
21 December 2010



Northern Energy Corporation Limited

**// THE BOARD OF
NORTHERN ENERGY
UNANIMOUSLY
RECOMMENDS THAT
NORTHERN ENERGY
SHAREHOLDERS
REJECT
NEW HOPE'S
INADEQUATE
AND UNSOLICITED
OFFER //**

REJECT

CHAIRMAN'S LETTER



23 November 2010

Dear fellow Northern Energy Shareholder,

YOUR BOARD RECOMMENDS YOU REJECT NEW HOPE'S TAKEOVER OFFER

On 8 October 2010, New Hope Corporation Limited announced an unsolicited off-market conditional offer to acquire for \$1.50 per share all of the ordinary shares in Northern Energy that it does not already own (the Offer).

As I advised you in my letters of 15 October 2010 and 4 November 2010, it is the view of the Northern Energy Directors that the Offer is both inadequate and opportunistic.

The Offer fails to reflect the inherent value in Northern Energy's portfolio of premium hard coking, PCI and thermal coal assets across four project sites.

This Target's Statement presents what your Directors believe to be a compelling case for Northern Energy shareholders to REJECT New Hope's Offer and to continue your support for Company management as they implement sound and strategic plans designed to enhance the wealth of all Northern Energy shareholders.

Each of your Directors, who together with key shareholders own or control approximately 29% of the shares outstanding, intend to reject the Offer for their Northern Energy shares. We are confident in the ability of the management team to implement the Company's strategic plan to commence profitable coal production from 2012 at Maryborough and to develop our portfolio of assets to have 7Mtpa coal producing assets in operation by 2015.

We urge Northern Energy shareholders to retain their shareholding in our Company and not to surrender the value of that investment to New Hope shareholders at a price that does not recognise future earnings potential.

In maintaining the recommendation to REJECT the Offer, the Directors have taken into account the view of an experienced Independent Expert, Lonergan Edwards, who has concluded that the Offer is neither fair nor reasonable for Northern Energy shareholders. Lonergan Edwards, whose report is appended to this Target's Statement, has assessed the value of Northern Energy shares to be in a range of \$3.48 to \$4.75 per share. Even in the event of a discounted equity capital raising to meet funding requirements, the valuation range is \$2.70 to \$3.99 per share, the midpoint of which is more than twice the current New Hope Offer.

The Directors also considered a number of other factors before confirming their recommendation, including the following:

- The Offer fails to recognise that both our Maryborough and Elimatta projects are well advanced, with production forecast to commence at Maryborough in 2012 and Elimatta having completed a feasibility study for 5Mtpa production commencing 2015.
- Infrastructure solutions are advancing, with regulatory approvals for the Surat Basin Rail progressing and Stage 1 of Wiggins Island working towards financial close in early 2011. Recent State Government approval of Xstrata Coal's Wandoan Coal Project has underpinned our confidence that rail infrastructure will be developed in the Surat Basin.
- The price of Northern Energy shares between 8 October 2010 and the date of this Target's Statement has been higher than the Offer price, indicative of the market's view that the Offer is manifestly inadequate.

By now, you should have received a copy of New Hope's replacement Bidder's Statement, setting out the terms and conditions of New Hope's Offer.

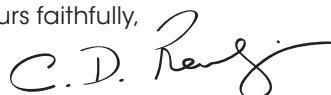
When assessing whether or not to accept the Offer, you should consider the information provided to you as well as your own personal circumstances. Further information, including the detailed reasons for your Directors' recommendation to reject the Offer, is set out in Sections 1 and 2 of this Target's Statement.

I encourage you to read this Target's Statement carefully and **REJECT** New Hope's Offer by **TAKING NO ACTION**.

If you have any queries concerning the Offer please contact the Northern Energy Information Line on **1300 560 339** or **+61 2 8011 0354** between **9 a.m. and 5 p.m. AEDST** weekdays.

Thank you for your continuing support for Northern Energy.

Yours faithfully,



Dr Christopher Rawlings
Chairman

TABLE OF CONTENTS

1	Reasons why shareholders should REJECT New Hope's Offer	page 06
2	New Hope's statements about Northern Energy are misleading	page 16
3	Frequently Asked Questions about the Offer	page 19
4	Important information about the Offer	page 22
5	Recommendation of the Directors of Northern Energy	page 24
6	Risks	page 26
7	Conditions of New Hope Offer	page 31
8	Other information material to the making of a decision by a holder of Northern Energy Shares	page 34
9	Additional Information	page 36
10	Consents	page 42
11	Interpretation	page 44
A	Annexure Independent Expert's Report	page 46



YOUR DIRECTORS' RECOMMENDATION

After taking into account each of the matters described in this document, in particular the reasons to **REJECT the Offer set out in Section 1, each of your Directors recommends that you **REJECT** New Hope's Offer and **TAKE NO ACTION.****

Details of the interests of your Directors and their intentions in respect of such shareholdings are set out in Section 5.4.



HOW TO REJECT NEW HOPE'S OFFER

1. To **REJECT** New Hope's Offer, **TAKE NO ACTION**.
2. You should read this Target's Statement in full. This Target's Statement contains your Directors' recommendation to **REJECT** the Offer and the reasons for this recommendation.
3. If you have any queries concerning the Offer please contact the Northern Energy Information Line from 9 a.m. to 5 p.m. AEDST weekdays on **1300 560 339** or **+61 2 8011 0354**.



1 REASONS WHY SHAREHOLDERS SHOULD REJECT NEW HOPE'S OFFER

Five good reasons to REJECT New Hope's inadequate Offer:

1. The Independent Expert values Northern Energy's shares between \$3.48 and \$4.75

- The Independent Expert has assessed the value of Northern Energy shares to be in the range of \$3.48 to \$4.75 per Northern Energy share (assuming Northern Energy has the financial capacity to meet its funding requirements)
- The midpoint of this range, \$4.12, is approximately 175% higher than the New Hope Offer
- Even after taking into account the dilutionary impact of an equity capital raising to meet funding requirements, the value of a share in Northern Energy is in the range of \$2.70 to \$3.99, the midpoint of which represents more than twice the New Hope Offer price

2. \$1.50 per share is NOT FAIR OR REASONABLE

- The Independent Expert has concluded that the New Hope Offer of \$1.50 is NOT FAIR OR REASONABLE
 - Northern Energy's share price has consistently traded above the value of New Hope's Offer since it was announced
-

3. New Hope's Offer is opportunistically timed and does not reflect the quality and growth characteristics of Northern Energy's assets

- New Hope's Offer has been timed to take advantage of what your Directors consider to be short term weakness in Northern Energy's share price
- New Hope's Offer does not adequately reflect a number of imminent significant operational milestones, including the planned commencement of production at Maryborough in 2012
- The quality of Northern Energy's portfolio of assets will enable Northern Energy to implement a strategic plan targeting 7Mtpa of producing assets in operation by 2015, with further growth opportunities beyond 2015
- Northern Energy is well-positioned to benefit from strong global coal sector fundamentals and continued export market growth

4. Your Directors and major shareholders who control ~29% of the shares outstanding intend to REJECT the New Hope Offer

- Your Directors intend to REJECT the New Hope Offer
- This position is supported by key shareholders who also intend to REJECT the Offer. They consider New Hope's Offer significantly undervalues Northern Energy

5. Reject New Hope's Offer so that you, rather than New Hope's shareholders, can participate in Northern Energy's growth

- Your Directors expect a market re-rating in value as Northern Energy moves from developer to producer
 - Do not surrender the value of your investment to New Hope shareholders at such an opportunistic price
-

¹ See Section 1.4 of this Target's Statement for further details.

1.1 The Independent Expert values Northern Energy's shares between \$3.48 and \$4.75

Your Directors appointed Lonergan Edwards to prepare an independent assessment of the New Hope Offer.

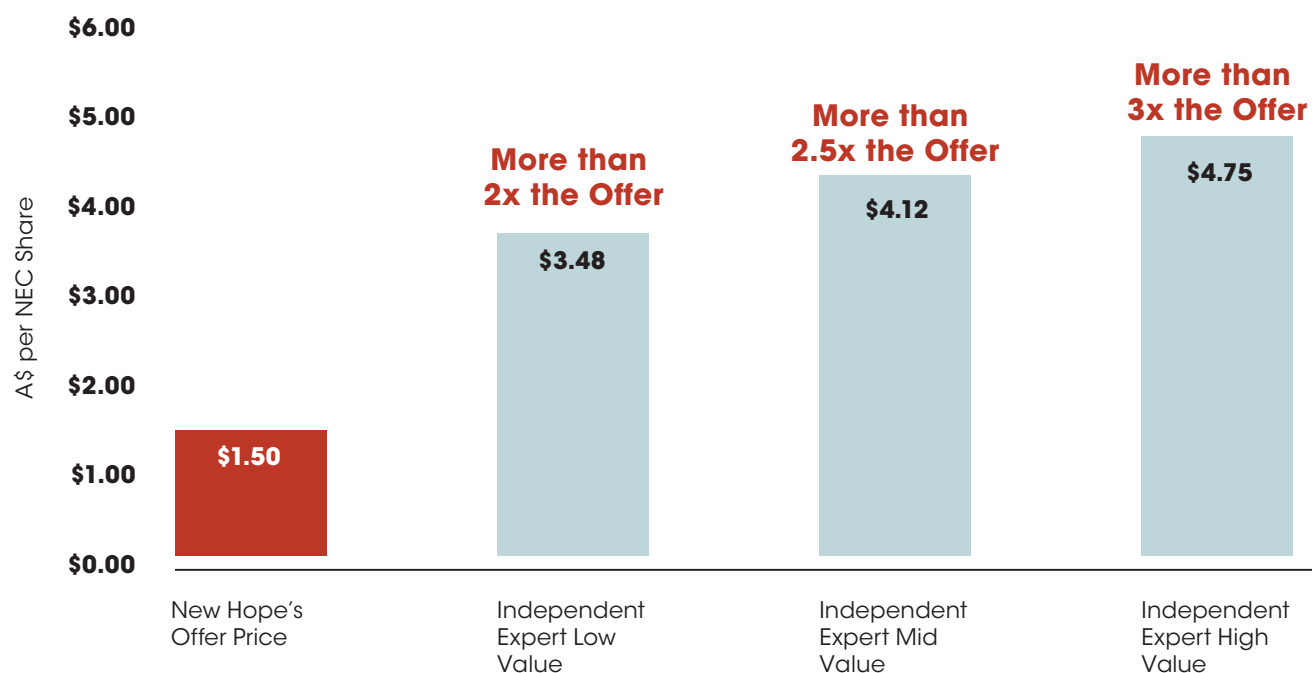
The Independent Expert has assessed the value of 100% of Northern Energy shares to be in the range of \$3.48 to \$4.75 per Share. The midpoint of this range, \$4.12, is approximately 175% higher than the New Hope Offer.

The Independent Expert has stated the following:

- The estimated fair market value of a share in Northern Energy is in the range of \$3.48 to \$4.75 assuming Northern Energy has the financial capacity to meet its funding requirements²
- Even when taking into account the dilutionary impacts of an equity capital raising to raise \$60m to fund Maryborough capital expenditure, the value of a share in Northern Energy is in the range of \$2.70 to \$3.99³

The above summary of the key conclusions and opinion of the Independent Expert, and other references to the Independent Expert's Report in this Target's Statement, are qualified in their entirety by, and should be read in conjunction with, the Independent Expert's Report which is set out in full in Annexure A. Your Directors encourage you to read the Independent Expert's Report in full.

New Hope's Offer represents inadequate value for Northern Energy Shareholders



² Independent Expert's Report, Paragraphs 8, 194
³ Independent Expert's Report, Paragraphs 16, 215

1.2 \$1.50 per share is NOT FAIR OR REASONABLE

Based on the analysis summarised in the section above, Lonergan Edwards, has concluded that the New Hope Offer of \$1.50 is **NOT FAIR OR REASONABLE**

The Independent Expert notes that:

- The consideration offered by New Hope is less than the Independent Expert's assessed value range of \$3.48 to \$4.75 and therefore is not fair value for Northern Energy shareholders⁴
- After accounting for a discounted equity capital raising of \$60m to fund capital expenditure requirements at Maryborough, the diluted assessed range still exceeds the offer consideration of \$1.50 per share⁵
- As the Offer is significantly below the Independent Expert's assessed range, Northern Energy shareholders are not being offered an appropriate share of the expected synergies or a reasonable share of the value of the Northern Energy projects to New Hope.⁶
- The New Hope offer has highlighted the inherent value in Northern Energy's projects and the Independent Expert expects that in the event the Offer lapses, the level of discount the trading price will represent compared to the Offer will be limited.⁷

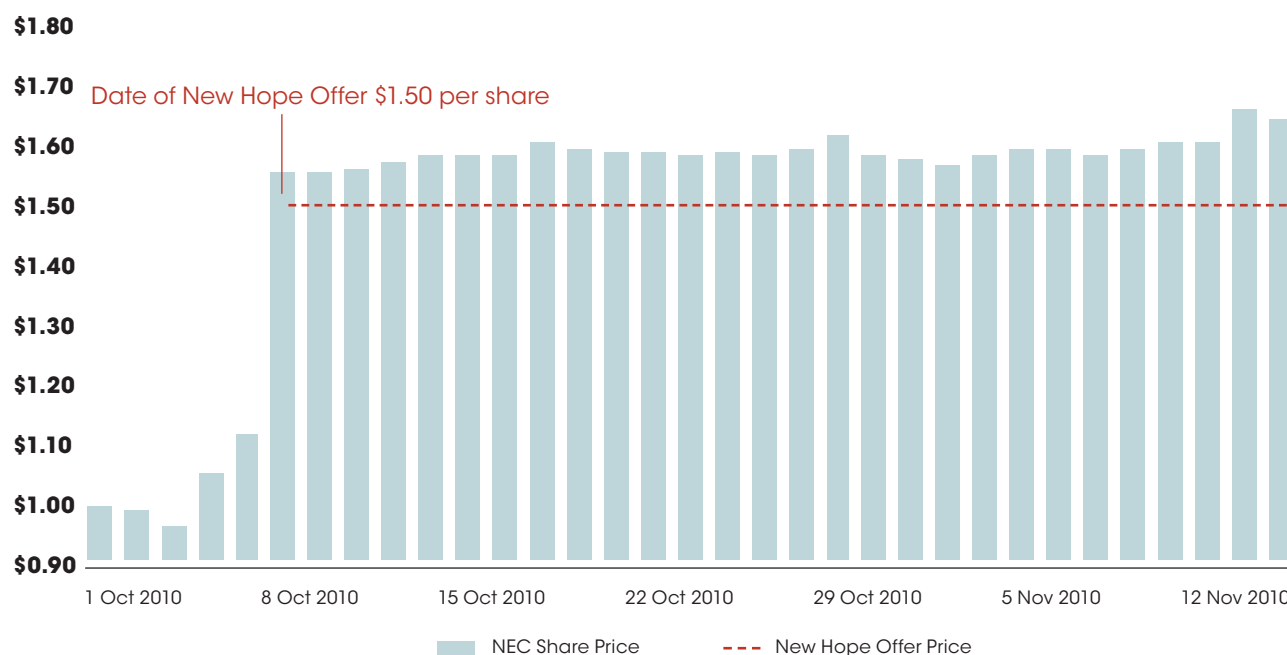
Your Directors believe the Independent Expert's conclusion that the Offer is neither fair nor reasonable supports your Directors' view that the New Hope Offer significantly undervalues your Northern Energy shares and is inadequate.

Whilst in the months prior to the New Hope Offer Northern Energy's share price traded at below the Offer price, from the date that New Hope announced its intention to make the Offer, Northern Energy's share price has consistently traded above New Hope's Offer price.

The Volume Weighted Average Price of Northern Energy shares on the ASX from the date of the announcement of the New Hope Offer until 16 November 2010 was \$1.58, which is more than 5% above the New Hope Offer. This suggests that the market does not presently expect New Hope's Offer to succeed at its \$1.50 Offer price.

The Independent Expert also forms the view that the recent trading activity in Northern Energy shares suggests that the market consensus view is that the Offer will need to be increased if it is to be successful.⁸

Northern Energy shares have been trading above New Hope's Offer since 8 October 2010



4 Independent Expert's Report, Paragraphs 8, 194
5 Independent Expert's Report, Paragraphs 16, 215
6 Independent Expert's Report, Paragraph 225
7 Independent Expert's Report, Paragraph 227
8 Independent Expert's Report, Paragraph 226

1.3 New Hope's Offer is opportunistically timed and does not reflect the quality and growth characteristics of Northern Energy's assets

New Hope's Offer has been timed to take advantage of a short term weakness in Northern Energy's share price, which the Directors consider is associated with market uncertainty around the impact of the RSPT / MRRT and an extension to the development time line for Maryborough.

By offering a premium to a recently depressed share price, the Directors believe New Hope is seeking to create the illusion of value prior to the anticipated release by Northern Energy of further positive milestone announcements. This approach is also designed to maximise the potential benefit to New Hope by timing its Offer to acquire Northern Energy's assets just prior to that value being able to be realised by its shareholders. New Hope's Offer, made on 8 October 2010, fails to recognise the progress that has been made by Northern Energy since the Offer was announced including:

- Announcement of Northern Energy's strategic plan to have 7Mtpa coal producing assets in operation by 2015, including increasing planned production from Maryborough to 2 – 3Mtpa, as outlined in its market presentation released on 28 October 2010
- Environmental clearance from Commonwealth Government of the Maryborough Project
- Progress on regulatory approval for Surat Basin rail infrastructure associated with the Elimatta thermal coal mine project
- Queensland Government Approval of Xstrata's Wandoan Coal Project provides additional confidence boost for Surat Basin Coal development and Elimatta Project

Your Directors' view is that New Hope's Offer is also opportunistically timed, prior to Northern Energy moving towards a number of significant milestones in the near future, including the commencement of production in 2012. Once Northern Energy has proven production capability, a re-rating to valuations closer to that of coal producers is expected.

Q2 2011	• Environmental approvals for Maryborough are being sought and are expected to be received • Wiggins Island financial close (stage 1)
Q3 2011	• Construction of Maryborough Project expected to commence subject to receiving approvals
Q4 2011	• Mining Licence for Maryborough expected to be received • Wiggins Island financial close (stage 2) • Surat Basin Rail financial close
Q2 2012	• Production of Hard Coking Coal expected to commence at 0.5Mtpa, increasing to 2Mtpa by 2015
Q3 2012	• Targeted first shipping of Hard Coking Coal

Northern Energy is well positioned to realise significant shareholder value



Do not let New Hope's "low value high premium" argument distract you from the significant value in Northern Energy's assets

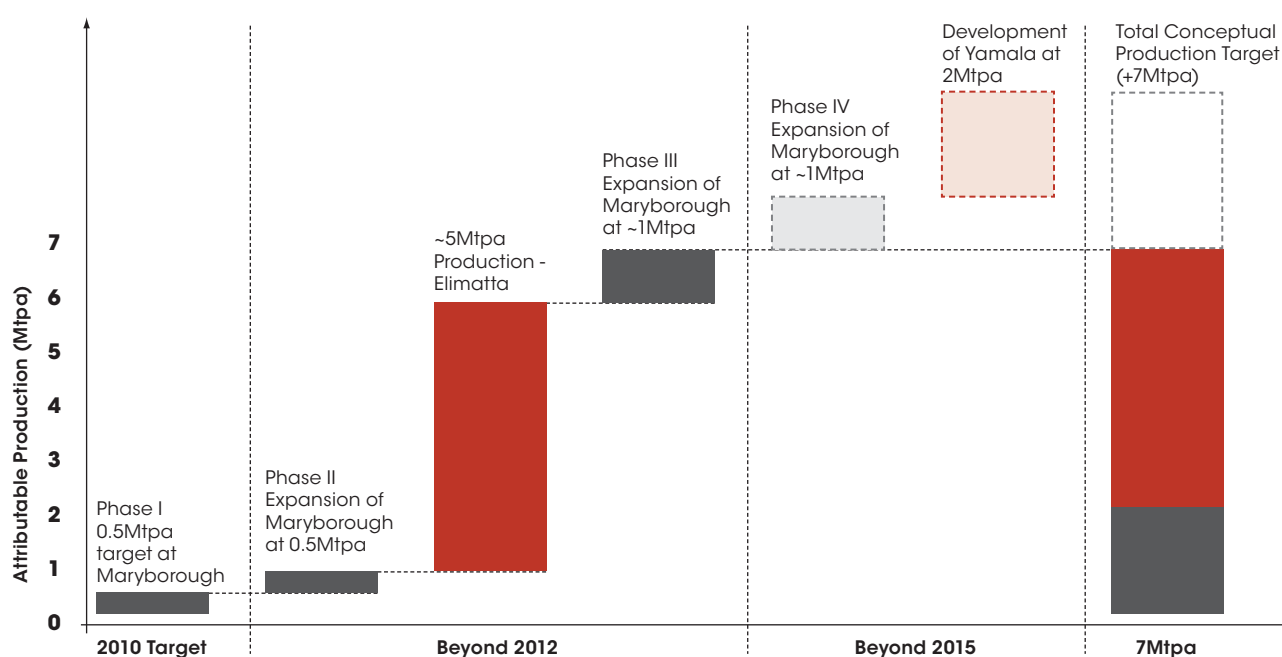
The Directors' opinion is that Northern Energy's share price in the months prior to the New Hope Offer did not reflect the value or quality of its assets. Management have a strategic plan in place which will enable the company to exploit the full potential of its quality asset portfolio.

Northern Energy's key value merits are shown in the table below.

Northern Energy has a strategic plan in place to grow the company to its full potential	✓ Near-term plans to have 7Mtpa hard coking and thermal coal producing assets in operation by 2015 with potential for further growth beyond 2015 ✓ Portfolio of hard coking, PCI and thermal projects provide multiple growth options ✓ Low capital requirements for Maryborough to begin production in 2012 » \$84m required by 2011 for Phase 1 and 2, multiple financing options ✓ Elimatta capital expenditure of \$580m is required over 4 years and a range of viable funding options exists ✓ The Independent Technical Expert Report, prepared by JT Boyd Company, also provides a validation of management's strategic plan to have 7Mtpa coal producing assets in operation by 2015
Experienced Board of Directors and management team, with substantial capital invested	✓ Senior management has significant experience in Queensland coal mining ✓ Major shareholder and off take partner, Xinyang, has Board representation ✓ Your Directors and major shareholder (Xinyang) together own or control ~24% of the Northern Energy Shares on issue

Maryborough is a premium hard coking coal asset	✓ Near term production commencing 2012 with potential for expansion to 2-3Mtpa ✓ Phase 1 rail and port infrastructure available ✓ Committed off take partner for 65% of production ✓ 100% owned with potential to provide strong cashflows and returns for shareholders ✓ Strong exploration potential to increase current Resource beyond 83Mt⁹
Elimatta large thermal coal project	✓ Feasibility study completed for 5Mtpa production ✓ Long mine life of more than 20 years based on current Reserves¹⁰ ✓ 100% owned providing a number of financing options ✓ Negotiations progressing for rail and port infrastructure to be in place for first shipments in 2015
One of a small group of Australian junior coal companies with marketable reserves and significant further exploration potential	✓ Significant JORC portfolio and additional Exploration Targets¹¹ » Total Reserves at two projects, 112Mt Proven and Probable » Total attributable Resources at four projects, 519Mt Indicated and Inferred » Exploration Target of 325Mt to 407Mt and a demonstrated exploration track record ✓ Drilling campaign currently underway with 3 drill rigs targeting near term Reserve upgrade from 5.9Mt to >20Mt at Maryborough

Northern Energy has a robust plan to have 7Mtpa of coal producing assets in operation by 2015



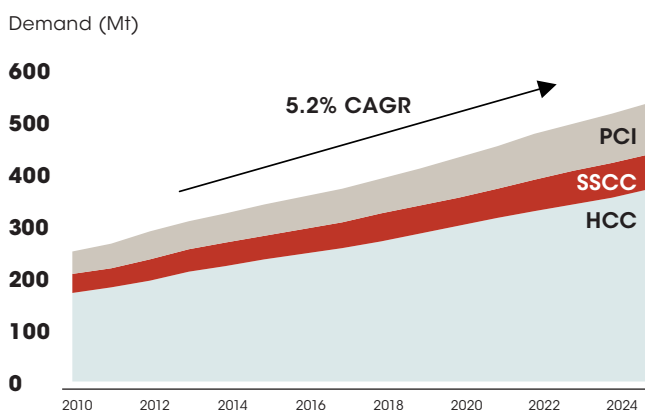
⁹ Please refer to Section 9.1 of this Target's Statement for details of the Resources and Reserves of Northern Energy broken down by category and project
¹⁰ Please refer to Section 9.1 of this Target's Statement for details of the Resources and Reserves of Northern Energy broken down by category and project
¹¹ Please refer to Section 9.1 of this Target's Statement for details of the Resources and Reserves of Northern Energy broken down by category and project. A detailed explanation of the basis for inclusion of the Exploration Targets appears in the JT Boyd Report, in respect of each project area. The potential quantity and grade is conceptual in nature. There has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource

This is not the time to exit the coal sector, you have a valuable investment

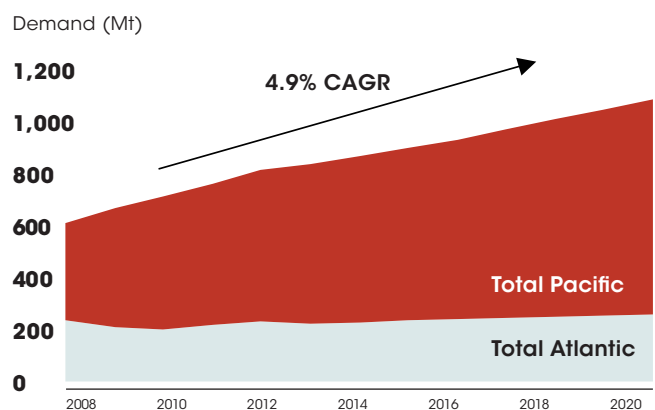
Northern Energy is strategically placed to leverage imminent demand in strong export coal markets and rising coal prices

- ✓ Strong metallurgical coal markets and prices are forecast to continue and improve further
- ✓ Tight supply with strong demand for metallurgical coal to continue into the medium term
- ✓ Forward projections indicate that growth in demand for coal will continue in Australia's key global markets
- ✓ While there remains competition for this growth around the world, Australia, and in particular Queensland, has the resource quality to increase its already significant share of the market
- ✓ The Independent Expert has noted:
 - » Metallurgical coal is much less common than thermal coal and therefore commands a price premium. Hard coking coal is the most scarce, which contributes to its price premium over the other more available coking coal types¹²
 - » "...there is widespread belief that longer term growth prospects for both metallurgical coal and thermal coal are likely to be strong. Some forecasters are predicting that 50Mtpa of new coal producing capacity will be required to be developed each year to satisfy growth in demand. In addition, ongoing development will be required to replace existing production capacity as resources are depleted at existing mines"¹³
- ✓ Your Directors believe that this strong demand will continue

Forecast Metallurgical Coal Demand



Forecast Thermal Coal Demand



Source: H&W Worldwide Consulting Pty Ltd

¹² Independent Expert's Report, Paragraph 99
¹³ Independent Expert's Report, Paragraph 134

1.4 Your Directors and major shareholders who control ~29% of the shares outstanding intend to REJECT the current New Hope Offer

Northern Energy Directors and two key shareholders control ~29% of the Shares outstanding. The Directors and these key shareholders intend to REJECT New Hope's Offer in respect of the Northern Energy shares held by them or on their own behalf. Your Directors are unanimous in their view that New Hope's Offer does not reflect the value or quality of Northern Energy's assets, is opportunistic in its timing and that shareholders will receive greater value by remaining independent and implementing the existing strategic plan.

Your Directors' **"REJECT"** recommendation is supported by these key shareholders who also intend to **REJECT** the Offer. They consider New Hope's Offer significantly undervalues Northern Energy.

1.5 Reject New Hope's Offer so that you, rather than New Hope's shareholders, can participate in Northern Energy's growth

Northern Energy's management is focused on delivering growth and unlocking the value in its assets for shareholders.

New Hope stated in section 4.6 of the Bidder's Statement, that on the basis of the information which is currently known to it,

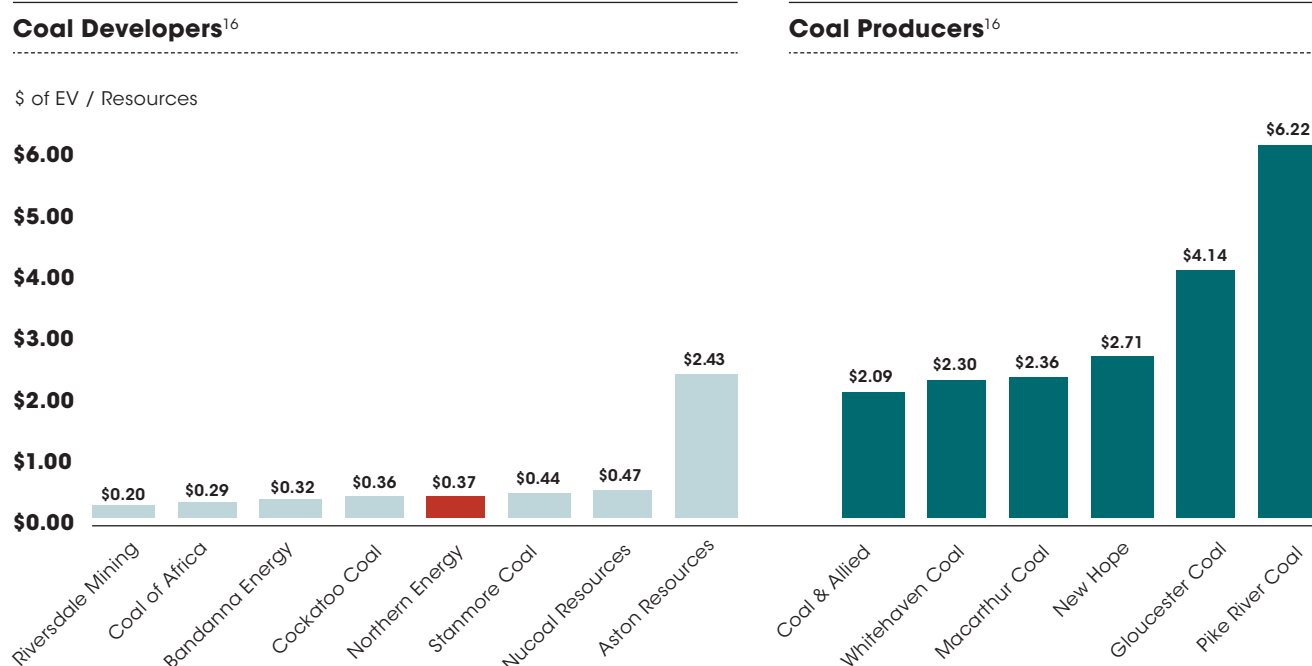
"the business strategy of Northern Energy will otherwise be continued in substantially the same manner as it is presently being conducted"¹⁴ and...

"there will not be any other redeployment of the fixed assets of Northern Energy"¹⁵

New Hope's Offer and stated intentions are testament to the value in Northern Energy's assets and management's strategic plan to unlock that value. New Hope has not identified any additional value that might be extracted from the assets by virtue of a change in ownership or strategy, apart from a transfer of wealth from Northern Energy shareholders to New Hope shareholders by acquiring your shares at a discount to their true value.

Subsequent to commencing production, Northern Energy expects a market re-rating

As Northern Energy moves from a development company to a coal producer, your Directors expect Northern Energy to be re-rated by the market and valued in comparison to its producing peers. As shareholders of Northern Energy you are entitled to benefit from this potential re-rating.



New Hope is not offering shareholders a fair price for the value contained within Northern Energy – do not give that value away to New Hope. Reject New Hope's Offer so that you can participate in Northern Energy's growth and prevent New Hope's shareholders from benefiting from your investment in Northern Energy.

¹⁴ See Bidder's Statement, Section 4.6

¹⁵ See Bidder's Statement, Section 4.6

¹⁶ See Appendix D to the Independent Expert's Report for further details on the valuations contained in this chart

2

NEW HOPE'S STATEMENTS ABOUT NORTHERN ENERGY ARE MISLEADING

Your Directors disagree with many of New Hope's negative claims in its Bidder's Statement concerning the timing and achievability of Northern Energy's projects and wish to correct those statements.

1. Northern Energy requires \$664m of capital expenditure

New Hope's Claim:

Northern Energy requires \$664m of Capital Expenditure

*"By accepting the Offer you will no longer have exposure to the risks and uncertainty associated with a need to fund \$664 million worth of capital expenditure in the future ..."*¹⁷

*"Northern Energy has disclosed that it requires \$664 million to develop its Colton hard coking coal project and Elimatta thermal coal project ... There is a risk that this requirement for capital will negatively impact the price of Northern Energy shares in the future causing them to trade at a discount to the Offer price."*¹⁸

Northern Energy's Response:

This is misleading and does not take into account the timing of those capital requirements

- This disclosure is materially misleading as the inference from the statement made by New Hope is that Northern Energy must find all of the \$664 million development funds now, as opposed to in a staged manner.
- **ONLY** \$84 million is required in 2011 and the balance of the capital expenditure can be funded out of Maryborough cash flow and other sources over a longer period of time between 2012 and 2014 during which time infrastructure development progress could be expected to increase the value of Northern Energy's projects.
- The statement ignores any re-rating that may occur on the basis that initial funding has been secured making subsequent fundraisings easier.

¹⁷ See Bidder's Statement, (page 5) "Letter from the Chairman of New Hope Corporation Limited"

¹⁸ See Bidder's Statement, Paragraph 5 (page 8), section entitled "Reasons why you should accept New Hope's Offer"

2. New Hope could realise better value than existing management

New Hope's Claim:

New Hope could have extracted greater value from Northern Energy's assets

- "The acquisition of Northern Energy provides the New Hope Group with the opportunity to utilise its development and operational expertise to develop Northern Energy's pipeline of coal exploration assets into coal producing assets."¹⁹
- Additionally on page 9, New Hope has sought to provide reasons why Northern Energy shareholders should accept the Offer, stating in apparent support that, amongst other things:
 - » Northern Energy has previously encountered delays;
 - » Northern Energy has previously experienced greater than expected costs for development;
 - » Northern Energy is reliant on key infrastructure being built and receiving allocation;
 - » Northern Energy is reliant on regulatory approvals to develop mines.²⁰

Northern Energy's Response:

New Hope would not have been able to achieve any greater progress than Northern Energy has today due to regulatory timetables and infrastructure constraints

- New Hope does not recognise that to date, it would not be able to progress development or reach increased production any faster than Northern Energy due to regulatory timelines and infrastructure constraints over which it has no control.
- It is incumbent on New Hope having raised these matters, to then explain to Northern Energy shareholders, why and how New Hope will be able to address the same matters more effectively or expedite the evolution of the development assets into producing assets.
- Further, New Hope states that subject to further review and based on the information known to it at this point, it intends to continue the current business strategy of Northern Energy in substantially the same manner as it is presently being conducted and not to redeploy any of the fixed assets of Northern Energy.
- These statements made by New Hope provide additional support for the value in management's strategic plan.

¹⁹ See Bidder's Statement, Section 2.2

²⁰ See Bidder's Statement, Paragraph 6 (page 9), section entitled "Reasons why you should accept New Hope's Offer"

3. The Northern Energy share price may fall to pre-takeover approach levels if the Offer does not succeed

New Hope's Claim:

There is a risk that the price of Northern Energy Shares may fall to pre-takeover approach levels if the Offer does not succeed

*"The Offer is the only offer available for all your Northern Energy Shares as at the date of this Bidder's Statement. New Hope is not aware of any other party intending to make an offer for Northern Energy Shares."*²¹

*"While there are many factors that might influence the market price of Northern Energy Shares, there is a risk that the price of Northern Energy Shares may fall to pre-takeover approach levels if the Offer does not succeed and no other takeover offer is made for Northern Energy."*²²

Northern Energy's Response:

Your Directors consider this misleading in light of recent announcements by Northern Energy since the announcement of the New Hope Offer, recent share trading activity, the level of interest from other parties and the Independent Expert's Report released in this Target's Statement

- While it is possible that Northern Energy's share price may fall from the current levels if New Hope's Offer is unsuccessful, you should note that since New Hope's Offer was announced:
 - » From the date of the announcement of the Offer until 16 November 2010, Northern Energy's share price has traded at a volume weighted average price of \$1.58, which your Directors consider is a clear indication that the market expects New Hope to increase its offer or for higher offers to occur.
 - » Northern Energy has made several positive announcements regarding Environmental Approvals and its strategic plan to have 7Mtpa coal producing assets in operation by 2015.
 - » Xstrata's announcement regarding the approval of its Wandoan Project by the Queensland Government.
- The Independent Expert's Report has released a valuation range which is significantly above both the Offer price and the current share price.
- The Independent Expert has a similar view to the Directors. In paragraph 227, the Independent Expert states that it considers that the New Hope Offer has highlighted the value of Northern Energy to the market and so the Independent Expert expects that in the event the Offer lapses, the level of discount the trading price will represent compared to the Offer will be limited.²³
- Given the level of ownership consolidation in the Australian coal industry over the past decade and the forecast robustness of the global coal industry, your Directors do not envisage this interest in Northern Energy will diminish in the short term.
- If both the New Hope Offer and any other offers that arise are unsuccessful, your Directors will continue to implement management's strategic plan to generate additional shareholder value for Northern Energy shareholders.

²¹ See Bidder's Statement, Paragraph 3 (page 7), section entitled "Reasons why you should accept New Hope's Offer"

²² See Bidder's Statement, Paragraph 4 (page 8), section entitled "Reasons why you should accept New Hope's Offer"

²³ Independent Expert's Report, Paragraph 227

3

FREQUENTLY ASKED QUESTIONS ABOUT THE OFFER

For the purposes of enabling you to understand some of the complex issues which arise during the process of a takeover, we provide this question and answer guide.

Question	Answer	Further Information
Who is the Bidder?	Arkdale Pty Ltd, wholly owned subsidiary of New Hope Corporation Limited, an ASX listed company.	Section 9.2
How many Shares does New Hope hold in Northern Energy?	New Hope has stated in its Bidder's Statement that (as at the date of that Bidder's Statement) it had a relevant interest in 6,348,652 of all Northern Energy Shares on issue representing 4.944%.	-
What is the Offer?	New Hope is seeking to acquire all of your Northern Energy Shares at a price of \$1.50 per Northern Energy Share.	Section 4.1
Is the Offer conditional?	Yes. The Offer was subject to a number of conditions identified in the Bidder's Statement, including that New Hope acquire a relevant interest in at least 50.1% of Northern Energy Shares. The Offer is also conditional on: • This document containing certain statements regarding the Company's off-take agreement with Xinyang; and • Northern Energy not undertaking certain actions, including issuing incentive Options.	Section 7

Question	Answer	Further Information
	These conditions may be triggered as described in Section 7.4 of this Target's Statement, allowing New Hope not to proceed with its Offer. If these conditions are not satisfied or waived before the Offer closes, the Offer will lapse.	
What are my alternatives?	You can either: 1. accept the Offer; 2. sell your shares on the ASX at the prevailing market price; or 3. reject the Offer by doing nothing. The Directors unanimously recommend that you REJECT the Offer.	Sections 4.4, 4.6 and 4.7
What do the Directors recommend?	The Directors unanimously recommend that you REJECT the Offer . The reasons are set out in this Target's Statement.	Sections 4.3 and 5
How do I REJECT the Offer	To REJECT the Offer , you do not need to do anything. Do not respond to any calls or correspondence from New Hope.	
How do I accept the Offer?	You can accept the Offer by: 1. if you hold your Northern Energy Shares in an Issuer Sponsored Holding – signing and returning the acceptance form in the Bidder's Statement; or 2. if you hold your Northern Energy Shares in a CHESS Holding – either signing and returning the acceptance form in the Bidder's Statement or instructing your broker or other controlling participant to accept the Offer for you.	Section 4.4
When does the Offer close?	The Offer closes at 7.00pm (Sydney time) on 21 December 2010 unless extended or withdrawn.	Sections 4.4 and 8.1
What happens if I accept the Offer?	Unless circumstances arise which allow you to withdraw your acceptance of the Offer, you will be bound to sell your Northern Energy Shares to New Hope in accordance with the Offer and you will be prevented from selling your Northern Energy Shares on the ASX or accepting any Superior Offer.	Sections 4.5, 6.3 and 8.2

Question	Answer	Further Information
If I accept the Offer, how can I withdraw my acceptance?	You can only withdraw your acceptance in limited circumstances where the Offer has unsatisfied conditions and the terms of the Offer are varied such that the period for New Hope to meet their obligations under the Offer is extended by more than 1 month.	Section 8.2
Can I accept the Offer for only part of my Northern Energy Shares?	No. You must accept the Offer in relation to all of your Northern Energy Shares.	Section 4.4
Can New Hope vary the Offer?	Yes, but only to extend the Offer Period or increase the offer of consideration.	-
Can New Hope withdraw the Offer?	Yes, but only in limited circumstances with the consent of ASIC.	-
What happens if there is a Superior Offer?	The Board will consider the merits of any Competing Offers. If an offer is a Superior Offer then the Northern Energy Directors will send you a supplementary Target's Statement advising you of this offer and of any change to their recommendation (if any). If you have already accepted the Offer, you will be unable to participate in any other offer for Northern Energy Shares.	-
Can I be forced to sell my Northern Energy Shares?	If New Hope acquires 90% of the Northern Energy Shares issued, it will be entitled to compulsorily acquire the remaining Northern Energy Shares. Otherwise, you cannot be forced to sell your Northern Energy Shares.	Section 8.3
What are the tax implications of accepting the Offer?	There may be tax implications from the sale of your Northern Energy Shares. Each shareholder's position will be different. You should obtain independent advice from your professional adviser or tax adviser in this regard.	Sections 6.3 and 8.5
Will I need to pay brokerage if I accept the Offer?	The Bidder's Statement says that you do not pay brokerage or stamp duty if you accept the Offer. If you hold your Northern Energy Shares in a CHESS Holding or through another custodian arrangement, you should ask your broker or custodian if any fees or charges are payable.	-
What if I have other questions about the Offer?	Please call 1300 560 339 (for callers within Australia) or +61 2 8011 0354 (for callers outside Australia).	Important Notices

4

IMPORTANT INFORMATION ABOUT THE OFFER

4.1 The Offer

New Hope is offering to acquire all of your Northern Energy Shares. The consideration under the Offer is \$1.50 cash per Northern Energy Share.

The Offer is subject to a number of conditions. Those conditions are set out in full in Section 8.10 of the Bidder's Statement.

4.2 Assessment of the Offer

Before making a decision whether to accept or reject New Hope's Offer for your Northern Energy Shares, you should read this Target's Statement carefully and seek independent financial and taxation advice.

Shareholders should also consider the risks associated with the Offer which are set out in Section 6 of the Target's Statement.

4.3 Directors' Recommendation

The unanimous recommendation of the Northern Energy Directors is to REJECT the Offer. Further details of the recommendation of the Directors are set out in Section 5 of the Target's Statement.

4.4 Accepting the Offer

If you wish to accept the Offer you must follow the instructions set out in Section 8.3 the Bidder's Statement. In summary:

- (a) if your Northern Energy Shares are held in an Issuer Sponsored Holding – you must sign the acceptance form attached to the Bidder's Statement and return it in accordance with the instructions on the acceptance form and return the application form in the addressed envelope enclosed with the application form; or
- (b) if your Northern Energy Shares are held in a CHESS Holding – you can either:
 - (1) sign the acceptance form attached to the Bidder's Statement and return it to the address specified on the form; or
 - (2) contact your broker or other non-broker controlling participant under the ASX Settlement Operating Rules and have them accept the Offer on your behalf in accordance with those ASX Settlement Operating Rules.

You can only accept the Offer for all of your Northern Energy Shares, subject to Section 8 of the Bidder's Statement. Refer to Section 8 of the Bidder's Statement for an explanation or clarification of any of these requirements. Acceptances must be received by 7.00pm (Sydney time) on 21 December 2010 unless the Offer is extended.

If you accept the Offer, you are prevented from selling your Northern Energy Shares on the market unless you withdraw your acceptance where you have a right to do so. The right to withdraw an acceptance of the Offer is limited - refer to Sections 6.3 and 8.2 of this Target's Statement for full details of the consequences of accepting the Offer.

4.5 Effect of Accepting the Offer

Subject to the conditions of the Offer being satisfied or the Offer being declared free from conditions, if you accept the Offer you will receive \$1.50 cash in respect of each Northern Energy Share for which you accept the Offer.

Subject to any statutory withdrawal rights that may apply, once you accept the Offer (even while it is subject to conditions), you will:

- (a) give up your right to sell your Northern Energy Shares to anyone else, including selling them on ASX or accepting any Superior Offer that may emerge;
- (b) give up your right to otherwise deal with your Northern Energy Shares; and
- (c) lose any rights attaching to your Northern Energy Shares from the date of your acceptance.

However, you will be entitled to receive any increase that New Hope makes to the Offer consideration after your acceptance.

