

White Energy Company Limited

Appendix 5B Mining Exploration Entity Quarterly Report



Installation of a new horizontal briquette cooling system at the Cessnock Demonstration Plant, NSW

SUMMARY OF ACTIVITY

A summary of the major items of activity for White Energy Company Limited ("WEC") during the quarter ended **31 December 2012** is outlined below.

HIGHLIGHTS

- River Energy continues to build momentum in the African coal market, with a number of prospective project opportunities now under detailed consideration
- U.S. permitting team files 'minor source' air permit application for Buckskin Project in Wyoming draft air permit expected to be issued in Q2 2013
- White Energy executes option agreement to purchase U.S. coal mining asset, and commences detailed due diligence
- White Energy's geologists In Indonesia continue to conduct detailed analysis in respect of target coal concessions, which include coal upgrading opportunities requiring application of the BCB technology
- Mine planning and feasibility costing work progressing at Lake Phillipson
- Work continues on legal dispute with Bayan Resources relating to terminated KSC JV

COAL UPGRADING TECHNOLOGY

1. AFRICA - RIVER ENERGY JOINT VENTURE - WEC 51%

While the coal industry in South Africa has not been immune from the pressures facing producers in the global markets, there continues to be a strong focus at the political, environmental and business level on recovery and beneficiation of the vast quantities of fine coal resources that exist in South Africa.

Against this backdrop, during the December 2012 quarter River Energy has continued to consolidate its position with the major producers in the South African coal industry.

A summary of main items of activity for River Energy in South Africa during the quarter is as follows:

- A further two submissions for potential projects have been presented during the quarter, bringing the number of formal submissions made to major producers in South Africa to four;
- All of these potential projects are very large and represent opportunities for River Energy to engage in projects where the ability for the technology to scale is critical, and, along with our binderless process, is a key differentiator for prospective customers;
- While progress with the proposed project at the Optimum Colliery has been disappointingly slow, due mainly to other non-related business matters requiring Optimum management focus, we have continued to work closely with their team to define a project that incorporates a BCB plant and meets the commercial needs of both parties;

 Site sampling is now well underway at the South African mine site of another large international miner, as part of an agreed detailed feasibility study. Tonnage samples are beginning to arrive progressively at our Cessnock Production Plant for briquetting trials.

In addition, interest in the BCB technology from potential Mozambique coal producers continues to grow, as the major producers in that market look for opportunities to improve yields and find innovative logistical solutions.

Overall, the project pipeline in the African market continues to grow as more opportunities are identified, but the primary focus for River Energy is on conversion of the current submissions into projects.

2. NORTH AMERICA

Buckskin & Peabody Projects, Wyoming

The Company, via its wholly owned U.S. subsidiary company White Energy Coal North America Inc., continues to focus on obtaining air permits for its proposed coal upgrading projects in the Powder River Basin.

Presently, the availability of cheap shale gas in the U.S. has depressed the domestic market for Powder River Basin coal. Once there is an export outlet for this gas, the domestic coal price is expected to increase along with coal demand.

In the meantime, the main interest for White Energy is in working with the key coal producers in the Powder River Basin to develop a low moisture, higher calorific value product for the export market. Several U.S. coal producers are seeking approvals to build coal export terminals at various locations on the west coast. It may, however, take a number of years before such export ports are operational.

As reported previously, the U.S. team has spent considerable time investigating ways in which the proposed projects in Wyoming can be considered a 'minor' source of emissions which would mean that an application for a Prevention of Significant Deterioration ("PSD") permit would no longer be required.

In order for this to be achieved, it was necessary to provide evidence that the proposed Wyoming plants emit less than the threshold emissions for a 'minor' source. In this regard, the White Energy technical team measured the actual emissions data recorded at the Cessnock Demonstration Plant as part of coal testing works undertaken at the site, and this data was used by the U.S. permitting team in its submission process.

The minor source air permit application for the BCB process plant to be located on the Buckskin mine in Wyoming was submitted to the Wyoming Department of Environmental Quality ("DEQ") during January 2013. As the permit application is for a minor source it is anticipated that a draft permit will be issued by the DEQ during the second quarter of 2013.

It is also expected that a similar minor source air permit application will be submitted for the proposed Peabody project in due course.

