



BUY - \$0.23

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Lincoln Minerals Ltd (LML)

Location, Location, Location

Company Data

ASX Code	LML
Price	\$0.23
12 month price target	\$0.89
12 month dividend yield	-
Implied return	160%
Shares on issue	117m
Market cap	\$27m
12 Month price range	\$0.18 - \$0.46
Monthly turnover (vol)	3m

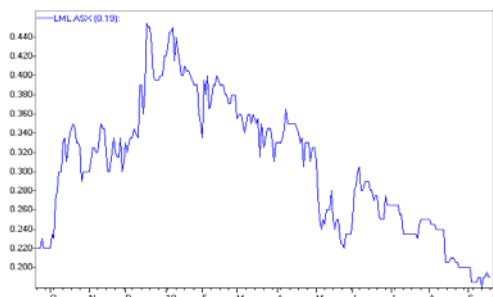
Forecast Changes

	2009F	2010F	2011F
NPAT			
EPS			
DPS			

Earnings Summary

Yr to 31 Dec	2009	2010F	2011F	2012F
Lodge NPAT	-1.7	-2.9	-1.9	-0.8
Rep. Profit _(pre sig)	-1.7	-2.9	-1.9	-0.8
EPS _{adj} (¢)	-1.9	-2.5	-1.7	-0.7
EPS growth	-	-	-	-
P/E ratio	-	-	-	-
DPS (¢)	-	-	-	-
Yield	-	-	-	-
Franking	-	-	-	-
Payout ratio	-	-	-	-
EV / EBIT	-	-	-	-
EV / EBITDA	-	-	-	-
CFPS (¢)	-	-	-	-
Price / CF	-	-	-	-
NTA per share	-	-	-	-
Pr / NTA	\$0.07	\$0.11	\$0.09	\$0.08

Share Price Chart



Source: Iress Market Technology

Gum Flat Iron Ore Project

Lincoln Minerals has established a significant ground position in the Eyre Peninsula of South Australia. Forming part of Gawler Craton, this province is highly prospective for iron ore, copper, gold, and uranium deposits. Indeed, the first commercial iron ore operation in Australia commenced in 1899 at Iron Knob, west of Whyalla.

Lincoln Mineral's key asset is the Gum Flat iron ore project, located less than 20km west of Port Lincoln. The company has defined a current resource of 3.6Mt @ 46.2% Fe hematite (including 0.9 Mt @ 54.2% Fe) and 99.3Mt @ 24.4% Fe magnetite, although we note the conceptual iron ore exploration target is 3 – 17Mt @ 45 – 60% Fe hematite and 150-250Mt @ 22 – 28% Fe magnetite. The next phase of the drilling program is scheduled to commence in the December Quarter 2010, with the objective of realizing the hematite exploration target. The company also has 21.7Mt @ 33.3% Fe hematite/magnetite at Eurilla near Wilcherry Hill on northern Eyre Peninsula.

A Burst of Fresh Eyre

Move over Mid-West, the Eyre Peninsula region has become a locus for iron ore exploration and development activity. Its proximity to the coast, good rail access, and likely upgrade to the electricity transmission network through the Green Grid initiative, provide a strong foundation for project development in an environment where significant iron ore resources have already been defined.

Gum Flat iron ore project's relative location should ensure superior outcomes with regards to infrastructure access, capex, opex, timeframe to production, and project risk.

Our View and Recommendation

Our long term price forecast for iron ore assumes the viability of the magnetite iron ore sector to ensure a cap on iron ore prices. Therefore, we believe the path to development for the Gum Flat iron ore project is:

- Additional hematite ore resource definition
- Additional magnetite ore resource definition
- Access to grid power
- Access to process water
- Access to Port Lincoln or proposed Sheep Hill port

These are all questions of when rather than if.

In the interim, this process will be aided by regional consolidation to eliminate duplication and generate economies of scale. In this regard we note the proximity of Centrex's Greenpatch, Bald Hill, and Koppio iron ore resources to the Gum Flat iron ore project.

With strong newsflow over the next 6 – 12 months including a 10,000m RC drilling program to increase hematite resources and test new magnetite targets, we consider Lincoln Minerals an attractive investment and initiate coverage with a **BUY** recommendation and a price target of A\$0.89/share.

Target Price: A\$0.89, BUY Recommendation

Lincoln Minerals Ltd

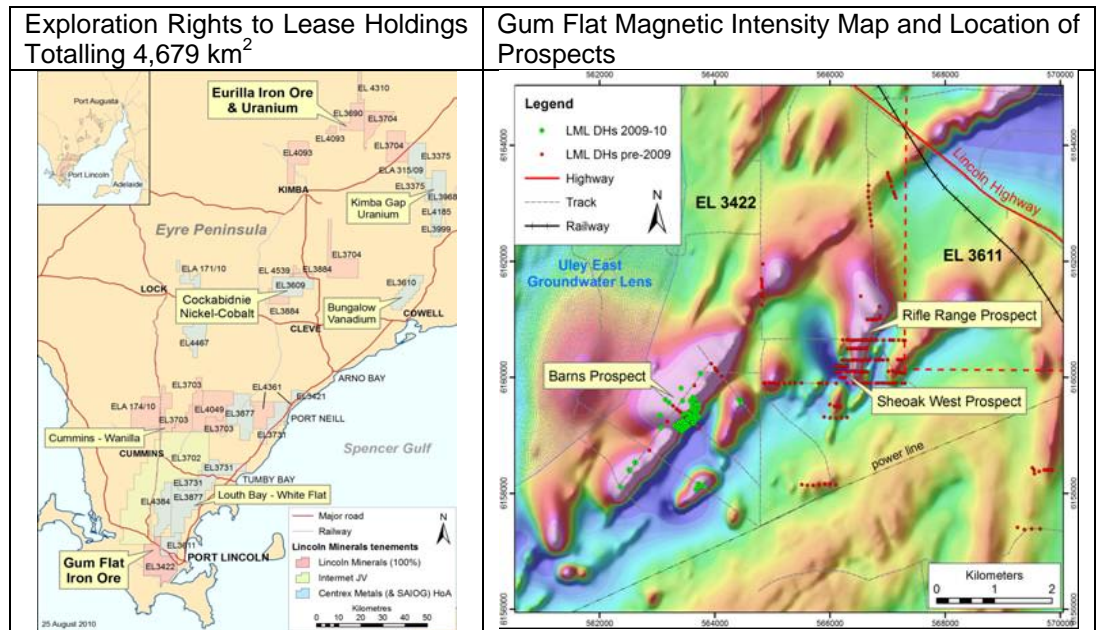
Lincoln Minerals' key asset is the Gum Flat iron ore project, located within Exploration Lease 3422 on southern Eyre Peninsula, ~20km west of Port Lincoln..

Lincoln Minerals has a portfolio of iron ore, uranium, copper, gold, zinc-lead-silver, manganese and nickel-cobalt exploration projects in the Eyre Peninsula, South Australia. Since listing on the ASX in March 2007, the company has successfully defined initial JORC compliant resources at its Gum Flat and Eurilla iron ore projects. Its exploration program has also discovered uranium at Eurilla, and polymetallic minerals at Cockabidnie. We focus in this report on the company's most advanced development asset, the Gum Flat iron ore project, whilst noting the significant tenement position and associated optionality provided.

Gum Flat Iron Ore Project (LML 100%)

The Gum Flat iron ore project is located within Exploration Lease 3422 on southern Eyre Peninsula, ~20km west of Port Lincoln.

Lincoln Minerals has a significant tenement position in the Eyre Peninsula.

