Blackcrest Resources Limited

ABN 86 073 153 223

Replacement Prospectus

For the offer of 50,000,000 Shares at an issue price of $0.20 each to raise $10,000,000.

Oversubscriptions of up to a further 25,000,000 Shares at an issue price of $0.20 each to raise up to a further $5,000,000 may be accepted.

This Replacement Prospectus has been prepared and lodged with ASIC primarily to incorporate additional exploration data into the Independent Geologist's Report set out in Section 6.

Important notice

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay. The Shares offered under this Prospectus should be considered speculative.

Important information

This is a replacement prospectus dated 3 December 2009. It replaces the original prospectus (**Original Prospectus**) dated and lodged with ASIC on 25 November 2009. ASIC and its officers take no responsibility for the contents of this Prospectus nor the merits of the investment to which the Prospectus relates.

The expiry date of this Prospectus is at 5.00pm AWST on that date which is 13 months after the date the Original Prospectus was lodged with ASIC (**Expiry Date**). No securities may be issued on the basis of this Prospectus after the Expiry Date.

Application will be made to ASX within seven days after the date of this Prospectus for Official Quotation of the Shares that are the subject of this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law, and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. The Shares that are the subject of this Prospectus should be considered speculative.

Web site—electronic prospectus

A copy of this Prospectus can be downloaded from the website of the Company at www.blackcrestresources.com.au. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an application form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

Exposure period

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act.

Applications for shares under this Prospectus will not be processed by the Company until after the expiry of the Exposure Period. No preference will be conferred on persons who lodge applications prior to the expiry of the Exposure Period.

Summary of important dates

Lodgement of Original Prospectus with ASIC	25 November 2009
Lodgement of Replacement Prospectus with ASIC	3 December 2009
Opening Date	3 December 2009
Closing Date	23 December 2009
Anticipated date the suspension of trading is lifted and the Company's securities commence trading again on ASX (as 'Blackcrest Resources Limited')	15 January 2010

The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offer early without notice.

Photographs

Photographs used in this Prospectus that do not have accompanying descriptions are for illustration only and should not be interpreted to mean that any person shown endorses this

Prospectus or its contents or that any people or assets depicted in the photographs are actual or prospective employees or assets of Blackcrest Resources Limited.

Key information

Investment highlights

The information contained in these selective highlights should be read in conjunction with the more detailed information laid out in the Prospectus. The Prospectus should be read in its entirety and in particular investors should consider the risk factors that could affect the financial and operating performance of the Company.

- The Company has entered into a conditional agreement to acquire 100% of a coal exploration company, Blackcairn Resources (Singapore) Pte Limited (**Blackcairn**) that has, through its wholly-owned Indonesian subsidiary PT Indonesia Mega Energy (IME), one binding agreement in place, one interim binding agreement (contemplating further negotiations) and two memoranda of understanding relating to four prospective coal projects located in Kalimantan, Indonesia. The consideration comprises 78,000,000 Shares and 114,000,000 Performance Shares, which are also being issued pursuant to this Prospectus. Further details of the agreements are set out in Sections 7 and 11 of this Prospectus.
- Exploration Targets have been identified across the four projects (see the Independent Geologist's Report in Section 6).
- The projects are located in known coal production areas.
- There is potential to increase Exploration Targets through further drilling and/or additional acquisitions.
- A drilling programme is to commence soon after completion of the Offer.
- The Company has a well-credentialed team with experience in mining.

Investment risks

The above highlights are a summary only and must be read in conjunction with the remainder of the Prospectus. In particular, investors are directed to Section 10 of this Prospectus, which sets out the risks associated with making an investment in the Company. These risks include:

Specific risks

- Blackcairn (through IME) has a binding definitive agreement in relation to the Katingan project only. The interim agreement in relation to the Tarakan project and the memoranda of understanding for the Sungai Danau and Lower Mahakam projects are either non-binding or contemplate further negotiations. There can be no assurance that negotiations to enter into binding agreements, in respect of the interim binding agreement and the memoranda of understanding, will be completed.
- In addition, the permit that is the subject of the interim agreement for the Tarakan project is due to expire on 12 December 2009. Notwithstanding the fact that an application for extension has been lodged for a further one year period, there is a risk that the extension will not be granted and the timing for granting an extension is uncertain. Please refer to the solicitors' report in Section 7 for further details on the tenure issues relating to the projects.
- As a result of the status of the agreements and the tenure issue referred to above, the use of funds set out in Section 2.4 necessarily only primarily deals with evaluation and expenditure on the Katingan project. If some or all of the interim agreement or memoranda of understanding result in binding agreements (and the Tarakan project permit is extended), then the Company will allocate part of the capital raised to these projects, in accordance with the alternative budget set out in Section 2.4. The Company cautions that any budget is a best estimate only and is subject to change.

- The issue of the Performance Shares to be issued to the shareholders of Blackcairn is not affected by whether the binding agreements are completed in respect of the Tarakan, Sungai Danau and Lower Mahakam projects. The reason for this is that the milestones for the conversion of the Performance Shares into ordinary shares are related to the delineation of a resource or production from any of the projects. If only one project is ultimately secured under a binding agreement (as is the case at the date of this Prospectus), the milestones can still be achieved in respect of that project.
- The acquisition of Blackcairn includes a total of 114,000,000 Performance Shares to be issued to the vendors, the shareholders of Blackcairn. These Performance Shares convert into ordinary shares on the achievement of certain milestones. There will be significant dilution to existing shareholders if the Performance Shares are converted into fully paid ordinary shares. Further details in respect of the Performance Shares, the reasons for the grant and the identity of the holders are set out in more detail below and in this Prospectus.
- Sovereign risks associated with Indonesia, which relate to the passing of the Mineral and Coal Mining Law (**New Mining Law**), which came into effect on 12 January 2009. The New Mining Law abolishes the system of mining rights under Contracts of Work, Coal Contracts of Work and *Kuasa Pertambanhan* (KP), and introduces a new system of mining permits including *Izin Uaaha Pertambangan* (IUP). While there are saving and transitional provisions, the New Mining Law makes no mention of the continuity of KPs. To assist between the old mining laws and the New Mining Law, the Directorate-General of Minerals, Coal and Geothermal released a circular on 30 January 2009 that, while not law, provides guidance and direction to relevant government officers, and includes a provision that KPs, including any upgrades issued under the old mining laws, are valid until their term expires and will be converted to IUPs by 12 January 2010. Until such time as the position of KPs is confirmed at law, the status of the Kalimantan coal tenements in which IME is seeking to secure certain rights (which are KPs) is uncertain under the New Mining Law.

General risks

- There is no guarantee of exploration success.
- The Company will be subject to Commodity price volatility and exchange rate risks.
- Economic conditions as well as share market volatility may affect the Company's share price regardless of the Company's operating performance.
- There are risk as to future title and standing in relation to the tenements in which the Company has or may earn an interest.

Performance Shares

Performance Shares are being issued to the shareholders of Blackcairn as part consideration for the transfer of the shares in that entity and to achieve a consideration based, in part, on a performance milestone. The proposed issue of the 114,000,000 Performance Shares comprise:

- 38,000,000 Class A Performance Shares;
- 38,000,000 Class B Performance Shares; and
- 38,000,000 Class C Performance Shares.

The Class A Performance Shares will convert to ordinary Shares on a one-for-one basis if 1,000,000 tonnes of coal is produced and sold from the Project Area (as defined in this Prospectus) within 24 months of issue of the Performance Shares.

The Class B Performance Shares will convert to ordinary Shares on a one-for-one basis if a JORC-inferred mineral resource of greater than 25,000,000 tonnes of coal is delineated within the Project Area or 2,500,000 tonnes of coal is produced and sold from the Project Area within 36 months of issue of the Performance Shares.

The Class C Performance Shares will convert to ordinary Shares on a one-for-one basis if a JORC inferred mineral resource of greater than 50,000,000 tonnes of coal is delineated within the Project Area or 5,000,000 tonnes of coal is produced and sold from the Project Area within 48 months of issue of the Performance Shares.

The full terms and conditions of the Performance Shares are set out in Section 12.1.2 of this Prospectus.

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1 Chairman's letter

Dear investor,

On behalf of the Directors of Blackcrest Resources Limited (**Company**), I am pleased to introduce this Prospectus for the offer of 50,000,000 Shares at an issue price of 20 cents per share to raise $10,000,000 (with the ability to accept oversubscriptions for a further $5,000,000).

As recently announced to ASX, the Company has reached an agreement to acquire Blackcairn Resources (Singapore) Pte Limited (**Blackcairn**), an unlisted coal exploration company incorporated in Singapore. Blackcairn has entered into one binding agreement, one non-binding agreement and two memoranda of understanding in relation to four prospective coal projects in Indonesia. Further details about the projects are provided in Sections 4 and 6 of this Prospectus.

Coal is one of the world's most important commodities. It is used to generate almost 40% of the world's electricity, including over three quarters of the electricity used in China. In recent years, Indonesia's coal mining sector has become one of the most attractive and fastest growing industries in the country. Indonesia recently overtook Australia as the world's largest exporter of thermal coal, increasing exports six-fold from 31 Mt in 1995 to 183 Mt in 2008. Indonesia plans to double its production within the next five years, prompting a significant amount of investment in new mines. Given these factors, the Board sees a significant opportunity for the Company in seeking to become a coal explorer and potential producer.

In conjunction with the acquisition, the Company has obtained shareholder approval to change the nature and scale of its activities to coal exploration and the possible pursuit of other mining and resources projects. In line with this change, the Company has changed its name from 'Reco Financial Services Limited' to 'Blackcrest Resources Limited'.

The Company has also changed the composition of its Board of Directors and its management team. The new team will bring with them the necessary expertise and experience required to guide the Company in pursuing its objectives.

Details of the Offer, including information on the Company's projects, business strategy, markets, management, risk factors and finances, are set out in this Prospectus, which I encourage you to read before making a decision to invest.

On behalf of the Board, I am pleased to present this Prospectus to you and invite you to take part in this exciting investment opportunity.

Yours sincerely,

Mr Ross Kestel
CHAIRMAN
25 NOVEMBER 2009

2 Investment overview

2.1 Important notice

This section is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

2.2 Objectives

The strategic objectives of the Company are to:

(a) further explore its concession areas to better determine the size and economic potential of its Indonesian coal projects;

(b) obtain the regulatory approvals and build the infrastructure required to develop these coal projects; and

(c) obtain rights to explore and develop other coal projects in Indonesia.

On completion of the Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.

2.3 Indicative timetable

Lodgement of Original Prospectus with ASIC	25 November 2009
Lodgement of Replacement Prospectus with ASIC	3 December 2009
Opening Date	3 December2009
Closing Date	23 December 2009
Expected date suspension of trading is lifted and the Company's securities commence trading again on ASX (as 'Blackcrest Resources Limited')	15 January 2010

The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offer early without notice.

2.4 Purpose of the Offer and use of proceeds

As at the date of this Prospectus, Blackcairn Resources (Singapore) Pte Limited (through its Indonesian subsidiary) has a binding agreement over the Katingan project, has entered into an interim agreement in respect of the Tarakan project (which contemplates further negotiations) and has entered into memoranda of understanding in relation to the Sungai Danau and Lower Mahakam projects (which contemplate that the parties will enter into binding agreements in the near future). In addition, the permit that is the subject of the interim agreement for the Tarakan project is due to expire on 12 December 2009. Notwithstanding the fact that an application for extension has been lodged for a further one year period, there is a risk that the extension will not be granted and the timing for granting an extension is uncertain. As a result, the exploration costs, project infrastructure and feasibility costs set out below relate only to the Katingan project so that the funds raised from the Offer, together with the Company's existing cash reserves of approximately $400,000, are intended to be allocated as follows:

	Minimum subscription	Maximum subscription
	($)	($)
Funds available		
Cash reserves (approximate)	400,000	400,000
Proceeds from offer	10,000,000	15,000,000
Total funds available	**10,400,000**	**15,400,000**
Use of funds		
Exploration, development and infrastructure[1]	6,650,000	9,050,000
Acquisition and development of other projects	1,320,000	2,570,000
Corporate costs	800,000	800,000
Broker handling fees (5%)	500,000	750,000
Expenses of Capital Raising	350,000	350,000
Working capital	680,000	1,780,000
Totals	**10,400,000**	**15,400,000**
Note 1—Exploration, development and infrastructure		
Katingan		
—Exploration costs	2,750,000	2,750,000
—Project infrastructure and feasibility costs	3,900,000	6,300,000
Totals	**6,650,000**	**9,050,000**

Should the Company secure binding agreements over the Tarakan, Sungai Danau and Lower Mahakam projects in the future (and the Tarakan project permit is extended), the funds raised from the Offer, together with the Company's existing cash reserves of approximately $400,000, are intended to be allocated as follows:

	Minimum subscription	Maximum subscription
	($)	($)
Funds available		
Cash reserves (approximate)	400,000	400,000
Proceeds from offer	10,000,000	15,000,000
Total funds available	**10,400,000**	**15,400,000**
Use of funds		
Exploration, development and infrastructure[1]	6,650,000	9,050,000
Acquisition and development of other projects	1,320,000	2,570,000
Corporate costs	800,000	800,000
Broker handling fees (5%)	500,000	750,000
Expenses of Capital Raising	350,000	350,000
Working capital	680,000	1,780,000
Totals	**10,400,000**	**15,400,000**
Note 1—Exploration, development and infrastructure		
Sungai Danau		
—Exploration costs	850,000	850,000
—Project infrastructure and feasibility costs	750,000	750,000
Lower Mahakam		
—Exploration costs	900,000	900,000
—Project infrastructure and feasibility costs	750,000	750,000

Katingan		
—Exploration costs	2,750,000	2,750,000
—Project infrastructure and feasibility costs	–	1,800,000
Tarakan		
—Exploration costs	650,000	650,000
—Project infrastructure and feasibility costs	–	600,000
Totals	**6,650,000**	**9,050,000**

The above budgets are indicative only. As with any budget, intervening events and changed circumstances may alter the way funds are ultimately applied.

2.5 Capital structure

The capital structure of the Company following completion of the Offer is summarised below[1]:

	Ordinary Shares				Performance
	(minimum)	(%)	(maximum)	(%)	Shares[4]
Shares currently on issue	258,977,396		258,977,396		–
Shares on issue post 1:10 reconstruction	25,897,740	16.7	25,897,740	14.4	–
Ordinary Shares issued to Blackcairn Shareholders at Settlement[2,3]	78,000,000	50.4	78,000,000	43.4	114,000,000
Capital raising (50–75 million shares at 20c each)	50,000,000	32.3	75,000,000	41.7	–
Issued to PT Coal Soil Brik in relation to Katingan Project	900,000	0.6	900,000	0.5	
Total shares post acquisition	**154,797,740**	**100.0**	**179,797,740**	**100.0**	**114,000,000**

Notes

[1] Refer to Investigating Accountant's Report in Section 8 for further information. The actual number of Shares on issue after the consolidation may vary slightly because of rounding.

[2] Refer to summary of Share Sale Agreement in Section 11.1 for further information. A significant number of Performance Shares are being issued in order to link a large proportion of the consideration to value-creating milestones.

[3] The Blackcairn Shareholders include various seed capital investors that provided funding to Blackcairn to secure and explore its various coal projects. None of the Blackcairn Shareholders (either alone or with their associates) will have a relevant interest in more than 20% of the Company's shares after completion of the acquisition of Blackcairn and the capital raising under this Prospectus.

[4] The Terms of the Performance Shares are set out in full in Section 12.1.2 of this Prospectus.

2.6 Restricted securities

Subject to the Company being admitted to the Official List, certain of the Shares on issue prior to the Offer are likely to be classified by ASX as restricted securities and will be required to be held in escrow.

3 Details of the offer

3.1 The Offer

By this Prospectus, the Company offers for subscription 50,000,000 Shares at an issue price of $0.20 each to raise $10,000,000.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue.

3.2 Applications

Applications for Shares under the Offer must be made using the Application Form included at the back of this Prospectus.

Payment for the Shares must be made in full at the issue price of $0.20 per Share. Applications for Shares must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares. Completed application forms and accompanying cheques must be mailed or delivered to:

Postal delivery

Blackcrest Resources Limited
c/- Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235

Hand delivery

Blackcrest Resources Limited
c/- Link Market Services Limited
Level 12, 680 George Street
SYDNEY NSW 2000

Cheques should be made payable to 'Blackcrest Resources Limited—Share Offer Account' and crossed 'Not Negotiable'. Completed Application Forms must reach one of the above addresses by no later than the Closing Date.

The Company reserves the right to close the Offer early.

3.3 Oversubscriptions

The Company may accept oversubscriptions of up to a further $5,000,000 through the issue of up to a further 25,000,000 Shares at an issue price of $0.20 each under the Offer. The maximum amount that may be raised under this Prospectus is therefore $15,000,000.

3.4 Allotment

Subject to ASX granting approval for the Shares offered under this Prospectus to be admitted to the Official Quotation, allotment of Shares offered under this Prospectus will take place as soon as practicable after the Closing Date. Prior to allotment, all application monies shall be held by the Company in trust. The Company, irrespective of whether the allotment of Shares takes place, will retain any interest earned on the application monies.

The Directors reserve the right to allot Shares in full for any application or to allot any lesser number or to decline any application. Where the number of Shares allotted is less than the number applied for, or where no allotment is made, the surplus application monies will be returned by cheque to the applicant within seven days of the allotment date.

3.5 Minimum subscription

The minimum subscription to be raised pursuant to this Prospectus is $10,000,000.

If the minimum subscription has not been raised within four months after the date of this Prospectus, all applications will be dealt with in accordance with the Corporations Act.

3.6 ASX listing

The Company will apply to ASX within seven days after the date of this Prospectus for Official Quotation of the Shares offered under this Prospectus. If ASX does not grant permission for Official Quotation of the Shares within three months after the date of this Prospectus, or such longer period as is permitted by the Corporations Act, none of the Shares offered under this Prospectus will be allotted or issued. In that circumstance, all applications will be dealt with in accordance with the Corporations Act.

3.7 Applicants outside Australia

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction where, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law, and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify these Shares or otherwise permit a public offering of the Shares that are the subject of this Prospectus in any jurisdiction outside Australia.

It is the responsibility of applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Shares pursuant to this Prospectus. The return of a completed application form will be taken by the Company to constitute a representation and warranty by the applicant that all relevant approvals have been obtained.

3.8 Underwriter

The Offer is not underwritten.

3.9 Commissions on applications

The Company reserves the right to pay a commission of up to 5% (exclusive of goods and services tax) of amounts subscribed to any Australian Financial Services licensee in respect of valid applications lodged and accepted by the Company and bearing the stamp of the Australian Financial Services licensee. Payments will be subject to the receipt of a proper tax invoice from the licensed securities dealer or Australian Financial Services licensee.

3.10 Additional offer

This Prospectus also includes an offer of 78,000,000 Shares and 114,000,000 Performance Shares (comprising 38,000,000 Class A Performance Shares, 38,000,000 Class B Performance Shares and 38,000,000 Class C Performance Shares) to the Blackcairn Shareholders in consideration for the acquisition of all of the shares in Blackcairn Resources (Singapore) Pte Limited.

3.11 CHESS

The Company will apply to participate in the Clearing House Electronic Subregister System (**CHESS**). CHESS is operated by ASX Settlement and Transfer Corporation Pty Limited (**ASTC**), a wholly-owned subsidiary of ASX, in accordance with the Listing Rules and the ASTC Settlement Rules.

Under CHESS, the Company will not issue certificates to investors. Instead, Share and Option holders will receive a statement of their holdings in the Company. If an investor is broker sponsored, ASTC will send a CHESS statement.

3.12 Risk factors

Prospective investors in the Company should be aware that subscribing for Shares that are the subject of this Prospectus involves a number of risks. These risks are set out in Section 10 of this Prospectus and investors are urged to consider those risks carefully (and if necessary, consult their professional adviser) before deciding whether to invest in the Company.

The risk factors set out in Section 10, and other general risks applicable to all investments in listed securities not specifically referred to, may in the future affect the value of the Shares. Accordingly, an investment in the Company should be considered speculative.

3.13 Privacy statement

If you complete an application for Shares, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder, and facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Share Registry.

You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the Share Registry at the relevant contact number set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. If you do not provide the information required on the Application Form, the Company may not be able to accept or process your application.

3.14 Financial forecasts

The Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings because the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

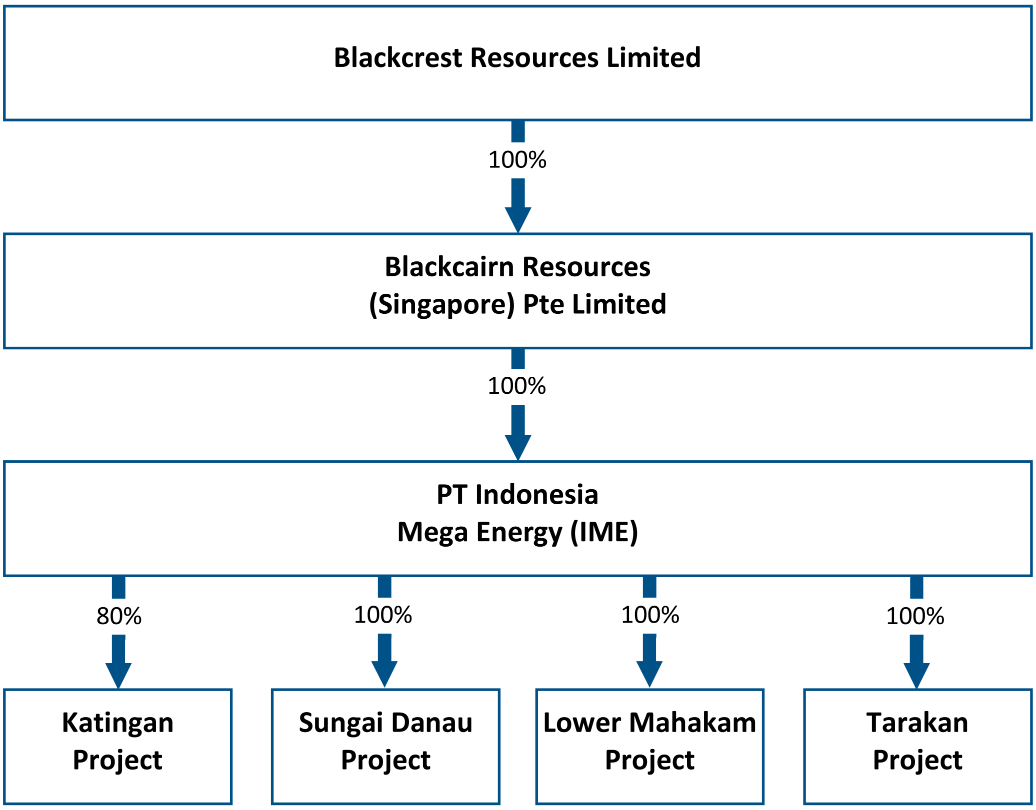
4 Business summary

4.1 Company history

Blackcrest Resources Limited (**Blackcrest** or the **Company**) previously operated as a service-oriented insolvency and administration practice.

On 28 August 2009, the Company announced that it had entered into a share sale agreement to acquire 100% of the shares in the capital of Blackcairn Resources (Singapore) Pte Limited (**Blackcairn**), a Singapore-based company that has been exploring Indonesian coal projects throughout 2008 and 2009.

On the basis that the Company completes the proposed acquisition of Blackcairn, and Blackcairn is successful (through its Indonesian subsidiary) in concluding definitive agreements over the Tarakan, Sungai Danau and Lower Mahakam projects, the structure of the Company will be as illustrated below:



Under Indonesian law, it is not currently possible to obtain a direct interest in any mining projects. Accordingly, the diagram set out above is intended to be representative of the interest that the Company is seeking to secure in the production, revenue and/or off-take rights to the various projects. In the event the new mining law in Indonesia is introduced, the Company will, where possible, seek to take direct equity in the Indonesian entities that own the projects.

4.2 Overview of coal market

Coal is one of the world's most important commodities. It is used to generate almost 40% of the world's electricity, including 77% of the electricity used in China.

According to the World Coal Institute, consumption of steam coal is projected to grow by 1.5% per year until 2030. China alone currently accounts for over 42% of global coal consumption, followed by the USA (17%), the European Union (9%), India (7%) and Japan (4%). China projects its annual demand for coal will exceed 3 billion tonnes by 2010.

4.3 Coal information

4.3.1 Types of coal

Coal can be broadly classified into two types based on application:

- **Thermal coal** or **steaming coal**—principally used as a solid fuel to generate electricity and heat.
- **Metallurgical coal** or **coking coal**—used to produce coke, which is used as a fuel and reducing agent in the smelting of iron ore to produce steel.

Coal also comes in four main types or ranks, the characteristics of which are predominantly affected by moisture, volatile content and carbon content:

- **Anthracite**: a hard black coal with a high carbon content (92–98%) and high energy density.
- **Bituminous coal**: a soft black coal that can be used for thermal or metallurgical applications.
- **Sub-bituminous coal**: a soft black coal with an energy density lower than that of bituminous coal and the most common type of coal used for electricity generation.
- **Lignite**: a brown coal with a high moisture content and low energy density, used almost exclusively for electricity generation.

