## OIL AND GAS DIVISION

ASX Code: LNC
OTCQX Code: LNCGY

15 February 2013

# OIL AND GAS DIVISION RESULTS FOR SECOND QUARTER 2013

- **For the three months ended 31 December 2012 daily sales averaged 3,784 gross (2,800 net) BOEPD (99% oil).**
- **The average sales price was for the quarter was $101.53 per BOE.**
- **Quarterly adjusted EBITDAX was $13.6 million.**
- **The production exit rate at 31 December 2012 was 6,307, which represents a tripling of oil production in less than 12 months.**

Linc Energy Ltd ("the Company") is pleased to announce its Second Quarter 2013 financial results for its wholly-owned subsidiary Linc Energy Resources, Inc. ("LER").

LER is the head entity of the Company's Oil and Gas Group headquartered in Houston, Texas. As previously announced, on 12 October 2012 the Company, through its wholly-owned subsidiaries, issued $US265 million of senior secured notes ("Notes") bearing interest at 12.5% per annum due 31 October 2017. The Company is required under the terms of these Notes to report periodically on production and financial results of LER. All results quoted are based in US dollars.

**Oil and Gas Revenues**

For the three months ended 31 December 2012, LER's total revenues were $26.2 million, which were comprised of $26.2 million of oil revenues and $7,200 of gas revenues. During the quarter, LER sold 257,012 barrels of oil and 3,727 Mcf of natural gas net to its revenue interest, with daily sales averaging 3,784 gross (2,800 net) BOEPD for the period (99% oil). The average sales price was $101.75 per Bbl of oil and $1.93 per Mcf of natural gas, amounting to an average sales price for the quarter of $101.53 per BOE or $100.78 per BOE including the effect of hedges.

**Operating Expenses**

For the three months ended 31 December 2012, cash operating expenses were $8.1 million, including, lease operating expense of $4.5 million ($17.39 per BOE), re-engineering and workover expense of $2.1 million ($8.19 per BOE), production taxes of $1.3 million ($4.92 per BOE or 4.8% of revenue), and ad valorem taxes of $280,000 ($1.09 per BOE or 1.1% of revenue). General and administrative expenses were $4.2 million ($16.36 per BOE).

**Recent Developments**

During the second quarter of 2013, LER surpassed its oil production milestone of 6,000 barrels per day. The production exit rate at 31 December 2012 was 6,307, which represents a tripling of oil production in less than 12 months.

In the period, LER drilled eight wells and completed five of them with the other three to come online during the third quarter of 2013. Seven of the eight new drilled wells were in the Barbers Hill field in Chambers County, Texas and the other was in the Hoskins Mound field, located in Brazoria County, Texas. LER also recompleted 12 existing wells during the quarter. Nine of these wells were in the Barbers Hill field.

In Alaska, the 100 mile snow road into Umiat from Pump Station 2 has been completed and rig mobilization is nearing completion. The 100-man camp has been installed at Umiat and is supporting crews on location. The conductor pipe and cellar box have been installed at the DSP#1 well location and are currently being installed at a second well location. An ice road is currently under construction leading to the Umiat #23 well location. LER expects to begin drilling its initial well in February 2013.

The information gained from Phase I of the Winter Drilling Program will help to validate the geological model, further define the extent of the reservoirs, determine oil and rock properties for input into a reservoir simulation model, determine comparative production rates for horizontal and vertical completions and gather information on deeper reservoirs and resource potential.


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**LINC ENERGY RESOURCES, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**
**31 DECEMBER 2012**
(In thousands)

| | | |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ | 26,835 |
| Restricted cash | | 5,151 |
| Accounts receivable | | 12,809 |
| Inventory | | 1,451 |
| Prepaid expenses and other | | 1,004 |
| Total current assets | | 47,250 |
| Property and equipment: | | |
| Oil and gas properties, at cost (successful efforts method): | | |
| Proved properties | | 345,700 |
| Unproved properties | | 79,636 |
| Production facilities | | 20,057 |
| Office and other equipment | | 4,014 |
| | | 449,407 |
| Less accumulated depreciation, depletion and amortization | | (29,972) |
| Net property and equipment | | 419,435 |
| Deferred tax asset | | 600 |
| Other non-current assets | | 3,313 |
| | $ | 470,598 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ | 6,673 |
| Asset retirement obligation – current portion | | 3,335 |
| Accrued expenses | | 17,650 |
| Current taxes payable | | 168 |
| Total current liabilities | | 27,826 |
| Asset retirement obligation – non-current portion | | 20,048 |
| Due to affiliates | | 773 |
| Other long-term liabilities | | 3,781 |
| Equity: | | |
| Paid in capital | | 402,049 |
| Retained earnings | | 6,211 |
| Other comprehensive income | | - |
| Total Linc Energy Oil and Gas Entities equity | | 408,260 |
| Noncontrolling interest | | 9,910 |
| Total equity | | 418,170 |
| | $ | 470,598 |