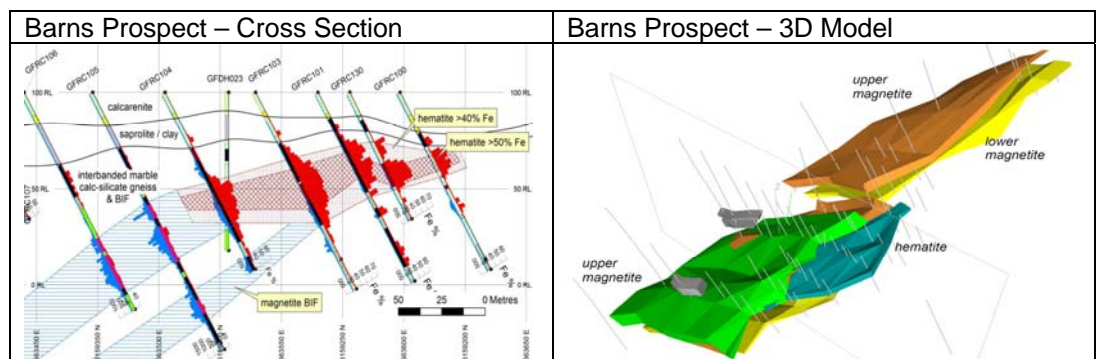


Source: Lincoln Minerals

The Bams prospect comprises near surface hematite-goethite mineralisation, overlying two bands of magnetite mineralisation.

The Gum Flat iron ore project comprises hematite-goethite mineralisation, overlying magnetite mineralisation within at least 5 prospects, Bams, Rifle Range, Sheoak West, H3, and H6. Current resources total 3.6Mt @ 46.2% Fe hematite-goethite and 99.3Mt @ 24.4% Fe magnetite. The hematite-goethite resource includes 0.9Mt DSO at 54.2% Fe (58% calcined Fe, i.e., after the removal of water). The hematite-goethite mineralisation commences 20-25m below surface and extends to 65-70m below surface. The magnetite mineralisation consists of two bands (upper and lower) with a cumulative thickness of ~80m, dipping to the north-west at ~35° and extending to at least 330m below surface.

Lincoln Minerals has defined current resources of 3.6Mt @ 46.2% Fe hematite and 99.3Mt @ 24.4% Fe magnetite.



Source: Lincoln Minerals

Gum Flat Hematite Resource

Prospect	Category	Resource (Mt)	Grade (% Fe)
Barns hematite (>50% Fe)	Indicated	0.9	54.2
Barns hematite (45-50% Fe)	Indicated	0.9	46.9
Sheoak West hematite (>35% Fe)	Inferred	1.1	41.5
Rifle Range hematite other (>35% Fe)	Inferred	0.6	41.8
Total		3.5	46.2

The aggregate length of banded iron formation interpreted within EL3422 based on aeromagnetic data is ~30km.

Gum Flat Magnetite Resource

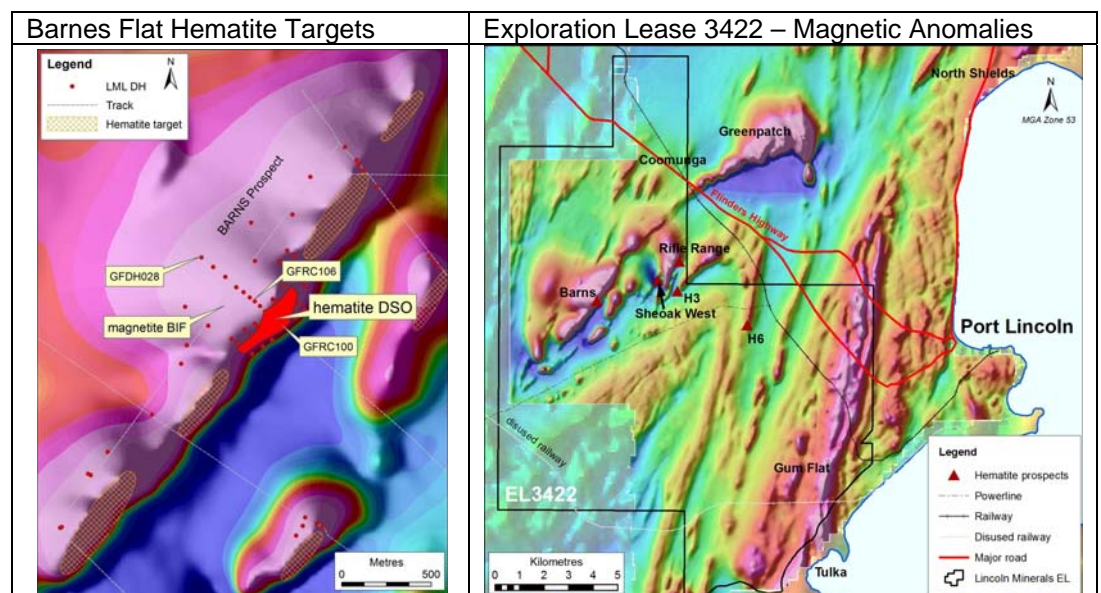
Prospect	Category	Resource (Mt)	Grade (% Fe)
Barns magnetite (upper >15% DTR)	Inferred	33.3	24.8
Barns magnetite (lower > 15% DTR)	Inferred	33.9	23.4
Barns magnetite (other > 15% DTR)	Inferred	21.4	24.7
Barns magnetite (upper 10-15% DTR)	Inferred	7.2	24.8
Rifle Range magnetite (>15% DTR)	Inferred	3.5	27.1
Total		99.3	24.4

Based on the ~5km of highest amplitude aeromagnetic anomalies the conceptual iron ore exploration target is 150-250Mt @ 22 – 28% Fe magnetite and 3 – 17Mt @ 45 – 60% Fe hematite.

The aggregate length of banded iron formation interpreted from aeromagnetic data within EL3422 is ~30km. Based on the ~5km of highest amplitude magnetic anomalies, the conceptual iron ore exploration target is 150-250Mt @ 22 – 28% Fe magnetite and 3 – 17Mt @ 45 – 60% Fe hematite. Lower amplitude or narrower magnetic anomalies or anomalies in areas of restricted access cover the remaining ~25km in strike length and represent secondary exploration targets. The exploration lease is also prospective for polymetallic minerals, graphite and uranium.

Lincoln Minerals is planning a 10,000m RC drilling program commencing in the December Quarter 2010, to test additional hematite targets located north-east and south-west of the Barns prospect, as well as the magnetic anomaly along the eastern boundary of EL3422.

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Source: Lincoln Minerals

Project Development

Lincoln Minerals has completed a scoping study to determine the viability of mining both the DSO and magnetite iron ore based on a staged development plan:

- Stage 1a – mine and export DSO hematite fines from Port Lincoln commencing mid 2012
- Stage 1b – mine and beneficiate low grade hematite ore and export a 55% Fe hematite fines product
- Stage 2 – mine and beneficiate the underlying magnetite iron formation and export either a high grade 67% Fe magnetite concentrate or sell a 35-40% Fe coarse magnetite partial-concentrate to a local 3rd party.

The Gum Flat iron ore project – Stages 1a and 1b currently have a total inferred and indicated resource of 3.5Mt @ 46.2% Fe, including an indicated resource of 0.9Mt @ 54.2% Fe.

The Gum Flat iron ore project – Stages 1a and 1b currently have a total inferred and indicated resource of 3.5Mt @ 46.2% Fe, including an indicated resource of 0.9Mt @ 54.2% Fe. The conceptual iron ore exploration target is 3 – 17Mt @ 45 – 60% Fe hematite (including 2.4 -13.8Mt @ 45 – 60% Fe hematite at the Barnes prospect). A 10,000m RC drilling program will test these exploration targets commencing in the December Quarter 2010. Any additions to the current resource substantially improve the overall project economics. The hematite resource will be developed as a prelude to Gum Flat magnetite iron ore project – Stage 2.

