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## **Managing Director's Address**

Ladies and Gentleman,

It is with great pleasure that I address you today in my new role as Managing Director of White Energy. As mentioned by Mr. Duncan, we have established a successful history of working together in the Australian coal sector, first with the predecessor to this Company, White Mining Limited, and more recently at Felix Resources Limited. The opportunity to lead White Energy through its next phase of growth as we work to unlock the true potential of the BCB technology and build an independent mid-tier Australian coal company was a key attraction.

2010 has been a year of significant growth and achievement as recognized by our entry into the S&P / ASX 200, but at the same time we are looking forward to 2011 where we are able to ramp-up to commercial production at our Indonesian plant. We are the first to acknowledge that we are not at the point of commercialization that we wish to be due to technical issues associated with ancillary processes such as the dust extraction and product handling and cooling system. We remain confident in the BCB technology and look forward to consistent sales of the world's first upgraded coal using this technology.

2010 also saw White Energy successfully grow its asset base through the acquisition of South Australian Coal Limited ("SACL"). As a consequence of that transaction White Energy is now organized around two distinct, but related, business divisions – Coal Technology and Coal Mining. The SACL acquisition has provided White Energy with the foundations to add new skills and expertise to your Board and attract a management team with a proven track record in coal asset development and operation. This expertise and experience will assist White Energy with improving the performance of our Indonesian plant at Tabang, drive the roll-out of the BCB technology in new markets such as North America, commercialise the application of the BCB technology to coal fines and develop export coal mines.

Today's announcement of White Energy's option to acquire Cascade Coal is another clear step in realising our strategy of acquiring quality coal assets which will create shareholder value as we build a more diverse coal company. A broader collection of coal assets will ensure White Energy is well positioned to take advantage of strong demand for coal from key Asian markets such as China, India, Japan and Korea. Mr Duncan and I have declared a conflict of interest as we are shareholders of Cascade Coal, however we are pleased to answer questions you may have on this proposed transaction.

### **PT Kaltim Supacoal ("KSC") – Joint Venture with Bayan Resources – Tabang Coal Upgrading Plant**

Significant achievement continues to be made at our 51% owned joint venture company, KSC, with the ramp-up of operations at our coal upgrading plant. However as highlighted by Mr. Duncan progress has been slowed over the last 6 months due to necessary engineering modifications that are being made to the plant.

Despite technical challenges causing delays to our production schedule, we continue to be buoyed by our recent successes at Tabang which includes the following:

- Consistent upgrading of feedstock coal from 4,000 - 4,400 kcals/kg GAR to 5,800 - 5,900 kcals/kg GAR with a 10-12% moisture content;



- The successful design and engineering modifications to the briquetter hoods removing the excess dust and an improvement to the coal injection system; and
- The sale of over 17,000 tonnes of upgraded coal to our joint venture partner, Bayan Resources, which they use to upgrade their standard ROM product.

The next phase of operations is focused on producing upgraded coal with an energy value of 6,100 kcals/kg GAR with 8% moisture content for sustained production runs. To achieve this, we have commenced work on the remaining rectification issues at the plant which we hope to complete by mid 2011. A summary of the final design technical rectification issues underway are as follows:

- **Coal Drying:** To reduce the moisture content down to the target level of 7% out of the drying column, there is need to lengthen the drying column. This is a relatively simple process requiring an extension to the current column based on a calculation of the moisture content in the feedstock coal. Design work to lengthen the column has commenced
- **Briquetting machines:** The mechanics of each briquetter's drive shaft between motor and gearbox and motor have not been performed to design. The standardized nature of the briquetter gearbox and motor has allowed for a simple engineering solution where we will install a new flexible coupling on each briquette machine. The plant will not need to be shut down to implement these changes
- **Power station:** The remote location of the Tabang site requires an external power supply. Reliability issues with the primary/secondary fans and steam valves at the power station have resulted in unnecessary production downtime that is not related to the BCB process. New valves and higher quality bearings have been sourced to eliminate this error arising in the future

The final outstanding issue that our design and engineering team is attending to relates to product handling and cooling systems at the plant. Due to the relatively high ambient air temperature and humidity levels at Tabang, the cooling process is not operating as designed on the relatively short conveyors that were put in place at the plant. We see this final step purely as a mechanical issue which we expect to overcome in the near future which will allow for the sale of commercial quantities of KSC coal into Asian export markets.

During 2011 we will continue to focus our operational resources at Tabang and support KSC as it transitions successfully to full operating mode. Once an investment decision is made on the proposed expansion of KSC's coal upgrading facility to 5 mtpa, our team will provide on-site construction guidance and further training to KSC's Indonesian work force. Mr. Mike Chapman, White Energy's COO, and his experienced coal operations team have based themselves in Balikpapan and Tabang to ensure our expertise and experience is available where it is most needed and relevant.

Much of the future coal mining potential from Indonesia involves high moisture coals in the 30 to 50% range. These coals, whilst often low in ash and sulphur, are extremely inefficient in regards to CO<sub>2</sub> make per unit of electricity. The BCB technology when applied to Indonesian coals in most cases doubles their value. The price uplift margin is significant. Couple this with very low ash and sulphur levels results in the production of a very attractive thermal coal product. For this reason, Indonesia is a key market for the BCB technology.

The submission of the Wyoming Air and Development Permit for the Peabody Project is a step forward for our North American operations and our joint venture partners there. White Energy has deployed design and engineering capabilities from Australia to manage the 'Americanisation' of the coal plant design and will continue to farm-in resources as is needed as these Projects progress.



## Cascade Coal

The proposed acquisition of Cascade Coal Pty Limited (“Cascade”) is a further company-changer for White Energy. Quality coal assets, let alone coal assets at an advanced stage of development are becoming increasingly difficult to acquire. Assuming successful completion of the transaction, Cascade will deliver to White Energy shareholders two export quality thermal coal assets which we will actively develop, as well as position us for further acquisition opportunities across the coal sector. Cascade has successfully progressed the development of Mt Penny to the point where application for a Mining Lease is imminent. Pending a granting of the Mining Lease for Mt Penny’s Open-cut 1, we are hopeful of commencing mine construction in 2012, with first coal sales anticipated in 2013.

As stated by Mr. Duncan, Cascade has channeled a significant share of its time and resources into Resource Block 1, known as Open-cut 1, which has an identified mineable resource of 119 Mt. The mine plan for Open-cut 1 is for run of mine production of 5Mtpa with a projected net saleable production in accordance with the conceptual development plan approved by the NSW Department of Industry and Investment of between 3.5 – 4 Mtpa, implying a 21 year life of mine at Resource Block 1.

Mt Penny’s access to infrastructure is a key advantage of the project as it reduces the capital commitment required to upgrade relevant infrastructure to get coal to market. In addition, Cascade has been in negotiation with land owners regarding access to land for Open-cut 1 and has been able to secure power supply and water rights to develop Open-cut 1. Again this positions the asset well for near term development.

If the acquisition is approved by shareholders, White Energy intends to continue the substantial progress that has been made by Cascade and submit a Major Projects Application to the Department of Planning for Open-cut 1 in the near future. In parallel White Energy will continue to evaluate other partnership and development options at Mt Penny and at Glendon Brook.

Finally I would like to thank all of our shareholders for their support throughout 2010. I look forward to working with you and delivering on your company’s potential. To all our employees, thank you for your hard work throughout 2010 and the progress that has been achieved at White Energy.