4.3.2 Moisture

The moisture content of coal varies by type of coal, the region where it is mined and the location of coal within a seam. The moisture content of coal is related to the energy content. In general, high moisture content decreases the energy content and increases the weight of the coal, thereby making it more expensive to transport. Moisture content in coal, as sold, can range from approximately 5–30% for bituminous and sub-bituminous coal to up to 45% for lignite.

Total moisture is analysed by loss of mass between an untreated sample and the sample once heated and analysed. When analysing a coal sample, the analysis results need to account for moisture content. Results are typically reported as either:

- 'as received' (**ar**)—as a percentage of the coal including the total moisture content; i.e. including both the surface and the air-dried moisture content of the coal;
- 'air dried basis' (**adb**)—as a percentage of the air-dried coal; i.e. including the air-dried moisture but not the surface moisture;
- 'dry basis' (**db** or **dry**)—as a percentage of the coal after all moisture has been removed; and
- 'dry ash-free' (**daf**)—as a percentage of the volatile matter and fixed carbon components of the coal, with moisture and ash removed.

4.3.3 Energy content

The energy content of coal is typically measured as the heat released on complete combustion in air or oxygen, expressed as the amount of heat per unit weight. It is usually expressed in units of kilocalories per kilogram (**kcal/kg**). Energy content is affected by moisture content. Generally a higher energy content means a higher economic value, particularly for thermal coal.

4.3.4 Volatile matter

Volatile matter in coal refers to the components of coal (excluding water) that are liberated at high temperatures in the absence of air. This is usually a mixture of short and long chain hydrocarbons, aromatic hydrocarbons and some sulphur. The volatile matter of coal is determined by heating the coal sample under controlled conditions.

4.3.5 Ash content

Ash is the inorganic residue remaining after the combustion of coal. It is an important characteristic of coal because electricity generators must handle and dispose of ash following combustion. Coal with a lower ash content is therefore considered to be of higher quality. Analysis is fairly straightforward, with the coal thoroughly burnt and the ash material expressed as a percentage of the original weight.

4.3.6 Fixed carbon

The fixed carbon content of coal is the carbon remaining after volatile materials are driven off. This differs from ultimate carbon content because some carbon is lost with the volatile materials as hydrocarbons. Fixed carbon is used as an estimate of the amount of coke that will be yielded from a sample of coal. Fixed carbon is determined by subtracting the moisture, ash and volatile matter content from the original mass of the coal sample.

4.3.7 Sulphur content

Low sulphur coal is generally characterised as coal with a sulphur content of 1% or less by weight. In many countries, environmental controls restrict sulphur emissions by electricity generators. Low sulphur coal therefore offers environmental and economic advantages over high sulphur coal and reduces the need for flue gas desulphurisation. Coking coal requires a maximum sulphur content of 0.8%, because higher values affect steel quality.

4.4 Indonesian coal industry

4.4.1 Indonesian coal

Indonesian coal is generally low in ash and sulphur but high in volatiles and moisture. Nearly 80% of Indonesian coal production is rated as sub-bituminous and has a niche position in domestic and international markets where demand for environmentally friendly, low ash, sulphur and nitrogen thermal coal is on the rise.

Indonesian coal is commonly sold for blending with higher sulphur coal to meet emissions standards. The quality of Indonesian coal combined with its strategic location near the growing markets of Asia have helped secure its current competitive advantage in export markets.

4.4.2 Industry size, growth and trends

In recent years, Indonesia's coal mining sector has become one of the most attractive and fastest growing industries in the country. Indonesia recently overtook Australia as the world's largest exporter of thermal coal. Its coal exports increased six-fold from 31 million tonnes (**Mt**) in 1995 to 183 Mt in 2008. Indonesia plans to double its production within the next five years, prompting a significant amount of investment in new mines. Global economic development is affecting Indonesia's coal exports, as is economic development in the main export countries for Indonesian coal—Japan, India, Korea, Taiwan and China. At an international level, globalisation and development of regional trading blocs, such as in the ASEAN and APEC regions, are creating new opportunities for the Indonesian coal-mining industry to become competitive internationally. Indonesia's proximity to these markets allows for lower transportation costs and increased competitiveness.

Indonesia accounted for 40% of China's thermal coal imports in the period January–July 2009. China accounted for 10% of Indonesia's thermal coal exports in January–July 2009, compared to 6% in 2007 and 2008.

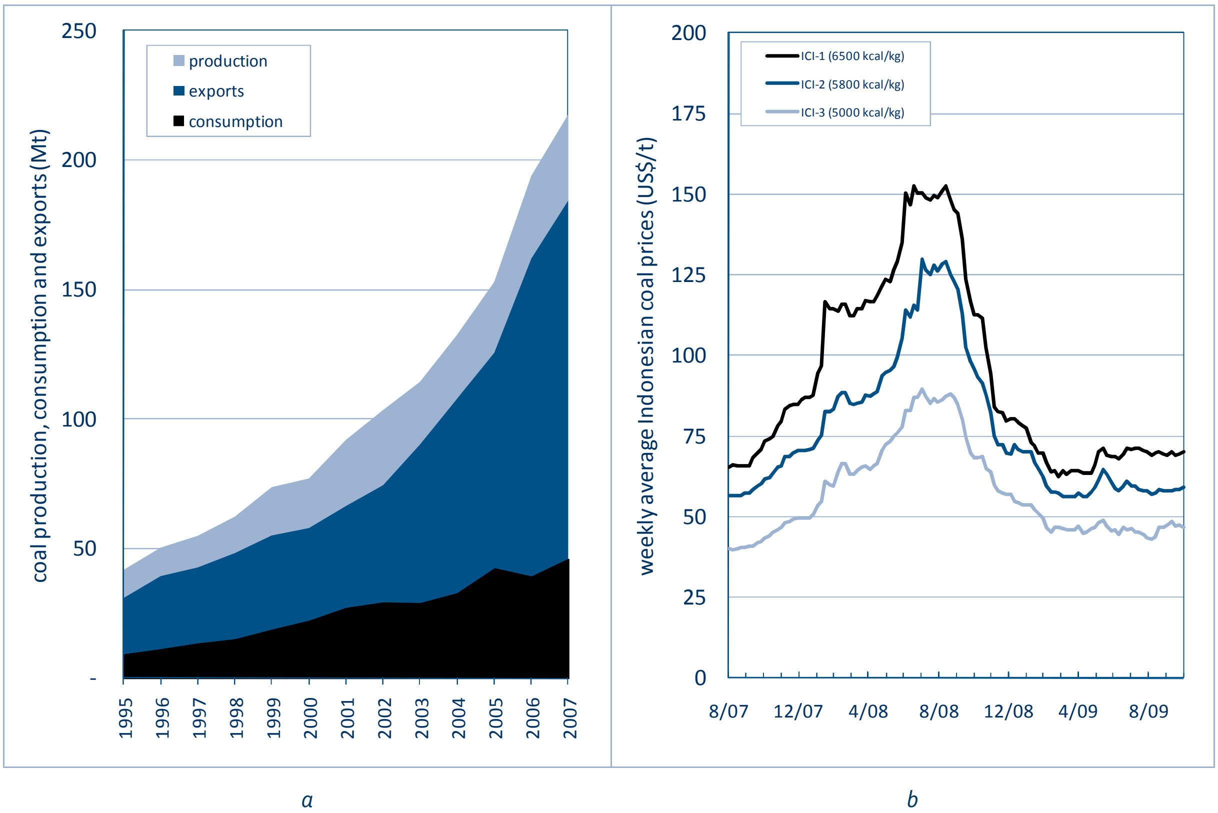
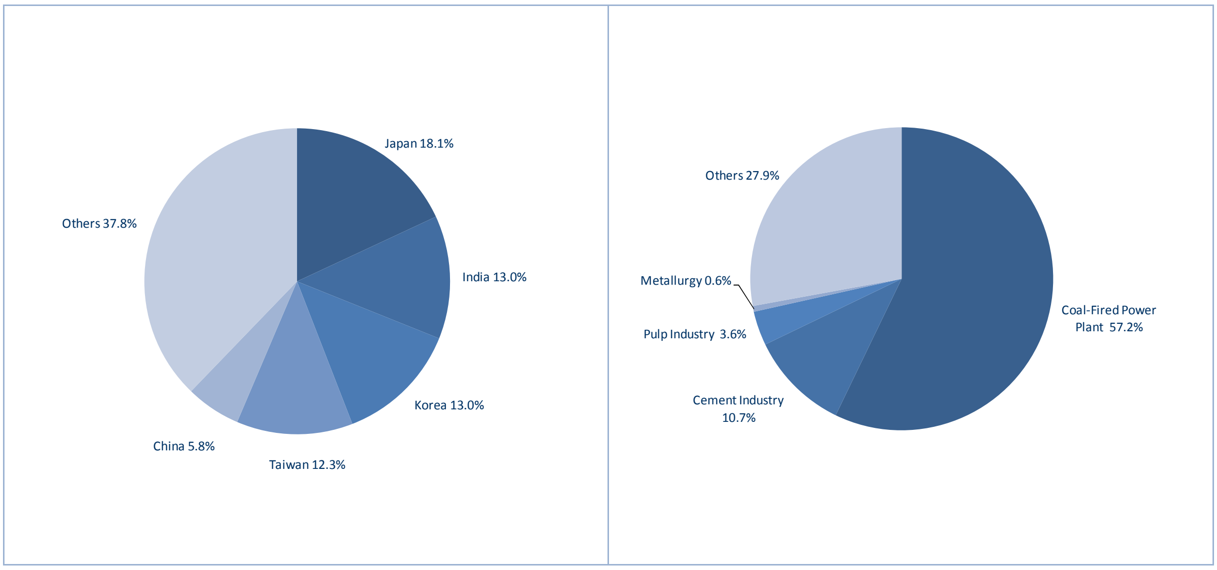


Figure 4.1. While coal prices are down from their recent peaks, Indonesian coal production volumes have been trending higher in recent years.

(*a*) Annual volume of Indonesian coal production, consumption and exports from 1995 to 2007.

(*b*) Weekly average Indonesian Coal Index from August 2007 to October 2009.

Domestic demand for coal in Indonesia has also been growing strongly in recent years as Indonesia attempts to make up for several years of underinvestment in electricity generation capacity. Domestic demand increased from 9.2 Mt in 1995 to over 49 Mt in 2008. Domestic customers, however, still consume less than 25% of the country's annual coal production. As of June 2008, Indonesia's state-owned electricity company PT Perusahaan Listrik Negara (**PLN**) has signed agreements for the development of 29 coal-fired power projects with a total capacity of 8718 MW of a targeted 9816 MW. Of the signed project agreements, nine power projects totalling 6672 MW are in the construction stage. PLN has also signed power purchase agreements with several electricity developers proposing to build a total of 866 MW of additional coal-fired power plants.



a *b*

Figure 4.2. Much of Indonesia's coal is exported to Asia or used domestically for electricity generation.
(*a*) Volume of Indonesian coal exports by country (for 2008).
(*b*) Volume of domestic Indonesian coal consumption by industry (for 2006).

The major coal basins of Kalimantan have a network of large rivers that makes access to the ocean relatively easy for many regions. Much of the area has been logged, so there are timber haul roads to major rivers throughout the area. The area has also been used for oil and gas production, so a number of ports and loading faculties have already been established. Most of Indonesia's coal-producing companies are located on the islands of Kalimantan and Sumatra, while the majority of domestic consumers are located on the island of Java. Most of Indonesia's coal is produced using low-cost, open-pit mining methods.

4.4.3 Indonesian coal prices

According to the Argus/Coalindo Indonesian Coal Index (ICI) Report of 30 October 2009, the weekly average ICI prices were as follows:

Grade	Sulphur	Ash	Moisture	Calorific value	Price
	(%)	(%)	(%)	(kcal/kg ar)	(US$/t FOB)
ICI-1	up to 1.0	up to 12	up to 12	6,500	70.46
ICI-2	up to 0.8	up to 10	up to 18	5,800	59.44
ICI-3	up to 0.6	up to 8	up to 30	5,000	46.68
ICI-4	up to 0.4	up to 6	up to 40	4,200	30.67

4.5 Projects

4.5.1 Overview

The Indonesian subsidiary of Blackcairn—PT Indonesia Mega Energy (**IME**)—has inspected, drilled and rejected a large number of projects across Indonesia. Following this review process, the company has selected four projects based on their potential value in terms of coal reserves, logistics and development potential. The locations of the four project areas—Katingan, Sungai Danau, Lower Mahakam (RKBM) and Tarakan—are indicated in **Figure 4.3.** Each project is summarised in the following sections and described in further detail in the Independent Geologist's Report in Section 6.

Figure 4.3. Island of Borneo. Location map of the four Indonesian coal projects.

Geological surveys have been undertaken to determine the broad potential of coal resources on each property. The mapping and assessment of the identified outcrops have provided initial data to broadly define the characteristics of the coal structures. Other surveys have been conducted to determine general access, forestry classifications, community interactions, roadways and river/port access.

All projects have been independently reviewed by Al Maynard and Associates Pty Limited (Australia), a recognised consultancy firm with core expertise in the evaluation of mineral properties (see Section 6), and Exploration Targets have been defined based on this review.

4.5.2 Katingan Project

The Katingan Project is located in Central Kalimantan and is the Company's main project. Several seams have been identified and there are two rock units that contain coal seams in the Tumbang Manggu Project that are based on lithology and interpreted depositional environment. An older sandstone unit and a younger mudstone unit both host at least one major >6.50m coal seam and several smaller 0.50–3.0 m seams.

Based on limited outcrop samples it is thought that the thicker seams may have better quality profiles than the bulk averages and their ultimate contribution to possible future product will be of paramount significance.

4.5.3 Sungai Danau Project

The Sungai Danau Project is located in South Kalimantan. It comprises two small concessions in an established coal mining region and in close proximity to barge-loading facilities on the coastline. There has been some limited historical outcrop mining to about 15 m depth only and the exploitation licence is current.

4.5.4 Lower Mahakam (RKBM) Project

The Lower Mahakam Project comprises two adjoining concessions totalling 8450 ha. The project is located in East Kalimantan, in close proximity to barge-loading sites on the Mahakam River delta and within comfortable reach of the provincial capital, Samarinda.

The area has been subject to some mining, which apparently followed coal outcrops down dip. However, this activity was limited to a very small proportion of the project area and, given the presence of surrounding mining operations and the lack of exploration on the concessions, it is considered that there is potential for successful exploration in addition to the possible recommencement of production from the existing open pit.

4.5.5 Tarakan Project

The Tarakan Project is located in the Bulungan district, near the major town of Tarakan in East Kalimantan. Three coal seams have been identified in the project area.

The coal locations are within 5 km of the local tidal river systems. The individual river systems appear suitable for coal barging and are in close proximity to the harbour of Tarakan. Overall, coal hauling arrangements and transhipment logistics are extremely positive and favourable for a low cost operation.

4.6 Business strategy

4.6.1 Development of current projects

Using the funds obtained from the proposed Capital Raising, the Company aims to explore for and define a coal resource on at least one of the projects, with a view to having one project in production in 2010. The Company will be aiming to secure definitive binding agreements in relation to the Sungai Danau and Lower Mahakam Projects soon after listing on ASX. Until this occurs, the Company's exploration and mining activities will be focused on the Katingan and Tarakan Projects.

In terms of potential production profile, the Sungai Danau Project in South Kalimantan is considered to be the closest to commencement of mining activities and it is fully licensed for exploitation. Key infrastructure, such as haul roads and barge-loading facilities, are already established and operational.

The Company plans to further explore all of the projects (subject to entering into binding agreements in relation to the Sungai Danau and Lower Mahakam projects and the Tarakan project permit being extended) to better determine the size and economic potential of the coal assets, and to develop the infrastructure required to commence production from these assets.

Coal in Indonesia is almost entirely extracted using low cost, open pit mining methods. The Company intends to work with experienced mining contractors to assist in the development of its operations. The Company intends to focus on sustainable growth in production and handling capacity while maximising the long-term potential of its coal assets.

The Company is committed to building an experienced and well-qualified management team to guide the development of its operations and to ensure the Company meets its objectives.

4.6.2 New projects

Over the short to medium term, the Company intends to explore further opportunities for accessing coal concessions across Indonesia, with a particular focus on deposits in Kalimantan with good logistics and moderate production costs. The Company plans to continue detailed due diligence on projects that may be acquired following the capital raising.

Over the longer term, the Company intends to seek to build a presence in the region, through which it will explore and develop opportunities in higher value coal concessions.

5 Directors, management and corporate governance

5.1 Directors

Ross Kestel BBus ACA FCPA AICD
NON-EXECUTIVE CHAIRMAN

Ross Kestel is both a Chartered Accountant and Certified Practising Accountant and has been a director of the accounting practice Nissen Kestel Harford since July 1980. Mr Kestel has acted as a director and company secretary of a number of public companies involved in mineral exploration, mining, mine services, property development, manufacturing and technology industries. Mr Kestel is currently a non-executive director of the ASX listed companies VDM Group Limited (since August 2005), Jabiru Metals Limited (since August 2003), Dioro Exploration NL (since April 2008), Resource Star Limited (since August 2006), Jatoil Limited (since September 2007), XState Resources Limited (since September 2006) and Regis Resources Limited (since June 2009).

Mr Kestel is a member of the Institute of Company Directors.

It is proposed that Mr Kestel will relinquish the role of Chairman to Mr Alan Broome and assume the role of a non-executive Director after completion of the Offer.

Richard Cohen BBusSc GradDip(Accounting) CA(SAICA) HigherDipLaw(Tax)
CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Richard Cohen has extensive experience in finance and management of very large resources projects. He was previously chief executive officer of Refineria de Cartagena SA, a then joint venture between Glencore and Ecopetrol, the Colombian state-owned oil enterprise. Refineria de Cartagena is carrying out one of the largest capital projects ever executed in Colombia, a US$3.5 billion oil refinery expansion.

Mr Cohen previously spent seven years as chief financial officer of the Colombian company Cerrejon, an open-pit thermal coal operation and one of the largest mining operations in South America. The company is now owned jointly by BHP Billiton, Anglo American and Xstrata, with sales of US$2 billion per year.

Mr Cohen is an Australian resident and South African national. He holds a bachelor degree in business science and a gradate diploma in accounting from the University of Cape Town, and a higher diploma in tax law from Rand Afrikaans University. He is a Chartered Accountant with the South Africa Institute of Chartered Accountants.

Alan Broome IEng FAusIMM FAICD FIMMM(London)
NON-EXECUTIVE DIRECTOR

Alan Broome is highly regarded as a business leader and strategic thinker in the mining industry. He has over 20 years' experience in the secondary metals industry as a metallurgist and 20 years' experience in the mining industry. His extensive knowledge and experience of the mining industry have been accumulated through his heavy involvement with mining technology companies, government agencies and major international mining companies in promoting Australian mining and developing global trade.

Mr Broome's other directorships include a number of Australian mining technology companies. He is currently Chairman of Micromine Pty Limited, Inbye Mining Services Pty Limited, Waratah Engineering Pty Limited, WorkPac Group Limited, Acumine Pty Limited, Endocoal Limited and the ASX-listed companies Nimrodel Resources Limited and Buccaneer Energy Limited.

Mr Broome is Chairman of the Australian mining technology export group Austmine Limited and Deputy Chairman of the world's largest Internet-based mining procurement company, Quadrem International Limited. He is also a Director of the New Zealand-based Solid Energy Limited and CRL Energy Limited and was previously Chairman of the Australian Government Action Agenda promoting mining technology.

For more than 25 years, Mr Broome has made important contributions to the development of the Australian mining supply sector, including leadership of research activities, export development, commercialisation of innovation, assistance to companies to harness e-business processes and advice to government organisations on the development of Australia's mining equipment, services and technology sector.

In 1999, Mr Broome was awarded the Westpac export award for mining. In 2000 he was awarded the Order of Australia (AM) for services to mining. In 2005 he also received the President's Award of the Australian Institute of Mining and Metallurgy (AusIMM) for contributions to the development of the Australian mining supply sector.

It is proposed that Mr Broome will assume the role of non-executive Chairman of the Company soon after completion of the Offer.

Greg Cornelsen BEc
NON-EXECUTIVE DIRECTOR

Mr Cornelsen was appointed director on 20 June 2007. For the past 18 years he has been involved in small businesses in Southeast Queensland. From a rural background he has previously worked as a rural commodities trader within the Elders IXL Group.

As a former international Rugby Union player with 25 caps to his name and with a business background, Mr Cornelsen has developed an extensive network within the Australian business community. From September 2006 to the present he has also served as a director of the ASX-listed company BluGlass Limited.

5.2 Company secretary

Justin Clyne LLB
COMPANY SECRETARY

Justin Clyne was admitted as a Solicitor of the Supreme Court of New South Wales and the High Court of Australia in 1996 before gaining admission as a Barrister in 1998. He has a total of 15 years' experience in the legal profession acting for a number of the country's largest corporations, initially in the areas of corporate and construction law before developing an interest in mining investment and research.

Since 2006, Mr Clyne has dedicated himself full-time to the mining and resources sector. He is a director and/or secretary of a number of public listed and unlisted companies. He has significant experience and knowledge of the Corporations Act, the ASX listing rules and corporate regulatory requirements generally. He holds a Master of Laws in International Law from the University of New South Wales and is also a qualified Chartered Company Secretary.

5.3 Corporate governance

The Directors monitor the business affairs of the Company on behalf of Shareholders and have formally adopted a corporate governance policy that is designed to encourage Directors to focus their attention on accountability, risk management and ethical conduct.

5.3.1 Board of Directors

The Company's Board of Directors is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:

(a) maintain and increase Shareholder value;

(b) ensure a prudential and ethical basis for the Company's conduct and activities; and

(c) ensure compliance with the Company's legal and regulatory requirements.

Consistent with these goals, the Board assumes the following responsibilities:

(a) developing initiatives for profit and asset growth;

(b) reviewing the corporate, commercial and financial performance of the Company on a regular basis;

(c) acting on behalf of, and being accountable to, the Shareholders; and

(d) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

5.3.2 Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meetings. However, subject thereto, the Company is committed to the following principles:

(a) the Board is to comprise Directors with a blend of skills, experience and attributes appropriate for the Company and its business; and

(b) the principal criterion for the appointment of new Directors is their ability to add value to the Company and its business.

No formal nomination committee or procedures have been adopted for the identification, appointment and review of Board membership, but an informal assessment process, facilitated by the Chairman in consultation with the Company's professional advisors, has been adopted by the Board.

5.3.3 Independent professional advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

5.3.4 Remuneration arrangements

The remuneration of an executive Director will be decided by the Board, without the affected executive Director participating in that decision-making process. The total maximum remuneration of non-executive Directors is the subject of a Shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director. The current limit, which may only be varied by Shareholders in general meeting, is an aggregate amount of $300,000 per annum.

The Board may award additional remuneration to non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

5.3.5 External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

5.3.6 Audit committee

The Company is to have a separate, constituted audit committee.

5.3.7 Identification and management of risk

The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

6 Independent Geologist's Report

AL MAYNARD & ASSOCIATES Pty Limited

Consulting Geologists

www.geological.com.au ABN 75 120 492 435

9/280 Hay Street **SUBIACO WA 6008** **Australia**	**Tel: (+618) 9388 1000** **Fax: (+618) 9388 1768**	**Mob: 04 0304 9449** **al@geological.com.au**

Australian & International Exploration & Evaluation of Mineral Properties

INFORMATION MEMORANDUM
ON
BLACKCAIRN PROJECTS
IN
INDONESIA

PREPARED FOR:

BLACKCREST RESOURCES LIMITED

Authors: Brian J Varndell BSc (Spec Hons Geol) FAusIMM
Allen J Maynard BAppSc (Geol) MAIG MAusIMM

Company: Al Maynard & Associates Pty Limited

Date: 25 October 2009

Executive summary

This memorandum has been prepared by Al Maynard & Associates (**AM&A**) at the request of the Directors of Blackcrest Resources Limited (**Blackcrest**) to provide an opinion of the current potential of the Indonesian coal projects (**Projects**) of Blackcairn Resources (Singapore) Limited of Level 58, Republic Plaza, 9 Raffles Place, Singapore 048619 (**Blackcairn**) (Figure 6.1).

This report concludes that an Exploration Target of some 47.3 Mt, ranging between 42.5 and 51.9 Mt, can be ascribed to the Projects with quality ranges described in the report but calorific values ranging between 5350 and 5800 kcal/kg and 16–31% moisture. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

Figure 6.1. Location map of Indonesian coal projects.

At the Sungai Danau (**SD**) Project previous mining to shallow depths of about 15 m exposed seams for ongoing evaluation. Resurrection of mining activities should be relatively simple and some 6.9–8.5 Mt of an Exploration Target for coal with 5400–5600 kcal/kg at 16.0–27.0% moisture could be present, based on the known geometry of the formations. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

Little work has been completed at the PT Raja Kutai Baru Makmur (**RKBM**) concession (Lower Mahakam) near Samarinda in East Kalimantan where an Exploration Target for 3.1–3.8 Mt of moist, 5350–5800 kcal/kg coal may be present. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

At the Katingan Project in Central Kalimantan, where several seams have been identified, there are two rock units that contain coal seams in the Tumbang Manggu Project (within the Katingan Project area) that are based on lithology and interpreted depositional environment. An older sandstone unit and a younger mudstone unit both host at least one major >6.5 m coal seam and several smaller 0.5–3.0 m seams.