Stage 1a – DSO Hematite Ore

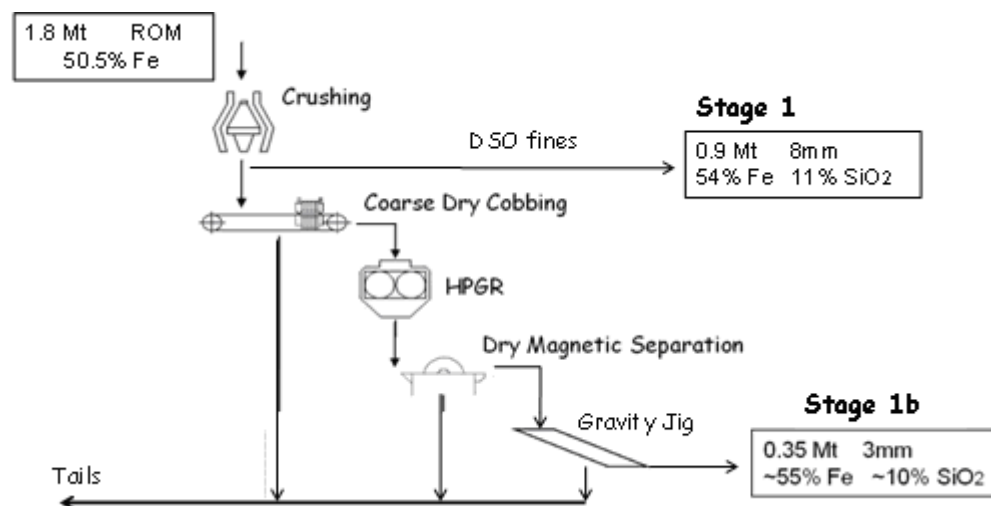
Stage 1a comprises mining the Barnes central DSO hematite ore at a rate 0.5 Mt/a @ ~55% Fe. Lincoln Minerals' scoping study level cost estimates ($\pm 50\%$) indicate the DSO ore could be mined and shipped ex Port Lincoln at ~A\$16/t (or ~A\$26/t from the proposed new Sheep Hill bulk commodities export port). Capital expenditure for pre-strip, road upgrades, and a 70kt storage shed at the port is estimated at A\$55M (including a 20% contingency). Lincoln Minerals believes there is scope to reduce this cost.

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Stage 1b – Hematite Beneficiation

Stage 1b comprises the lower grade hematite (45-54% Fe) that is upgradable to a ~55% Fe fines product utilising a combination of dry magnetic separation and gravity separation.

Stages 1a and 1b - Process Flowsheet



Source: Lincoln Minerals

The Stage 1b opex is estimated at ~A\$27/t concentrate ex Port Lincoln.

The company is still to develop a capex estimate for this flowsheet, but has estimated the opex at ~A\$27/t concentrate ex Port Lincoln.

Stage 2 – Magnetite Beneficiation

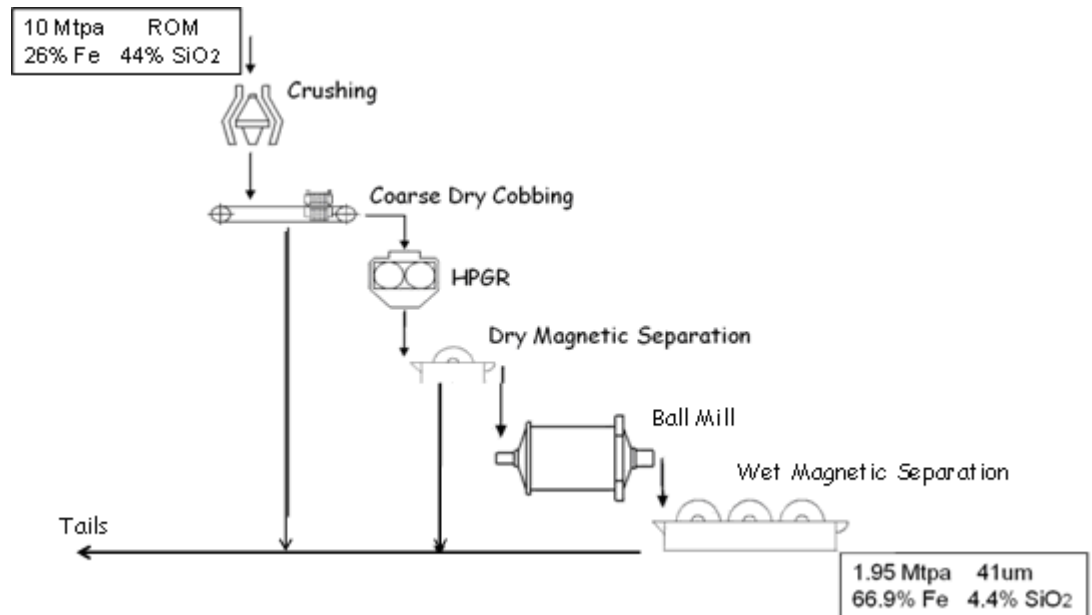
The Gum Flat magnetite iron ore project – Stage 2 currently has a total inferred and indicated resource of 99.3Mt @ ~24.4% Fe, and a conceptual iron ore exploration target of

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150-250Mt @ 22 – 28% Fe magnetite. Given the increasing strip ratios with depth associated with the Barnes prospect, we believe a conceptual mine life of 10+ years at ~2Mt/a magnetite concentrate output will require additional conversion of the conceptual iron ore exploration target into resources.

The magnetite iron ore operation is expected to produce a ~67% Fe concentrate with a mass recovery of ~25%. The process flowsheet entails ball mill grinding to -40 microns, wet magnetic separation, and most likely a slurry pipeline to Port Lincoln (to reduce road traffic) in addition to the units of operation in Stage 1b.

Stage 2 - Process Flowsheet



Source: Lincoln Minerals

Magnetite Concentrate Quality Target Specification

DTR Wt%	%Fe	%SiO ₂	%Al ₂ O ₃	%P	%S	%Mn
25	>65	<6	<2.0	<0.05	<0.07	<2.0

The scoping study by Lincoln Minerals has identified a number of process options with different product, capital and operating cost outcomes. This includes the production of an intermediate / low grade concentrate (35 – 40% Fe) for further processing by a third party in the Eyre Peninsula.

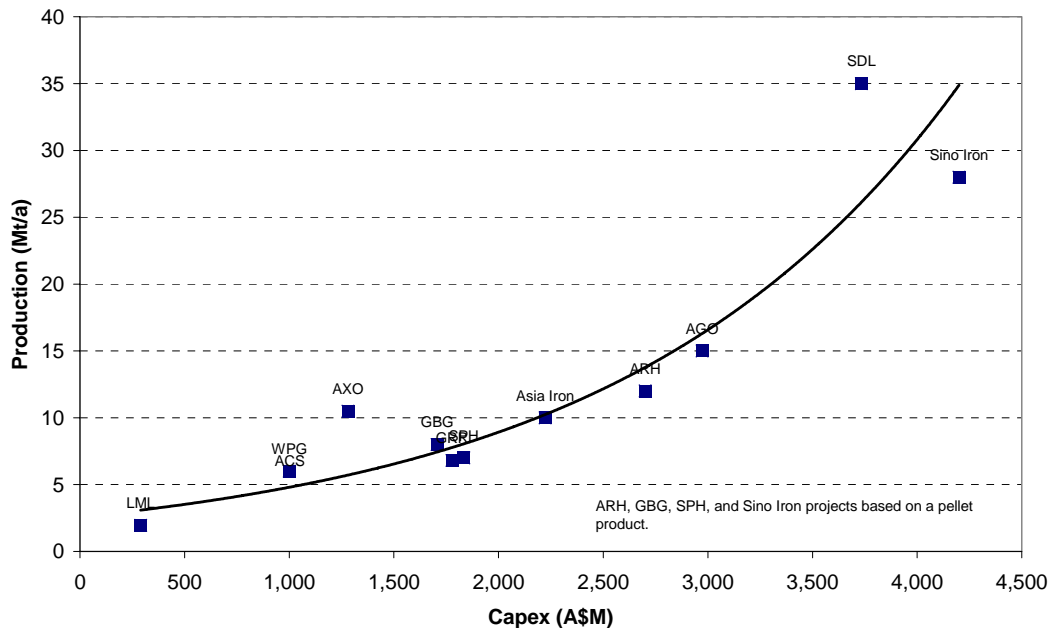
	Low Grade Con	High Grade Magnetite Con (67% Fe)		
	Road to PL	Road to PL	Rail to PL	Slurry Pipeline to PL
Capex	A\$80M	A\$234M	A\$247M	A\$286M
Opex	<A\$20/t con	A\$60-65/t con		

Opex estimate is for processing and transport ONLY and does not include mining costs.

