



White Energy Company Limited

Appendix 5B Mining Exploration Entity Quarterly Report



SUMMARY OF ACTIVITY

A summary of major items of activity for White Energy Company Limited (“WEC”) during the quarter ended **31 December 2010** is outlined below.

COAL UPGRADING OPERATIONS

1. PT KALTIM SUPACOAL (“KSC”) – JOINT VENTURE WITH PT. BAYAN RESOURCES (WEC 51%)

Overview

During the December quarter, KSC continued to focus its attention on addressing the remaining technical issues at the Tabang plant and power station, which is necessary in order to enable the plant to achieve its design production rates.

Outstanding Technical Issues

The following plant modification work has taken place at the Tabang plant:

- **Coal Drying** – the coal drying column is in the process of being lengthened to achieve optimum coal drying conditions. This will not only enable the moisture content in the upgraded coal to be reduced to the target 7%-8% at the briquetter, but will also provide greater flexibility in running the plant at varying operating capacity . The extension is due to be completed during the next quarter and is a relatively straight-forward mechanical fix.
- **Briquetting Machines** – KSC has worked closely with its briquetter supplier on the necessary modifications to gearboxes on the briquetting machines, and is in the process of retrofitting each machine. This rectification work will not cause any production downtime.
- **Power Station** – following the retrofit of new valves and bearings, the 10MW power station on site is now operating with much greater reliability and apart from the installation of a soot blower during the next plant shutdown, no further modifications appear necessary at this stage.
- **Dust Extraction** – as previously reported, the dust extraction system which collects the fine dust generated in the briquetting process is undersized. Following further testing and sampling over the past few months, it has been decided that an additional system will be ordered and installed. This is targeted for mid year. In the meantime, the plant continues to operate as a result of the engineering modifications to the briquetter machine hoods completed in the previous quarter, albeit at a reduced capacity.
- **Briquette Handling and Stockpiling** – the briquette cooling tower is being relocated and approximately 400 metres of product conveyor system installed. This is designed to cool the briquettes down to ambient temperature before stockpiling.

IUP Licences

In relation to the IUP application, the relevant applications have been submitted to the local Bupati government and are currently being processed. As the relevant mining laws relating to such licenses are relatively new in Indonesia, this has caused some delay in the processing of all applications. However, KSC and its external lawyers are also liaising with officials from the Directorate General of Mineral and Coal (DGMC) to assist with and expedite this process. We expect to shortly receive an interim letter from the DGMC which will permit KSC to conduct sales and export activities whilst the formal issue of the IUP licenses is being finalized.

In the meantime, KSC continues to stockpile the upgraded product that is being produced at the plant.

Operational Management

KSC formally took over site management from the contractor as at the end of December, with all site operational and maintenance activities now controlled directly by KSC staff. The transition of site management to KSC will allow it to optimise long-term operating performance through the ongoing training and mentoring of staff.

KSC, with the support of its key expatriate staff members, has continued to make considerable progress in training local Indonesian plant operators. The development of an Indonesian workforce to operate the plant at Tabang was a key initiative identified during the initial commissioning of the plant.

Planned New Coal Export Laws in Indonesia

The Company acknowledges a *Bloomberg* report noting statements from an official at Indonesia's Ministry of Energy and Mineral Resources that the Indonesian government plans to ban exports of coal with an energy value of less than 5,600 kilocalories a kilogram starting in 2014.

The report, dated 20 January 2010, states that *"coal companies in Indonesia, the world's largest exporter of the fuel after Australia, will be required to upgrade the heating value of so-called low-rank coal if they want to ship it overseas, allowing them to charge a higher price, said Witoro Soelarno, secretary to the director general of coal and minerals at the Ministry of Energy and Mineral Resources."*

These changes to the relevant coal export regulations provide a significant opportunity for White Energy and the ongoing application of its BCB technology in the Indonesian market. The Tabang plant has already proven to successfully upgrade low rank feedstock coal of 4,000-4,400 kcals/kg GAR to 5,800-5,900 kcals/kg GAR.

It should also be noted that White Energy has to date carried out seventeen trial tests on fifteen different Indonesian coals.

2. NORTH AMERICAN OPERATIONS

Buckskin & Peabody Projects, Wyoming

Further to submission of the air permit application for the Caballo Grande Project with Peabody (55% White Energy) in October 2010, our North American subsidiary also submitted an application for an air permit for the Buckskin Project (100% White Energy) on 3 December 2010.

