

**White Energy Company, Ltd. (WECFY)**

**Buy**

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**ASSAC Merger Progresses as Tabang Readies for Production; 1H09 Loss Greater than Expected; Revising Estimates; Maintaining Buy**

**Key Metrics**

Price OTC QX-ADR 5:1:	US\$4.50
Price ASX (WEC) :	AU\$1.25
Rating:	Buy
52-Week Range ASX:	\$1.18-\$3.95
3-Year EPS Growth:	NM
Cash (M):	AU\$10.8
Debt (M):	AU\$58.8
Debt/Capital:	42%
Book Value/Share:	AU\$0.52

**Market Data**

Market Cap (USD M):	US\$140
Ent. Value (USD :M):	US\$179
Shares Out—ASX. (M):	126.0
Float (M) - ASX:	112.9
ADRs Out <sup>(1)</sup> —QX. (M):	31.0
Insider Ownership:	34%

**Stock Performance (OTC QX)**



**Valuation (AUD based)**

P/E FY11E:	7.6x
EV/FY10E Net Revs:	9.1x
EV/FY11E Net Revs:	2.1x

**Company Description**

White Energy, based in North Sydney, Australia, is the exclusive worldwide license holder of a unique Binderless Coal Briquetting (BCB) process that enhances relatively poor quality coal (sub-bituminous) and significantly increases its energy efficiency through a low cost production process. The patented process involves the crushing, drying and briquetting of high moisture coals, resulting in the reduction of moisture content and converting the product into a higher energy, stable product with low sulfur and ash characteristics.

**Investment Conclusion**

White Energy Company is focused on the commercialization of coal upgrading technologies. The company owns the global marketing rights to the White Coal Technology, a patented process that incorporates dehydrating and briquetting of lower-grade coals to achieve a higher-grade equivalent. Leveraging this fuel upgrading process, the company can take advantage of the price differential by brown, sub-bituminous and bituminous coals, yielding a high margin business which simultaneously improves plant emissions.

**Summary**

- **1H09 reported.** White Energy reported its first half results for FY09, resulting in net revenue of AU\$1.6M and EPS of (AU\$0.11) vs. our estimates of AU\$1.0M and (AU\$0.07). White Energy's greater than expected loss per share was dictated by increasing operating expenses over our expectations. For 1H09, cash flow from operations was negative (\$9.1M) and the company finished the December period with AU\$10.8M cash and AU\$58.8M of debt. The AUD has risen against USD since our last report (AU\$1.55 per USD) by 21% closing at AU\$1.22 per USD. We are using current exchange rates for our estimates.
- **Agreement with ASSAC getting finalized.** White Energy has proposed merging with Asia Special Situations Acquisition Corp. (ASSAC) and appears close to a shareholder vote on the matter. The transaction would result in White Energy owning approximately 65% of its White Energy Company subsidiary which maintains the worldwide rights the BCB process, while ASSAC would own the remaining 35%. ASSAC would infuse up to AU\$170M into the company.
- **Estimates and valuation.** We are revising our estimates for White Energy based on our expectations of higher corporate operating expenditures, current exchange rates, the anticipated new capital structure (ASSAC merger) and increasing production assumptions relative to its North American operations. We are initiating FY12 estimates and look for cash flow and bottom line profitability in both FY11 and FY12. We maintain our Buy rating on White Energy.

**MCF Estimates\* - AUD**

	FY08A	FY09E	FY10E		
SALES* (M)					
1H	\$1.2	\$1.0	\$1.6A		
2H	\$2.7	\$14.9	\$16.9		
<b>FY (June)</b>	<b>\$4.0</b>	<b>\$15.9</b>	<b>\$18.5</b>	<b>\$35.9</b>	<b>\$26.5</b>
EPS*					
1H	(\$0.05)	(\$0.07)	(\$0.11)A		
2H	(\$0.07)	\$0.02	\$0.01		
<b>FY (June)</b>	<b>(\$0.12)</b>	<b>(\$0.05)</b>	<b>(\$0.08)</b>	<b>\$0.01</b>	<b>(\$0.04)</b>
P/E	NM	NM	NM	NM	NM

\*Net Revenues—AUD

(1) Adjusted for 5-1 ADR

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## Company Overview

Headquartered in Sydney, Australia, White Energy Company (ASX: WEC and OTCQX: WECFY) holds an exclusive patent on a coal-refining technology developed by Australia's Commonwealth Scientific and Industrial Research Organization. The company's White Coal Technology upgrades lower-grade coals by removing moisture from the coal, thereby increasing heat energy content, quality and, most importantly, value. In a process that has been largely proven in other industrial applications, the low-grade coal is crushed, dried and compacted, which creates closer bonding between coal particles. This bonding allows for the coal to be a higher density while protecting against spontaneous combustion, allowing the coal to be more easily distributed.

