

## **CHAIRMAN'S ADDRESS TO SHAREHOLDERS**

### **Extraordinary General Meeting**

**28 February 2013**

As previously announced to you on 29 October 2012, the Endocoal Board signed a Scheme Implementation Agreement under which it was proposed that U&D Mining (Australia) Pty Ltd would acquire all of the shares in Endocoal via a Scheme of Arrangement.

#### **The Offer**

Under the proposed Scheme, Endocoal Shareholders will receive cash consideration of \$0.38 cents per share. The transaction values Endocoal at approximately \$71 million.

The Scheme consideration will deliver a substantial premium over Endocoal's unaffected trading price. The Scheme consideration represents a 65.2% premium to Endocoal's closing share price on 26 October 2012, being the last Trading Day before the announcement on the ASX of the Scheme, and a 70.6% premium on the one month VWAP (Volume Weighted Average Price) to 26 October 2012, and a 62.8% premium on the three month VWAP to 26 October 2012.

The announcement of the entry by Endocoal into the Scheme Implementation Agreement was the culmination of Endocoal's strategic review process that had been undertaken through 2012. Following the receipt of unsolicited, non-binding and indicative proposals from third parties in late 2011 and early 2012, the Endocoal Board appointed Macquarie Capital in May 2012 to establish a process that would respond to these proposals and solicit any further interest to maximise value and certainty of execution for Endocoal Shareholders.

Of the proposals received by Endocoal, the Endocoal Directors believe that the proposed Scheme delivers the maximum value alternative to Shareholders, and unanimously recommend that Shareholders vote in favour of the proposal in the absence of a superior proposal. I can confirm that no superior proposal has emerged since the proposed Scheme was announced on 29 October 2012.

**Reasons to Accept the Offer**

The Board believes that the proposed Scheme will maximise value for Endocoal Shareholders in what has been a frustrating market for junior explorers. This conclusion is supported by the Independent Expert engaged by Endocoal to review the terms of the Scheme. The Independent Expert, Ernst & Young, has concluded that the Scheme is fair and reasonable and thus in the best interests of Endocoal Shareholders.

The strategic review considered all reasonable alternatives to the proposed Scheme available to Endocoal, including:

- corporate and change of control transactions;
- asset transactions and divestments; and
- Endocoal proceeding as a standalone entity.

Endocoal engaged in active discussions with a number of interested parties, however U&D Mining was the only party that submitted a binding offer at a value that was acceptable to the Board and capable of completing. The Board is confident that the review process provided sufficient opportunity for all interested parties to transact with Endocoal.

The strategic review also weighed the costs and benefits of the proposed Scheme relative to Endocoal developing its projects on a standalone basis. Endocoal has enjoyed substantial development success since listing in 2010 to deliver a JORC Reserve of 13Mt at Meteor Downs South and overall JORC Resources of 498.5Mt across its exploration portfolio.

However, developing the Meteor Downs South project to production on schedule is subject to:

- granting of the Mining Lease (currently under application);
- securing access to rail and port capacity to transport product coal to market; and
- raising sufficient capital to develop the project.

There is the risk that any or all of these key milestones may not be achieved in a timely fashion, which may have a material impact on Endocoal's share price. Additionally, if the Scheme does not proceed, it is likely that Endocoal will require a near-term injection of capital to both repay the loan from U&D Mining and to satisfy its working capital requirements.

We note that in the absence of the Scheme proceeding, it is possible that the Endocoal share price may fall.

**The Process**

On 25 January 2013, Endocoal received orders from the Federal Court of Australia to hold this Shareholders' meeting to consider and vote on the implementation of the proposed Scheme. On that date the Federal Court also approved the despatch of Endocoal's Scheme Booklet.

Today we are holding the meeting at which Endocoal shareholders will vote on the Resolution to approve the proposed Scheme. If the Resolution is successful and all remaining conditions are satisfied, the Scheme will progress to a second Court hearing and the Court will consider whether to approve the scheme.

**Chinese Regulatory Approvals**

If the resolution approving the Scheme is passed today, the only major condition precedent to the implementation of the Scheme outstanding (other than the approval of the Federal Court of Australia at the second court hearing) is approval by the relevant Chinese regulatory bodies.