Complete details of the effect of acceptance of the Offer are set out in Sections 8.5 and 8.7 of the Bidder's Statement. You should read that section in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Northern Energy Shares, and representations and warranties that you give should you choose to accept the Offer. The rights you will give up will include your voting rights and entitlements to receive any dividends from the date of your acceptance of the Offer.

You will only have statutory rights to withdraw your acceptance if:

- (a) the Offer is varied in such a way as to postpone for more than one month, the time by which New Hope has to meet its obligations under the Offer;
- (b) the conditions of the Offer have not been satisfied or waived by New Hope before the end of the Offer Period.

In such circumstances, you will be sent a notice at the relevant time explaining your rights to withdraw your acceptance of the Offer.

Except in these limited circumstances, if you accept the Offer, you will give up your rights to sell your Northern Energy Shares or to accept any Competing Offer, if such an offer were made, during the Offer Period.

4.6 Rejecting the Offer

If you wish to reject the Offer you need not take any action. You will retain your Northern Energy Shares, subject to New Hope acquiring 90% of the Northern Energy Shares issued which would accordingly entitle New Hope to compulsorily acquire all remaining Northern Energy Shares.

4.7 Selling your Northern Energy Shares on the ASX

Provided that you have not accepted the Offer, you can sell your Northern Energy Shares on the market at the then prevailing market price of Northern Energy Shares. If you wish to sell your Northern Energy Shares on-market, you should contact your broker.

4.8 Enquiries

If you have any queries in relation to the Offer, you should contact your financial, legal or other professional adviser.

Northern Energy has set up a shareholder information line. If you have any questions in relation to the Offer, you can call the shareholder information line on 1300 560 339 (for callers within Australia) or +61 2 8011 0354 (for callers outside Australia) which is available Monday to Friday between 9:00am to 5:00pm (Sydney time).

5

RECOMMENDATION OF THE DIRECTORS OF NORTHERN ENERGY

5.1 The Directors

The following are Directors of Northern Energy as at the date of this Target's Statement:

Dr Christopher Rawlings – Non-Executive Chairman

Mr Keith Barker – Managing Director & Chief Executive Officer

Mr Sam Willis – Non-Executive Director

Mr Dian Zhou He – Non-Executive Director

Mr Geoff Lord – Non-Executive Director

Mr Kevin Maloney – Non-Executive Director

In addition, Mr Jie You (alternate director for Mr Dian Zhou He) supports the recommendations in this Section 5 together with each other Director of Northern Energy listed above.

5.2 Directors' Recommendation

After taking into account each of the matters in this Target's Statement (including the Independent Expert's Report) and in the Bidder's Statement, each of your Directors recommends that you REJECT the Offer.

In considering whether to accept the Offer, your Directors encourage you to:

- read the whole of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- consider the reasons for the Directors' recommendations noted in this Target's Statement; and
- obtain financial advice from your broker or financial adviser upon the Offer and obtain taxation advice on the effect of accepting the Offer.

5.3 Reasons for the Directors' Recommendation

The reasons that the Directors recommend that you reject the Offer are outlined in Section 1 of the Target's Statement entitled "5 good reasons to reject New Hope's inadequate Offer".

5.4 Directors intend to reject the Offer

Each of the Directors intends to reject New Hope's Offer in respect of his personal holding. The table below highlights that the Directors cumulatively own or control 10.95% of the issued capital of Northern Energy.

Director**	Total relevant interests in Shares	% of total Shares on issue
Dr Christopher Rawlings	2,013,714	1.57%
Mr Keith Barker***	1,375,429	1.07%
Mr Sam Willis	335,714	0.26%
Mr Dian Zhou He*	-	-
Mr Geoff Lord	2,872,440	2.24%
Mr Kevin Maloney	7,470,198	5.82%
Mr Jie You (alternate for Mr He)*	-	-
TOTAL	14,067,495	10.95%

* Note: Mr Dian Zhou He is a nominee of Xinyang, who hold 16,315,000 (12.7%) of the Shares in Northern Energy as at the date of this Target's Statement. Mr Jie You is an alternate director for Mr He.

** Note: Includes direct and indirect interests in securities

*** Note: Details of Mr Barker's Options are set out in Section 9.10.

6

RISKS

6.1 Introduction

In deciding whether or not to accept the Offer, you should read the entire Target's Statement and the Bidder's Statement carefully.

Northern Energy's business activities are subject to a number of investment risk factors, both specific to its business and of a general nature, which may affect the future exploration, operating and financial performance of Northern Energy. The risks and uncertainties described below are not intended to be exhaustive. There may be additional risks and uncertainties that Northern Energy is unaware of, or that Northern Energy currently considers to be immaterial, which may affect Northern Energy. You should be aware that rejecting the Offer, in circumstances where New Hope does not acquire sufficient Northern Energy Shares to proceed to compulsory acquisition, may result in Northern Energy Shareholders being exposed to the following risks.

6.2 Risks Relating to Northern Energy's Business

(a) General Risks

General Economic Conditions

Changes in the general economic climate in which Northern Energy operates may adversely affect the financial performance of Northern Energy. Factors that may contribute to that economic climate include the general level of economic activity, interest rates, inflation, supply and demand, industrial disruption, and social unrest or war on a local or global scale. The price of commodities will also be of particular relevance to Northern Energy. These factors are beyond the control of Northern Energy, and it cannot, with any degree of certainty, predict how they will impact on the Company.

Share Market Risk

The market price of Shares can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian resources sector and mining and exploration companies in particular. The Shares carry no guarantee in respect of profitability, dividends, return on capital, or the price at which they may trade on the ASX.

There are a number of factors (both national and international) that may affect the share market price and neither Northern Energy nor its Directors have control of those factors.

(b) Specific Risks

Operational Risks

The operations of Northern Energy may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including geological conditions, environmental hazards, technical and equipment failures, flooding and extended interruptions due to inclement or hazardous weather or other physical conditions, unavailability of drilling equipment, unexpected shortages of consumables or parts and equipment, fire, explosions and other incidents beyond control of Northern Energy.

Development and Exploration Projects

The Company's projects are at various stages of exploration and development. Therefore, their future value is dependent on the success of those projects. There can be no guarantee that the projects will be successfully developed into profitable coal mines.

Future developments are dependent on the grant of mining leases and appropriate approvals (including environmental approvals). Obtaining these approvals requires compliance with various regulations including as to native title, environmental and community impact.

Resource and Reserve Estimates

Resource and reserve estimates are quoted in accordance with the JORC Code. These are expressions of opinion based knowledge, experience and industry practice. It is the nature of these estimates that they may change over time as new information is obtained about projects, or as underlying assumptions change. They may also require adjustment where interpretation of data proves inaccurate. There is therefore a risk that resource and reserve estimates quoted in this document may change over time which may have an adverse effect on the Company's proposed operations and mining plans.

Capital Requirements

As identified in Section 2 paragraph 1 of this document, the Company requires capital to enable its projects to be brought into production.

The Company's announcements of 30 July 2010 outline the Company's current expected capital requirement for the Elimatta and Maryborough projects, and potential sources of that capital.

The capital estimates are estimates based on today's labour, material, construction and procurement costs. These costs may vary prior to final approval for each of the projects due to external economic influences, requirements placed upon the projects by approval conditions, availability of labour, detailed design changes, etc.

Section 2 paragraph 1 of this document outlines the expected timing requirements of the funding.

Whilst the Company has opportunities that it intends to seek to pursue at the appropriate time, there can be no guarantee that the Company will be able to raise the necessary funding from the various sources, necessary to bring its projects into production in accordance with current plans, or if funding is available, that it is available on terms that do not render the project uneconomic.

Mineral Resources Rent Tax

On 2 July 2010, the Federal Government announced that it had agreed a compromise with several members of the resource sector in relation to a new MRRT regime applying to entities involved in the mining of iron ore and coal in Australia. The MRRT is proposed to apply to the assessable profit based on the value of the resource extracted in all iron ore and coal projects. Since the announcement of the MRRT there has been active debate on the impact of the MRRT on companies involved in the mining of iron ore and coal in Australia. The final form of the MRRT may change and the extent to which the Company will be affected will depend upon the final legislative form of the MRRT and its application to any of the Company's projects that may be developed. The current interpretation of the form of the MRRT has been factored into both Northern Energy's and the Independent Expert's assessment of asset value.

Government Regulation - Strategic Cropping Land

Changes in government regulations and policies may adversely affect the financial performance or the current and proposed operations generally of the Company. Other than as set out in this Target's Statement, the Company is not aware of any current or proposed material changes in relevant regulations or policy. land" policy framework. Under the policy, it is proposed that mineral resources in defined agricultural areas will not be developed where they permanently alienate the land.

On 23 August 2010, the Queensland Government released the "Protecting Queensland's strategic cropping land" policy framework. Under the policy, it is proposed that mineral resources in defined agricultural areas will not be developed where they permanently alienate the land.

Precise definition of strategic cropping land and definitive maps identifying strategic cropping land have not yet been settled, although indicative maps have been published which do identify areas where strategic cropping land may exist.

Based on the indicative maps, it would appear that the Company's Elimatta project (and potentially other projects) may, at least partially fall within the strategic cropping land zones.

Where a development is proposed in an area that is mapped as strategic cropping land, it will not be permitted to proceed if it permanently prevents the land being used for cropping in the future.

Coal price volatility

The demand for, and price of, coal is highly dependent on a variety of factors, including international supply and demand, the price and availability of alternative fuels, actions taken by governments, and global economic and political developments. Coal prices have fluctuated in recent years and may continue to fluctuate significantly in the future.

Northern Energy has entered into an off-take agreement for 65% of the coal to be produced at Colton and proposes to negotiate other coal contracts in the future. If the price for coal sold by the Company were to fall below the costs of production and remain at such level for any sustained period, Northern Energy would experience losses and could have to curtail or suspend some or all of its proposed mining activities.

No assurance can be given that, if or when further coal contracts are negotiated, the price that Northern Energy receives for its coal under these contracts will not be lower than either current prevailing coal prices or the price under its existing contract.

Transport and infrastructure

Coal produced from Northern Energy's mining operations is to be transported to customers by a combination of rail and sea. These transport services are subject to disruption due to a number of factors, including weather, rail or port capacity constraints, key equipment and infrastructure failures and industrial action. These disruptions may impair the Company's ability to supply coal to customers which may have a material adverse effect on Northern Energy.

There is currently very high demand for rail and port services for coal export in Queensland which is further constrained by limited capacity. If the Company were to rely upon existing infrastructure to progress development at Maryborough, Elimatta, Yamala and Ashford there is no guarantee that suitable capacity will be available, if and when, the Company requires such capacity on commercially acceptable terms.

Northern Energy is one of eight entities that have had accepted by Wiggins Island Coal Export Terminal (WICET), capacity commitments totalling 27 million tonnes per annum (in aggregate) for stage one of the proposed WICET development.

There is no guarantee, despite WICET's announcement on 30 September 2010 of capacity commitments, that the WICET development will proceed, or that it will proceed with the Company maintaining its committed capacity.

Any unexpected delay in the construction Stage 1 of WICET or of the various stages of the terminal expansions, or insufficient terminal capacity allocation at development stages, may have a material adverse effect on the Company. It should be noted however that Northern Energy is not relying on Stage 1 for the commencement of production at its Maryborough project. In addition, Northern Energy's capacity allocation through WICET may be affected by judgments, decisions and rulings by government or quasi government bodies, government regulators or by the action of third parties, including without limitation any obligation that Northern Energy has pursuant to any court judgments relating to Northern Energy's capacity at the WICET.

Water and Power

The ability for the Company to undertake dust suppression and coal washing on its proposed projects requires a secure access to water. Power is necessary for the continued operations of items of plant. There can be no guarantee that the Company will be able to secure access to such power and water to enable its projects to be successfully developed.

Contractual risks

The Company is a party to various contracts. Whilst the Company will have various contractual rights in the event of non compliance by a contracting party, no assurance can be given that all contracts to which the Company is a party will be fully performed by all contracting parties. Additionally, no assurance can be given that if a contracting party does not comply with any contractual provisions, that the Company will be successful in securing compliance.

Tenements and Overlapping Tenure

Queensland legislation currently allows for the grant of coal tenements, including UCG, under the Mineral Resources Act 1989 (MRA) and for the grant of CSG tenements under the Petroleum and Gas (Production and Safety) Act 2004 (P&G Act) and with respect to the same land. To commercially produce:

- CSG, a petroleum lease (PL) is required under the PG Act; and
- coal, a mining lease (ML) is required under the MRA.

The Company's present intention is to continue to explore for coal with a view to being able to commence mining operations in the future.

Whilst the Company does not presently intend to pursue exploration with a view to demonstrating UCG potential, the existence of recently announced Queensland Government Policy and the administration of CSG and UCG under the different Acts of Parliament has created an issue involving over-lapping tenure.

To address these issues, the State Government released the Underground Coal Gasification Policy (Policy) on 18 February 2009. Arising from the Policy are risks associated with the implementation of the Policy and the future grant of EPCs and MDLs.

Whilst the Company does not presently believe that it will be affected by these risks, no assurance can be given that at some time in the future, the Company will not be affected by the operation of prevailing Government Policy in respect of over-lapping tenure.

Competition

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other mining companies, many of which have greater financial resources than the Company, for the acquisition of coal claims, leases and other coal interests and their development, as well as for the recruitment and retention of qualified employees and other personnel.

CPRS

In March 2009, the Federal Government released its exposure drafts in respect of the proposed introduction of a Carbon Pollution Reduction Scheme (**CPRS**). The CPRS Bill 2009 provides that from 1 July 2010 the mandatory requirements of the CPRS Cap and Trade system of Australian Emission Units will commence.

In May 2009 the Government announced that it will delay the start of the CPRS by one year to 1 July 2011. In April 2010, the Federal Government announced that implementation of the scheme would be delayed until the conclusion of the current Kyoto commitment period (end of 2012).

At this time, it is difficult for the Company to accurately determine how the CPRS may impact on the Company and its business activities if it is legislated. However any introduction of the CPRS, or of any new or modified form of tax on carbon or hydrocarbons may adversely affect the Company's future operations and its financial position.

6.3 Risk factors that arise from the Offer

Northern Energy Shareholders will have limited withdrawal rights with respect to the Offer, which means that a decision to accept the Offer may be irrevocable

Once you have accepted the Offer, you have only a limited right to withdraw your acceptance of the Offer. Under the Corporations Act, if after you have accepted the Offer and whilst it remains subject to conditions, the Offer is varied (such as by an extension of the Offer Period) so as to postpone for more than one month the time when New Hope must meet its obligations under the Offer, you will be able to withdraw your acceptance. Otherwise, you will be unable to withdraw your acceptance of the Offer even if the market value of New Hope shares varies significantly from their value on the date of your acceptance of the Offer.

Possible Decrease in Northern Energy Share Price

The Directors cannot predict whether the share price for Northern Energy Shares would increase or decrease in the absence of the Offer and movements in the share price may be caused by other considerations.

The latest share price for Northern Energy Shares can be obtained from asx.com.au using the code "Northern Energy".

Taxation risks

The tax consequences and risks of the Offer depend upon the specific circumstances of each Northern Energy Shareholder.

Section 6 of the Bidder's Statement specifies possible tax implications for Northern Energy Shareholders arising from the Offer. This is not a complete or authoritative statement of the potential tax implications for each Northern Energy Shareholder.

Income tax and CGT liabilities of each Northern Energy Shareholder will depend upon the individual circumstances of each such shareholder. Northern Energy Shareholders should obtain their own professional taxation advice regarding the applicable law in respect of the Offer and neither Northern Energy nor any of its officers or advisers accepts any responsibility or liability in respect of any statement given in relation to tax liability or any actual tax liability which may arise.

Less than 90 percent ownership

The Offer is subject to a 50.1% minimum acceptance condition. Therefore a risk exists that the final level of ownership acquired by New Hope is less than 90%, which could have an impact on New Hope's intentions regarding Northern Energy (refer to Section 7 of the Target's Statement). This impact could have a material adverse effect on Northern Energy.

Additionally, in the event that New Hope waives the minimum acceptance condition (and proceeds with the Offer) such that New Hope's final ownership level is less than 50.1%, whilst the existing shareholder base of Northern Energy may have majority ownership, New Hope may represent a large shareholder with a sufficient number of shares to lead to resolutions in Northern Energy general meeting being defeated.



7

CONDITIONS OF NEW HOPE OFFER

7.1 Conditions of the Offer

The Offer is subject to a number of conditions, contained in Section 8.10 of the Bidder's Statement.

7.2 Xinyang Condition

One of New Hope's defeating conditions to the Offer (condition (f) in Section 8.10 of the Bidder's Statement) provides, in effect, that it is a condition of New Hope's Offer that this Target's Statement contains a statement confirming that the price at which coal will be purchased under the off-take agreement with Xinyang is as set out in New Hope's condition.²⁴

The material terms of the off-take agreement entered into with Xinyang, including a general description of the price, are set out in the Company's ASX announcement of 22 April 2010. In particular, that announcement stated as follows, regarding the price payable under the off-take agreement:

"The coal will be purchased at a price that is set with reference to the prevailing benchmark prices for Queensland hard coking coal".

7.3 Executive Incentive Options

In accordance with Northern Energy's long term incentive scheme, Northern Energy announced on 24 September 2010 (before the New Hope Offer was announced) that it proposed to seek shareholder approval for the issue of certain incentive options to senior management (**Incentive Options**).

If shareholder approval is obtained, and Northern Energy subsequently issues the Incentive Options, it is likely that one or more of the defeating conditions to the New Hope Offer may be triggered.

Subject to obtaining shareholder approval at the Company's Annual General Meeting, Northern Energy proposes to issue the Incentive Options as soon as is practicable thereafter.

²⁴ Namely that the price is "equivalent to the average quarterly price for Peak Downs, Saraji and Goonyella hard coking coal adjusted for quarterly variations and/or penalties".

7.4 Effect of triggering defeating conditions

As described in Sections 7.2 and 7.3, it is likely that one or more of the defeating conditions to the New Hope Offer will have been triggered (and in the case of the Xinyang condition described in Section 7.2, triggered as a result of the issue of this document).

Accordingly, New Hope may be entitled to rely on the triggering of the relevant conditions and not proceed with the Offer. New Hope has certain rights in respect of defeating conditions as described in Section 8.11 of the Bidder's Statement.

Given that, at the time New Hope announced its Offer and then dispatched its Bidder's Statement to Shareholders, it was aware of the proposed issue of Incentive Options (and the potential triggering of one or more defeating conditions), Northern Energy requested that New Hope make disclosure in its Bidder's Statement as to whether it intended to rely on or waive the relevant conditions.

New Hope refused to provide any such supplementary disclosure.

7.5 Minority Ownership Consequences

As at 17 November 2010, New Hope has (based on a substantial holding notice filed with the ASX):

- (a) a relevant interest in 6,348,652 Northern Energy shares; and
- (b) 4.944% voting power in Northern Energy.

The Offer is subject to a 50.1% minimum acceptance condition.

In Section 3 of the Bidder's Statement, New Hope sets out its intentions in the event that it does not become entitled to at least 50.1% of the Northern Energy shares but proceeds with the Offer and acquires a majority shareholding in Northern Energy. If this were to occur, those Northern Energy Shareholders who do not accept the Offer will become minority shareholders in Northern Energy. This has a number of possible implications including the following:

- (a) New Hope will be in a position to cast the majority of votes at a general meeting of Northern Energy. This will enable New Hope to control the composition of the Northern Energy Board and senior management, determine Northern Energy's dividend policy and control the strategic direction of the businesses of the Northern Energy Group;
- (b) New Hope intends to replace all of the members of the Northern Energy Board with nominees of New Hope so that the number of New Hope's nominees will be approximately proportionate to New Hope's holding of Northern Energy shares;
- (c) the Northern Energy share price could fall immediately following the end of the Offer Period. Such an outcome is consistent with the proposition that (in the absence of the Offer or another takeover offer being outstanding), the price for a Northern Energy share on the ASX reflects the value of that share on a portfolio basis while the price payable under a takeover should be higher to reflect the value of the Northern Energy share on a 100% controlling interest basis;
- (d) it is likely that the liquidity of Northern Energy shares would be significantly lower than at present, with the result that it will be more difficult to buy and sell Northern Energy shares on the ASX;
- (e) if New Hope acquires 75% or more of the Northern Energy shares, it will be able to pass special resolutions of Northern Energy. This will enable New Hope to, among other things, change Northern Energy's Constitution; and
- (f) as identified in Section 9.6 below, certain change in control provisions may be triggered under contracts to which the Company is a party.

7.6 Status of the Conditions

As at the date of this Target's Statement, New Hope have not confirmed that any of the conditions to the Offer have been satisfied or waived or declared the Offer free from conditions.

7.7 Notice of Status of Conditions

As required by section 630(1) of the Corporations Act, New Hope will give a notice of status of conditions (**the Conditions Notice**) to the ASX and Northern Energy seven days before the end of the Offer Period.

New Hope is required to set out in its Conditions Notice:

- whether the Offer is free of any or all of the conditions;
- whether, so far as New Hope knows, the conditions have been fulfilled on the date the Conditions Notice is given; and
- New Hope's voting power in Northern Energy (including voting power acquired as a result of acceptances received under the Offer).

If the Offer Period is extended by a period before the time by which the Conditions Notice is to be given, the date for giving the Conditions Notice will be taken to be postponed for the same period. In the event of such an extension, New Hope is required, as soon as practicable after the extension, to give a notice to the ASX and Northern Energy that states the new date for the giving of the Conditions Notice. If a condition is fulfilled (so that New Hope's Offer becomes free of that condition) during the Offer period but before the date on which the Conditions Notice is required to be given, New Hope must, as soon as practicable, give the ASX and Northern Energy a notice that states that the particular condition has been fulfilled.

8

OTHER INFORMATION MATERIAL TO THE MAKING OF A DECISION BY A HOLDER OF NORTHERN ENERGY SHARES

8.1 Offer Period

New Hope's Offer is open for acceptance from 9 November 2010 until 7.00pm (Sydney time) on 21 December 2010, unless extended or withdrawn in accordance with the Corporations Act.

8.2 Withdrawal of Your Acceptance

Once you accept the Offer you will not be able to sell your Northern Energy Shares on market or otherwise deal with the rights attaching to your Northern Energy Shares, subject to your limited statutory rights to withdraw your acceptance in certain circumstances.

Northern Energy Shareholders may only withdraw their acceptance of the Offer if the Offer remains subject to conditions and is varied (such as by an extension of the Offer Period) so as to postpone for more than one month the time when New Hope must meet its obligations under the Offer.

Your early acceptance of the Offer (subject to subsequent withdrawal) will prevent you from being able to accept any Superior Offer which may eventuate following that acceptance.

The recommendation of the Northern Energy Directors is to REJECT THE OFFER. Further details of the recommendation of the Directors are set out in Section 5 of the Target's Statement.

8.3 Compulsory Acquisition

If New Hope acquires a relevant interest in at least 90% of Northern Energy Shares then, pursuant to Part 6A.1 Division 1 of the Corporations Act, New Hope will be entitled to compulsorily acquire any Northern Energy Shares in respect of which it has not received acceptance of the Offer.

Northern Energy Shareholders should be aware that, if their Northern Energy Shares are compulsorily acquired, they are not likely to receive payment until at least one month after the compulsory acquisition notices are dispatched to them.

If New Hope does not become entitled to compulsorily acquire Northern Energy Shares in accordance with Part 6A.1 Division 1 of the Corporations Act, it may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 Division 1 of the Corporations Act.

New Hope has indicated in Section 4.3 of the Bidder's Statement that it intends to proceed to compulsory acquisition of the outstanding Northern Energy Shares, if it meets the required thresholds.

Additionally, in the event that New Hope and its associates have a relevant interest in at least 90% of the Shares of Northern Energy at the end of the Offer Period, New Hope will be required under the Corporations Act to offer to buy out Northern Energy Options that remain unexercised.

8.4 Foreign Shareholders

If you wish to reject the Offer, you should not take any action. If you wish to accept the Offer, you should refer to the Bidder's Statement as to how to accept.

8.5 Taxation implications of accepting the Offer

The following is a general outline of the Australian tax consequences for Australian tax resident Northern Energy shareholders disposing of their Northern Energy shares for cash under the Offer.

A general outline of the tax implications of accepting the Offer has also been provided in Section 6 of the Bidder's Statement. These outlines are of a general nature only, and do not take into account your individual circumstances. Accordingly, you should seek your own independent advice on the tax implications of you disposing of your Northern Energy shares.

Australian resident shareholders

The disposal or compulsory acquisition of your Northern Energy shares will have capital gains tax (CGT) consequences in the financial year that this happens. This is on the basis that you hold your Northern Energy shares on capital account (e.g. as a passive investment to earn dividends).

As the Offer for your shares is a cash only offer, no CGT rollover will be available.

You may make a capital gain from the disposal of your Northern Energy shares if the capital proceeds received exceed the cost base of those shares. The cost base of a share includes the amount you paid to acquire it, and any incidental costs of the acquisition (such as brokerage fees). You may make a capital loss from the disposal of your Northern Energy shares if the capital proceeds are less than the cost base of those shares.

If you will have held your Northern Energy shares for a period of longer than 12 months at the disposal date, then you may be eligible to apply the 50% CGT discount to the capital gain that arises. Generally speaking, only individuals or trusts may access the 50% CGT discount. Superannuation funds may be eligible for a one-third CGT discount (i.e. 33.33% CGT discount). Companies are not eligible for the 50% CGT discount.

If you held your shares on revenue account they will be subject to income tax, and not taxed under the CGT provisions (and the 50% CGT discount would not be available).

As the final tax outcome on the disposal of your Northern Energy shares will depend upon your individual tax profile (such as whether you may have capital losses available), you should obtain your own independent tax advice.

Non-resident shareholders

If you are a non-Australian tax resident, you should obtain independent tax advice under both Australian tax laws and the tax laws of your country of residence on the disposal of your Northern Energy shares under the Offer.

9

ADDITIONAL INFORMATION

9.1 Information on Northern Energy

Northern Energy Corporation Limited ABN 90 081 244 395 is an ASX-listed company (ASX Code: NEC) with coal projects in Queensland and New South Wales, Australia.

The Company has interests in a portfolio of coking and thermal coal projects being progressed towards development. These projects represent a diversified suite of geographically spread resource development opportunities involving various coal types and mining methods.

Northern Energy's current portfolio includes:

- the Maryborough Hard Coking coal project (EPC923 and EPC1082), near Maryborough, Queensland;
- the Elimatta Thermal Coal project (EPC650, EPC1170 and EPC1205), located approximately 30km west of Wandoan, Queensland;
- the Yamala PCI / Thermal coal project (EPC927), between Emerald and Blackwater, Queensland; and
- the Ashford Hard Coking coal project (EL6234 and EL6428), north of Inverell, New South Wales.

The Company is well-funded to continue its progression from explorer to mine developer and coal producer.

Northern Energy has established significant industry partnerships and has plans to grow and expand its relationships as it makes the transition from explorer to mine developer.

The Company is well-positioned to take advantage of the in ground value of its resources to meet strong ongoing market demand for both thermal and hard coking coal.

As at the date of this Target's Statement, the Company has the JORC Resources and Reserves set out in the table below:

Reserves (Mt)

Project	Proven	Probable	Total	Northern Energy Equity
Elimatta	82	24	106	100%
Maryborough		5.9	5.9	100%

Resources (Mt)

Project	Coal Type	Measured	Indicated	Inferred	Exploration Target	Total Mt	Northern Energy Equity
Elimatta	Thermal	129	75	40	30-50	274-294	100%
Yamala	Thermal/PCI		40	180	190-220	410-440	83%
Maryborough	Hard Coking		9.5	73.5	105-137	188-220	100%
Ashford	Hard Coking			18		18	50%
Total		129	124.5	311.5	325-407	890-972	

Competent Persons Statement

The estimates of coal resources and reserves presented above have been carried out in accordance with the JORC Code. Coal resources are reported inclusive of coal reserves.

The information in this document that relates to Mineral Resources at Maryborough is based on information compiled by Mr Lyon Barrett, who is a Member of the Australian Institute of Mining and Metallurgy. Mr Barrett is a qualified geologist (B.Sc. (Hons) Adelaide University, 1996) and is an employee of Salva Resources. The information in this document that relates to Mineral Resources at Elimatta, Yamala and Ashford is based on information compiled by Mr Andrew McLaughlin, who is a Member of the Australian Institute of Mining and Metallurgy. Mr McLaughlin is a qualified geologist (B.Sc. (Hons) University of Newcastle, 1994) and is a former employee of Northern Energy Corporation.

Both Mr Barrett & Mr. McLaughlin have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Barrett & Mr McLaughlin each consent to the inclusion in this document of the matters based on his information in the form and context in which it appears.

The information in this document that relates to Proven and Probable Reserves at Elimatta is based on a mine plan, a mine schedule and costs prepared by The Minserve Group Pty Ltd. Mr Jeff Jamieson was responsible for the report's preparation and the reserve statement therein. He is both a Fellow of the Australian Institute of Mining and Metallurgy, and a Chartered Professional (Mining) and is a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Mr Jamieson consents to the inclusion in this document of the matters based on his information in the form and context in which it appears.

The estimates of Coal Reserves for the Maryborough (Colton) Mine Area as presented in this report have been prepared in accordance with the Guidelines of the "Australasian Code for the Reporting of Mineral Resources and Ore Reserves", prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Minerals Council of Australia, December 2004.

The information in the document to which this statement is attached, that relates to the Maryborough (Colton Mine) Reserves, is based on information reviewed by Mr Fred Parker, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Parker is a full time employee of Runge Ltd.

Mr Parker has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for the Reporting of Mineral Resources and Ore Reserves".

Mr Parker consents to the inclusion in this document of the matters based on this information in the form and context in which it appears.

Additionally in respect of Exploration Targets referred to in this document, the Company advises that:

- a detailed explanation of the basis for inclusion of the Exploration Targets appears in the JT Boyd Report, in respect of each project area;
- the potential quantity and grade is conceptual in nature. There has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

9.2 Information on New Hope

New Hope listed on the ASX in 2003 and is a thermal coal production company with interests in logistics and infrastructure operations in Australia.

Section 2 of the Bidder's Statement provides background and financial information regarding New Hope.

For further information regarding New Hope, refer to its website at newhopecoal.com.au.

9.3 Issued Capital

As at the date of this Target's Statement, Northern Energy's issued capital consisted of:

- 128,420,838 ordinary fully paid shares; and
- 1,582,500 options to subscribe for ordinary fully paid shares as follows:
 - » 82,500 options exercisable at \$1.60 and expiring 31 August 2011
 - » 500,000 options exercisable at \$1.70 and expiring 28 February 2011
 - » 500,000 options exercisable at \$1.70 and expiring 28 February 2012
 - » 250,000 options exercisable at \$1.44 and expiring 1 February 2013
 - » 250,000 options exercisable at \$1.44 and expiring 1 February 2014

9.4 Senior Management Options

Senior Management of Northern Energy currently hold the following options in Northern Energy:

- 500,000 options exercisable at \$1.70 and expiring 28 February 2011
- 500,000 options exercisable at \$1.70 and expiring 28 February 2012
- 250,000 options exercisable at \$1.44 and expiring 1 February 2013
- 250,000 options exercisable at \$1.44 and expiring 1 February 2014

Further, as set out in the Company's 2010 Notice of Annual General Meeting, it is proposed that a further 655,025 options exercisable at \$1.144 on or before 30 June 2013 be issued to Senior Management, in line with current Executive Remuneration Policies.

The Board has recommended to Senior Management who hold these options that they take no action in respect of the options.

9.5 Notice of the Bidder's Voting Power

As at 18 November 2010, the Bidder held a relevant interest of 4.944% in Northern Energy's issued capital. The Bidder is required to notify the ASX and Northern Energy before 9.30am on each trading day during the Offer Period where there is an increase in New Hope's relevant interest representing at least 1% in Northern Energy's issued capital.

9.6 Material Contracts

Northern Energy has material contracts which include change in control provisions which may be triggered if New Hope is successful in acquiring control of Northern Energy.

In particular, Northern Energy advises that:

- Under the terms of the Joint Venture Agreement between Taroom Coal Pty Ltd (a wholly owned subsidiary of Northern Energy) (**Taroom**) and CHR Emerald Pty Ltd (**CHR**), in the event that there is a change in control of Taroom, there is a deemed offer by Taroom to CHR to sell its interest in the Yamala Joint Venture.
- Under the terms of the Management Agreement between Taroom and CHR, Taroom's position as manager of the Yamala Joint Venture is able to be terminated (at the direction of the operating committee of the joint venture) upon a change in control of Taroom.

There is a risk that although there are exceptions for changes in control of Northern Energy in the relevant agreements, due to the drafting of the particular change in control provisions, they may be triggered upon New Hope acquiring a controlling interest in Northern Energy.

If the change in control provisions are triggered it will give rise to the ability of the counterparty to exercise the rights indicated above. If the counterparty elects to exercise those rights it may have a material adverse effect on the assets and liabilities, financial position and performance, profits and losses and prospects of Northern Energy.

Note that it is currently proposed that the interest of Taroom in the Yamala Joint Venture will be assigned to Yamala Coal Pty Ltd (**YC**), another wholly owned subsidiary of Northern Energy. If that occurs, references in this Section 9.6 to Taroom, should be read as references to YC.

9.7 Disclosing Entity

Northern Energy is a disclosing entity and as such is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules.

Copies of the documents filed with the ASX may be obtained from the ASX website at asx.com.au or Northern Energy's website at www.northernenergy.com.au.

Copies of the documents lodged with ASIC in relation to Northern Energy may be obtained from, or inspected at, an ASIC office.

Northern Energy Shareholders may obtain a copy of:

- the 2010 Annual Report of Northern Energy;
- Northern Energy's constitution; and
- any document lodged by Northern Energy with the ASX between the release of the 2010 Annual Report to the ASX and the date of this Target's Statement,

free of charge upon request by contacting Northern Energy or on the ASX website at asx.com.au.

9.8 Financial position of Northern Energy

The last published financial results of Northern Energy were for the year ended 30 June 2010.

Within the knowledge of each of the Northern Energy Directors, the financial position of Northern Energy has not materially changed since the date of publication of the 2010 Annual Report on 24 September 2010.

9.9 Effect of the Offer on Options

Northern Energy has an Employee Share Option Plan (**Plan**) in place which enables the Board, at its discretion, to grant options to eligible employees, including Directors and senior executives of Northern Energy for nil consideration pursuant to the terms of the Plan and in accordance with performance guidelines established by the Board. The options granted to eligible employees under the Plan are not quoted on the ASX.

As at the date of this Target's Statement, there are 82,500 options on issue which were granted under the Plan on 19 September 2008 with an exercise price of \$1.60, expiring on 31 August 2011 (**ESOP Options**). The ESOP Options vested and became exercisable on 19 September 2009. There are currently no unvested options on issue under the Plan.

Under the terms of the ESOP Options and all other Options on issue in the Company, optionholders are entitled (despite any other vesting condition or restriction contained in the terms) to immediately exercise and dispose of any Options upon a change in control in Northern Energy occurring.

9.10 Directors' Interests in Northern Energy Shares and Options

At the date of this Target's Statement, the number, description and amount of Northern Energy Shares and options held or controlled by or on behalf of each Director are as follows.

Director**	Description	Number
Dr Christopher Rawlings	Ordinary Shares	2,013,714
	Options	-
Mr Keith Barker	Ordinary Shares	1,375,429
	Options ***	1,000,000
Mr Sam Willis	Ordinary Shares	335,714
	Options	-
Mr Dian Zhou He*	Ordinary Shares	-
	Options	-
Mr Geoff Lord	Ordinary Shares	2,872,440
	Options	-
Mr Kevin Maloney	Ordinary Shares	7,470,198
	Options	-
Mr Jie You (alternate for Mr He)*	Ordinary Shares	-
	Options	-

* Note: Mr Dian Zhou He is a nominee of Xinyang, who hold 16,315,000 (12.7%) of the Shares in Northern Energy as at the date of this Target's Statement. Mr Jie You is an alternate director for Mr He.

** Note: Includes direct and indirect interests in securities

*** Note: An additional 459,634 Options are proposed to be issued to Mr Barker following the forthcoming Annual General Meeting of Northern Energy

9.11 Recent Dealings in Northern Energy Shares by Directors

There have been no acquisitions or disposals of Northern Energy Shares by Directors or any of their respective associates in the four months preceding the date of this Target's Statement.

9.12 Interests or Dealings in New Hope Securities

None of the Directors or any of their respective associates have any relevant interest in the securities of New Hope or any related body corporate of New Hope, or have acquired or disposed of any securities of New Hope or any related body corporate of New Hope in the four months preceding the date of this Target's Statement.

9.13 No payments or benefits

No Director has agreed to receive, or is entitled to receive, any benefit from New Hope or Northern Energy which is conditional on, or is related to, the Offer, other than in their capacity as a holder of Northern Energy Shares.

As a result of the Offer, no benefit has been or will be given to a person:

- (a) in connection with the retirement of a person from the board or management of the Northern Energy Group; or
- (b) who holds, or has held a position on the board or management of the Northern Energy Group, or a spouse, relative or associate of such person, in connection with the transfer of the whole or any part of the undertaking or property of Northern Energy,

which would require approval of Northern Energy Shareholders under section 200B of the Corporations Act.

9.14 No agreement or arrangement with any Director of Northern Energy

There is no agreement or arrangement made between any Director or any related body corporate or associate of any Director and any other person in connection with or conditional upon the outcome of the Offer other than in their capacity as a holder of Northern Energy Shares.

9.15 Interests held by Directors of Northern Energy in any contract entered into by Northern Energy

No Director, nor any related body corporate or associate of Northern Energy, has an interest in any contract entered into by New Hope or any Director, related body corporate or associate of New Hope.

9.16 Other Interests of Northern Energy Directors

Full details of the interests of Northern Energy Directors and senior management in contracts and their remuneration entitlements are set out in the Remuneration Report for Northern Energy, as contained in the 2010 Annual Report for Northern Energy released to ASX on 24 September 2010. There have been no material changes to remuneration of Northern Energy Directors since release of the Remuneration Report.

9.17 No Other Material Information

This Target's Statement is required to include all information that shareholders and their advisers would reasonably expect to receive to make an informed assessment whether to accept the Offer, but only to the extent that:

- it is reasonable for the Shareholders and advisers to expect to receive that information in the Target's Statement; and
- the information is known to the Directors.

The Directors are of the opinion that the information that the Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept or reject the Offer are contained within:

- this Target's Statement;
- the Bidder's Statement (to the extent that the information contained in that document is not inconsistent with the Target's Statement);
- the annual and other financial and exploration reports, releases, announcements and documents lodged by New Hope with ASX and/or ASIC; and
- the annual and other financial and exploration reports, releases, announcements and documents lodged by Northern Energy with ASX and/or ASIC.

In preparing this Target's Statement, the Directors have assumed that the information contained in the Bidder's Statement is accurate. However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be contained in this Target's Statement, the Directors have had regard to:

- the nature of the Northern Energy Shares;
- the matters that Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisers of Shareholders; and
- the time available to Northern Energy to prepare the Target's Statement.



10

CONSENTS

10.1 Other Persons

Each of the other persons to whom a statement is attributed in this Target's Statement, or whose statement is included in this Target's Statement, or on which a statement in this Target's Statement is said to be based, has (other than as noted below):

- (a) consented to the relevant statement being included in this Target's Statement in the form and context in which it is included; and
- (b) has not withdrawn that consent before this Target's Statement was lodged with ASIC.

Each such person having given its consent to the inclusion of a statement or being named in this Target's Statement:

- (a) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than those statements which have been included in this Target's Statement with the consent of that person; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and any statements or report which have been included in this Target's Statement with the consent of that person.

10.2 Directors

The Directors have given and have not, before the date of issue of this Target's Statement withdrawn, their consent to be named in this Target's Statement in the form and context in which they are named.

10.3 Third Parties

HopgoodGanim Lawyers has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement as legal adviser to Northern Energy in respect of the Offer in the form and context in which it is named. HopgoodGanim Lawyers does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based. To the maximum extent permitted by law, HopgoodGanim Lawyers expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

Merrill Lynch International (Australia) Limited has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement as financial adviser to Northern Energy in respect of the Offer in the form and context in which it is named. Merrill Lynch International (Australia) Limited does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based. To the maximum extent permitted by law, Merrill Lynch International (Australia) Limited expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

Xingang Resources (HK) Limited has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in the form and context in which it is named. To the maximum extent permitted by law, Xingang Resources (HK) Limited expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

Lonergan Edwards & Associates Limited has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in the form and context in which it is named. To the maximum extent permitted by law, Lonergan Edwards & Associates Limited expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

John T. Boyd Company (Australia) Pty Ltd has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in the form and context in which it is named. To the maximum extent permitted by law, John T. Boyd Company (Australia) Pty Ltd expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

Contango Asset Management Limited has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in the form and context in which it is named. To the maximum extent permitted by law, Contango Asset Management Limited expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

H&W Worldwide Consulting Pty Ltd has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in the form and context in which it is named. To the maximum extent permitted by law, H&W Worldwide Consulting Pty Ltd expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

10.4 Publicly Available Information

This Target's Statement contains statements which are made in, or based upon, statements contained in the Bidder's Statement lodged with ASIC and announcements lodged by New Hope with ASX. As permitted by ASIC Class Order 01/1543, the consent of New Hope is not required for the inclusion of these statements in the Target's Statement ASIC Class Order 01/1543, the consent of New Hope is not required for the inclusion of these statements in the Target's Statement.

Dated 23 November 2010.

Signed for and on behalf of Northern Energy Corporation Limited by Dr Christopher Rawlings who is authorised so to sign pursuant to a resolution passed at a meeting of the Northern Energy Directors.



Dr Christopher Rawlings
Chairman

11

INTERPRETATION

11.1 In this Target's Statement unless the contrary intention appears the following words have the following meanings:

Associate has the meaning ascribed to that term in section 9 of the Corporations Act;

Announcement Date means 8 October 2010, being the date on which New Hope announced publicly that New Hope proposed to make the Offer;

ASIC means the Australian Securities and Investments Commission;

ASX means the Australian Securities Exchange;

ASX Settlement Operating Rules means the ASX Settlement Operating Rules of ASX Settlement Pty Ltd as amended and replaced from time to time;

Bidder means Arkdale Pty Ltd ABN 99 118 299 522, a wholly owned subsidiary of New Hope;

Bidder's Statement means that Bidder's Statement dated 22 October 2010 as replaced by a Replacement Bidder's Statement dated 25 October given by New Hope to Northern Energy on 25 October 2010 in accordance with the provisions of Part 6.5 of the Corporations Act;

CAGR means Compound Annual Growth Rate;

CHES means the Clearing House Electronic Sub-registry System operated by ASX;

Company means Northern Energy;

Competing Proposal means a proposal for a takeover bid, scheme of arrangement or other corporate transaction involving Northern Energy or Northern Energy Shares that would compete with the Offer or mean that a Defeating Condition would not be fulfilled;

Condition Period means the period beginning on the Announcement Date and ending at the end of the Offer Period;

Corporations Act means the Corporations Act 2001 (Cth);

Defeating Condition means the conditions of the Offer set out in clause 7.1 of Appendix A of the Bidder's Statement;

Directors mean the directors of Northern Energy and for the purpose of Section 5 of this Target's Statement, includes Mr Jie You (an alternate director of Northern Energy);

Foreign Shareholders means Northern Energy Shareholders whose address on the Northern Energy share register is outside of Australia and its external territories or New Zealand;

Independent Expert means Longeran Edwards & Associates Limited;

Independent Expert's Report means the independent expert's report prepared by the Independent Expert and dated 17 November 2010, which is contained in Annexure A to this Target's Statement.

JORC Code or JORC means the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves, and the accompanying Guidelines as set out in Appendix 5A of the ASX Listing Rules, as amended from time to time.

JT Boyd Report means the report prepared by John T. Boyd Company (Australia) Pty Ltd dated 18 November 2010, as contained in Appendix G of the Independent Expert's Report;

Listing Rules means the Listing Rules of ASX;

MRRT means the Mineral Resource Rent Tax proposed by the Federal Government on 2 July 2010;

Mtpa means million tonnes per annum;

New Hope means where the context requires or permits:

- (a) New Hope Corporation Limited ABN 38 010 653 844; or
- (b) the Bidder;

New Hope Group means New Hope and its subsidiaries;

Northern Energy means Northern Energy Corporation Limited ABN 90 081 244 395;

Northern Energy Board means the Directors of Northern Energy acting collectively as its board of Directors;

Northern Energy Group means Northern Energy and its subsidiaries from time to time;

Northern Energy Shareholder means a holder of Northern Energy Shares;

Northern Energy Shares or **Shares** means ordinary issued shares of Northern Energy from time to time;

Offer means the offer referred to in the Bidder's Statement and made by New Hope to the holders of Northern Energy Shares to acquire all or any of the Northern Energy Shares;

Offer Period means the period commencing on 9 November 2010 and ending at 7.00pm (Sydney time) on 21 December 2010 or such later date to which the Offer has been extended;

Offer Terms means the terms of the Offer set out in Section 8 of the Bidders Statement, in accordance with section 650D of the Corporations Act;

Options means options to subscribe for Shares;

Relevant Interest has the meaning ascribed to that term in section 9 of the Act;

Reserves has the meaning ascribed to that term in the JORC Code;

Resources has the meaning ascribed to that term in the JORC Code;

RSPT means the proposed Resource Super Profits Tax announced by the Federal Government on 2 May 2010;

Superior Offer means a Competing Proposal that:

- (a) is actually proposed or offered;
- (b) in the determination of the Northern Energy Board, acting reasonably and in good faith and in order to satisfy what the Northern Energy Board considers to be its fiduciary or statutory duties (after having taken advice from its advisers):
 - (1) would be likely to be completed substantially in accordance with its terms; and
 - (2) if completion of that Competing Proposal occurred and taking into account the terms and conditions of the proposal, it would result in a transaction more favourable to Northern Energy Shareholders than the Offer;

and that determination has been communicated by notice in writing to New Hope and New Hope has not matched or bettered the Competing Proposal within 2 Business Days of receipt of such notice;

Target's Statement means this document;

Xinyang means Xingang Resources (HK) Limited;

Yamala Joint Venture means the joint venture constituted by the joint venture agreement entered into between Taroom Coal Pty Ltd and CHR Emerald Pty Ltd.