North American Coal and Coal Fines Projects

As outlined in the previous quarterly report, the U.S. team continues to investigate opportunities associated with coal mining and the recovery and briquetting of coal fines and coarse refuse in the North American market. The majority of the effort is being directed towards metallurgical coal and coal fines. A number of potential project sites in Kentucky, Tennessee, Virginia and West Virginia are currently being investigated.

The section of this report under "Coal Mining and Exploration Operations" below outlines the present status of one of these opportunities, which may incorporate a coal fines upgrading plant which utilises the BCB process.

3. CESSNOCK PRODUCTION PLANT, AUSTRALIA

During the December 2012 quarter, the White Energy technical team continued to undertake a substantial amount of coal testing and development work at the Company's Cessnock Production Plant. In this regard, a number of Demonstration Plant runs on South African, North American and Australian reclaimed coal fines, along with pilot scale test work on a range of coals including sub-bituminous, bituminous thermal and bituminous coking coal products, took place at site, delivering promising results.

Also, coke oven testing of coking coal briquettes blended with crushed coking coal and fed into the coke oven is now being undertaken in conjunction with Bluescope Steel.

The White Energy technical team has recently completed the bulk of the modification work at the Company's Demonstration Plant, including installation of a new generation briquetting machine designed to double the capacity of the previous model. Following completion of these modifications, the Cessnock plant now has the ability to simulate a coal fines upgrading plant at the site, in addition to that of a sub-bituminous coal upgrading plant.

A large scale test run at the Demonstration Plant commenced in December 2012 using an Indonesian sub-bituminous coal, which is aimed at testing the quality of briquettes for use as feedstock in an industrial kiln process.

Further Demonstration Plant campaigns are scheduled over the coming months.

4. OTHER BUSINESS DEVELOPMENT INITIATIVES

During the June 2012 quarter the Company continued to receive a steady flow of enquiries regarding potential joint venture opportunities relating to the upgrading of coal in overseas markets. Markets currently under review include major coal producers and electricity generators in China, Mongolia, Indonesia, Myanmar and the U.S..

COAL MINING AND EXPLORATION OPERATIONS

1. NORTH AMERICA

During December 2012, White Energy advised shareholders that it signed an exclusive 90-day option agreement to acquire an existing open-cut coal mining operation in the Central Appalachia region. The coal currently being mined at the site is a specialty low-ash coal which is sold to niche markets at an attractive premium.

Should White Energy decide to proceed with the transaction following the 90-day option and due diligence period, the consideration payable for the purchase is expected to be approximately US\$21.5 million inclusive of all mine infrastructure, plant and equipment, permits and a US\$200,000 option fee. In addition, there will be a requirement to replace current security bonds of approximately US\$7.5 million on settlement of the proposed transaction.

Furthermore, as referenced above, it should also be noted that there exists the potential to utilise the BCB technology to process the coal fines currently arising from operations at the mine in question. Shareholders will be aware that the Company has previously tested coal fines sourced from a mine in the Central Appalachia coalfields at its Cessnock Production Plant, with encouraging results.

Key Company personnel are currently conducting detailed due diligence with respect to the proposed acquisition and will keep shareholders updated with developments in this regard. It is currently expected that due diligence will be completed by mid-March 2013.

2. INDONESIA

White Energy representatives in Indonesia continue to work with several parties to identify and evaluate coal deposits in the Indonesian market. A select number of potential project opportunities have been short-listed in recent months, with White Energy's Indonesian-based geologists conducting detailed analysis and due diligence in respect of the target concessions.

As outlined in previous reports, the coal properties being considered by White Energy comprise a mixture of coal qualities. Most of the resources are likely to be suitable for upgrading using the BCB technology, which has the potential to greatly enhance the value of such projects. In addition, the Company also expects that some of the resources in question will not require application of the BCB technology, and can be mined and sold directly into the export markets.

3. SOUTH AUSTRALIAN COAL LIMITED ("SAC")

Mine Plans & Costing

The Company continues to direct its attention to the development of mine plans on two of the most prospective shallow coal areas within the deposit located adjacent to the rail line. This includes the analysis of expected costs for supply of Lake Phillipson coal to the domestic power market in South Australia.