The capex estimate for the Gum Flat iron ore project compares favourably to other magnetite iron ore projects due to its proximity to Port Lincoln and power / rail infrastructure. The significant opex associated with the production of high grade magnetite concentrate is largely due to the cost of power. The company has estimated the power requirement for a 10Mt/a operation at 20-25MW. This quantity is not currently available from the local grid and would have to be generated onsite at a cost of ~A\$27/t concentrate, i.e., the economic viability of this project is predicated on the availability of grid power. Mining opex estimates for magnetite have not yet been optimised.

Capex Comparative for Magnetite Projects

The capex estimate for the Gum Flat iron ore project compares favourably to other magnetite iron ore projects due to its proximity to Port Lincoln and power / rail infrastructure.

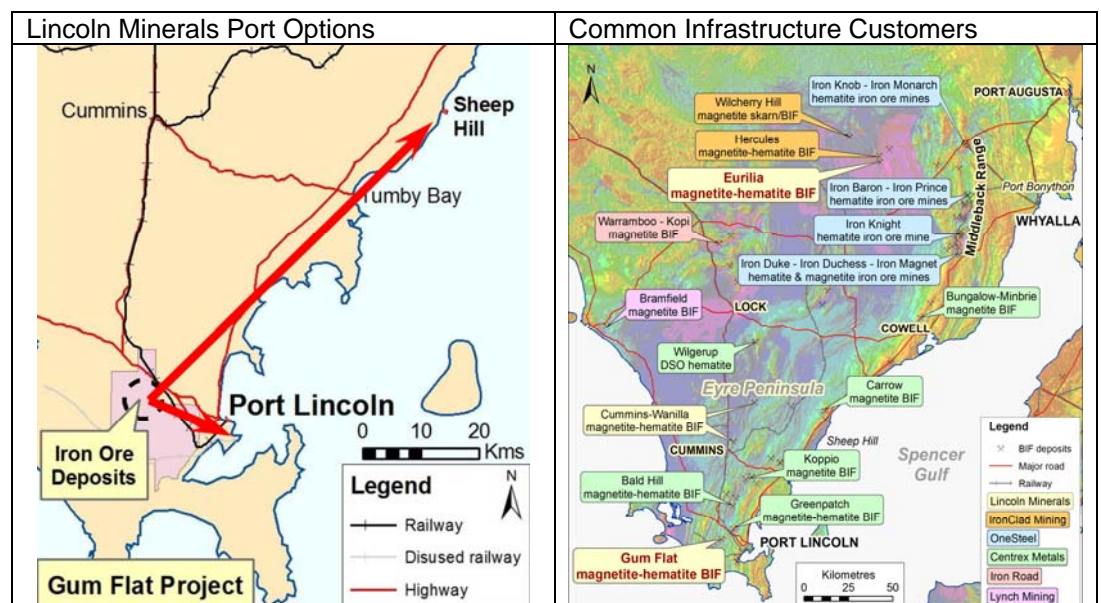


Rail and Port

A railway line and highway link the project area to a port facility ~20km east at Port Lincoln. The South Australian government approval given to Centrex Metals Ltd in 2009 to ship iron ore from Port Lincoln's panamax size port provides a precedent for other aspirants and in particular Lincoln Minerals given its proximity. We expect opposition from the town's council and aquaculture and fishing industries to limit overall capacity access. The likely alternative is the proposed new Sheep Hill bulk commodities export port located ~70km north-east of Port Lincoln.

Lincoln Minerals has an off-take Heads of Agreement with Chinese steel mill, Jiangyin Huaxi Steel Co. Ltd, for at least 50% of Lincoln's hematite and magnetite production from Gum Flat.

A railway line and highway link the project area to a port facility ~20km east at Port Lincoln.



Source: Lincoln Minerals

The economic viability of this project is predicated on the availability of grid power

This existing 132 kV transmission system has limited capacity to accommodate significant additional electrical demand or generation without augmentation.

We expect the convergence of (1) new demand emanating from Eyre Peninsula's emerging iron ore sector and (2) the development of the region's favourable wind generated electricity capability to enable a solution which includes an upgrade to the electricity transmission network.

Groundwater within the Southern Basin Prescribed Wells Area currently provides the majority of Eyre Peninsula's domestic and livestock water supply needs.

The Gum Flat iron ore project flowsheet entails dry cobbing and dry magnetic separation steps, both of which are intended to limit water

Power
Eyre Peninsula is serviced by a 132kV transmission line from Whyalla. Back-up peaking plant in the area includes a 66MW wind farm at Cathedral Rocks, and a 70MW wind farm at Mount Millar both of which are able to generate into the market at anytime there is sufficient wind available. In addition, 2 x 25MW diesel turbines at Port Lincoln provide back-up electricity supply capacity (with a third turbine to be installed) to the Port Lincoln area, and can also operate as a market generator.

This existing 132 kV transmission system has limited capacity to accommodate significant additional electrical demand or generation without augmentation, and consequently has the potential to act as an impediment to continued development in the Eyre Peninsula region.

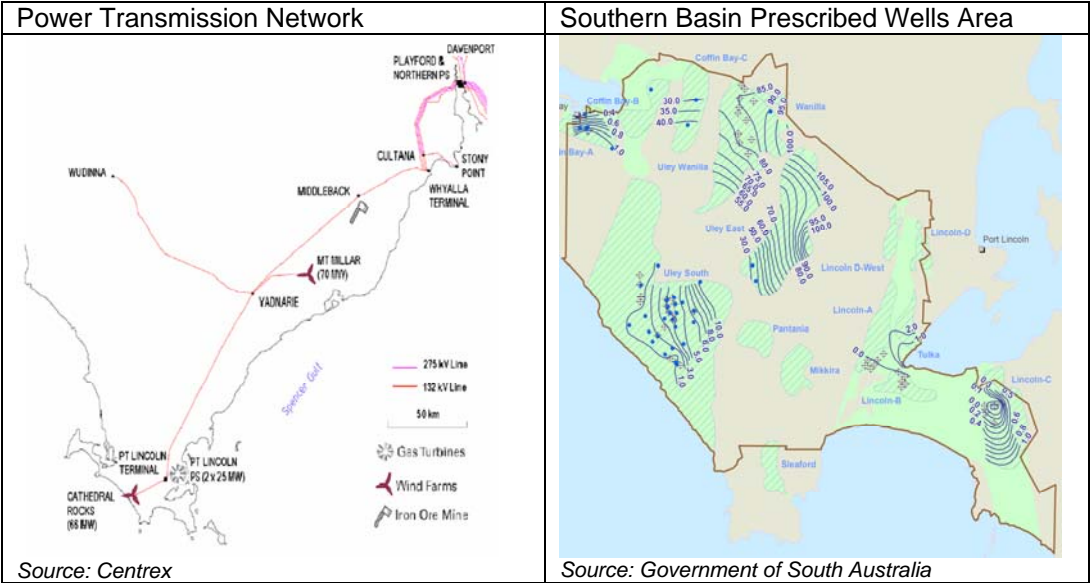
We expect the convergence of (1) new demand emanating from Eyre Peninsula's emerging iron ore sector and (2) the development of the region's favourable wind generated electricity capability to enable a global solution which includes an upgrade to the electricity transmission network.