11.2 In this Target's Statement, unless the contrary intention appears:

- (a) the singular includes the plural and vice versa;
- (b) the masculine gender includes the feminine and (where a corporation is or may be concerned) the neuter;
- (c) words and expressions defined in the Corporations Act have the same meanings;
- (d) headings are for ease of reference only and do not affect the meaning or interpretation.

The background of the page is a photograph of a construction site, featuring a large excavator bucket and a pile of earth. The entire image is covered with a semi-transparent red overlay. The title text is white and positioned on the left side of the page.

A ANNEXURE INDEPENDENT EXPERT'S REPORT



The Directors
Northern Energy Corporation Limited
Level 5
60 Edward Street
Brisbane Qld 4001

17 November 2010

Subject: Takeover offer for Northern Energy Corporation Limited

Dear Directors

Introduction

- 1 On 8 October 2010 New Hope Corporation Limited (New Hope)¹ announced a takeover offer for all the ordinary shares in Northern Energy Corporation Limited (Northern Energy) at an offer price of \$1.50 cash per share (the Offer). The Offer values the total equity in Northern Energy at approximately \$193 million and is subject to a number of conditions which are outlined in Section I.
- 2 Northern Energy has interests in a portfolio of coking and thermal coal projects in Queensland and New South Wales (NSW) which are being progressed towards development. These projects represent a diversified suite of geographically-spread resource-development opportunities involving various coal types and mining methods. Northern Energy has established significant industry partnerships and has plans to grow and expand its relationships as it makes the transition from explorer to mine developer.
- 3 New Hope is an independent, energy company which has open cut mines at Acland on the Darling Downs, and at Rosewood near Ipswich. The company focuses on niche marketing of its thermal coal and exports around 65% of coal production to Asia Pacific markets including Japan, Korea and Chile with the remainder being consumed by customers in south-east Queensland. The company also holds various exploration tenements in central Queensland and on the Darling Downs in southern Queensland.
- 4 While there is no statutory requirement for Northern Energy to obtain an independent expert's report (IER), the Directors of Northern Energy have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Offer is "fair and reasonable".
- 5 LEA is independent of Northern Energy and New Hope and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

¹ The bid is being made by Arkdale Pty Ltd, a wholly owned subsidiary of New Hope.

Summary of opinion

- 6 LEA has concluded that the Offer is neither fair nor reasonable. We have arrived at this conclusion for the reasons set out below.

Valuation of Northern Energy

- 7 LEA has valued the equity in Northern Energy on two bases:
- (a) in accordance with ASIC RG 111, which implicitly reflects an assumption of the availability of funding required to develop the Maryborough Project and bring it into production
 - (b) with an appropriate allowance for the level of dilution likely to be suffered by existing Northern Energy shareholders in order to meet the Maryborough Project funding commitments, which reflects the fact that, prima facie, Northern Energy does not currently have this funding capacity (as part of our assessment of the reasonableness of the Offer).

RG 111 basis

- 8 LEA has valued 100% of the ordinary shares in Northern Energy at between \$3.48 and \$4.75 per share, as summarised below:

Northern Energy – valuation of 100% controlling interest		
	Low A\$m	High A\$m
Maryborough Project	216.1	301.0
Elimatta Project	176.0	234.0
Yamala Project	34.7	57.1
Exploration projects ⁽¹⁾	11.0	12.0
Present value of corporate costs ⁽²⁾	(13.6)	(13.6)
Enterprise value	424.2	590.5
Net cash	27.0	27.0
Cash from assumed exercise of options	3.3	3.3
Value of equity	454.5	620.8
Shares on issue (m)	130.7	130.7
Value per share (\$)	3.48	4.75

Note:

- 1 The values ascribed to the interest of Northern Energy in the exploration projects reflect a third-party offer for the assets.
- 2 We have adopted recurring corporate costs of \$2.0 million per annum (in real terms).

- 9 The value of the Maryborough project has been determined on adoption of the discounted cash flow (DCF) basis of valuation. The DCF analysis reflects:
- (a) the opinion of LEA on future coal prices, exchange rates, discount rates and other economic and valuation parameters

- (b) the views of John T. Boyd Company (Australia) Pty Ltd (Boyd) on technical mining matters, including the reliability of reserve and resource estimates, mining plans, recovery rates and appropriate operating and capital cost estimates.

- 10 The values attributed to the interest of Northern Energy in Elimatta and Yamala have been determined by Boyd on a risk adjusted cents per tonne of resource basis having regard to recent transactions in the sector involving the sale of coal projects in the development stage. The values ascribed to the interest of Northern Energy in the exploration projects reflect a third-party offer for the assets.

Assessment of fairness

- 11 Pursuant to RG 111, an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

- 12 This comparison is shown below:

Comparison of assessed value to Offer			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of 100% of ordinary shares in Northern Energy	3.48	4.75	4.12
Value of Offer consideration	1.50	1.50	1.50
Extent to which the value of the ordinary shares in Northern Energy exceeds the Offer consideration	1.98	3.25	2.62

- 13 As the consideration offered by New Hope is less than our assessed value of 100% of the ordinary shares in Northern Energy, in our opinion the Offer is not fair.

Assessment of reasonableness

- 14 Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, shareholders should accept the offer in the absence of a higher bid before the close of the offer.

Diluted equity value

- 15 For the purpose of assessment of the reasonableness of the Offer, we have assumed that the funding requirement in respect of the Maryborough Project will be met (in part) by way of an equity capital raising by Northern Energy of \$60 million at prices ranging from \$1.00 to \$1.50 per share.
- 16 We have assessed the value of the equity in Northern Energy after allowance for the dilution associated with this equity raising in the range \$2.70 to \$3.99 per share.

Conclusion on reasonableness

- 17 In our opinion the Offer is also not reasonable. In forming our opinion on this issue we note that:

- (a) notwithstanding the premium over the pre-offer trading price implied by the Offer, the Offer consideration of \$1.50 per share is significantly lower than our assessed valuation range for Northern Energy shares²
- (b) whilst Northern Energy has significant funding commitments associated with the development of its Maryborough Project, we consider the level of dilution to value likely to be suffered by existing Northern Energy shareholders associated with meeting these funding commitments to be significantly less than that required to form a conclusion that the Offer could be considered reasonable.

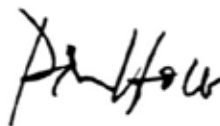
General

- 18 In preparing this report we have considered the interests of Northern Energy shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 19 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Supplementary Bidder's Statement and Target Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.
- 20 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. Shareholders considering their response to the Offer should be aware that our assessed value of Northern Energy shares has been determined having regard to their medium / longer term prospects. Individual shareholders may have a different time horizon.
- 21 If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.
- 22 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that Northern Energy shareholders read the remainder of our report.

Yours faithfully



Martin Hall
Authorised Representative



Martin Holt
Authorised Representative

² Assessed pursuant to the ASIC guidelines set out in RG 111.

Table of contents

Section	Page
I Outline of the Offer	7
Conditions	7
II Scope of our report	8
Purpose	8
Basis of assessment	8
Limitations and reliance on information	9
Reliance on technical experts	10
III Profile of Northern Energy	11
Overview	11
Major assets	11
Reserves and resources	15
Coal quality	16
Infrastructure	16
Project funding	17
Financial performance	17
Financial position	18
Share capital	18
Substantial shareholdings	19
Share price performance	19
Liquidity in Northern Energy shares	21
IV Coal industry overview	22
Overview	22
Global coal markets	22
Australian coal industry	27
Coal prices	32
Carbon pricing and environmental issues	35
Minerals Resource Rent Tax	36
V Valuation of Northern Energy	38
Methodology	38
Maryborough Project	38
Other projects	39
Valuation of Maryborough Project	39
Other mineral assets	47
Net cash position	47
Fully diluted shares on issue	48
Value of Northern Energy shares	48
Comparison with share market price	48
Basis of valuation	49

Section	Page
VI	Evaluation of the Offer
	Summary of opinion
	Assessment of fairness
	Assessment of reasonableness
	Other matters

Appendices

A	Financial Services Guide
B	Qualifications, declarations and consents
C	Assessment of appropriate discount rate
D	Listed coal company multiples
E	Coal transaction multiples
F	Glossary
G	Boyd report

I Outline of the Offer

- 23 On 8 October 2010 New Hope announced a takeover offer for all the ordinary shares in Northern Energy at an offer price of \$1.50 cash per share (the Offer).

Conditions

- 24 The Offer is subject to the following conditions:

- (a) achieving a level of acceptances sufficient to give New Hope a relevant interest of at least 50.1% in Northern Energy on a fully diluted basis
- (b) no specified event (as set out in section 8.10(b) of the Supplementary Bidder's Statement) occurs that will or is reasonably likely to have a material adverse effect on the assets and liabilities, financial position and performance, profits and losses or prospects of Northern Energy, including as a result of making the Offer or the acquisition of Northern Energy shares pursuant to the Offer
- (c) no "prescribed occurrences" (as set out in Section 8.10(c) of the Supplementary Bidder's Statement) having occurred in respect of Northern Energy
- (d) the S&P/ASX 200 Index does not fall to a level that is 90% or less of the level as at the close of trading on 7 October 2010 and remains at or below that 90% level for at least three business days or until the business day immediately prior to the end of the Offer period
- (e) Northern Energy making certain confirmatory statements in its Target's Statement regarding the price at which coal will be purchased under the off-take agreement between Xinyang Iron & Steel Group Company Ltd (Xinyang) and Northern Energy
- (f) no material failing in filings made by Northern Energy with Australian Securities Exchange (ASX) or ASIC
- (g) all necessary public authority approvals being obtained and no action by any public authorities which may materially adversely affect the Offer
- (h) no material acquisitions, disposals or other transactions by Northern Energy for an amount greater than \$10 million
- (i) no break fees or inducement fees paid or agreed to be paid by Northern Energy and no person other than New Hope gaining 20% or more of the voting power in Northern Energy
- (j) no material third party change of control rights being triggered
- (k) no change in the capital structure, business, assets, liabilities, financial position, performance, profitability or prospects of Northern Energy.

- 25 More detail on the above conditions is set out in the Supplementary Bidder's Statement dated 25 October 2010.

II Scope of our report

Purpose

- 26 While there is no statutory requirement for Northern Energy to obtain an IER, the Directors of Northern Energy have requested that LEA prepare an IER stating whether, in LEA's opinion, the Offer is "fair and reasonable".
- 27 This report has been prepared to assist the Directors of Northern Energy in making their recommendation to Northern Energy shareholders in relation to the Offer and to assist the shareholders of Northern Energy assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.
- 28 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 29 Our report has been prepared under s640 of the *Corporations Act 2001 (Cth)* (Corporations Act). Consequently, in preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111.
- 30 RG 111 distinguishes "fair" from "reasonable" and considers:
 - (a) an offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company
 - (b) an offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.
- 31 Based on our understanding of ASIC's policy intent³, it should also be noted that:
 - (a) when assessing the fairness of a transaction the expert must determine the full underlying value of the company's shares without applying any discount due to company specific factors (such as excess gearing or the need to undertake a significant equity raising) which may impair the company's ability to realise full underlying value
 - (b) company specific factors which may impair a company's ability to realise full underlying value should only be taken into account when assessing the reasonableness of a transaction.

³ In applying our understanding of ASIC's policy intent in the case of Northern Energy we have allowed for the requirement to raise significant levels of funding to advance the Maryborough Project in assessing the reasonableness of the Offer from New Hope.

32 Our report has therefore considered:

Fairness

- (a) the market value of 100% of the shares in Northern Energy
- (b) the value of the consideration offered
- (c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

Reasonableness

- (d) the extent to which a control premium is being paid to Northern Energy shareholders
- (e) the extent to which a share of the synergies likely to arise upon an acquisition of Northern Energy by New Hope are being shared with Northern Energy shareholders
- (f) the listed market price of Northern Energy shares both prior to the announcement of the Offer and during the Offer period
- (g) the likely market price of Northern Energy shares if the offer is not successful
- (h) New Hope's current shareholding in Northern Energy
- (i) the position of Northern Energy shareholders if New Hope acquires 50.1% but less than 100% of the Northern Energy shares on issue
- (j) the value of Northern Energy to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future
- (k) other risks, advantages and disadvantages.

Limitations and reliance on information

- 33 Our opinion is based on the economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 34 Our report is also based upon financial and other information provided by, or on behalf of Northern Energy. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Offer is fair and reasonable. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. None of these additional tasks have been undertaken.
- 35 We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalent to International Financial Reporting Standards (AIFRS).

- 36 An important part of the information base used in forming an opinion of the kind expressed in this report are the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 37 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts.
- 38 We have assumed that the forecasts have been prepared fairly and honestly, based on reasonable grounds and the information available to management at the time and within the practical constraints and limitations of such forecasts. We have assumed that management have reasonable grounds for the forecasts and the forecasts do not reflect any material bias. We have no reason to believe that these assumptions are inappropriate.

Reliance on technical experts

- 39 To assist us assess the value of Northern Energy coal assets we appointed John T. Boyd Company (Australia) Pty Ltd (Boyd) to provide an opinion on technical mining matters including the reliability of reserve and resource estimates, recovery rates, mining plans and the appropriate operating and capital cost estimates. Boyd has also provided an opinion on the value of the coal assets of Northern Energy that are in the evaluation stage. Boyd provides a range of technical advisory services to the mineral resources industry and has significant experience in the coal mining sector.
- 40 LEA has relied on the work undertaken by Boyd when forming our opinion on the value of Northern Energy's coal assets. A copy of the Boyd report is annexed to this report as Appendix G and should be read in conjunction with our report.
- 41 In making references to Northern Energy's coal reserves and resources in this report we have relied on the report prepared by Boyd and statement of reserves and resources issued by Northern Energy. LEA does not certify these reserves and resources for the purpose of the Joint Ore Reserves Committee (JORC) Code.

III Profile of Northern Energy

Overview

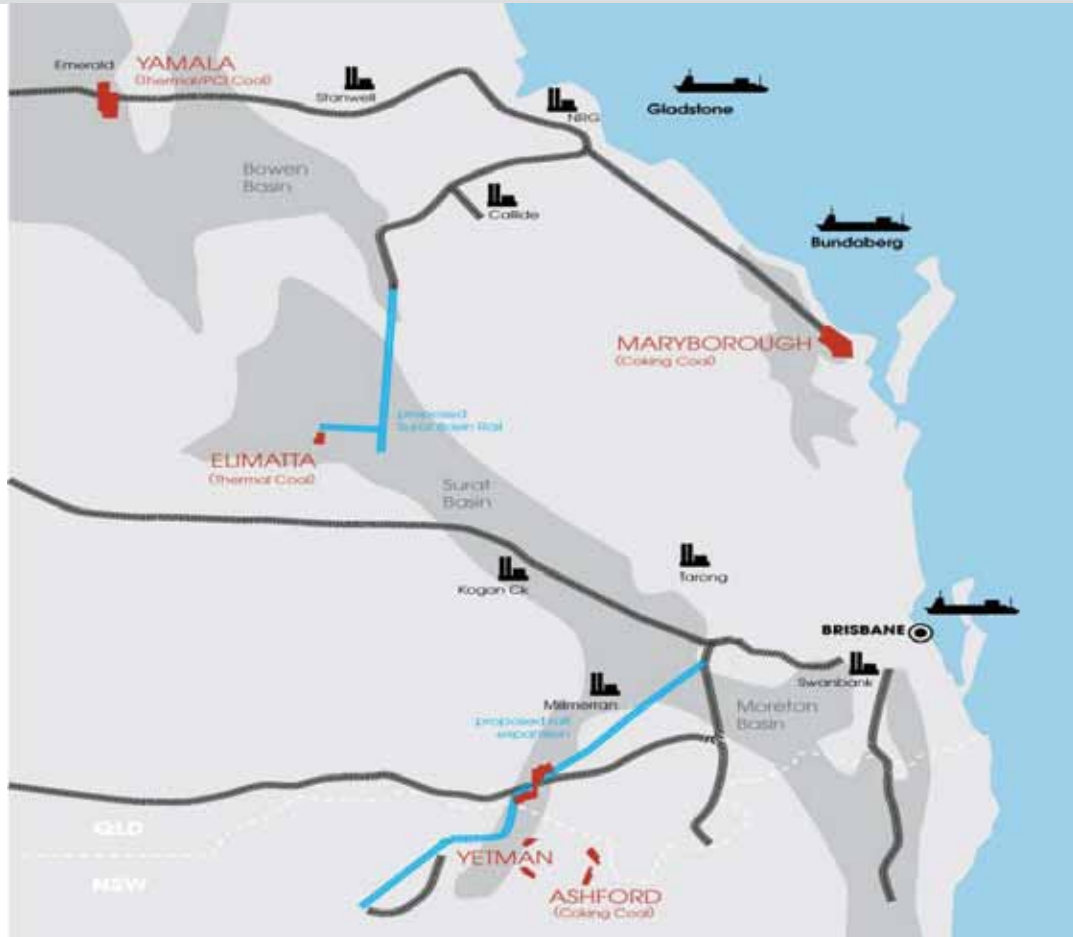
- 42 Northern Energy is an ASX listed coal development and exploration company with interests in a portfolio of coking and thermal coal projects in south-east Queensland and northern NSW that are being progressed towards development. These projects represent a suite of geographically spread resource development opportunities involving various coal types and mining methods.
- 43 Northern Energy was listed on the ASX on 22 February 2005 following a restructuring and recapitalisation of Poltech International Limited, an ASX shell company that had previously been placed in administration. Concurrent with the listing, Northern Energy acquired the Elimatta coal project, a share of the Ashford project and a number of applications for exploration licenses in NSW and Queensland. Both projects, together with the internally developed Maryborough and Yamala projects, have subsequently been advanced by Northern Energy through exploration, with delineation of resources at each of these projects.
- 44 In securing infrastructure required to support development of the projects, Northern Energy has become a member of the Wiggins Island Coal Export Terminal (WICET) consortium that is developing a greenfield export coal terminal in Gladstone. It has also lodged support for the development and upgrading of new rail infrastructure to facilitate coal production from its Elimatta Project in the Surat Basin.

Major assets

- 45 Northern Energy's current portfolio covers tenements in the Maryborough, Surat and Bowen Basins and includes:
- (a) 100% of the Maryborough project (including the proposed Colton hard-coking coal mine) near Maryborough, Queensland (Maryborough Project)
 - (b) 100% of the Elimatta thermal coal project (Elimatta Project) located approximately 30km west of Wandoan, Queensland
 - (c) 83% of the Yamala thermal / pulverised coal injection (PCI) coal project (Yamala Project) between Emerald and Blackwater, Queensland (subject to the farm-in agreement with Sojitz Corporation)
 - (d) 50% of the Ashford hard coking-coal project (Ashford Project) north of Inverell, NSW
 - (e) 100% of the Yetman exploration licenses in NSW, west of Ashford (Yetman Project).

46 A map of the projects held by Northern Energy is set out below:

Northern Energy – map of operations



47 Management are targeting coal production of 0.5 million tonnes per annum (Mtpa) from mid-2012 and in excess of 7Mtpa by 2015. The planned increase in annual tonnage is dependent on securing requisite port and rail infrastructure capacity and mining lease approvals.

Maryborough Project (100%) - EPC923 and EPC1082

48 In July 2010 Northern Energy announced probable reserves at the Maryborough Project of 5.9 million tonnes (Mt) supported by inferred and indicated resources of 83.0Mt, sufficient to underpin development of the proposed open cut Colton mine. A mining lease application has been submitted for the Colton mine area, supported by an environmental management plan. Given the small size of planned initial annual production from the mine a full Environmental Impact Statement (EIS) was not required.

- 49 The Colton resource is characterised by a large number of thin seams. A multi seam open cut mining method is to be conducted by truck and shovel, which will vary depending on seam presentation. Production of premium quality, hard-coking coal is envisaged at an initial rate of 0.5Mtpa, with an expected mine life of at least 10 years. The capital cost of the mine is estimated at \$84 million, including the construction of a rail loop and coal handling and preparation plant (CHPP). The current exploration programme is targeting reserves to support the establishment of a second mining pit to expand future production levels up to 3Mtpa of marketable coal, although this would require an additional full EIS to be completed prior to development.
- 50 Rail capacity, via the Queensland Rail⁴ north coast line, is being secured to transport mine output to the Port of Gladstone. Rail contracts are currently in negotiation for the haulage of coal to port and are likely to be finalised by the end of 2010. Northern Energy's current development plans seek to bring the Colton mine into production during the 2012 financial year (FY12), subject to completion of the relevant approval processes.
- 51 A life of mine off-take agreement for 65% of mine output was signed with Xinyang Iron & Steel Group Company Ltd (Xinyang) in April 2010 at prices benchmarked to premium hard-coking coal. The remaining mine output can be freely traded by Northern Energy. The off-take agreement was accompanied with a capital raising whereby 16.3 million shares were issued to Xingang Resources (HK) Limited (a subsidiary of Xinyang) at \$1.41 per share⁵, representing 12.7% of the total issued capital of Northern Energy. Associated with these transactions a representative from Xinyang was offered a seat on the company's board.
- 52 Coal product shipments are expected by mid-2012 through the Barney Point coal terminal at Gladstone, although this agreement is currently in draft form. The Maryborough Project is also a participant in Stage 1 of WICET and has secured 0.5Mtpa of coal export capacity subject to signing a take-or-pay contract. Northern Energy has also expressed an interest in a further 2.5Mtpa of export coal capacity designated from the Maryborough Project for Stage 2 of the WICET development.

Elimatta Project (100%) – EPC650, EPC1170 and EPC1205

- 53 Located approximately 30km west of the township of Wandoan in the Surat Basin, the Elimatta Project is a large resource of low ash, high volatile thermal coal. The project has 106Mt and 244Mt of reserves and resources respectively. A detailed life of mine plan has been developed for the deposit based on open cut mining, utilising an excavator and truck mining operation and a 1,100 tonnes per hour (tph) coal handling and preparation plant. A nominal 5Mtpa of product coal is expected to be produced over a 29 year mine life, with particularly low stripping ratios envisaged in the first 10 years of production. The capital cost of the mine is currently forecast at \$580 million.

⁴ Queensland Rail has been separated from QR National and is to be retained by the Queensland Government as a separate entity post the float of QR National.

⁵ The issue price of \$1.41 per share represented a discount of 3.4% to the 30 day volume weighted average price (VWAP) of Northern Energy shares at the time of announcement. Northern Energy management have advised that the negotiations with Xinyang were entered into based on a 30 day VWAP of \$1.19 per share.

- 54 A mining lease application (MLA 50524) has been lodged over Elimatta EPC 650 with supporting applications (MLA 50270 and MLA 50271) and the company is preparing an EIS following the terms of reference established in April 2010. Final feasibility studies for mining, wash plant and supporting infrastructure were completed in FY10.
- 55 Project development is constrained pending construction of the proposed Surat Basin Railway (SBR), the development of a rail spur of some 37km in length to access the SBR, the Moura rail line upgrade, and success in securing Stage 2 port export capacity at WICET. Northern Energy has applied for 5Mtpa of capacity at WICET designated from the Elimatta Project and is awaiting a decision. Based on current development plans for this infrastructure, Northern Energy management expect first shipments from the Elimatta Project in 2015.
- 56 A range of financing options is being considered to raise the \$580 million development capital required to reach target production levels at the Elimatta Project. These include one or a combination of the sale of a stake in the project, equity raisings or select equity placements, corporate debt and project finance.

Yamala Project (83%) – EPC927

- 57 The Yamala Project is located in the Bowen Basin, adjacent to the Ensham mine. The project is operated in a joint venture (JV) arrangement with Sojitz Corporation⁶ (Sojitz). Sojitz gained its initial 17% interest through the funding of an exploration and evaluation programme and has the ability to raise its stake to 30% upon funding a further \$2.3 million of exploration expenditure of which approximately \$1.4 million remains to be spent. On completion of its funding commitment Sojitz has the option to increase its interest in Yamala to 49% upon payment of \$6.65 million to Northern Energy. As a part of the overall arrangements Sojitz also gained marketing rights for the project.
- 58 Development of the Yamala Project is less advanced than the Maryborough and Elimatta projects, reflecting Northern Energy's financial and management constraints. Nonetheless, the project contains coal resources of 220Mt and coal quality is split between the higher value low ash PCI coal (55%) and thermal coal (45%). A number of mining studies for the project have been completed, however due to inherent faulting in the coal seams, mining conditions are complicated and further drilling of the resources is required to facilitate development of mine plans. Based on early drilling, initial plans are for a dual open cut and underground mine with production of up to 2.4Mtpa of export coal.
- 59 Access to rail capacity is limited until completion of the upgrades to the Blackwater rail system, including fully duplicating existing rail lines. Current plans are in place to increase Blackwater rail capacity to meet Stage 1 of the WICET development, with the system progressively expanded in response to WICET project demand.

⁶ Sojitz Corporation is a large Japanese trading company. The JV partner is CHR Emerald, a subsidiary of Sojitz.

Ashford Project (50%) – EL6234 and EL6428

- 60 The Ashford Project is an equal JV with Renison Consolidated Mines and is located 10km north of the township of Ashford in northern NSW. A systematic assessment of the exploration tenements held in the region conducted by the JV did not result in any increase in the previously reported resource. As a result Northern Energy is considering a development based on the 18Mt inferred resource of hard-coking coal previously outlined, possibly in conjunction with other deposits identified by third parties in the region.
- 61 Transport and port infrastructure capacity for Ashford remains the key issues to be addressed. A rail link into Brisbane from the Ashford region or improved access to Newcastle would enhance the prospects for the development of this project. The Federal Government has decided on a preferred route for the proposed inland railway, which is planned to run to the west of Ashford. This project would bring heavy haul rail capacity much closer to the Ashford Project and thus increase the prospects for a viable development of the existing resource.

Yetman Project (100%) – EL6946 and EL6947

- 62 The Yetman Project contains two exploration licences (EL) located near the towns of Yetman and Wallangra in NSW. Preliminary work carried out in the area includes landholder access and liaison, geographical studies, assessment of historical drilling in the region and outcrop mapping. An initial drilling programme intersected high volatile thermal coal at relatively shallow depths providing encouragement for the discovery of additional coal deposits. The Yetman Project is considered to be a potential host for Ashford-style deposits of coking coal and other high value material.

Reserves and resources

- 63 The reserves and resources held by Northern Energy as at 31 October 2010 are as follows:

Northern Energy – reserves and resources (100% basis)							
Project	Marketable reserves			Resources			
	Proven Mt	Probable Mt	Total Mt	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Maryborough	-	5.9	5.9	-	9.5	73.5	83.0
Elimatta	82.3	23.5	105.8	129.0	75.0	40.0	244.0
Yamala	-	-	-	-	40.0	180.0	220.0
Ashford	-	-	-	-	-	18.0	18.0
	82.3	29.4	111.7	129.0	124.5	311.5	565.0

- 64 Northern Energy has demonstrated an ability to convert targets to Joint Ore Reserves Committee (JORC) compliant resources and thus steadily improve its resource position.

Coal quality

65 The indicative coal quality for the Maryborough and Elimatta projects is as follows:

Indicative coal quality	Maryborough Project	Elimatta Project
Energy Kcal (gross air dried (GAD))	na	6,360
CSN	8–9	na
Moisture (Air dried)	1%–2%	8%
Nitrogen	na	1.1%
Phosphorous	0.04%	na
Sulphur	0.7%	0.36%
Volatile matter	30%–31%	42%
Ash	7%–9%	10%

na – not available.

66 With regard to the coal types shown above we note that:

- (a) there is the potential for the Maryborough hard-coking coal to be priced at a small discount to benchmark hard-coking coal, due to higher volatile levels than benchmark coking coals but at a small premium due to lower ash
- (b) the energy content for the Elimatta thermal coals is lower than benchmark coals, however the low ash and high level of volatile matter in the coal is expected to partially compensate for the energy differential.

Infrastructure

67 A key issue for Northern Energy is access to infrastructure and securing access to adequate rail and port capacity, much of which is yet to be built. Northern Energy originally sought 5.5Mtpa export capacity as part of Stage 1 at WICET⁷. However, projects in the Surat Basin were not considered for allocations for WICET Stage 1, and accordingly the company received an initial allocation of 0.5Mtpa in respect of its Maryborough Project. Prior to the availability of Stage 1 WICET capacity, access to the Barney Point⁸ terminal has been sought for 0.5Mtpa⁹.

68 Northern Energy is a shareholder in WICET, an underwriter of the feasibility funding facility agreement (FFFA) and is a participant in Stage 1 of WICET. FFFA underwriting status also provides a degree of priority for Stage 2 and 3 WICET allocations over other coal producers who do not have this status. Northern Energy has provided cash backed bank guarantees of \$6.4 million by way of underwriting its share of the feasibility, engineering design and other costs associated with the WICET development. Stage 2 capacity at WICET has been sought for the Elimatta Project (5Mtpa) and the expansion of the Maryborough Project (2.5Mtpa).

⁷ We understand that 163Mtpa was sought by coal companies in Stage 1 of the allocation process and that scaling back was primarily based on mine readiness and availability of supporting infrastructure.

⁸ The Barney Point terminal is planned to close upon completion of Stage 1 of WICET.

⁹ This arrangement is currently in a draft form and is yet to be executed.

- 69 As mentioned above, development of the Elimatta Project requires the SBR as well as an upgrade to the Moura rail system. Northern Energy has been included in the SBR planning and business case. It is also an underwriter of the Banana to Wooderson Moura rail line upgrade and has provided \$2.6 million in cash backed bank guarantees for its share of the costs of the engineering study¹⁰.

Project funding

- 70 Current estimated capital expenditure requirements for the Maryborough and Elimatta projects total \$664 million. Under the current planned development timetable this will be required over the period 2011 to 2014, with \$84 million required initially for the development of the Maryborough Project. A key challenge facing Northern Energy therefore is to raise the necessary funding to finance the development pipeline. We understand that the company is currently assessing a range of options including:
- (a) the sale of a joint venture stake in one (or more) of its projects
 - (b) the issue of shares via a capital raising to existing shareholders or otherwise to new strategic investors
 - (c) the issue of debt and/or project finance.

Financial performance

- 71 A summary of Northern Energy's financial performance for the three years ended 30 June 2010 is shown below:

Northern Energy – financial performance			
	FY08 Audited A\$000	FY09 Audited A\$000	FY10 Audited A\$000
Revenue	463.6	407.8	605.7
Employee benefits expense	(994.7)	(588.0)	(961.0)
Depreciation and amortisation expense	(41.0)	(45.1)	(43.5)
Finance costs	(2.9)	(1.8)	-
Exploration expenditure written off	(3.4)	-	(68.7)
Administration and consulting expenses	(204.9)	(287.5)	(313.5)
Other expenses from ordinary activities	(121.3)	(99.5)	(282.7)
Profit/(loss) before income tax	(904.5)	(614.2)	(1,063.6)
Income tax expense	-	-	-
Profit/(loss) after income tax expense	(904.5)	(614.2)	(1,063.6)

Note:

- 1 Rounding may exist in the above.

- 72 As a coal exploration and development company, Northern Energy capitalises the majority of its exploration expenditure. Reported losses reflect employee and administrative expenses, partially offset by interest income on monies on deposit.

¹⁰ The underwritten feasibility costs associated with the port and rail developments and upgrades are planned to be recovered by subsequent user charges.

Financial position

73 The financial position of Northern Energy as at 30 June 2009 and 2010 is shown below:

Northern Energy – financial position		
	30 Jun 09 Audited A\$000	30 Jun 10 Audited A\$000
Cash and cash equivalents	4,218	23,068
Other receivables	598	571
Other current assets	32	34
Total current assets	4,848	23,673
Other receivables ⁽¹⁾	4,416	9,158
Plant and equipment	89	55
Exploration expenditure	14,544	22,892
Total non-current assets	19,049	32,105
Total assets	23,897	55,778
Trade and other payables	620	1,346
Short-term provisions	56	97
Total liabilities	676	1,443
Net assets	23,221	54,335

Note:

1 Primarily cash security deposits in respect of exploration tenements.

Cash and deposits

74 As at 30 June 2010 (i.e. post the capital raising with Xinyang in April 2010) Northern Energy held \$23.1 million in cash. As at 31 October 2010, cash held by the company was \$20.2 million.

Share capital

75 As at 31 October 2010 Northern Energy had 128.4 million fully paid ordinary shares on issue, as well as the following executive share options outstanding:

Northern Energy – executive options			
Security type	Number	Exercise price \$	Expiry date
Unlisted options	82,500	1.60	31 Aug 11
Unlisted options	500,000	1.70	28 Feb 11
Unlisted options	500,000	1.70	28 Feb 12
Unlisted options	250,000	1.44	1 Feb 13
Unlisted options	250,000	1.44	1 Feb 14

76 In addition, in FY11 Northern Energy will issue 655,025 options at an exercise price of \$1.144 expiring 30 June 2013, in accordance with the Northern Energy long-term incentive scheme for FY10.

Substantial shareholdings

77 As at 31 October 2010 Northern Energy's substantial shareholders held 23.46% of the issued capital of the company, as shown below:

Northern Energy – substantial shareholders		
Shareholder	Number of shares	% of shares
Xinyang Resources (HK) Ltd	16,315,000	12.70
Fraters Nominees Pty Ltd	7,470,198	5.82
New Hope Corporation Ltd	6,348,652	4.94
	30,133,850	23.46

Share price performance

78 The price of Northern Energy shares from 1 January 2008 to 6 October 2010¹¹ is summarised in the table below:

Northern Energy – share price performance				
	High \$	Low \$	Close \$	Monthly Volume ⁽¹⁾ (000)
Quarter ended				
March 2008	2.26	0.98	1.02	1,879
June 2008	2.34	0.85	1.98	9,459
September 2008	1.90	1.20	1.30	2,485
December 2008	1.30	0.29	0.55	1,304
March 2009	0.55	0.20	0.35	416
June 2009	0.50	0.33	0.34	3,099
September 2009	0.90	0.33	0.86	10,975
December 2009	1.43	0.81	1.29	9,028
Month ended				
January 2010	1.46	1.22	1.29	5,302
February 2010	1.30	1.06	1.14	5,078
March 2010	1.33	1.14	1.25	6,293
April 2010	1.74	1.27	1.61	13,143
May 2010	1.60	0.98	1.17	6,103
June 2010	1.20	1.00	1.04	3,170
July 2010	1.21	0.93	1.10	3,988
August 2010	1.14	0.94	0.95	6,211
September 2010	1.02	0.87	0.95	5,494
October 2010 ⁽²⁾	1.05	0.95	1.05	3,486

Note:

1 Monthly volumes for the quarter ended represent average monthly volumes.

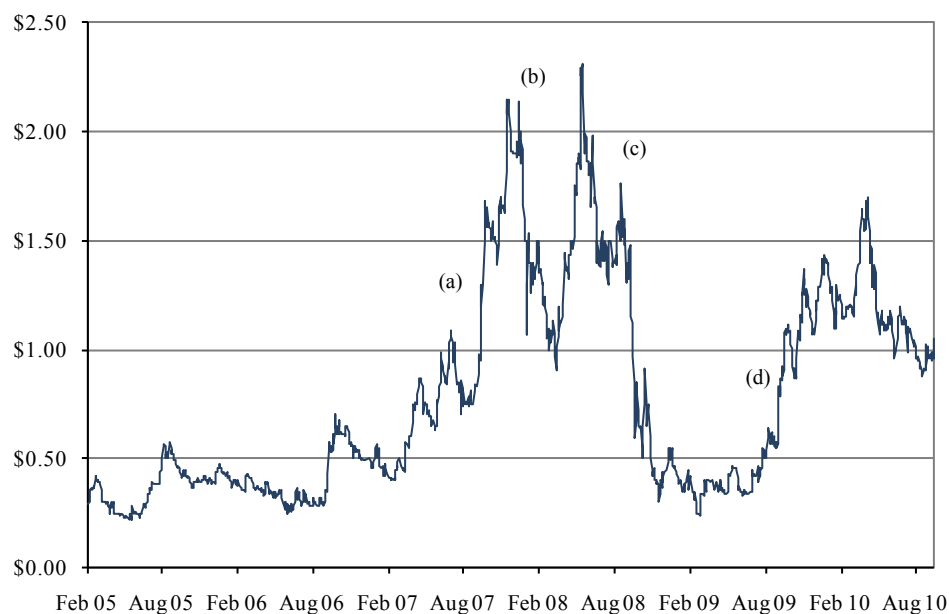
2 Up to 6 October 2010.

Source: Bloomberg.

¹¹ Being the date prior to the approach and subsequent Offer from New Hope, announced on 8 October 2010. Northern Energy sought a trading halt on 7 October 2010 in respect of the approach from New Hope.

- 79 The following chart illustrates the movement in Northern Energy's share price from 23 February 2005 (its effective listing date) to 6 October 2010:

Northern Energy – share price history
23 February 2005 to 6 October 2010



Source: Bloomberg.

- 80 The material movements in the share price of Northern Energy in the period above reflect:
- (a) expectations for large increases in coal prices emerge as supply side issues impact the amount of coal available for the seaborne market, while spot coal prices soar
 - (b) coal price settlements for the year commencing 1 April 2008 reached US\$300 per tonne for coking coal, US\$250 per tonne for PCI coal and US\$130 per tonne for thermal coal, representing increases of 206%, 250% and 134% respectively on the prior year
 - (c) coal price expectations for the year commencing 1 April 2009 were for large price decreases, as indicated by spot coal price levels and the slowdown in coal demand due to the global financial crisis (GFC)
 - (d) positive dynamics for the coal industry, including the emergence of China as a significant net importer of coal for the first time, raised spot coal prices and expectations for new contract negotiations.

Liquidity in Northern Energy shares

- 81 The liquidity in Northern Energy shares based on trading on the ASX over the 12 months to 6 October 2010 is set out below:

Northern Energy – share price liquidity					
Period	Start date	End date	Value A\$m	Volume m	As a % of issued capital ⁽¹⁾
3 months	7 Jul 10	6 Oct 10	18.3	18.3	14.1
6 months	7 Apr 10	6 Oct 10	50.0	40.7	31.8
1 year	7 Oct 09	6 Oct 10	98.4	81.9	64.5

Note:

1 Calculated based on shares on issue as at 6 October 2010 of 128.4 million.

Source: Bloomberg.

- 82 In the 12 month period prior to the announcement of the approach and subsequent Offer from New Hope total share market turnover equalled 64.5% of the (current) issued share capital of Northern Energy indicating a reasonably high level of market liquidity (which was generally sustained over the observed period).

IV Coal industry overview

Overview

- 83 Northern Energy owns a number of coal development projects in Queensland and northern NSW which, subsequent to commissioning are expected to produce a mixture of hard-coking, PCI and thermal coals. This section therefore focuses on the dynamics of the coal industry, with an emphasis on the coal types to be produced by Northern Energy and the coal export infrastructure required to support the development projects.

Global coal markets

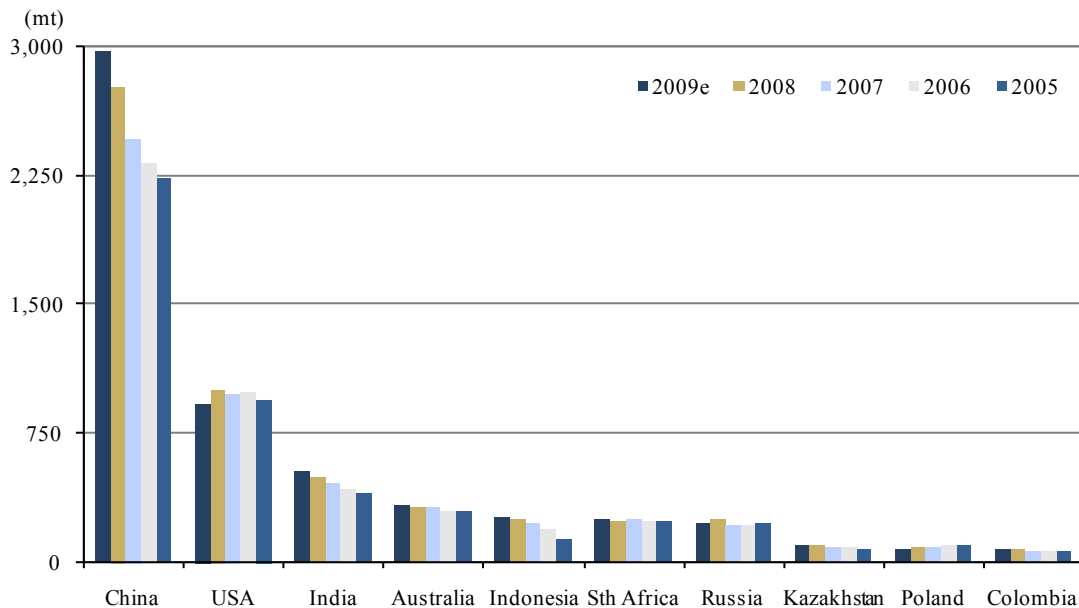
- 84 Global coal production is expected to be 7.4 billion tonnes in 2010, with mining industry revenue at \$1.107 billion, over double the \$482 billion recorded five years earlier¹². Approximately 85% of coal output is black coal and the remainder the lower energy and value brown coal. Global trade in black coal at 920Mtpa¹³ is modest in comparison to total production, reflecting the broad distribution of the resource and the use of coal mined in the country of origin. The global seaborne coal market is split essentially between the Atlantic market, representing imports by Europe and the Pacific market representing imports by Asia.
- 85 There are two primary types of black coal; metallurgical coal and thermal coal. Metallurgical coals are used in the production of iron and steel due to their particular characteristics, high carbon and lower moisture content. Thermal coal is used in power generation to produce energy via steaming. Thermal coals generally have low coking properties making them unsuitable for steel making. Coal is mined via surface or open-cut mining or underground mining, with the geology of the coal deposit (thickness of the overburden and depth and thickness of the coal seam) generally determining the mining method. Open-cut mining can be conducted by excavator and truck, via a dragline or a combination of both. This mining method involves the sequential removal of overburden to reach the coal and recovers a higher proportion of the coal deposit (typically 90%) than underground mining. It is usually economic when the coal seam is near the surface.
- 86 Underground mining is the predominant form of global coal production. However, approximately 80% of Australian coal is produced via open-cut mines, in part due to the geology of Queensland topography where the depth and thickness of coal has made it more economic to mine by open-cut. The primary forms of underground mining are longwall mining and bord-and-pillar mining. Longwall mining involves mining a long wall of coal in a single slice. It typically allows around 75% of coal to be extracted from panels of coal that can extend long distances through the coal seam. In comparison (once established) the bord-and-pillar method leaves up to (40%) of the total coal in the seam, initially retained as pillars to support the roof of the mine. These pillars are usually recovered using pillar extraction methods as part of this mining method.

¹² Source: IBISWorld, Global Coal Mining, dated 1 April 2010.

¹³ Source: IBISWorld, Global Coal Mining, dated 1 April 2010.

- 87 The five largest users of coal (China, USA, India, Russia and Japan) account for approximately 70% of global coal consumption. All of these countries boast large coal resources except Japan, which is reliant on imports. Total production by the top 10 coal producing countries is set out in the graph below, with Australia the fourth largest producer globally:

World annual coal production



Source: World Coal Institute. IEA, Coal Information 2009.

- 88 Worldwide, the reserve-to-production ratio for coal is estimated to be 119 years¹⁴. In comparison the reserve-to-production ratio for oil is 46 years and natural gas 63 years, making coal one of the most abundant carbon fuels¹⁵. In a number of countries coal production is also subsidised.

Thermal coal

- 89 Thermal coal is the most common coal type and is used in the production of electricity by power stations. The coal is first crushed or pulverised, and then burnt in large boilers. These boilers create steam, which drives the turbines that create electricity. Thermal coal is also used as a fuel in the manufacture of cement, bricks and tiles and other energy intensive industries. As a result, thermal coal prices are generally traded by reference to energy content.
- 90 Coal accounts for about 26% of global energy requirements and generates some 41% of the world's electricity. Thermal coal's use in the production of electricity places it in direct competition to other sources of electricity production, including natural gas (20% of global electricity), hydro (16%), nuclear (15%), oil (6%) and minor sources such as solar, wind and geothermal (2%).