The supply of Lake Phillipson coal to the domestic power market could represent a near-term revenue opportunity as far as SAC is concerned.

Coal Gasification

In addition to the above, desk top studies are being conducted in respect of coal gasification opportunities at the Lake Phillipson deposit. A previous report issued by the German based company, Lurgi GmbH, has confirmed that the Lake Phillipson coal is suitable for gasification using their process.

4. MINERALS EXPLORATION- AMEROD RESOURCES - BRIDGETOWN

The Company is currently in the process of relinquishing E70/2856 in full. This will leave a 50% interest in E70/2855 which it will continue to evaluate.

GENERAL CORPORATE

1. PT KALTIM SUPACOAL ("KSC") – JOINT VENTURE WITH PT. BAYAN RESOURCES ("Bayan") - WEC 51%

Update on Legal Dispute

As previously advised to the market, the shareholders of KSC, BCBC Singapore Pte Ltd ("BCBCS") a White Energy subsidiary and Bayan, are currently in dispute over matters relating to the Tabang coal upgrading plant, located at Bayan's Tabang mine in East Kalimantan, Indonesia.

On 27 December 2011, BCBCS and Binderless Coal Briquetting Pty Limited ("BCBC"), commenced legal proceedings in the High Court of the Republic of Singapore against Bayan.

The issues in the legal proceedings include a claim by BCBCS and BCBC against Bayan for damages for breach of the Joint Venture Deed between the KSC shareholders, including the obligation to supply coal to KSC and the obligation to provide funding to KSC. Bayan has filed a defence to the claim, and also a counterclaim against BCBCS and White Energy seeking damages.

On 21 February 2012 Bayan gave BCBCS notice purporting to terminate the Joint Venture Deed. BCBCS considers that, among other matters, Bayan's purported termination amounts to a wrongful repudiation of Bayan's obligations, entitling BCBCS to terminate the Joint Venture Deed.

BCBCS accepted Bayan's repudiation, which brought the Joint Venture to an end. BCBCS is pursuing Bayan for all damages suffered as a result of Bayan's wrongful repudiation.

The directors believe that BCBCS took all steps to fulfil its joint venture obligations and that the failure of the Joint Venture is due to Bayan's failure to supply coal and provide funding to KSC and its purported termination of the Joint Venture Deed.

On 5 April 2012, following an application by BCBCS, the Supreme Court of Western Australia made interim freezing orders in respect of Bayan's 56% shareholding in Kangaroo Resources Limited, a publicly listed Australian company. On 18 April 2012, following a further hearing in

this matter, the Court extended the freezing orders indefinitely. Bayan has sought to challenge the grant and scope of those orders, and in this regard has commenced a challenge to the Court's jurisdiction to make such orders (including on constitutional grounds). Bayan initially commenced its challenge in the High Court of Australia but the High Court remitted the matter back to the Supreme Court of Western Australia. The challenge will be heard by the Supreme Court in February 2013. The orders will remain in place unless and until there is a further order made by the Court.

Status of Tabang Operations

As a result of the above dispute, KSC suspended operations at the Tabang plant in late November 2011. The Tabang site was subsequently placed on a care and maintenance program.

At the time of suspension of operations at Tabang, the various plant modification works being undertaken at site were over 95% complete.

Following a petition filed by a number of local creditors of KSC in the Commercial Court of Surabaya, Indonesia, administrators were appointed to KSC. Further to an order of the Court, KSC has now been placed into bankruptcy and curators have been appointed to manage this process. All KSC staff have now been terminated from the Tabang site and a small number of administrative staff who have been engaged by the Curators remain in KSC's Balikpapan office in order to assist the curator with the bankruptcy process. The Curators are currently seeking to realise KSC's assets with the object of distributing any proceeds to KSC's creditors.

As shareholders are aware, the White Energy Group has previously fully impaired its investment in KSC and as such the bankruptcy process will not have any further impact on the accounting results of the White Energy Group.

2. BALANCE SHEET AND CASH RESERVES

As outlined in the attached, the Company had approximately \$100 million in cash reserves as at 31 December 2012, which includes the \$2 million security bond paid to the Supreme Court of Western Australia in April 2012, in support of the freezing orders made against Bayan's shareholding in Kangaroo Resources Limited.