Your Directors have no reason to believe that the Chinese approvals will not be forthcoming. U&D Mining have disclosed to Endocoal that all necessary steps in the application process have been completed, including presenting the transaction and supporting documentation for approval. U&D Mining have previously completed transactions in Australia and therefore have had experience in navigating the Chinese regulatory approvals process.

As disclosed in the Scheme Booklet, if the Scheme Resolution is passed, the implementation process remains subject to the Chinese approvals being received. Endocoal currently has a hearing scheduled on 8 March 2013 before the Federal Court of Australia to approve the Scheme. However, if the approvals are not received prior to the court hearing then Endocoal will apply to the Court to delay the hearing until such time as the approvals are received.

As disclosed in the Scheme Booklet, U&D Mining has until 26 April 2013 to obtain these Chinese approvals. If the approvals have still not been received by that date, Endocoal may terminate the Scheme Implementation Agreement unless U&D Mining requests a 2 month extension which Endocoal must not unreasonably refuse.

### **Voting**

Your vote is important and I encourage all of you to vote in favour of the Scheme.

There are many reasons to vote in favour of the Scheme, which have been detailed in the Scheme Booklet. These include:

- The Scheme is unanimously recommended by the Board;
- No superior proposal has emerged;
- You will receive a substantial premium to the trading price prior to the announcement;
- Ernst & Young the Independent Expert considers the Scheme to be fair and reasonable and has concluded that it is in the best interests of the shareholders;
- The consideration of \$0.38 for each Endocoal share provides a certain cash value in an uncertain share market;
- Coal prices trended down in 2012 and unfunded explorers and mine developers are finding capital increasingly expensive and difficult to obtain. In this situation, the Directors believe the Scheme is a more suitable alternative than proceeding as a standalone company;
- If the Scheme does not proceed, and no other proposals are forthcoming, Endocoal may not be able to raise sufficient capital to progress the MDS project to production;
- If the Scheme does not proceed, and no other proposal is forthcoming, Endocoal will need to source additional funding to repay the U&D Loan facility and also raise capital to satisfy working capital requirements;
- If the Scheme is not approved, or if it does not proceed, it is likely that, in the absence of a superior offer, the price of the Endocoal share may fall from its current trading levels on the ASX; and

- There is no brokerage or stamp duty payable by you on the transfer of your Endocoal share for a cash consideration under the scheme.

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The outcome of voting on the Resolution at the Shareholder Meeting will be announced when available.



Phil McCarthy

Chairman

28 February 2013

**About Endocoal**

Endocoal is an Australian public company focused on exploration of coal tenements and mine development in the Bowen Basin, Queensland's premier coal producing region. Endocoal currently holds JORC Marketable Reserves of 13Mt and total JORC Resources of 498Mt. The Company is proceeding to develop an export-quality thermal coal open cut mine at its flagship Orion Downs tenement, positioned close to existing infrastructure. Endocoal has several other tenements in the Bowen Basin region. These will be the subject of future exploration and drilling activities. Near-term priority will focus on Rockwood tenement with anthracite coal prospective for PCI coal; plus greenfield Talwood and Stockyard Creek Project tenements where scout drilling has commenced seeking coking coal. At both locations, coal seams have been intersected and are being evaluated. At Pretoria Hill an exploration program with joint venture partner Carabella Resources (ASX:CLR) is being planned. Elsewhere, tenement applications will target other locations identified as being potentially prospective for coal exploration.

**Endocoal Limited**

ACN 132 183 281

ASX CODE: EOC

**Securities Information**

Ordinary Fully Paid Shares: 186.9m

Unlisted Options &amp; Rights: 20.8m

**Directors & Management****Phillip McCarthy**

Non-Executive Chairman

**Lex Hansen**

Non-Executive Director

**Tim Hedley**

CEO &amp; Managing Director

**Gavin Solomon**

Non-Executive Director

**Peter Edwards**

CFO and Company Secretary

**Ray Miller**

Non-Executive Director