¹⁴ Australia's reserve-to production ratio is 186 years.

¹⁵ Source: World Coal Institute.

- 91 Thermal coal demand is linked to power generation, which fluctuates according to the economic state of global industrialised nations (particularly those in Asia in Australia's case) and the overall health of the global economy. A faster growing global economy requires more coal and vice versa. In developing economies growth of electricity consumption tends to outpace economic growth.
- 92 Demand for thermal coal accelerated following the energy crisis in the 1970s and led to an increased reliance on coal as opposed to oil for power generation and cement manufacturing. Annual and longer term price negotiations have also served to provide a more stable pricing regime as opposed to other carbon energy sources. Despite rising coal prices in recent periods, coal remains one of the lowest-cost sources of energy for electricity generation.
- 93 In recent years supply of thermal coal has been constrained in Australia and South Africa (the major exporting nations historically) while Russia, Columbia and particularly Indonesia have taken the opportunity to expand their export markets. Infrastructure problems have plagued Australia's coal export growth, however a number of new export port and transport initiatives have the potential to boost exports substantially.

Thermal coal trade							
	2005 Mt	2006 Mt	2007 Mt	2008 Mt	2009 Mt	2010F Mt	2011F Mt
Thermal coal exports							
Indonesia	123	170	189	193	234	245	250
Australia	108	112	112	126	139	146	157
Russian Federation	64	77	88	86	92	93	98
Colombia	55	60	65	74	63	68	70
South Africa	72	68	65	61	67	63	70
China	66	59	51	43	22	20	20
Other	90	89	127	121	108	110	115
Total	578	635	697	704	725	745	780
Thermal coal imports							
European Union	166	181	182	185	171	146	160
Japan	114	118	128	128	113	120	121
China	18	34	41	35	92	108	110
Republic of Korea	56	60	66	76	82	91	92
Taiwan	55	58	61	60	59	60	61
India	18	24	31	34	49	68	77
Other	151	160	188	186	159	152	159
Total	578	635	697	704	725	745	780

Source: ABARE.

- 94 In 2009 China became a net importer of thermal coal (net imports increased some 78Mt), and India's imports rose by 15Mt. These increases offset the volume falls recorded in the other major coal importing countries as the GFC took hold, but were not enough to offset large falls in benchmark thermal coal prices (refer paragraph 126). The fall in prices in 2009 should also be viewed in the context of the 2008 coal price, which reflected a rise unprecedented historically in terms of the size of the increase recorded.

- 95 In the first three months of 2010 Chinese thermal coal imports were a record 34Mt, a level more than three times the corresponding period in 2009. This was due to high domestic Chinese coal prices as domestic demand from electricity generation outpaced available supply¹⁶. ABARE forecasts that Chinese imports will grow 17% in 2010 and a more modest increase of 2% in 2011. At the same time Indian coal imports are expected to surge 39% and 13% respectively, as new investment in India's coal fired electricity generation capacity is commissioned.
- 96 As is apparent from the above table, China both exports and imports coal. This situation generally arises where domestic production non-proximity to the end user makes transport costs prohibitive. As noted, thermal coal trade in China moved from a net export to net import position in 2009, notwithstanding an increase in Chinese coal production. This was the result of domestic supply being unable to meet demand (as some mines were closed for safety reasons), prices in the Chinese market being above those in international markets (particularly in the southern regions), weak demand in the Japanese market (China's largest coal export market) and lower international freight rates.

Metallurgical (or coking) coal

- 97 The metallurgical coal market is segregated based on coking properties into hard-coking coal, semi-hard and semi-soft coking coals and PCI coal. Hard-coking coal commands the highest price owing to its high levels of coking properties. Semi-hard and semi-soft coking coals are lower in coking properties and thus attract a price discount. They are often blended with hard-coking coal in order to meet blast furnace specifications. Semi-soft coking coal can also be used in the PCI process.
- 98 Some 720Mt of metallurgical coal is used by the steel industry annually, with 70% of steel production dependent on coal¹⁷. Metallurgical coal, or coking coal as it is often called, is a vital ingredient in the steel making process. As a consequence the health of the global steel industry sets the demand for metallurgical coals.
- 99 Metallurgical coal is much less common than thermal coal and therefore commands a price premium. Hard coking coal is the most scarce, which contributes to its price premium over the other more available coking coal types. While many countries hold significant deposits of thermal coal the same cannot be said about coking coal, where Australia (or more specifically Queensland) has a substantial market share due to its competitive deposits of high quality. Australia is by far the largest supplier of metallurgical coals with approximately 60% of the global market, as shown in the table below:

¹⁶ In response to the prevailing market conditions new higher cost coal mines in China are being developed.

¹⁷ The remaining steel production is from recycled steel, which in many cases requires electricity generated from thermal coal.

Metallurgical coal trade							
	2005	2006	2007	2008	2009	2010F	2011F
	Mt	Mt	Mt	Mt	Mt	Mt	Mt
Metallurgical coal exports							
Australia ⁽¹⁾	125	124	138	135	135	162	169
United States	26	25	29	39	34	35	35
Canada	27	25	26	27	22	25	27
Russian Federation	10	10	10	16	13	12	14
Other	18	26	24	16	7	7	15
World ⁽¹⁾	206	210	227	233	211	241	260
Metallurgical coal imports							
Japan ⁽¹⁾	57	60	54	57	46	52	57
European Union	52	53	56	56	42	47	49
China	7	9	6	7	34	37	44
India	17	19	22	29	23	26	30
Republic of Korea	21	20	23	24	15	22	25
Other	57	58	66	65	51	57	55
Total	211	219	227	238	211	241	260

Note:

1 Includes PCI coals.

Source: ABARE.

- 100 In 2009 steel production in Japan, Korea and Europe declined due to struggling domestic economies in the wake of the GFC, with a consequent impact on the level of metallurgical coal imports. However, in China steel production increased with an associated increase in demand for metallurgical coals. In part this was attributable to a government stimulus programme aimed largely at infrastructure, which raised demand for metallurgical coals at a time when domestic supply failed to keep up. Prior to 2009, China was largely self-sufficient in metallurgical coals and imported only modest tonnages. Subdued domestic coal production, increasing production costs and lower international freight rates have since increased demand for imported metallurgical coals into China.

Pulverised coal injection (PCI) coal

- 101 PCI coal is a type of metallurgical coal which has become recognised as a coal class in its own right in the last 10 years (for pricing purposes at least). During the 1980s the PCI process was expanded by steel producers in order to lower production costs. The PCI process involves the direct injection of PCI coal into the blast furnace to replace a proportion of higher cost coke (which is produced from more expensive coking coal). The PCI injection and coke rates vary according to the requirements of each blast furnace. Typically 1 tonne of PCI coal can replace 1.2 to 1.3 tonnes of hard coking coal.
- 102 In recent times the level of acceptance of PCI coals by steel mill customers has increased and demand is expected to rise as more PCI coals are substituted for hard-coking coals. Accordingly the discount at which PCI coal has historically traded relative to hard-coking coal is expected to reduce going forward.

Australian coal industry

- 103 Australia is the fourth largest coal producer globally and holds the fifth largest recoverable reserves of coal. However, due to its relatively small domestic needs, Australia is the world's largest coal exporter. The industry is also one of Australia's largest export sectors, worth almost A\$55 billion in FY09, approximately A\$36 billion in FY10 and an estimated A\$50 billion in FY11, as shown below:

Australian coal statistics							
	Actual FY05	Actual FY06	Actual FY07	Actual FY08	Actual FY09	Estimate FY10	Forecast FY11
Australian production							
Metallurgical coal (Mt)	125	120	132	137	125	157	167
Thermal coal (Mt)	106	111	112	115	136	135	160
Total exported (Mt)	231	231	244	252	261	292	327
Total domestic (Mt)	74	76	82	75	72	67	76
Total (Mt)	305	307	326	327	333	359	403
Value of exports							
Metallurgical coal (A\$bn)	10.8	17.0	15.0	16.0	36.8	24.5	34.6
Thermal coal (A\$bn)	6.3	7.2	6.8	8.4	17.9	11.9	15.8
Total	17.1	24.2	21.8	24.4	54.7	36.4	50.4
Implied price per tonne (exports)							
Metallurgical coal (A\$/t)	\$86	\$141	\$114	\$117	\$295	\$156	\$207
Thermal coal (A\$/t)	\$60	\$65	\$61	\$73	\$131	\$88	\$99

Source: ABARE.

- 104 Australian coals are high in energy content and tend to be relatively low in impurities such as sulphur. The consistent quality, volume, diversity of suppliers and security of supply add to demand for Australian sourced coals and provides impetus for investment in Australian coal projects. Notwithstanding this, coal price volatility is prevalent for all coals, including Australian coals.

Australian coal infrastructure

- 105 Seaborne coal trade has been negatively impacted by inadequate infrastructure in Australia and South Africa. Indonesia in particular has capitalised on this situation by expanding coal exports three-fold over the past 10 years. However, future growth of Indonesia's coal industry may be capped by (market driven) requirements to divert exports to Indonesian industries and domestic power stations. Furthermore, Indonesian coals generally have lower energy content than Australian coals, translating to lower prices.
- 106 Australian infrastructure bottlenecks such as inadequate port and rail capacity and shortages of rolling stock (trains and coal wagons) have hindered the growth of Australian exports. This situation is expected to improve going forward as major initiatives at key ports as well as additional rail capacity and rolling stock add significant capacity to Australia's coal infrastructure. Current and planned theoretical capacity output at Australian coal ports is set out below:

Australian port capacity – actual and forecast ⁽¹⁾					
State/port	Export loadings		Theoretical annual capacity		
	FY08	FY09	2009 (A)	2012 (F)	2015 (F)
	Mt	Mt	Mt	Mt	Mt
Abbot Point	12.5	14.7	25.0	25.0	50.0
Brisbane	5.5	6.1	10.0	10.0	10.0
Dalrymple Bay (DBCT)	43.5	47.3	85.0	85.0	85.0
Gladstone ⁽²⁾	54.1	56.3	76.0	76.0	127.0 ⁽³⁾
Hay Point	36.9	35.8	44.0	44.0	55.0
Total Queensland	152.5	160.2	240.0	240.0	327.0
Newcastle (PWCS) ⁽²⁾	88.9	92.1 ⁽⁴⁾	113.0	133.0	145.0
Newcastle (NCIG)	fno	fno	fno	30.0	66.0
Port Kembla	12.7	13.6	16.0	16.0	16.0
Total NSW	101.6	105.7	129.0	179.0	227.0
Total Australia	254.1	265.9	369.0	419.0	554.0

Note:

- 1 The above does not include the potential port to be located at Balaclava Island (Xstrata Coal) or any ports associated with development of Galilee Basin coal projects (including projects owned by Waratah Coal, Hancock Coal, Adani Group, AMCI or Vale).
 - 2 Ports with two coal loading terminals.
 - 3 Includes Wiggins Island Coal Export Terminal (WICET).
 - 4 Average of 31 December 2009 and 2010.
- fno – facility not operational.

- 107 In total, planned theoretical coal port capacity in Australia is forecast to reach 554Mtpa by 2015, although it is highly probable that actual coal exports will be lower than this level due to actual infrastructure capacity being lower than nameplate capacity. For example, despite recent port expansions at PWCS and DBCT, the actual port and rail deliveries in those coal chains have not yet achieved theoretical expanded capacity. In addition, a lack of coal production close to Abbot Point and Port Kembla means that some of their respective port capacity goes unused.
- 108 At present there continues to be a substantial number of coal ships waiting for access to coal loading terminals. As a result demurrage costs (that had increased significantly prior to the GFC) are likely to continue to be a significant cost to Australian coal producers (at least in the short to medium term).

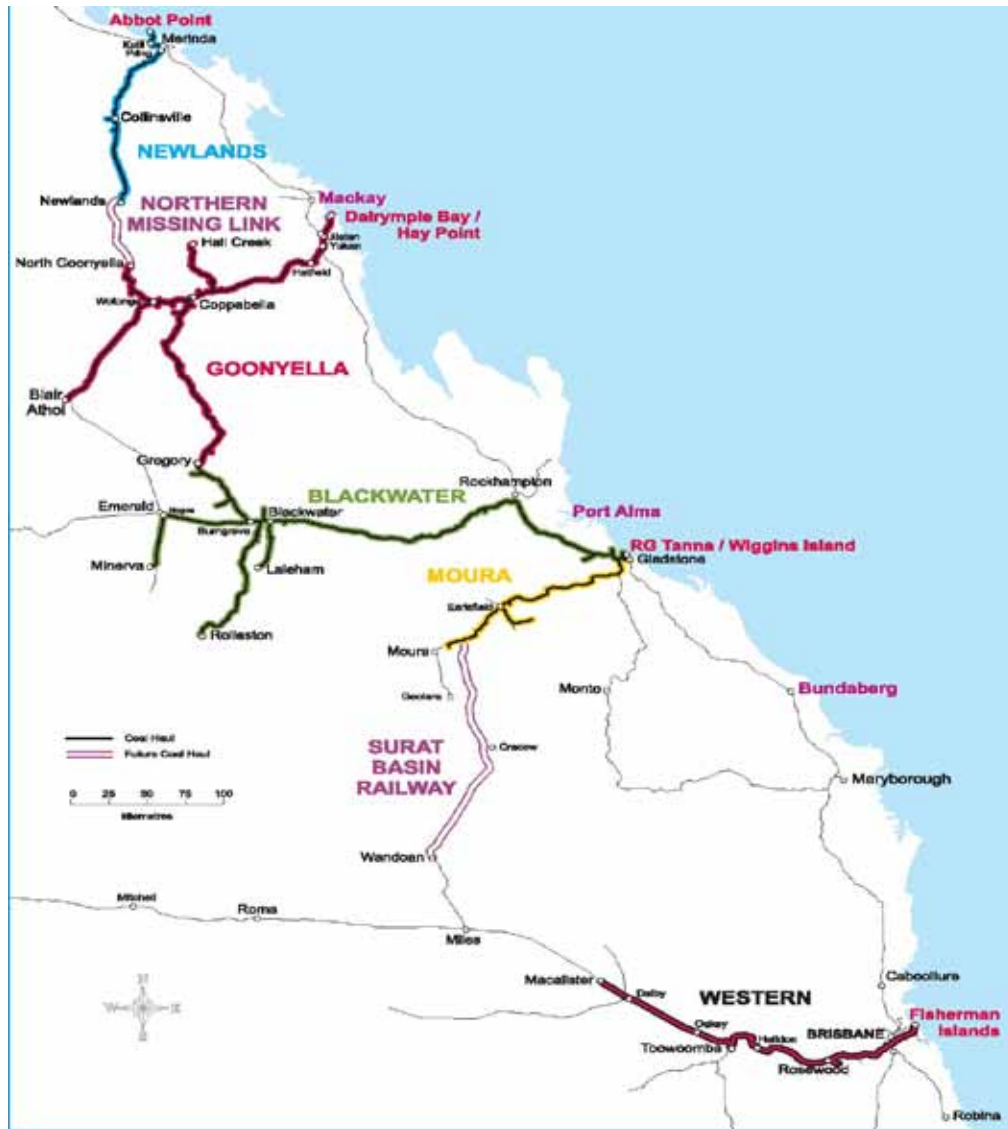
Queensland coal infrastructure

- 109 Northern Energy is currently advancing its three Queensland coal projects which are all dependent on securing export port capacity at WICET. The Maryborough Project has been successful in securing 0.5Mtpa of Stage 1 capacity at WICET and is seeking further capacity for future expansion. The Elimatta Project requires the construction of the proposed SBR and an upgrade to the existing Moura rail system, both of which are likely to coincide with Stage 2 construction at WICET. The Yamala Project is also dependent on future expansion of WICET and in addition requires an upgrade to the existing Blackwater rail network.

Queensland port and rail infrastructure

- 110 Queensland currently has 43 export coal mines located principally in the Bowen Basin. The coal is exported via five rail systems which each link to port terminals, as shown below:

Queensland coal infrastructure



Source: Queensland Government.

- 111 Mines located in the north of the Bowen Basin are linked to the Abbot Point (Newlands system) and Dalrymple Bay and Hay Point ports (Goonyella system). The mines in the southern Bowen Basin can either export from the Dalrymple Bay and Hay Point ports via the Goonyella system, or otherwise the Barney Point and RG Tanna ports via the Blackwater system. The Moura system and Western (Brisbane) systems also service mines located to the south of the Bowen Basin.

- 112 Theoretical or nameplate capacity of the Queensland ports is substantially higher than actual coal exports, which we understand is primarily the result of a lack of investment in the rail network capacity and specifically a lack of rolling stock capacity. In response to these constraints the Queensland Coal Rail Infrastructure Master Plan (Master Plan) has been progressively rolled out since 2006. The Master Plan has developed expansion paths for each rail system, based on specific rail infrastructure expansion projects needed to meet future demand predictions. Expansion plans include a combination of:
- (a) the construction of additional lines, including the Northern Missing link, which proposes to join the Goonyella and Newlands rail systems by January 2012 and the SBR (Southern Missing Link) that will link to the Moura rail system and the Surat Basin
 - (b) additional trains and rolling stock, including increased operational performance from longer trains, heavier payloads and improved maintenance practices
 - (c) new spur lines to service new mines; and
 - (d) train line duplications and extra passing loops.

Wiggins Island Coal Export Terminal (WICET)

- 113 The Queensland Government has granted WICET the mandate to own and develop the terminal located at Golding Point, Gladstone, to the west of the existing RG Tanna and Barney Point terminals. The \$4 billion industry-funded terminal is expected to provide between 80Mtpa to 90Mtpa in additional export coal capacity through the Port of Gladstone after completion of the three stage construction process. WICET is owned by 16 existing and potential coal exporters located in Queensland, with the objective of providing increased long-term export coal capacity to the industry¹⁸. Upon completion of Stage 1 of WICET (expected in 2014) the Barney Point terminal with current capacity of 10Mtpa is planned to be phased out as an export coal terminal.
- 114 WICET is planned to be constructed in phases, with Stage 1 expected to deliver up to 30Mtpa export capacity at an estimated cost of \$2 billion. Agreements from eight coal producers including Northern Energy for capacity totalling 26.6Mtpa were recently entered into. The capacity commitments form the basis for WICET to secure funding for Stage 1 development, with financial close expected in the first half of 2011 and subsequent coal shipments from 2014. WICET now proposes to put in place a new board representing Stage 1 owners plus a representative of the other members of the consortium.
- 115 A decision on the development of WICET Stages 2 and 3 is not dependent on completion of construction of Stage 1, and development is designed to facilitate construction of all three stages in tandem. Stage 1 port allocations were made to Bowen Basin coal producers and Northern Energy's Maryborough Project. Stage 2 construction timing is being managed to coincide with the development of the SBR and thus allow the inclusion of Surat Basin coal projects. Expressions of interest from coal producers seeking Stage 2 capacity are due to close by the end of 2010, with financial close expected by the end of 2011.

¹⁸ The WICET consortium currently includes Aquila Resources Ltd, Bandanna Energy Ltd, Belvedere Coal Management Pty Ltd, BHP Coal Pty Ltd, BM Alliance Coal Operations Pty Ltd, Caledon Coal Pty Ltd, Cockatoo Coal Ltd, Jellinbah Resources Pty Ltd, Macarthur Coal Ltd, Northern Energy Corporation Ltd, QCoal Pty Ltd, Rio Tinto Australia Coal Pty Ltd, Syntech Resources Pty Ltd, Wesfarmers Curragh Pty Ltd, Yancoal, Xstrata Coal Queensland Pty Ltd.

- 116 WICET is planning to operate on a cost plus pass through basis to recover both operating and financial costs incurred. Access to the terminal is to be based on long-term take-or-pay contracts. As a result projects without definitive development plans and related supportable infrastructure, reserves and resources are unlikely to be granted export capacity.

Surat Basin Railway (SBR)

- 117 The SBR, or Southern Missing Link, involves the construction and operation of a 210km rail line connecting the Western rail system (near Wandoan) to the Moura rail system (near Banana). The Surat Basin Rail Joint Venture (SBRJV) is an unincorporated joint venture between the Australian Transport and Energy Corridor, Queensland Rail and Xstrata Coal, that is charged with developing the Southern Missing Link. Current plans are to build a multi-user, open access single line track (with eight passing loops) to facilitate the export of coal from the Port of Gladstone. The line will be capable of moving 42Mtpa of coal, using trains of up to 2.5km in length. The SBRJV sought expressions of interest in January 2010 and is expecting financial close in the second half of 2011. Based on a construction timeframe of 32 months, commissioning is expected in mid-2014. The estimated costs of the project are in excess of \$1 billion.
- 118 Development of the SBR is being programmed to coincide with completion of Stage 2 of WICET. The project currently has received indicative tonnages from a number of coal companies planning to utilise the rail line, the largest of these being Xstrata Coal in connection with its Wandoan project.

Moura system upgrade

- 119 Moura system capacity is currently 17Mtpa and requires a significant upgrade in order to meet increased future tonnage, primarily from the SBR. Planning for the upgrade of the Banana to Wooderson track is well progressed with a study completed during 2010. The study identified and costed the individual projects (including track duplication, passing loops and improved logistical support) required to provide up to 71 million tonnes per annum of additional capacity across this line. These upgrades will be required in order to meet capacity for the proposed SBR tonnage, in addition to extra demand from the Moura region itself.
- 120 In addition to Northern Energy a number of participants with interests in the region have lodged support for the Moura system upgrade including Xstrata Coal, Vale, Cockatoo Coal Ltd and Syntech Resources Pty Ltd. Work on the Moura system is expected to commence late 2010 to early 2011, with the additional rail capacity expected to be available two years later.

Australian costs and royalties

- 121 The NSW and Queensland Governments have taken advantage of stronger coal prices to increase royalties. Royalties in NSW are now 7% to 8% of coal sales values, with Queensland rates being 7% up to a sales value of A\$100 per tonne and 10% on revenue above A\$100 per tonne. Coal royalties represent a significant cost to Australian coal miners.

- 122 Coal miners are increasingly in competition with other Australian mining sectors for skilled mining labour. As a result and partially due to a national skills shortage, mine wage inflation has been high. Australian coal production costs have also been impacted by high demurrage costs, caused by shipping vessels queued at Australian coal ports due to congestion in recent years. In combination, these factors have contributed to a significant increase in the cost of producing coal over the past five years.

Coal prices

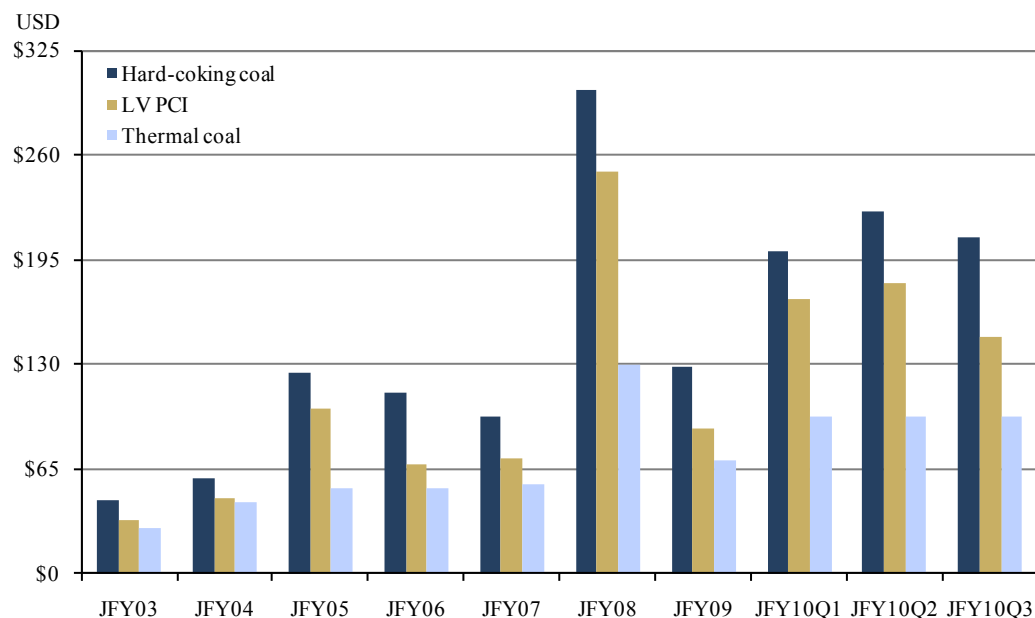
Coal price negotiations

- 123 NSW and Queensland set world benchmarks for their respective coal types, with coal mined in NSW primarily being thermal coal and in Queensland metallurgical coal. Benchmark prices typically negotiated annually between Japanese customers and major Australian producers (Japanese benchmark prices) represent the highest class of coal. While benchmark pricing has been the predominant form historically, there have been some recent moves towards contracts related to spot coal markets. In addition, metallurgical coals are now primarily based on quarterly based contracts, having regard to spot prices.
- 124 The hard coking coal benchmark price is generally set by Australian suppliers and most often by the largest supplier of hard coking coal, the BHP Billiton / Mitsubishi Alliance (BMA Alliance). Most other hard coking coals are then sold at a minor discount to this benchmark price, depending on quality relativities to the benchmark coal. Semi-hard, semi-soft and PCI coal prices are also negotiated at a discount to the hard coking coal price depending on market dynamics at the time. Rio Tinto Plc and Xstrata Plc, the significant exporters of Australian thermal coals, tend to lead negotiations on behalf of Australian thermal coal producers.
- 125 In a bid to add flexibility to the coal contract process, quarterly based contracts indexed to spot prices were introduced by BHP Billiton for its metallurgical coal contracts beginning 1 April 2010, and replacing annual contracts from this date. This move was quickly embraced by other Australian metallurgical coal producers and quarterly contracts are now the primary contract form for metallurgical coals.

Historical coal prices

- 126 As discussed above, demand for coal is primarily influenced by the power generation and steel industries. Whilst power generation is more stable than steel production, both industries are reflective of the general health of the global economy. Metallurgical coals have recently moved to a quarterly pricing system, while thermal coals are still based on annual negotiations. Japanese benchmark coal prices that have resulted from the price negotiations are set out below:

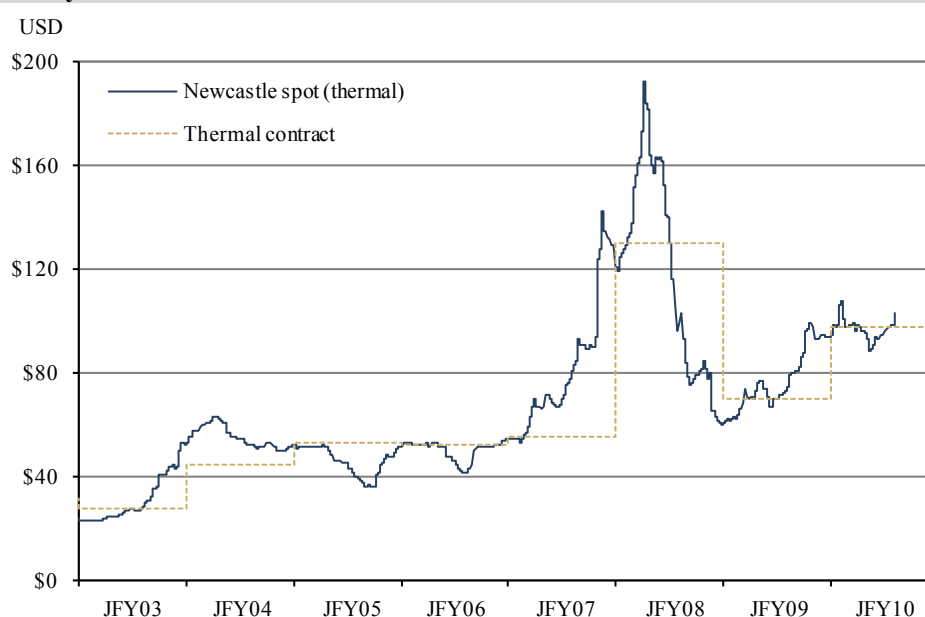
Coal prices (US\$/tonne)
Japanese fiscal year



- 127 The most notable developments in recent years were the pricing outcomes for the Japanese fiscal years JFY05 (to 31 March 2006), JFY08, JFY09 and JFY10 (to date). In JFY05, a strong global economy and increased Asian imports combined with limited supply, raised prices significantly above the previous year. In subsequent years the volatility in coal prices rose markedly.
- 128 In JFY08 strong demand and supply side constraints such as those listed below provided the impetus for the most substantial and unprecedented coal price rise in history. Supply constraints included:
- (a) severe blizzards in China forcing China to suspend all coal exports in order to guarantee local supply
 - (b) electricity black-outs in South Africa that took mining equipment offline, hence impacting production. The Government power monopoly also re-directed coal destined for export to domestic use
 - (c) floods in Australia (Northern Queensland), the largest export coking coal source in the world.
- 129 The GFC and the reduction in coal demand that followed resulted in a large fall in Japanese benchmark prices for JFY09, as was the case for most commodities. However, as the year progressed coal imports into China surged whilst its coal exports reduced. Chinese total coal imports were 84Mt higher than 2008, with thermal and metallurgical coal imports increasing 57Mt and 27Mt respectively. As demand from developing economies began to return, demand for seaborne coal once again outpaced supply and resulted in significantly higher JFY10 coal prices.

- 130 Coal prices for the Japanese benchmark thermal and hard coking coals settled at US\$71 and US\$129 respectively for the Japanese fiscal year to 31 March 2010 (JFY09). As noted above metallurgical coal prices are now generally settled on a quarterly basis, with the quarters ending 30 June 2010, 30 September 2010 and 31 December 2010 settled at US\$200 per tonne, US\$225 per tonne and US\$209 per tonne respectively.
- 131 The thermal contract price for JFY10 was settled at US\$98 per tonne. Spot prices for the benchmark thermal coals¹⁹ have subsequently been above US\$100 per tonne, which is also consistent with the annual contracts settled for the year beginning 1 April 2010 and 1 October 2010²⁰, as shown below:

Coal prices – contract and spot
Japanese fiscal year



Source: ABARE, Bloomberg.

Coal price outlook

- 132 Infrastructure and related issues remain in the short-term, with the potential to maintain pressure on the supply of traded thermal coal over the medium term. Furthermore, many of the large global coal exporters (including Indonesia, China and Russia) are diverting increasing proportions of production to domestic uses. The International Energy Agency (IEA) forecasts that coal demand will grow 40% over the next 20 years, while in the short to medium term demand is likely to remain strong on the back of Asian demand, in particular China and India²¹.

¹⁹ Newcastle benchmark, 6,700 Kcal Gross air dried (GAD) free-on-board thermal coal.

²⁰ A majority of thermal coal contracts are negotiated for the year beginning 1 April, which coincides with the Japanese fiscal year. However, coal contracts are negotiated throughout the year, for example beginning 1 July, 1 October and 1 January.

²¹ Coal India has indicated that its coal shortage for the year to April 2010 will be 71Mt, much of which will need to be imported.

- 133 ABARE estimates that annual steel production is expected to increase 10% to 1.4 billion tonnes per annum in 2010²² versus 2009, reflecting the rebound in industrial demand in developed nations as government stimulus programmes impact positively on economies and consumer demand increases off recent low levels. Given the relative scarcity of metallurgical coals this will maintain pressure on supply going forward.
- 134 While near term growth prospects remain uncertain as growth outside China remains modest, there is widespread belief that longer term growth prospects for both metallurgical coal and thermal coal are likely to be strong. Some forecasters are predicting that 50Mtpa of new coal producing capacity will be required to be developed each year to satisfy growth in demand. In addition, on-going development will be required to replace existing production capacity as resources are depleted at existing mines. Whilst Chinese growth remains the single most important factor, India and other Asian markets are expected to also grow strongly.

Carbon pricing and environmental issues

- 135 The Federal Government previously sought to implement a carbon reduction system consistent with the accords of the Kyoto Protocol. In December 2009 the Government released its Carbon Pollution Reduction Scheme (CPRS) White Paper in which it set out the design of the CPRS that it intended would take effect from 1 July 2010. The CPRS White Paper followed the release of the Green Paper and confirmed the Government's commitment to the long-term goal of reducing Australia's greenhouse gas emissions by 60% of 2000 levels by 2050. The medium term targets are a reduction in greenhouse gas emissions by 2020 of between 5% and 15% of the 2000 level.
- 136 Coal mining releases methane, one of the major greenhouse gases. Some methane gas emitted from mines is converted to electricity and used to power mines or on-sold to electricity grids. The abatement of methane is therefore a key part of the CPRS.
- 137 Coal power stations also emit high levels of greenhouse gases like carbon dioxide, nitrogen dioxide and sulphur dioxide. While there are technologies that have the potential to lower emissions from coal power stations, such as carbon capture technologies that store the carbon underground rather than releasing it into the atmosphere, these technologies have not been widely used to date generally due to cost.
- 138 The White Paper allocated \$2.15 billion over five years to the Climate Change Action Fund (CCAF) to assist businesses to adjust to the CPRS. The CCAF has four streams, one of which is assistance for coal mining involving the promotion of emissions abatement and specific transitional assistance. Adjustment assistance of up to \$250 million over five years is proposed to be provided to affected coal mining operators to promote emissions abatement. A further \$500 million over five years is allocated as direct assistance to gassy coal mines to assist them adjust while they explore abatement opportunities.
- 139 In April 2010 the Government announced it would delay the implementation of the CPRS until after 2013 when the current Kyoto Protocol commitment period ends. By this time it is expected that there will be greater clarity on the actions of other major economies including the US, China and India.

²² ABARE, Australian Commodities, December 2009.

- 140 The Australian Greens²³ have since proposed a carbon tax of A\$23 per tonne of emitted CO₂ to be in place by July 2011 for two years prior to escalation thereafter. However other major parties have not, as yet, formally proposed alternatives to the CPRS such as a carbon tax or emissions trading scheme (ETS). We understand the CPRS originally had a carbon price of approximately A\$25 per tonne of CO₂, which was to be capped at A\$40 per tonne of CO₂ for the first five years of the scheme (increasing at a real rate of 5% per annum thereafter).
- 141 We further understand that the CPRS originally contemplated the regulation of fugitive emissions. However it is unknown whether fugitive emissions will form part of any initial carbon tax or ETS. At this stage it appears likely that Australia will converge with worldwide trends to incorporate fugitive emissions if they are not introduced initially. Further uncertainty exists therefore over the status of the CPRS and any comparable carbon pricing type arrangement.

Minerals Resource Rent Tax

- 142 The Mineral Resource Rent Tax (MRRT) was proposed by the Australian Federal Government on 2 July 2010, after the Resource Super Profits Tax (RSPT) failed to gain widespread support. The MRRT targets only coal and iron ore projects, as opposed to all mining resources as was the case for the RSPT. The MRRT purports to tax the resource as close as practically possible to the point of extraction (i.e. at the 'mine gate') to ensure only the value of the resources extracted is taxed (less all deductible costs to that point). Conceptually, any value added processing or coal and iron ore mining unrelated activities (such as downstream processing or infrastructure) are not taxed under the MRRT²⁴.
- 143 The tax is proposed to commence on 1 July 2012 with a headline rate of 30%. However this rate effectively reduces to 22.5% after applying a 25% discount for the extraction allowance. In addition the corporate tax rate is proposed to reduce to 29% (for all Australian companies) from 1 July 2013 (the reduction ostensibly being funded by the MRRT).
- 144 The other key features of the MRRT are as follows:
- (a) past investment, including all expenditure prior to 1 July 2012, is deductible and is allowed a starting base of either:
 - (i) the market value of the existing investment (including the value of the resources) which is depreciated over a period of up to 25 years. Unused deductions are not uplifted
 - (ii) the written down book value of the project assets (excluding the value of the resources), which is then depreciated over a period of five years using an accelerated depreciation method²⁵

²³ The Australian Greens are in coalition with the Australian Labor Party and three independents who together form the current (minority) Federal Government.

²⁴ Coal prices at the point of extraction are generally unobservable as they are priced on a free-on-board (FOB) basis. Accordingly it would be consistent to include freight and transport costs up to the point of sale and deduct from the FOB price the typical margin earned on the freight and transport costs, so the resulting profit reflects the margin earned from extraction only.

²⁵ For the purpose of this report we have assumed the use of the double declining balance method of accelerated depreciation as this is most commonly used in practice. Furthermore, unused deductions from this method can be uplifted at the Government Bond rate plus 7%.

- (b) credits for State royalty payments are received which can only be used to reduce taxable MRRT profit. Accordingly, no refund is provided for State royalty payments if no MRRT liability is incurred in the year the royalty is paid
- (c) unused MRRT losses²⁶ and/or unused credits for State royalty payments are uplifted at the Government Bond rate plus 7% for use in future periods
- (d) the MRRT will broadly adopt the same category of non-deductible expenditure that currently applies to the Petroleum Resource Rent Tax (PRRT)²⁷
- (e) new capital expenditure occurring after 1 July 2012 is deductible in full in the year incurred (as opposed to being depreciated)
- (f) resource profits below \$50 million per annum will not incur an MRRT liability
- (g) the MRRT will allow transferability of losses across Australian iron ore and coal projects (although unused royalty credits are not transferable). It is unclear however whether transferability is allowed across partially owned projects that are not unincorporated joint ventures.

145 We note that the final form of the MRRT to be voted upon in Parliament is yet to be resolved as the tax requires further extensive design and analysis.²⁸ Furthermore, for the proposed legislation to become law it must pass through both houses of Parliament, which given the recent election results may prove problematic. Therefore, the impact of the proposed MRRT is still uncertain.

²⁶ The exception is the portion of the loss attributable to pre-2012 investment which has been elected to be depreciated over 25 years using market value as the starting base.

²⁷ The PRRT in its current form includes, inter alia, as non-deductible expenses, administrative, accounting costs and other indirect costs incurred in exploration, operations or closing down of a project.

²⁸ We understand that, inter alia, features such as the exact taxation point, eligible project spending and the definition of exploration expenditure are subject to further review. However it has been reported that features such as the headline rate and types of resources are essentially in their final form, although minority positions taken by certain Members of Parliament in the current minority Australian Government who have publicly favored an increase to this rate could affect the tax.

V Valuation of Northern Energy

Methodology

- 146 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Maryborough Project

- 147 Given the finite life of mining operations and the expectation of increasing coal production over time we have selected the DCF methodology as the primary methodology when valuing the Maryborough Project owned by Northern Energy.
- 148 Under the DCF methodology the value of the mining operations is equal to the net present value (NPV) of the estimated future free cash flows (after tax) over the life of the mine. In order to arrive at the NPV the future cash flows and terminal value are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 149 Our DCF analysis is based on the free cash flow projections derived based on input from John T. Boyd Company (Australia) Pty Ltd (Boyd) on technical mining matters including the reliability of reserve and resource estimates, mining plans, recovery rates and the appropriate operating and capital cost estimates. Boyd's report on these matters is set out in Appendix G of this report. Boyd's assessments have been undertaken in accordance with the AusIMM Code and Guidelines for the Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Technical Specialist Reports.
- 150 The DCF analysis therefore reflects Boyd's views on technical mining matters and our opinion on future coal prices, exchange rates, discount rates and other economic and valuation parameters.

151 It should be noted that in respect of these projections:

- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
- (b) future profits and cash flows are inherently uncertain. This is particularly so as coal prices have varied significantly in recent years
- (c) the achievability of these projections is not warranted or guaranteed by Northern Energy or LEA, as they are projections based fundamentally on predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management; and
- (d) actual results may be significantly more or less favourable than projected.

152 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments,²⁹ capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the mining assets to be determined irrespective of the level of debt funding employed.

153 The free cash flow projections cover the period to 30 June 2038, and reflect planned production from the Maryborough Project commencing FY13.

Other projects

154 Whilst a feasibility study has been completed in respect of Elimatta, project development and associated production and sale of coal is dependent on the construction and subsequent availability of major rail and port infrastructure. Whilst the planning of this infrastructure has commenced, the current expected date of completion is some four years in the future. Given the inherent uncertainty, in assessing a value of the Elimatta Project we do not consider the adoption of the DCF methodology to be appropriate. In the case of the Elimatta Project therefore a value has been adopted on a cents per tonne of resource basis by Boyd.

155 Separate values have also been provided by Boyd for the interest of Northern Energy in the Yamala Project (which is under evaluation and excluded from any DCF analysis as conceptual mine plans have not yet been fully developed). The exploration tenements at Ashford and Yetman have been valued having regard to a third-party offer for the assets.

Valuation of Maryborough Project

156 Our DCF values for Northern Energy's Maryborough Project are summarised below:

Maryborough Project – value of coal assets		
	Low A\$m	High A\$m
Maryborough Project	216.1	301.0

²⁹ Also calculated on an ungeared basis.

- 157 The wide range largely reflects the valuation sensitivity to changes in coal prices.³⁰ Details of coal price and other key assumptions adopted for valuation purposes are summarised below.

Production profile

- 158 Assumed run of mine (ROM) production and related product coal tonnages attributed to the Maryborough Project are shown below. Saleable coal production is expected to ramp up to 2.0Mt per annum by FY16 to utilise available port and rail capacity, as shown below:

Maryborough Project – production profile			
	FY13-FY15	FY16-FY37	FY38 ⁽¹⁾
ROM coal production (Mtpa)	1.1	4.3 – 4.2	1.4
Yield (%)	45.2%	46.1% – 47.0%	47.0%
Saleable coal production (Mtpa)	0.5	2.0	0.65

Note:

- 1 Reflects the wind-down of mining activities.

- 159 Production from the Maryborough Project is projected to commence at an annual level of 1.1Mt ROM in FY13, increasing to 4.3Mt ROM production in FY16 following the receipt of relevant approvals. Reflective of the geology of the proposed mine, which is characterised by numerous thin seams, the yield of saleable coal is low. Mine life extends through the conversion of known resources to reserves, and includes an additional 16.1Mt of coal assessed as economically mineable by Boyd³¹.
- 160 The forecast cash flows make an appropriate allowance for mine pre-stripping on commencement of operations and a further increased working capital allowance upon expansion of the project to 2Mtpa of saleable coal.

Coal prices

- 161 In considering the future coal prices to adopt for valuation purposes we have had regard to analyst price forecasts and other relevant factors (including the AUD:USD exchange rate). The forecast coal prices relied upon are updated for information available in the market at 25 October 2010. Forecast pricing is based upon the Japanese year end of 31 March. We have calendarised the adopted forecast prices to Northern Energy's financial year end of 30 June.
- 162 As noted above, initial production at the Maryborough Project from the Colton mine is planned for FY13. For valuation purposes therefore we have primarily had regard to long-term coal price forecasts.
- 163 We set out below a summary of analyst's price forecasts for benchmark hard-coking coal as at 25 October 2010:

³⁰ Our valuation range reflects the impact of approximately a \$10 per tonne difference in coal prices (in real terms). Further coal price sensitivities are shown in paragraph 184 below.

³¹ Refer to Appendix G for a full copy of the Boyd report.

Nominal coal price forecasts (FOB)			
	Forecast FY12 US\$/t	Forecast FY13 US\$/t	Forecast long-term US\$/t ⁽¹⁾
Analysts' forecasts – hard-coking coal:			
Low	198.5	175.0	130.0
High	245.0	261.7	221.6
Average	219.9	211.5	157.7
Median	217.5	200.0	151.7
No. of analysts	16	14	10

Note:

1 Analysts' long-term price forecasts are shown in FY14 dollar terms.

164 Analysts' long-term coal price forecasts are significantly lower than the prices expected to prevail over the short to medium term. In part, this reflects the expectation of continued strong Asian demand for coal coupled with medium term supply side constraints (which is expected to keep prices high in the short to medium term), as well as an expected easing in access constraints at key port and rail infrastructure over time (which should result in prices falling in real terms from the higher levels prevailing in the medium term).

165 However we note that:

- (a) longer term coal prices are likely to increase in order to provide adequate returns on incremental coal production, the cost of which will be impacted by factors including higher strip ratios and costs associated with access to new rail and port infrastructure (in the absence of which incremental production would not be brought on-stream)
- (b) prevailing and expected future costs of coal production in the North American market (the major competitor to Australia in metallurgical coals) generally exceed those of Australian producers which inherently puts a floor on long-term metallurgical coal prices.

166 Based on the above we have adopted the following benchmark coal price forecasts (for the financial years ended 30 June) for valuation purposes:

Benchmark price forecasts adopted for valuation purposes (FOB) ⁽¹⁾			
	Forecast FY13 US\$/t	Forecast FY14 US\$/t	Long-term US\$/t ⁽¹⁾
Hard-coking coal:			
Low case	200	180	155
High case	210	190	165

Note:

1 The long-term price is expressed in FY15 dollar terms (and is assumed to be maintained in real terms).

- 167 Beyond 30 June 2014 we have assumed that the long-term coal price is maintained in real terms.
- 168 The above price forecasts represent the benchmark prices for premium quality hard-coking coal. We understand that based on current expected coal quality Northern Energy management are expecting a small discount in the order of 2% to 3% for coal produced from the Maryborough Project. For valuation purposes we have adopted a 3% discount.
- 169 We have assumed therefore that the following coal prices will be realised by Northern Energy:

Future coal price forecasts (FOB)			
	Forecast FY13 US\$/t	Forecast FY14 US\$/t	Long-term US\$/t ⁽¹⁾
Hard-coking coal:			
Low case	194.0	174.6	150.4
High case	203.7	184.3	160.0

Note:

- 1 The long-term price is expressed in FY15 dollar terms (and is assumed to be maintained in real terms).