The Green Grid initiative being undertaken by a consortium including Macquarie Capital, Worley Parsons, and Baker McKenzie suggests the overall quality of the wind resource in the Eyre Peninsula could support new wind power generation of up to 10GW. However the wind power generation will not satisfy the base load requirements of the mining industry, and therefore requires its connection to the National Electricity Market.

We note two more wind farms are currently proposed for development in the Eyre Peninsula and the Green Grid feasibility assessment has identified further potential interest in excess of 2GW:

- Lincoln Gap (near Port Augusta) by NP Power/ Infigen Energy - 177MW by late 2011
- Mount Hill (80km North-East of Port Lincoln) by Transfield Services – 80MW

In the interim, the Cathedral Rocks wind farm high voltage power line crossing the project area at the southern end of the Barns orebody provides scope for at least some of the project's power requirement to be sourced from the grid.



Water
The Gum Flat iron ore project flowsheet entails dry cobbing and dry magnetic separation steps, both of which are intended to limit water requirements to ~2GL/a. Potential sources of water to meet this demand include:

- Groundwater within the Southern Basin Prescribed Wells Area (total estimated sustainable yield of ~14GL/a), currently provides the majority of Eyre Peninsula's

requirements to ~2GL/a.

The Tod River catchment system is another potential source of water for the Gum Flat iron ore project.

domestic and livestock water supply needs (estimated at ~10GL/a). The groundwater usage is managed through licencing and water allocation plans. Whilst we do not expect the existing groundwater resources to be substantially allocated to new industries, we also note that the Gum Flat iron ore project may potentially have access to deeper bedrock aquifers.

- A rise in Tod River catchment salinity levels has reduced its contribution towards domestic and livestock demands. This system (estimated annual flowrate of ~20GL) is potentially available to the Gum Flat iron ore project, or alternatively the rehabilitation thereof should increase total available supply for the region.

As part of environmental approvals process, Lincoln Minerals is undertaking detailed studies into the bedrock aquifers, and Tod River catchment system as potential sources of water for the project. The Gum Flat iron ore project is located within the Prescribed Wells Area and will need to ensure there is no significant impact on groundwater aquifers used for Eyre Peninsula's water supply.

Lincoln Minerals has commenced baseline environmental studies in preparation for a Mining Lease Application (MLA) circa March 2011.

Environmental

Lincoln Minerals has commenced baseline environmental studies in preparation for a Mining Lease Application (MLA) circa March 2011. Studies will include hydrogeology, flora and fauna, and background dust and noise monitoring. The MLA process is expected to require ~6 months. The company will also need to develop a Mining and Rehabilitation Program (MARP) prior to the commencement of operations (including construction). The approval thereof is estimated at ~2-3 months.

Project Timeline

Assuming successful outcomes with regards to the definition of economic resources, port access, grid power, and water, Lincoln Minerals should be producing DSO by mid 2012, and magnetite concentrate production by mid 2015.

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	2010	2011	2012	2013	2014
Stage 1 Barns DSO	• Drill out • Baseline Studies	• Evaluate			
	• Mining Lease Application • Purchase Land	• MARP • DFS (Stage 1) • Groundwater Approvals			
		Plant Construction Upgrade Road			
			Remove Overburden		
			Mine & Export Hematite		
Stage 2 Magnetite				• Drilling & evaluation • Baseline Studies • DFS (Stage 2)	
Pt Lincoln	Community Engagement	Development Application Approvals	Build Shed & Commission		

Source: Lincoln Minerals

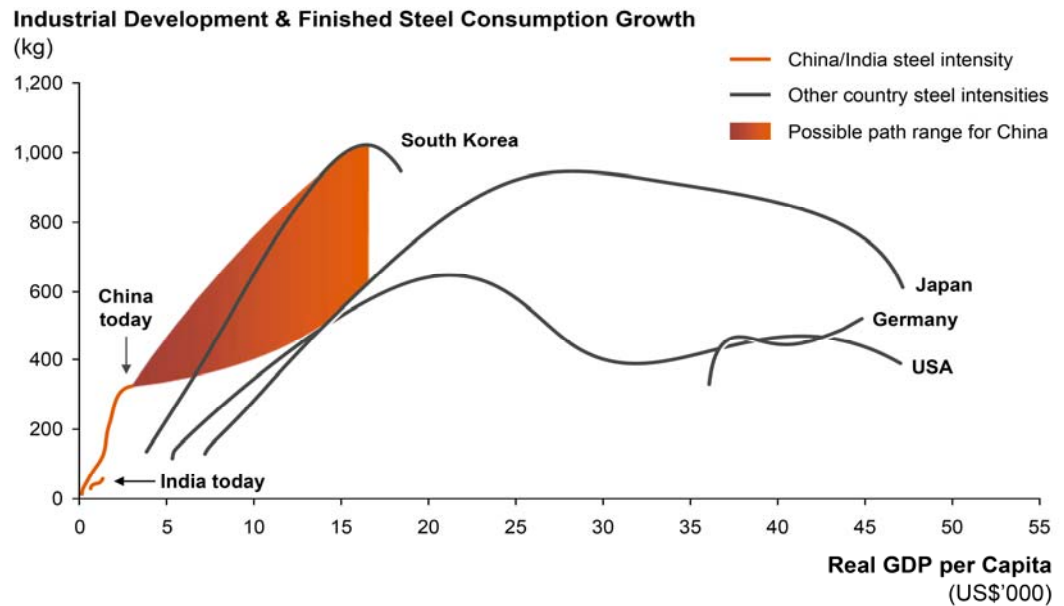
Iron ore consumption is driven by the demand for consumer durables, urban housing, and infrastructure (i.e., roads, rail, and electricity networks), all emanating from industrial development and urbanisation.

Market Outlook

Iron ore consumption is driven by the demand for consumer durables, urban housing, and infrastructure (i.e., roads, rail, and electricity networks), all emanating from industrial development and urbanisation.

Steel Intensity Per Capita Correlation With GDP Growth

By 2015 world steel consumption is projected to be around 1.8Bt (up from 1.2Bt in CY 2009), which represents an average annual growth of ~6% over this period.