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**LINC ENERGY RESOURCES, INC.**
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**
**31 DECEMBER 2012**
(In thousands)

| | | Three Months Ended 31 December 2012 |
|---|---|---|
| Revenues: | | |
| Oil and natural gas sales | | |
| Oil | $ | 26,151 |
| Natural gas | | 7 |
| Total revenue | | 26,158 |
| Operating expenses: | | |
| Production: | | |
| Lease operating expense | | 4,479 |
| Re-engineering and workovers | | 2,111 |
| Production taxes | | 1,267 |
| Ad valorem taxes | | 280 |
| General and administrative expense | | 4,216 |
| Depletion, depreciation and amortization | | 9,409 |
| Accretion expense | | 239 |
| Dry hole expense | | 468 |
| Net loss on derivative contracts | | 130 |
| Total operating expenses | | 22,599 |
| Other income (expenses): | | |
| Interest expense, net | | 1,957 |
| Gain on purchase of Gasrock NPI | | - |
| Other expenses, net | | (26 ) |
| Total other expenses | | 1,931 |
| Income before income taxes | | 1,628 |
| Income tax provision | | (940 ) |
| Net income | | 2,568 |
| Less: Net loss attributable to noncontrolling interest | | (6 ) |
| Net income attributable to Linc Energy Resources, Inc. | $ | 2,574 |

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**LINC ENERGY RESOURCES, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**
**FOR THE SIX MONTHS ENDED DECEMBER 31, 2012**
(In thousands)

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ | (267) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion, amortization and accretion | | 18,065 |
| Dry hole expense | | 5,865 |
| Unrealized loss on hedges | | 4,470 |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | | (2,575) |
| Decrease in prepaid assets and other | | 1,590 |
| Decrease in due to/from affiliates (net) | | 4,315 |
| Decrease in accounts payable and accrued expense | | 3,892 |
| Decrease in deferred tax liability | | (2,512) |
| Net cash provided by operating activities | | 32,843 |
| Cash flows from investing activities: | | |
| Additions to property and equipment | | (2,507) |
| Change in restricted cash | | (2,595) |
| Payments for evaluation and development | | (53,294) |
| Payments for oil and gas assets | | (3,060) |
| Net cash used in investing activities | | (61,456) |
| Cash flows from financing activities: | | |
| Repayment of debt | | (130,000) |
| Repayment of finance lease liabilities | | (110) |
| Capital contributed by parent | | 180,295 |
| Net cash provided by financing activities | | 50,185 |
| Net increase in cash and cash equivalents | | 21,572 |
| Cash and cash equivalents at beginning of period | | 5,263 |
| Cash and cash equivalents at end of period | $ | 26,835 |

*The financial presentation above represents the financial statements for Linc Energy Resources, Inc., which excludes interest expense and other costs related to the issuance of $265 million in senior secured notes, which are attributable to Linc Energy, GP. The primary differences include: deferred financing fees of $12.2 million and amortization of deferred financing fees of $0.5 million; bonds payable of $265 million and discount on bonds payable of $9.2 million; accrued interest payable of $7.2 million and interest expense of $7.5 million; and additional paid in capital of $244.8 million.*

**How We Evaluate our Operations:**

We use a variety of financial and operational measures to assess our overall performance. Among those measures are (1) volumes of oil and natural gas sold, (2) oil and natural gas prices realized, (3) per unit operating and administrative costs, and (4) Adjusted EBITDAX (as defined below).

The following tables contain certain financial and operational data for the three months ended 31 December 2012:

**Average daily sales:**

| | |
|---|---|
| Oil (BOPD) | 2,794 |
| Natural Gas (MCFPD) | 41 |
| Oil Equivalents (BOEPD) | 2,800 |

**Average sales price(1):**

| | |
|---|---|
| Oil ($/BBL) | $101.75 |
| Natural Gas ($/MCF) | $1.93 |
| Oil Equivalents ($/BOE) | $101.53 |

**Costs and expenses:**

| | |
|---|---|
| Lease operating expense($/BOE) | $17.39 |
| Re-engineering and workover expense ($/BOE) | $8.19 |
| Production taxes ($/BOE) | $4.92 |
| Ad valorem taxes ($/BOE) | $1.09 |
| General and administrative expense ($/BOE) | $16.36 |

**Reconciliation of Net Income to Adjusted EBITDAX(2)** *$ in thousands*

| | |
|---|---|
| Net income | 2,568 |
| Income taxes | (940) |
| Interest expense | 1,957 |
| Dry hole expense | 468 |
| Unrealized gain/loss on derivative contracts | (63) |
| Non-controlling interest | 6 |
| Accretion expense | 239 |
| Depreciation, depletion, and amortization | 9,409 |
| Adjusted EBITDAX | 13,644 |

(1) Average realized prices presented do not give effect to hedging.

(2) Adjusted EBITDAX is defined as net income before income tax, interest expense, unrealized gain/loss on derivative instruments, accretion, depreciation, depletion, amortization, impairment, dry hole costs and gain/loss on sale of an asset. Adjusted EBITDAX is not a measure of net income or cash flows as determined by GAAP, and should not be considered as an alternative to net income, operating income, or any other performance measured derived in accordance with GAAP or as an alternative to cash flows from operating activities as a measure of our liquidity. We present Adjusted EBITDAX because it is frequently used by securities analysts, investors, and other interested parties in the evaluation of high-yield issuers, many of whom present Adjusted EBITDAX when reporting their results. Adjusted EBITDAX has limitations as an analytic tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results or cash flows as reported under GAAP. Because of these limitations, Adjusted EBITDAX should not be considered as measures of discretionary cash available to us to invest in the growth of our business. Our presentation of Adjusted EBITDAX should not be construed as an inference that our future results will be unaffected by unusual or nonrecurring items.

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