- 170 It should be noted that the coal price and foreign currency (see below) assumptions adopted do not represent forecasts by LEA but rather reflect a range of future prices and exchange rates which we consider appropriate for valuation purposes having regard to analyst forecasts and other market indices. Our estimates are based upon the varied (and in cases widely varied) forecasts of market analysts which can change significantly over short periods of time. Our estimates are also made around a time of unprecedented levels of price volatility (albeit that volatility has moderated in recent times). It follows that the price estimates are subject to considerable uncertainty and that changes (including minor amendments) thereto will impact (and in certain cases have a material impact) on our assessed value range.

Foreign currency rates

- 171 Our assessment of the AUD:USD exchange rates that we consider appropriate for the purpose of our valuation is based upon a blended analysis of forward market estimates and long-term (and in some instances short-term) historical foreign exchange trends.

- 172 We have relied upon the actual AUD:USD forward rates for the purpose of determining relevant short-term AUD:USD exchange rates as these reflect the actual unbiased rates at which currency transactions can be locked in today. The approximate average forward AUD:USD settlement rates as quoted on Bloomberg (as at 10 November 2010) were as follows:
- (a) 15 November 2012: A\$1.00 = US\$0.91
 - (b) 15 November 2013: A\$1.00 = US\$0.87
 - (c) 15 November 2014: A\$1.00 = US\$0.83
 - (d) 15 November 2015: A\$1.00 = US\$0.81
 - (e) 15 November 2016: A\$1.00 = US\$0.79.
- 173 In assessing the appropriate long-term AUD:USD exchange rate for valuation purposes we have had regard to:
- (a) the significant volatility in the spot AUD:USD exchange rate, particularly since September 2008
 - (b) the average AUD:USD exchange rate over the five years to 10 November 2010 (which was approximately A\$1.00 = US\$0.82)
 - (c) actual AUD:USD forward rates (as summarised above)
 - (d) AUD:USD exchange rate forecasts (quoted on Bloomberg).
- 174 We have adopted a long-term exchange rate (i.e. for periods beyond FY14) of A\$1.00 = US\$0.80. In our opinion, this is an appropriate long-term rate for valuation purposes.
- 175 Based on our analysis we have therefore adopted the AUD:USD exchange rates set out below. We consider the exchange rates adopted to be consistent with coal prices assumed for valuation purposes³².

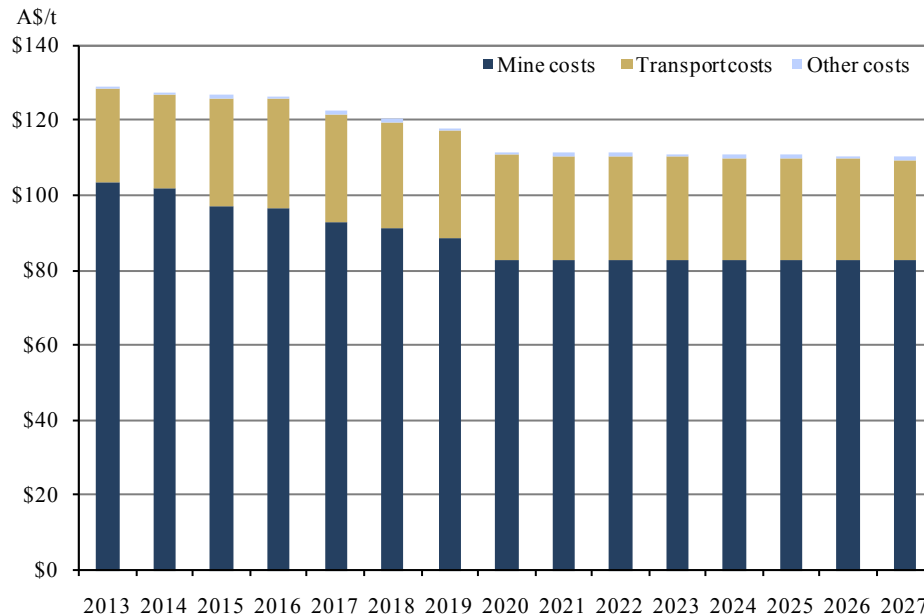
AUD:USD exchange rates adopted			
	Year to 30 Jun 13	Year to 30 Jun 14	Long- term
AUD:USD	0.90	0.85	0.80

³² Due to the significance of mining to the Australian economy and the pricing of commodities and metals in USD, there is an inherent degree of correlation between commodity and metal prices and the AUD:USD exchange rate (notwithstanding the influence of other factors on the value of individual currencies, for example the current monetary policy being followed in the US).

Operating costs

176 Operating costs have been assessed by Boyd for each year. Average operating costs per tonne of coal produced (in real terms) are as follows:

Maryborough Project – cash costs (real)
Year ended 30 June



Note:

1 Costs post FY27 are consistent with those in FY27.

177 With respect to the above it should be noted that:

- (a) operating costs reflect overburden removal, ROM mining, washing and handling, site administration and rail and port costs
- (b) our valuation of the Maryborough Project reflects management's intention to utilise available port capacity at Barney Point, Gladstone prior to the scheduled completion of Stage 1 WICET in 2014, which will be used thereafter to ship Maryborough coal
- (c) royalties, marketing costs and head office corporate costs are not included in the above operating costs, but have been separately allowed for
- (d) Queensland State Government royalties are 7% of revenue on sales up to A\$100 per tonne and 10% on that proportion of the selling price above A\$100 per tonne.

Other potential operating costs

178 We have assessed the potential impact of the proposed MRRT on the Maryborough Project. Based on the information provided we have concluded that there is likely to be no impost of significance on the project. This is predominantly due to the high level of state royalties paid that effectively offset any potential MRRT otherwise payable.

179 We have also considered whether there is likely to be any carbon tax impost on the Maryborough Project associated with fugitive gas emissions at the mine. We have been

advised by Northern Energy management that as a result of both gas testing and experience from drilling to date, very little fugitive gas is expected to be emitted from the project. Accordingly, any potential allowance for carbon tax costs due to fugitive gas emissions has been excluded in our valuation of the Maryborough Project.

Capital expenditure

180 Capital cost estimates as projected by Boyd are as follows:

Maryborough Project – capital expenditure (real)	
	Capital expenditure A\$m
Development of 1Mtpa operation (FY12 to FY14)	84
Expansion to 2Mtpa operation (FY15)	50
Sustaining capital expenditure	1.5 – 3.0

Discount rate

181 In valuing the Maryborough Project we have adopted a nominal discount rate (after tax) of 13.2% per annum. Our detailed analysis supporting the use of this discount rate is set out in Appendix C. In summary the discount rate has been derived using the capital asset pricing model (CAPM) and weighted average cost of capital (WACC) formulae using the following inputs:

Maryborough Project – assessed WACC		
Parameters		Maryborough Project
Beta	β_e	1.4
Market risk premium	MRP	6.0%
Risk free rate	R_f	5.3%
Cost of equity	$R_e = R_f + \beta_e * MRP$	13.7%
Additional risk premium		2.0%
Adjusted cost of equity		15.7%
Debt margin (%)		3.0%
Cost of pre tax debt (%)	R_d	8.3%
Tax rate	T	30.0%
Cost of post tax debt	$R_d * (1-t)$	5.8%
Gearing	D / EV	25.0%
After tax nominal WACC	$R_e * E/V + R_d * (1-t) D/V$	13.2%

182 We have applied an additional equity risk premium of 2.0% per annum when valuing Maryborough to reflect the greater risks associated with mines in development compared to existing mine operations.

Sensitivity analysis

183 The DCF value of the Maryborough Project is highly sensitive to the discount rate and the long-term coal price and foreign exchange rate assumptions selected. We have therefore applied sensitivities to our DCF values, incorporating the following:

- (a) discount rates ranging +/- 0.5% and 1%
- (b) +/- US\$10 per tonne to the mid-point of selected hard-coking coal prices
- (c) long-term exchange rates of AUD:USD = 0.75 and AUD:USD = 0.85.

184 A summary of these sensitivities is set out below:

Maryborough Project – sensitivity analysis					
Discount rate	14.2%	13.7%	13.2%	12.7%	12.2%
	A\$m	A\$m	A\$m	A\$m	A\$m
Exchange rate scenarios:					
AUD:USD = \$0.75	300.5	321.4	343.8	367.9	393.8
AUD:USD = \$0.80	223.6	240.4	258.6	278.1	299.0
AUD:USD = \$0.85	155.7	169.0	183.4	198.8	215.5
Long-term pricing scenarios:					
Plus US\$10	295.7	316.3	338.5	362.3	387.9
Midpoint of US\$ coal prices adopted	223.6	240.4	258.6	278.1	299.0
Minus US\$10	151.4	164.6	178.7	193.9	210.2

- 185 Consistent with coal projects generally (where output is primarily for export purposes), the table above highlights that movements in AUD:USD exchange rates and long-term (hard coking) coal price forecasts have the ability to significantly impact the value of the Maryborough Project, both positively and negatively. It should be noted that there is a strong correlation between USD commodity prices and the AUD:USD exchange rate. Accordingly, in the long-term it is unlikely that high USD coal prices will occur at times of low AUD:USD exchange rates or that low USD coal prices will occur at times of high AUD:USD exchange rates.

Cross-check to implied value per resource

- 186 In assessing the reasonableness of our valuation of the Maryborough Project we have also considered the value per tonne of resources implied by our valuation. These valuation metrics are shown below:

Maryborough Project – implied value per resource		
	Low	High
Assessed value (A\$m)	216.1	301.0
Total resources (Mt)	99 ⁽¹⁾	99 ⁽¹⁾
Value per tonne of resources (A\$)	2.18	3.04

Note:

- 1 Being the economic resources adopted by Boyd for valuation purposes.

- 187 We consider the value per tonne of resources to be reasonable having regard to the stage of development of the project and the level of expected future production (refer Appendices D and E for implied value per tonne of resource transactions in the coal sector, as well as for listed Australian coal companies).

- 188 Whilst we consider the above implied valuation metrics to be reasonable it should be noted that there are considerable limitations regarding the comparability of these valuation metrics to other coal mining companies due to the different types of coal, unit costs of production differences, location and access to required infrastructure and varying stages of coal deposit development etc.

Other mineral assets

- 189 Northern Energy's projects under evaluation have been valued by Boyd on a risk adjusted cents per tonne of resource basis having regard to recent transactions in the sector involving the sale of coal projects in the development stage. Boyd's assessed values³³ are summarised below:

Northern Energy – Boyd valuations					
	Assessed value /t of resource		Total resources ⁽¹⁾	Boyd valuation	
	Low	High		Low	High
	\$	\$	Mt	A\$m	A\$m
Elimatta Project (100%)	0.72	0.96	244	176	234
Yamala Project (100%)	0.25	0.45	220	55	99

Note:

1 Based on 100% of resources.

- 190 As noted in Section III of our report, Sojitz holds an option (subject to funding completion of a current drilling program) to increase its stake in the Yamala Project to 49% by way of an option exercise payment to Northern Energy of \$6.65 million. Based on the value range attributed by Boyd to the Yamala Project, we have assumed that this option would be exercised. On this basis the value of Northern Energy's projects under evaluation is as follows:

Northern Energy – attributable value of projects under evaluation		
	Low	High
	A\$m	A\$m
Elimatta Project (100%)	176.0	234.0
Yamala Project (100%)	55.0	99.0
51% thereof	28.0	50.5
Payment from Sojitz	6.7	6.7
Value of Northern Energy interest in the Yamala Project	34.7	57.1

Note:

1 Rounding may exist in the above.

Net cash position

- 191 As at 31 October 2010 Northern Energy had cash and deposits of \$27 million, as shown below:

³³ Further details setting out the basis for Boyd's assessed values are set out in their report.

Northern Energy – net cash	
	A\$m
Cash and deposits	20.2
Receivables ⁽¹⁾	6.8
Net cash	27.0

Note:

- 1 This includes non-current cash and deposits pledged as security for arrangements relating to WICET and SBR feasibility study costs.

Fully diluted shares on issue

- 192 Northern Energy currently has 128.42 million shares on issue. In addition there are 2.24 million options on issue some of which are yet to vest. However in the event of a takeover or other change in control event the vesting hurdles can be waived. Accordingly, when valuing 100% of the shares in Northern Energy, in our opinion, it is appropriate to assume the related additional shares will be issued.
- 193 For valuation purposes therefore we have assumed 130.7 million fully diluted shares on issue.

Value of Northern Energy shares

- 194 On this basis our assessed value of Northern Energy shares on a 100% controlling interest basis is as follows:

Northern Energy – valuation of 100% controlling interest		
	Low A\$m	High A\$m
Maryborough Project	216.1	301.0
Elimatta Project	176.0	234.0
Yamala Project	34.7	57.1
Exploration projects ⁽¹⁾	11.0	12.0
Present value of corporate costs ⁽²⁾	(13.6)	(13.6)
Enterprise value	424.2	590.5
Net cash	27.0	27.0
Cash from assumed exercise of options	3.3	3.3
Value of equity	454.5	620.8
Shares on issue (m)	130.7	130.7
Value per share (\$)	3.48	4.75

Note:

- 1 Includes Northern Energy's interests in the Ashford and Yetman projects. The values ascribed to the interest of Northern Energy in these exploration projects reflect a third-party offer for the assets.
- 2 We have adopted recurring corporate costs of \$2.0 million per annum (in real terms).

Comparison with share market price

- 195 We note that our assessed value range of Northern Energy significantly exceeds the share market price of Northern Energy prior to the announcement of the approach from New Hope.

Whilst we are unable to “second-guess” the market, we note the following factors that could contribute to the difference in values:

- (a) our assessed value of Northern Energy represents a controlling interest value in the company, whereas share market trading reflects values attributable to portfolio interests
- (b) in late April 2010 shares in Northern Energy traded as high as \$1.74 per share (in excess of 70% above the price immediately prior to the New Hope approach), following the share placement to Xinyang earlier in the month at \$1.41 per share
- (c) the share market price of Northern Energy was subsequently negatively impacted (to a significant extent) by the announcement of the proposed RSPT³⁴
- (d) Northern Energy has recently updated the market (subsequent to the announcement of the New Hope approach) as to a proposed increase in the annual rate of coal production from the Maryborough Project, in response to which a number of brokers have increased their assessed value of Northern Energy
- (e) Northern Energy management consider there is less share market visibility as regards the company compared to other listed companies in the coal sector.

Basis of valuation

- 196 As indicated above our assessed value of the equity in Northern Energy reflects our assessed underlying value of the Maryborough Project determined on adoption of the DCF basis of valuation. The Maryborough Project is currently in the development phase and requires significant capital expenditure (as set out in paragraph 180) to bring the project into production.
- 197 Our assessed value of this project has been determined in accordance with RG 111³⁵ and implicitly reflects an assumption of the availability of funding required to develop the project and bring it into production.
- 198 We consider this assumption to be appropriate if the project was owned by a major mining company and/or a mining company such as New Hope with the financial capacity necessary to meet the required funding commitments³⁶.
- 199 However, as noted above, prima facie Northern Energy does not have the existing financial capacity to develop the Maryborough project to bring it into production. In evaluating the reasonableness of the Offer therefore (as discussed in Section VI of our report) we have considered the likely funding alternatives available to Northern Energy and the related impact on value to existing Northern Energy shareholders.

³⁴ The announcement of the proposed RSPT resulted in Xstrata Coal publicly withdrawing support for its Wandoan project in the Surat Basin. The development of projects in this basin (including the Elimatta Project) is materially dependent on the Wandoan project proceeding.

³⁵ Refer paragraph 31 of our report.

³⁶ New Hope has stated in its Supplementary Bidder’s Statement dated 25 October 2010 that it has “cash reserves in excess of \$2.0 billion” and in announcing the Offer on 8 October 2010 stated that “New Hope can fund Northern Energy’s project pipeline from cash reserves”.

VI Evaluation of the Offer

Summary of opinion

200 LEA has concluded that the Offer is neither fair nor reasonable. We have formed this opinion for the following reasons.

Assessment of fairness

201 Pursuant to RG 111 an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

202 This comparison is shown below:

Comparison of assessed value to Offer			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of 100% of ordinary shares in Northern Energy	3.48	4.75	4.12
Value of Offer consideration	1.50	1.50	1.50
Extent to which the value of the ordinary shares in Northern Energy exceeds the Offer consideration	1.98	3.25	2.62

203 As the consideration offered by New Hope is less than our assessed value of 100% of the ordinary shares in Northern Energy, in our opinion the Offer is not fair based on the guidelines set out in RG 111.

204 As indicated in Section V of our report our assessed values of the equity in Northern Energy reflect our assessed underlying value of the Maryborough Project determined using the DCF basis of valuation. Our assessed value of this project has been determined in accordance with RG 111³⁷ and implicitly reflects an assumption of the availability of funding required to develop the project and bring it into production.

205 However, prima facie, Northern Energy does not have the existing financial capacity to develop the Maryborough Project to bring it into production. We have therefore considered the likely funding alternatives available to Northern Energy and the related impact on value to existing Northern Energy shareholders in assessing the reasonableness of the Offer as set out below³⁸.

Assessment of reasonableness

206 Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, shareholders should accept the offer in the absence of a higher bid before the close of the offer.

³⁷ Refer paragraph 31 of our report.

³⁸ Northern Energy has also identified significant funding requirements associated with development of the Elimatta Project. These funding requirements are not addressed in this report as the Elimatta Project has been valued “as is” on a cents per tonne of resource basis (refer paragraph 189).

Funding requirements

- 207 As set out in paragraph 180 of our report the Maryborough Project requires significant capital expenditure estimated at \$84 million to develop the project and bring it into production.
- 208 Based on discussions with Northern Energy management we understand the following funding alternatives are under consideration:
- (a) a sell-down of its interest in either (or both of) the Elimatta or Maryborough Projects
 - (b) an equity raising
 - (c) establishment of a corporate debt or project finance facility
 - (d) a supplier funding or off-take agreement.
- 209 For the purpose of our report we have assumed the funding requirements in respect of the Maryborough Project will be met by a combination of the following:
- (a) the establishment of a project finance facility of \$20 million, which we consider reasonably attainable in current market conditions
 - (b) the balance of \$64 million by way of an equity capital raising by Northern Energy of \$60 million and the use of existing cash reserves.
- 210 The assumed level of equity capital raising represents a significant level of equity funding compared to the existing equity capital base of Northern Energy.
- 211 Large capital raisings are generally priced at a discount to the prevailing share market price. The size of discount is dependent on the circumstances of the particular issue, having regard to factors such as the amount of money being raised, the purpose of the issue and the size of the raising in percentage terms. Typical range of observed discounts is between 5% and 20% (but can be higher or lower depending on market conditions and the above factors).
- 212 In considering an appropriate discount to apply in the case of Northern Energy we have also had regard to:
- (a) the discount of 3.4% (to the 30 day VWAP) implied by the placement of 12.7% of the issued capital to Xinyang in April 2010 at \$1.41 per share (Northern Energy management have advised that the negotiations with Xinyang were entered into based on 30 day VWAP of \$1.19 per share indicating an implied premium of 18.5%)
 - (b) observed implied discounts (premiums) based on other recent equity capital raisings by companies developing coal projects and in the coal sector generally.
- 213 Based on the above, for Offer evaluation purposes, we have assessed the related impact on value as regards existing shareholders on the assumption Northern Energy will be able to raise the required levels of equity capital at prices ranging from \$1.00 to \$1.50 per share.
- 214 Based on current market conditions, recent observed capital raisings in the sector and the prevailing level of interest in opportunities in the coal sector generally, we consider a capital raising in this price range to be reasonably achievable.

- 215 The impact on value as regards existing shareholders in Northern Energy is summarised in the table below:

Dilution scenarios						
Issue price per share (\$)	1.00	1.10	1.20	1.30	1.40	1.50
Number of new shares to be issued (m)	60.0	54.5	50.0	46.2	42.9	40.0
Diluted value per share:						
Low (\$)	2.70	2.78	2.85	2.91	2.97	3.02
High (\$)	3.57	3.68	3.77	3.85	3.92	3.99

- 216 Whilst the outcome of the capital raising assumed for evaluation purposes is by its nature uncertain (as would be the case with other funding alternatives available to Northern Energy), we consider the sensitivities addressed reasonably reflect the range of potential capital raising outcomes given the current market conditions.
- 217 We note that under the scenario that gives rise to the highest level of dilution (reduction in value) to existing Northern Energy shareholders (i.e. a capital raising of \$60 million at \$1.00 per share), our (diluted) assessed value range still significantly exceeds the offer consideration of \$1.50 per share.
- 218 We therefore conclude that after an appropriate allowance for the funding requirements associated with the Maryborough Project being developed by Northern Energy, the Offer is not reasonable.

Other considerations

- 219 In assessing whether the Offer is reasonable LEA has also considered:
- (a) the extent to which a control premium is being paid to Northern Energy shareholders
 - (b) the extent to which a share of the synergies likely to arise upon an acquisition of Northern Energy by New Hope are being shared with Northern Energy shareholders
 - (c) the listed market price of Northern Energy shares both prior to the announcement of the Offer and during the Offer period
 - (d) the likely market price of Northern Energy shares if the Offer is not successful
 - (e) New Hope's current shareholding in Northern Energy
 - (f) the position of Northern Energy shareholders if New Hope acquires 50.1% but less than 100% of the Northern Energy shares on issue
 - (g) the value of Northern Energy to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future
 - (h) other risks, advantages and disadvantages.
- 220 These issues are discussed in detail below.

Extent to which a control premium is being paid

221 Empirical evidence indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:

- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
- (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
- (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
- (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

222 We have calculated the premium implied by the Offer of \$1.50 per share by reference to the market prices of Northern Energy shares prior to the announcement of the Offer³⁹, as shown below:

Implied offer premium relative to recent share prices		
	Northern Energy share price	Implied control premium
Closing share price on:	\$	%
6 October 2010 ⁽¹⁾	1.05	42.9
6 September 2010 (1 month prior to New Hope approach)	0.90	66.7
6 July 2010 (3 months prior to New Hope approach)	1.00	50.0
VWAP⁽²⁾		
1 month to 6 October 2010	0.97	54.6
3 months to 6 October 2010	1.02	47.1

Note:

- 1 Being the closing price on the last day of trading prior to the trading halt sought by Northern Energy in response to the approach by New Hope.
- 2 Volume weighted average price.

223 As indicated above, the Offer consideration represents a premium to the market price of Northern Energy shares prior to the announcement of the approach from New Hope. The implied premium is above the average premiums paid in successful takeovers generally.

³⁹ For the purpose of calculating the premium implied by the Offer we have had regard to share market trading in Northern Energy up to 6 October 2010. On 7 October 2010 Northern Energy sought a trading halt in response to the approach from New Hope. The Offer was subsequently announced on 8 October 2010.

Extent to which shareholders are being paid a share of synergies

- 224 We note that in its Supplementary Bidder's Statement dated 25 October 2010, New Hope indicated certain areas of the Northern Energy business where it intends to seek operational synergies subsequent to an acquisition of Northern Energy. In addition, New Hope has indicated that it has the financial capacity to develop and bring into production the major projects owned by Northern Energy. As such New Hope would be in a position to realise the inherent value in those projects.
- 225 However, as the Offer is significantly below our assessed valuation range, in our opinion, Northern Energy shareholders are not being offered an appropriate share of the expected synergies or a reasonable share of the value of the Northern Energy projects to New Hope.

Recent share prices subsequent to the Offer

- 226 Shareholders should note that Northern Energy shares have traded on the ASX above the \$1.50 per share offered by New Hope since the Offer was announced. On 16 November 2010 Northern Energy shares last traded at \$1.65 per share (having traded as high in this period as \$1.67 per share). This suggests that the market consensus view is that the Offer will need to be increased if it is to be successful.

Likely price of Northern Energy shares if the Offer lapses

- 227 In our opinion, if the Offer lapses and no higher offer or alternative proposal emerges, it is likely (at least in the short-term) that Northern Energy shares will trade at a discount to our valuation and may trade at a discount to the Offer price of \$1.50 per share. However, the New Hope offer has highlighted the inherent value in Northern Energy and we would expect the level of discount compared to the Offer (if the Offer is unsuccessful) to be limited.
- 228 In this regard Northern Energy shareholders should also note that our assessed value of Northern Energy shares has been determined having regard to their medium/longer term prospects. It is uncertain as to the time frame over which this value may be reflected in the market price of Northern Energy shares.

New Hope's current shareholding in Northern Energy

- 229 At the date of the Offer, New Hope had a relevant interest in 4.94% of the shares on issue in Northern Energy. New Hope was not in a position therefore to either prevent a competing bidder from proceeding to compulsory acquisition of Northern Energy, nor to gain control of Northern Energy.

New Hope acquires at least 50.1% or more but less than 90% of Northern Energy

- 230 Northern Energy shareholders should note that the Offer is currently conditional on New Hope acquiring at least 50.1% of Northern Energy shares. Should New Hope acquire 50.1% but less than 90% of Northern Energy, New Hope will control Northern Energy including its day-to-day management, strategic direction and level of dividend payments. Should this occur the liquidity of Northern Energy shares may be diminished which may result in a fall in the price of Northern Energy shares.

Likelihood of an alternative offer

231 We have been advised by the Directors of Northern Energy that no formal alternative offers have been received subsequent to the announcement of the Offer on 8 October 2010. It is possible but uncertain as to whether any alternative offer is likely to be made for Northern Energy prior to the close of the Offer.

Conclusion

232 Based upon the above we have concluded that the Offer is also not reasonable.

233 In forming our opinion on this issue we note that:

- (a) notwithstanding the premium implied by the Offer, the Offer consideration of \$1.50 per share is significantly lower than our assessed valuation range for Northern Energy shares⁴⁰
- (b) whilst Northern Energy has significant funding commitments associated with the development of its Maryborough Project, we consider the level of dilution to value likely to be suffered by existing Northern Energy shareholders associated with meeting these funding commitments to be less than that required to form a conclusion that the Offer could be considered reasonable.

Other matters

234 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

235 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

⁴⁰ Assessed pursuant to the ASIC guidelines set out in RG111.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to Northern Energy shareholders in connection with the Offer.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$150,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.
- 2 This report was prepared by Mr Hall and Mr Holt, who are each authorised representatives of LEA. Mr Hall and Mr Holt have over 20 years and 25 years experience respectively in the provision of valuation advice.

Declarations

- 3 This report has been prepared at the request of the Directors of Northern Energy to accompany the Target Statement to be sent to Northern Energy shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of Northern Energy.

Interests

- 4 At the date of this report, neither LEA, Mr Hall nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with Northern Energy or New Hope prior to the preparation of this report.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Northern Energy agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Northern Energy which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in Northern Energy's Target Statement.

Appendix C

Assessment of appropriate discount rate

- 1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.
- 2 The discount rate applied to the projected cash flows from an asset represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset.
- 3 Businesses are normally funded by a mix of debt and equity. The weighted average cost of capital (WACC) is a widely used and accepted basis to calculate the “representative” rate of returns required by debt and equity investors. The required rate of return for equity is frequently evaluated using the capital asset pricing model (CAPM) and the required rate of return for debt funding is determined having regard to various factors such as current borrowing costs and prevailing credit ratings. The cost of equity and the cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.
- 4 Consequently, we set out below an explanation of:
 - (a) the WACC and its elements (including the CAPM, its application in determining the cost of equity, the cost of debt and debt equity mix)
 - (b) our assessment of the appropriate parameters to be used in determining the discount rate to apply when valuing the Maryborough Project being developed by Northern Energy (which takes into account the standalone cost of capital for an existing coal producing operation, with a specific risk premium added to allow for the development status of the project).

Weighted average cost of capital (WACC)

- 5 The generally accepted WACC formula is the post-tax WACC, without adjustment for imputation⁴¹ as shown below:

⁴¹ Given free capital flows between developed countries and the small size of the Australian stock market (as a percentage of global markets), the cost of capital of listed companies (other than perhaps regulated infrastructure assets) should be assessed in a global context ignoring Australian imputation. This is the approach generally adopted by independent experts.

Appendix C

WACC formula

$$WACC = R_e \frac{E}{V} + R_d (1 - t) \frac{D}{V}$$

Where:

R_e	=	expected equity investment return or cost of equity in nominal terms
R_d	=	interest rate on debt (pre-tax)
t	=	corporate tax rate
E	=	market value of equity
D	=	market value of debt
V	=	market value of debt plus equity

CAPM and the cost of equity

- 6 The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk-free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, investors are risk adverse and demand higher returns for accepting higher levels of risk.
- 7 The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as below, with the individual components of the CAPM discussed thereafter:

Cost of equity calculation

$$R_e = R_f + \beta_e [E(R_m) - R_f]$$

Where:

R_e	=	expected equity investment return or cost of equity in nominal terms
R_f	=	risk-free rate of return
$E(R_m)$	=	expected market return
$E(R_m) - R_f$	=	market risk premium (MRP)
β_e	=	equity beta

Risk-free rate

- 8 The risk-free rate is normally approximated by reference to a long-term government bond with a maturity equivalent to the timeframe over which the returns from the assets are expected to be received. Typically in the Australian context, the yield on 10-year Commonwealth Government Bonds is used as a proxy for the risk-free rate. For the purpose of our report, we have adopted the prevailing yield on 10-year Commonwealth Government Bonds in early November 2010 of 5.3% per annum.

Market risk premium

- 9 The market risk premium (MRP), $[E(R_m) - R_f]$, represents the additional return above the risk-free rate that investors require in order to invest in a well diversified portfolio of equity securities, i.e. the equity market as a whole. Strictly speaking, the market risk premium is equal to the expected return from holding shares over and above the return from holding risk-free government securities. Since expected returns are generally not observable, a common method of estimating the market risk premium is based on average realised (ex-post) returns.

Appendix C

- 10 Because realised rates of return, especially for shares, are highly volatile over short periods, short-term average realised rates of return are unlikely to be a reliable estimate of the expected rate of return or market risk premium. Consequently the market risk premium is measured over a long period of time. It should also be noted that the standard error of the estimate of the mean for longer periods is typically lower than the standard of error of the mean where a shorter period is used. This supports more reliance being placed on the average market risk premium calculated over the longer term.
- 11 A number of studies on historical market risk premiums have been carried out using long periods of historical data from the Australian as well as overseas markets. The following table summarises the empirical evidence on the market risk premium in the United States:

Market risk premium – empirical evidence		
US studies	Period over which MRP measured	Market risk premium %
Siegel	1802 – 1992	5.0
Pastor and Stambaugh	1834 – 1999	5.8
Fama and French	1872 – 2000	5.6
Ibbotson Associates	1926 – 2000	7.7
Fama and French	1951 – 2000	7.4

Source: Siegel J., 1992, The Equity Premium: Stock and Bond Returns Since 1802, Financial Analysts Journal, pp. 28-38. Pastor L. and R. Stambaugh, 2001, The Equity Premium and Structural Breaks, Journal of Finance, 56(4), pp. 1207-1239. Ibbotson Associates, 2001, Stocks, Bonds, Bills, and Inflation. Fama E. and K. French, 2002, The Equity Premium, Journal of Finance, 57(2), pp. 637-659.

- 12 The most recent market risk premium study in Australia was by Brailsford, Handley and Maheswaran (2008) who analysed data for the period from 1883 to 2005 (inclusive). The following table reports the market risk premium in nominal terms as measured by this data set, for different time periods up to 2005.

Historical Australian Market Risk Premium – 1883 to 2005						
Time period ⁽¹⁾				Arithmetic mean	Geometric mean	Standard deviation
From	To	Years		%	%	%
Relative to bills⁽²⁾						
1883	-	2005	123	6.6	5.3	16.0
1937	-	2005	69	6.4	4.6	19.1
1958	-	2005	48	6.8	4.5	22.1
1980	-	2005	26	6.2	3.9	21.9
1988	-	2005	18	5.2	4.2	15.2
1883	-	1987	105	6.8	5.5	16.2
Relative to bonds⁽³⁾						
1883	-	2005	123	6.2	4.9	16.0
1937	-	2005	69	5.8	4.0	19.1
1958	-	2005	48	6.3	4.0	22.0
1980	-	2005	26	6.0	3.8	21.7
1988	-	2005	18	5.1	4.0	15.0
1883	-	1987	105	6.4	5.1	16.2

Appendix C

Note:

- 1 The first 4 periods have increasing data quality but decreasing sample size. The fifth period begins from the introduction of the imputation tax system in Australia.
- 2 Various types of bill returns were used due to the lack of a continuous government bill issue covering the study period. The majority of the bill return data is yield on 3 month Commonwealth Government securities.
- 3 Historical bond returns were also collected from a number of sources. Most of the bond returns are Commonwealth Government bond yields with a maturity of 10 years or more.

Source: Brailsford, T., J. Handley, and K. Maheswaran, 2008, Re-examination of the historical equity risk premium in Australia, *Accounting and Finance*, 48(1), pp. 73-97.

- 13 The historical market risk premium of the Australian equity market is in a wide range from 4% to 7% depending on the historical period chosen, whether the market risk premium is measured relative to bills or bonds, and whether arithmetic or geometric mean is used. However, the authors note the concern regarding the poor quality of the data prior to 1958. The arithmetic average market risk premiums relative to bonds and bills over the 1958 to 2005 period are 6.3% and 6.8% respectively. The corresponding geometric measures over the same period are significantly lower at 4% to 4.5%.
- 14 In summary, Australian and overseas empirical evidence shows (not surprisingly) that the historical market risk premiums vary across markets. Historical market risk premiums for the Australian market are generally in line with the overall range of the market risk premiums of developed countries, but appear to be higher than many countries as well as the world average.
- 15 The GFC, originating from the sub-prime mortgage crisis in the US, had a significant impact on investors' perception of overall market risk. Associated with the crisis there was a very substantial increase in credit margins, significant equity market volatility and a substantial decrease in liquidity in capital markets. Although the economic fundamentals of the Australian economy remained strong, overseas market conditions had a substantial adverse impact on domestic financial markets.
- 16 Prior to the GFC, independent experts in Australia generally adopted a MRP of around 6.0%. Following the GFC LEA adopted an MRP of 6.5%. This was consistent with many other independent experts and with the Australian Energy Regulator (AER), which also adopted a MRP of 6.5% in its Statement of Regulatory Intent (SORI) in May 2009. In the AER's most recent decision in October 2010 on Victorian electricity distribution network service providers (distribution determination 2011 to 2015) the AER continued to adopt an MRP of 6.5%. However, the AER noted that:
 - (a) *'commentary on financial markets indicates clear signs of stabilisation since the time of the AER's SORI and its decision to increase the MRP to 6.5%;*
 - (b) *an MRP of 6.5% may be considered conservative when accounting for improved financial conditions since the onset of the GFC, however, recovery in the global economy and conditions in global capital markets remains fragile.'*

Appendix C

- 17 Since the issue of the SORI, the Queensland Competition Authority (QCA) has issued its final decision for the Dalrymple Bay Coal Terminal (DBCT) (in September 2010) adopting an MRP of 6.0% (being the same MRP adopted in the prior regulatory decision five years earlier).
- 18 As the MRP is an estimate of the additional market return above the risk-free rate over the relevant investment horizon (i.e. the period over which cash flows have been forecast), it should be determined having regard primarily to the long-term historical MRP. However, short to medium term risk factors do have an impact on investors' perception of market risk and their demand for an appropriate MRP.
- 19 Having regard to all of the above and, in particular, the more stable equity market conditions and values currently prevailing in Australia, we have adopted a MRP of 6.0%.

Equity beta

Description

- 20 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than one suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than one suggests that future returns will be less volatile and risky.
- 21 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgment.
- 22 In determining the appropriate equity beta for the Maryborough Project being developed by Northern Energy we have considered:
 - (a) the risks faced by Australian coal mining companies generally
 - (b) the risks associated with the Maryborough Project
 - (c) the beta estimates for comparable coal mining companies and the relevant sector; and
 - (d) the beta estimates for Northern Energy.

Risk of coal mining operations in Australia

- 23 In assessing the appropriate beta attributable to companies with coal mining operations in Australia the following risks and factors are relevant:
 - (a) an overwhelming majority of coal produced in Australia is exported and some 80% of the industry revenue is generated from export sales. Accordingly, the performance of the industry is subject to the volatility of international demand for Australian coal (both coking and thermal)

Appendix C

- (b) demand for coking coal depends on the demand for steel production which is determined by global economic growth, particularly that of the major developing countries in Asia such as China and India. Thermal coal is mainly used for energy production, hence its demand is generally more resilient than demand for coking coal
- (c) overall, the performance of the Australian coal industry generally depends on the growth of the global economy and is especially sensitive to the respective growth rates of the fast growing countries in Asia
- (d) the historical volatility of coal prices has recently been very high, as evidenced by the unprecedented rise in coal prices prior to the onset of the GFC, the significant fall that followed as the repercussions of the crisis were felt and the recent rebound in prices as Asian coal demand surprised on the upside
- (e) based on analyst forecasts of future coal prices, the outlook for the coal industry is positive although less volatile than in recent times
- (f) the high quality of coal produced, the low cost nature of Australian production and the proximity to the growing Asian markets provide the Australian coal industry with valuable competitive advantages to support its growth
- (g) the ability to meet global demand for coal and accordingly the performance of the Australian coal industry has however been constrained due to insufficient adequate rail and port infrastructure. There has been considerable effort by state governments and stakeholders to alleviate the infrastructure problems. Capacities of major coal terminals in NSW and Queensland have increased as a result of significant investments during the last few years.⁴² However, uncertainty remains with respect to on-going infrastructure constraints and the related timing of availability of planned additional infrastructure
- (h) export coal prices are denominated in USD yet Australian miners incur AUD operating costs. Coal mining operations in Australia are therefore subject to the inherent risk of exchange rate fluctuations (although many companies have active hedging policies to mitigate this risk)
- (i) the Australian mining sector also suffers from the country's on-going skill shortage problems. The skill shortage problem, evidenced in factors such as the record low unemployment rate prior to the GFC, could hinder the rate of Australian economic growth
- (j) the Australian coal industry is under political pressure from both the Federal government and the environmental movement due to concerns about its contribution to global warming. Globally, greenhouse gases from coal mining and coal-fired power generation contribute some 25% to the enhanced greenhouse effect.^{43, 44} Further, some

⁴² For example, Dalrymple Bay Coal Terminal, Abbot Point Coal Terminal and the Port of Newcastle have undergone or are carrying out expansion works to increase capacity. A new coal terminal funded by the Newcastle Coal Infrastructure Group (NCIG) opened in January 2010. The proposed Northern Missing Link connecting the Goonyella coal rail system to the Newlands rail system has recently commenced.

⁴³ The enhanced greenhouse effect is caused by human activities, such as agriculture and the burning of fossil fuels (coal, oil and gas) rather than naturally occurring gases in the atmosphere.

⁴⁴ Sourced from the website australiancoal.com.au

Appendix C

of the highest growth markets for Australian coal are countries that have signed but not yet ratified⁴⁵ the Kyoto Protocol

- (k) in addition, Australian coal miners are subject to a number of risks associated with mining operations generally such as:
 - (i) the risk of increases in capital expenditure requirements and operating costs
 - (ii) the risk of customers and counter parties failing to meet their obligations under sales contracts and/or financial arrangements relating to hedging contracts
 - (iii) the risk of sale contracts not being renewed due to competitive tenders, decreases in demand or cheaper alternative sources of supply
 - (iv) the risk of poor weather conditions over a prolonged period adversely impacting mining and exploration operations
 - (v) the risk of unforeseen failures, break-downs or repairs required to key mining equipment or mine structure resulting in significant delays (particularly applicable to underground mining operations)
 - (vi) the risk of unforeseen adverse geological and mining conditions
 - (vii) the risk of changes in government policy and regulation of the mining industry, including conditions imposed on the extension to or the granting of mine leases
 - (viii) the risk of changes in taxation laws including increases in imposts such as royalties, freight, charges or taxes affecting the level of mining or exploration activities (recent examples of which include the failed RSPT and the proposed MRRT).

- 24 In summary, considering the above factors, in our opinion, the level of systematic risk associated with coal mining operations in Australia is higher than the level of systematic risk of the market as a whole.

Specific risk factors of Maryborough Project

- 25 In considering the risks associated with the coal development activities of Northern Energy it should be noted that the company's long-term production objectives depend in particular on the successful development of its portfolio of projects. Given their current status, there are inherent development and infrastructure risks associated with these projects, the level of which is higher than the industry average (which is based primarily on operating mines).
- 26 In our opinion an additional risk premium should therefore be reflected in the cost of equity when valuing the Maryborough Project. In this regard we note the following:
- (a) a mining lease application has been submitted for the Colton mine area, supported by an environmental management plan
 - (b) the project requires the construction and development of mining pits, a rail spur, a CHPP and other capital works

⁴⁵ That is, they have not agreed to cap emissions in accordance with the Protocol. China, India, Malaysia and Thailand have signed but not yet ratified the Protocol.

Appendix C

- (c) rail capacity is being secured to transport mine output to the Port of Gladstone via the north coast line. Rail contracts are currently in negotiation and are likely to be finalised by the end of 2010
- (d) coal product shipments are expected by mid-2012 and a progressive expansion is envisaged subject to the completion and approval of an EIS
- (e) a long-term off-take agreement is in place with Xinyang for 65% of mine output
- (f) the cost of the project requires financing in excess of Northern Energy's existing cash reserves and funding facilities.

27 Having regard to the above, we have allowed for these factors and risks by adding a risk premium of 2% to the cost of equity assessed for an existing coal mining operation.

Betas of listed coal companies

28 In order to assess the appropriate equity beta for the Maryborough Project, we have also had regard to the equity betas of coal mining companies listed on the ASX, both in operation as well as development, as shown below:

Historical betas – listed coal companies						
Company name ⁽¹⁾	Market cap A\$m ⁽²⁾	Gearing % ⁽³⁾	AGSM beta ⁽⁴⁾	AGSM beta R-square ⁽⁵⁾	Bloomberg beta ⁽⁶⁾	Bloomberg beta R-square
Northern Energy Corp Ltd	204.2	(11.0)	3.12	0.35	2.98	0.29
Australian coal producing companies						
Coal & Allied Industries Ltd	9,908.4	(3.8)	0.49	0.08	0.51	0.07
New Hope Corp Ltd	4,192.7	(58.0)	1.29	0.36	1.38	0.31
MacArthur Coal Ltd	3,698.5	(11.8)	2.56	0.50	2.56	0.48
Whitehaven Coal Ltd	3,408.6	(10.3)	2.21	0.31	2.04	0.14
Centennial Coal Co Ltd	1,576.2	16.3	1.28	0.18	1.32	0.18
Gloucester Coal Ltd	1,493.3	(6.2)	1.53	0.19	1.10	0.09
Australian coal developing companies						
Riversdale Mining Ltd	3,065.8	(27.3)	2.22	0.26	1.74	0.17
Coal of Africa Ltd	616.7	(11.0)	2.29	0.27	1.97	0.21
Cockatoo Coal Ltd ⁽⁷⁾	550.4	(45.1)	1.45	0.10	1.14	0.04
Bandanna Energy Ltd	475.5	(6.3)	2.35	0.14	2.22	0.04
Caledon Resources Plc	319.0	6.4	na	na	2.16	0.09

Appendix C

Note:

- 1 Aston Resources Ltd, Nucoal Resources Ltd, Stanmore Coal Ltd and Pike River Coal Ltd have been excluded due to the limited period over which mine activities have been conducted.
 - 2 Market capitalisation as at 9 November 2010 with the exception of Centennial Coal which is taken as at 5 May 2010 (prior to the acquisition of a significant stake by Banpu Public Company Limited) and Caledon Resources which is taken as at 8 November 2010 (prior to takeover offer).
 - 3 Gearing calculated as net debt divided by enterprise value. A negative gearing ratio indicates that the company had net cash as at the most recent reporting date.
 - 4 Australian Graduate School of Management (AGSM) betas are estimated as at 30 June 2010 using four years of monthly data.
 - 5 R-square is a statistical measure of how well the regression line approximates the real data points. It has a value between zero and 1. The closer R-square is to 1 the more reliable the beta estimate.
 - 6 Betas obtained from Bloomberg using four years of monthly data as at 31 October 2010.
 - 7 Whilst Cockatoo Coal Ltd is a coal producing company, the majority of its coal projects are in the development phase.
- na – not available.
-

- 29 The above comparable betas vary widely which reflects differences in size, leverage, stage of development, mining portfolios and operational risks. None of the other listed companies have activities that are directly comparable to the Maryborough Project being developed by Northern Energy. However, we note that the betas of both the producing and developing coal companies are generally well above the average market beta of 1, indicating a higher level of systematic risk for coal mining operations generally.
- 30 It should be noted that as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), the above equity betas are levered betas and theoretically would need to be adjusted to reflect the different levels of gearing. However, this adjustment is subject to considerable estimation error. For example, gearing ratios are normally calculated at a point in time and therefore may not reflect the target or optimal capital structures of comparable companies in the long-term. In addition, gearing ratios typically change over time. Further, the practice of adjusting equity betas for the difference in financial leverage also gives a misleading impression that the mathematical process provides precise comparable beta estimates.