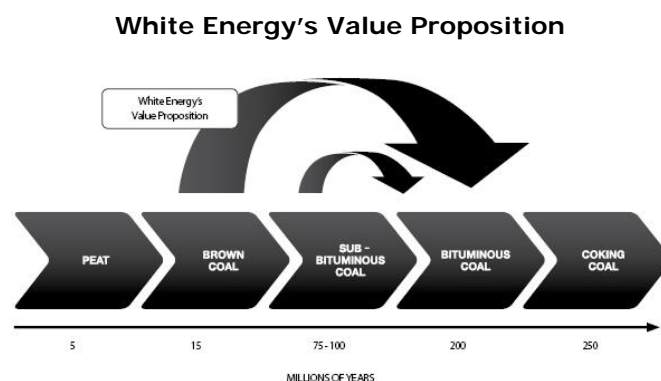
The company is moving forward with other joint venture agreements for expansion into other key target markets including China, North America and Africa. The company's BCB process produces an upgraded coal briquette which significantly reduces the hazards and adverse environmental effects of transporting the resource to the points of consumption. White Energy's BCB process reduces the possibility of spontaneous combustion of the coal, because the upgraded coal is physically stable and resists the re-absorption of moisture, which can cause the coal to spontaneously combust.

## White Energy's Technology Benefits

- **Higher energy content.** The BCB process increases heat, the useable energy content, by 30-200%, creating valuable power generation efficiencies.
- **Mechanical process.** The BCB technology results in a mechanical process (not a chemical process) that is designed to work at coal mines.
- **Low upgrading costs.** White Energy's BCB process generates favorable conversion economics allowing the product to compete with bituminous coals.

## Value Proposition

There are a number of benefits to be realized from applying this technology, ranging from economic to environmental, which help to provide for an attractive business model, in our view. The White Coal process creates a product that is significantly upgraded from its original state. Looking at the following diagram, one will note the general degree of upgrading the coal undergoes.



*Source: White Energy Company, Ltd.*

White Energy's Binderless Coal Briquetting process enhances relatively poor quality coal (i.e. 8,800 Btus/lb.) typical of Powder River Basin coal, and significantly increases its energy content to that of higher quality coals (i.e. 11,500 Btus/lb.) at a cost that is a fraction of the pricing delta traditionally observed in the market place.

The current spread among these diverse (low Btu content vs. high Btu content) coal products is approximately \$60 per ton. White Energy's binderless coal briquetting process is estimated to cost approximately \$35 per ton to upgrade from Powder River Basin quality to Uinta Basin coal quality, resulting in a significant potential profit margin of \$35 per ton for the company's upgraded coal. Therein lies the economic attractiveness of White Energy's low cost process.

### Indonesia

White Energy's 51% owned subsidiary, PT Kaltim Supacoal, has constructed a 1 million metric ton (MT) per annum binderless coal briquetting plant at the Bayan Resources Tabang Mine in East Kalimantan, Indonesia, which is currently undergoing commissioning. **PT Bayan Resources** owns 49% of the joint venture (Tabang project). This will be the first commercial scale plant White Energy has constructed, however we believe this to be only the beginning of a global rollout plan.

White Energy anticipates that production from the Tabang plant will be ramped up to full capacity from April to September of 2009, with coal sales of upgraded product expected during this ramping phase. Our model looks for initial revenues generated from the sale of upgraded coal from the Supacoal joint venture in F2H09 (current accounting period).

White Energy has also signed a joint venture agreement with **Adaro Indonesia and Itochu Corporation** to construct coal upgrading plants with up to 8 million MT of annually capacity at an Adaro mine in Indonesia (Adaro project). The joint venture anticipates completing the commissioning of the facility with an initial capacity of 1.0 million MT per year in the winter of CY10 and beginning production and sales of upgraded briquettes in the spring of CY11. White Energy will own 51% of this joint venture with Adaro and Itochu owning 29% and 20%, respectively. Our earnings model has been modified to incorporate the anticipated equity ownership changes, but will be reviewed upon shareholder approval of the transaction.