An Exploration Target over the short-strike potential is 33.6–41.0 Mt with 5500–5800 kcal/kg at 27–31% moisture and other quality parameters within acceptable limits. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

Based on limited outcrop samples it is thought that the thicker seams may have better quality profiles than the bulk averages and their ultimate contribution to possible future product will be of paramount significance.

At the Tarakan Project only three seams have been outlined in pits. Owing to the preliminary nature of the investigations no potential estimates can yet be given.

It is apparent that all the project areas contain significant potential for the definition of substantial coal resources with some 42.5–51.9 Mt of Exploration Target potential already identified with 33.6–41.0 Mt at the Katingan area as the key Tumbang Manggu project. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. The remaining key issue to be resolved is the potential moisture content and calorific value of the deliverable product. This conceptual target may or may not be outlined with future work, either in whole or in part.

A combined exploration budget of $5.1 million over two years is proposed with activity in Year 2 dependent on Year 1 results.

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25 October 2009

The Directors
Blackcrest Resources Limited
Level 2, Spectrum
100 Railway Road
SUBIACO WA 6008

Dear Sirs,

6.1 Introduction

This report has been prepared by AM&A at the request of Blackcrest Resources Limited (**Blackcrest**) to provide an independent appraisal of the coal resource potential of the various coal projects of Blackcairn Resources (Singapore) Limited located in Indonesia.

6.1.1 Scope and limitations

This independent report and its accompanying geological description have been prepared at the request of the Directors of Blackcrest to provide the writers' opinion of the current potential of the properties described in this accompanying report. Blackcrest has secured agreements to undertake mining activities and product sales on behalf of the tenement holders. The compensation payments to the ground-holders are royalty payments and based on the tonnage of coal product sales. Each tenement has been negotiated on an independent basis and the royalty fee varies per the negotiation outcomes.

This report has been prepared in accordance with the requirements of the Valmin Code (1999, 2005) as adopted by the Australian Institute of Geoscientists (AIG) and the Australasian Institute of Mining and Metallurgy (AusIMM).

This report is valid as of 25 October 2009, which was the date of the final review of the information provided. The estimated potential can be expected to change over time having regard to political, economic, market and legal factors. The potential can also vary due to the success or otherwise of any detailed mineral exploration that is conducted either on the properties concerned or by other explorers on prospects in the near environs. The report could also be affected by the consideration of other exploration data, not in the public domain, affecting the properties which have not been made available to the authors.

In order to form an opinion as to the mineralisation potential of any exploration property, it is necessary to make assumptions as to certain future events, which might include economic and political factors and the likely exploration success. The writers have taken all reasonable care in formulating these assumptions to ensure that they are appropriate to the case. These assumptions are based on the writers' technical training and experience in the mining industry. The opinions expressed represent the writers' fair professional opinion at the time of this report. These opinions are not, however, forecasts as it is never possible to predict accurately the many variable factors that need to be considered in forming an opinion as to the potential of any mineral property.

The readers should therefore form their own opinion as to the reasonableness of the assumptions made and the consequent likelihood of the estimated potential being achieved.

The information presented in this report is based on technical reports provided by Blackcrest supplemented by our own inquiries. At our request, relevant technical reports and agreements were readily made available.

Blackcrest will be invoiced and expected to pay a fee for the preparation of this report. This fee comprises a normal, commercial daily rate plus expenses. Payment is not contingent on the results of this report or the success of any subsequent public fundraising. Except for these fees, neither the writers nor their families nor associates have any interest in the properties reported upon or in Blackcrest. Blackcrest has confirmed in writing that all technical data known to the public domain is available to the writers.

In accordance with the Valmin Code, we have prepared a Table of Potential as presented in Table 6.14 in Section 6.8. Recent field visits were made to all the project areas (by B. Varndell) so that we could become familiar with the surface geology of the districts. Regarding the projects it is considered that sufficient geotechnical data has been provided from the reports covering the previous exploration of the areas to enable an understanding of the geology. This, coupled with knowledge of the areas provides sufficient information to form an opinion as to the current potential of the mineral assets.

6.1.2 Statement of competence

This report has been prepared by Brian J. Varndell BSc (Spec Hons Geol) FAusIMM, a geologist with more than 35 years' experience in mineral exploration and more than 25 years' experience in mineral asset valuation, and Allen J. Maynard BAppSc (Geol) MAusIMM MAIG, a geologist with 30 years in the industry and 25 years in mineral asset valuation. The writers hold the appropriate qualifications, experience and independence to qualify as independent 'Experts' under the definitions of the Valmin Code.

6.2 Background information

This report has been provided by way of a detailed study of information provided by Blackcrest for the package of tenements.

The area under review comprises all or portions of four projects with a combined listing of five mining tenements (*Kuasa Pertambangan* or KP) that have the potential to host coal reserves. The most advanced area is the SD Project, followed by the RKBM and Katingan Projects. The Tarakan Project is in the initial stages of investigation.

6.3 Project areas

There are four main project areas, SD in South Kalimantan, RKBM in East Kalimantan near Samarinda, Katingan north–northwest of Palangkarya in Central Kalimantan, and Tarakan in northeast Kalimantan, Indonesia (Figure 6.1).

Details of the tenements are presented in Table 6.1.

Table 6.1. Blackcrest Indonesian tenement details.

Project	Holder	KP / IUP reference	Area (ha)	Status	Expires
SD	PT Usaha Kawan Sejati	545/128-Ex/KP/D.PE	171.4	exploitation	23/02/2010
	CV Dita Pratama	545/27-Ex/KP/D.PE/2009	92.1	exploitation	24/11/2011
Lower Mahakam (RKBM)	PT Raja Kutai Baru Makmur	540/094/KP-Ep/DPE-IV/IX/2008	4896	exploitation	25/09/2018
		540/095/KP-Ep/DPE-IV/IX/2008	3552	exploration	25/09/2018
Katingan	PT Coal Soil Brick	323 of 2008	5000	exploration	24/11/2011
Tarakan	PT Vano Anugrah Sentosa	661/K-XII/540/2008	3415	exploration	12/12/2009

Under the Indonesian national system, the mid-tier companies involved in the activities of mineral exploration, development and production are primarily regulated by the *Surat Keterangan Izin Peninjauan* (**SKIP**) and the *Kuasa Pertambangan* (**KP**). The SKIP is issued upon application and allows for initial survey. The KP is issued as dependent on the specific activity, with separate permits granted for each of the five stages of operation, as following:

- general survey
- exploration
- exploitation (mining)
- processing and refining, and
- transport and sale.

New mining laws have been passed by the Indonesian Parliament and are under progressive implementation. It is noted in the industry that given the importance of coal royalties to the Indonesian government (total royalties paid in 2007 were US$630 million) and additionally as a source of foreign exchange earnings, it is unlikely that any large scale changes will by instituted (Fitch Ratings, *Indonesian Coal Sector: Outlook 2009*, 9/1/2009).

All the project forest areas are classified as non-production areas (free of controls), or Production Forest, which requires some measure of controls before mining activities can commence. Mining is permissible and there are no significant issues foreseen with forestry classification items.

The climate in the project areas is tropical with distinct wet 'monsoonal' and dry seasons. The dry season nominally extends between May and September, with October traditionally being the wettest month of the year as the monsoon breaks in the area. The average rainfall in the area is more than 3500 mm/annum and the temperature ranges between 22 and 34°C on average. Evaporation is approximately 1300 mm/annum.

6.4 Sungai Danau Project

6.4.1 Introduction

The project comprises two separate tenement holdings with a combined area of 263.5 ha in the region of Sungai Danau (**SD**) near Satui in South Kalimantan:

- PT Usaha Kawan Sejati (**UKS**), and
- CV Dita Pratama (**DP**).

The area has been under investigation since early 2009, with numerous field studies conducted independently by Indonesia Mega Energy (**IME**) representatives, under the direction of Blackcrest.

The work conducted includes semi-detailed geological mapping, infrastructure assessments and studies of historical mining activities.

Each concession has some measure of former mining activity (Figure 6.2). Quantities of coal extracted to date are relatively small to a mining depth of less than 15 m along strike. The exposed coal structures allow accurate geological mapping at certain points, although this has been impeded by the ingress of water into the pits since decommissioning.

Some measure of additional work is required to restructure the decommissioned pits to allow for resurrection of mining. Specifically, this work would entail dewatering the pits, excavating new cutbacks along strike and restructuring the overburden waste dumps. Given that the previous level of mining was not large, this is not seen as a significant impediment to ongoing operations.

Figure 6.2. Strike view of DP pit with in-situ coal seams exposed in highwall.

6.4.2 Locality and access

The project is located in the Kecamatan of Satui, within the Kabupatan of Tanah Bumbu, South Kalimantan. The village of Satui is located approximately 20 km south of the point of proposed operations (Figure 6.3).

Access is via unsealed road from Satui, which is accessible via sealed public road from major provincial thoroughfares. Banjarmasin is the main city in the broader region and acts as a main supply point for mining operations (given the close proximity to other projects). Banjarmasin is serviced by daily flights from Jakarta and Balikpapan on numerous commercial flights.

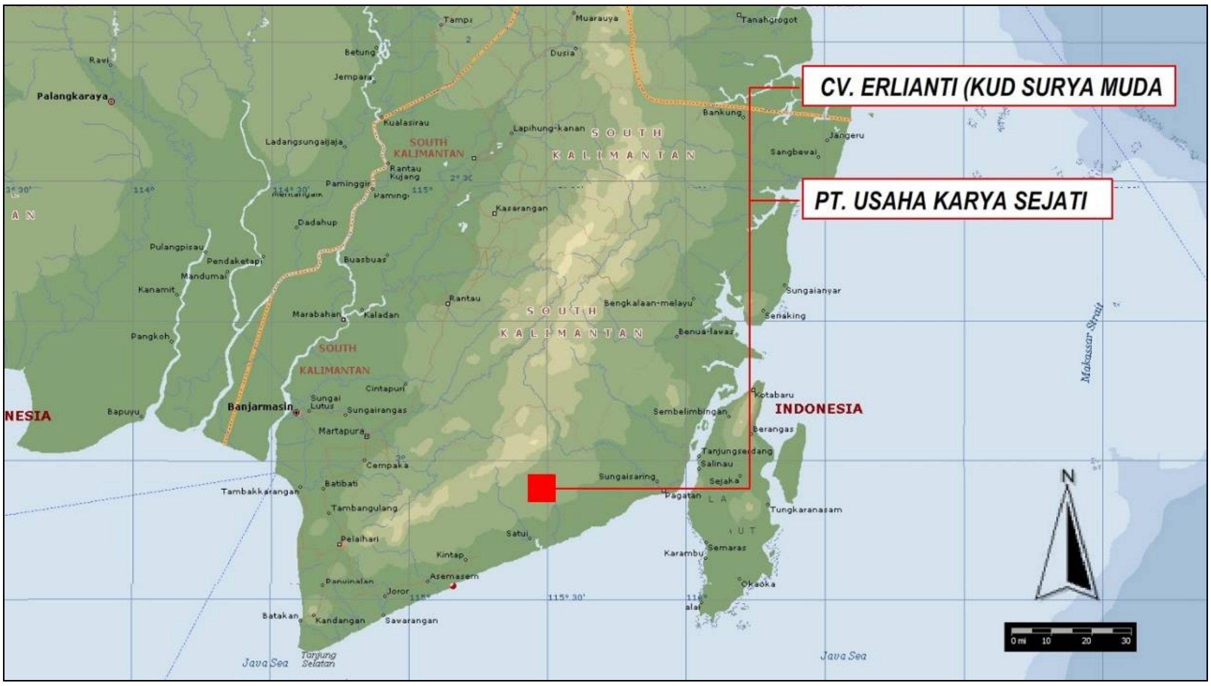

Figure 6.3. SD project locality map.

Farming is the primary land-use in the area, with significant palm oil plantations in the region. The areas of tenement primarily are ex-mining works with the remaining area secondary forest. There are no active commercial agricultural activities on the tenement.

The village of Satui is a community with a combined population of approximately 5000 and is the closest population centre to the prospect area. The majority of residents are engaged in local retail business, agriculture and mine labour. Mining is the major source of income for the region, with the major operations of Arutim (Satui) and SinarMas. Islam is the predominant religion in the immediate region.

It appears that there is support from the immediate local community for an expansion of existing coal mining operations in the expectation of an alternative means of employment and income.

6.4.3 Regional geology

The prospect area is located on the Asam Asam Basin, which is separated from the Barito Basin by the Meratus ophiolite structure in the southeastern portion of Kalimantan. This structure acts as the eastern margin of the Barito Basin, which is situated along the southeastern margin of the Schwaner Shield in South Kalimantan. The basins commenced development in the Late Cretaceous, following a micro-continental collision between the Paternoster and SW Borneo micro-continents. Early Tertiary extensional deformation occurred as a tectonic consequence of that oblique convergence. This produced a series of NW–SE trending rifts. These rifts became accommodation space for alluvial fan and lacustrine sediments of the Lower Tanjung Formation, derived from horst areas.

In the earliest Middle Eocene, as the result of a marine transgression, the rift sediments became more fluvio-deltaic and eventually marine, as transgression proceeded during the deposition of the Middle Tanjung Formation. The marine transgression subsequently submerged the rifts in late Eocene–earliest Oligocene time, resulting in the deposition of widespread marine shales of the Upper Tanjung Formation. After a short-lived marine regression in the Middle Oligocene the development of a sag basin caused renewed marine transgression.

The Late Oligocene is characterised by the deposition of platform carbonates of the Berai Formation. Carbonate deposition continued into the Early Miocene, when it was terminated by increasing clastic input from the west. During the Miocene the sea regressed, due to the uplift of the Schwaner Core and the Meratus Mountains. Clastic input resulted in the deposition of the eastwards-prograding deltaic sediments of the Warukin Formation. In the late Miocene the Meratus Mountains re-emerged, followed by the isostatic subsidence of the basins, which were split by the rising mountains. Sediments shed from this uplift were deposited in the subsiding basins, resulting in the deposition of thousands of metres of the Warukin Formation. The uplift of the Meratus Mountains continued into the Pleistocene and resulted in the deposition of the molassic-deltaic sediments of the Pliocene Dahor Formation. This structural and depositional regime still exists today.

6.4.4 Local geology

The project area is predominantly situated over the Tanjung Formation with some local influence from the Sintang Intrusive Formation (Figure 6.4). The lower strata of the Tanjung rock units consist of alternating sandstone, shale, siltstone and polymic conglomerate, which is locally calcareous. The conglomerate is composed of quartz, feldspar, granite, schist, gabbro and basalt. The sandstone characteristically contains fragments of glauconite.

The upper part of the Tanjung Formation consists of an alternation of micaceous quartz sandstone, siltstone, limestone and coal. The siltstone contains planctonic foraminifera reflecting an age range of Eocene–Oligocene. The limestone also contains some large forams, indicating a late Eocene age. The formation lies unconformable above the Mesozoic Basement and it was folded in a north–south direction, with average dip of bedding plane of 25°. The approximate thickness is 1300 m and the formation is generally distributed in the hilly relief area.

The Sintang Intrusive is composed of Porphyritic Andesite, diorite, granodiorite, stocks, plugs, dykes and sill units. Given the presence of sedimentary structures across the area of tenement, it is considered that this unit is influencing the Tanjung Formation rather than constituting the primary formation.

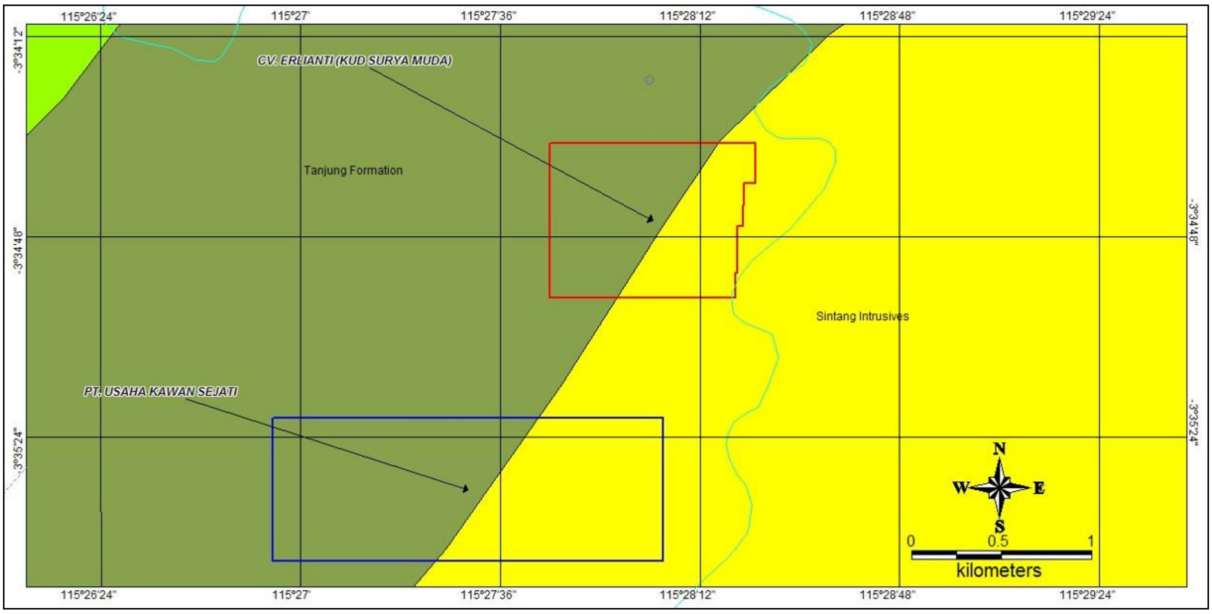

Figure 6.4. Local geology and tenement map for the SD project.

Observations during recent due diligence assessment confirmed the predominance of 1–2 m alluvial material in profiles; predominately made up of loose conglomerates, soils and red-brown sand. The alluvial is also deposited in the overburden profile of the old open. The conglomerates comprise mudstone, angular quartz and siltstone units of 15–20 mm, bound within a mixed sand matrix.

Sandstone units to 3 m thickness were observed along the exposed strike. The sandstone is brown to grey in colour with a medium grain size sand intermixed with fine semi-carbonaceous clays. The sandstones are graded from coarse to fine.

The remainder of the strata is clays, with layers of 10–15 m in profile exposed along strike. The appearance of the clays is light grey to yellowish-brown in colour. The clays are sticky in nature and show some indications of swelling characteristics.

The in-situ overburden and inter-burden is of structural competence that will allow free dig excavation although pre-ripping may be required.

6.4.5 Coal geology

A total of 12 observation points have been used to develop the basic understanding of the coal geology (Figure 6.5). These points include outcrops and exposed coal structures from previous mining activities and reflect a consistent strike in the range of N018°E and N025°E.

Six seams have been identified across the combined tenements of UKS and DP, detailed as follows:

- The first zone is a seam (A) of 3 m true thickness with strike/dip of N020°E/20° and identified on UKS only. The observed dip appears uncharacteristic for the area.
- The second zone is a seam (B) of 10 m true thickness with a strike/dip of N022°E/63° and identified on UKS only.
- The third zone is a single seam (C) of 2 m true thickness with a strike/dip of N018°E/55° and identified on UKS only.

- The fourth zone is a single seam (D) of 15 m true thickness coal with two key observations made along strike (sm07 and uks04), with a strike/dip of N020°E/58° to 64°. This was the primary seam that was previously mined and the structure was noted to be inter-fingered with carbonaceous clay along sections of strike.
- The fifth zone is a single seam (E) of 1 m true thickness coal with a strike/dip of N025°E/65° and identified on DP only.
- The sixth zone is a single seam (F) of 7.5–10.7 m true thickness coal (9 m used for target calculation) with two key observations made along strike (sm02 and uks05), with a strike/dip of N010°E to N019°E/62° to 64°. This was the secondary seam that was previously mined.

The coal seams observed are of various thicknesses within a multi-seam structural setting. No partings were observed within the face of the major seams and no pyritic or sulphur mineralisation was identified in the seams. The coal is sub-blocky with a high density, parallel directional cleat and a black colour with corresponding brown-black streak and semi-dull lustre. The coal is hosted in coarse sandstone and clays.

Figure 6.5. DP coal outcrop.

Four sample reports have been utilised, as presented in Table 6.2. The data was drawn from the coal product produced by an adjacent operation (PT Prestasi Karsa Mandiri), which is located within 2 km in the same formation and is consistent with the observed coal strike. Analysis was conducted by Sucofindo in all cases.

Table 6.2. SD area coal analyses.

Report reference	Moisture (ar)	Inherent moisture	Calorific value	Ash content	Total sulphur	Volatile matter	Fixed carbon
	%	% (adb)	kcal/kg (adb)	% (adb)	% (adb)	% (adb)	% (adb)
00417/GABQAC 11/04/09	27.18	17.53	5462	4.68	0.40	39.30	38.49
00391/GABQAC 02/04/09	26.64	14.51	5613	4.94	0.40	39.83	40.72
021133/GAEDAC 20/04/09	28.3	16.1	5524	3.6	0.31	40.5	39.8
02147/GAEDAC 20/04/09	25.4	16.7	5474	3.7	0.46	39.1	40.5
Method (ASTM)	3302	3173	5855	3174	4239	3175	3172

The results of the analyses indicate that the coal is a medium quality thermal coal with an energy specification in the range of 5500 kcal/kg (adb) indicated by the arithmetic mean of 5518 kcal/kg (adb).

Moisture levels returned an average of 26.9% (as received basis) and a corresponding air dry basis of 16.2% via the ASTM method. The product is suitable for sale as a thermal coal with these moisture values.

Sulphur levels are notably low with all reports less than 0.5% and ash levels at 4.3% arithmetic mean are low.

There appears to be no requirement for product blending from external sources and the coal is suitable for export and the internal market of Indonesia.

6.4.6 Exploration Target potential

Key assumptions applied in the estimation are as follows:

- The strike has been discounted by 50 m at points where the strike line meets the boundary of the concession.
- A vertical mine depth of 100 m has been used for the broad mine model that is within technical limitations for the given location.
- The dip has been extrapolated along strike from measured values, with the steepest dip applied in cases where more than one value has been measured.
- Zones have been allocated for seams of similar strike length and where it is considered feasible for the seams to fit a single mine excavation.
- The coal previously mined by the holder (15 m in vertical depth) has been subtracted from the final estimate.
- A bulk density of 1.3 t/m^3 has been applied for the coal in-situ.

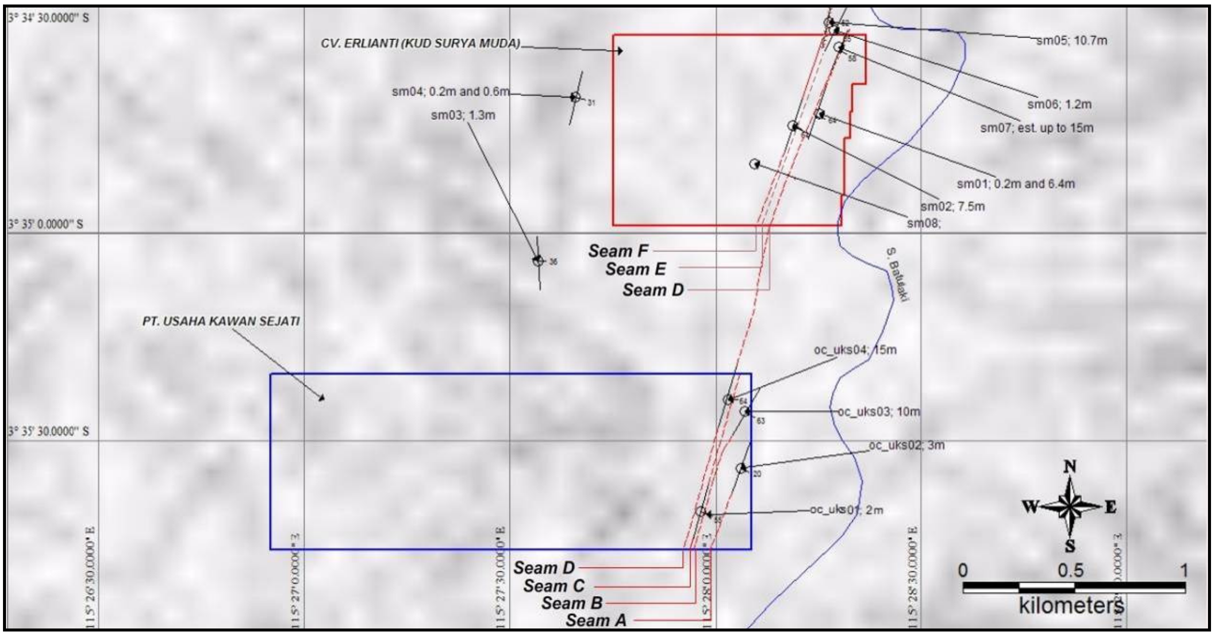

Figure 6.6. Outcrop map for the combined UKS and DP concessions.