Historical betas of Northern Energy relative to sector beta

- 31 The table below shows the historical beta estimates of Northern Energy and the metals and mining sector:

Appendix C

Historical betas – Northern Energy / Metals & Mining sector				
Data period ended ⁽¹⁾	Northern Energy		Metals & Mining sector	
	Beta	R-square	Beta	R-square
30 June 2010	3.12	0.35	1.23	0.63
31 March 2010	3.06	0.33	1.23	0.63
31 December 2009	3.08	0.33	1.24	0.60
30 September 2009	3.07	0.33	1.27	0.62
30 June 2009	2.93	0.29	1.37	0.66
31 March 2009	3.12	0.32	1.41	0.68

Note:

1 Using four years of monthly returns.

Source: AGSM.

- 32 The betas of the individual stocks, including Northern Energy, as well as the betas for the other listed Australian coal companies, are significantly less reliable than the beta of the metals and mining sector (as evidenced by the low R-squared values). However the metals and mining sector composition is heavily influenced by BHP Billiton Ltd and to a lesser extent Rio Tinto Plc, which are both diversified low cost producers with long life production assets. Much of BHP Billiton Ltd and Rio Tinto Plc's production is iron ore and coal. The sector beta also reflects (albeit to a lesser extent) companies involved in underground and more metallurgically complex mining operations, as well as mines in development. These factors increase the risk of mining operations relative to open-cut coal mining operations.

Conclusion

- 33 Having regard to the above, and in particular the reliability of beta estimates, the impact of recent abnormal market conditions on beta estimates, the long-term beta estimates of the relevant sector in which the companies operate and the relative volatility of coal prices, we have adopted an equity beta of 1.4 for standalone coal mining operations currently in production.
- 34 To allow for the specific risks associated with development of the Maryborough Project we have also added a specific risk premium (refer paragraphs 25 to 27 of this Appendix) to the cost of equity derived for a standalone coal mining operation.

Gearing

- 35 The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the entity owning the asset. The factors that affect the "optimum" level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:
- (a) the variability in earnings stream
 - (b) working capital requirements
 - (c) the level of investment in tangible assets
 - (d) the nature and risk profile of the tangible assets.

Appendix C

- 36 In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported (and vice versa). Furthermore, as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), it is important to adopt in the WACC calculation a level of gearing which is consistent with the gearing ratios of the listed companies for which equity betas were used to assess the appropriate beta. If this is not done then the equity beta must be adjusted to reflect the different level of gearing adopted. However, this adjustment is subject to considerable estimation error and is therefore not preferred. Consequently, when assessing the appropriate gearing level it is appropriate to consider the gearing levels of comparable listed companies over the period over which the beta estimates were calculated.
- 37 Consistent with the practice of other Australian companies in the sector (particularly coal development companies), Northern Energy has held little or negligible amounts of debt over the last four years. In recent years Australian mining companies have generally taken advantage of buoyant commodity and equity market conditions to reduce debt⁴⁶. However, as companies expand their mining activities we consider it likely that debt levels will increase again to more historic levels⁴⁷. For the purpose of our report we have therefore placed greater reliance on medium / longer term data with respect to the funding mix of mine operations.
- 38 Accordingly we have adopted a gearing ratio of 25% debt to 75% equity (at the lower end of the range of historical debt levels) for the Maryborough Project being developed by Northern Energy, which we consider appropriate. This gearing ratio also recognises the development nature of the project and the likely requirement of project financiers that equity capital be provided prior to accessing any project debt facility established.

Cost of debt

- 39 A cost of debt of 8.3% per annum has been adopted. This reflects a borrowing margin of around 3% above the risk-free rate. In establishing the appropriate cost of debt we have considered the availability of debt financing in the resource sector in the global market at present and the ability to refinance facilities in the medium term.

Calculation of nominal WACC

- 40 Based on the above we have adopted a discount rate of 13.2% per annum (after tax) for the Maryborough Project, as determined below. This rate incorporates an additional risk premium of 2% per annum.

⁴⁶ In comparison US coal companies hold significantly more debt.

⁴⁷ Historical debt levels of Australian mining companies have generally averaged between 20% to 50% of total capital employed.

Appendix C

Assessed discount rate		
Parameters		Maryborough Project %
Beta	β_e	1.4
Market risk premium	MRP	6.0
Risk-free rate	R_f	5.3
Cost of equity	$R_e = R_f + \beta_e * \text{MRP}$	13.7
Additional risk premium		2.0
Adjusted cost of equity		15.7
Debt margin (%)		3.0
Cost of pre-tax debt (%)	R_d	8.3
Tax rate	T	30.0
Cost of post tax debt	$R_d * (1-t)$	5.8
Gearing	D / EV	25.0
After tax nominal WACC	$R_e * E/V + R_d * (1-t) D/V$	13.2

Appendix D

Listed coal company multiples

- 1 There are a number of listed companies involved in mining and producing coal and development of coal mining operations. The enterprise value and market capitalisation per tonne of reserves and resources are out below:

Listed company multiples						
Company	EV ⁽¹⁾ A\$m	Market Cap ⁽²⁾ A\$m	Enterprise value / JORC ⁽³⁾		Market cap / JORC ⁽³⁾	
			Resource \$/t	Reserve \$/t	Resource \$/t	Reserve \$/t
Australian coal producing companies						
Coal & Allied Industries Ltd	9,544.2	9,908.4	2.09	11.25	2.17	11.68
Whitehaven Coal Ltd	3,091.1	3,408.6	2.30	9.20	2.54	10.20
MacArthur Coal Ltd	3,308.7	3,698.5	2.36	25.00	2.64	27.95
New Hope Corp Ltd	2,654.4	4,192.7	2.71	5.38	4.28	8.50
Gloucester Coal Ltd	1,406.4	1,493.3	4.14	13.61	4.39	14.46
Pike River Coal Ltd	364.0	317.9	6.22	33.09	5.43	28.90
Australian coal developing companies						
Riversdale Mining Ltd	2,376.3	3,065.8	0.20	7.09	0.26	9.15
Aston Resources Ltd	1,483.8	1,384.8	2.43	4.62	2.27	4.31
Coal of Africa Ltd	556.6	616.7	0.29	na	0.33	na
Bandanna Energy Ltd	447.3	475.5	0.32	4.78	0.34	5.09
Cockatoo Coal Ltd ⁽⁴⁾	379.4	550.4	0.36	5.64	0.52	8.19
Nucoal Resources NL	196.1	202.4	0.47	na	0.48	na
Stanmore Coal Ltd	140.7	170.2	0.44	na	0.54	na

Note:

- 1 Enterprise value (EV) calculated as at 9 November 2010. EV equals market capitalisation plus net debt and dilutive options.
- 2 Market capitalisation calculated as at 9 November 2010. Market capitalisation includes dilution from the notional exercise in the money options.
- 3 JORC resource or reserve attributable to company based on percentage equity interest held. Where saleable reserves are provided this has been used.
- 4 Whilst Cockatoo Coal Ltd is a coal producing company, the majority of its coal projects are in the development phase.

Source: Bloomberg, company announcements, company websites, LEA analysis.

na – not available.

- 2 In considering the above data a number of factors must be taken into consideration, including:
- (a) the type and quality of coal produced, for example some miners produce higher value coking coal as opposed to thermal coal
 - (b) a number of miners operate underground mines which are more risky than open-cut operations
 - (c) the mix of development and operating assets

Appendix D

- (d) the coal prices (e.g. Bowen Basin or Hunter Valley prices) that the miners selling prices are referenced to
- (e) the impact of coal quality and its chemical characteristics.

Coal transaction multiples

Summary of transaction multiples									
Date ⁽¹⁾	Target	Acquirer	Interest acquired %	Lifecycle stage ⁽²⁾	Coal type ⁽³⁾	Purchase price HC\$m	EV ⁽⁴⁾⁽⁵⁾ / Reserve \$ per tonne	EV ⁽⁴⁾⁽⁵⁾ / Resource \$ per tonne	
Nov 10	Caledon Resources Plc ⁽⁶⁾	Guangdong Rising Assets Mgmt.	100.0	Producing / pre-development	CC, TC	431	28.47	0.58	
Aug 10	MDL162	Macarthur Coal Ltd	90.0	Pre-development	SHCC, PCI	334	n/a	1.68	
Aug 10	Middlemount Project	Gloucester Coal Ltd	50.0	Entering production	CC, LV PCI	453	15.89	7.39	
Jul 10	5 of Anglo American's coal assets	POSCO, Korea Electric Power & Cockatoo Coal Ltd	100.0	Pre-development	CC, TC	580	n/a	0.68	
Jul 10	Surat Basin Assets	Cockatoo Coal Ltd	51.0	Pre-development	TC	106	n/a	0.48	
Jul 10	Sutton Forest	Cockatoo Coal Ltd	30.0	Pre-development	CC	22	n/a	0.62	
Jul 10	Bylong & Ownaview	Korea Electric Power (KEPCO)	100.0	Pre-development	TC	403	n/a	0.79	
May 10	Centennial Coal Ltd	Banpu Public Company Ltd	100.0	Production	TC	2,832	8.77	1.29	
Nov 09	Maules Creek Project	Aston Resources Pty Ltd	100.0	Development	SSCC, TC	480	n/a	1.21	
Nov 09	Broughton Project	Resource Portfolio Partners	90.0	Pre-development	CC, PCI	12	n/a	0.40	
Oct 09	Vickery Project	Whitehaven Coal	100.0	Exploration	SSCC, TC	312	n/a	0.11	
Aug 09	Felix Resources Ltd	Yanzhou Coal Mining Company Ltd	100.0	Production ramp up	TC, PCI, SSCC	3,277	8.50	2.38	
Aug 09	Narrabri Project (Whitehaven Coal Ltd)	Daweco International Corp & Korea Resources Corp	7.5	Entering production	TC	136	10.55	4.14	
Feb 09	Gloucester Coal Ltd	Noble Group Ltd	87.7	Producing	SHCC, TC	462	13.86	2.52	
Aug 08	Narrabri Project (Whitehaven Coal Ltd)	Electric Power Development Co. Ltd	7.5	Development	TC	125	16.23	3.80	
Aug 08	Narrabri Project (Whitehaven Coal Ltd)	EDF Trading	7.5	Development	TC	176	22.91	5.62	
Jul 08	New Saraji Project (New Hope Corporation)	BHP Billiton Mitsubishi Alliance	100.0	Development	HCC, PCI	2,450	n/a	3.55	
Jul 08	Macarthur Coal Ltd	POSCO Company Ltd	10.0	Producing	SSCC, LV PCI, TC	426	48.78	3.37	
Jun 08	Macarthur Coal Ltd	ArcelorMittal NV	5.0	Producing	SSCC, LV PCI, TC	212	48.78	3.37	
May 08	Macarthur Coal Ltd	ArcelorMittal NV	14.9	Producing	SSCC, LV PCI, TC	631	48.78	3.37	
May 08	Bandanna Coal Exploration properties	Enterprise Energy Ltd	100.0	Exploration	TC	129	7.31	0.20	
Feb 08	Narrabri Project	Guangdong Yudean Group Co. Ltd	7.5	Development	TC	68	8.76	2.05	
Feb 08	Foxleigh mine	Anglo American Plc	70.0	Producing	PCI	722	17.18	3.55	
Feb 08	Resource Pacific Holdings Ltd	Xstrata Plc	100.0	Production ramp up	SSCC, TC	996	8.62	3.95	
Dec 07	Custom Mining Ltd (Middlemount)	Macarthur Coal Ltd	70.0	Development	SSC, PCI, T	275	n/a	3.92	
Dec 07	Monto Coal Pty Ltd (from Macarthur Coal Ltd) ⁽⁷⁾	Noble Group Ltd	19.6	Pre-development	TC	49	21.46	0.93	
Nov 07	Werris Creek Mine	Whitehaven Coal Ltd	60.0	Producing	PCI, TC	74	6.17	3.23	
Sep 07	Anvil Hill Project (from Centennial Coal)	Xstrata Plc	100.0	Pre development	TC	425	2.75	0.81	
Sep 07	Austral Coal Ltd	Xstrata Plc	100.0	Producing	CC	557	8.19	3.10	
Jul 07	Cummock Coal Ltd	Xstrata Plc	100.0	Producing	TC, CC	84	24.82	0.19 ⁽⁸⁾	
Jul 07	Macarthur Coal Ltd	CITIC	8.4	Producing	CC, LV PCI	105	12.42	1.10	
Jul 07	Moolatben Project (Felix Resources Ltd)	Sojitz Corporation	10.0	Entering production	TC	90	n/a	1.46	
Feb 07	AMCI Holdings Pty Ltd	CVRD (now Vale)	100.0	Production ramp up	LV PCI, TC	835	9.63	n/a	
Nov 06	Yarrabee Mine (Felix Resources Ltd)	Coal Resources Corporation Ltd	49.0	Producing	TC, LV PCI	68	10.51	5.51	

Appendix E

Summary of transaction multiples

Date ⁽¹⁾	Target	Acquirer	Interest acquired %	Lifecycle stage ⁽²⁾	Coal type ⁽³⁾	Purchase price HC\$m	EV ⁽⁴⁾⁽⁵⁾ / Reserve \$ per tonne	EV ⁽⁴⁾⁽⁵⁾ / Resource \$ per tonne
Jul 06	Minerva coal mine & Athena Project (Felix Resources Ltd)	Korean consortium	15.0	Production ramp up	TC	33	6.36	0.34
Jul 06	Excel Coal Ltd	Peabody Energy Corp	100.0	Production ramp up	HCC, SSCC, TC	2,325	6.53	1.80

Note:

1 Date of transaction based on the announcement date or rumoured date, whichever is earlier.

2 Definitions of different lifecycle stage terms are included below:

- Producing – Currently producing at or near full production
- Production ramp up – Currently producing, but is in ramp up phase
- Entering production – Not producing but estimated to enter production within 6 months
- Development – Exploration completed and building infrastructure to commence mining.
- Pre-development - Exploration complete and in pre-feasibility or feasibility stage.
- Exploration – Exploration phase

3 Definitions of difference coal type terms are included below:

- CC – Coking coal
- HCC – Hard coking coal
- LV PCI – Low volatile PCI coal
- PCI – Pulverised coal injection coal
- SHCC – Semi-hard coking coal
- SSCC – Semi-soft coking coal
- TC – Thermal coal

4 EV is calculated as purchase price divided by percentage interest acquired (i.e. it reflects the EV on a 100% interest basis).

5 It is important to note that data limitations make some of the calculation relativities unreliable (for example some projects may have already incurred significant capital expenditure and are thus more valuable relative to others).

6 Indicative offer for Caledon Resources Plc only (transaction still in progress).

7 Monto Coal Pty Ltd owned 50% of the Monto coal mine.

8 These multiples are low because of the lack of reserves at the time of purchase.

n/a – not available.

Source: LEA analysis using data from Bloomberg, ASX announcements and company websites.

Appendix F

Glossary

Term	Meaning
AER	Australian Energy Regulator
AGSM	Australian Graduate School of Management
AIFRS	Australian equivalent to International Financial Reporting Standards
Ashford Project	Ashford hard coking-coal project
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
AUD or A\$	Australian dollars
Boyd	John T. Boyd Company (Australia) Pty Ltd
CAPM	Capital asset pricing model
CCAF	Climate Change Action Fund
CHPP	Coal handling and preparation plant
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
CPRS	Carbon Pollution Reduction Scheme
DBCT	Dalrymple Bay Coal Terminal
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax depreciation and amortisation
EIS	Environmental Impact Study
EL	Exploration licences
Elimatta Project	Elimatta thermal coal project in the Surat Basin
ETS	Emissions trading scheme
EV	Enterprise value
FOB	Free-on-board
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GAD	Gross air dried
GFC	Global financial crisis
IEA	International Energy Agency
IER	Independent expert's report
JFY	Japanese fiscal year
JORC	Joint Ore Reserves Committee
JV	Joint venture
Kcal	Kilocalorie
LEA	LonerGAN Edwards & Associates Limited
Maryborough Project	The hard coking coal project located in the Maryborough region of Queensland
MLA	Mining lease application
MRP	Market risk premium
MRRT	Minerals Resource Rent Tax
Mt	Million tonnes
Mtpa	Million tonnes per annum
NCIG	Newcastle Coal Infrastructure Group
NCV	Net calorific value
New Hope	New Hope Corporation Limited
Northern Energy	Northern Energy Corporation Limited
NPV	Net present value

Appendix F

Term	Meaning
Offer	New Hope's offer of \$1.50 cash per Northern Energy share
PCI	Pulverized coal injection
PE	Price earnings
PRRT	Petroleum Resource Rent Tax
PWCS	Port Waratah Coal Services
QCA	Queensland Competition Authority
RG 111	Regulatory Guideline 111 – <i>Content of expert reports</i>
ROM	Run-of-mine
RSPT	Resource Super Profits Tax
SBR	Surat Basin Railway
Sojitz	Sojitz Corporation
SORI	Statement of Regulatory Intent
USD or US\$	United States dollars
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
Xinyang	Xinyang Iron & Steel Group Company Ltd
Yamala Project	Yamala coal project, between Emerald and Blackwater in the Bowen Basin, Queensland
Yetman Project	Yetman exploration licenses in NSW, west of Ashford

Appendix G

Boyd report

**TECHNICAL REPORT
NORTHERN ENERGY
CORPORATION LIMITED**

Prepared For
LONERGAN EDWARDS & ASSOCIATES

By
JOHN T. BOYD COMPANY
MINING AND GEOLOGICAL CONSULTANTS
Brisbane, Australia



REPORT NO. 5109.000
NOVEMBER 2010



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File: 5109.000

Lonergan Edwards & Associates Limited
Level 27 363 George Street
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**Subject: Technical Report
Northern Energy Corporation**

Dear Sirs

This report provides John T. Boyd Company's [BOYD] independent technical assessment of the coal assets of Northern Energy Corporation Limited in relation to a takeover offer from New Hope Corporation Limited.

We understand that this report will be included in the Independent Expert Report to be issued by Northern Energy Corporation Limited in accordance with the requirements of the Corporations Act 2001 (Cth) and the Australian Securities and Investments Commission.

Respectfully submitted,

JOHN T. BOYD COMPANY

By:

John T. Boyd II
President and CEO

TABLE OF CONTENTS

	<u>Page</u>
LETTER OF TRANSMITTAL	
TABLE OF CONTENTS	
1.0 GENERAL STATEMENT	1-1
1.1 Introduction.....	1-1
1.2 Purpose of Report	1-1
1.3 Scope of Work	1-2
1.4 Limitations and Exclusions	1-3
1.5 Materiality	1-3
1.6 Capability and Independence	1-3
1.7 Mining Risk.....	1-4
Figure 1.1: General Location Map.....	1-5
2.0 EXECUTIVE SUMMARY	2-1
3.0 MARYBOROUGH PROJECT.....	3-1
3.1 Introduction	3-1
3.2 Geology	3-1
3.2.1 Tenement	3-1
3.2.2 Structure.....	3-2
3.2.3 Exploration Holes	3-2
3.2.4 Coal Seams.....	3-3
3.3 Resources and Reserves	3-4
3.3.1 Resources	3-4
3.3.2 Reserves	3-6
3.4 Mining and Mine Plan	3-7
3.4.1 Mine Scheduling and Layout	3-8
3.4.2 Infrastructure	3-9
3.5 Coal Quality, Coal Preparation	3-10
3.5.1 Historical Core Holes.....	3-10
3.5.2 Northern Energy Core Holes	3-11
3.5.3 Washability and CHPP Design	3-12
3.6 Environment	3-13
3.6.1 Environmental Aspects.....	3-13
3.6.2 Mine Closure	3-15
3.6.3 Cultural Heritage.....	3-16
3.6.4 Approvals Process.....	3-16
3.7 Off Site Infrastructure	3-17
3.7.1 Rail	3-17
3.7.2 Port.....	3-17
3.8 Project Risks.....	3-18
3.9 Valuation Model.....	3-18

TABLE OF CONTENTS – Continued

	<u>Page</u>
Figures	
3.1: Tenement Layout - Maryborough	3-20
3.2: Regional Structure of Maryborough Basin.....	3-21
3.3: Stratigraphic Column - Maryborough.....	3-22
3.4: Infrastructure Layout.....	3-23
 4.0 ELIMATTA PROJECT	 4-1
4.1 Introduction.....	4-1
4.2 Geology	4-1
4.2.1 Tenements.....	4-1
4.2.2 Geology	4-1
4.2.3 Resource Quantities and Quality	4-2
4.3 Mining and Mine Plans	4-4
4.3.1 Mining Method	4-4
4.3.2 Mining Plans	4-4
4.3.3 Reserves	4-5
4.4 Product Coal Quality	4-5
4.5 Environment	4-6
4.5.1 Horse Creek Diversion	4-6
4.5.2 Endangered, Vulnerable Species.....	4-6
4.5.3 Water Availability	4-6
4.5.4 Strategic Cropping Land.....	4-6
4.6 Off Site Infrastructure	4-7
4.6.1 Rail	4-7
4.6.2 Portl	4-7
4.7 Project Risks.....	4-8
4.8 Valuation.....	4-8
4.8.1 Valuation Methods.....	4-8
4.8.2 Financial Model	4-9
4.8.3 Valuation Methodology - Elimatta.....	4-9
Figures	
4.1: Tenement Layout - Elimatta	4-12
4.2: Regional Structure - Surat Basin	4-13
4.3: Stratigraphic Column	4-14
 5.0 YAMALA PROJECT	 5-1
5.1 Introduction.....	5-1
5.2 Geology	5-1
5.2.1 Tenments.....	5-1
5.2.2 Geology	5-1
5.2.3 Exploration.....	5-1
5.2.4 Resource Quantities and Quality	5-2
5.3 Mining Method	5-3
5.4 Product Coal Quality.....	5-3
5.5 Off Site Structure	5-3
5.5.1 Rail	5-3
5.5.2 Port.....	5-3
5.6 Valuation.....	5-4
5.6.1 Valuation Methods.....	5-4
5.6.2 Valuation Methodology - Yamala Project	5-4

TABLE OF CONTENTS – Continued

	<u>Page</u>
Figure 5.1: Tenement Layout - Yamala.....	5-5
6.0 ASHFORD PROJECT	6-1
6.1 Introduction.....	6-1
6.2 Geology	6-1
6.2.1 Tenements.....	6-1
6.2.2 Geology.....	6-1
6.2.3 Resource Quantities and Quality.....	6-2
6.3 Mining and Mine Plans	6-2
6.4 Product Coal Quality.....	6-2
6.5 Off Site Infrastructure	6-2
6.6 Valuation.....	6-2
Figure 6.1: Tenement Layout - Ashford.....	6-3
APPENDIX A.....	A-1

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1.0 GENERAL STATEMENT

1.1 Introduction

This report presents the findings of John T Boyd Company's [BOYD's] Independent Technical Assessment of the project plans of the coal assets of Northern Energy Corporation Limited [Northern Energy] in relation to a takeover offer received by Northern Energy from Arkdale Pty Ltd, a wholly owned subsidiary of New Hope Corporation Limited [New Hope].

Northern Energy has interests in the following coal projects located in Queensland and New South Wales, Australia:

- Maryborough coking coal project (EPC 923, EPC 1082, MLA 50273, and MLA 50274) located 10 km south east of the town of Maryborough, Queensland.
- Elimatta thermal coal project (EPC 650, EPC 1171, EPC 1205, MLA 50254, MLA 50270, and MLA 50271) located 30 km west of the township of Wandoan, Queensland.
- Yamala PCI/thermal coal project (EPC 927, EPC 1169, and MDLA 434) located 6 km west of the township of Comet, Queensland.
- Ashford coking coal project (EL 6234 and EL 6428) located 50 km north of the town of Inverell, New South Wales.

1.2 Purpose of Report

This Technical Assessment Report was prepared by BOYD for inclusion in the Independent Expert Report prepared by Lonergan Edwards & Associates Limited [Independent Expert] to be issued by Northern Energy in accordance with the relevant requirements of the Corporations Act 2001 (Cth) and Regulatory Guides 111 and 112 issued by the Australian Securities and Investments Commission [ASIC] in relation to the preparation of expert reports and valuations. The "Commissioning Entity" is Northern Energy.

BOYD undertook an independent review of the coal resources, projected production profiles, infrastructure, and mine economics used as inputs in the valuation of the assets of Northern Energy prepared by the Independent Expert, and provided opinion on the reasonableness of those estimates and projections. Our assessment is completed within the context of the takeover offer and the need to provide an opinion on development potential based on available information.

1.3 Scope of Work

BOYD undertook an independent technical review of the various Northern Energy coal projects and evaluated the reasonableness of information relating to:

- A. Geology including: faulting, intrusions; seam characteristics; raw and washed coal quality; washability characteristics including product types, yield, specification; groundwater; geotechnical
- B. Resource and Reserve Estimates including: compliance with the JORC Code; criteria defining resource limits; application of modifying factors - loss, dilution, etc; mineability; potential for additional extraction areas
- C. Mine Plans including: proposed mining methods and equipment; proposed mining schedule; ramp up schedule; production rates; infrastructure requirements; variation in coal quality; capacity of equipment and facilities; production constraints
- D. Environment and Tenure including: status of mining and exploration licences; primary environmental issues; mine reclamation plans; closure planning; cultural heritage; water management; environmental approvals; development timetable; status of approvals process, duration and obligations; noise and dust management
- E. Operating Costs and Capital Expenditure including: equipment productivity assumptions; operating (cash) costs; capital expenditure including annual sustaining and replacement schedules; expenditure for mine closure; benchmarking against similar operations
- F. Logistics including: coal chain logistics and capacity - rail and port; capacity; construction timeline; tariffs; status of port development and related issues
- G. Project Risks including: geologic, geotechnical, production, environment, approvals
- H. Provided a valuation¹ of identified resources within exploration tenements where these were not considered in the financial model / mine plan used to derive the discounted cash flow valuation.

Activities undertaken during the course of this assignment included:

- Meetings and presentations by Northern Energy management in order for BOYD to better understand project activities.
- Discussions with representatives of Surat Basin Rail JV, and Wiggins Island Coal Export Terminal Pty Limited.

¹ Determined on the basis of what reasonable value could be anticipated by Northern Energy assuming an arm's length transaction between two willing parties over a reasonable time period.

Assessment of the valuation model is not within BOYD's scope of review and is the responsibility of the Independent Expert. Inputs to the valuation model reflect the current development plan for each project. BOYD reviewed the reasonableness of the development plan for each project and the specific inputs used in the model for each project, including production levels, capital and operating expenditure, and product quality.

1.4 Limitations and Exclusions

The technical assessment was based on information provided by Northern Energy. We accepted source data as provided and have not performed any independent verification. The findings and opinions presented herein are prepared exclusively for Northern Energy and their advisors and are not warranted in any manner, express or implied.

BOYD's assessment specifically excluded all aspects of legal, commercial and financial, valuation, marketing, coal price, exchange rate, tenure/title agreements, rail and port contracts, excepting aspects that may directly influence the BOYD specified scope of work.

1.5 Materiality

BOYD assessed the specified areas under our assigned scope of work for reasonableness within the context of industry standards, and the assumptions included or implied in the valuation model. Significant issues or variations that we identified which could result in greater than 10-percent impact to the valuation were considered "material" and the relevant advice communicated to the Independent Expert.

1.6 Capability and Independence

This report was prepared by BOYD Specialists whose qualifications and experience comply with the requirements of the VALMIN Code² in relation to Specialists, and are set out in Appendix A following this report.

BOYD is a privately owned consultancy. Our head office is in the United States of America, and we have a branch office in Brisbane, Australia. Within the mining and financial services industries, BOYD is a recognised expert in exploration, resource/reserve studies, and mine planning and assessment.

² Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The VALMIN Code), prepared by The VALMIN Committee, 2005 Edition.

BOYD, including its directors, employees and sub consultants, is independent of Northern Energy and BOYD does not have an economic interest in Northern Energy. This report presents our independent assessment and opinions. Payment for our services was not contingent on the findings or conclusions of this report.

1.7 Mining Risk

Northern Energy is in the process of developing a portfolio of coal mining projects which will utilise both open cut and underground mining methods.

There are inherent risks in all coal mining operations, including geological, operational, and market. The mining environment is exposed to a variety of hazards where both the probability of occurrence and consequence of an event are not predictable with a high degree of confidence.

The ability of Northern Energy to foresee and manage the risks and to achieve operational, quality and financial targets is dependent on numerous factors that are beyond the control of, and cannot be fully anticipated by BOYD. These factors include: mining and geologic conditions, the capability of management and employees, variation in domestic and international market conditions, the level of continued maintenance and investment in the operations, legislature and governance changes, etc. Unforeseen changes in domestic and international legislation, community standards, new industry developments and international economic conditions could substantially alter the projected performance of Northern Energy.

Following this text is Figure 1.1, General Location Map.

Respectfully submitted,

JOHN T. BOYD COMPANY

By:



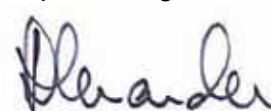
Deddi Handiko
Senior Geologist



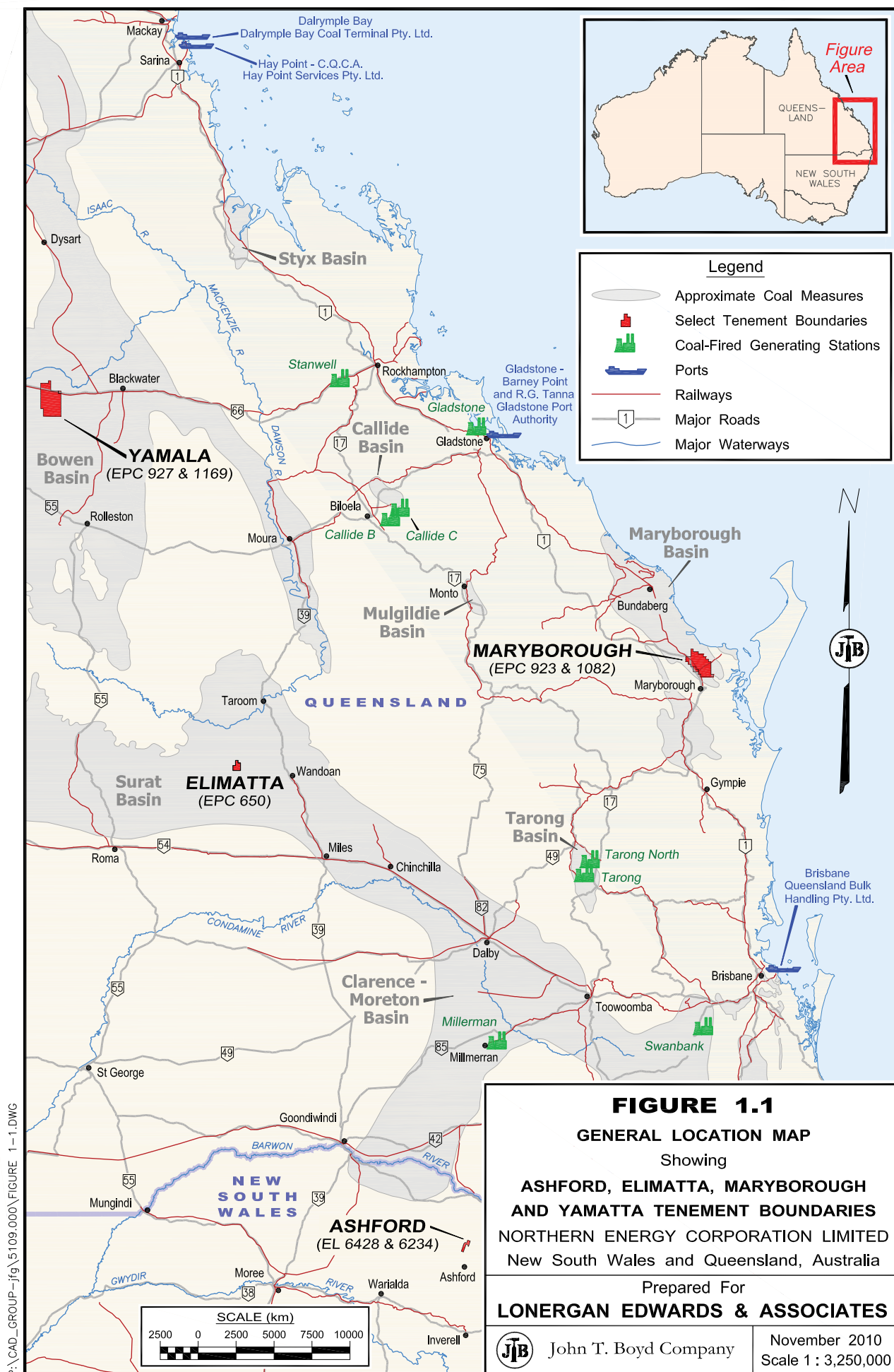
Garry McSpadden
Principal Mining Engineer



Denis Grace
Principal Mining Associate



Ian L. Alexander
Managing Director - Australia



P:\CAD_GROUP-jfg\5109.000\FIGURE 1-1.DWG

2.0 EXECUTIVE SUMMARY

Northern Energy has interests in the following four coal projects located in Queensland and New South Wales, Australia:

- Maryborough Coking Coal Project
- Elimatta Thermal Coal Project
- Yamala PCI/Thermal Coal Project
- Ashford Coking Coal Project

Primary findings of our independent technical assessment are:

- The available resources are judged reasonable and adequate to support the future plans contained in the valuation model.
- Mine plans as presented were generally credible, and considered reasonable.
- Capital and operating costs were generally found to be reasonable. Where warranted adjustments were made and recommended to the Independent Expert.
- Each project faces risks to further development however all risks are considered to be manageable.
- Mining lease approval delays may occur and could result in negative impacts on the Maryborough project.
- Use of JORC classified reserves only in the valuation of Maryborough significantly understates the likely mineable resource. Based on the requirement to make an immediate assessment due to the takeover offer, BOYD recommended that the project be valued using the margin ranking study coal tonnages that includes coal within the inferred resource area.
 - There is a high probability of additional coal being found in the Maryborough Exploration Target¹ areas both up dip and down dip of the Inferred Resource area offsetting the risk of loss of resource when the Inferred Resource area is explored further.
 - We included potential coal reserves identified in the margin ranking study that falls within the Inferred Resource polygons for the eastern limb of the syncline and the Inferred Resource inside the Colton Mine scheduled mining blocks in the valuation model inputs. This non JORC compliant scheduled mining volume² (99 Mt ROM, 46 Mt product) is sufficient to warrant an expansion to 2 Mtpa when WICET Stage 2 is developed.

¹ The potential quantity and quality is conceptual in nature and there has been insufficient work done at present to define a Mineral Resource under the JORC (2004) Code. It is uncertain if further exploration will result in the determination of a Mineral Resource.

² The potential quality and yield is conceptual in nature and there has been insufficient work done at present to define a Mineral Reserve under the JORC (2004) Code. It is uncertain if further exploration will result in the determination of a Mineral Reserve.

- Infrastructure constraints limit the ability to extract full value from the Elimatta and Yamala projects

BOYD developed valuations for Elimatta and Yamala using the comparable sales method which relied on information from recent transactions:

- Our valuation for Elimatta is based on a range of \$0.72 to \$0.96 per resource tonne resulting in a value range of \$176M - \$234M.
- Our valuation for Yamala is based on a range of \$0.25 to \$0.45 per resource tonne resulting in a value range of \$55M - \$99M.

3.0 MARYBOROUGH PROJECT

3.1 Introduction

Northern Energy has undertaken an exploration program on the Maryborough coking coal project study area which is located near the towns of Maryborough and Hervey Bay some three hours north of Brisbane. The exploitation program has enabled completion of a JORC compliant Resource Statement for the Maryborough deposit. In addition, conceptual mine planning and cost modelling studies have been completed for the Colton Mine Area at the western edge of the tenement which enabled the completion of a maiden JORC compliant Reserve Statement. Due to the small scale of the initial mining project (0.5 Mtpa) an Environmental Impact Statement (EIS) is not required. A Mining Lease Application (MLA) and an Environmental Management Plan (EMP) have been submitted for approval. The approval process is currently on hold awaiting Northern Energy's response to Department of Environment and Resource Management (DERM) requests for further information to support the EMP.

The initial development of the project is entirely dependent on receiving necessary approvals for the EMP and MLA. Rail facilities via the North Coast Railway Line to Barney Point Coal Terminal at Gladstone will be operational six months after approval of the MLA. The Barney Point Coal Terminal capacity of 0.5 Mtpa will be replaced with an equivalent tonnage through the Wiggins Island Coal Export Terminal (WICET) Stage 1. Northern Energy has elected to include an expansion to the Maryborough project in WICET Stage 2 with a further allocation of 2.5 Mtpa. This will result in expansion of the project to 3 Mtpa coming on-line no earlier than Quarter 4 2014. There is a possibility that slippage to this timeline may occur. An EIS will be required for this expansion and will be supported by the successful operation of the initial small scale mine.

3.2 Geology

3.2.1 Tenement

The resource area is contained within EPC 923 and EPC 1082 and is located near the town of Maryborough in Southeast Queensland, approximately 255 km north of Brisbane. Figure 3.1 following this chapter provides a layout of the Maryborough tenements.

The tenements are easily accessible by road with the Bruce Highway to the west, Maryborough Hervey Bay Highway to the southeast, and Torbanlea Pialba Road to the north. The North Coast Railway line, operated by Queensland Rail, is immediately to the west of EPCs.

Coal mining in the Burrum coalfield commenced in 1863 and various underground mines operated through to the late 1990's. Several historic mines operated in the coal seams being targeted for open cut mining by Northern Energy's Maryborough Project.

3.2.2 Structure

The predominant structural feature defining the coalfield is the Burrum Syncline, a NW – SE trending syncline occurring symmetrically in the EPC. Dip of the strata in the limbs of the syncline ranges from 10° to 30° toward the axis of the syncline. Figure 3.2 following this chapter shows the regional structure of the Maryborough Basin.

The coal deposit was uplifted which exposed the coal bearing strata along the limbs of the syncline within the EPCs. Easy access to the coal seams led to them being extensively mined in the 19th and 20th centuries and are now being explored by Northern Energy.

Normal and reverse faults running parallel to the synclinal axis are identified on the western limb of the syncline. These faults have an average displacement of 30 m to 40 m.

Three sets of 2-D seismic images and interpretations were provided to Northern Energy from a regional structural investigation by another party. This data are reasonably consistent with Northern Energy's interpretation in the shallower horizon of the eastern and western limbs. Significant discrepancy of structural interpretation is anticipated in the vicinity of the synclinal axis due to the lack of bore holes at the centre of syncline. The impact of any discrepancy on the potential resource is considered minimal as Northern Energy is targeting the shallower limbs of the syncline that are already reasonably explored by available drill holes.

3.2.3 Exploration holes

The drill holes used in the geological model of the Maryborough deposit are a combination of historical holes drilled by various parties and recent exploration holes that have been drilled by Northern Energy. The holes targeting various coal seams are located at shallow depths along the eastern and western limbs of the Burrum Syncline. None of the existing drill holes were drilled in the deeper areas close to the synclinal axis.

The reliability of historical drill hole data relating to lithology and coal quality was checked prior to use in the geological model. Northern Energy undertook the following tasks to confirm the reliability of the historical holes:

- Borehole coordinates were validated by survey.

- Data conversion, validation, and seam re-correlation.
- A number of boreholes were drilled in 2009 by Northern Energy to confirm the reliability of data.

Some of the historical holes are excluded from the Northern Energy geological model and are subject to further ongoing validation work.

The Maryborough exploration holes are summarised in the following table.

Hole Type	Number of Holes	Average Depth (m)
Historical (Core and Non-Core Hole)	416	184
Northern Energy		
Core Hole	23	81
Core Large Diameter	5	77
Combination of Core and Non-Core Hole	154	97
Grand Total	598	

3.2.4 Coal Seams

Numerous coal seams and plies of varying thickness have been identified from the exploration holes. The seam/ply data are predominantly located along the strike of the syncline and limited to the shallower cover areas.

The thickness of individual plies varies from less than 0.1 m to 2.5 m. Plies were determined as upper, middle, and lower for each of the main seams. The main seams and associated plies are illustrated in Figure 3.3, following this chapter.

The individual plies commonly consist of interbedded thin coal and non-coal parting (i.e., carbonaceous mudstone, claystone, or siltstone). Random checks of lithology logs indicate that the mixture of lithotype within the coal horizon may complicate the delineation of individual plies. In some cases, the determination of plies within the main seam appears to be inconsistent. This may increase the complexity in the ply/seam correlation.

The total thickness of seams in the main resource area ranges from less than 0.25 m to 3 m with thickness gradually decreasing toward the fold axis. Likewise, the dip of the seam tends to flatten toward the fold axis. Lack of ply/seam information in the deeper portion of the synclinal basin reduces the accuracy of seam structure and thickness extrapolations in the geological model.

3.3 Resources and Reserves

3.3.1 Resources

A JORC compliant resource report was developed for the Maryborough Project (EPC 923 and EPC 1082) by Salva Resources in April 2010 and updated in July 2010. A total resource of 83 Mt was estimated to a maximum overburden depth of 150 m. The total resource tonnage is classified as 9.8 Mt of Indicated Resource and 73.2 Mt of Inferred Resource. The coal quality is estimated to be low ash (less than 8% adb), CSN 8.4, with an average yield of 62.4% at CF1.40.¹

This resource estimate included data from Northern Energy's 2009 exploration program, earlier Northern Energy exploration, and validated historic drill hole data. The structure model for Maryborough includes 370 drill holes, including 136 Northern Energy drill holes and 234 historic holes. A total of 351 historic holes are documented in geological reports between 1910 and 1952. The coal quality model developed uses 5 large diameter (200 mm) holes and 19 medium diameter (100 mm) holes drilled in 2009 only. Historic holes have been excluded from the quality model due to uncertainty regarding the sampling and analysis methods used. Northern Energy drilling prior to 2009 has been excluded also due to inconsistent sizing analysis.

Data points used to define structure included cored holes with and without geophysical logging, and non-cored holes with geophysical logging. Data points used for quality were defined as cored seam intersections with geophysical logging. The categorisation of data points is summarised below.

Type of Holes	Information	Resource Category
<u>Historical holes</u>		
• Core hole and non-core hole - validated	Structure	Inferred
<u>Northern Energy holes</u>		
• Core hole with coal quality analysis and geophysical logs	Structure & Coal Quality	Indicated
• Core hole with geophysical logs but without coal quality analysis	Structure	Inferred
• Non-core hole with geophysical log	Structure	Inferred

¹ The information in this report that relates to Mineral Resources at Maryborough is based on information compiled by Mr Lyon Barrett, who is a Member of the Australian Institute of Mining and Metallurgy. Mr Barrett is a qualified geologist (B.Sc. (Hons) Adelaide University, 1996) and is an employee of Salva Resources.

Mr Barrett has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Barrett consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Structural continuity was defined as follows:

Inferred – Points of Observation less than 600 m apart and extrapolated no more than 150 m beyond the last line of Points of Observation.

Indicated – Points of Observation less than 300 m apart and extrapolated no more than 150 m beyond the last line of Points of Observation.

Continuity of coal quality was defined as:

Indicated – Points of Observation less than 400 m apart and extrapolated no more than 200 m beyond the last line of Points of Observation.

This relatively close spacing was selected considering the lenticular and faulted nature of the coal seams and resulting difficulty in correlating seams between holes.

A maximum mining or overburden depth cut off of 150 m and a minimum seam thickness of 0.1 m were used in the resource estimation.

The following table summarises the reported resource for the Maryborough Project:

Seam	Tonnage (Mt)	Indicated			Inferred
		Quality at CF1.40			Tonnage (Mt)
		Ash % adb	CSN	Yield %	
Churchill	-	-	-	-	10
Globe	-	-	-	-	18
Ellangowan	0.6	7.48	8.43	77.14	12.9
E1	-	-	-	-	0.3
E2	-	-	-	-	1
E3	-	-	-	-	0.5
Jubilee	0.9	6.86	8.46	70.29	10.3
A1	1.8	7.46	8.42	65.34	2.8
A2	3.6	8.27	8.25	55.66	5.8
A3	3	7.27	8.33	62	5.4
B	-	-	-	-	6.2

Note: No quality was estimated in the Inferred Resource.

The resource area is restricted to a narrow band of coal occurring along the subcrop which is consistent with the planned open cut mining plan. The continuity of the coal seam is supported by the 2D seismic interpretation, and historical mining along the limbs of the syncline within the EPC.

An increase in resources (Measured, Indicated, and Inferred) should be expected from the following exploration activities:

- Completion of deeper drilling to target the lower seams (A1, A2, and A3 Seam) particularly in the east side of the EPC.
- Infill non-core hole drilling within the defined resource area to satisfy the resource requirement.
- Additional coal quality holes to confirm the coal quality of the upper seams and lower seams within the defined resource area.
- Inclusion of validated historical holes for the purpose of structural interpretation.