White Energy representatives continue to work with the Wyoming Department of Environmental Quality (“WDEQ”) as it reviews the Caballo Grande and Buckskin air permit applications. Once the WDEQ has completed its initial review, it will issue notices of technical completeness which will signal the commencement of the drafting of the air permits.

Kentucky Project

During September 2010, the Company announced that it has been granted final approval from the Louisville Metro Air Pollution Control District to build a coal upgrading facility located in Louisville, Kentucky, to be called the Jefferson Riverport Project (JRP). The White Energy Board is continuing to evaluate the strategic and financial merits of the proposed project and intends to make an investment decision by the end of the March 2011 quarter.

In addition to the upgrading and briquetting of high moisture coal, the Company is also evaluating the possible integration of a coal fines operation within the JRP Project as part of its initial feasibility study.

3. AFRICA – RIVER ENERGY (WEC 51%)

Throughout the December quarter, River Energy (51% owned joint venture with Black River/Cargill) has continued to advance discussions with a number of African resource owners that are looking to participate in a River Energy led coal fines project on their mine site. This would involve the upgrading of discarded thermal coal fines into compacted, transportable and useable briquettes with consequential significant increases in energy content and value.

4. OTHER BUSINESS DEVELOPMENT INITIATIVES

During the last quarter we have continued to receive a large number of enquiries regarding potential joint venture opportunities. Markets currently under review include China, Mongolia, Russia, Phillipines, Indonesia, the USA, Thailand and India.

COAL MINING AND EXPLORATION OPERATIONS

1. SOUTH AUSTRALIAN COAL LIMITED (“SAC”)

The Company is pleased to report that during the December 2010 quarter it completed a comprehensive resource drilling program at its Lake Phillipson coal deposit in South Australia (EL4534).

The drilling rig was demobilised from site on 18 December 2010, after completion of drilling activities. All core was recovered with minimal loss and is currently being stored in the White Energy core facility in Coober Pedy.

An additional sample for coal gasification tests was also recovered during the drilling process.

All coal quality samples have been sent to a laboratory for analysis and we are currently awaiting final results of this work.

A Competent Person under the JORC Code has been engaged to evaluate and report on the additional JORC Resources targeted during the 2010 drilling program, and the Company expects to receive a final report within the next 4-6 weeks confirming the quantum of additional JORC Resources identified.

2. MINERALS EXPLORATION - BRIDGETOWN

During the quarter White Energy continued to progress permitting to drill geochemical anomalies at the Cosy Creek Mo and BT020 Sn/Ta/Li targets within the Bridgetown Exploration Project in Western Australia.

The Company's environmental consultants continued to correspond with the Conservation Commission, the Department of Environment and Conservation and the Department of Minerals and Energy in order to finalise all permits necessary to drill test the Cosy Creek at BT020 targets. In this regard, a Conservation Management Plan was submitted to the Department of Environment and Conservation and a DRF fauna survey was also completed during the quarter.

GENERAL CORPORATE

1. PROPOSED ACQUISITION OF CASCADE COAL PTY LIMITED ("CASCADE")

On 30 November 2010, White Energy announced that it had executed an option and exclusivity agreement under which White Energy had an option (but not any obligation) to acquire all of the issued shares in Cascade. On 23 December 2010, following completion of initial due diligence by an Independent Board Committee (IBC) and its advisers, White Energy announced that it had exercised this option and agreed certain changes to the key commercial terms of the proposed transaction.

Should the proposed transaction complete, White Energy will provide consideration of \$486 million for 100% of the shares in Cascade, comprising of the following:

- Cash: Cascade's shareholders may elect to receive up to 20% of their consideration in cash, subject to a pro rata scale back if the total amount of cash that Cascade's shareholders elect to receive exceeds \$41 million; and
- Ordinary Shares: the remainder of the consideration (between \$445 million and \$486 million, depending on the amount of cash Cascade's shareholders elect to receive) will be provided in the form of fully-paid White Energy Ordinary Shares (Ordinary Shares). For these purposes, Ordinary Shares will be issued at the lesser of \$3.85 per share and their VWAP for the 15 trading days immediately before completion of the Proposed Transaction, subject to a minimum issue price of \$3.50 per share.