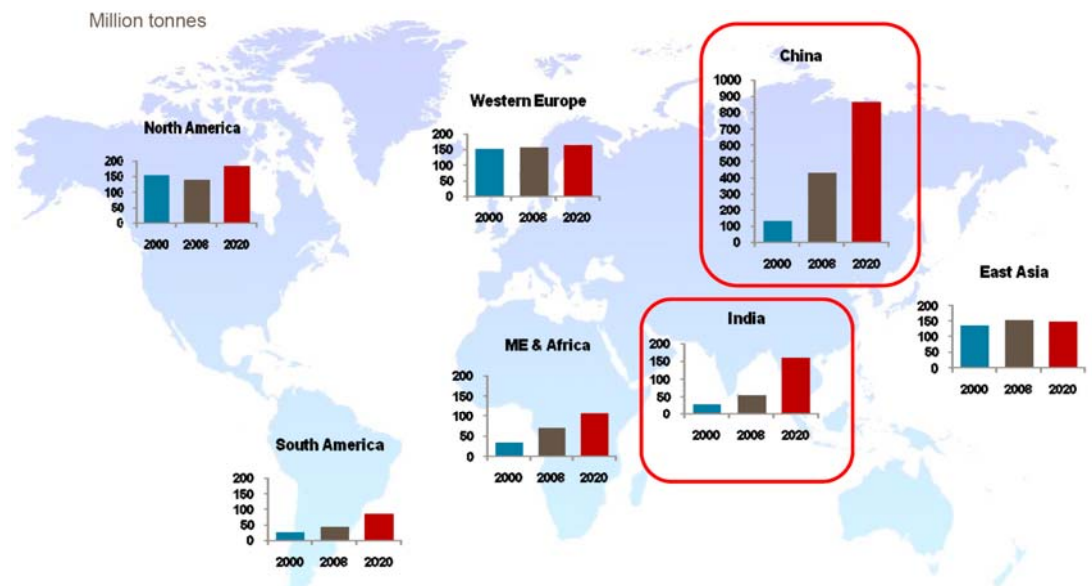


Source: BHPB

Whilst the global economic downturn has impacted steel consumption in the developed world, this has essentially been replaced by robust demand from the industrialising nations such as China, India, and Brazil. Over the medium term, steel consumption is projected to grow steadily, as further growth in the industrialising economies is expected to be supported by a gradual recovery in the OECD economies. Therefore, by 2015 world steel consumption is projected to be around 1.8Bt (up from 1.2Bt in CY 2009), which represents an average annual growth of ~6% over this period. This increase in steel production equates to an additional supply of ~900-1,000Mt iron ore depending on grades (not adjusted for steel scrap recycle).

Steel Consumption Growth

Over the medium term, steel consumption is projected to grow steadily, as further growth in the industrialising economies is expected to be supported by a gradual recovery in the OECD economies.

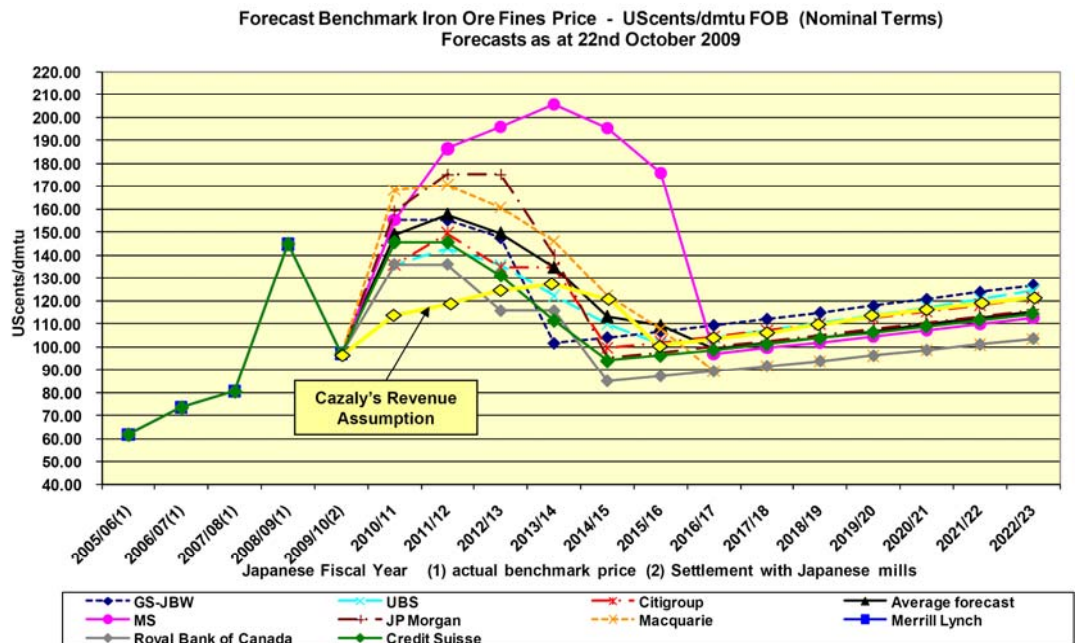


Source: Rio Tinto

Steady growth in steel consumption should support iron ore demand and therefore pricing in the medium term. We also expect a lag in the supply response emanating from a slowdown in project development during 2008 - 2009, and a need for improved project incentive pricing to ensure adequate returns for this next tier of higher capital intensity projects. We therefore assume iron ore contract prices will remain at current levels through to 2015, before retracting towards US\$130c/dmtu as demand and supply rebalance.

Iron Ore Pricing Forecasts

We therefore assume iron ore contract prices will remain at current levels through to 2015, before retracting towards US\$130c/dmtu as demand and supply rebalance.



The quality of direct shipping ore available globally continues to decline with falling average iron grades and lump ore proportions and increasing impurity levels, putting pressure on steel mill productivity. Therefore, high grade and low impurity magnetite concentrates are attracting increasing attention and premiums. In the case of Lincoln Minerals, we have assumed any premium will offset the slightly higher shipping costs out of Port Lincoln.

Lincoln Minerals has an off-take Heads of Agreement with Chinese steel mill, Jiangyin Huaxi Steel Co Ltd.

Lincoln Minerals also has an off-take Heads of Agreement with the Chinese Huaxi steel group for the sale of at least 50% of the DSO hematite ore from the project.

Eyre Peninsula Peer Group Comparative

The Eyre Peninsula region has become a locus for iron ore exploration and development activity, not unlike the Mid West and Pilbara regions in Western Australia. Interestingly, iron ore mining in the Eyre Peninsula precedes the Pilbara (i.e. BHP commenced mining at Iron Knob in 1899). The current junior iron ore sector activity is well advanced with resource definition and initial scoping studies on a number of projects. Key challenges include:

- Access to a deep water facility for the export of bulk commodities (multi-user port options being considered include Sheep Hill, Port Bonython, and Port Lincoln)
- Access to grid power

Assuming successful outcomes in this regard, we expect project finance to be less of an issue with early foreign investment in several of the companies.

Lincoln Minerals Peer Group Comparative in the Eyre Peninsula

Company	Mkt Cap (A\$M)	Magnetite	Hematite
Lincoln Minerals	\$27	121Mt @ 26% Fe	3.5Mt @ 46.2% Fe
Centrex	\$112	231Mt @ 29% Fe	14.1 @ 57.6% Fe
Ironclad	\$49	275Mt @ 28.4% Fe	-
Iron Road	\$35	328Mt @ 17.3% Fe	-
Stellar	\$6	99Mt @ 24.4% Fe	-
Western Plains	\$92	570Mt @ 36% Fe	37.6 @ 62.8% Fe

Lincoln Minerals Valuation

Lincoln Minerals had A\$3.5M cash as at 30 June 2010, and no bank debt.

The development of the Gum Flat iron ore project is essentially predicated on:

- Additional hematite ore resource definition
- Additional magnetite ore resource definition
- Access to grid power
- Access to process water
- Access to Port Lincoln or proposed Sheep Hill port

We believe the optimal path forward will entail regional consolidation to eliminate duplication and generate economies of scale.

We believe these are all questions of “when” rather than “if”. Arguably the optimal path forward will entail regional consolidation to eliminate duplication and generate economies of scale. In this regard we note the proximity of several Centrex prospects to the Gum Flat iron ore project:

- Greenpatch - ~88Mt hematite and magnetite initial inferred resource
- Bald Hill - ~29Mt magnetite initial inferred resource
- Koppio - ~40Mt magnetite initial inferred resource

Valuation Method 1 - Peer Comparative (Magnetite)

Comparative EV/t Fe content valuations for predominantly magnetite assets are presented below:

Comparative Non-Producing Iron Ore Assets

Company	ASX Code	EV (A\$M)	Iron Ore (Mt)	Iron Ore (%Fe)	Iron Metal (Mt)	EV/t Fe (\$A/t Fe)
Lincoln	LML	19	125	27	33	0.57
Accent	ACS	33	391	30	117	0.28
Admiralty	ADY	16	423	18	74	0.21
Aurox	AXO	139	456	45	205	0.68
Australasian	ARH	97	1,605	31	501	0.19
Centrex	CXM	58	245	31	76	0.77
Gindalbie	GBG	549	932	36	331	1.67
Iron Clad	IFE	42	275	28	78	0.54
Iron Road	IRD	52	328	17	57	0.92
Sphere	SPH	409	3,169	33	1,037	0.39
Sundance	SDL	547	2,750	42	1,147	0.48
Overall Average						0.61

Using an average valuation of A\$0.61/t Fe content, we estimate a fair enterprise value of A\$20M for Lincoln Minerals' iron ore assets.