### North America

The center of the domestic coal resurgence may come from the Powder River Basin, a region spanning the Montana–Wyoming border. As of February 2005, the United States has an estimated 268 billion tons of recoverable coal in existing mines, which is two or three times as much energy in coal as Saudi Arabia has in oil. Nearly half of that coal is located in the Powder River Basin.

Although Eastern coal from Appalachia has dominated the coal industry in the past, the supply is beginning to run short (or is harder to access), and the price has climbed significantly over the past few years. The price of Powder River Basin coal, on the other hand, has fluctuated by very little over the same period.

In March 2008, White Energy signed a Development Agreement with NRG Energy and Buckskin mining company, a wholly owned subsidiary of Kiewit Corporation, and subsequently completed a feasibility study to build a plant in the Powder River Basin near Gillette, Wyoming. Pursuant to the agreement, Buckskin proposes to lease the property necessary to site the plant at the Buckskin Mine, along with right of way for access to the sub-bituminous coal.

## Africa

White Energy has signed a joint venture agreement with an entity managed by Black River Asset Management LLC (Black River), an independently managed subsidiary of Cargill, under which White Energy and Black River will jointly develop and commercialize coal upgrading opportunities throughout Africa. The joint venture is owned 51% by White Energy and 49% by Black River.

The JV will actively originate, develop, construct and operate coal upgrading plants in Africa whether on its own or in conjunction with companies in Africa having access to appropriate coal reserves and/or power companies looking to increase their energy output. The JV will have exclusive rights to utilize White Energy's coal upgrading technology on the African continent.

White Energy, in addition to profit generated from its equity interest in the JV, will receive an ongoing royalty stream based on the quantity of upgraded coal sold by the JV. **Our model does not yet incorporate any revenues from projects that the White Energy/Black River joint venture will be pursuing.**

The African market represents a large opportunity for White Energy's coal upgrading technology for sub-bituminous coal reserves in that geography, in addition to opportunities related to utilizing discarded coal fines. The White Energy briquetting process can also be used as a means of producing stable and transportable lump coal from unwanted undersized fractions of high energy bituminous coals in the region.

## ASSAC Merger

In December 2008, White Energy signed a binding letter of intent with Asia Special Situation Acquisition Corp. (ASSAC—AMEX:CIO) whereby White Energy has agreed to merge its South East Asian business into ASSAC. Post merger, White Energy should own approximately 65% and ASSAC's existing shareholders should own 35% of the merged entity. If approved by shareholders, ASSAC will maintain its public listing on the AMEX, but will change its name to White Energy Coal Technology Corporation (WET).

Post merger, WET's assets should include:

- Global rights to utilize White Energy's BCB coal upgrading technology on a global basis.
- Ownership of White Energy's 51% share of two joint ventures in Indonesia with Bayan Resource Group and Adaro Group and Itochu Corporation.
  - \* The Tabang Coal Upgrade project in partnership with Bayan is scheduled to have an initial capacity to upgrade 1 million MT per year with the objective of having total production of 5 million MT by 2011.
  - \* The Adaro Coal Upgrade project is scheduled for initial capacity of 1 million MT also, and is projected to increase capacity to 5 million MT by 2012 and eventually to 8 million MT per year capacity.
- Cash of up to AU\$170 million, which will be used to expand WET's operations and support existing joint ventures.

## Balance Sheet, Earnings Model and Valuation

White Energy finished 1H09 (December) with AU\$10.8 million in cash and approximately AU\$59 million in debt, (includes convertible notes issued October 2007). In addition, White Energy maintains a convertible funding facility with BHP Billiton Group which provides for a US\$35 million, seven year unsecured convertible funding and appointment of BHP Billiton as the company's exclusive global marketing agent. White Energy drew down US\$10 million from this facility during February 2008.

**White Energy Company, Ltd. (WECFY)**

Buy

We estimate the company will earn AU\$0.16 per share on net revenue of AU\$113 million in FY11, vs. our previous estimates of AU\$0.21 per share on AU\$87M of net revenue. We are initiating FY12 estimates of AU\$197M and AU\$0.30 per share. Applying a 12-15x multiple to our FY11 earnings estimate and discounting it back indicates a fair value for the ADR the US\$7-9 range.

Given the company's proprietary position, and the large and expanding market opportunity within the coal industry for cleaner products, we believe this multiple range could be viewed as conservative. We are maintaining our Buy rating on WECFY shares.

