Business Spectator
Cleaning up stateside
May 15, 2009

Chairman of cleaner coal technology company White Energy, John McGuigan, tells Business Spectator's Isabelle Oderberg:

- **Why a deal with US giant Peabody Energy will be transformational for the company**
- **The group continues to be headquartered in Australia, because this is where technology was developed, despite its three biggest markets being the US, Indonesia and China**
- **Its two major US deals, with Peabody and Buckskin represent 28 million tonnes a year**

Isabelle Oderberg: I was wondering if you could just give me a broad overview of how this deal is going to be somewhat transformational for White Energy in terms of its operations?

John McGuigan: Yeah, sure. Well Isabelle, we've had an office established in the United States for maybe going on 18 months now and we've seen for some considerable time before that, the huge potential for White Energy in the US, but specifically in the Powder River Basin. It's a massive area of sub-bituminous coal. It currently produces and sells something in excess of 450 million tons of coal per annum and we see it as a real sweet spot for our business and an opportunity that now Peabody has recognised that, in a sense, we can be somewhat transformational in developing a new product out of the Powder River Basin.

We have been working with one of the other coal producers in the Powder River Basin, Buckskin, for some considerable time and we in fact have an arrangement with them to build a one million tonne per annum plant on the Buckskin mine taking that to eight million tonnes per annum and our technology and its potential led to discussions taking place, probably over the last 12 months almost with Peabody, who actually approached White Energy with a view of wanting to know more about our technology and how it worked and how it might apply in the Powder River Basin.

So we have, as you'd understand on a deal of this magnitude, been communicating with Peabody for some considerable time testing a variety of coals that Peabody produces in the Powder River Basin and working through the details of the technology and that has led to the announcement of yesterday. Clearly from our perspective an announcement with the world's largest coal producer to go to 20 million tonnes per annum is sort of a hallmark event for us but I think interestingly as Peabody have indicated, they very much share our view that the technology will unlock significant value in the reserves in the Powder River Basin.

IO: For shareholders, how will this deal translate into success and return on investment?

JM: Oh well, I think what the deal does is provide the company with a very very significant platform which is real and genuine with two major players. One is Buckskin and the other is Peabody to develop a business of real scale in the United States. If you put the two deals together it's 28 million tonne per annum and in terms of our forecast of the profit that will accrue as a result of the upgrading of the sub-bituminous coal into a higher energy product there is a very significant and real bottom line effect for White Energy to shareholders.

IO: You mentioned that you'd been talking to Peabody for the last year or so – that's a long time for negotiations to go on for. Was that frustrating? Is that because they're such a big company?

JM: No, not at all frustrating. The relationship has developed very positively and to us it is a positive rather than a negative, because it demonstrated to us just how seriously Peabody was taking White Energy and it's technology. When we use the word 'negotiations' that's probably a little over-reaching, because there has really been a lot of business discussions in terms of Peabody understanding our technology. Understanding it's capacity to be scaled and on our part getting a better understanding of the scope of the benefits that exist and the opportunities that exist in the US market.

One small example is that clearly shipping coal from the Powder River Basin to markets in the mid west or the east coast of the United States involves a very, very substantial rail freight and we have a situation where with our product it is a much more user-friendly product for the rail companies. The dust which is a big problem for them is just not present and ancillary benefits such as that, that we've used this time to really get a better understanding of.

IO: Are you in talks with any other companies at the moment?

JM: In the United States? No, not in the United States.

In the United States there's two ends to the equation obviously. One is the coal supply end and the other is the off-take end by the energy companies so there is significant ongoing communication between White Energy and the energy companies based throughout the United States who are expressing a real interest in our product. They share our view that it is essentially creating a new product out of the Powder River Basin and they are quick to understand the benefits that accrue to them in them acquiring and then burning a higher energy coal with low pollutant characteristics which is of course very much a focus in the US at the current time.

IO: Are you expecting more deals to come from the Peabody agreement? I mean sometimes it's a question of other players want to see someone big sign up before they do it themselves?

JM: I think in the US we would take the view that with the Peabody opportunity and the Buckskin plant that we've committed to and is, as I said, already underway that we have established a genuine and very exciting platform for development in that market and our dominant job will be focussing on those opportunities. I don't believe in the short to medium term that we'll be seeking out other deals in the US. One of the risks for any company is trying to do everything at once and we have endeavoured to have a real priority around targeting the markets which we think are the most attractive for the White Energy technology and they are of course Indonesia, the United States and by no means a distant third, China.

IO: Why does the company continues to be headquartered in Australia, when it seems that some of the greatest opportunities are offshore?

JM: That's a good question. The technology was developed here is the short answer and the people that understand it are here and we are in the midst, not surprisingly, of building a global organization. We've got an office in Jakarta with people on the ground. We've got an office in the US with a highly-talented group on the ground and we've got a small office in China but you know, your point is well made and as things evolve it may become self evident that there are better places to headquarter the company but for the present, this is where the technology was developed, this is where the people are based and it's working just fine in terms of our ability to use Australia as a base to develop the global business.

IO: Do you see the US as the key market for you guys going forward?

JM: We see it as a very important market without question. I would not want to get into a ranking. I think Indonesia is also a very exciting market for us. The ability to produce at effective cost an energy product which is the equivalent of Australian thermal coal with lower ash and lower nitrous oxide, lower sulphur, creates a great opportunity in the traditional Asian export markets. But the US is undoubtedly key and is probably being made more significant as the Obama administration has indicated that they genuinely understand the role of coal in the medium to longer term, and that a cleaner coal product is something to be encouraged and of course the US capital markets are the deeper capital markets and that in and of itself can't be ignored.

IO: Thank you so much for your time. I really appreciate it.

JM: It's a pleasure.