Next Steps and Transaction Timing

Following completion of confirmatory due diligence and finalisation of definitive legal documentation, White Energy and Cascade shareholders will enter into a sale agreement pursuant to which White Energy will purchase all the issued shares in Cascade from the Cascade Shareholders, subject to various conditions, including White Energy obtaining all Shareholder and regulatory approvals necessary for the proposed transaction.

Finalisation of definitive legal documents is expected within the next week and further details will be included under a separate ASX announcement at the relevant time.

Strategic Fit

As highlighted in the Company's announcement dated 23 December 2010, the proposed transaction represents a rare opportunity for White Energy to acquire an export quality coal mining asset with strong growth potential. The proposed transaction represents the next step along the path to achievement of White Energy's stated strategy of becoming a diversified coal company combining coal technology assets and coal mining assets and strongly underpins White Energy's objective of producing high energy, bituminous coal for sale into key Asian markets.

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Appendix 5B**Mining exploration entity quarterly report**

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

White Energy Company Limited

ABN

62 071 527 083

Quarter ended ("current quarter")

31 December 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	0	0
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	(a) (1,181) (b) (541) (c) (10,311) (d) Nil	(a) (1,232) (b) (1,308) (c) (14,298) (d) Nil
1.3 Dividends received	Nil	Nil
1.4 Interest and other items of a similar nature received	2,283	3,634
1.5 Interest and other costs of finance paid	(1,776)	(1,776)
1.6 Income taxes paid	Nil	Nil
1.7 Other (provide details if material) Staff costs, legal and accounting, administration	(4,117)	(9,469)
Net Operating Cash Flows	(15,643)	(24,449)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(a) Nil (b) Nil (c) (713)	(a) Nil (b) Nil (c) (1,039)
1.9 Proceeds from sale of:(a)prospects (b)equity investments (c)other fixed assets	(a) Nil (b) Nil (c) Nil	(a) Nil (b) Nil (c) Nil
1.10 Loans to other entities	Nil	Nil
1.11 Loans repaid by other entities	Nil	Nil
1.12 Other (provide details if material)	Nil	Nil
Net investing cash flows	(713)	(1,039)
1.13 Total operating and investing cash flows (carried forward)	(16,356)	(25,488)

1.13	Total operating and investing cash flows (brought forward)	(16,356)	(25,488)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	57,394	136,726
1.15	Proceeds from sale of forfeited shares	Nil	Nil
1.16	Proceeds from borrowings	Nil	Nil
1.17	Repayment of borrowings	(3,494)	(6,176)
1.18	Dividends paid	Nil	Nil
1.19	Other (provide details if material) *	8,408	2,519
	Net financing cash flows	62,308	133,069
	Net increase (decrease) in cash held	45,952	107,581
1.20	Cash at beginning of quarter/year to date	164,414	102,752
1.21	Exchange rate adjustments to item 1.20		33
1.22	Cash at end of quarter	210,366	210,366

* mainly professional fees and duties in relation to the acquisition of South Australian Coal Limited (SAC), less cash on hand in SAC on completion of takeover (\$8,705,248)

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.7	1,170
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities (#)	Nil	14,130
3.2 Credit standby arrangements	Nil	Nil
<i>(#) BHP Finance Facility. Excludes PT Kaltim Supacoal (51% owned Indonesian subsidiary) working capital facility with Standard Chartered Bank.</i>		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,100
4.2 Development	600
4.3 Production	3,000
4.4 Administration	Nil
Total	4,700

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	807	1,144
5.2 Deposits at call	209,559	163,270
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22) *	210,366	164,414

* excludes \$57.3m in cash received on 29/10/10 in respect of the SAC subscription rights offer

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			

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6.2 Interests in mining tenements acquired or increased

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Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)	N/A	N/A	N/A	N/A
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	N/A	N/A	N/A	N/A
7.3	*Ordinary securities				
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Opening 284,280,178 (a) 22,921,633 (a) 24,000 (b) N/A Closing 307,225,811	Opening 284,280,178 (a) 22,921,633 (a) 24,000 (b) N/A Closing 307,225,811	\$2.50 \$3.50 N/A	\$2.50 \$3.50 N/A
	*Performance securities 2010				
	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Opening 15,055,452 (a) N/A (b) N/A Closing 15,055,452	Not Listed	N/A N/A	N/A N/A
	*Performance securities 2011				