To provide a more complete geologic model of the resources, BOYD recommends Northern Energy consider further 2-D seismic survey work and incorporating deeper down dip drilling into further exploration. These steps will assist in the extrapolation of data and confirm the seam continuity.

3.3.2 Reserves

A reserve estimate for the Colton Mine Area was developed by Runge in July 2010 using a subset of the geological model developed for the coal resource estimate. To support the reserve estimation program, Runge also developed a conceptual mine plan, an operating cost estimate, and revenue projections. The Colton Mine area was subdivided into 100 m by 100 m blocks with a 45° angle assumed for the low wall and highwall. As the extent of the pit along strike was unknown all blocks have vertical endwalls.

The following key parameters were used in the Runge reserve estimate:

Parameter	Units	Value
In Situ Coal Moisture	%	6
In Situ Parting/Dilution Moisture	%	6
In Situ Parting/Dilution Density	t/m ³	2.04
Minimum Working Section Thickness	mm	100
Minimum Separable Parting Thickness	mm	300
Coal Loss per Working Section	mm	0
Dilution Gained per Working Section	mm	100
ROM Coal Moisture	%	10
Default Coal Quality		
Yield	%	63
Product Ash	% adb	7.9
Product CSN		8.5
Default Parting/Dilution Quality		
Yield	%	6
Product Ash	% adb	8.5
Product CSN		8.7
Plant Efficiency	%	96
Product Coal Moisture	%	12

The mining blocks within the proposed Colton Mine pit were margin ranked using economic parameters provided to Runge by Northern Energy. All coal that was identified to be cash positive within the margin ranking exercise were assigned as mineable resource.

This process estimated that the Colton Mine Area contained a mineable resource of 26.8 Mt of ROM coal at an average strip ratio of 7.2 bcm of waste per ROM t. Applying a yield of 40% resulted in 10.7 Mt of marketable coal at an average of 7.7% ash (adb) and an average CSN of 8.4. This includes 5.9 Mt of probable marketable reserves at 7.6% moisture (adb) and a CSN of 8.4, 4.3 Mt of product in the inferred resource category and the balance of 0.5 Mt in areas of no resource category.² Subsequent to the mineable resource/reserve analysis, Runge completed a margin ranking study on the geological model for the entire Maryborough project focusing on the areas not included in the Colton Mine Area, specifically the eastern limb of the syncline. This margin ranking study used the same economic parameters as the reserving study for Colton Mine Area. Coal quality was estimated by using the historic drill hole data to calculate seam group average quality for the coal component of each named seam group. For the non coal component (including partings and dilution), the default qualities from the Colton Mine Area analysis were applied.

This margin ranking study identified 100 Mt of potential ROM coal at a ROM strip ratio of 9:1 on the eastern limb. This results in 47 Mt of product coal. Of the 47 Mt, 36 Mt are analogous with the Inferred resource.³ Increasing the revenue assumption by \$50/t increased the potential mineable resource to 177 Mt ROM at a strip ratio of < 15:1.

² The estimates of Coal Reserves for the Colton Mine Area as presented in this report have been prepared in accordance with the Guidelines of the "Australasian Code for the Reporting of Mineral Resources and Ore Reserves", prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Minerals Council of Australia, December 2004.

The information in the report to which this statement is attached, that relates to the Colton Mine Reserves, is based on information reviewed by Mr Fred Parker, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Parker is a full time employee of Runge Ltd.

Mr Parker has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for the Reporting of Mineral Resources and Ore Reserves".

Mr Parker consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

³ The potential quality and yield is conceptual in nature and there has been insufficient work done at present to define a Mineral Reserve under the JORC (2004) Code. It is uncertain if further exploration will result in the determination of a Mineral Reserve.

3.4 Mining and Mine Plan

3.4.1 Mine Scheduling and Layout

The initial mine plan for the Maryborough deposit will produce 500,000 tpa using a small excavator and truck fleet supplemented by scrapers. The scrapers will remove and stockpile topsoil and the upper 10 m of weathered overburden. A 250-tonne class excavator will be used for overburden removal and coal will be mined using predominantly a 120-tonne class excavator. This equipment selection is appropriate for the small scale operation recovering multiple seams at a moderate dip of 10° to 15°. As the mine is scaled up from 0.5 Mtpa of product to up to 3 Mtpa potential may exist to use larger, more cost effective equipment for overburden stripping. Cat 785C/D 136 tonne trucks have been selected to be compatible with all loading machines including the Cat 988F front end loaders selected for the CHPP and train loading activities.

The following equipment productivities have been used to determine fleet sizes and to estimate operating and capital costs.

Equipment	Application	Productivity
Hitachi EX2500 Excavator	Overburden	925 bcm/hr
Hitachi EX1200 Excavator	Overburden	400 bcm/hr
	Coal	525 t/hr
CAT 657D Scraper	Topsoil and weathered overburden	180 bcm/hr
Cat 988F Front End Loader	CHPP feed	300 t/hr
	Train loading	400 t/hr

These productivities are consistent with industry standards for this equipment.

Rosters are based on seven day a week, 12 hour shift operations. At 0.5 Mtpa the CHPP will only need two crews to be rostered. The initial mine plan contemplates continuous operations for four days then shut for four days to eliminate start up and shut down delays. This concept may need to be revised to ensure CHPP personnel are available to load trains and are aligned with the railing schedule.

Limited room surface area is available within the MLA for siting out of pit dumps and water management structures as the lease application was based on a 0.2 Mtpa mine. At 0.5 Mtpa, potentially increasing to 1.0 Mtpa, from the Colton Mine Area, and the possible increase in maximum depth to 150 m (and possibly beyond), additional mining lease area is required within four years of the start of mining. The impact of a delay to the additional mining lease approval is potential additional costs to rehandle spoil back into mined out pits and deviation from the preferred mining sequence. Spoil dumps are planned at 1:5 slopes to fit the spoil on the existing lease application area. These slopes are unlikely to be sustainable as part of final landforms after mining is completed. Water management infrastructure will require relocation once additional mining lease area is approved.

A conservative approach has been assumed for the mining of the coal. We have assumed interburden less than 300 mm will be mined with the coal, seams down to 100 mm will be mined and 100mm of dilution is added to each working section. These parameters have been selected as the soft coal and moderate dip will increase the difficulty of efficiently removing small partings from between seam plies. There is potential that the coal may be extracted with less parting material as operating experience is gained. This would reduce ROM tonnes mined and increase product yield with a flow on reduction in overall production costs apparent.

3.4.2 Infrastructure

Infrastructure has been selected to minimise capital cost and match the small scale mine envisaged. Administrative activities will use the infrastructure and resources available in the nearby town of Maryborough with only direct operating activities located on site. The following infrastructure is proposed.

- Road access to site – intersection with Bruce Highway, upgrade forestry access track, access road to MIA, potential upgrade of Churchill Mines Road.
- Rail infrastructure – rail spur and balloon loop, at grade level crossing on North Coast Rail Line, connection to North Coast line including signalling.
- Port Access – initial access to Barney Point , then 0.5 Mtpa allocation from WICET stage one and a further 2.5 Mtpa from WICET stage two/three.
- Power supply – connection to adjacent 66kV power line, site electricity distribution. Initial indications showed that connection to the power network may take 38 months and an allowance was made for the increased cost of temporary power generation. More recently Ergon has indicated that the power connection can be completed within the next 18 months, meaning that temporary generation will not be required.
- Water Management Structures – water containment dams and structures and pumping systems to supply water to the CHPP.
- Mine Water Discharge Infrastructure – pumping and piping infrastructure to release excess water to the Mary River.
- Mine Industrial Area – hardstands, site office, workshop, laydown areas, vehicle washdown.
- Expansion to 2 Mtpa – an allowance is provided for site roads, bunds, additional workshop space and other infrastructure required to increase production levels from 0.5 to 2.0 Mtpa.

All infrastructure design and planning is at a conceptual level. Specialist engineering consultants have been engaged to develop designs and costs for specific items of infrastructure such as road access and rail connections. The areas of water management and discharge and power supply and distribution have the greatest

level of uncertainty since further site specific study is required to accurately define future requirements. Figure 3.4 following this chapter shows the infrastructure layout.

As the production increases to 2 Mtpa, overburden stripping will increase to 35 Mbcm per year requiring 8 mining fleets for the combined waste and coal mining activities. The “small mine” infrastructure may be insufficient for this scale of activity but any increase in infrastructure requirement is likely to be offset by economies of scale and reduced unit operating costs for larger mining equipment. The assumption of duplication of the existing equipment and infrastructure is considered appropriate for this concept level assessment.

3.5 Coal Quality, Coal Preparation

Available washability data confirm that the coal resource at Maryborough can be processed to produce a coking coal product having less than 10% ash and a CSN of about 8.4. Estimated washing yields (product coal recovery from ROM) vary due to:

- Complexities and errors in developing working sections from numerous seams and plies.
- Application of CF1.40 yields or simulated 9% ash yields.
- Use of coal component washabilities from 100mm diameter cores or working section samples from 200mm cores.

As addition samples are collected, the correlation between these data sets will improve as well as seam correlation in the geological models.

BOYD has determined that the most appropriate yields to use in the valuation models are 45.2% for Colton Mine area and 47% for the eastern limb area. These yields are based on a 12% moisture product and 10% moisture feed basis. These yields are derived from the LIMN model simulated CHPP yield for Colton Mine area and the margin ranking study yield for the eastern limb.

3.5.1 Historical Core Holes

Although excluded from the current coal quality modelling, the coal quality data from the historical core holes is scattered across the east and west portions of the EPC.

Coal samples were collected from targeted seams in and adjacent to actual or potential underground mine locations for coal quality analysis. In general, the core holes intersected the upper seams (Churchill, Globe, Portland, Ellangowan, EE and Jubile Seams) in almost all sites within the EPC. Samples for the A1, A2, and A3 seams are mainly in the east and southwest areas; with a few data points available in the west.

Samples from these holes were analysed for proximate analysis only. A comparison to the recent coal quality of Northern Energy suggests that A2 Seam and Ellangowan Seam show higher ash (adb) and lower fixed carbon content (adb). The discrepancy was not clarified but it may result from non-coal dilution during core sampling.

The following table summarizes the indicative raw coal quality per seam on a weighted average basis from the historical core holes.

Seam	Air-dry basis						SG
	%					SE	
	IM	VM	FC	Ash	TS	MJ/kg	
Churchill	2.2	30.6	56.4	10.8	0.5	30.1	1.3
Portland	2.6	27.3	50.0	15.0	0.7	26.6	1.3
Globe	2.1	29.8	57.3	10.8	0.9	30.7	1.4
Ellangowan	2.0	28.6	58.1	9.8	0.5	30.6	1.3
Jubilee	1.9	27.0	56.7	10.9	0.8	29.7	1.3
A1	2.0	28.1	55.3	12.3	0.8	29.2	1.3
A2	2.0	26.6	55.8	14.2	0.8	35.4	1.3

Note:

IM = Inherent Moisture

VM = Volatile Matter

FC = Fixed Carbon

TS = Total Sulphur

SG = Specific Gravity

While analytical testing methods may have changed since the historic holes were drilled, the swelling index for Globe, Ellangowan and Jubilee seams varied from 8 - 9 confirming that coal on the eastern limb of the syncline is of similar coking coal quality to the indicated resource at Colton.

3.5.2 Northern Energy Core Holes

Northern Energy completed coal quality modelling using samples from 100 mm core holes. These holes are predominantly located along the western limb of syncline and concentrated in the Colton area. Only three core holes were drilled in the east. All samples were analysed for proximate and general analysis, ultimate analysis, and basic washability analysis at CF1.40.

Northern Energy undertook detailed analysis of full laboratory pre-treatment, sizing, float/sink, and flotation testing of samples from five 200 mm large diameter (LD) core holes drilled in the Colton Mine area.

Results of the clean coal composite from the LD cores shows ash < 10% and CSN of 8 for seam A1, A2, and A3. Reflectance (Romax) was not analysed, however the vitrinite content is greater than 70% for the three seams.

Yield is considered low with an average value of 53.1% for the A1, A2, and A3 seams. A3 Seam has the lowest yield of 43.9% while A1 and A2 seams have yields of 56% to 57%. The yield analysed from LD cores is lower than that analysed from 100 mm cores. Yield is affected by the inclusion of numerous non-coal / stone bands within the plies in the working section and by the size fraction of the sample (i.e., crushing to finer sizes may enhance coal recovery). Coal samples were not analysed for coking and caking properties.

Coal quality from the 100 mm core holes is summarised in the following table on a weighted average basis.

Seam	Raw						
	Air-dried Basis						
	%				SE	RD	CSN
	Ash	IM	TS	VM	MJ/kg		
Ellangowan	15.63	1.85	1.81	27.69	29.34	1.41	6.6
Jubilee	17.84	1.88	0.87	28.74	28.4	1.43	7.2
A1	20.04	1.84	1.38	27.9	27.25	1.44	7.2
A2	26.41	2	1.27	25.14	25.01	1.51	6.3
A3	21.97	1.77	1.08	25.97	26.78	1.45	6.6

Seam	CF1.4		
	%		CSN
	Ash	Yield	
Ellangowan	7.48	77.02	8.4
Jubilee	6.95	70.43	8.5
A1	7.46	65.32	8.4
A2	8.48	57.38	8.5
A3	7.27	62	8.3

Note:

IM = Inherent Moisture

VM = Volatile Matter

FC = Fixed Carbon

TS = Total Sulphur

RD = Relative Density

RDIS = Density Insitu

SE = Specific Energy

CSN = Crucible Swelling Number

3.5.3 Washability and CHPP Design

Washability data from the five LD cores from the A1, A2 and A3 seams in the Colton Mine area form the basis of CHPP simulation and design work to date. Seam samples initially prepared for this work did not conform to the expectations of mine planning engineers and the samples were recombined to better represent the expected working sections. Dilution material was supposed to be excluded from the working sections but some material from outside the seam working sections was included in some samples. The results of this test work was an average 56.6% yield

at 9% ash from clean coal composite samples. A weighted average yield of 44.4% yield was determined assuming the same moisture content for feed and product for LIMNs simulation including dilution and loss. Assuming 10% moisture in feed and 12 % moisture in product this becomes 45.2% yield.

CHPP design is based on the use of a standard dense media cyclone circuit for processing the coarse fraction (- 50 mm + 1 mm) and a spiral circuit for the fines fraction (- 1 mm + 0.125 mm). The high non coal content of the - 0.125 mm fraction precludes the use of flotation cells to recover ultra-fine coal from this fraction. Belt filter presses will be used to dewater the fine tailings for disposal in the mine spoil. The quantity of non coal material in the CHPP feed will present issues with materials handling, separation efficiency and waste disposal. None of these issues are unique to Maryborough but must all be addressed in the CHPP design.

3.6 Environment

3.6.1 Environmental Aspects

Land under or adjacent to the project site is owned by the State of Queensland or Queensland Rail. Land access is not expected to be an issue.

The mine is close to the township of Aldershot (2.5 km). Due to the proximity of the local community, it is anticipated that during operation the site will receive a number of complaints. The issue is not expected to be material, however during the initial phases of the project, substantial resources will need to be available to manage the community expectations and deliver on the key mitigations and outcomes committed to in the EMP.

There is an active community group [Aldershot and District Against Mining (AADAM)] that has formed in opposition to the project and is actively seeking to stop its development. Key issues for AADAM relate to:

- Dust (air quality).
- Noise.
- Impacts on biodiversity.
- Perceived health risks.
- Water ways through the site lead to (and discharge into) internationally recognised wetlands (estuaries).

Failure to adequately consult and address the concerns of all stakeholders may result in some difficulties (or at least delays) in obtaining necessary approvals. While there is vocal objection, there are also a number of people who support the project.

Groundwater resources appear to be present at reasonably shallow depths. The quality of the groundwater is marginal for domestic or agricultural use. The water is considered acidic to slightly acidic (pH 5.5 – 7.1) and has an EC that ranges between 7,000 uS/cm – 21,000 uS/cm. There are no known users of the groundwater in the areas surrounding the project site.

The mine is expected to be a net generator of water with a significant contribution from ground water inflow into the mining pits. Groundwater inflow into the pit is estimated to be 0.8 ML/day in the second year of mining increasing to 1.2 ML/day at year 4. Dewatering of the coal measures ahead of mining is proposed. Inflow water will be managed in a series of dams with a proposed discharge of approximately 920 ML/year into the Mary River. Water stored in the pit may result in the water becoming acidic requiring significant additional pre-treatment (lime dosing) before it can be discharged from the site.

The EMP indicates that compliance with the appropriate noise criteria will be difficult at three (3) locations. One in particular (EMP – site L2) may result in the need for acquisition or an agreement with the landholder. If not purchased it could present a material issue through the need to apply significant noise attenuation (if not already considered) or it could be a source of ongoing and continued community complaint (which may result in a compliance issue).

The air quality assessment report prepared as part of the EMP concludes that generally air quality will be complaint at all receptor location with the exception of L2. This may result in the need for acquisition or an agreement with the landholder which is under negotiation.

Blasting and vibration are not expected to present a significant issue, although there may be the requirement to ensure suitable blast designs when blasting occurs at the point closest to the township of Aldershot. The EMP indicates that criteria of 115 dBA should be able to be achieved at all adjacent dwellings.

A number of ecological surveys have been carried out across the site over a number of seasons and have found no known flora or fauna species of conservation significance. A recent ASX announcement dated 11 October 2010 indicates that the development of the Colton Mine Resource is not a controlled activity as defined by the Environmental Protection and Biodiversity Conservation Act (1999) (EPBC Act).

The water balance information presented in the EMP suggests that the site will be a net exporter of water (approx 950 ML/year but not greater than 2,000 ML/year). The nominated management solution to the surplus of water is to construct an overland pipeline to the Mary River, approximately 8 km. This may require additional State and

Federal approvals beyond those currently included in the EMP. If this is required, additional impact assessment would be required and there could be a delay in receiving the approval.

If approval was not able to be obtained for discharge to the Mary River, additional treatment (reverse osmosis) may be required potentially adding significant additional capital and operating costs above those already allocated. The management of water on the site is considered to be a major operational issue. The management of water is considered to be a critical issue to any possible future expansions of the project. The current proposal for disposal of coal waste is to place coarse rejects in the backfill. Coal fines will be filtered, dried in separate drying cells and then also placed into the backfill for disposal. This process will require appropriate management (particularly during the wetter periods of the year) to ensure there are not issues with water discharge.

The soils at the site have been identified as being sodic to strongly sodic and as such present a significant challenge to rehabilitation, particularly where rehabilitation is required on slopes greater than 10°. It is anticipated that significant attention will need to be given to an appropriate topsoil stripping process to ensure only materials are stripped for rehabilitation. Rehabilitation trials will be required to determine the most appropriate rehabilitation method for the site. It is noted that rehabilitation of current exploration drilling sites has been successful to date.

The materials associated with the coal seam, including the immediate roof and floor, have the potential to be acid forming. This presents a significant risk of acid mine drainage (AMD) at the site. If not managed appropriately, it may present a significant rehabilitation liability both during and beyond the life of the mine.

It is stated that the planned water dam will be considered a regulated dam that will require additional monitoring and management in accordance with DERM requirements.

Based on the EMP and the information in the data room, visual impact from the project is not considered an issue.

3.6.2 Mine Closure

The current EMP has made rehabilitation commitments that will require the site to be returned to a vegetation and habitat condition that is similar to the pre-existing conditions, where appropriate. This is a significant commitment given that the post mining landscape is going to be different, including raised spoil piles, water ponds and final voids. It would be preferable to have commitments around biodiversity, stability and minimisation of offsite environmental impacts, rather than a commitment to return the post-mining site to the pre-mining situation. Discussions with DERM in

relation to the EMP including a revision of the final land form commitments are continuing.

The current EMP nominated leaving the final void to fill with groundwater and become a permanent water body. The EMP indicates that the final void will be 80 ha in area. There is no assessment in the current EMP that outlines the possible future water level or any consideration of the post mining water quality. This is particularly relevant as it is proposed that this water will be used by wildlife or for potential commercial uses.

A closure liability cost for the site could not be calculated from the information provided; however, based on the past experience, it is likely that the liability will be in the order of \$15 - \$25M. This estimate could be grossly understated if AMD issues become apparent at the site and require ongoing management beyond closure of the operation.

3.6.3 Cultural Heritage

There is a current Native Title Claim over the proposed site which is within the Butchulla Land and Sea Native Title Claim. The current assessment is that the area of Unallocated State Land within the project area is unextinguished land and therefore subject to Native Title. The details of any negotiations or outcomes from the negotiations were not available for review due to their confidentiality, but it is understood that Native Title and Cultural Heritage agreements are in progress and will not delay project commencement..

3.6.4 Approvals Process

The current submission date is the 13 September 2010 for environmental approval of the small scale mining operation. This approval does not require an EIS. DERM has “stopped the clock” on the assessment, and they have requested additional information from the proponent in relation to water management, specifically water release to the Mary River, and also regarding acid generating spoil. Northern Energy intends to supply the required information in February 2011 and is currently forecasting Mining Lease approval in December 2011.

Once approval is obtained for the 0.5Mtpa mine it is essential that all environmental commitments are complied with or exceeded to demonstrate an ability to manage the site in an environmentally acceptable manner. Failure to achieve this may result in significant challenges in obtaining additional approvals to increase production to 2 to 3 Mtpa. The process for the mine expansion approval is planned to commence immediately the initial mine is approved. This approval will trigger the requirement for an EIS. Base line studies are already being undertaken to generate several seasons of base line data. The expansion approval is required within 3 to 4 years of mine start up to maintain adequate space for spoil dumps and water storage facilities.

3.7 Off Site Infrastructure

3.7.1 Rail

Below Rail

BOYD received briefings relating to rail from Northern Energy and viewed copies of signed agreements. Rail access will be via the North Coast Railway joining the QR National Moura system near Gladstone. Rail access will be available within six months of the MLA being approved.

Initial allocations are for 0.5 Mtpa but discussions indicate that 3 Mtpa or more can be easily accommodated on the existing rail system. Coal train routes are required to be planned around the regular passenger services using the line.

In addition, Northern Energy will construct a short spur line and balloon loop at Maryborough.

Above Rail

Above rail contracts will be entered into with one of the current providers of services in the next few months. This schedule will be approximately 1.5 years before it is required.

3.7.2 Port

Northern Energy has entered into an agreement process with Gladstone Ports Authority for access to 0.5 Mtpa via Barney Point Coal Terminal. Separately, Northern Energy has a 0.5 Mtpa allocation for WICET Stage 1 and anticipates that financial close for WICET Stage 1 will occur in Qtr 2 2011 with a further 3 years required for construction. When WICET Stage 1 is complete Barney Point is scheduled to shut down. The allocation for WICET Stage 1 will be used by the Maryborough Project.

Northern Energy intends to obtain an allocation of 7.5 Mtpa in WICET Stage 2 including 2.5 Mtpa for the Maryborough Project. Stage 2 is scheduled to be completed in Qtr 4 2011 – six months following completion of Stage 1. Northern Energy will need to underwrite the feasibility study for this stage, provide appropriate bank guarantees when required, and enter into a firm capacity commitment at the end of 2011.

The allocation of 7.5 Mtpa in WICET Stage 2 will supplement the 0.5 Mtpa in WICET Stage 1, enabling 3 Mtpa to be allocated to Maryborough Project.

3.8 Project Risks

Significant project risks identified by BOYD are:

Risk	Issue
Water Discharge to Mary River	Project start up delayed while EMP conditions for water discharge are finalised or addition capital and operating cost to purify water prior to discharge.
Project Approvals	Project start up delayed due to delays in obtaining Project approvals. EMP conditions for noise, dust, working at night or other parameters reduces productivity and increases costs.
Coal Processing	Processing of high clay content coal proves more difficult than expected resulting in reduced productivity, yield and increased costs.
Working Section Mining Strategy / Loss and Dilution Assumptions	Plant yields and operating cost estimates not met due to difficulties in meeting loss and dilution assumptions and identifying mining sections.
WICET Stage 2 access	Project expansion delayed due to delays in the start up date of access to the port facilities.
Exploration of Eastern Limb	Further exploration of eastern limb does not confirm the expected coal reserves, yield or quality.
Expansion of project not approved.	Inability to comply with conditions of initial EMP results in EIS for project expansion not being approved.
Capital cost of mine expansion.	Expansion requires mine to have infrastructure typical of a large mine. This would be partially offset by reduced operating costs from economies of scale.

3.9 Valuation Model

BOYD reviewed the assumptions and inputs to the financial model developed by Northern Energy which forms the basis of the valuation by the Independent Expert. The model utilised the following parameters for each project:

- Annual production.
- Mining cost per ROM tonne.
- Washing cost per CHPP feed tonne.
- FOB cost per sales tonne.
- Annual capital expenditure.

BOYD reviewed the project production schedule and estimates of operating costs and capital expenditures used as inputs to the model. Where necessary, adjustments to these inputs were made to reflect changes to probable mining conditions, production requirements, cost impact, and capital requirements.

Under normal circumstances, our mine plan projections would be limited to Measured and Indicated Resources (Proven and Probable Reserves) underlying the tenements. However, limiting our mining plan (and associated DCF/NPV analysis) to the initial mining lease area would substantially understate the inherent potential value of the Maryborough Project based on the following information.

- The Inferred Resource area has the same level of structural data as the Indicated Resource area but coal quality is presently at a lower assurance level since historic quality data has been excluded from the geological model (subject to ongoing review and verification).
- Historic coal quality data provides evidence that the coal in the Inferred Resource area has quality parameters similar to the Indicated Resource area.
- There is a high probability of additional coal being found in the Exploration Target areas both up dip and down dip of the Inferred Resource area offsetting the risk of loss of resource when the Inferred Resource area is explored further.

Accordingly, we have included potential coal reserves identified in the margin ranking study that falls within the Inferred Resource polygons for the eastern limb of the syncline and the Inferred Resource inside the Colton Mine scheduled mining blocks in the valuation model inputs. This coal resource (99 Mt ROM, 46 Mt product) is sufficient to warrant an expansion to 2 Mtpa when WICET Stage 2 is developed.

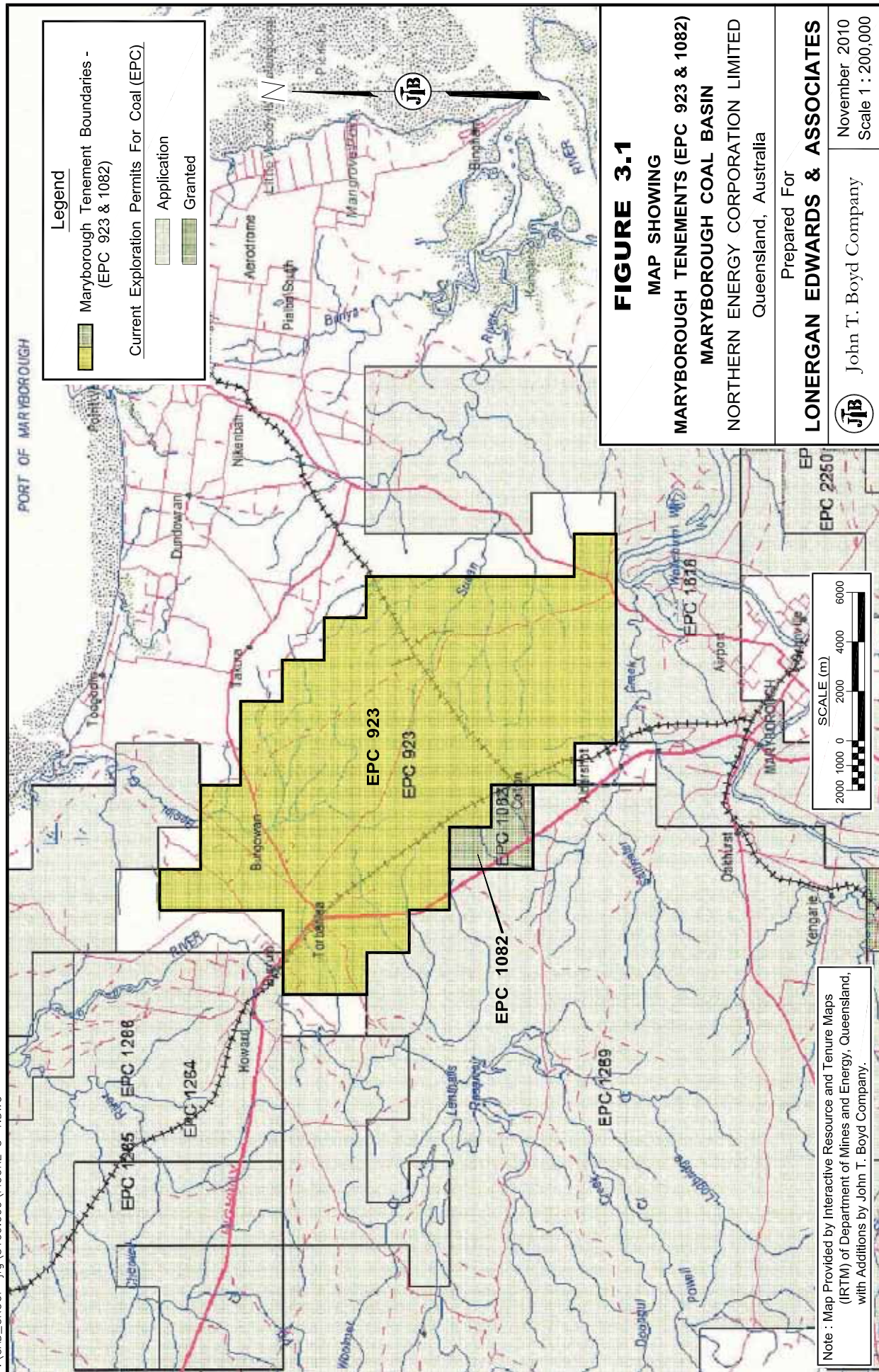
While we recognize that our approach of extending mining projections into Inferred Resource areas means the mining projection is not based solely on JORC compliant coal reserves, the objective of representing a pragmatic value of the future potential of the Maryborough Project warrants our approach. We believe Northern Energy should receive an equitable value for the Maryborough Project since Northern Energy may be denied the opportunity to logically develop this unique mining opportunity as a result of the takeover action.

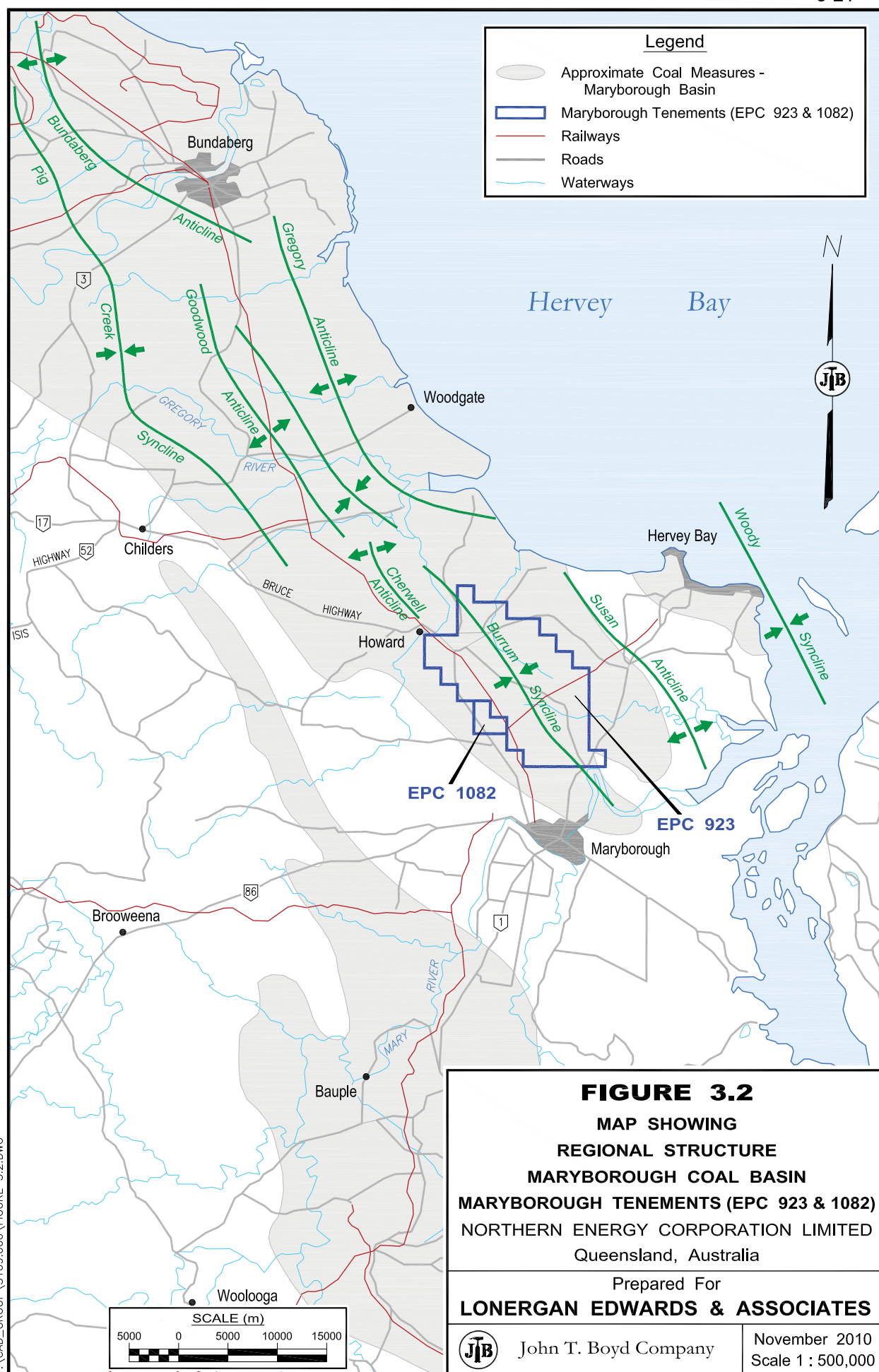
Following this text are:

Figures

- 3.1: Tenement Layout - Maryborough
- 3.2: Regional Structure of Maryborough Basin
- 3.3: Stratigraphic Column - Maryborough
- 3.4: Infrastructure Layout

P:\CAD_GROUP-jfg\5109.000\FIGURE 3-1.DWG





P:\CAD_GROUP\5109,000\FIGURE 3.2.DWG

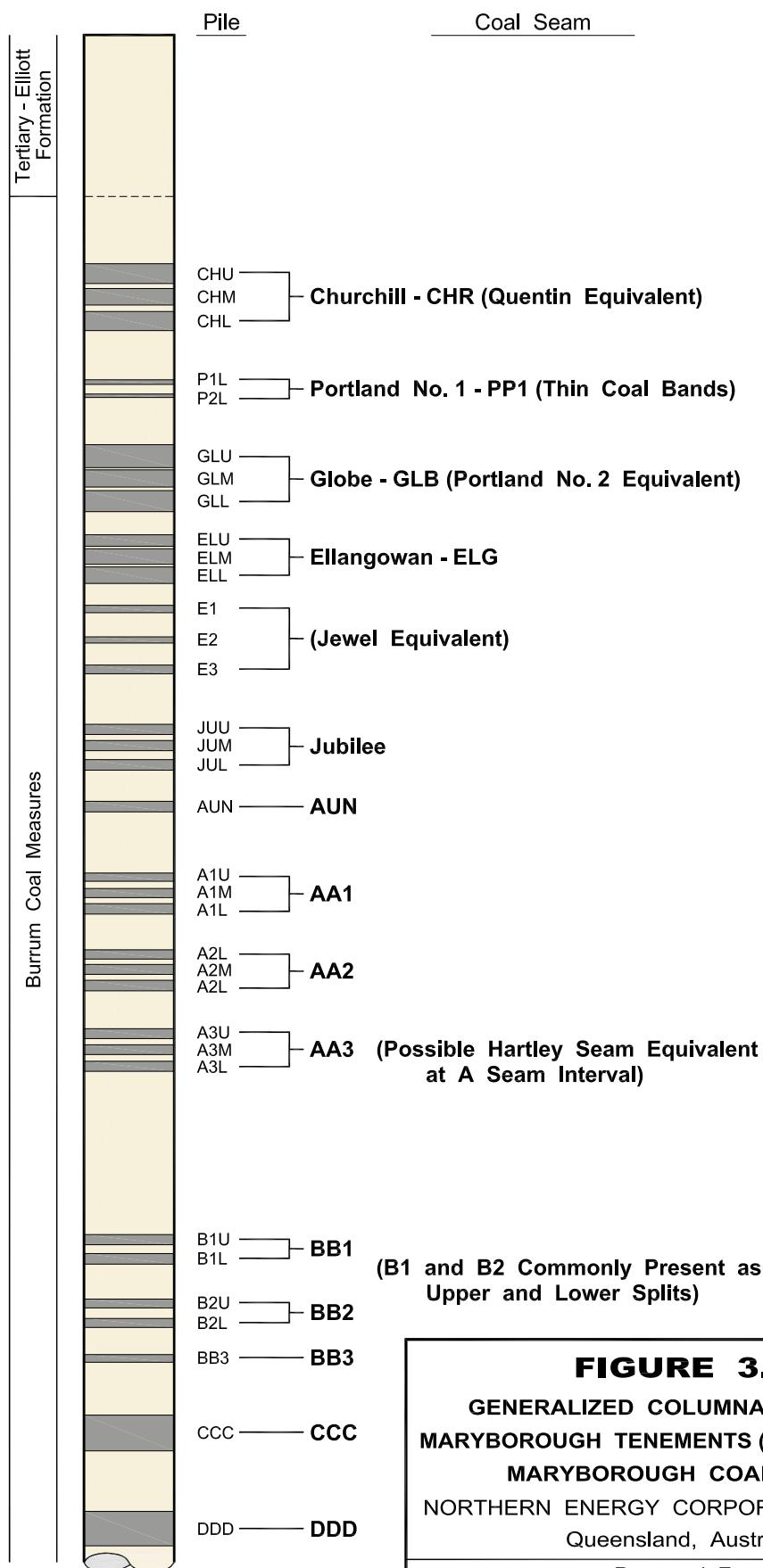


FIGURE 3.3

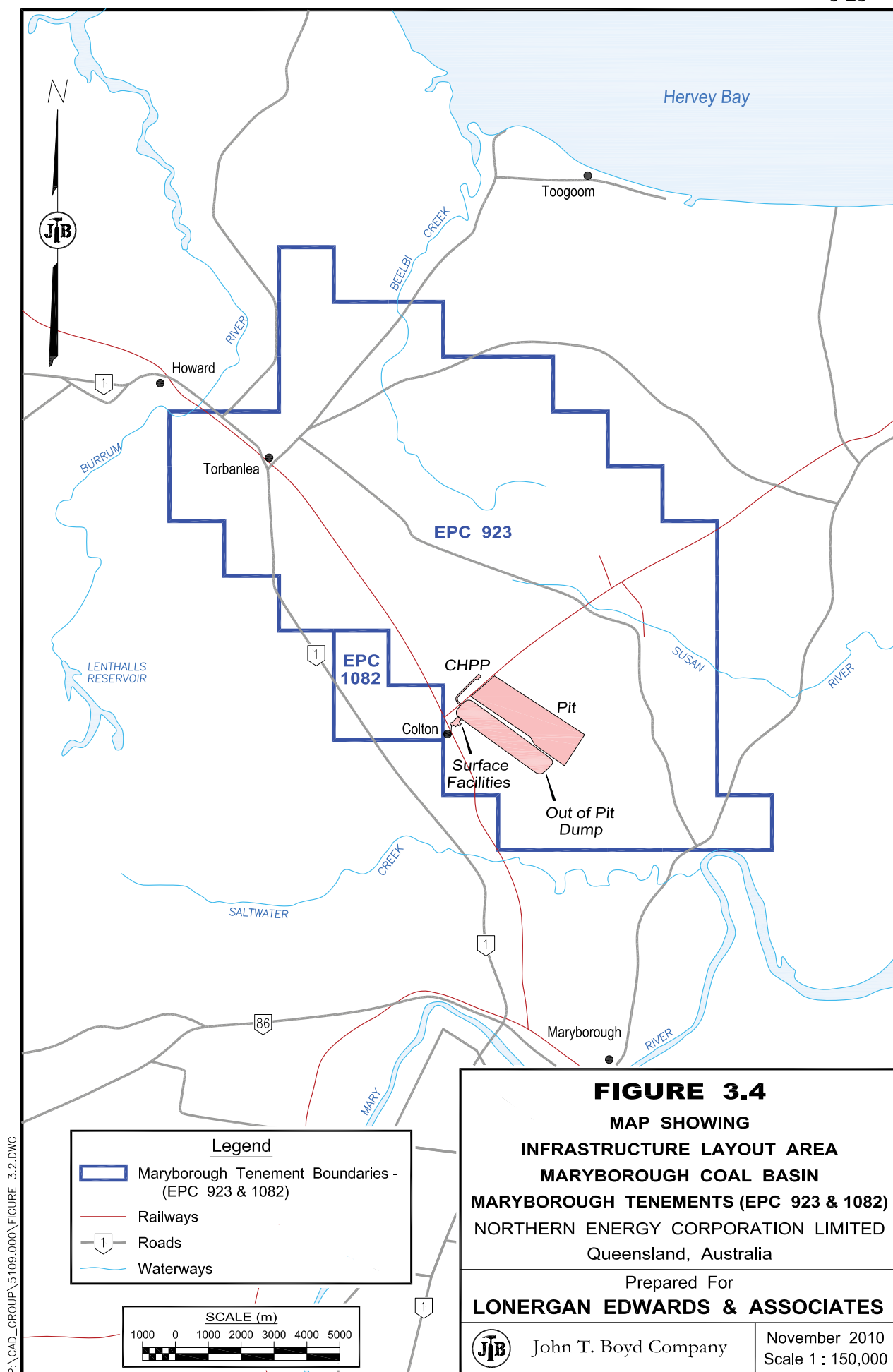
GENERALIZED COLUMNAR SECTION
MARYBOROUGH TENEMENTS (EPC 923 & 1082)
MARYBOROUGH COAL BASIN
 NORTHERN ENERGY CORPORATION LIMITED
 Queensland, Australia

Prepared For
LONERGAN EDWARDS & ASSOCIATES



John T. Boyd Company

November 2010
 No Scale



P:\CAD_GROUP\5109,000\FIGURE 3.2.DWG

4.0 ELIMATTA PROJECT

4.1 Introduction

Northern Energy has undertaken an extensive exploration program on the Elimatta thermal coal project located in the Surat Basin. This has enabled completion of a JORC compliant Resource Statement. In addition, detailed mine planning and cost modelling studies have enabled the completion of a JORC compliant Reserve Statement. An Environmental Impact Statement (EIS) is currently being prepared, and a Mining Lease Application (MLA) has been submitted for approval.

Further development of the project is entirely dependent on the provision of rail facilities via the Surat Basin Rail (SBR) link, and port infrastructure via the Wiggins Island Coal Export Terminal (WICET). Northern Energy has elected to include the Elimatta Project in WICET Stage 2 with an allocation of 5 Mtpa. This will result in the project coming on-line no earlier than Quarter 4 2014.

4.2 Geology

4.2.1 Tenements

The Elimatta coal resource is located on Exploration Permit - Coal (EPC) 650 which lies approximately 35 km west of the town of Wandoan, Queensland. The EPC was granted in March 1998 and will expire in March 2013. The tenements are held by Taroom Coal Pty Limited which is a wholly owned subsidiary of Northern Energy Corporation.

Mining lease applications (MLAs) have been submitted and are awaiting approval by the Queensland Department of Mines and Energy. Figure 4.1 following this chapter shows a plan of the tenement areas. The industrial area and coal processing facilities will be located on MLA 50270 which lies the north of MLA 50254. MLA 50271 is a transport corridor approximately 3 kilometres long which connects MLAs 50270 and 50254. Elimatta is entirely surrounded by Mining Lease Applications by Xstrata Coal Queensland Pty Ltd.

4.2.2 Geology

Elimatta is located in the Surat Basin within the Juandah Coal Measures. The major structural element is the Mimosa Syncline, a north–south trending syncline whose axis passes 22 km west of Wandoan, which was formed following the subsidence of the Taroom Trough. The Mimosa Syncline is a relatively simple structure with its western and eastern limbs dipping gently south-south-east and south-south-west respectively.

The deposit is located relatively near the axis fold of the Syncline and the structural setting has resulted in coal seams being found at depths conducive to open cut mining. Seams generally dip between 2° to 5° and seam occurrence is relatively consistent across the deposit. Figure 4.2 following this chapter shows the regional structure of the Surat Basin.

The seams consist of several plies of coal bands, and can be considered as seam groups with seam splitting commonly observed. The roof and floor typically consist of shaly / carbonaceous mudstone bands.

Targeted seams in descending order are UG, Y, A and B. The C and LG seams below B Seam are not currently planned to be mined due to economic considerations. Figure 4.3 following this chapter provides a stratigraphic column of the deposit.