Table 6.3 presents the basis of calculations for the Exploration Target for the combined concessions of the SD Project.

Table 6.3. Exploration Targets of the SD and UKS Projects.

Seam ID	Seam true width	Zone ID	Strike length	Applied dip	TM estimate	Comments
	(m)		(m)	(°)	(kt)	
A	3	1	526	20	485.8	Strike-line restricted to UKS concession from field observations.
B	10	2	743	63	938.2	Strike-line restricted to UKS concession from field observations.
C	2	3	817	55	227.6	Strike-line restricted to UKS concession from field observations.
D	15	4	2453	64	4866.4	Strike-line observed across both concessions.
E	1	5	850	65	107.6	Strike-line restricted to DP concession from field observations.
F	9	6	909	64	1053.1	True thickness of 7.5 to 10.7 m from field observations. A value of 9 m applied.
Total					**7678.7**	Stated with corrections applied.

The Exploration Target estimate with ±10% variation is from 6.9 to 8.5 Mt for the combined concessions. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

6.4.7 Program of work and budget

Preliminary mapping has been resourced and is currently in hand. Additional programs of work will be required to determine JORC compliant Resource and Reserve potential of the area. The specific items that need to be addressed are as follows:

- detailed topographic survey and geological mapping
- exploration drilling to establish data for an Indicated Resource and identify the key resource areas, and
- infill drilling to determine Measured Resource and a corresponding Proven Reserve.

The proposed program of work will be conducted to standards that are consistent with the JORC Code and be managed to meet the assigned timeframes of the project development strategy.

All tenements require detailed mapping and drilling of identified targets. The continuity of coal structures should be confirmed in addition to verification of other seams within the structure that have not yet been identified.

Table 6.4. SD Project proposed exploration budget.

Function	Year 1	Year 2	Total
	(A$,000)	(A$,000)	(A$,000)
Mapping	50	50	100
Pitting	50	–	50
Drilling	250	250	500
Assay	50	50	100
Administration	50	50	100
Total	**450**	**400**	**850**

6.4.8 SD Project summary

The preliminary information indicates that a saleable coal product is available with an energy value of 5500 kcal/kg. The Exploration Target estimate is 6.9–8.5 Mt for the combined concessions. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

An exploration budget of A$850,000 over two years is proposed with activity in Year 2 dependent on Year 1 results.

6.5 Lower Mahakam RKBM Project

6.5.1 Introduction

This project is within the tenement holding of the RKBM concession that is held under 'exploitation status' that will allow immediate mining.

The area has recently been investigated with further field studies conducted independently by IME representatives. The work conducted includes semi-detailed geological mapping, infrastructure assessments and studies of previous trial mining activities.

The holder has conducted trial mining on sections of the concession. This is limited to less than two hectares and does not impose an operational liability or impede the recommencement of mining activities. The area has had some measure of drilling conducted, with the data still to be delivered for inclusion into the conceptual mine models.

The prospect is situated just under 20 km from the point of transhipment transfer on the Mahakam River. This site is only 35 km from the point of anchorage downriver. These factors, in conjunction with partially established infrastructure, will allow the project to be brought into production in a short timeframe.

6.5.2 Locality and access

The project is located in the Kecamatan of Muara Badak, within the Kabupaten of Kutaikertanegara Muara Tapin, South Kalimantan (Figure 6.7). The village of Selo Lai is located approximately 3 km north from the point of proposed operations.

Access is via sealed public roads, at one and a half hours drive from Samarinda. The final section of road is unsealed haul road and is passable in 10 minutes. Access to the tenement is then approximately 3 km on foot from the local community settlement.

Samarinda is the main city in the broader region and acts as a main supply point for mining operations. The city is serviced by daily flights from Jakarta on numerous commercial flights.

Figure 6.7. Lower Mahakam RKBM Project locality map.

Farming is the primary land-use in the area of predominantly palm oil plantations and pepper crops. The tenement area has some areas of semi-mature rubber tree plantations restricted to the northern sections. The remaining tenement area is secondary forest with little agricultural activity.

The village of Selo Lai is a community with a combined population of approximately 200 and is the closest population centre to the prospect area. The majority of residents are engaged in local retail business, agriculture and mine labour. Islam is the predominant religion in the immediate region.

There is reported support from the immediate local community for an expansion of existing coal mining operations in the expectation of an alternative means of employment and income.

6.5.3 Regional geology

The concession area lies over the Kutai Basin, which is an extensive Tertiary basin occurring on the central-eastern flank of Borneo (Figure 6.8).

The 165,000 km^2 Kutai Basin is the largest and at 12,000–14,000 m is the deepest Tertiary sedimentary basin in Indonesia. The basin is bounded to the north by the Mangkalihat High; to the south the basin hinges on the Adang–Flexure (Adang–Paternoster Fault); to the west it is terminated by the Kuching High—part of the Kalimantan Central Ranges; and to the east it opens into the Strait of Makassar.

The Tertiary stratigraphic succession within the basin commenced with the deposition of Palaeocene alluvial sediments of the Kiham Haloq Formation in the inner basin, close to the western border. The basin subsided during the late Palaeocene–Middle Eocene to Oligocene, due to basement rifting, and became the site of deposition of the Mangkupa Shale in a marginal to open marine environment. Some coarser siliciclastics, the Beriun Sands, are locally associated with the shale sequence, indicating an interruption of basin subsidence by uplift. The basin subsided rapidly after the deposition of the Beriun Sands, mostly through the mechanism of basin sagging, resulting in the deposition of marine shales of the Atan Formation and carbonates of the Kedango Formation. Subsequent tectonic events uplifted parts of the basin margin by the late Oligocene: This uplift was associated with the deposition of the Sembulu Volcanics in the eastern part of the basin.

The second stratigraphic phase was contemporaneous with basin uplift and inversion, which started in Early Miocene time. During that time, a vast series of alluvial and deltaic deposits were deposited in the basin. They comprise deltaic sediments of the Pamaluan, Pulaubalang, Balikpapan and Kampung Baru formations, pro-grading eastwards, which range in age from the Early Miocene to Pleistocene times. Deltaic deposition continues to the present day, and extends eastwards into the offshore Kutai Basin. At present, the structural style of the Kutai Basin is dominated by a series of tight NNE–SSW trending folds (and subsidiary faults) that parallel the arcuate coastal line, and are known as the Samarinda Anticlinorium–Mahakam Foldbelt. These fold belts are characterised by tight, asymmetric anticlines, separated by broad synclines, containing Miocene siliciclastics. These features dominate the eastern part of the basin and are also identifiable offshore. The deformation is increasingly more complex in the onshore direction.

6.5.4 Local geology

The project area is predominantly placed over the Kampungbaru Formation, which comprises quartz sandstone with intercalations of clay, silt and coal (Figure 6.8). The sandstone is typically soft and easily broken; white or locally reddish to yellowish in appearance. The strata is unbedded and locally contains thin layers of iron oxide or concretionary tuffs, conglomeratic sandstone or conglomerate containing fragments of quartz, red shale and loose clay nodes of diameter 5–10 mm. The clay is dark grey to blackish, containing plant remnants, coal fragments and corals. The silts are dark grey.

The coal stratum is placed as a lamination, generally of 1–2 m in thickness. The formation is considered to be Late Miocene to Plio-Pleistocene age resulting from a deltaic to shallow marine depositional environment where the thickness is estimated at more than 500 m.

The Balikpapan Formation comprises sandstone with clay intercalations and strata of siltstone, shale, limestone and coal. The quartz sandstone is white to yellowish with a bedding thickness is about 1–3 m, containing coal layers of 50–100 mm.

The calcareous sandstone that is brown in colour shows grading across the profile with some cross bedding; the thickness of bedding is generally 200–400 mm, and contains small foraminifera within the intercalated carbonaceous material. The clay is grey to blackish and locally contains plant remains and iron oxide. These materials have filled up the voids of the calcareous sandstone lenses. The sandy limestone contains large foraminifera and molluscs that indicate an age of lower Late Miocene with a deltaic-plain deposition environment. The thickness of the formation is from 1000 to 1500 m.

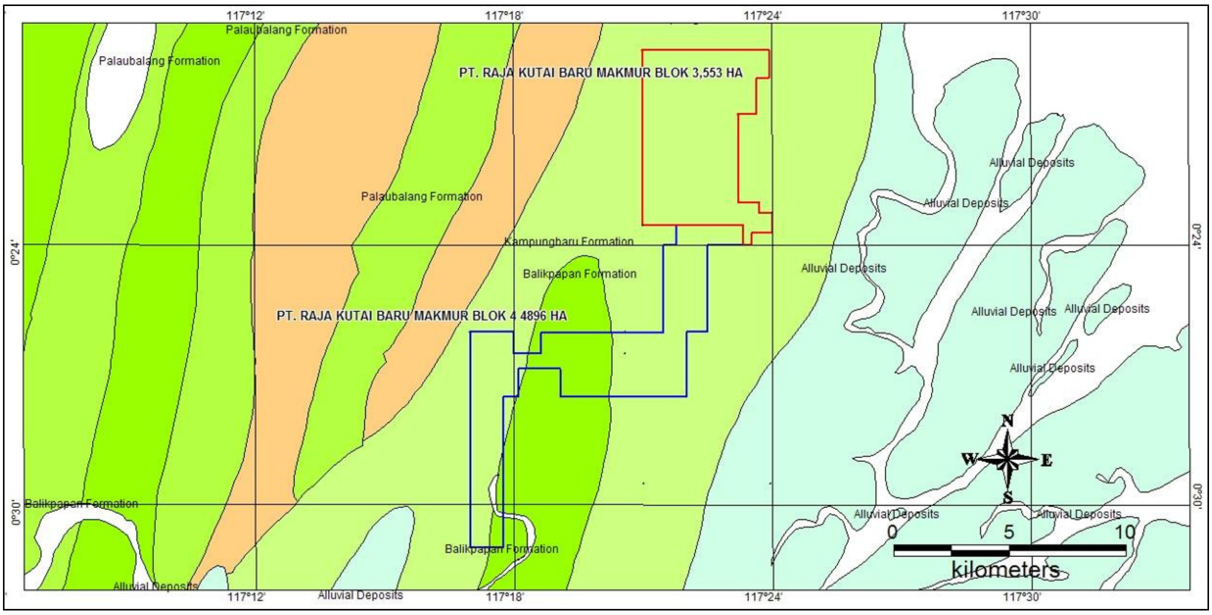

Figure 6.8. Lower Mahakam RKBM Project regional geological map.

Observations of lithologies during recent assessment were only cursory and further study is required. The upper layer is predominantly of clay soils, yellow to brown in colour. Some layers of sandstone-based matrix were indentified in the strata, directly above the coal seams, although the extent of this association was not confirmed. No competent rock was seen during the inspection.

6.5.5 Coal geology

The majority of exploration work has been completed on the southern area of concession, which is under partial exploitation. It is thought that the other areas under the concession are also likely to have coal resources, which can only be confirmed through drilling as the topographical features of the landform have not naturally exposed the coal at surface.

There has been some drilling on the concessions conducted by the owner's representative, with data still pending. There are verbal reports of seams up to an apparent thickness of over 10 m, which is a positive indication that the coal resource will increase in volume after a program of drilling. This information has not been included into the coal potential estimate.

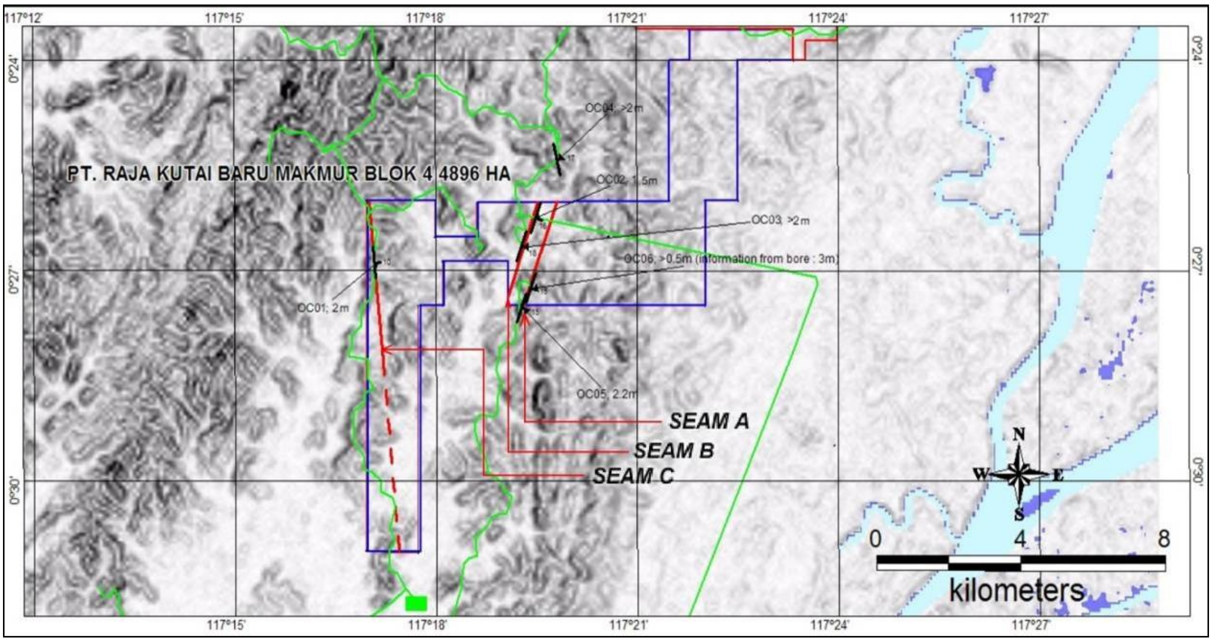

Figure 6.9. RKBM outcrop map.

There are three zones of coal seams identified across the combined tenements by IME as follows (Figure 6.9):

- The first zone is seam A of 0.5–2.2 m true thickness with strike/dip of N010°E/15° identified at OC5 and OC6 outcrops on the southern concession.
- The second zone is seam B of 1.5–2.0 m true thickness with a strike/dip of N016°E/20° identified at outcrop OC2 and OC3.
- The third zone is a single seam C of 2.0 m true thickness, with a strike/dip of N350°E/10° identified from outcrop OC1.

The floor of the coal was not identified during field inspections and true thickness is measured from the exposed outcrop with corrections for dip.

Figure 6.10. Coal outcrop in a shallow pit (left) and a seam exposed by road construction at RKBM (right).

The coal is black in appearance with a corresponding brown–black streak and semi-dull lustre, sub-conchoidal with a medium hardness. Some inclusions of iron oxide clays were observed in isolated areas. No significant partings were identified. Sulphur mineralisation was not observed during the inspection.

Two reports were presented from the mining project of RKBM, as previously operated by PT Andalan Alam Semesta, and summarised in Table 6.5. These reports are based on samples drawn from the mining operation in the south-east of the concession.

Table 6.5. RKBM area coal analyses.

Certificate reference	Moisture (ar)	Inherent moisture	Calorific value	Ash content	Total sulphur	Volatile matter	Fixed carbon	HGI
	%	% (adb)	kcal/kg (adb)	% (adb)	% (adb)	% (adb)	% (adb)	–
090922.0500	34.43	14.25	5736	1.39	1.17	42.33	42.03	51
090922.0483	38.90	19.98	5390	0.28	0.30	38.68	41.06	36
Method (ASTM)	D3302	D3173	D5865	D3174	D4239	D3175	D3172	D409

The variation of the coal quality is considered to be a function of the depositional environment with sample 0500 from the Balikpapan Formation and sample 0483 from the Kampungbaru Formation. The specifications quoted are typical of the given formations.

The results of the available data indicate that the coal is of thermal quality with an energy specification of 5350–5800 kcal/kg (adb), with low ash and variable sulphur levels.

The 'as received' moisture levels are high for the thermal market and specific operational controls may be required during the mining process. Given the embryonic stage of exploration it is required that specific technical studies be undertaken to determine the moisture characteristics of the coal product to determine its exact parameters.

There is no requirement for product blending from external sources if the proportions of coal provide volumes suitable for inter-blending to moderate sulphur levels. The blended coal is suitable for export and the internal market of Indonesia given due consideration to moisture levels.

Figure 6.11. Coal outcrop in a creek at RKBM.

6.5.6 Exploration Target potential

Key assumptions applied in the estimation are as follows:

- The strike has been discounted for 50 m at points where the strike line meets the boundary of the concession.
- A vertical mine depth to a strip ratio of 8:1 (BCM:tonne) has been applied for the broad mine model which is within technical limitations for the given location.
- The dip has been extrapolated along strike from measured values.
- Zones have been allocated for seams of similar length and where it is considered feasible for the seams to fit a single mine excavation.
- A bulk density of 1.3 t/m^3 has been applied for the coal in-situ.

Table 6.6 presents the basis of calculation for the Exploration Targets for the combined concessions.

Table 6.6. RKBM Project Exploration Targets.

Seam ID	Seam true width	Zone ID	Strike length	Dip	Potential estimate	Comments
	(m)		(m)	(°)	(kt)	
A	1.3	1	2790	15	455.4	Outcrops, OC5 and OC6. Thickness of 1.3 m applied. Add another 3.0 m to the 2.2 m OC5.
B	1.7	2	2520	16	565.7	Outcrops OC3 and OC2. >1.5 (3.0) and >2.0 m. Applied 1.7 m for calculation.
C	2.0	3	4800	10	2515.4	Total estimated strike-line length of: 9260 m: Half strike-line applied at 4800 m. >2.0 m on OC6, 2.0 m applied.
Total					**3536.5**	

The Exploration Target estimate with ±10% variation is from 3.1 to 3.8 Mt for the tenement. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

6.5.7 Program of work and budget

Personnel for preliminary mapping are available and planning of specific work programs is complete. Additional programs of work will be required to determine JORC compliant Resource and Reserve potential of the area. The specific items that need to be addressed are as following:

- Detailed survey and geological mapping.
- Exploration drilling to establish data for an indicated resource and identify the key resource areas.
- Infill drilling to determine a Measured Resource and a corresponding Proven Reserve.

The proposed program of work will be conducted to standards that are consistent with the JORC Code and be managed to meet the assigned timeframes of the project development strategy.

All tenements require detailed mapping and drilling of identified targets. The continuity of coal structures should be confirmed in addition to verification of other seams within the structure that have not yet been identified.

Table 6.7. Lower Mahakam Project proposed exploration budget.

Function	Year 1	Year 2	total
	(A$,000)	(A$,000)	(A$,000)
Mapping	50	50	100
Pitting	50	50	100
Drilling	250	250	500
Assay	50	50	100
Administration	50	50	100
Total	**450**	**450**	**900**

6.5.8 Lower Mahakam Project summary

The preliminary information indicates that a saleable coal product is available with an energy value of 5350–5800 kcal/kg (adb), with low ash and variable sulphur levels. Moisture levels are high for the thermal market and specific operational controls may be required during the mining process. The Exploration Target estimate with ±10% variation is from 3.1 to 3.8 Mt for the tenement. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under

JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

An exploration budget of A$900,000 over two years is proposed with activity in Year 2 dependent on Year 1 results.

6.6 Katingan Project

6.6.1 Introduction

The Katingan Project comprises a single tenement held under the entity of PT Coal Soil Brik (**CSB**). There have been numerous surveys conducted on the areas, to the level of semi-detailed mapping. From the studies to date several outcrops have been identified and mapped for inclusion into the resource model. Some significant seams of greater than 6 m true thickness have been recorded. A total of 15 samples have been taken from surface outcrops and analysed to industry standards for proximate coal specifications.

Early in 2009, CV Sinar Peridotindo Utama (**SPU**) was appointed by Blackcrest to undertake a scoping drilling program. The objectives of the program were to core sample the coal seams and provide data on the geometry of the coal structures in the immediate area. In total eight holes, including two partially cored holes, were completed for 305 m of drilling.

6.6.2 Locality and access

The concession area is located 160 km northwest of the city of Palangkaraya in the South Kalimantan Province on the island of Borneo (Figure 6.12). The CSB tenement is in the Katingan Hulu District, near the town of Tumbang Samba on the south bank of the Katingan River, Sambaliung and Kelay, close to the township of Merasak. The centre of the Tumbang Manggu (Katingan) concession area is located at approximately 112°52’30”E and 01°14’05”S.

Figure 6.12. Katingan Project locality map.

The road from Palangkaraya to the Tumbang Samba turnoff is 114 km of sealed road via Kasongan, traversed in 2 hours. The 70 km of road north is then a mix from poor quality potholed bitumen to poor condition gravel, which can be covered in 2 hours. Tumbang Samba to the southern parking site at Tumbang Manggu is via 61 km of local logging roads and local ferries to cross rivers, with the 61km traversed in 2.5 hours. Access for mapping and drilling throughout the concession area is then via old logging roads, tracks or by foot (Figure 6.13).

The area is secondary forest with some logging activities. The terrain is gently undulating with flat lying low ridges rising to an elevation of 150 m amsl above the surrounding main river levels measured at approximately 40 m amsl. Drainage patterns are dendritic with many creeks draining in various directions towards the main rivers that flow into the major Kasongan River.

There are no villages or facilities in the KP area and Tumbang Samba is the local support base.

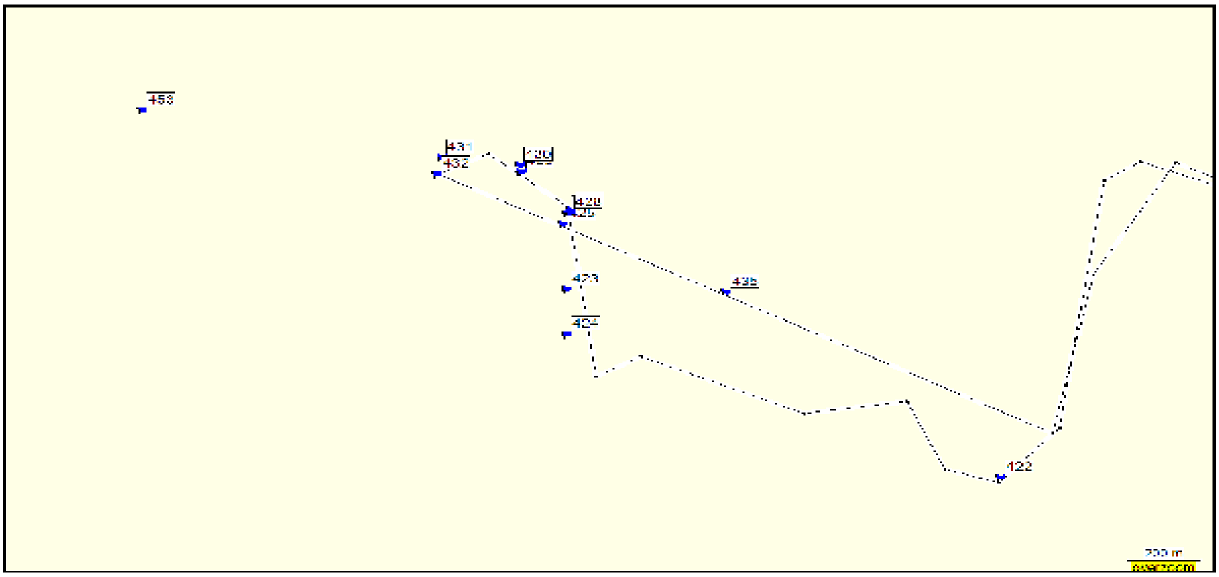

Figure 6.13. General site access map of the CSB tenement.

6.6.3 Regional geology

The concession area lies on the north-western section of the Barito Basin, which is an extensive Tertiary basin occurring throughout a large part of central-southern Borneo (Figure 6.14).

The Barito Basin is located along the south-eastern edge of continental crust in the Sunda Shield. It is separated from the Asam-Asam and Paser sub-basins to the east by the uplifted Meratus Range. To the north, it is separated from the Kutai Basin by the Adang flexure / Barito Cross High. Within the internal framework of the basin, the Barito Basin contains the northeast oriented Barito Foredeep, which is flanked to the west by the Barito Platform and to the east by the Meratus Range.

The Barito Basin commenced its development in the Late Cretaceous, following a micro-continental collision between the Paternoster and Southwest Borneo micro-continents. Early Tertiary extensional deformation occurred as a tectonic consequence of that oblique convergence. This produced a series of northwest-southeast trending rifts. These rifts became accommodation space for alluvial fan and lacustrine sediments of the Lower Tanjung Formation, derived from horst areas.

In the earliest Middle Eocene, as the result of a marine transgression, the rift sediments became more fluvio-deltaic and eventually marine, as transgression proceeded during the deposition of the Middle Tanjung Formation. The marine transgression subsequently submerged the rifts in late Eocene–earliest Oligocene time, resulting in the deposition of widespread marine shales of the Upper Tanjung Formation. After a short-lived marine regression in the Middle Oligocene, the development of a sag basin caused renewed marine transgression. The Late Oligocene is characterised by the deposition of platform carbonates of the Berai Formation. Carbonate deposition continued into the Early Miocene, when it was terminated by increasing clastic input from the west.