Using an average valuation of A\$0.61/t Fe content, we estimate a fair enterprise value of A\$20M for Lincoln Minerals' iron ore assets. We do however note the large spread in the comparative data as a reflection of each project's unique development parameters including capex, opex, access to infrastructure, timeframe to production, risks, and resource definition upside, i.e., Lincoln Minerals' Gum Flat iron ore project has potentially superior outcomes with regards to a number of these project development parameters.

Lincoln Minerals' Gum Flat iron ore project has potentially superior outcomes with regards to a number of project development parameters.

Valuation Method 2 – Base Case

Our DCF valuation of the Gum Flat iron ore project is based on the assumptions detailed below. We assume the production of 2.0Mt DSO hematite under Stage 1a, 1.8Mt beneficiated hematite ore under Stage 1b, and ~12 years of magnetite ore.

Using a discount rate of 10%, we derive a valuation of ~A\$47M for the Gum Flat iron ore project – Likely Case.

Using a discount rate of 10%, we derive a valuation of ~A\$47M for the Gum Flat iron ore project.

Project Inputs Summary

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
62% Fe Price (FOB US\$/dmu)	175	175	160	150	140	135	135
Fe Price (FOB US\$/t)	109	109	99	93	94	90	90
Exchange Rate (A\$/US\$)	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Capital Cost (US\$M)	56	1	1	287	7	7	7
Project Stage	-	1a	1a	1a	1b & 2	1b & 2	2
Ore Mined (Mt)	-	0.5	0.75	0.75	9.9	9.9	10
Yield (%)	-	100	100	100	65	65	67
Product (Mt)	-	0.5	0.75	0.75	2.6	2.6	2.4
Operating Cost (US\$/t)	-	17	17	17	60	62	85

The valuation is particularly sensitive to the iron ore price, definition of additional hematite ore, capex, and unit cash costs particularly mining costs for magnetite ore.

The valuation of the Gum Flat iron ore project is particularly sensitive to the iron ore price, and the definition of additional hematite ore.

Gum Flat Iron Ore Project DCF Valuation Sensitivity

		Exchange Rate (US\$/A\$1.00)				
Iron Ore Fines Price (US\$/dmu)	75	0.70	0.80	0.90	1.00	1.10
	100	-2.10	-2.85	-3.44	-3.91	-4.29
	125	-0.09	-1.09	-1.87	-2.50	-3.01
	150	1.93	0.67	-0.31	-1.09	-1.73
	175	3.94	2.43	1.26	0.32	-0.45
	200	5.95	4.19	2.82	1.72	0.83
		7.96	5.95	4.38	3.13	2.11

Valuation Method 3 – Likely Case

Our likely case assumes the production of 3.5Mt DSO hematite ore under Stage 1a, 3.6Mt beneficiated hematite ore under Stage 1b, and ~12 years of magnetite ore.

Using a discount rate of 10% and the assumptions detailed above, we derive a valuation of ~A\$83M for the Gum Flat iron ore project – Upside Case.

Using a discount rate of 10% and the assumptions detailed above, we derive a valuation of ~A\$83M for the Gum Flat iron ore project.

Valuation Summary

	Scenario		
	Peer	Base	Likely
Gum Flat (A\$M)	20	47	83
Exploration (A\$M)	7	14	25
Net Cash (A\$M)	4	4	4
Corporate (A\$M)	-4	-7	-7
Equity Value (A\$M)	27	57	104
No Shares (M)	117	117	117
Valuation (A\$/share)	0.23	0.49	0.89

Share Price Drivers

The potential share price catalysts for Lincoln Minerals in the short to medium term are:

The potential share price catalysts for Lincoln Minerals in the short to medium term are:

- RC drilling program (Dec Qtr 2010)
- Mining Lease Application (Mar Qtr 2011)

- RC drilling program for hematite ore (December Quarter 2010)
- RC drilling program on the magnetic anomaly along the eastern boundary of EL342 (December Quarter 2010)
- Baseline studies in preparation for a Mining Lease Application (2010 – 2011)
- Mining Lease Application (March Quarter 2011)
- Iron ore price strength

- Water studies, i.e., ground water and Tod River options (2010 – 2011)

Lincoln Minerals SWOT Analysis

Key strengths include:

- Strong interest from Chinese in the Eyre Peninsula
- Low capex
- Proximity to Port Lincoln
- Magnetite concentrate grade >67% Fe
- Dry cobbing and magnetic separation reduces power and water consumption
- The MRRT should not impact the Gum Flat iron ore project due to scale

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong interest from Chinese in the Eyre Peninsula • Low capex • Proximity to Port Lincoln • Magnetite concentrate grade >67% Fe • Dry cobbing and magnetic separation reduces power and water consumption • The MRRT should not impact the Gum Flat iron ore project due to scale 	<ul style="list-style-type: none"> • Higher operating costs due to lower grades and relatively high stripping ratios
Opportunities	Threats
<ul style="list-style-type: none"> • Synergies with neighbouring operations • Improved iron ore beneficiation recoveries • Shipping out of Port Lincoln • Access to grid power • Strong outlook for iron ore prices • Exploration upside • M&A activity 	<ul style="list-style-type: none"> • Access to Port Lincoln • Access to grid power • Access to water • Impact on groundwater basis • Access to alternate port

Board of Directors

Lincoln Minerals has a diverse and experienced Board of Directors.

Lincoln Minerals has a diverse and experienced Board of Directors.

Richard V. Ryan (Non-Executive Chairman): Mr Ryan is a Fellow of the Institute of Chartered Accountants in Australia, a Companion of the Institution of Engineers Australia, and a Companion of the Chartered Management Institute, UK. He has had a long and distinguished career in the mining industry and was formerly Chief Executive Officer of Henry Walker Eltin Group Limited (1989 - 2002), a director of the Minerals Council of Australia, member of the Business Council of Australia and Chairman of the South Australian Resources Task Force.

Dr Allan John Parker (Managing Director): Dr Parker is a geologist and geophysicist. He has a broad knowledge of uranium, gold, iron ore, and base metal mineral deposits and mineralizing systems in the Gawler Craton, South Australia. He also has a strong geophysical background and is a leading geographical information systems (GIS) expert.

Peter E. Cox (Non-Executive Director): Mr Cox is a Chartered Accountant who currently operates a management consultancy business after many years in public practice. He has been involved in the administration of a number of public floats and listed companies, predominantly in the resources sector.

Robert A. Althoff (Non-Executive Director): Mr Althoff is a professional Mechanical Engineer with postgraduate studies in Business Management and ~34 years experience in mining, transport and power station operations.