In the south of the deposit there are a series of north-east to south-west faults which have throws of up to 9 m. A geotechnical assessment undertaken indicates that the orientation of the faults in relation to the mining blocks almost coincide in certain areas and may therefore require special stabilisation techniques to be adopted when reached.

4.2.3 Resource Quantities and Quality

Northern Energy estimated JORC compliant resources in September 2008 following the completion of exploration drilling. The tables below show the quantities and qualities as estimated by Northern Energy:¹

Seam	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
UG	11	20	5	36
Y	15	15	5	35
A	55	20	5	80
B	48	20	10	78
C	0	0	20	20
Sub Total	129	75	45	249
Grand Total (rounded)	129	75	40	244

¹ The information in this report that relates to Mineral Resources at Elimatta is based on information compiled by Mr Andrew McLaughlin, who is a Member of the Australian Institute of Mining and Metallurgy. Mr McLaughlin is a qualified geologist (B.Sc. (Hons) University of Newcastle, 1994) and is a former employee of Northern Energy Corporation.

Mr. McLaughlin has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr McLaughlin consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Average quality of each coal seam is summarised below:

Seam	Quantity (Mt)	Based on 8% ad moisture			
		Raw		Washed Product	
		Ash (%)	SE (MJ/kg)	Ash (%)	SE (MJ/kg)
UG	36	26.89	19.59	9.21	26.5
Y	35	25.08	21.43	8.01	27.35
A	80	22.8	22.1	9.21	27.02
B	78	17.9	23.97	8.6	27.27
C	20	25.92	21.31	9.39	27.26
Total (unrounded)	249	22.43	22.17	8.86	27.09

Resource estimates include C Seam; however, this seam is not planned to be mined. Approximately 70% of the resources are in A and B seams which are the primary focus for mining, and the remaining 30% in the upper UG and Y seams which are a lesser but no less important contributor.

Total sulphur for the washed product is low at an average of 0.4%. Ash fusion temperatures show spherical deformation temperature greater than 1,340° C, which is considered suitable for thermal coal generation. The specific energy is estimated to be around 27 MJ/kg, which is typical for coal from the area.

The following resource criteria were used and applied to core holes containing quality information:

- Measured resources were estimated using an interpolation radius of 250 m; and extrapolation radius of 250 m for quality and 125 m for structure.
- Indicated resources were estimated using an interpolation radius of 500 m; and extrapolation radius of 500 m for quality and 250 m for structure.
- Inferred resources were estimated using an interpolation and extrapolation distance of 1,000 m.
- Limiting boundaries were the EPC boundary, subcrop and split lines, and an incremental overburden ratio of 10:1 for Seam C only.
- Non-coal material within a seam was not included.

Interpolation and extrapolation distances used between points of observation (seam data points) for each resource category are considered appropriate for this type of structural setting and deposit.

In the far southern portion of the lease, the A and B seams split and boreholes were not drilled deep enough to intersect the B Seam. There is potential for minor increases in resources as further exploration is undertaken in this area.

4.3 Mining and Mine Plans

4.3.1 Mining Method

Open cut mining methods are planned to produce 8 Mtpa of ROM (5 Mtpa of product coal) using conventional rear dump trucks and excavators. Use of the excavator-truck mining method was selected because:

- The deposit is relatively shallow with mining depths of 30 m to 90 m to the top of the B Seam which is the lowest seam.
- Overburden thickness to the upper UG Seam is in the range of 15 m to 20 m, and approaching 45 m at the southern boundary.
- Relatively thin interburden thickness between seams:
 - 8 m average between UG and Y seams.
 - 8 m average between Y and B seams.
 - 2 m to 15 m between A and B seams.
- Low strip ratios in the first 10 years of mine life - approximately 4:1 - increasing steadily to 8:1 over the life of the mine.

The mining fleet will use large excavators and large trucks to remove the majority of overburden in the thicker intervals, with smaller excavators and front end loaders used to remove thinner waste intervals, interfaces between waste and coal, and coal mining.

Beginning Year 10 additional waste will need to be moved resulting in increased equipment requirements.

4.3.2 Mining Plans

Mining plans are based on commencing mining operations in areas of low strip ratio and progressing to areas of higher strip ratio. Horse Creek and the public road running through the deposit will be relocated to allow coal reserves to be accessed. The relocated creek will be kept within the mining lease. The road will be relocated off lease to location to be agreed with local authorities.

Out-of-pit spoil will be dumped on a sterile area located in the north-west of the deposit, as well as in an area of deeper coal towards the south west. The north-west sterile area will also be used for the Horse Creek diversion. There is limited out-of-pit land area available for the initial spoil dumps since most of the project area is underlain by economic coal reserves.

4.3.3 Reserves

An estimate of reserves undertaken by the Minserve Group in May 2009 is shown in the table below:²

Reserve Summary		Proved	Probable	Total
ROM (at 14% ROM Moisture)	Quantity (Mt)	122.9	38.3	161.2
	Ash (%)	28.84	33.05	29.84
Marketable (at 16% Product Moisture)	Quantity (Mt)	82.3	23.5	105.8
	Ash (%)	7.97	8.26	8.04

These quantities are subject to possible revision - increase as well as decrease - based on the assumed long term coal price and US\$:A\$ exchange rate.

4.4 Product Coal Quality

A coal preparation plant (CPP) operating at 1,200 tph on a continuous seven day schedule will process 8 Mtpa of raw coal to produce 5 Mtpa of product coal. An export quality thermal coal will be produced having low- to medium calorific value, high volatile rank, low total sulphur, low HGI and good ash fusion temperature.

Raw coal quality for Y, A and B seams is similar; however, UG Seam has higher ash, lower calorific value and slightly higher total sulphur. A summary of the estimated average raw coal quality by seam is shown in the table below:

Seam	Ash % (ad)	IM % (ad)	Vol % (ad)	FC % (ad)	CV kcal (ad)	TS % (ad)
UG	30.6	8.7	32.0	28.7	4,876	0.30
Y	18.8	8.6	38.0	34.7	6,076	0.35
A	20.4	8.3	37.3	34.0	5,931	0.32
B	20.3	8.8	36.7	34.2	5,917	0.30

Slagging factors are generally low for all seams and plies. Fouling indices for Y, A and B seams are high and all seams exhibit high sodium (Na₂O) in ash which indicates a possibility for propensity of fouling in a boiler.

² The information in this report that relates to Proven and Probable Reserves at Elimatta is based on a mine plan, a mine schedule and costs prepared by The Minserve Group Pty Ltd. Mr Jeff Jamieson was responsible for the report's preparation and the reserve statement therein. He is both a Fellow of the Australian Institute of Mining and Metallurgy, and a Chartered Professional (Mining) and is a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Mr Jamieson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Coarse rejects will be disposed of in the mined out pits using coal rear dump trucks returning to the pit. Fine tailings will be pumped to tailings dams to be constructed on MLA 50270.

4.5 Environment

Important environmental issues currently relating to Elimatta are:

4.5.1 Horse Creek Diversion

The proposed Horse Creek diversion will require a detailed diversion study undertaken as part of the EIS process. Creek diversions require very intensive design, construction and maintenance programs and stabilisation and remediation works can often extend well beyond the life of the mine.

4.5.2 Endangered, Vulnerable Species

The presence of Endangered Regional Ecosystem (EREs) may restrict the level of disturbance allowed on the site and/or may require significant additional investment to obtain approval to disturb. No endangered or vulnerable species as identified under the NCWR and/or the EPBC Acts were identified within the project area, however a detailed assessment will be required as part of the EIS process to identify endangered and/or vulnerable species.

4.5.3 Water Availability

Preliminary water information indicates that the site will be a net importer of water (approx 2,800 ML/year). The long term water supply to the project is based on coal seam gas extraction water and/or ground water that is most likely to require preliminary treatment (reverse osmosis, desalination) prior to use, adding extra cost to the operation. This may result in waste brine that will need to be disposed of, which is typically done by using the brine for dust suppression resulting in possible issues on closure due to salt build up. NEC is in continuing discussions with coal seam gas operators in the area regarding the supply of water, as well as the disposal of the resulting saline waste stream.

4.5.4 Strategic Cropping Land

The Queensland Government is developing policy to conserve Queensland's best cropping land, defined as strategic cropping land. This policy may result in mining activities being prohibited on strategic cropping land. While located on land that is used primarily for grazing, Elimatta is shown in the Strategic Cropping Land – Draft Trigger Map, produced by the Department of Environment and Resource Management, as being adjacent to, or within, an area of potential strategic cropping land. This developing policy could impact on mine approvals for Elimatta.

4.6 Off Site Infrastructure

4.6.1 Rail

Below Rail

BOYD received briefings relating to rail from Northern Energy and met with a representative of Surat Basin Rail (SBR) which is an unincorporated joint venture. Members of the joint venture on an equal basis are QR National, Xstrata Coal and ATEC. SBR has a mandate to construct a common user access rail corridor from Wandoan to Banana. At Banana the line will join the existing QR National Moura system through to Gladstone.

SBR will be designed for 42 Mtpa and will require at least 20 Mtpa to be committed to prior to commencement. SBR will own the rail infrastructure and charge all users an access fee. Costs for all studies will be included in the final project cost and will be included in the access fee. SBR has indicated that capacity upgrades can be undertaken by the addition of passing loops and duplication of the line.

Construction of the SBR line will be coordinated with construction of the Wiggins Island Coal Export Terminal (WICET) Stage 2 which is expected to reach financial close in Qtr 4 2011 (with a further 3 years required for construction to be completed).

Northern Energy expects to provide formal commitment to SBR when required.

In addition, Northern Energy will construct and maintain a 37 km spur line to join Elimatta with the southern end of SBR at Wandoan.

Above Rail

Above rail contracts will be entered into with one of the current providers of services. A contract will be entered into approximately 2 to 2.5 years before it is required.

4.6.2 Port

Northern Energy has entered into an agreement process with Gladstone Ports Authority for access to 0.5 Mtpa via Barney Point Coal Terminal. Separately, Northern Energy has a 0.5 Mtpa allocation for WICET Stage 1 and anticipates that financial close for WICET Stage 1 will occur in Qtr 2 2011 with a further 3 years required for construction. When WICET Stage 1 is complete Barney Point is scheduled to shut down. The allocation for WICET Stage 1 will be used by the Maryborough Project. Importantly, all Surat Basin coal projects have been excluded from WICET Stage 1.

Northern Energy intends to obtain an allocation of 7.5 Mtpa in WICET Stage 2. Stage 2 is scheduled to be committed to in Qtr 4 2011 – six months following completion of Stage 1. Northern Energy will need to underwrite the feasibility study for this stage, provide appropriate bank guarantees when required, and enter into a firm capacity deed at the end of 2011.

The allocation of 7.5 Mtpa in WICET Stage 2 will supplement the 0.5 Mtpa in WICET Stage 1, enabling 5 Mtpa to be allocated to Elimatta. This takes development of Elimatta out to end 2014 at the earliest.

4.7 Project Risks

Significant project risks identified by BOYD are:

Risk	Issue
Water Supply	Project start up delayed due to non availability of water due to changes in coal seam gas producers plans.
WICET and Surat Basin Rail access	Project start up delayed due to delays in the start up date of access to the rail and port facilities.
Project Approvals	Project start up delayed due to delays in obtaining Project approvals.
	Elimatta area is determined to be Strategic Cropping Land and mining activities are restricted.
Horse Creek Relocation	EPA approval conditions causes mine plan to alter & brings forward higher mining costs as mining commences in higher strip ratio / higher cost areas.
	Additional capital required to construct the creek relocation to meet EPA requirements
Working Section Mining Strategy / Loss and Dilution Assumptions	Plant yields and operating cost estimates not met due to difficulties in meeting loss and dilution assumptions and identifying mining sections.

4.8 Valuation

4.8.1 Valuation Methods

In valuing a coal deposit, it is common that one or more of the following approaches are used:

Income Based approach

The income based approach considers the income being generated by existing or planned mining facilities. It uses a discounted cash flow (DCF) operational analysis to estimate the net present value (NPV) of the projected cash flows. Annual costs and revenues are estimated for an assumed mine life.

Comparable Sales approach

This method of valuation involves the comparison of a subject property with similar recent transactions. Recent sales are used to avoid the application of factors and adjustments for changed market conditions. Ideally, the comparison would be of properties having similar geological characteristics and in the same general locality. This is not always the case, and the required information may not be available. However data from other sales can also be useful to provide insight into the level of market activity.

Cost Based approach

This approach considers the past expenditure made by an organization, such as the amount spent on exploration and development activities undertaken, on a tenement on the assumption that exploration will add value to property. This is not always so, and exploration can also result in property downgrades. It is common therefore to use a multiplier based on experience and judgement to the past expenditure.

Other Valuations

Consideration of other independent expert or analyst valuations of a property or similar properties may provide guidance towards development of the value of a coal property and may need to be considered.

4.8.2 Financial Model

BOYD reviewed the assumptions and inputs to the financial model developed by Northern Energy which forms the basis of the valuation by the Independent Expert. The model utilised the following parameters for each project:

- Annual production.
- Mining cost per ROM tonne.
- Washing cost per CHPP feed tonne.
- FOB cost per sales tonne.
- Annual capital expenditure.

BOYD reviewed the project's production schedule and estimates of operating costs and capital expenditures used as inputs to the model. Where necessary, adjustments to these inputs were made to reflect changes to probable mining conditions, production requirements, cost impact, and capital requirements.

4.8.3 Valuation Methodology - Elimatta

The Independent Expert concluded that due to Elimatta's development timeline the use of the Income Based method of valuation was not appropriate in this instance. Accordingly, BOYD was requested to estimate the value of the project as an exploration asset as a guide to its contribution to the overall value of Northern Energy's assets.

BOYD considers that in the absence of an Income Based approach the most appropriate valuation method to apply is the Comparable Sales approach. It was assumed that the use of one (or more) appropriate recent sales transactions could be applied to derive a value of Elimatta. We undertook the following:

- Examined a number of recent coal property transactions and decided to use the July 2010 sale of the Collingwood and Taroom tenements by Anglo American Metallurgical Coal to Cockatoo Coal. These tenements are located in the Surat Basin and are relatively close to Elimatta. The combined tenements were sold at an effective rate of \$0.48 per resource tonne.
- Reviewed the Collingwood and Taroom published Resource Statements in order to form a view of the level of knowledge of the deposits. The combined resources of 435 Mt contains 8% in the Measured category, 35% in the Indicated category, and 56% in the Inferred category as defined in the JORC Code. We concluded that the level of knowledge of the Collingwood and Taroom deposits is at a conceptual stage.
- Reviewed the Elimatta Resource Statement which shows a total resource of 244 Mt of which 53% is in the Measured category, 31% in the Indicated category, and 16% in the inferred category as defined in the JORC Code. We also reviewed the Reserve Statement which reports 161 Mt (ROM) of which 76% is in the Proved category with the remaining 24% in the Probable category.
- Concluded that the level of knowledge of Elimatta is high, approaching a Feasibility level of study.

It can be demonstrated that in progressing from a conceptual stage of knowledge of a deposit to a feasibility level of study of the same deposit, the value of resources can grow by up to three times (i.e. a multiplier of 3 can be applied). Whilst each project is different, in general, a feasibility level study has a) infrastructure approvals imminent, b) an EIS submitted and well down the approvals path, c) a Mining Lease application submitted and on the approval path, and d) imminent project approval with 1 to 2 years from project construction to production. Elimatta has undertaken a number of studies but a number of the above conditions are yet to progress and as discussed in a previous section, infrastructure is at least 4 years away.

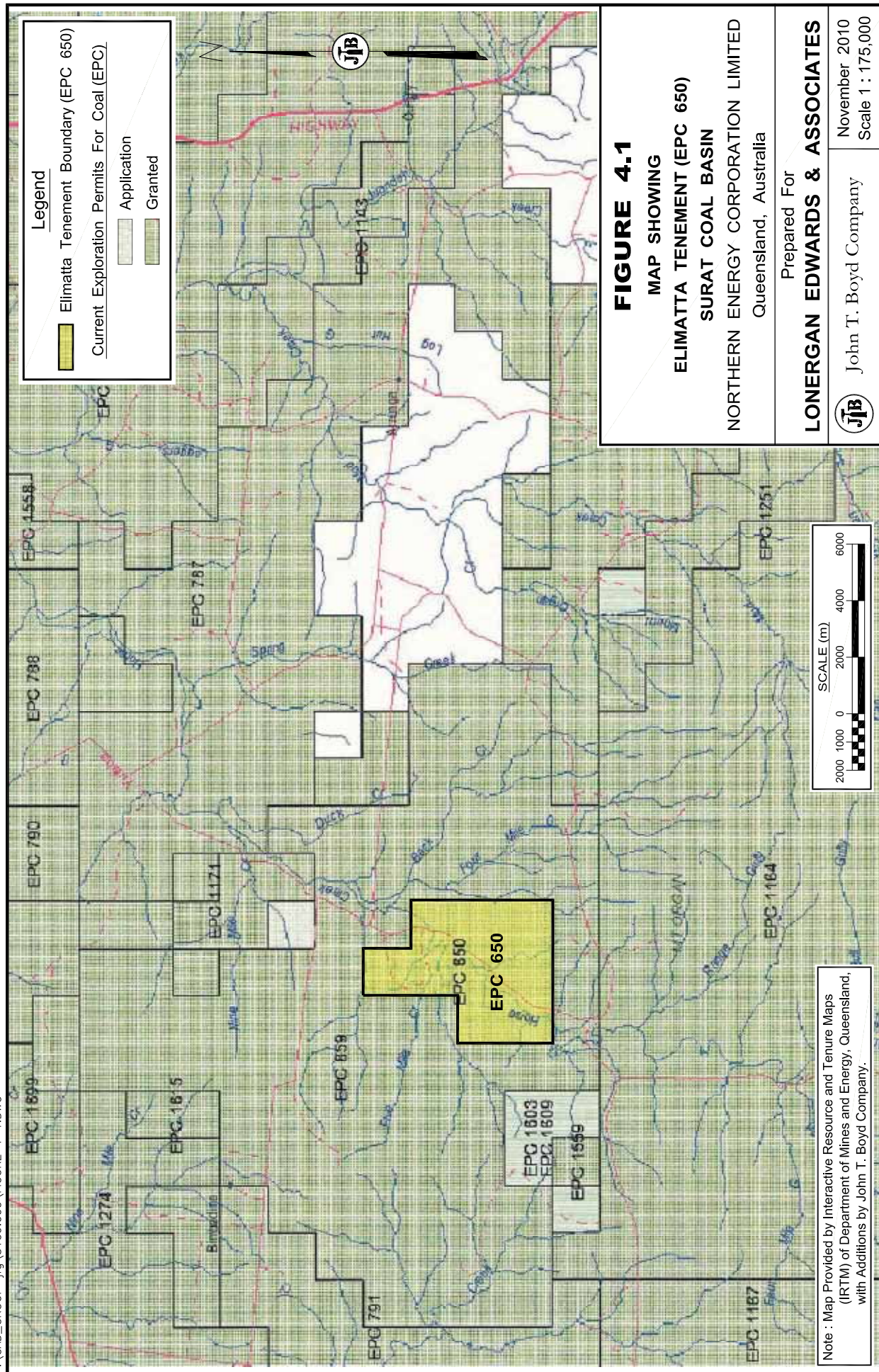
BOYD considers it appropriate that the multiplier to be applied should be less than 3. We also consider it appropriate to apply a range of multipliers to the base effective rate per resource tonne, and used 1.5 to 2. This provides a range of \$0.72 to \$0.96 per resource tonne to apply against the resources contained at Elimatta resulting in a range of value between \$176M to \$234M.

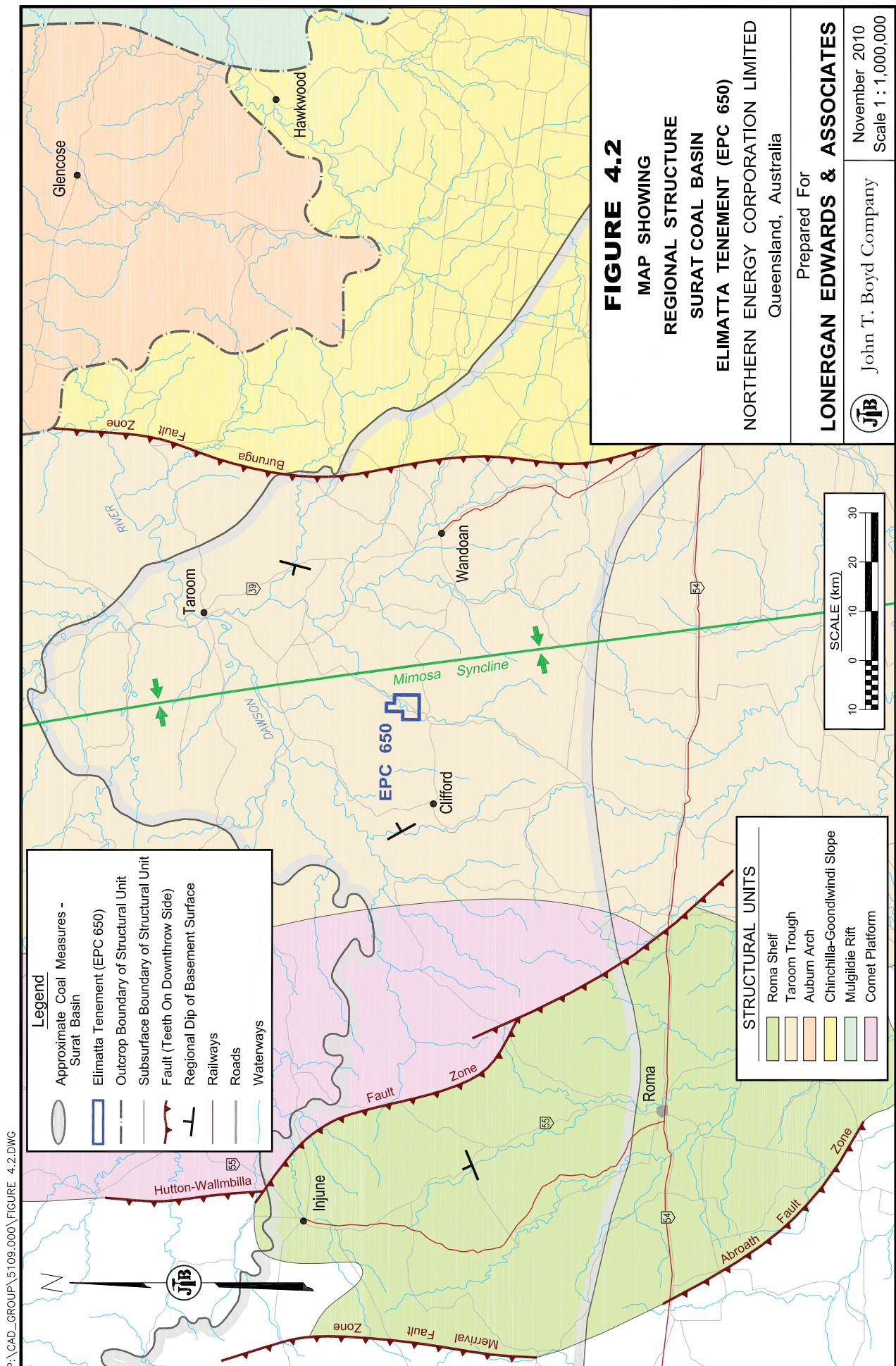
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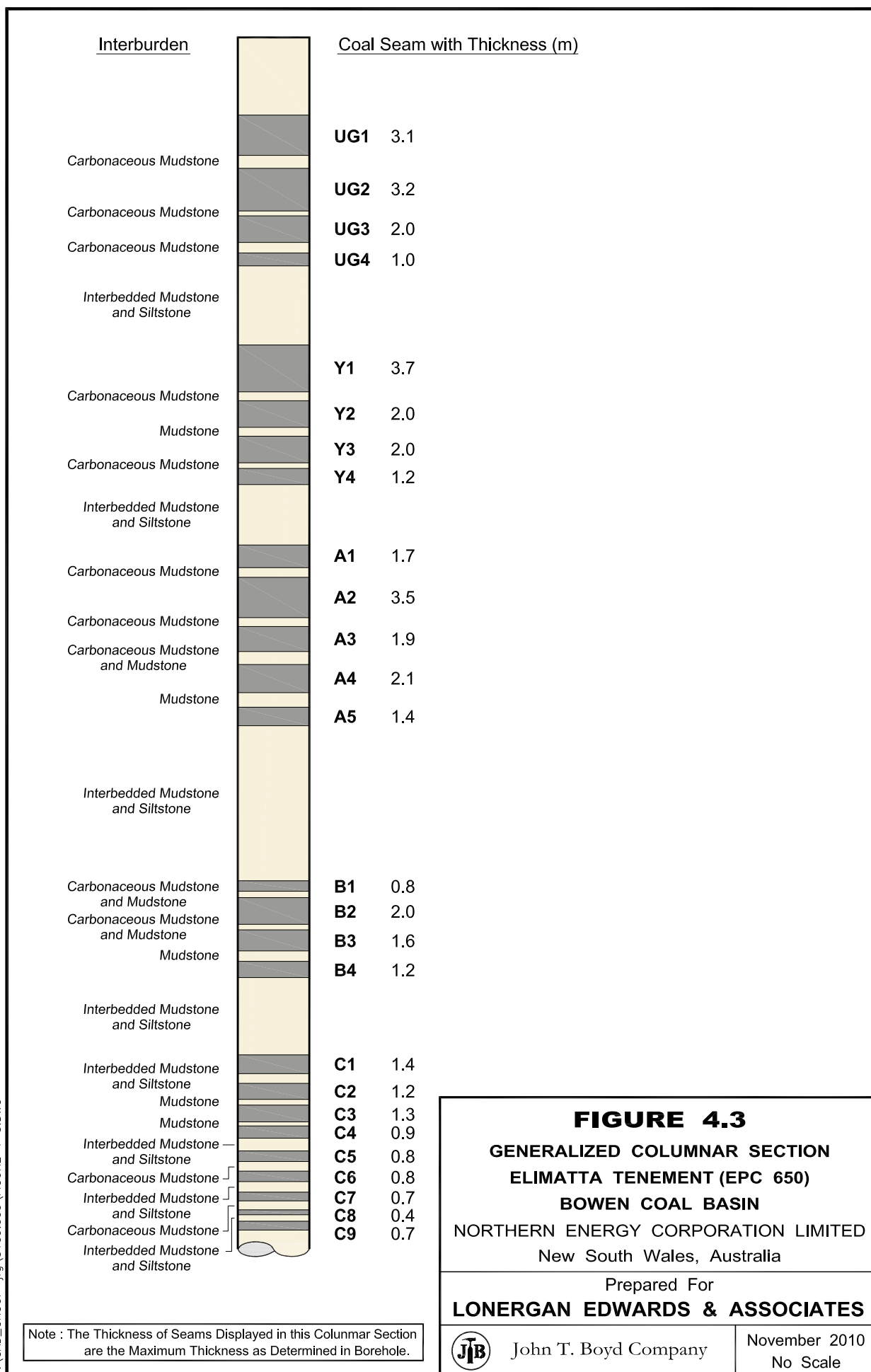
Figures

- 4.1: Tenement Layout - Elimatta
- 4.2: Regional Structure - Surat Basin
- 4.3: Stratigraphic Column

P:\CAD_GROUP-jfg\5109.000\FIGURE 4-1.DWG







P:\CAD_GROUP-jfg\5109.000\FIGURE 4-3.DWG

5.0 YAMALA PROJECT

5.1 Introduction

Northern Energy has undertaken a limited exploration program on the Yamala PCI/thermal coal project located in the Bowen Basin. A JORC compliant Resource Statement was undertaken. Conceptual level planning and cost modelling studies have been developed based on the use of continuous miners in a small bord and pillar operation producing in the order of 0.75 Mtpa product, combined with a small open cut operation producing 1 Mtpa product.

5.2 Geology

5.2.1 Tenements

The Yamala Project is located on the Capricorn Highway mid-way between the towns of Emerald and Blackwater, approximately 6 km west of the township of Comet in Central Queensland, Australia. The project consists of Exploration Permit–Coal (EPC) 927 and 1169. Both tenures are held by Taroom Coal, a subsidiary of Northern Energy (87%) and CHR Emerald, a subsidiary of Sojitz (13%). Figure 5.1 following the chapter is a layout of the Yamala tenements.

EPC 927 was granted on 28 April 2005 for a period of five years and a renewal application for a further five years was lodged on 1 February 2010. EPC 1169 was granted on 22 April 2008 for a period of three years.

5.2.2 Geology

Yamala Project study area is located in the Bowen Basin and is underlain by the Late Permian Rangal Coal Measures. Within the study area the coal measures dip to the west at approximately 5° off the flank of the Comet Ridge towards the Denison Trough. The coal seams subcrop at approximately 30 m depth.

The target coal seam is the Aries II which is typically 1.7 m to 2.0 m thick. Aries I Seam is approximately 0.3 m thick and is found above Aries II. Castor and Pollux seams are also found throughout the EPC. Orion Seam is occasionally found in conjunction with Pollux but is erratic. Only the Aries II Seam is of economic importance.

5.2.3 Exploration

A total of 136 boreholes have been drilled in two stages. A high resolution airborne magnetic and radiometric survey was undertaken in 2007 and a 2-D mini-sosie seismic survey was undertaken in 2008 with 28 km of line data shot.

These surveys identified a number of fault sets which appear to be relatively linear. The north-east trending faults are generally major structures with throws greater than the Aries II seam height. The major north-west trending faults are also significant. Secondary faults are found which appear to follow the trends of the major fault sets and have vertical displacement of 1 to 2 m. In places these secondary faults are common occurring at a frequency of two faults per 500 m of strike length.

5.2.4 Resource Quantities and Quality

Northern Energy estimated JORC compliant resources for Aries II Seam:¹

Depth (m)	Resource (Mt)		
	Indicated (Mt)	Inferred (Mt)	Total (Mt)
0 – 100	14	30	44
100 – 200	21	110	131
200 – 300	5	40	45
Total	40	180	220

Average raw coal quality is summarised below:

Assurance Category	Resource Quantity (Mt)	Quality (Air-dried basis)			
		Ash (%)	SE (MJ/kg)	VM (%)	S (%)
Indicated	40	11.9	27.1	29.0	0.59
Inferred	180	11.8	27.3	28.7	0.54

Notes

SE – Specific Energy

VM – Volatile Matter

S – Total Sulphur

The following resource criteria were used with core holes containing quality information accepted as Points of Observation (Seam Data Points):

- Indicated resources were estimated using an interpolation radius of 500 m; and extrapolation radius of 500 m.

¹ The information in this report that relates to Mineral Resources at Yamala is based on information compiled by Mr Andrew McLaughlin, who is a Member of the Australian Institute of Mining and Metallurgy. Mr McLaughlin is a qualified geologist (B.Sc. (Hons) University of Newcastle, 1994) and is a former employee of Northern Energy Corporation.

Mr. McLaughlin has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr McLaughlin consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

- Inferred resources were estimated using an interpolation and extrapolation distance of 1,000 m.
- Limiting boundaries were the EPC boundary.
- Maximum depth cut off of 300 m.
- Minimum coal thickness of Aries II of 1.5 m.
- Non-coal material within a seam was not included.

5.3 Mining Method

A concept level plan was developed. Initial mining utilises small open cut pits and is followed by underground mining using bord and pillar methods and continuous miners.

5.4 Product Coal Quality

AB Mylec completed an initial washability study and concluded that Aries II Seam can be processed in either 1) a single stage to produce a low ash (10%) export quality thermal coal with average energy of 6,058 kcal/kg (gar at 13.5% moisture) or, 2) a two stage process to produce a low ash PCI and moderate ash (15%) export thermal coal.

Aries II Seam is low in contaminants such as sulphur, phosphorus and alkalis. Coal quality appears to be consistent though the lease area.

5.5 Off Site Infrastructure

5.5.1 Rail

BOYD received briefings relating to rail from Northern Energy. No work has been undertaken to secure rail capacity for the Yamala Project.

5.5.2 Port

Northern Energy intends to obtain an allocation of 7.5 Mtpa in WICET Stage 2. Stage 2 is scheduled to be committed to in Qtr 4 2011 – six months following financial close of Stage 1. Northern Energy will need to underwrite the feasibility study for this stage, provide appropriate bank guarantees when required, and enter into a firm capacity commitment deed at the end of 2011.

The allocation of 7.5 Mtpa in WICET Stage 2 will supplement the 0.5 Mtpa in WICET Stage 1, enabling 5 Mtpa to be allocated to Elimatta Project and 3 Mtpa to be allocated to Maryborough Project.

Port allocation for Yamala Project will be in WICET Stage 3.

5.6 Valuation

5.6.1 Valuation Methods

In valuing the Yamala Project, we have used procedures similar to those used in valuation of the Elimatta Project (see Section 4.8.1).

5.6.2 Valuation Methodology – Yamala Project

BOYD estimated the value of the project as an exploration asset as a guide to its contribution to the overall value of Northern Energy's assets.

BOYD considers that given the level of understanding of the deposit the most appropriate valuation method to apply is the Comparable Sales approach. It was assumed that the use of one (or more) appropriate recent sales transactions could be applied to derive a value for Yamala. We undertook the following:

- Examined a number of recent coal property transactions and used 1) the July 2010 sale of the Bylong high quality thermal coal tenement located in the Hunter Valley by Anglo American Metallurgical Coal to KEPSCO at an effective rate of \$0.95 per resource tonne, and 2) the Feb 2010 purchase of Doyles Creek semi-soft/thermal coal deposit by Nucoal at an effective rate of \$0.43 per resource tonne.
- Yamala is a good quality PCI/thermal coal deposit with 40 Mt Indicated and 180 Mt Inferred resources as defined by the JORC Code. Faulted ground has resulted in bord and pillar methods being considered at a conceptual level of detail.

BOYD considers it appropriate to apply a 30% discount to the base unit rate (per resource tonne) for Doyles Creek to allow for the difference between semi-soft and PCI coal, and a discount of 50% to the base unit rate (per resource tonne) for Bylong to account for the difference between a proposed open cut/longwall operation and a bord and pillar operation in terms of resource recovery and value. Making these adjustments results in a range of \$0.25 to \$0.45 per resource tonne to apply against the resources at Yamala of 220 Mt resulting in a range of value between \$55M to \$99M.

Following this text is Figure 5.1, Tenement Layout - Yamala

6.0 ASHFORD PROJECT

6.1 Introduction

Northern Energy jointly owns the Ashford Coal project with Renison Consolidated Mines NL. Each company has a 50% interest. This small, relatively isolated coking coal deposit has not been the focus of Northern Energy's recent exploration and development programs. A limited amount of drilling and geological interpretation has been carried out to better understand the deposit.

Northern Energy also owns the Yetman project further to the north in the Ashford coal measures where subcrops of oil shale have been found.

6.2 Geology

6.2.1 Tenements

The Ashford Project is located approximately 10 km north of the town of Ashford in northern New South Wales. The project consists of Exploration Lease (EL) 6428 and EL 6234. The Yetman Project (EL 6946 and EL 6947) and is 100% held by Northern Energy. Figure 6.1 following this chapter shows the tenement layout.

6.2.2 Geology

Regionally the Ashford coal measures are expressed as a 10 km wide by 80 km long north-south orientated basin extending from the Queensland border south to Inverell. The coal measures unconformably overlie a metamorphosed, deformed Carboniferous age rock strata. To the west a leucogranite intrudes the Carboniferous sequence and a low angle thrust fault displaces it over the Permian coal measures.

The Ashford Seam is the principal seam within the Ashford Project area and occurs 10 m to 30 m above the Carboniferous unconformity interface. The Ashford Seam thickness varies from less than 3 m to 20 m with a thickness greater than 9 m for about 3 km of strike length. The Bonshaw Seam, a 2 m thick, low quality seam, occurs approximately 30 m above the Ashford Seam.

6.2.3 Resource Quantities and Quality

Based on recent drilling and reinterpretation of the Severn fault, it is presently estimated that the Ashford deposit is underlain by an Inferred resource of 18 Mt.¹

6.3 Mining and Mine Plans

Past mining of the deposit was predominantly as an open cut operation with some early photos showing underground workings. No current mining concepts were available.

6.4 Product Coal Quality

Despite being mined as thermal coal, the quality of the Ashford Seam has been described as coking coal.

6.5 Off Site Infrastructure

The location of the Ashford deposit is relatively isolated with no immediate access to rail or port infrastructure. The deposit was mined historically at a rate of approximately 45,000 tpa between 1959 and 1997 supplying coal to a local power station.

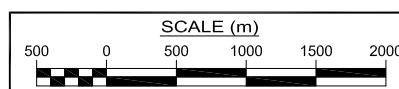
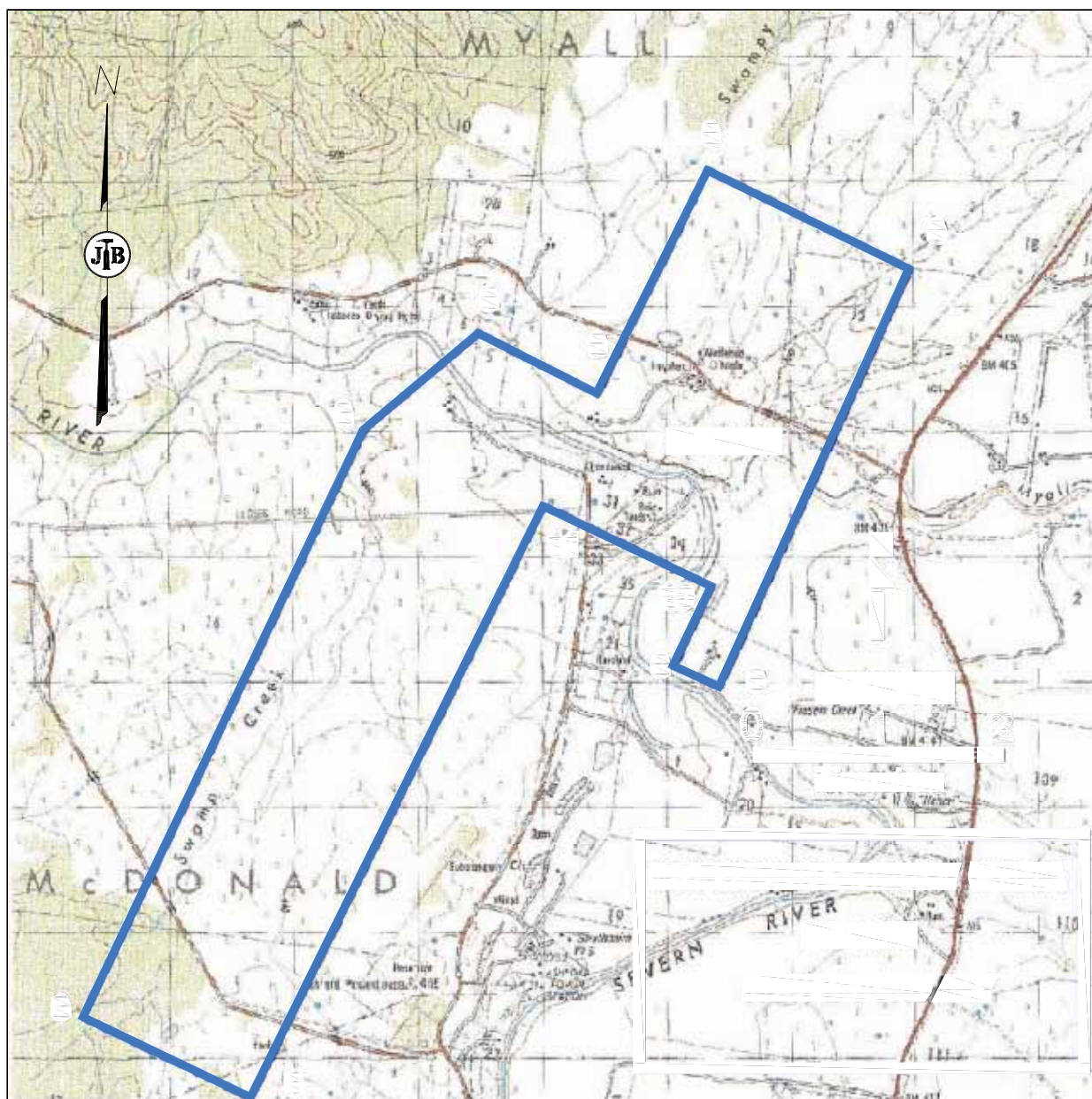
6.6 Valuation

BOYD understands that Northern Energy is in current discussions with interested third parties in relation to the sale of an interest in the Ashford Project and did not attempt to develop a valuation of the exploration area.

Following this text is Figure 6.1, Tenement Layout - Ashford.

¹ The information in this report that relates to Mineral Resources at Ashford is based on information compiled by Mr Andrew McLaughlin, who is a Member of the Australian Institute of Mining and Metallurgy. Mr McLaughlin is a qualified geologist (B.Sc. (Hons) University of Newcastle, 1994) and is a former employee of Northern Energy Corporation.

Mr. McLaughlin has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr McLaughlin consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



Legend

- Ashford Tenement Boundary -
Exploration Lease (EL 6428 & 6234)

Note : Map Provided by Northern Energy Corporation
with Additions by John T. Boyd Company.

FIGURE 6.1

MAP SHOWING

ASHFORD TENEMENTS (EL 6428 & 6234)

ASHFORD COAL MEASURES

NORTHERN ENERGY CORPORATION LIMITED

New South Wales, Australia

Prepared For

LONERGAN EDWARDS & ASSOCIATES



John T. Boyd Company

November 2010
Scale 1 : 50,000

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

Professional	Background
Ian Alexander Managing Director – Australia Dip Min Eng MAusIMM, CP (Mining)	Thirty years of experience in industry with over seventeen years in senior management roles. Experience includes business planning on strategic and tactical levels, project planning, project management, significant business improvement initiatives. Expertise in the management of major surface mine operations in iron ore and coal
Garry McSpadden Principal Engineer B.S. Min.Tech.(NZ.) MAusIMM	A mining engineer with twenty-five years of mining and processing experience covering open cut and underground operations in coal and iron ore. Recent activities include planning and design of a punch longwall operation, mine closure planning, and tenement management.
Deddi Handiko Senior Geologist B.Sc.(Geology) MAusIMM	An experienced geologist with eleven years of experience and an extensive knowledge of geological processes, including resource evaluation, supervising field exploration programs, resource estimation, and project management.
Dennis Grace Principal Associate B.E. (Civil)	Thirty years experience in engineering with exposure to civil & mining engineering, mining operations, coal processing, industrial relations, cost reduction programs, major asset sales and managerial positions both on-site and at corporate level. Extensive experience in due diligence studies and project management.

GSS Environmental conducted the environment review.

Professional	Background
Andrew Hutton General Manager and Principal Environmental Consultant	14 years experience in the mining industry including experience in both operational roles and consulting. Previously held positions with BHP Australia Coal Pty Ltd as Environmental Officer (Queensland, Bowen Basin) and Donaldson Coal Pty Ltd (NSW, Hunter Valley) as the Environmental Manager. Specific experience in the following key areas: Environmental Project Management, Major Project Environmental Impact Assessment (EIA), modification and planning, Environmental & Project related Risk Assessment (G2 facilitator qualifications), Mine closure planning and rehabilitation (including closure liability estimates), Regulatory approvals and licensing, Stakeholder & Community consultation, Environmental Plans of Management, Environmental Management Systems (EMS); and Environmental Auditing including due diligence environment audits.

NOTES

Handwriting practice lines consisting of 30 horizontal dashed lines.

NOTES

Handwriting practice lines consisting of 25 horizontal dashed lines.

Corporate Directory

Directors

Dr Christopher Rawlings – Non-Executive Chairman
Mr Keith Barker – Chief Executive Officer
Mr Sam Willis – Non-Executive Director
Mr Dian Zhou He – Non-Executive Director
Mr Geoff Lord – Non-Executive Director
Mr Kevin Maloney – Non-Executive Director

Registered Office

Level 5, 60 Edward Street,
Brisbane, QLD, AUSTRALIA, 4000
Telephone: +61 7 3303 0695
Facsimile: +61 7 3303 0601

Website

www.northernenergy.com.au

Share Registry

SECURITY TRANSFER REGISTRARS PTY. LIMITED
770 Canning Highway, Applecross
WA, Australia, 6153
Telephone: +61 8 9315 2333

Stock Exchange Listing

Australian Securities Exchange
ASX Code: NEC

Solicitors

HopgoodGanim Lawyers
Level 8, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Financial Advisers

Merril Lynch International (Australia) Limited
Level 38, Govenor Phillip Tower
7 Farrer Place
Sydney NSW 2000

Five good reasons to **REJECT** New Hope's inadequate Offer:

1. The Independent Expert values Northern Energy's shares between \$3.48 and \$4.75
2. \$1.50 per share is not fair or reasonable
3. New Hope's Offer is opportunistically timed and does not reflect the quality and growth characteristics of Northern Energy's assets
4. Your Directors and major shareholders control ~29% of the shares outstanding and intend to **REJECT** the New Hope Offer
5. Reject New Hope's Offer so that you, rather than New Hope's shareholders, can participate in Northern Energy's growth