During the Miocene the sea regressed, due to the uplift of the Schwaner Core and the Meratus Mountains. Clastic input resulted in the deposition of the eastwards prograding deltaic sediments of the Warukin Formation. In the Late Miocene the Meratus Mountains re-emerged, followed by the isostatic subsidence of the basin, which was situated in a foreland position in relation to the rising mountains. Sediments shed from this uplift were deposited in the subsiding basin, resulting in the deposition of thousands of metres of the Warukin Formation. The uplift of the Meratus Mountains continued into the Pleistocene and resulted in the deposition of the molassic deltaic sediments of the Pliocene Dahor Formation. This structural and depositional regime still exists until today.

6.6.4 Local geology

The coal is intercalated within the Dahor formation; composed of fine to coarse grained sandstone, of a bluish grey colour cross-bedded with conglomerates of metamorphic and granitic clasts, with some intercalations of limonitic layers. Coal beds have been previously identified, at 0.3–3.0 m in thickness, hosted in the coarse sandstone layers. The Dahor rock units appear to lack fossils, excluding indeterminable mollusc fragments in the coal layers. The formation has been designated as Middle Pliocene–Pleistocene in age. Structurally, the thickness is estimated to be 300 m in total and may thicken in the eastern direction.

The Dahor Formation overlies the Sepauk Tonalite Formation, which comprises granitic rocks with equigranular texture, made up of diorite, monzonite, tonalite and granodiorite. Intrusive contacts between the granitic plutonic rocks and the older effusive rocks are found around Buntut Nusa, upstream of Mentaya River. Pyritisation is observable in many places. Quartz veins that range from a few millimetres to several centimetres are closely related to base metal occurrences in this area. Based on fission track age dating an Upper Cretaceous age is ascribed to the granitic rocks.

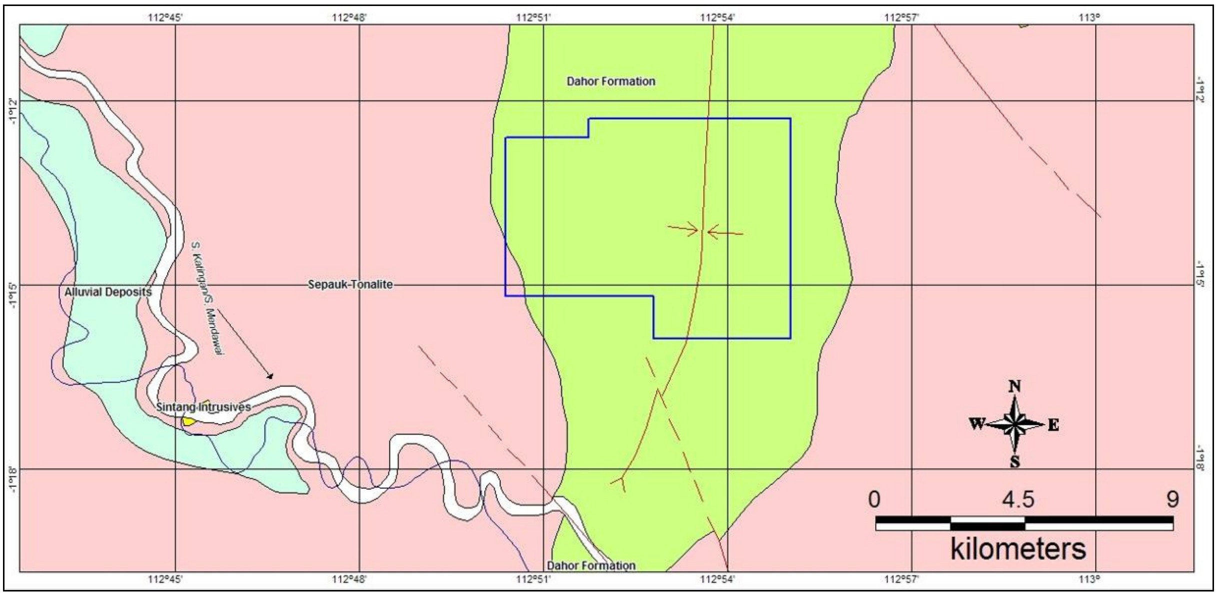

Figure 6.14. CSB tenement on the Dahor Formation—local geological map.

Quaternary and recent sediments are restricted to close proximity on the banks of the major watercourses.

The basal sedimentary unit in the area is limestone, described as a fine grained hard grey-white bioclastic rock, with bioherms and bioturbation noted with fossils of red algae, foraminifera and gastropoda.

6.6.5 Coal geology

There are two definable rock units that both contain coal seams in the investigation area, with the oldest being a sandstone unit and the youngest a mudstone unit. Both units contain a thick major coal seam of greater than 6.5 m and several smaller seams of 0.50–3.0 m. The older sandstone unit and coal seams are interpreted to be deposited in a choked lagoon setting with a high fluid energy environment and a marine influence. The younger mudstone unit and associated coal seams were deposited in a more static environment, possibly a restricted lagoon, with a lower fluid energy and a fresh water influx, rather than marine.

The interpreted tectonic setting during the basin development is one of a syn-rift basin margin defined by a half-graben structure.

It is anticipated that the thicker coal seams, at a basic level, will show more consistent quality parameters than those already achieved and the total deposit quality is likely to improve when the weighted averages of the coal quality are determined on a seam-by-seam basis.

Figure 6.15. Coal outcrop waterfall in a creek, extending 30 m upstream. Zone B, CSB.

The coal deposits in the Katingan Project have been divided into four stratigraphic zones based on the depositional environment and stratigraphy. The younger deposits occur in the sandstone sequence and the older in a mudstone sequence.

In the Sandstone Sequence coal occurs in multiple seams with thicknesses ranging between 0.50 and 4.7 m and the seams are generally tabular in distribution. The generally clean basal coal sequence is found intercalated within sandstone and mudstone with the four noted seams being generally greater than 1.0 m in thickness.

The central zone has seams ranging from 0.5 to 1.5 m in thickness while the upper zone has seams ranging up to 3.2 m. The sub-blocky coal with a high cleat density is generally strong, black with a black streak and a bright lustre. In the lower section, four seams range in thickness up to 7.0 m, and are hosted within mudstones.

This generally clean coal is black, has a black streak, bright lustre, is conchoidal to blocky with a high cleat density and is generally strong.

The Mudstone Sequence displays a fining upwards depositional environment and indicates a change from a high-fluid environment to a more static low-fluid environment.

The area of the Katingan Project has been divided into three zones for correlation purposes.

A zone 2 km northwest and extending southeast into the concession shown in Figure 6.16 around the general area labelled 'C' is assigned to another KP owned by a third party that has been approached by PTCSB to form a joint venture. It has many coal seams, including seven seams greater than 1 m in thickness that dip northeastwards at 8–10°.

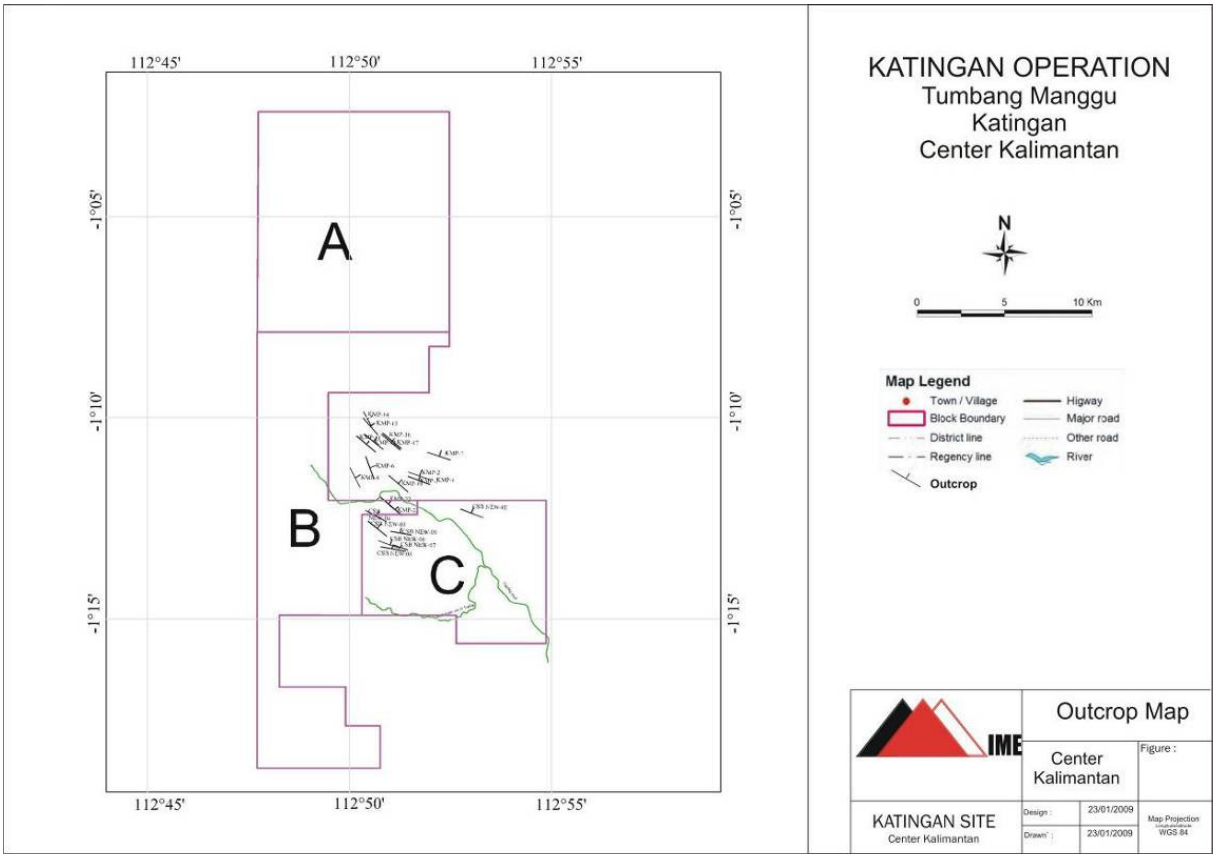

Figure 6.16. Katingan outcrop map.

Figure 6.17. Katingan Zone B south seam at greater 6.5m.

Zone B (CSB) is exclusively within the CSB concession. The zone is characterised by thick main seams with interpretations based on limited drilling data and surface mapping. The 13 key seams as identified range in thickness from 1.0 to 7.0 m and appear to strike NW with a dip southeast or southwest at 5–15° around the nose of an antiform structure. Correlations may have a degree of error as the coal seam roof and floor characteristics cannot fully be established with certainty at this point in time. For the potential estimate calculations exercise, the basic strike length has been designated as 2.5–4.0 km from within the mapped 6 km corridor for three portions of the main coal outcrop zone.

For a 10° dipping seam, a nominal open-pit to 100 m depth will cover a footprint some 500 m wide on surface, which may allow recovery of several fairly close-spaced seams; strip ratios would be about 7:1 but the implications are not considered at this stage. This implies that three such 'slots' could be considered for Exploration Target estimation purposes with the total thickness of recoverable coal being between 9.0, 7.0 and 3.5 m for the three footprints from south to north.

A third zone on the edge of an adjacent area to the SW, termed Zone C, is not supported with strong data. Initial estimates of a potential resource of one seam of 2.7 m in thickness over 1.0 km of strike could be made but have not been used.

There is no accurate survey control on site so correlations are still considered preliminary.

From the programs of work, two major sets of data have been prepared for coal quality indications. For the sample analyses received to date the main coal parameters have been presented in Tables 6.8 and 6.9. No attempt has been made to define individual seam correlations and some parameters may be seam specific that may skew the statistics.

The first set is from outcrop sampling undertaken during field survey activities. Given the broad area of survey it is considered that multiple seams would be included within this program. The samples were taken directly from outcrops via chip sampling, with no sample treatment. The storage of the samples was in non-pervious plastic bags with samples transported directly to the mineral laboratory. The laboratory used was Sucofindo Banjarmasin. The data is presented in Table 6.8.

Table 6.8. Katingan outcrop coal analyses.

Report reference	Date	Moisture (ar)	Inherent moisture	Calorific value	Ash content	Total sulphur	Volatile matter	Fixed carbon
		%	% (adb)	kcal/kg (adb)	% (adb)	% (adb)	% (adb)	% (adb)
00115/GAEDAC	9/01/2009	35.1	12.5	5,846	2.5	0.28	42.1	42.9
00116/GAEDAC	9/01/2009	33.6	12.7	5,792	2.4	0.23	42.6	42.3
00120/GAEDAC	9/01/2009	37.6	15.3	5,723	1.4	0.16	40.5	42.8
00119/GAEDAC	9/01/2009	34.8	12.3	5,608	6.3	0.19	41.5	39.9
00118/GAEDAC	9/01/2009	35.5	12.7	5,630	5.0	0.22	40.1	42.2
0017/GAEDAC	9/01/2009	32.8	13.0	5,400	7.9	0.27	39.5	39.6
07647/GAEDAB	9/01/2009	26.9	12.1	6,016	4.0	0.26	41.8	42.1
07646/GAEDAB	5/10/2008	37.2	15.2	5,519	2.1	0.23	40.5	42.2
07645/GAEDAB	5/10/2008	38.2	12.8	5,794	3.2	0.22	43.3	40.7
06848/GAEDAB	4/09/2009	21.0	13.7	6,035	2.1	0.25	42.9	41.3
07644/GAEDAB	5/10/2008	36.6	13.3	5,885	1.8	0.24	43.4	41.5
07643/GAEDAB	5/10/2008	35.6	12.3	6,007	1.8	0.24	43.6	42.3
Method (ASTM)		D3302-05	D3173-03	D5865-04	D3174-04	D4239-05	D3175-02	D3172-03

The second program of work was undertaken with cores as retrieved from the drilling program. The core was sampled via a triple tube and directly wrapped with impervious plastic cling wrap, placed in core trays and transported directly to the mineral laboratory. The laboratory used was PT Geoservices, Balikpapan.

Table 6.9. Katingan core sampling coal analyses.

Report reference	Sample	Moisture (ar)	Inherent moisture	Calorific value	Ash content	Total sulphur	Volatile matter	Fixed carbon
		%	% (adb)	kcal/kg (adb	% (adb)	% (adb)	% (adb)	% (adb)
KT.1904/09	DH-02 0-0.7	31.19	13.82	5734	3.18	0.26	40.44	42.56
KT.1905/09	DH03 0-1	28.86	14.00	5457	5.50	0.23	38.68	41.82
KT.1906/09	DH03 1-2	27.95	15.52	5584	2.57	0.18	39.60	42.31
KT.1907/09	DH03 2-3	28.28	14.30	5612	4.00	0.22	39.87	41.83
KT.1908/09	DH06 0-1	27.64	13.82	5488	7.44	0.20	40.28	38.46
Method (ASTM)		D3302-05	D3173-03	D5865-04	D3174-04	D4239-05	D3175-02	D3172-03

The calorific values derived from all samples (Tables 6.8 and 6.9) range between 5400 and 6035 kcal/kg (adb) with corresponding moisture of 12–16%, which is within specification for a thermal coal product.

Additional work was undertaken to determine moisture interactions and retention from samples retrieved from the drilling program. The work was conducted applying the ISO-11722:1999 method. Results were equilibrium moisture in the range of 22–28% (adb). Given the early, initial stages of exploration, it is obvious specific technical studies must be undertaken to determine the moisture characteristics of the coal product and determine its exact parameters.

Data treatment on the coal analytical results reveals a consistent quality with the standard deviation of the sample sets within 5% standard deviation, calorific value dry free basis. This is consistent with the resultant values of the fixed carbon content.

The additional parameters of ash content and sulphur are within specification for a thermal grade coal. The exact interaction is unclear at this stage with some association of parting impacting gross calorific values in some cases; additionally, analysis of a single parting resulted in gross calorific values relative to the coal. It is apparent that this is due to retention of resins from the coal seam. Further work is required to determine exact interactions; however it is indicated that the ash content is not seen to compromise the coal quality beyond market limitations.

Total sulphur reports are notably low, with no determinations greater than 0.3% (adb).

In summary, the key outcomes from the analysis are a mean coal quality within the range of 5500–5800 kcal/kg with corresponding moisture of 12–15% (adb) as composite comparison. All other parameters are within specification for a thermal coal product.

Figure 6.18. Katingan zone B +6.5 m south seam.

6.6.6 Exploration Target potential

Overall, the exploration work is in the initial stages, with insufficient data to support a resource under the JORC Code requirements. All indications to date are positive and the progression to a JORC Code compliant resource is possible with further work.

The Exploration Target estimates have been made using an assumed bulk density of 1.3 t/m^3.

The available strike, assuming a flat dip, in the central zone has been assigned to a corridor some 500 m wide that is thought to be amenable to opencast mining given the actual relatively shallow dip of the seams. In Table 6.10, estimates of potential tonnage per strike kilometre are derived. The fact that all seam dips are currently not accurately determined has meant that no 'dip factors' could be considered at present. A conservative approach to the mapped 6 km of strike has also been taken.

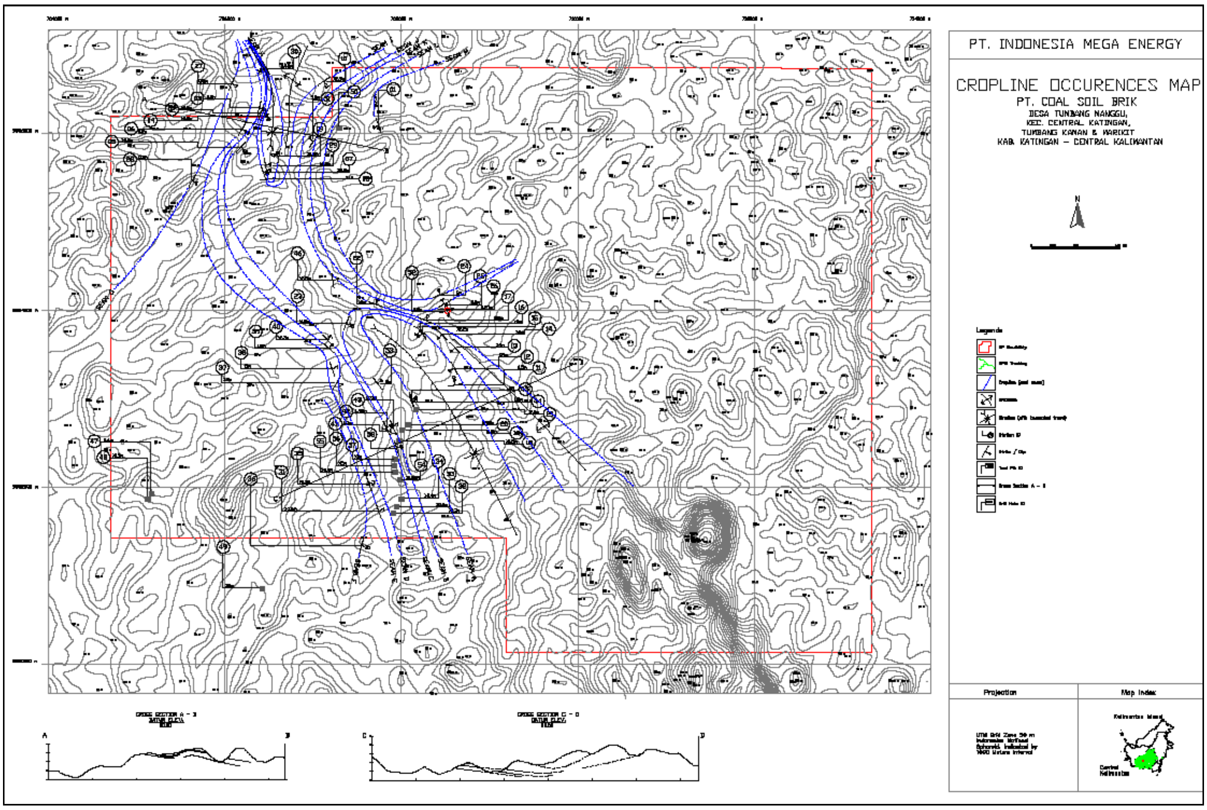

Figure 6.19. Tumbang Manggu central area coal seams.

Table 6.10. Tumbang Manggu Exploration Target estimate.

Zone	Strike	Width	Seam	Coal
	(m)	(m)	(m)	(Mt)
TM CSB N1	4000	500	3.5	9.1
TM CSB fold N	3000	500	7.0	13.6
TM CSB fold S	2500	500	9.0	14.6
Total				**37.3**

The Exploration Target estimate is, with a ±10% variation, from 33.6 to 41.0 Mt for the tenement. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral. This conceptual target may or may not be outlined with future work, either in whole or in part.

6.6.7 Program of work and budget

Preliminary mapping and scope drill programs have been planned. Additional programs of work will be required to determine the resource and reserve potential of the area. The immediate items that need to be addressed are as following:

- detailed survey and geological mapping
- exploration drilling to establish data for an Inferred Resource and identify the additional areas of potential, and
- infill drilling to determine JORC compliant Measured Resource and a corresponding Proven Reserve.

The proposed program of work will be required to be conducted to standards that are consistent with the JORC Code and be managed to meet the assigned timeframes of the project development strategy.

Other than preliminary mapping and a start to drilling, no systematic exploration has been undertaken. Consequently, the whole area requires geological mapping.

There are already indications of multiple seams. To confirm continuity and correlation, three 5 km long profiles perpendicularly spaced 500 m are required to be drilled. Hole depth of 100 m deep holes at set spacing at 200 m are recommended, with an allowance for 15 infill closer-spaced holes in some instances (90 holes).

All seams will be assayed according to standard requirements regarding partings.

This initial Phase 1 exercise is estimated to take about one year if two drill rigs are used. The Phase 2 program will essentially involve wider spaced profiles to cover the whole project area, drilling new target areas identified during Phase 1.

Table 6.11. Katingan Project proposed exploration budget.

Function	Year 1	Year 2	Total
	(A$,000)	(A$,000)	(A$,000)
Mapping	50	50	100
Pitting	50	0	50
Drilling	500	1500	2000
Assay	75	325	400
Administration	75	125	200
Total	**750**	**2000**	**2750**

An exploration budget of A$2,750,000 over two years is proposed with activity in Year 2 dependent on Year 1 results.

6.6.8 Katingan Project summary

There are two definable rock units that contain coal seams in the prospect area of the Katingan Project, based on lithology and interpreted depositional environment, with an older sandstone unit and a younger mudstone unit. Both units contain a major coal seam at greater than 6.5 m, associated with several smaller seams of 0.5–3.0 m.

A very basic estimate of the volumes of coal defined within the area over varying strike lengths over a 500 m wide corridor for recovered coal seam aggregating up to 9.0 m thickness and a bulk density of 1.3 t/m^3 neglecting seam dip of 5–15° has been used. Similar parameters were used for the other two areas.

It is apparent that the Katingan Project area contains significant potential for the definition of a substantial coal deposit. An Exploration Target has already been identified of 33.6–41.0 Mt with 5500–5800 kcal/kg and acceptable moisture levels in CSB and with large upside if strike extensions can be confirmed. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part.

Provided JV negations with neighbours are successful, the total potential of the district is very large.

An exploration budget of A$2,750,000 over two years is proposed with activity in Year 2 dependent on Year 1 results.

6.7 Tarakan Project

6.7.1 Introduction

The area is held under a single KP under the company name of PT Vano Anugerah Sentosa (**VAS**), with an area of 3400 ha.

Three site visits were conducted, two by IME representatives as part of a broader regional program of survey. The initial IME site visit was conducted in late 2007, with a second visit undertaken in 2008. Author visits to the area were in late 2008.

Additional areas adjacent to the initial prospect area have been identified as also having potential to host coal deposits. Within this program of study, a total of five concessions were visited and surveyed to determine the coal potential. This included a number of site visits by GMT International, a geology consultancy group based in Jakarta. The five concessions were consolidated into the remaining tenement upon a review of legal, geological and contractual factors.

The work conducted to date is limited to an initial geological survey, with only 10% of the total concession visited.

6.7.2 Locality and access

The Tarakan Project comprises one prospect area in the East Kecamatan Tanjung Palas and North Tanjung Palas areas of the Bulungan District, in close proximity to Tarakan in East Kalimantan.

The southern portion of the tenement is accessible by a 1.5 hour speedboat trip from Tarakan across the estuary and then via the tidal river toward the township of Tariadak. There are few roads in the area with access generally via footpaths (Figure 6.20).

The area is covered by secondary forest with some mangroves on the tidal reaches. There are no permanent communities in the immediate area.

Figure 6.20. Tarakan Project locality map.

The coal locations are very close to the local tidal river systems, at less than 5 km. The individual river systems appear suitable for coal barging and are in close proximity to the harbour of Tarakan. Overall, coal hauling arrangements and transhipment logistics are extremely positive and favourable for a low cost operation.