During the December 2012 quarter, the repayment date for US\$8 million in shareholder loans previously provided by Black River to River Energy and guaranteed by White Energy, was extended until 30 June 2013. It is intended that this loan amount will be converted into equity in River Energy upon satisfaction of the relevant conditions precedent in the contractual arrangements between the parties. Otherwise, the loan amount will become payable on 30 June 2013, unless further extended.

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 | Quarter ended ("current quarter") |
| 62 071 527 083 | 31 December 2012 |

Consolidated statement of cash flows

| | | Current quarter | Year to date |
|-------------|--|------------------------------------|---------------------------------------|
| Cash fl | ows related to operating activities | \$A'000 | (6 months) |
| | | | \$A'000 |
| 1.1 | Receipts from product sales and related debtors | 6 | 63 |
| 1.2 | Payments for (a) exploration and evaluation (b) development (c) production | (a) (75) (b) (776) (c) (205) | (a) (176) (b) (1,772) (c) (442) |
| | (d) administration (*) | (d) (6,673) | (d) (12,485) |
| 1.3 | Dividends received | (a) (0,073) Nil | (u) (12,463) Nil |
| 1.4 | Interest and other items of a similar nature | | |
| 1.4 | received | 1,885 | 4,292 |
| 1.5 | Interest and other costs of finance paid | (988) | (988) |
| 1.6 | Income taxes paid | Nil | Nil |
| 1.7 | Other (provide details if material) | Nil | Nil |
| 1. , | Staff costs, legal and accounting, administration | | |
| | Net Operating Cash Flows | (6,826) | (11,508) |
| | | | |
| | Cash flows related to investing activities | | |
| 1.8 | Payment for purchases of: (a)prospects | (a) Nil | (a) Nil |
| | (b)equity investments | (b) Nil | (b) Nil |
| | (c) other fixed assets | (c) (594) | (c) (1,593) |
| 1.9 | Proceeds from sale of:(a)prospects | (a) Nil | (a) Nil |
| | (b)equity investments | (b) Nil | (b) Nil |
| | (c)other fixed assets | (c) 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) | (333) | (333) |
| | Net investing cash flows | (927) | (1,926) |
| 1.13 | Total operating and investing cash flows | | |
| r | (carried forward) | (7,753) | (13,434) |

^(*) includes legal fees incurred in respect of KSC dispute

| 1.13 | Total operating and investing cash flows | | |
|------|---|----------|----------|
| | (brought forward) | (7,753) | (13,434) |
| | | | |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | Nil | Nil |
| 1.15 | Proceeds from sale of forfeited shares | Nil | Nil |
| 1.16 | Proceeds from borrowings | Nil | Nil |
| 1.17 | Repayment of borrowings (**) | (25,000) | (25,000) |
| 1.18 | Dividends paid | Nil | Nil |
| 1.19 | Other (provide details if material) | Nil | Nil |
| | Net financing cash flows | (25,000) | (25,000) |
| - | 5 | | |
| | Net increase (decrease) in cash held | (32,753) | (38,434) |
| 4.20 | Cook at he significant forwards when the data | 422 220 | 120.020 |
| 1.20 | Cash at beginning of quarter/year to date | 133,339 | 139,020 |
| 1.21 | Exchange rate adjustments to item 1.20 | Nil | Nil |
| 1.22 | Cash at end of quarter (***) | 100,586 | 100,586 |

^(**) repayment of convertible notes during October 2012

(***) includes \$2 million WA Supreme Court Security Bond relating to the freeze order obtained in respect of Bayan Resources' shareholding in Kangaroo Resources Limited

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 1.2 (d) | 444 |
| 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 |
|------|--|
| | N/A |

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 | Amount used |
|---------------------------------|------------------|-------------|
| | \$A'000 | \$A'000 |
| 3.1 Loan facilities | Nil | Nil |
| 3.2 Credit standby arrangements | Nil | Nil |

Estimated cash outflows for next quarter

| | | \$A'000 |
|-----|--|---------|
| 4.1 | Exploration and evaluation | 75 |
| 4.2 | Development | 750 |
| 4.3 | Production | 100 |
| 4.4 | Administration (including legal fees re KSC dispute) | 6,000 |
| | Total | 6,925 |
| | | 0,525 |