Lincoln Minerals (LML: \$0.23)

Mkt Cap: \$27m



Reserves & Resources

Year ending Jun	2011F	2012F	2013F	2014F
Hematite				
Ore (kt)	3.5	3.5	3.0	2.3
Grade (% Fe)	46.2%	46.2%	46.2%	46.2%
Magnetite				
Ore (kt)	99	99	99	99
Grade (% Fe)	24.4%	24.4%	24.4%	24.4%

Assumptions

Year ending Jun	2011F	2012F	2013F	2014F
Iron Ore Price (US\$/dmu)	150	175	175	160
Exchange Rate (A\$/US\$)	0.90	0.90	0.90	0.90

Production

Year ending Jun	2011F	2012F	2013F	2014F
Magnetite Range				
Ore Mined (Mt)	-	-	0.5	0.8
Grade (% Fe)	-	-	54.0%	54.0%
Concentrate (Mt)	-	-	0.5	0.8
Grade (% Fe)	-	-	54%	54%
Unit Cash Costs (A\$/t conc)	-	-	17	17

Valuation	Base Case		Likely		Upside	
	A\$M	A\$/Share	A\$M	A\$/Share	A\$M	A\$/Share
Project						
Gum Flat	20	0.17	47	0.40	83	0.71
Exploration	7	0.06	14	0.12	25	0.21
Sub-Total	27	0.23	61	0.52	108	0.92
Financials						
Net Cash	4	0.03	4	0.03	4	0.03
Corporate	(4)	(0.03)	(7)	(0.06)	(7)	(0.06)
Sub-Total	0	0.00	(4)	(0.03)	(4)	(0.03)
Valuation	27	0.23	57	0.49	104	0.89

Valuation Sensitivity Analysis (A\$/Share)

		Exchange Rate (US\$/A\$1.00)				
Iron Ore Fines Price (USc / dmtu)		0.70	0.80	0.90	1.00	1.10
	75	-2.10	-2.85	-3.44	-3.91	-4.29
	100	-0.09	-1.09	-1.87	-2.50	-3.01
	125	1.93	0.67	-0.31	-1.09	-1.73
	150	3.94	2.43	1.26	0.32	-0.45
	175	5.95	4.19	2.82	1.72	0.83
	200	7.96	5.95	4.38	3.13	2.11

Mkt Lincoln Minerals (LML: \$0.23)

Cap: \$27m



Valuation data

Year ending Jun	2008	2009	2010F	2011F	2012F
Lodge adj profit	-0.6	-1.7	-2.9	-1.9	-0.8
Reported profit (pre sig)	-0.6	-1.7	-2.9	-1.9	-0.8
EPS_{adj} (¢)	-0.8	-1.9	-2.5	-1.7	-0.7
EPS growth	-	-	-	-	-
P/E ratio	-	-	-	-	-
DPS (¢)	-	-	-	-	-
Yield	-	-	-	-	-
Franking	-	-	-	-	-
Payout ratio	-	-	-	-	-
EV / EBIT	-	-	-	-	-
EV / EBITDA	-	-	-	-	-
CFPS (¢)	-	-	-	-	-
Price / CF	-	-	-	-	-
NTA per share	\$0.09	\$0.07	\$0.11	\$0.09	\$0.08
Pr / NTA	2.0 x	2.6 x	1.8 x	2.1 x	2.3 x

Balance sheet (\$M)

Year ending Jun	2008	2009	2010F	2011F	2012F
Cash	5.4	3.5	14.2	16.3	(41.4)
Receivables	0.5	0.3	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current assets	5.9	3.8	14.2	16.3	(41.4)
Net PPE	1.8	3.0	(1.8)	(5.8)	51.0
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangibles	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Non-current assets	1.8	3.0	(1.8)	(5.8)	51.0
Total assets	7.7	6.8	12.4	10.5	9.7
Debt	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other	0.6	0.2	0.0	0.0	0.0
Total liabilities	0.6	0.2	0.0	0.0	0.0
Equity / reserves	8.3	9.4	18.2	18.2	18.2
Retained profits	(1.1)	(2.9)	(5.8)	(7.7)	(8.5)
Total s/h funds	7.1	6.6	12.4	10.4	9.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total funds emp.	1.7	3.1	(1.8)	(5.8)	51.0

Ratio analysis

Year ending Jun	2008	2009	2010F	2011F	2012F
EBITDA / sales	-	-	-	-	-
EBITAg / sales	-	-	-	-	-
EBIT / sales	-	-	-	-	-
Return on assets	-	-	-	-	-
Return on equity	-	-	-	-	-
Return on funds emp.	-	-	-	-	-
Net debt / (cash) (\$M)	(5.4)	(3.5)	(14.2)	(16.3)	41.4
Debt / equity	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt / equity	(76.5%)	(52.8%)	(114.8%)	(155.9%)	428.6%
Interest cover	2.4 x	9.7 x	12.3 x	2.8 x	1.6 x

Profit and loss (\$M)

Year ending Jun	2008	2009	2010F	2011F	2012F
Sales revenue	0.0	0.0	0.0	0.0	0.0
EBITDA	(1.1)	(1.9)	(3.2)	(3.0)	(2.0)
Dep'n and amort'n	(0.0)	(0.0)	0.0	0.0	0.0
EBITAg	(1.1)	(1.9)	(3.2)	(3.0)	(2.0)
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(1.1)	(1.9)	(3.2)	(3.0)	(2.0)
Net interest income	0.4	0.2	0.3	1.1	1.2
Pre-tax profit	(0.6)	(1.7)	(2.9)	(1.9)	(0.8)
Tax	0.0	0.0	0.0	0.0	0.0
Preference dividends	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Lodge adjustments	0.0	0.0	0.0	0.0	0.0
Lodge adj profit	(0.6)	(1.7)	(2.9)	(1.9)	(0.8)
Reported profit (pre sig)	(0.6)	(1.7)	(2.9)	(1.9)	(0.8)
One-off items (post tax)	0.0	0.0	0.0	0.0	0.0
Reported net profit	(0.6)	(1.7)	(2.9)	(1.9)	(0.8)

Cashflow (\$M)

Year ending Jun	2008	2009	2010F	2011F	2012F
EBIT	(1.1)	(1.9)	(3.2)	(3.0)	(2.0)
Net interest paid	0.4	0.2	0.3	1.1	1.2
Dep'n and amort'n	0.0	0.0	0.0	0.0	0.0
Tax paid	0.0	0.0	0.0	0.0	0.0
Gross cash from op'ns	(0.6)	(1.7)	(2.9)	(1.9)	(0.8)
(Inc) / dec in wk'g cap	0.1	(0.2)	0.1	0.0	0.0
(Inc) / dec in provisions	0.0	(0.0)	0.0	0.0	0.0
Other	(0.1)	1.3	0.0	0.0	0.0
Operating cashflow	(0.5)	(0.6)	(2.8)	(1.9)	(0.8)
Investing cashflows					
Capital expenditure	0.0	0.0	4.8	4.0	(56.9)
Asset sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	(1.5)	(2.6)	0.0	0.0	0.0
Financing cashflows					
Equity raised	1.1	1.2	8.7	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Chg in loans	0.0	0.0	0.0	0.0	0.0
Other non-op flows	0.0	0.0	0.0	0.0	0.0
Net chg in cash	(0.9)	(2.0)	10.7	2.1	(57.6)

Interims (\$M)

Half yearly	1H08	2H08	1H09	2H09	1H10
Sales revenue	-	-	-	-	-
EBITDA	-	-	-	-	-
EBIT	-	-	-	-	-
Lodge adj profit	-	-	-	-	-
Reported profit (pre sig)	-	-	-	-	-
EBIT / sales	-	-	-	-	-
EPS (¢)	-	-	-	-	-
EPS growth on pcip	-	-	-	-	-
DPS (¢)	-	-	-	-	-
% of FY EBIT	-	-	-	-	-

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Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 10% over a 1 year period.

Hold: Expected Total Return between 0% and 10% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I, **Michael Lazar (Lazarevic)**, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

Corporate Disclosure

Lodge Partners Pty Ltd has earned corporate fees for providing corporate services to Lincoln Minerals.

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