6.7.3 Regional geology

The Tarakan Basin is separated from the Kutai Basin by the Mangkalihat High or Arch. To the west the basin is terminated by the Sekatak–Berau High of the Central Ranges. The basin hinges on the Semporna High to the north, and opens eastwards and south-eastwards into the Straits of Makassar.

Deposition in the Tarakan Basin commenced in the Middle Eocene, simultaneously with the rifting of the Makassar Straits, which separates Sulawesi from Kalimantan. The basin subsided and opened to the east. The sea transgressed westwards and shallow marine shales of the Sembakung Formation were deposited, overlying the older Dannu basement rocks. The transgression was interrupted by the latest Eocene uplift, which resulted in the deposition of coarse clastics of Sujau Formation. During Oligocene times a carbonate platform (Seilor Formation) developed and continued into the Early Miocene as the Mangkabua Shales and the reef-style Tabalar Limestone. In the middle Miocene, the western basin margins were uplifted and caused open marine conditions to give way to widespread and rapid clastic deltaic deposition, which successively prograded eastwards with time.

Periodic and cyclic regression–transgression during the middle Miocene to Pleistocene time caused sedimentary switching, leaving marine shales and limestones intercalated with coarse clastic deltaic sediments. The present structural grain of the basin is characterised by folds trending NW–SE and by the faults trending NE–SW. Structural deformation becomes increasingly complex northwards. The regular NE–SW trending faults, which are normal to the direction of sedimentary thickening, suggests that they were developed contemporaneously with deposition, and may be the direct result of sediment loading of successive deltaic sediments. All structures in the lower basin formed as the result of thin-skinned tectonics. Involvement of the basement characterises the structures of the upper basin, approaching the Sekatak–Berau High.

Tectonic inversion is almost absent in this basin. The tectonic history of the Tarakan Basin commenced with extensional tectonics in the Middle Eocene, initiating the basin by block faulting, similar to events in the neighbouring basins.

In the Middle Miocene, the Sulu Sea, located to the north of the basin, was subducted below the accreted continental crust of North Kalimantan, and this resulted in the extrusion of Neogene volcanics in the Semporna Peninsula and was responsible for the formation of NW–SE trending, SE plunging folds in the Tarakan Basin. These fold axes are now represented by the islands of Sebatik, Bunyu and Tarakan.

The folds become increasingly more complex towards the north as they approach the convergent margin. Some workers relate the formation of these folds to wrench tectonics in the basin itself. The thick progradation of a deltaic succession during Middle Miocene to Pleistocene time resulted in growth-faulting with rollover structures, aligned perpendicular to the sedimentary flow and subsiding towards the east.

6.7.4 Local geology

The upper alluvial deposit comprises shallow mud, silt, sand, pebbles and cobbles. This is restricted to the coastal, river and swamp areas. The deposition of this is over the Plio-Pleistocene Sajau Formation that is the primary sedimentary unit; deposited in a fluviatile deltaic environment trending NW–SE.

The formation comprises quartz sandstone, claystone, siltstone, coal lignite and conglomerate. The sedimentary structures are planar and thought to be cross-bedded, bioturbations, with parallel lamination, iron nodules, containing wood fossils which are commonly carbonaceous. This 600–2000 m thick formation is Plio-Pleistocene in age based on molluscs deposited in fluviatile to deltaic environments.

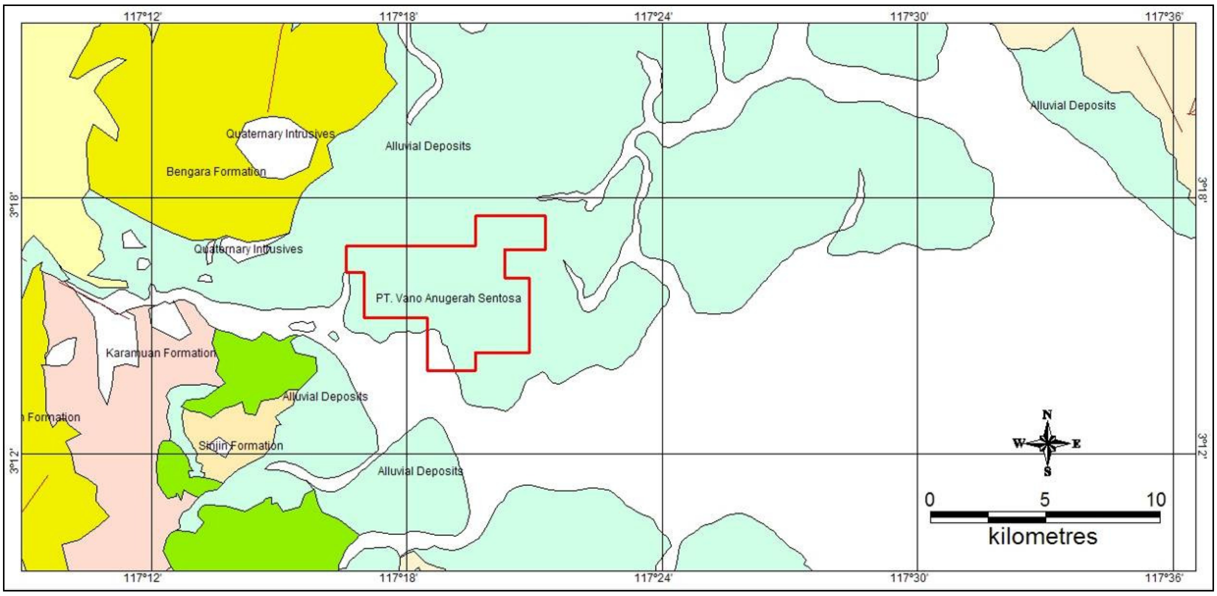

Figure 6.21. Tarakan Project tenement and regional geological map.

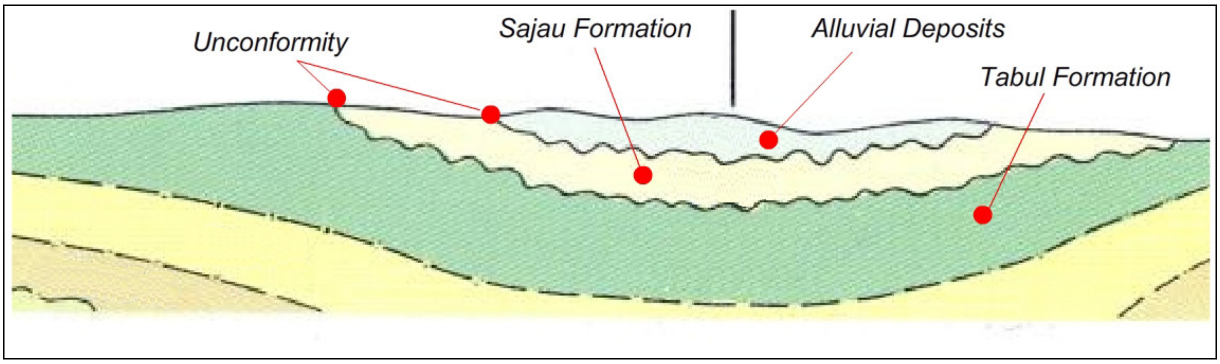

Figure 6.22. Profile of Tarakan alluvial deposits on the underlying Dahor formation.

From regional surveys it was determined that the sandstones mapped in the area generally contain inter-beds of mudstone, thin siltstone, conglomerate and coal. The fine to medium grained sandstone is bright grey, occasionally red-brown, poorly to moderately sorted with angular to moderately rounded grains, including quartz and is sub-compact to brittle. Sedimentary structures include parallel laminations and ripple/cross laminations. The mudstone is grey, soft and contains thin laminations of siltstone and pebble to gravel sized nodules of limestone. The conglomerate is red-brown, has a sandy matrix comprising a large amount of quartz; the hard and angular clasts are pebble to gravel in size, poorly sorted and loose.

The mudstone unit contains inter-beds of sandstone, conglomerate and coal interlaminations. The mudstone is grey to dark grey, soft to compact and often contains thin laminations of carbonaceous material. Limestone nodules, when seen, are pebble sized. The sandstone is grey, fine to medium grained and hard. Sedimentary structures within the sandstone include parallel laminations and cross-laminations. The loosely packed and moderately sorted conglomerate is brownish-white, has a sandy matrix and the sand-to-pebble sized clasts are dominantly hard, angular quartz.

The dark brown breccia unit is hard with a dominantly sandy matrix and the majority of clasts of volcanic origin, probably andesite with pumice fragments. In some areas the clasts are polymictic with moderately sorted claystone and sandstone.

Figure 6.23. Tarakan Project—coal in pit (left) and freshly exposed outcrop (right).

6.7.5 Coal geology

The surveys conducted were limited to 10% of the full concession area. From these surveys, three outcrops within the tenement have been recorded with seam widths ranging from approximately 0.4 to greater than 1.5 m (seam floor not identified). All outcrops were identified through excavation as the outcrops were not fully exposed to surface.

The dip is observed to be relatively shallow at 10°, dipping to the southeast. The resultant strike has the potential to extend over 3 km within the boundary of the concession.

Sample analysis reports were provided by the tenement holder (see Table 6.12). These samples were reportedly taken from shallow excavations with no treatment of the sample prior to submission to the laboratory.

Table 6.12. Tarakan outcrop coal analyses.

Report reference	Sample	Moisture (ar)	Inherent moisture	Calorific value	Ash content	Total sulphur	Volatile matter	Fixed carbon
		%	% (adb)	kcal/kg (adb)	% (adb)	% (adb)	% (adb)	% (adb)
10052	23/5/2008	48.8	19.8	5,058	1.9	1.56	38.9	39.4
01/4583	30/5/2008	48.8	12.3	5,745	2.0	1.69	43.3	42.3
Method (ASTM)		D3302-05	D3173-03	D5865-04	D3174-04	D4239-05	D3175-02	D3172-03

From field observations, the coal appearance is black-brown in colour, fresh, dull, brownish black to brown streaking colour, sub-conchoidal, medium strong with wood remnant structure and resin nodule inclusions.

The calorific values for the coal are indicated to be in the range of 5000–5800 kcal/kg (adb) with corresponding moistures of 10–12% (adb).

The ‘as received’ moistures are greater than 40.0% (adb), which may not be acceptable for the broader energy market. It is apparent that the project may require specific mineral treatment to reduce the moistures to an acceptable level. Given the inherent cost benefits of the location in respect to logistics, this may be economically feasible.

Ash contents returned were relatively low, in the range of 2.0% (adb).

Sulphur returned an arithmetic mean of 1.62% (adb), which may require specific operational controls to reduce to a lower level. Such controls depend on the broader coal system and include selective mining, mine scheduling and product blending.

6.7.6 Exploration Target potential

The relative positions of the outcrops do not provide a suitable basis for the conceptual model required for an Exploration Target estimate.

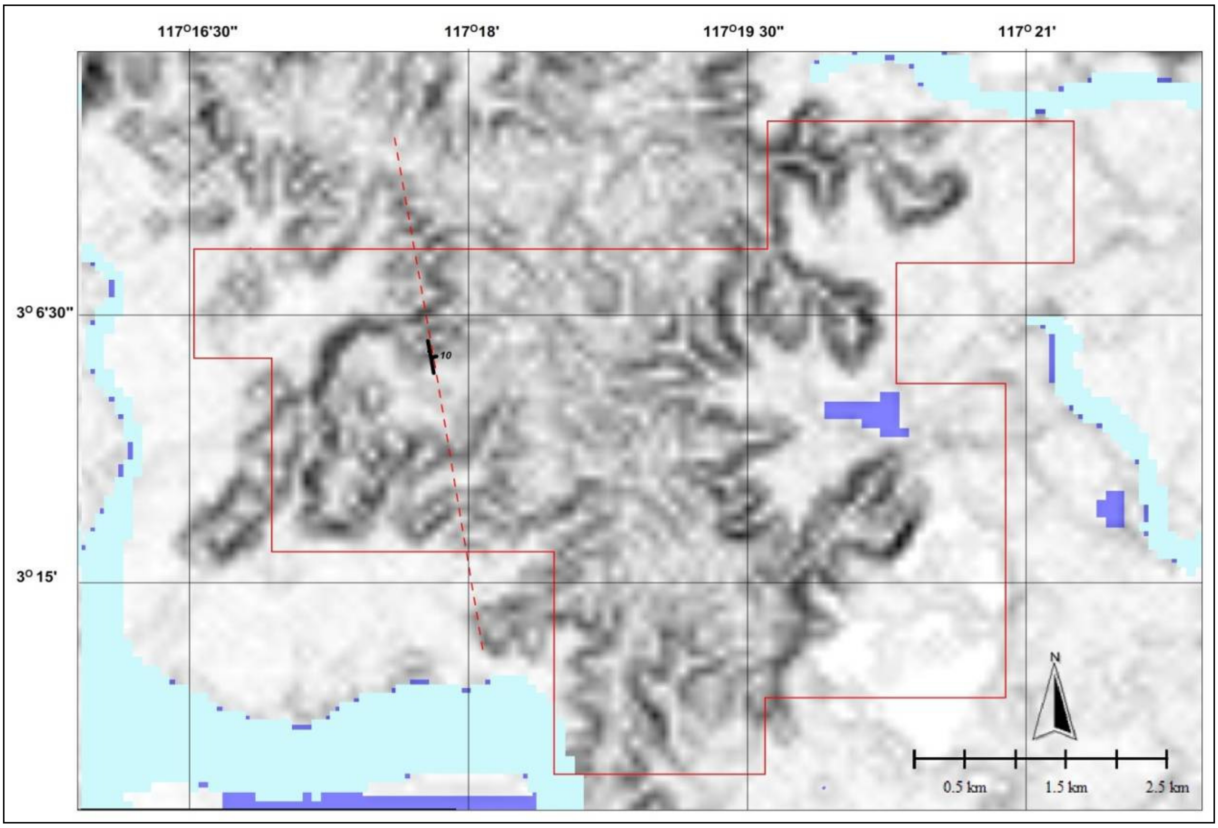

Figure 6.24. Tarakan 3 outcrop map.

Coal potential is evident, especially in light of resources identified to the south and the east from other IME programs of work. Further work is required to develop the datasets and define coal structures.

6.7.7 Program of work and budget

The Tarakan Project requires detailed mapping followed by drilling of identified targets to provide suitable data for resource potential and coal quality specification. The programs should be conducted in a staged manner to allow periodic management review of the exploration outcomes.

There remains significant potential to increase the coal resource with further exploration, as only limited areas have been surveyed to date.

Table 6.13. Tarakan Project proposed exploration budget.

Function	Year 1	Year 2	Total
	(A$,000)	(A$,000)	(A$,000)
Mapping	50	50	100
Pitting	50	0	50
Drilling	100	250	350
Assay	25	50	75
Administration	25	50	75
Total	**250**	**400**	**650**

6.7.8 Tarakan Project summary

The current dataset does not provide a suitable basis for the conceptual model as required for an Exploration Target estimate. Specific data on coal quality is needed to determine the moisture and sulphur levels associated with the potential resource. Coal potential is evident, especially in light of resources identified to the south and the east from other IME programs of work. Obviously further work is required to develop the datasets and define coal structures.

Overall, coal hauling arrangements and transhipment logistics are extremely positive and favourable for a low cost operation.

An exploration budget of A$650,000 over two years is proposed with activity in Year 2 dependent on Year 1 results.

6.8 Conclusions

The Exploration Targets of the four coal projects has distinct potential to be identified and expanded.

The various structural parameters described above were applied to derive Table 6.14 that presents the Exploration Target potential (with a ±10% range) for all projects.

Table 6.14. Tonnage potential for the four projects.

Project	–10%	+10%	Mean
	(Mt)	(Mt)	(Mt)
SD	5.8	7.1	6.5
RKBM	3.1	3.8	3.5
Katingan	33.6	41.0	37.3
Tarakan	–	–	–
Total	**42.5**	**51.9**	**47.3**

The most critical aspect is the 'adb' moisture and for both RKBM and Tumbang Manggu at Katingan that appears to be about 28%, which is, however, still within sales specifications. At Tarakan the limited data comes from only three sample pits below the water table so no estimates are possible.

At all locations all the seams require systematic mapping followed by drill evaluation before any real conclusions can be drawn for the full potential of any of the projects.

It is the writers' opinion that the current combined Exploration Target potential of the Coal Projects is considered to be 31.9 Mt from within the range of 28.6–35.0 Mt. The Exploration Target is conceptual in nature. There has been insufficient exploration to define a mineral resource under JORC guidelines and it is uncertain whether further exploration will result in the determination of a mineral resource. This conceptual target may or may not be outlined with future work, either in whole or in part. The coal quality is expected to yield product with a CV in the range of 5300–5800 kcal/kg with a moisture content between 16.0 and 32.0%.

Table 6.15. Combined projects proposed exploration budget.

Project	Year 1	Year 2	total
	(A$,000)	(A$,000)	(A$,000)
SD	450	400	850
RKBM	450	450	900
Katingan	750	2000	2750
Tarakan	250	400	650
Total	**1900**	**3300**	**5150**

A combined exploration budget of A$5.1 million over two years is proposed with activity in Year 2 dependent on Year 1 results.

Yours faithfully,

Allen J Maynard BAppSc(Geol) MAIG MAusIMM.

6.9 References

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6.10 Glossary of technical terms and abbreviations

alluvial—transported and deposited by water.

amsl—above mean sea level.

anticline—upward arching fold or rock strata (antonym = syncline).

axis—hinge-line of a fold.

basalt—a fine-grained volcanic rock composed primarily of plagioclase feldspar and mafic minerals.

BCM—bank cubic metre.

bedding—a rock surface parallel to the surface of deposition.

clastic—composed of fragments of pre-existing rock.

cm—centimetre.

dip—the angle at which a rock layer, fault of any other planar structure is inclined from the horizontal.

dyke—a tabular intrusive body of igneous rock that cuts across bedding at a high angle.

Eocene—a major division of the geologic timescale extending from about 55.8 to 33.9 million years before the present.

fault—a fracture in rocks on which there has been movement on one of the sides relative to the other, parallel to the fracture.

fluvial—formed by processes associated with rivers and streams.

fold—a bend in the rock strata or planar structure.

g—gram.

gabbro—a coarse-grained rock consisting of plagioclase and mafic minerals.

graben—a depressed block of land bordered by parallel faults.

ha—hectare

HGI—Hardgrove Grindability Index.

horst—the raised fault block bounded by normal faults or graben.

igneous—formed by solidification from a molten or partly molten state.

Inferred Resource—a resource inferred from geoscientific evidence, drill holes, underground openings or other sampling procedures where lack of data is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability.

Indicated Resource—a resource sampled by drill holes, underground openings, or other sampling procedures at locations too widely spaced to ensure continuity and where geoscientific data are known with a reasonable level of reliability.

JORC—Joint Ore Reserves Committee—Australasian Code for Reporting of Identified Resources and Ore Reserves.

kcal—kilocalorie (=1000 calories = 4.184 kilojoules).

kg—kilogram.

km—kilometre.

km^2—square kilometre.

kt—kilotonne (=1000 tonnes).

lacustrine—pertaining to lake waters.

lamination—the finest bedding, often found in shales and fine grained sandstones.

m—metre.

m^3—cubic metre.

mafic—a loosely used group name for silicate minerals that are rich in iron and magnesium, and for rocks in which these minerals are abundant.

Measured Resource—a resource intersected by drill holes, underground openings or other sampling procedures at locations that are spaced closely enough to confirm continuity and where geoscientific data are reliably known.

metamorphism—the mineralogical, structural and chemical changes induced within solid rocks through the actions of heat, pressure or the introduction of new chemicals. Rocks so altered are prefixed 'meta' as in 'metabasalt'.

Mineral Reserve—in-situ mineral occurrence that has had mining parameters applied to it, from which valuable or useful minerals may be recovered.

Mineral Resource—a tonnage or volume of rock or mineralisation of economic interest.

mineralisation—in economic geology, the introduction of valuable elements into a rock body.

Miocene—a major division of the geologic timescale extending from about 23.03 to 5.33 million years before the present.

mm—millimetre.

Mt—million tonnes.

Oligocene—a major division of the geologic timescale extending from about 33.9 to 23 million years before the present.

ophiolite—a section of the Earth's oceanic crust and the underlying upper mantle that has been uplifted or emplaced to be exposed within continental crustal rocks.

ore—a mixture of minerals, host rock and waste material that is expected to be mineable at a profit.

outcrop—the surface expression of a rock layer.

Pleistocene—a major division of the geologic timescale extending from 2.588 million to 12,000 years before the present.

Pliocene—a major division of the geologic timescale extending from 5.332 to 2.588 million years before the present.

rift—a place where the Earth's crust is being pulled apart.

strike—the direction or bearing of the outcrop of an inclined bed or structure on a level surface.

syncline—a fold where the rock strata dip inwards towards the axis (antonym: anticline).

t—metric tonne (= 1000 kg).

vein—a narrow intrusive mineral body.

7 Solicitors' report

Brigitta I. Rahayoe & Partners
Counsellors at Law

23 November 2009

Our ref: 1144/209320/ILD/RSB-BIR

The Board of Directors
Blackcrest Resources Limited
Level 2, Spectrum
100 Railway Road
Subiaco WA 6008
AUSTRALIA

Dear Sirs

LEGAL OPINION

This report has been prepared at the request of Blackcrest Resources Limited (formerly Reco Financial Services Limited) (**Blackcrest**).

7.1 General

7.1.1 Background

(1) Forms of company

Indonesian law recognises two forms of company, being:

(a) Foreign Investment Companies (*Penanaman Modal Asing*) (**PMA**), in which any amount of the shares are held by foreign entities;

(b) 100% locally-owned companies, which may be either:

(i) Domestic Capital Investment Companies (*Penanaman Modal Dalam Negeri*) (**PMDN**); or

(ii) General Indonesian Companies (*Perseroan Terbatas Biasa*) (**General Indonesian Companies**),

(**Local Indonesian Companies**).

(2) Traditional mining rights

Pursuant to *Law No.4/1967 re Mining* (**the Previous Mining Law**), mining rights were traditionally in the form of:

(a) Contracts of Work (*Kontrak Karya*) (**COW**) between the Government of the Republic of Indonesia (**GOI**) and PMA Companies;

(b) Coal Contracts of Works (**CCOW**) between either:

(i) the GOI and PMDN Companies; or

(ii) the GOI and PMA Companies; and

(c) *Kuasa Pertambangan* (**KPs**), which were issued to Local Indonesian Companies.

(3) Target entities

Blackcrest has identified the following General Indonesian Companies each of which holds a KP:

(a) PT Coal Soil Brik (**CSB**);

(b) PT Raja Kutai Baru Makmur (**RKBM**);

(c) PT Vano Anugerah Sentosa (**VAS**);

(d) CV Dita Pratarma (**CVDP**); and

(e) PT Usaha Kawan Sejati (**UKS**),

(CSB, RKBM, VAS, CVDP and UKS are collectively referred to as the **Target Entities**).

(4) Transaction structure

Three options currently exist in Indonesia for Blackcrest with respect to the Target Entities:

(a) for Blackcrest to incorporate a PMA Company and apply to the Government of Indonesia for conversion of the relevant KPs into Contracts of Work. However, given that:

(i) this process requires approval of the Parliament, the President, the Capital Investment Coordinating Board (*Badan Koordinasi Penanaman Modal*) (**BKPM**) and the Minister of Mines, which is a lengthy process; and

(ii) provisions in the *New Mining Law* (please refer to Section 7.2 below) abolish the current distinction between Contracts of Work and KPs.

Blackcrest has decided not to proceed with conversion of the KPs held by the Target Entities into Contracts of Work;

(b) for Blackcrest to procure the incorporation of a General Indonesian Company, in which the shares are held by Indonesian nominees on behalf of Blackcrest, with the General Indonesian Company then taking an 'assignment' of the KPs held by the Target Entities. However, given that:

(i) the Target Entities wish to cooperate with Blackcrest in development of the KPs and were reluctant to relinquish title under the KPs; and

(ii) the process of assignment of KPs carries significant risk as:

(A) while an 'assignment', from a strictly legal perspective the KP must be relinquished back to the State and then reissued to a named third party. This process does carry significant risk of interference by third parties, with the end result that the KP may not ultimately be issued to the intended assignee; and

(B) the 'assignment' of a KP requires the consent of the Regent which issued the KP. As a matter of practise, some of the Regents refuse to issue consent to such assignment.

Blackcrest decided not to proceed with an assignment of the KPs held by the Target Entities; or

(c) for Blackcrest to procure the incorporation of a PMA Company(s), in which the shares are held directly by Blackcrest (or a related offshore entity), with the PMA Company(s) then entering into Cooperation Agreements with each of the Target Entities, pursuant to which the PMA Company(s) has the right to conduct the mining activities under the KPs of each of the Target Entities.

Blackcrest has decided to proceed with Option (c) above. To this end, Blackcrest has procured the incorporation of PT Indonesia Mega Energy (**IME**).

7.2 Recent changes in law

7.2.1 New Mining Law

Law No. 4/2009 re Mineral and Coal Mining (**the New Mining Law**) became effective on 12 January 2009 and repealed the Previous Mining Law. The New Mining Law provides that the existing system of COWs, CCOWs and KPs will be collapsed into a single form of mining right, known as a Mining Business Permit (*Ijin Usaha Pertambangan*) (**IUP**) moving forward. All KPs must be converted into IUPs by 12 January 2010.