	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Opening 15,055,452 (a) N/A (b) N/A Closing 15,055,452	Not Listed	N/A N/A	N/A N/A
	*Unquoted Subscription Rights				
	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Opening 35,402,209 (a) N/A (b) (35,402,209) Closing 0	Not Listed	N/A N/A	N/A N/A
7.5	*Convertible debt securities <i>(description)</i>	(a) Unlisted convertible note with face value of \$250,000, 7.90%pa coupon convertible at \$3.22 per share, maturing on 12/10/2012	(a) Not listed	\$250,000	\$250,000
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Opening 180 (a) 0 (b) N/A Closing 180	Opening 0 (a) N/A (b) N/A Closing 0	N/A	N/A

7.7	Options <i>(description and conversion factor)</i>	(a) Director /ESOP – Closing 2,742,666	(a) Not listed 2,742,666	<i>Exercise price</i> (a) \$3.50	<i>Expiry date</i> (a) 30/11/11 with vesting conditions
		(b) Director /ESOP– Closing Nil	(b) Not listed Nil	(b) \$3.50	(b) 30/11/11 with vesting conditions
		(c) Director /ESOP– Closing 2,766,668	(c) Not listed 2,766,668	(c) \$3.50	(c) 30/11/11 with vesting conditions
		(d) Standard – Closing 2,000,000	(d) Not Listed 2,000,000	(d) \$3.65	(d) 07/10/13
		(e) Standard – Closing 750,000	(e) Not Listed 750,000	(e) \$3.65	(e) 31/10/13
		(f) Director / ESOP – Closing 2,611,667	(f) Not Listing 2,611,667	(f) \$3.50	(f) 31/03/14
7.8	Issued during quarter	(a) Nil	(a) Nil	N/A	N/A
		(b) Nil	(b) Nil		
		(c) Nil	(c) Nil		
		(d) Nil	(d) Nil		
		(e) Nil	(e) Nil		
		(f) Nil	(f) Nil		
7.9	Exercised during quarter	(a) 24,000	(a) 24,000	(a) \$3.50	(a) 30/11/11
		(b) Nil	(b) Nil	(b) \$3.50	(b) 30/11/11
		(c) Nil	(c) Nil	(c) \$3.50	(c) 30/11/11
		(d) Nil	(d) Nil	(d) \$3.65	(d) 07/10/13
		(e) Nil	(e) Nil	(e) \$3.65	(e) 31/10/13
		(f) Nil	(f) Nil	(f) \$3.50	(f) 31/03/14
7.10	Expired during quarter	(a) 40,000	(a) 40,000	(a) \$3.50	(a) 30/11/11
		(b) Nil	(b) Nil	(b) \$3.50	(b) 30/11/11
		(c) 40,000	(c) 40,000	(c) \$3.50	(c) 30/11/11
		(d) Nil	(d) Nil	(d) \$3.65	(d) 07/10/13
		(e) Nil	(e) Nil	(e) \$3.65	(e) 31/10/13
		(f) Nil	(f) Nil	(f) \$3.50	(f) 31/03/14
7.11	Debentures <i>(totals only)</i>	N/A	N/A		

7.12	Unsecured notes (<i>totals only</i>)	N/A	N/A
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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date 31 January 2011
 Managing Director & CEO
 Print name: Brian Flannery

Notes

- 1 The quarterly report provides a basis for informing the market how the entity’s activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, AASB 1022: Accounting for Extractive Industries and AASB 1026: Statement of Cash Flows apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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The information in this report, which relates to Exploration Results, Mineral Resources or Ore Reserves in EL 4534 (previously EL 3386), for coal, is based on information compiled by Jonathan Barber, who is a member of the Australasian Institute of Mining and Metallurgy. Jonathan Barber is employed as a consultant to South Australian Coal Limited. Jonathan Barber has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Jonathan Barber consents to the inclusion in this presentation of the matters based on his information in the form and context in which it appears in both.

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves at the Bridgetown project is based on information compiled by Richard Monti, who is a member of The Australasian Institute of Mining and Metallurgy. Richard Monti is employed as a consultant to the Company. Richard Monti has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Richard Monti consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.