



LETTER FROM THE CHAIRMAN

Directors:

David Quinlivan (*Non-Executive Chairman*)
Paul Mazak (*Managing Director*)
James Hamilton (*Executive Director*)
Faroek Basrewan (*Non-Executive Director*)

Registered Office:

Third Floor
55 Gower Street
London WC1E 6HQ

20 November 2007

Dear Shareholder,

PLACING TO RAISE £10,000,000

Introduction

It was announced today that the Company has, conditional upon the passing of certain resolutions at the Company's Annual General Meeting, raised £10,000,000 by the issue of 20,000,000 new Ordinary Shares at 50p per share ("the Placing").

At the Annual General Meeting resolutions have been included to grant to the Directors an authority pursuant to Section 80 of the Act to allot shares and a power pursuant to Section 95 of the Act to allot shares for cash.

Background to and reasons for the Placing

We recently announced our preliminary results for the financial year ended 30 June 2007. These results included: the acquisition of a 75 percent interest in the East Kutai Coal Project ("EKCP") in Kalimantan, Indonesia and the commencement of a major drilling campaign; the investigation of coal bed methane ("CBM") potential at Sendawar; and the spin-off of the South Woodie Woodie Manganese Project in Western Australia.

Now that Churchill is entirely focused on its large scale energy projects in Indonesia, including coal and CBM, the Company requires further funding to undertake an aggressive exploration and drilling programme at EKCP as well as for evaluation studies at its CBM project in Sendawar.

EKCP

We believe EKCP is an exciting project for Churchill as it lies approximately 55km from a major new coal discovery at Pakar, which, as at December 2006, had a JORC compliant reserve of 270 million tonnes of coal. Drilling results to date have been positive with over 250 coal outcrops mapped and the first coal volume calculations are expected at the end of January 2008.

Churchill designed an initial drilling programme of 10,000 metres at EKCP. The initial results from the first 4000 metres of that programme were very encouraging and this has led the Churchill directors to seek additional funds to expand the drilling programme to 65,000 metres, with the aim of defining a JORC compliant mining reserve of 100 million tonnes of coal by the end of 2008 with an additional 400 million tonnes of resource for continued drilling and upgrading. In conjunction with this, the Company intends to undertake feasibility studies during 2008 in order to take the next step of mine development in 2009 if drilling and reserve calculations are successful.

To date, all exploration camps and facilities are in place and the Company now has a field team of over 100 personnel, including drilling contractor staff, 12 geologists, community liaison and local development officers, logistical support and locally sourced non-skilled personnel working on the project.

Sendawar

We announced in September 2007 that, following work and the collection of historical drilling data, our Sendawar project area had the potential to host very large amounts of CBM and that Churchill had been awarded Indonesia's first CBM joint evaluation agreement ("JEA") licence in Kalimantan, Indonesia. This has concentrated our focus on the CBM at Sendawar and we will, with our joint venture partner PT Ridlatama Mining Utama, spend the first half of 2008 completing a joint evaluation study in order to assess the potential of CBM at Sendawar. If the study is positive, the Company will look to convert the JEA into a Production Sharing Contract.

Details of the Placing

The Company is proposing to raise £10,000,000, before expenses, through the issue of 20,000,000 new Ordinary Shares ("Placing Shares") at 50p per share. The Placing Shares will represent approximately 30.7 percent of the enlarged share capital immediately following admission of the Placing Shares to trading on AIM.

The Placing is conditional on the passing of the resolutions at the AGM.

The Placing Shares will, upon issue, rank pari passu in all respects with the existing Ordinary Shares, including the right to receive any dividends and other distributions declared, made or paid following Admission and will be issued credited as fully paid.

Use of Proceeds

Proceeds from the Placing will be used to fund:

- An extensive exploration and drilling program at the EKCP;
- Pre-feasibility and feasibility studies at the EKCP;
- Joint evaluation studies at the Sendawar CBM project; and
- The identification and due diligence of other projects for group integration.

The Resolutions

In order to enable the Placing to proceed the following resolutions, amongst others, have been proposed at the AGM:

1. Permit the allotment of up to 50,000,000 Ordinary Shares *pro rata* to existing Shareholders or otherwise than to existing Shareholders for non-cash consideration; and
2. Empower the Directors to allot up to 30,000,000 Ordinary Shares, including for the purposes of the Placing for cash otherwise than *pro rata* to existing shareholders.

Following the Placing the authorities granted to the Directors to allot Ordinary Shares as summarised will endure to the extent that:-

- (a) The Directors will be authorised to allot such number of Ordinary Shares as is equal to approximately 46 percent of the number of Ordinary Shares in issue immediately following the Placing *pro rata* to existing Shareholders or otherwise than to existing Shareholders for non-cash consideration; and
- (b) The Directors will be empowered to allot such number of Ordinary Shares for cash otherwise than *pro rata* to existing Shareholders as is equal to approximately 15 percent of the number of Ordinary Shares in issue immediately following the Placing.

The authorities to allot shares granted pursuant to the resolutions numbered 5 and 6 (1 and 2 above) will lapse at the conclusion of the next Annual General Meeting of the Company or, if earlier, the date 15 months from the passing of the resolutions.

Annual General Meeting

You will find set out at the end of this document a notice convening the AGM for 11.00 a.m. on 14 December 2007 at which the Resolutions will be proposed to grant to the Directors the authorities to allot the Placing Shares, as summarised above.

Action to be taken

A form of proxy is enclosed. Whether or not you intend to be present at the AGM, you are asked to complete and return the form of proxy in accordance with the instructions printed thereon so as to be received by the Company's registrars, Share Registrars Limited, Craven House, West Street, Farnham, Surrey GU9 7EN not later than 11.00 a.m. on 12 December 2007. Completion and return of the form of proxy will not preclude you from attending the AGM and voting in person, if you so wish.

Recommendation

The Directors unanimously recommend that Shareholders vote in favour of the Resolutions, as they intend to do in respect of their own shareholdings.

Yours sincerely,



David Quinlivan
Chairman