Significantly, the New Mining Law contemplates that IUPs may be held by both PMA Companies and General Indonesian Companies.

The *New Mining Law* contemplates that numerous implementing regulations are to be issued pursuant to the law. While several drafts of the implementing regulations have been circulated, to date only the Mining Services Regulation (as described below) has been issued. The GOI recently announced that the remaining implementing regulations may not be issued until March 2010. Given that conversion of KPs into IUPs is not permissible until such time as the new regulations have been issued, the timeframe for conversion of 12 January 2010 may not be possible to meet.

KP holders which have commenced exploration were required to have submitted activity reports for the entire KP area to the issuing authority of the KP by 12 July 2009. We are instructed by IME that all filings with the Department of Mines are up to date for CSB and VAS, and that reports for RKBM, UKS and CVDP will be attended to by these companies.

7.2.2 Mining services companies

IME is licensed by BKPM as a mining services company.

The GOI has recently issued Minister of Energy and Mineral Resources Regulation No.28/2009 re the *Implementation of Mineral and Coal Mining Services Business* (**Mining Services Regulation**).

Pursuant to the Mining Services Regulation:

(1) a prohibition has been introduced against mining service providers paying a fee to concession holders. In other words, royalty and production sharing-style arrangements which are contemplated by cooperation agreements may no longer be entered into;

(2) an implied limitation exists that mining services companies may only provide stripping and transportation services to IUP holders. This implied limitation is in apparent contradiction to the New Mining Law and is yet to be clarified by the GOI;

(3) existing cooperation arrangements will have three years to adjust to the Mining Services Regulation. In other words, existing cooperation agreements which provide for royalties or production-sharing arrangements will not automatically be invalid. Rather, the operations must be restructured within three years;

(4) mining services companies in the form of PMA Companies must be licensed by the Directorate-General of Minerals, Coal and Geothermal (**DGMCG**) in the classification of Other Mining Services Businesses; and

(5) holders of IUPs are required to utilize local or national mining services companies (ie: Local Indonesian Companies which are mining services companies). However, where these are not available, the services of a PMA mining services company can be used providing required: media announcements are made that no local/notarial mining services company is financially or technically capable; and the PMA Mining Services Company sub-contracts part of the work to a local mining services company.

7.3 PT Indonesia Mega Energy

IME was incorporated as a PMA Company on 26 March 2008 and attained the status of a separate legal entity on receipt of approval of its Articles of Association from the Ministry of Law and Human Rights (**MHLR**) on 4 April 2008.

The shareholder structure of IME is as follows:

Shareholders	Shares	Amount (US$)	%
Blackcairn Resources (Singapore) Pte Limited	237,500	237,500	95
TAG Mining Services Pte Limited	12,500	12,500	5
Total	**250,000**	**250,000**	**100**

TAG Mining Services Pte Limited has agreed to transfer 4% of the shares it holds in IME to Blackcairn Resources (Singapore) Pte Limited. The shareholders' resolutions for the transfer of these shares, dated 12 November 2009 are legally binding as between the shareholders. Applications for required regulatory approvals in respect of the share transfer will be made.

We are instructed that the 1% of shares in IME will be held by TAG Mining Services Pte Limited on trust for the benefit of Blackcairn (Resources) Singapore Pte Limited under Singaporean law and have sighted a Declaration of Trust dated 12 November 2009 to this effect.

The composition of the Board of Directors and Board of Commissioners of IME is as follows:

Position	Name	Appointment effective
Director	Mr Shane Reid	9 November 2009
Commissioner	Mr George Sim	12 January 2009

IME has been licensed by BKPM as a mining services company. IME is in the process of extending this licence. As mentioned in Section 7.2.2 above, under the recent Mining Services Regulation, IME must obtain a licence from the DGMCG as an Other Mining Services Business and we understand that IME will submit the application shortly.

7.4 Target entities

7.4.1 PT Coal Soil Brik (Katingan Project)

(1) Mining right

CSB has been issued with an exploration mining right pursuant to *Decree of the Head of Katingan Regency No. 323 of 2008* concerning Approval of Exploration Mining Right dated 24 November 2008 (**CSB KP**). The mining right has been issued in relation to coal.

The concession area is 5000 hectares. The validity of the KP is three years until 24 November 2011.

We have received confirmation from the Mining Office of the Katingan Regency that the CSB KP was validly issued and remains valid.

As noted in Section 7.2.1, the CSB KP must be converted into an IUP, once the implementing regulations have been issued under the New Mining Law.

(2) Contractual arrangements

CSB and IME have entered into:

(a) a cooperation agreement dated 23 March 2009 (**CSB Cooperation Agreement**);

(b) an auxiliary agreement to the CSB Cooperation Agreement dated 23 March 2009 (**CSB Auxiliary Agreement**); and

(c) a Deed of Amendment to the CSB Cooperation Agreement and the CSB Auxiliary Agreement dated 29 September 2009.

((a) & (b) as amended by (c) are referred to as the **Amended CBS Cooperation Agreement** and the **Amended CBS Auxiliary Agreement** respectively).

The Amended CSB Cooperation Agreement confers exclusive rights upon IME to conduct exploration, development, construction and operational activities with respect to the CSB KP. Pursuant to the amended CSB Auxiliary Agreement, IME shall:

(i) arrange for issue to CSB of 900,000 shares in Blackcrest Limited at A$0.25 per share; and

(ii) all revenue from the sale of mineral resources from the project shall be received by IME and after deducting taxes and levies, Government Royalties, finance obligations and relevant capital expenditure attaching to such revenue, IME shall pay to CSB a production royalty of US$1.00 per metric tonne of coal mined and sold from the concession area.

As mentioned in Section 7.2.2, under the Mining Services Regulation, the CSB Cooperation Agreement and CSB Auxiliary Agreement will need to be amended so as to remove the royalty payment within three years as of 30 September 2009.

7.4.2 PT Raja Kutai Baru Makmur (Lower Mahakam Project)

(1) Mining right

RKBM has been issued with exploitation mining rights pursuant to *Decree of the Head of Kutai Kartanegara Regency No. 540/094/KP-Ep/DPE-IV/IX/2008* concerning Approval of Exploitation Mining Right dated 25 September 2008 (**RKBM KP No. 1**) and *Decree of the Head of Kutai Kartanegara Regency No. 540/095/KP-Ep/DPE-IV/IX/2008* (**RKBM KP No. 2**). The mining rights have been issued in relation to coal.

For RKBM KP No. 1 the concession area is 4896 hectares. The validity of the KP is 10 years until 25 September 2018.

For RKBM KP No. 2 the concession area is 3552 hectares. The validity of the KP is for 10 years until 25 September 2018.

For RKBM No. 1 and RKBM No. 2 the results for the request for confirmation from the local mining office are still pending. On their face, the RKBM KPs appear to have been validly issued.

A map which we obtained from the Department of Land indicates that RKBM KP No. 1 has a significant overlap with palm oil plantations which are held by PT Mitra Bangga Utama (**MBU**) and PT Tritunggal Sentra Buana (**TSB**) and the RKBM KP No. 2 has a significant overlap with a palm oil plantation held by TSB. RKBM will need to enter into agreements with each of MBU and TSB for MBU and TSB to relinquish their plantation rights (with payment by RKBM to MBU and TSB in this regard). These rights will need to be formally relinquished by MBU and TSB in order for RKBM to exercise its rights in respect of the overlapping areas.

As noted in Section 7.2.1, the RKBM KP must be converted into an IUP, once the further implementing regulations have been issued under the New Mining Law.

(2) Contractual arrangements

RKBM and IME entered into a Memorandum of Understanding (**MOU**) dated 17 November 2009, pursuant to which the parties agree, subject to due diligence to the satisfaction of IME, to enter into agreements pursuant to which RKBM will grant to IME exclusive rights in respect to mining and related activities. The MOU is for a 60 day period.

7.4.3 PT Vano Anugrah Sentosa (Tarakan Project)

(1) Mining right

VAS has been issued with a general survey mining right pursuant to *Decree of the Head of Bulungan Regency No. 726/K-XII/540/2007* concerning the grant of Mining General Survey Right dated 12 December 2007, expiring on 12 December 2008, extended pursuant to *Decree of the Head of Bulungan Regency No. 661/K-XII/540/2008* dated 24 December 2008 (**the VAS KP**).

The concession area is 3415.22 ha. The KP is for one year and expires on 12 December 2009. We have received confirmation from the Mining Office of Bulungan Regency that the VAS KP was validly issued and remains valid.

We have sighted an application for extension of the VAS KP for a further one year period, dated 6 November 2009. We are instructed by IME that VAS has confirmed lodgement of this application. The DGMCG has issued Circular Letter No.1053/d0/DJB/2009 re Mining Business Permits, which provides that an existing KP which will expire prior to the issue of the implementing regulations under the New Mining Law may be extended, and the extension will be issued as an IUP. Based on experience, the timing required for obtaining an extension is unpredictable. Assuming that the extension is granted, therefore, the extended VAS KP will be issued as an IUP. From a legal perspective, to the extent that the extension has not been granted prior to 12 January 2009, VAS's right to conduct general survey activities within the concession area the subject of the VAS KP would terminate on 12 January 2009.

The confirmation letter from the Mining Office of Bulungan Regency also states that there is an overlap of the KP area with a production forest (of 2888.55 ha). It will be necessary for VAS to obtain the required 'borrow permit' from the Minister of Forestry prior to commencing any works in respect of the production forest area.

(2) Contractual arrangements

VAS and IME have entered into an Interim Agreement dated 25 May 2009 (the **VAS Agreement**).

Under the VAS Agreement, subject to due diligence and the identification of a coal quality and quantity to the satisfaction of IME. VAS and IME shall enter into further agreement pursuant to which:

(a) IME shall conduct all exploitation and production activities with respect to the VAS KP including at its discretion the marketing and sale of coal and IME has exclusive rights to 100% of the revenue from the sale of coal after required payments have been made to VAS under the VAS Agreement; and

(b) IME shall make payments to VAS of:

  (i) US$10,000 as a non-reimbursable down payment of co-operation after signing the VAS Agreement;

  (ii) US$50,000 as advance payment to be paid after geological sampling; and

  (iii) US$500,000 as a further advance payment when mining activities commence.

(c) IME shall pay a production royalty to VAS of US$2.50 per metric tonne of coal sold, from which amounts (b)(ii) and (b)(iii) above will be deducted.

We are instructed by IME that due diligence contemplated by the VAS Agreement has been completed, and that the payments referred to in points 2(b)(ii) and (iii) above have been made.

The VAS Agreement provides for exclusivity to IME with respect to the VAS KP. The VAS Agreement will terminate upon either execution of the further agreement, as contemplated above, or notification from IME that it does not intend to enter into such further agreement.

While the rights and obligations of VAS and IME are described in some detail, we consider that further agreement will be required between VAS and IME with respect to exploitation activities. However, failure to agree would not impact upon the exclusivity conferred upon IME, unless the parties reach a 'stalemate' for such period of time that VAS could request a tribunal order that the VAS Agreement be terminated.

We consider that the Interim Agreement constitutes an exclusive right to conduct exploration activities on the part of IME with respect to the VAS KP.

As mentioned in Section 7.2.2, under the Mining Services Regulation, the VAS Agreement will need to be amended so as to remove the royalty payment within three years as of 30 September 2009.

7.4.4 CV Dita Pratama (Sungai Danau Project)

(1) Mining right

CVDP has been issued with an exploitation mining right pursuant to *Decree of the Head of Tanah Bumbu Regency No. 545/27-Ex/KP/D.PE/2009* concerning Transfer of Exploitation Mining Right of CV Erlianti to CV Dita Pratama dated 24 April 2009 (**the CVDP KP**).

Under the CVDP KP, the previous KP issued to CV Erlianti (No. 545/76-Ex/KP/D.PE) is now invalid.

The CVDP KP has been issued in relation to coal.

The concession area is 92.1 hectares. The validity of the KP is three years until 24 November 2011.

We have received confirmation from the Mining Office of the Katingan Regency that the CVDP KP was validly issued and remains valid.

Our informal enquiries of the Department of Forestry indicate that the whole of the CVDP KP concession area is within an area covered by the location permit of PT Panen Mas Mulia (**PMM**). A location permit is a permit for the holder to acquire land for the purpose started in the permit.

CVDP will need to enter into agreement with PMM for PMM to amend the location permit in order to exclude from the location permit the area of overlap with the CVDP KP, (with payment by CVDP to PMM in this regard). These changes to the location permit rights will need to be formally made in order for CVDP to exercise its rights in respect of the CVDP KP area.

As noted in Section 7.2.1, the CSB KP must be converted into an IUP, once the implementing regulations have been issued under the *New Mining Law*.

(2) Contractual arrangements

CVDP and IME have entered into a memorandum of understanding dated 15 August 2009 (**the CVDP MOU**), pursuant to which the parties agree, subject to identification of adequate quantity and quality of coal by IME, to enter into agreements pursuant to which CVDP will grant to IME exclusive rights in respect to mining and related activities with respect to the CVDP KP. The CVDP MOU has been extended by written agreement dated 20 November 2009 which continues to operate and will apply for 60 days as from 20 November 2009.

The CVDP MOU refers to the KP No. 545/76-Ex/KP/D.PE, which as noted above is no longer valid. The CVDP MOU and any subsequent agreements will need to be amended to refer to the CVDP KP (which was given a new number when transferred to CVDP).

7.4.5 PT Usaha Kawan Sejati (Sungai Danau Project)

(1) Mining right

UKS has been issued with an exploitation mining right pursuant to *Decree of the Head of Tanah Bumbu Regency No. 545/128-Ex/KP/D.PE* concerning Approval of Exploitation Mining Right dated 24 February 2007 (the **UKS KP**). The mining right has been issued in relation to coal.

The concession area is 171.4 hectares. The validity of the KP is three years until 23 February 2010. A KP can usually be extended or upgraded providing the application is made within three months before its expiry. The decision to extend is in this case in the discretion of the Head of the Tanah Bumbu Regency.

We have received confirmation from the Mining Office of the Katingan Regency that the CSB KP was validly issued and remains valid.

As noted in Section 7.2.1, the UKS KP must be converted into an IUP, once the implementing regulations have been issued under the New Mining Law.

Our informal enquiries of the Department of Forestry indicate that the whole of the UKS KP concession area is within an area covered by the location permit of PT Panen Mas Mulia (**PMM**). A location permit is a permit for the holder to acquire land for the purpose stated in the permit.

UKS will need to enter into agreement with PMM for PMM to amend the location permit in order to exclude from the location permit the area of overlap with the UKS KP, (with payment by UKS to PMM in this regard). These changes to the location permit rights will need to be formally made in order for UKS to exercise its rights in respect of the UKS KP area.

(2) Contractual arrangements

UKS and IME have entered into a memorandum of understanding dated 11 June 2009 (the **UKS MOU**), pursuant to which, subject to identification of adequate quantity and quality of coal by IME, the parties agree to enter into agreements pursuant to which UKS will grant to IME exclusive rights in respect to mining activities with respect to the UKS KP. We are unable to verify that the MOU has been properly signed for and on behalf of UKS. The UKS MOU has been extended by written agreement date 18 November 2009, which continues to operate and will apply for 60 days as from 18 November 2009.

7.5 Assumptions and limitations

This opinion has been prepared on the following assumptions:

(1) that where we have been provided with copies of documents, that copy is an exact and complete reproduction of, and conforms with, the original of the document and the original of the document still exists;

(2) that no document provided to us has been varied, cancelled or superseded by some other document or agreement or action of which we are not aware;

(3) that all signatories, dates of and any stamp duty or other marking on all documents provided to us (whether copies or originals) are authentic;

(4) the details revealed by searches of public registers maintained by governmental or other regulatory authorities are up to date at the date of search and have been properly and accurately recorded in those registers by those authorities;

(5) that the information provided to us are complete, accurate and correct;

(6) that where a document was provided to us in draft form, it was executed or will be executed in the form of that draft;

(7) except as specifically stated in this Report, all documents provided to us are within the capacity and power of, and have been or will be validly authorized, executed and delivered by each party to them, and constitute valid and binding obligations of those parties under all applicable laws;

(8) except as specifically stated in this Report, each document provided to us, which is a contract or agreement, is enforceable in accordance with its terms;

(9) this opinion is in respect of the laws of the Republic of Indonesia. Any matters which may be subject to or governed by the laws of any other jurisdiction should be addressed by lawyers competent to advise in the relevant jurisdictions; and

(10) all material information and documentation has been provided to us and is true and complete and not misleading in any way.

This report has been prepared for Blackcrest for inclusion in a prospectus prepared by Blackcrest. It is a summary of limited due diligence undertaken by Brigitta I. Rahayoe and Partners and is not intended to be relied on by anyone other than Blackcrest.

Yours faithfully

Rick Beckmann
Senior Foreign Legal Counsel
BRIGITTA I. RAHAYOE & PARTNERS
23 November 2009

Brigitta I. Rahayoe
Managing Partner
BRIGITTA I. RAHAYOE & PARTNERS
23 November 2009

8 Investigating accountant's report

WHK Horwath Corporate Finance

16 November 2009

The Board of Directors
Blackcrest Resources Limited
Level 2, Spectrum
100 Railway Road
SUBIACO WA 6008

Dear Sirs,

8.1 Introduction

Blackcrest Resources Limited (**Blackcrest** or the **Company**) has obtained shareholder approval to acquire 100% of the issued capital in Blackcairn Resources (Singapore) Pte Limited (**Blackcairn**), a Singapore-based company that has been developing Indonesian coal projects throughout 2008 and 2009 (**Proposed Acquisition**). A condition precedent of the Proposed Acquisition is a proposed capital raising, whereby the Company intends to issue a Prospectus offering up to 50,000,000 Shares at an issue price of $0.20 each to raise $10,000,000 (**the Offer**). In addition to this, oversubscriptions of a further 25,000,000 Shares at an issue price of $0.20 each to raise up to a further $5,000,000 may be accepted.

The minimum subscription to be raised pursuant to the Prospectus is $10,000,000.

WHK Horwath Corporate Finance has been engaged by Blackcrest to prepare this Investigating Accountant's Report (the **Report**) for inclusion in the Prospectus.

8.2 Basis of preparation

The Pro-Forma Financial Information referred to in this Report comprises:

(a) the Historical Consolidated Balance Sheet of Blackcrest as at 30 June 2009;

(b) the Historical Consolidated Balance Sheet of Blackcairn as at 30 June 2009;

(c) the Pro-Forma Consolidated Balance Sheet of the combined group as at 30 June 2009, as if the transactions (**Pro-Forma Adjustments**) as set out in Section 9.1 had occurred; and

(d) notes to and forming part of the financial information referred to above.

The Financial Information has been prepared by, and is the responsibility of, the Directors.

8.3 Background

On 28 August 2009, Blackcrest announced that it had entered into a share sale agreement to acquire 100% of the shares in Blackcairn. In consideration for the Proposed Acquisition, Blackcrest will allot and issue to the Blackcairn shareholders, 78,000,000 ordinary shares (post a one-for-ten share consolidation) as well as certain performance shares which will convert to ordinary shares upon the achievement of certain performance criteria.

The Proposed Acquisition is subject to a number of conditions precedent, including:

(a) Completing a legal, financial and operational due diligence on Blackcairn and its associated assets;

(b) Blackcrest obtaining all necessary regulatory and shareholder approvals required to complete the Proposed Acquisition, including shareholder approval to:

  (i) change the nature and scale of the Company's activities;

  (ii) proceed with a consolidation of the Company's capital on a one-for-ten basis;

  (iii) proceed with a proposed capital raising (the Offer);

  (iv) issue a Prospectus with respect to the proposed capital raising;

  (v) allot and issue shares and performance shares to Blackcairn at Settlement; and

  (vi) change the name of the Company to Blackcrest Resources Limited.

8.4 Scope

Pursuant to our terms of engagement, this Report does not address the risk associated with the Offer as set out in Section 10 of the Prospectus.

We have reviewed the Pro-Forma Financial Information in order to report on whether, on the basis of the procedures described below, anything has come to our attention that would indicate that:

(a) the Pro-form Adjustments do not provide a reasonable basis for the preparation of the Pro-Forma Financial Information;

(b) the following items do not present fairly in accordance with the recognition and measurement requirements, but not all of the disclosure requirements of applicable Accounting Standards and other mandatory professional reporting requirements in Australia:

  (i) the Historical Consolidated Balance Sheet of Blackcrest as at 30 June 2009;

  (ii) the Historical Consolidated Balance Sheet of Blackcairn as at 30 June 2009;

  (iii) the Pro-Forma Consolidated Balance Sheet of Blackcrest as at 30 June 2009, as if the Pro-Forma Adjustments as set out in Appendix 1 had occurred; and

  (iv) notes to and forming part of the financial information referred to above.

The Historical Consolidated Balance Sheet for Blackcrest as at 30 June 2009 has been extracted from the audited financial report of Blackcrest for the year ended 30 June 2009, upon which RSM Bird Cameron Partners issued an unqualified audit opinion.

The Historical Consolidated Balance Sheet for Blackcairn as at 30 June 2009 has been extracted from the financial report prepared by the Directors of Blackcairn, with some assistance from WHK Horwath with regards to presentation and formatting of that information. We note that WHK Horwath Corporate Finance and WHK Horwath had no role in the preparation of the financial information other than the presentation and formatting of that information as provided by the Directors of Blackcairn.

Our review has been conducted in accordance with Australian Auditing Standard ASRE 2400 *Review of Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*. We have performed review procedures, which in our professional judgement are considered reasonable in the circumstances, including:

(a) analytical review of the Historical Financial Information;

(b) review of work papers, accounting records and other documents pertaining to balances in existence at 30 June 2009;

(c) review of the Pro-Forma Adjustments and assumptions used to compile the Pro-Forma Balance Sheet;

(d) review of the consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Blackcrest and Blackcairn; and

(e) enquiry and discussions with Directors, management and personnel of Blackcrest and Blackcairn.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion on the Pro-Forma Financial Information.

Our review was limited primarily to an examination of the Historical Financial Information, the Pro-Forma Financial Information, analytical review procedures and discussions with both management and Directors. A review of this nature provides less assurance than an audit, and accordingly, this Report does not express an audit opinion on the Pro-Forma Financial Information included in this Report or elsewhere in the Prospectus.

8.5 Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(a) the Pro-form Adjustments do not provide a reasonable basis for the preparation of the Pro-Forma Financial Information;

(b) the following items do not present fairly in accordance with the recognition and measurement requirements, but not all of the disclosure requirements of applicable Accounting Standards and other mandatory professional reporting requirements in Australia:

  (i) the Historical Consolidated Balance Sheet of Blackcrest as at 30 June 2009;

  (ii) the Historical Consolidated Balance Sheet of Blackcairn as at 30 June 2009;

  (iii) the Pro-Forma Consolidated Balance Sheet of Blackcrest as at 30 June 2009, as if the Pro-Forma Adjustments as set out in Appendix 1 had occurred; and

  (iv) Notes to and forming part of the financial information referred to above.

8.6 Assumptions adopted in compiling the Pro-Forma Balance Sheet

The capital raising pursuant to the Prospectus is dependent upon a number of conditions associated with the Proposed Acquisition of Blackcairn (refer Section 8.3 of this Report), which are subject to shareholder approval. Since the proposed capital raising cannot proceed without shareholder approval of these conditions, we have included these conditions in the Pro-Forma Adjustments.

8.7 Subsequent events

Apart from the matter dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief, no other material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

8.8 Independence and conflicts of interest

WHK Horwath Corporate Finance does not have any interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to this matter. WHK Horwath Corporate Finance is the appointed Investigating Accountant of Blackcrest for which normal professional fees will be received, and from time to time may also provide Blackcrest with certain other professional services for which normal professional fees will be negotiated.

WHK Horwath assisted the Directors of Blackcairn with the presentation and formatting of financial information provided by the Directors with respect to the Historical Financial Statements of Blackcairn. Neither WHK Horwath Corporate Finance nor WHK Horwath had any role in the preparation of the underlying financial information.

8.9 Responsibility and consents

WHK Horwath Corporate Finance has given consent to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it appears but has not authorised the issue of the Prospectus. At the date of this Report, consent has not been withdrawn.

The Directors of Blackcrest have prepared and are responsible for the Prospectus and the Pro-Forma Financial Information and have authorised issue of the Prospectus.

WHK Horwath Corporate Finance makes no representation regarding, and takes no responsibility for, any other statements, material in, or omissions from, the Prospectus. WHK Horwath Corporate Finance disclaims any responsibility for any reliance on statements or on the Pro-Forma Financial Information, to which they relate, for any purpose other than for which they were prepared.

Blackcrest and Blackcairn have agreed to indemnify and hold harmless WHK Horwath Corporate Finance and its employees from any claims arising out of misstatement or omission in any material or information supplied by Blackcrest or Blackcairn.