**Other Public Companies Mentioned in this Report**

*Prices as of March 19, 2009*

Itochu Corp. ADR (ITOCY.PK \$48.16, Not Rated)

NRG Energy, Inc. (NRG \$17.88, Not Rated)

## White Energy Company, Ltd. (WECFY)

Buy

## White Energy Company, Ltd.

## Balance Sheet

(AUD in thousands, except ratios)

	<u>FY07</u>	<u>FY08</u>	<u>1H09</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	15,073	34,956	10,750
Trade and other receivables	3,338	5,100	11,621
Inventory	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total current assets</i>	<i>18,411</i>	<i>40,056</i>	<i>22,370</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9,378	52,014	113,682
Exploration assets	2,374	2,581	2,353
Intangible asset, net	<u>55,730</u>	<u>53,518</u>	<u>53,162</u>
<i>Total non-current assets</i>	<i>67,482</i>	<i>108,113</i>	<i>169,198</i>
<b>Total assets</b>	<b>85,893</b>	<b>148,169</b>	<b>191,568</b>
<b>CURRENT LIABILITIES:</b>			
Trade and other payables	7,959	29,786	16,812
Borrowings	0	0	14,339
Derivative fin. instruments	<u>465</u>	<u>0</u>	<u>0</u>
<i>Total current liabilities</i>	<i>8,423</i>	<i>29,786</i>	<i>31,152</i>
<b>NON-CURRENT LIABILITIES</b>			
Other Payables			35,918
Convertible Notes, 7.9% CP of A\$3.44	<u>0</u>	<u>47,388</u>	<u>44,448</u>
<i>Total non-current liabilities</i>	<i>0</i>	<i>47,388</i>	<i>80,365</i>
<b>Total liabilities</b>	<b>8,423</b>	<b>77,173</b>	<b>111,517</b>
<b>Net assets</b>	<b>77,470</b>	<b>70,996</b>	<b>80,051</b>
<b>Equity</b>			
Contributed equity	84,135	97,131	103,705
Reserves	4,441	2,866	12,099
Accumulated losses	(12,151)	(26,963)	(41,176)
<i>Parent entity interest</i>	<i>76,425</i>	<i>73,035</i>	<i>74,628</i>
Minority interest	568	(2,039)	5,423
<b>Total shareholder equity</b>	<b>76,992</b>	<b>70,996</b>	<b>80,051</b>
	<u>FY07</u>	<u>FY08</u>	<u>1H09</u>
Current Ratio	2.2	1.3	0.7
Debt as % Total Capital	0.0%	40.0%	42.3%
Net Cash per Share	\$0.13	\$0.28	(\$0.31)
Book Value per Share	\$0.65	\$0.46	\$0.52

Source: company reports and Merriman Curhan Ford &amp; Co. estimates

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**White Energy Company, Ltd.  
Earnings Model**

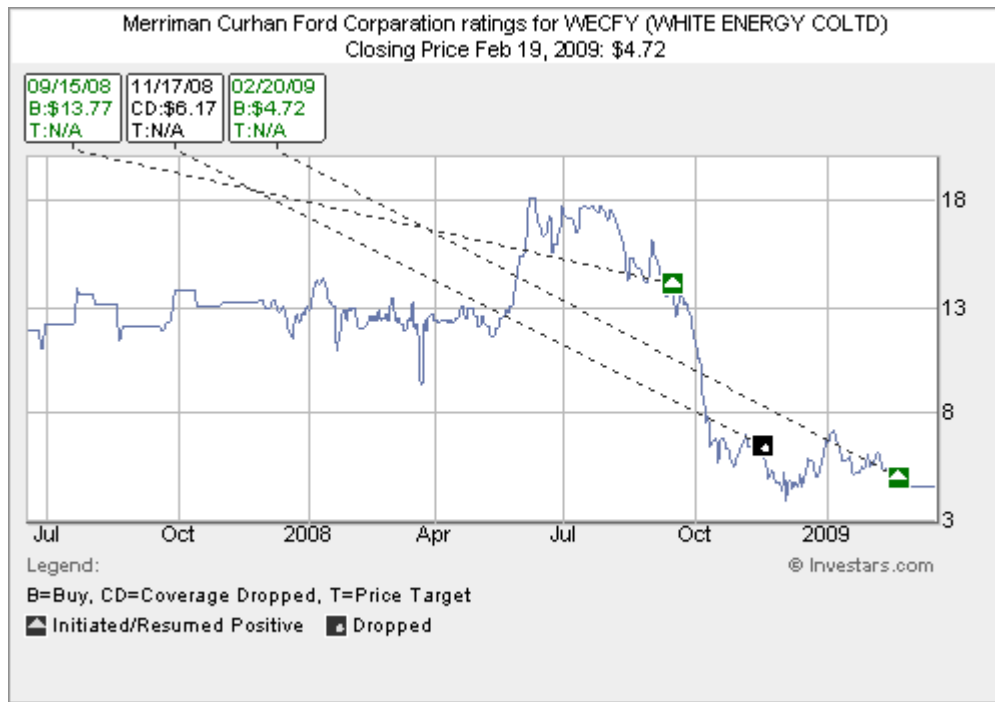
(AUD in thousands, except per share amounts)