Reconciliation of cash

| show | nciliation of cash at the end of the quarter (as n in the consolidated statement of cash flows) to elated items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|------|--|----------------------------|-----------------------------|
| 5.1 | Cash on hand and at bank | 1,023 | 3,609 |
| 5.2 | Deposits at call | 97,563 | 127,730 |
| 5.3 | Bank overdraft | | |
| 5.4 | Other (provide details) - WA Supreme Court Security Bond relating to legal dispute with Bayan Resources | 2,000 | 2,000 |
| | Total: cash at end of quarter (item 1.22) | 100,586 | 133,339 |

Changes in interests in mining tenements

Tenement

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

Nature of interest

Interest at

| 6.2 | Interests in mining tenements acquired or increased | | |
|-----|---|--|--|

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.

| 7.1 | Preference | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) N/A |
|-----|---|--|-----------------------------|--|--|
| 7.1 | *securities (description) | N/A | IN/A | N/A | N/A |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions | N/A | N/A | N/A | N/A |
| 7.3 | [†] Ordinary securities | | | | |
| 7.4 | Changes during quarter (a) Increases | Opening 322,974,494 (a) N/A | Opening 322,974,494 (a) N/A | N/A | N/A |
| | through issues | (4) 11) 11 | (4) 14/11 | | 11// |
| | (b) Decreases through returns | (b) N/A | (b) N/A | N/A | N/A |
| - | of capital, buy- backs | Closing 322,974,494 | Closing 322,974,494 | | |
| 7.5 | *Convertible debt securities (description) | (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 | Opening 100 | Opening 0 | N/A | N/A |
|------|---------------------------------|--|--|---|--|
| | (a) Increases through issues | (a) N/A | (a) N/A | | |
| | (b) Decreases through | (b) (100) | (b) N/A | | |
| | securities matured, | Closing 0 | Closing 0 | | |
| 7.7 | converted Options | | | Exercise | Expiry date |
| 7.7 | (description and | | | price | Expiry date |
| | conversion factor) | (a) Standard – Closing 2,000,000 | (a) Not Listed 2,000,000 | (a) \$3.65 | (a) 07/10/13 |
| | | (b) Standard – Closing 750,000 | (b) Not Listed 750,000 | (b) \$3.65 | (b) 31/10/13 |
| | | (c) Director / ESOP – Closing 1,218,334 | (c) Not Listed 1,218,334 | (c) \$3.50 | (c) 31/03/14 |
| | | (d) Executive Retention Plan – Closing 5,400,000 Rights | (d) Not Listed 5,400,000 Rights | (d) 30 day VWAP pre vesting | (d) vest 30/06/14 subject to performance and other conditions |
| 7.8 | Issued during quarter | (a) Nil (b) Nil (c) Nil (d) Nil | (a) Nil (b) Nil (c) Nil (d) Nil | N/A | N/A |
| 7.9 | Exercised during quarter | (a) Nil (b) Nil (c) Nil (d) Nil | (a) Nil (b) Nil (c) Nil (d) Nil | (a) \$3.65 (b) \$3.65 (c) \$3.50 (d) 30 day VWAP pre vesting | (a) 07/10/13 (b) 31/10/13 (c) 31/03/14 (d) vest 30/06/14 subject to performance and other conditions |
| 7.10 | Expired during quarter | (a) Nil (b) Nil (c) Nil (d) Nil | (a) Nil (b) Nil (c) Nil (d) Nil | (a) \$3.65 (b) \$3.65 (c) \$3.50 (d) 30 day VWAP pre vesting | (a) 07/10/13 (b) 31/10/13 (c) 31/03/14 (d) vest 30/06/14 subject to performance and other conditions |
| 7.11 | Debentures (totals only) | N/A | N/A | | |

| 7.12 | Unsecured | N/A | N/A |
|------|------------------------|-----|-----|
| | notes (totals only) | | |
| | | | |

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 2013

Director

Brian Flannery Print name:

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.
- The definitions in, and provisions of, AASB 1022: Accounting for Extractive Industries 4 and AASB 1026: Statement of Cash Flows apply to this report.
- Accounting Standards: ASX will accept, for example, the use of International Accounting 5 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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