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Clean Global Energy - 07 Jul, 2010

Keep the faith

CGV; Buy up to 8 cents

Clean Global Energy (CGV) is developing a three pronged strategy to be the first Australian underground coal gasification (UCG) company to commercialise UCG gas by selling commercial quantities to power stations. In a somewhat similar vein to the geothermal sector, there appears a lack of material advancement in many of the projects but the differentiating feature in the UCG Sector is that the technology has essentially been proven.

“CGV remains on track to deliver commercial quantities of syngas in Q4 2011. Its weak performance reflects a lacklustre sector and some legacy selling.”

We continue to support CGV with this three pronged attack as it appears focused only on producing commercial quantities of gas rather than then seeking to produce liquids with more advanced processes. The company has three plays: its Queensland projects where it will shortly report a JORC resource and then following coal quality analysis, will apply for a mineral development licence, a Victorian play which will shortly involve drilling to define JORC resources, and its Inner Mongolia play which is described below.

The CGV share price has been afflicted with the exit of legacy shareholders (it used to be the Balkans Gold shell) as well the activities of day traders. Its share price performance has been disappointing but with a target production in the 4Q CY2011 (probably in China) and development announcements along the way, the share price should experience a steady recovery.

The advantage of UCG is that it able to extract more than 80% of the energy of stranded coal seams which are generally greater than 200m deep and also creates a far smaller footprint. This contrasts with coal seam gas (CSG) operations which only extracts around 5% of the available energy. An important issue is the fact that CSG operations essentially sterilise the coal seams for later UCG production so it is a case of selecting which process is going to be utilised for a particular area to the exclusion of the other. This is particularly relevant in Queensland with the problem of overlapping tenements but the Governments of both Queensland and Victoria are now recognising the efficiencies of extracting far higher quantities of energy per tonne of coal using UCG rather than CSG extraction.

The company's activities in China are being progressed through a Hong Kong incorporated entity called AuSino Energy. The company has recently announced that it has signed a letter of intent which will provide US\$30m to fund Stage 1 of AuSino Energy's commercial UCG plant in China, Stage 1 being a 7PJ enriched air UCG Syngas Plant.

AuSino Energy Limited is also discussions to acquire its own 300Mt coal lease in Inner Mongolia and clearly representing a substantial resource. AuSino Energy is also negotiating with the State owned CECIC which as a State owned coal power stations, could justify a second commercial UCG project in Inner Mongolia.

The company is in advanced negotiations with one China based investment group having expressed a strong interest in funding the entire US\$30m. The group is due to visit Clean Global Energy in Australia within the next 2 to 3 weeks to further these negotiations.

Overall the strategy is to develop the Stage 1 project comprising the 7PJ UCG Syngas Plant and then float the company on the Hong Kong stock exchange to then raise sufficient capital for a major expansion of the project using the vast coal resources.

Stock Resource Recommendation

While we are disappointed at the performance of CGV, there are a number of factors at play, particularly the overall lacklustre performance of the UCG sector. The company remains focused and despite its small size, has a significant global presence and manages to negotiate attractive deals. With the presence of leading UCG expert Dr Michael Green on the Board, we remain confident it will deliver over the next 12 to 18 months.

Hence, **Stock Resource recommends CGV as a Buy up to 8 cents for Members without current exposure.**

The Chartist's Perspective

Attempting to reverse



In a review of Clean Global in our April 15 Charting Perspectives (12.5c) we cited “The danger would be failure to reverse the trend and a drop below 10c in the near term”. The price dropped through 10c, a few weeks later in early May, after failing to consolidate its position.

Falling by half into a triple turning point in the 5c zone in June the price has attempted a reversal. For confirmation of a change in direction the price needs to break resistance around 8c and then tackle the shorter-term downtrend in the 11-12c area.

Once clear the stock would gain the potential to head towards 16c where more consolidation may be necessary to build the momentum for the price to tackle the key downward trend located in the 24-26c region.

‘The Chartist’s Perspective’ has been independently derived by Regina Meani from charting and technical assessment, and has not taken into account fundamental analysis of the company.

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