	2008A		2009E		FY07A	FY08A	FY09E	FY10E	FY11E	FY12E
	H1A	H2A	H1A	H2E						
	Dec-07	Jun-08	Dec-08	Jun-09						
<b>Net Revenues (AUD)</b>	<b>1,303</b>	<b>2,749</b>	<b>1,588</b>	<b>16,940</b>	<b>3,988</b>	<b>18,527</b>	<b>26,523</b>	<b>113,159</b>	<b>197,239</b>	
Accounting and audit fees	228	238	75	250	262	325	350	450	500	
Employee benefits expense	3,865	3,361	4,842	4,800	5,984	9,642	9,800	11,000	13,000	
D&A	3,320	1,924	1,798	2,000	3,595	3,798	4,150	4,750	6,578	
Finance cost	1	1,870	2,111	2,100	2,611	4,211	4,215	4,300	5,500	
External advisory fees	2,682	2,266	3,491	3,450	3,903	6,941	6,500	6,500	6,500	
Write-off of deferred exploration costs	0	0	298	0	0	298	0	0	0	
Occupancy expense	511	442	520	525	686	1,045	1,100	1,250	1,600	
Travel	474	628	518	500	995	1,018	1,200	1,350	1,900	
Other	828	163	1,985	500	967	2,485	1,600	1,600	2,000	
<b>Total operating expenses</b>	<b>11,909</b>	<b>7,928</b>	<b>15,639</b>	<b>14,125</b>	<b>19,003</b>	<b>29,764</b>	<b>28,915</b>	<b>31,200</b>	<b>37,578</b>	
<b>Operating income (loss)</b>	<b>(10,606)</b>	<b>(8,325)</b>	<b>(14,051)</b>	<b>2,815</b>	<b>(15,015)</b>	<b>(11,236)</b>	<b>(2,392)</b>	<b>81,959</b>	<b>159,661</b>	
Income Tax	0	0	0	0	0	0	0	0	0	
Minority Interest	0	0	0	548	0	136	3,913	53,593	100,449	
<b>Net income (loss)</b>	<b>(10,606)</b>	<b>(6,690)</b>	<b>(14,051)</b>	<b>2,267</b>	<b>(15,015)</b>	<b>(11,372)</b>	<b>(6,305)</b>	<b>28,367</b>	<b>59,213</b>	
<b>Earnings per share (basic and diluted)</b>	<b>(0.09)</b>	<b>(0.05)</b>	<b>(0.11)</b>	<b>0.01</b>	<b>(0.12)</b>	<b>(0.08)</b>	<b>(0.04)</b>	<b>0.16</b>	<b>0.30</b>	
Basic and diluted share count	117,832	125,776	130,000	156,900	125,889	143,450	163,250	172,000	200,000	
<b>Operating Ratios</b>										
Net Margin	NM	NM	NM	NM	NM	NM	-23.8%	25.1%	30.0%	
<b>Year/Year Change</b>										
Total Revenue	NM	NM	NM	NM	NM	NM	43%	327%	74%	
Net Income	NA	NA	NA	NA	NA	NA	NM	-550%	109%	
EPS as Reported (Diluted)	NA	NA	NA	NA	NA	NA	NM	-527%	80%	

Source: company reports and Merriman Curhan Ford & Co. estimates  
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Buy



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- Neither Brion Tanous nor a member of his household serves on the board of directors of White Energy.
- Neither MCF & Co. nor its affiliates beneficially owns 1% or more of an equity security of White Energy.
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Neutral	37%	36	MCF & Co believes the stock price is fairly valued at current levels. Maintain position or take no action.	6%
Sell	4%	4	MCF & Co. expects the stock price to depreciate over the next 12 months. Sell or decrease position.	0%

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