8.10 General advice

This Report has been prepared for inclusion in the Prospectus, to provide its readers with general information only. It does not take account of the objectives, financial situation, or needs of specific shareholders. It is not intended to take the place of professional advice and the readers should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, the readers should consider whether it is appropriate for their individual circumstances having regard to their objectives, financial situation and needs.

Yours faithfully
WHK HORWATH CORPORATE FINANCE

ASH PATHER
Principal

Appendix 1—Financial services guide

Date of issue: 3 October 2008

WHK Horwath Corporate Finance Limited (**WHK Horwath Corporate Finance**) has been engaged by Blackcrest Resources Limited (**Blackcrest**) to provide a report in the form of an Investigating Accountant's Report in relation to Historical Financial Information (the **Report**) for inclusion in a Prospectus dated on or about 25 November 2009 (the **Prospectus**). You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

This Financial Services Guide (**FSG**) is designed to assist retail clients in their use of any general financial product advice contained in this Report.

The matters covered by the FSG include:

(a) who we are and how we can be contacted;

(b) what services and types of products we are authorised to provide;

(c) how we are remunerated;

(d) independence; and

(e) complaints handling.

WHK Horwath Corporate Finance & Contacts

WHK Horwath Corporate Finance carries on business at Level 15, 309 Kent Street, Sydney NSW 2000. WHK Horwath Corporate Finance holds an Australian Financial Services Licence (No. 239170). WHK Horwath Corporate Finance is a public company and is a wholly owned subsidiary of WHK Group Limited. WHK Group Limited is a listed Australian company (ASX code WHG) and provides services primarily in accounting, tax, audit, business and corporate advisory, and wealth management.

Services

We are authorised to:

(a) provide financial product advice for securities and derivatives; and

(b) deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of securities and derivatives to wholesale and retail clients.

WHK Horwath Corporate Finance does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

For the specific purposes of preparing and providing the Report, WHK Horwath Corporate Finance has not and does not accept instructions from retail clients, and has not and will not receive any remuneration from retail clients.

The preparation and provision of the Report is known as 'general' advice because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our Report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

Remuneration

When providing Reports, WHK Horwath Corporate Finance's client is the Entity to which it provides the Report. WHK Horwath Corporate Finance receives its remuneration from the Entity. In respect of the Report for Blackcrest, WHK Horwath Corporate Finance will receive a fixed fee for the preparation of the Report.

No related body corporate of WHK Horwath Corporate Finance, or any of the officers or employees of WHK Horwath Corporate Finance or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Complaints handling

WHK Horwath Corporate Finance has internal complaints-handling mechanisms that are designed to facilitate responses to your complaints fairly and quickly. Please address your complaint in writing to:

Head of Compliance
WHK Horwath Corporate Finance Limited
Level 15, 309 Kent Street
SYDNEY NSW 2000

WHK Horwath Corporate Finance is only responsible for the Report and this FSG. Complaints or questions about the Notice of Extraordinary General Meeting or Prospectus should not be directed to WHK Horwath Corporate Finance, which is not responsible for these documents. WHK Horwath Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

WHK Horwath Corporate Finance is a member of the Financial Ombudsman Service (member number 11689), which provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted by phone on 1300 780 808 or in writing to:

Financial Ombudsman Service
GPO Box 3
MELBOURNE VIC 3001

We confirm that in compliance with Section 912B of the Corporations Act 2001(Cth) and ASIC RG 126, we maintain professional indemnity insurance to cover the financial products and services we provide, including any claims in relation to the conduct of our former representatives/employees.

9 Pro-Forma Financial Information

Blackcrest Resources Limited Pro-Forma Consolidated Balance Sheet

	Ref	Blackcrest 30 June 2009	Blackcairn 30 June 2009	Pro-Forma (minimum sub)	Pro-Forma (maximum sub)
		($)	($)	($)	($)
Current assets					
Cash and cash equivalents	(a)	728,416	978	10,460,736	15,460,736
Trade and other receivables		5,342	57,807	63,149	63,149
Loan receivables	(b)	–	–	–	–
Other current assets		7,732	–	7,732	7,732
Total current assets		**741,490**	**58,785**	**10,531,617**	**15,531,617**
Non-current assets					
Investments	(c)	–	–	–	–
Intangible assets	(d)	–	–	3,942,767	3,942,767
Total non-current assets		**–**	**–**	**3,942,767**	**3,942,767**
Total assets		**741,490**	**58,785**	**14,474,384**	**19,474,384**
Current liabilities					
Trade and other payables	(e)	35,415	77,618	963,033	1,213,033
Loan payables	(b)	–	1,689,395	987	987
Total current liabilities		**35,415**	**1,767,013**	**964,020**	**1,214,020**
Total liabilities		**35,415**	**1,767,013**	**964,020**	**1,214,020**
Net assets		**706,075**	**–1,708,228**	**13,510,364**	**18,260,364**
Equity					
Issued capital	(f)	13,505,283	85	15,837,335	20,587,335
Reserves	(g)	922,217	–	–	–
Retained losses	(h)	–13,721,425	–1,708,313	–2,326,971	–2,326,971
Total equity		**706,075**	**–1,708,228**	**13,510,364**	**18,260,364**

9.1 Pro-forma transactions and underlying assumptions

Pro-Forma Adjustments in the consolidated books of the combined group, following the Proposed Acquisition and incorporating the Offer and all conditions precedent, are detailed below:

(a) Recognising the $268,658 reduction in Blackcrest's cash balance from 30 June 2009 to 31 October 2009, and the minimum subscription funds of $10,000,000 and the maximum subscription funds of $15,000,000 to be raised under the Offer.

(b) Recognising:

(i) Write-back of Blackcrest's loan receivable from Blackcairn of $710,706 in the stand-alone books of Blackcrest (as advised by the Directors of Blackcrest to be repayable under a post-transaction funded scenario), as well as elimination of that intercompany loan payable and receivable on consolidation; and

(ii) Issue of 35 shares in Blackcairn to Fourthplan Investments Pty Limited as trustee for certain beneficiaries in consideration of the forgiveness of a loan of $977,702.

(c) Recognising Blackcrest's investment of $15,600,000 in Blackcairn in the stand-alone books of Blackcrest (being the issue of 78,000,000 shares at $0.20 per share), as well as elimination of Blackcrest's investment on consolidation

(d) Recognising:

(i) The impact of the Proposed Acquisition on the intangible assets of the combined group. The Proposed Acquisition has been treated as a reverse acquisition. For accounting purposes, Blackcairn is treated as the acquirer. The impact of the acquisition is to increase issued capital by $5,179,548 and intangible assets by $3,762,767, with the difference of $1,416,781 reflecting the fair value of Blackcrest's net assets acquired after adding back the loan receivable from Blackcairn ($706,075 + $710,706 = $1,416,781). For the avoidance of doubt, this adjustment does not include the issue of performance shares to Blackcairn because the conversion of these shares into ordinary shares is based on future events and is uncertain.

(ii) The transfer by PT Coal Soil Brik of its interest in certain tenements to Blackcrest, immediately following the Proposed Acquisition, in exchange for the issue of 900,000 ordinary shares in the combined group. This has been treated as an equity-settled share-based payment transaction with share capital being adjusted by $180,000 (900,000 shares × $0.20 per share) and an exploration and evaluation asset being recognised for the same amount. This exploration and evaluation asset has been brought to account in accordance with the recognition criteria outlined as per Section 9.2.11 below.

(e) Recognising Broker Handling Fees ($500,000 under the minimum subscription and $750,000 under the maximum subscription) and other expenses associated with the capital raising (other than share issue costs, such as legal and accounting costs) of $350,000 as per the Prospectus.

(f) Recognising 35 ordinary shares issued in consideration of the forgiveness of a loan of $977,702 in the stand-alone accounts of Blackcairn on 14 October 2009, Blackcrest's investment of $15,600,000 in Blackcairn in the stand-alone books of Blackcrest (as detailed in (c) above), elimination of the adjusted share capital of Blackcrest of $29,105,283 (the acquiree for accounting purposes), recognising the increase in issued capital associated with the Proposed Acquisition of $5,179,548, as detailed in Pro-Forma Adjustment (d)(i) above, recognising the increase in issued capital associated with the capital raising under the Offer of $10,000,000 up to $15,000,000, net of Broker costs of $500,000–750,000 as detailed in (e) above, and recognising the $180,000 increase in share capital associated with the acquisition of exploration and evaluation assets as detailed in (d)(ii) above.

(g) Elimination of the reserves of Blackcrest of $922,217 (the acquiree for accounting purposes).

(h) Write-back of the provision against Blackcrest's loan receivable from Blackcairn of $710,706 in the stand-alone books of Blackcrest (as detailed in (b) above), recognising the $268,658 reduction in Blackcrest's cash balance from 30 June 2009 to 31 October 2009, elimination of the retained earnings of Blackcrest of $13,010,719 (the acquiree for accounting purposes), net of other expenses associated with the capital raising of $350,000 as detailed in (e) above, which is consistent with AASB 3 *Business Combinations* on the basis that the effective date of the transaction will be post 1 July 2009.

9.2 Summary of significant accounting policies

The significant accounting policies, which have been adopted in the preparation and presentation of the Historical and Pro-Forma Consolidated Balance Sheets, are as follows.

9.2.1 Basis of preparation

The Historical and Pro-Forma Balance Sheets have been prepared in accordance with the measurement and recognition requirements, but not the disclosure requirements, of Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The Historical and Pro-Forma Balance Sheets have been prepared on an accruals basis and are based on historical costs and on the assumption of going concern. All amounts are presented in Australian dollars.

9.2.2 Principles of consolidation

Subsidiaries

The Pro-Forma Consolidated Balance Sheet incorporates the assets and liabilities of all entities as if they were subsidiaries of Blackcrest as at 30 June 2009. Blackcrest's Consolidated Balance Sheets incorporate the assets and liabilities of all entities controlled at that date.

Subsidiaries are all those entities (including special purpose entities) over which the parent entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether control exists. Subsidiaries are consolidated from the date of control. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the parent entity and subsidiaries and between subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by Blackcrest.

9.2.3 Business combinations

The purchase method of accounting is used to account for business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Under amendments to AASB 3 *Business Combinations*, which apply from 1 July 2009, the only transaction costs that are recognised directly in equity are share and debt issue costs. Transaction costs, other than share and debt issue costs, such as legal and accounting costs, are expensed in the Income Statement as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the parent entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the parent entity's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Blackcrest's purchase of Blackcairn

Subject to certain conditions, including shareholders' approval, Blackcrest will acquire 100% of Blackcairn's issued capital via the issue of 78 million ordinary shares in Blackcrest to Blackcairn's shareholders. The issue of shares will be subject to a one-for-ten share consolidation.

For the purpose of accounting for the Acquisition, Blackcairn has been treated as the acquirer, since Blackcairn shareholders will obtain 51% of Blackcrest's expanded share capital after the Acquisition transaction. This is described as a reverse acquisition. Consequently, the Pro-forma Consolidated Balance Sheet has been prepared, as if, for accounting purposes, Blackcairn is the acquirer, and Blackcrest is the acquiree. The Pro-forma Consolidated Balance Sheet is presented as an extension of the consolidated balance sheet of Blackcairn, the legal subsidiary.

9.2.4 Revenue recognition

Revenues are stated net of the amount of goods and services tax (GST) payable to the taxation authority.

Revenue from the provision of services is recognised when the services have been provided to the customer, interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sales revenue is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods, and the cessation of all involvement in those goods.

9.2.5 Taxation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences including unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

9.2.6 Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

9.2.7 Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, that are transferred to entities in the consolidated group, are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

9.2.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

9.2.9 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that all amounts due according to the original terms will not be collected. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

9.2.10 Financial assets and liabilities

Recognition

Financial assets and liabilities are recognised when the entity becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires. Subsequent to initial recognition these instruments are recognised as below.

(a) Financial assets at fair value through profit and loss

Upon initial recognition a financial asset is designated as at fair value through the Income Statement if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. A gain or loss arising from a change in the fair value of a financial asset or financial liability (classified as at fair value) is recognised in the Income Statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method.

(c) Held-to-maturity investments

These investments have fixed maturities, and it is the entity's intention to hold these investments to maturity. Any held-to-maturity investments are stated at amortised cost using the effective interest rate method.

(d) Available-for-sale financial assets

Available-for-sale financial assets include other financial assets, comprising investments in subsidiaries, not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

(e) Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Impairment

At each reporting date, the entities assess whether there is objective evidence that a financial instrument has been impaired. In case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the Income Statements.

9.2.11 Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is recognised in respect of each identifiable area of interest. These costs are only recognised and carried forward to the extent that they are expected to be recouped through the successful development of an area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Exploration and evaluation assets are tested for impairment each year. When the facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the carrying amount is written down to its likely recoverable amount.

9.2.12 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the investment in each country of operation by each primary reporting segment.

9.2.13 Trade and other payables

These amounts represent liabilities for goods and services provided to the entities prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

9.2.14 Provisions

Provisions for unclaimed monies are recognised when the entities have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. When the obligation no longer exists the provision is written back to the Income Statement. Provisions are not recognised for future operating losses.

9.2.15 Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

9.2.16 Issued capital

Ordinary shares are classified as equity. Share-based payment transactions are brought to account at the fair value of goods and services received or the fair value of the equity instruments granted.

Under amendments to AASB 3 *Business Combinations*, which apply from 1 July 2009, the only transaction costs that are recognised directly in equity (as a deduction, net of tax, from the proceeds) are share and debt issue costs. Transaction costs other than share and debt issue costs, such as legal and accounting costs, are expensed in the Income Statement as incurred. Transaction costs are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled, with any gain or loss recognised in the Income Statement.

9.2.17 Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

9.2.18 Foreign currency transactions and balances

The Pro-Forma Balance Sheet is presented in Australian dollars, which is the functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the Income Statement. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

9.2.19 Significant judgements and key assumptions

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Entities.

The Entities assess impairment at each reporting date by evaluating conditions specific to the Entities that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

9.2.20 New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those that may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this information, other than as specifically noted below.

(a) Revised AASB 3 *Business Combinations* incorporates the following significant changes that are likely to be relevant to the Group's operations:

(i) The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations;

(ii) Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss;

(iii) Transaction costs, other than share and debt issue costs, will be expensed as incurred;

(iv) Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in the Income Statement; and

(v) Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised AASB 3, which becomes mandatory for the Group's 30 June 2010 financial statements, will be applied. The Pro-Forma Balance Sheet reflects $350,000 with respect to transaction costs, other than share and debt issue costs, which have been expensed to the Income Statement and accordingly impact retained earnings.

(b) Amended AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the group's 30 June 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements.

(c) AASB 8 *Operating Segments* introduces the 'management approach' to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require a change in the presentation on and disclosure of segment information based on the internal reports regularly reviewed by the Group's chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

(d) Revised AASB 101 *Presentation of Financial Statements* (2007) introduces the term 'total comprehensive income', which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.

(e) Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions, the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 30 June 2010 financial statements.

(f) AASB 2008-1 *Amendments to Australian Accounting Standard—Share-based Payment: Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for the group's 30 June 2010 financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

(g) AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs, resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.

(h) AASB 2008-7 *Amendments to Accounting Standards—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amendments.

(i) AASB 2008-8 *Amendments to Australian Accounting Standard—Eligible Hedged Items* clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for the Group's 30 June 2010 financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

(j) Al 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that net investment hedging can only be applied when the net assets of the foreign operation are recognised in the entity's consolidated financial statements. Al 16 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the Interpretation.

10 Risk factors

10.1 Introduction

An investment in the Company is not risk free and prospective new investors should consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

10.2 Dilution

The acquisition of Blackcairn Resources (Singapore) Pte Limited will result in a large number of Shares and Performance Shares being issued to the Blackcairn Shareholders. If the Performance Shares convert into ordinary shares, it will be highly dilutionary to existing Shareholders.

10.3 Contractual risk

As at the date of this Prospectus, Blackcairn Resources (Singapore) Pte Limited (through its Indonesian subsidiary) has a binding agreement over the Katingan project, an interim agreement in relation to the Tarakan project and has entered into memoranda of understanding in relation to the Sungai Danau and Lower Mahakam projects. While the interim agreement and memoranda of understanding contemplate that the parties will enter into binding agreements in the future, there is a risk that, after completion of the acquisition of Blackcairn Resources (Singapore) Pte Limited, the Company will not be able to secure such agreements over the Tarakan, Sungai Danau and Lower Mahakam projects. Failure to secure such projects may have an adverse affect on the future operations of the Company.

10.4 Government policy changes

Actions or policy changes by governments (particularly in Australia, Indonesia and Singapore) in relation to access to lands and infrastructure, compliance with environmental regulations, taxation, royalties and subsidies may adversely affect the Company's operations and financial performance.

The Company's operations will be governed by a series of Indonesian laws, regulations and decrees. These laws, regulations and decrees may be amended from time to time, which may have a material adverse impact on the financial position, financial performance, cashflows, growth prospects and share price of the Company. Breaches or non-compliance with these laws, regulations or decrees can result in penalties and other liabilities, which may also have a material adverse impact on the financial position, financial performance, cashflows, growth prospects and share price of the Company.

While the Company is reasonably familiar with the Indonesian regulatory regime and will undertake all reasonable due diligence in assessing and managing the risks associated with investing and operating in Indonesia (and other countries in which it may invest), the legal and political conditions of the country and any changes thereto are outside the control of the Company.

On 16 December 2008, the Parliament of the Republic of Indonesia passed a new mining law, the Mineral and Coal Mining Law (**New Mining Law**). This New Mining Law came into effect on 12 January 2009.

The New Mining Law abolishes the system of mining rights under Contracts of Work, Coal Contracts of Work and *Kuasa Pertambanhan* (KP), and introduces a new system of mining permits including *Izin Uaaha Pertambangan* (IUP).

While there are saving and transitional provisions, the New Mining Law makes no mention of the continuity of KPs. To assist between the old mining laws and the New Mining Law, the Directorate-General of Minerals, Coal and Geothermal released a circular on 30 January 2009 that, while not law, provides guidance and direction to relevant government officers, and includes a provision that KPs, including any upgrades issued under the old mining laws, are valid until their term expires and will be converted to IUPs by 12 January 2010. Until such time as the position of KPs is confirmed at law, the status of the Kalimantan coal tenements (which are KPs) is uncertain under the New Mining Law.

10.5 Other title risks

The mining tenements in which the Company has or may acquire an interest are subject to the applicable local laws and regulations. There is no guarantee that any tenement applications or conversions in which the Company has a current or potential interest will be granted.

Permits (or applications) in Indonesia in which Blackcairn (or its Indonesian subsidiary) has an interest are (or, if granted/extended, will be) subject to the relevant conditions applying in Indonesia. Failure to comply with these conditions may render the permits liable to forfeiture.

In addition, the permit that is the subject of the interim agreement for the Tarakan project is due to expire on 12 December 2009. Notwithstanding the fact that an application for extension has been lodged for a further one year period, there is a risk that the extension will not be granted and the timing for granting an extension is uncertain. Please refer to the report in Section 7 for further details on the tenure issues relating to the projects.

All of the projects in which Blackcairn (or its Indonesian subsidiary) has an interest will be subject to application for permit renewals from time to time. Renewal of the term of each permit is subject to applicable legislation. If a permit is not renewed for any reason, the Company may suffer significant damage through loss of the opportunity to develop and discover any mineral resources on that permit.

The Company is reliant to a certain extent on the cooperation and compliance of parties to the agreements to which it is a party.

10.6 Additional requirements for capital

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised under this Prospectus. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its expansion and development programs. If the Company is successful in meeting its initial objectives, then additional capital may be required to further develop its operations and pursue business opportunities.

10.7 Resource estimates and targets

Resource estimates and targets, including the Exploration Targets contained in this Prospectus, are expressions of judgment based on knowledge, experience and industry practice. Often these estimates were appropriate when made but may change significantly when new information becomes available. There are risks associated with such estimates, including that coal mined may be of a different quality, tonnage or strip ratio from the estimates. Resource estimates are necessarily imprecise and depend to some extent on interpretations, which may ultimately prove to be inaccurate and require adjustment. Adjustments to the Company resources could affect the Company's development and mining plans.

10.8 Exploration and production risks

The business of coal exploration, project development and production involves inherent risks. Success depends on the successful exploration appraisal, design and construction of efficient recovery and processing facilities, competent operational and managerial performance, and efficient distribution and marketing services. Exploration is a speculative endeavour and production operations can be hampered by engineering difficulties, cost overruns, inconsistent recovery rates and other unforeseen events.

The outcome of Company's exploration, project development and production programs will affect the future performance of the Company and the price of its Shares.

If and when the Company commences production, the production may be curtailed or shut down for considerable periods of time owing to a range of factors such as disruptions to transport infrastructure, lack of market demand, government regulation, production allocations or *force majeure* events. These curtailments may continue for a considerable period of time resulting in a materially adverse effect on the operations and/or financial condition of the Company.

The exploration for and production of coal involves certain operating hazards, such as:

(a) failure and/or breakdown of equipment;

(b) adverse geological, seismic and geotechnical conditions;

(c) industrial accidents;

(d) labour disputes;

(e) pollution; and

(f) other environmental hazards and risks.

Any of these hazards could cause the Company to suffer substantial losses if they occur. The Company may also be liable for environmental damage caused by previous owners of the property to be developed. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could reduce or eliminate funds available for acquisitions, exploration and development or cause the Company to suffer losses.

10.9 Coal marketing and coal prices

In the event that the Company is successful in developing its mining operations, the marketability of its coal production will depend on the quality and tonnage demand from international and domestic markets. If the Company fails to secure contracts to sell its coal or the Company does not satisfy conditions in any off-take agreements, this may adversely affect the financial conditions and performance of the Company. The prices the Company receives for its coal are subject to market forces that are beyond the control of the Company. While the Company monitors the stability and trends of market prices closely and, where possible, has and will negotiate agreements to reflect the movements in market prices and maintain underlying profit margins, should the market prices for coal fall to uneconomical levels, the financial performance of the Company will be materially adversely affected.

Customers may default on their contractual obligations with the Company. Potential contractual defaults may include non-payment for coal or failure to take delivery of contracted volumes. Should such a default occur, the Company may experience difficulties accessing other customers.

To manage the exposure of the Company to price risks, the Company may enter into coal price and or foreign currency hedging arrangements with respect to its production. While intended to reduce the effects of volatile coal prices, these arrangements may limit potential gains if coal prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose the Company to the risk of financial loss.

10.10Unforeseen expenditure risk

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

10.11 Environmental impact constraints

The coal mining tenement operations and proposed activities of the Company in Indonesia are subject to Indonesian laws and regulation concerning the environment. As with most exploration projects and mining operations, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceeds. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

The Company may also become liable for environmental damage caused by previous owners of any tenements the Company acquires. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could reduce or eliminate funds available for acquisitions, exploration and development or cause the Company to suffer losses.

10.12 Greenhouse gas emissions

The coal industry is likely to be affected by government policies and international agreements that aim to reduce emissions of greenhouse gases such as carbon dioxide. These may result in the imposition of taxes or other increased costs that may adversely affect the Company in terms of the volumes of its production output and the prices it receives for the coal it produces.

10.13 General economic climate

General economic conditions, movements in interest rates, inflation rates and currency exchange rates may have an adverse effect on the Company's activities, as well as on its ability to fund those activities. In particular, the majority of the Company's expenses and revenues will be incurred in foreign currencies. Adverse movements in the relevant exchange rates relative to the Australian dollar will materially impact the income and expenditure of the Company in Australian dollars terms.

10.14 Stock market conditions

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

(a) general economic outlook;

(b) interest rates and inflation rates;

(c) currency fluctuations;

(d) changes in investor sentiment towards particular market sectors;

(e) the demand for, and supply of, capital; and

(f) terrorism or other hostilities.

10.15 Reliance on key management

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees ceases their employment.

10.16 Competition

There is a risk that the Company will not be able to continue to compete profitably in the competitive industry in which it intends to operate. The potential exists for the nature and extent of the competition to change rapidly, which may cause loss to the Company.

10.17 Management of growth

There is a risk that management of the Company will not be able to implement the Company's growth strategy after completion of the Acquisition. The capacity of the new management to properly implement and manage the strategic direction of the Company may affect the Company's financial performance.

10.18 Insurance

The Company may, where economically practicable and available, endeavour to mitigate some project and business risks by procuring relevant insurance cover. However, such insurance cover may not always be available or economically justifiable and the policy provisions and exclusions may render a particular claim by the Company outside the scope of the insurance cover.

While the Company will undertake all reasonable due diligence in assessing the creditworthiness of its insurance providers, there will remain the risk that an insurer defaults in payment of a legitimate claim by the Company under an insurance policy.

10.19 Legal risk

The introduction of new legislation or amendments to existing legislation by governments, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial performance of the Company and the value of its Shares. In addition, there is a commercial risk that legal action may be taken against the Company in relation to commercial matters.

10.20 Country risk

While Indonesia coal production is highly competitive by international standards, Indonesia's export potential over the next 10 years will depend to some extent on the perceived risks attached to investment in the coal mining sector. The coal industry in Indonesia is facing a range of legal, governance and human capacity building challenges in the transition to regional autonomy. To the extent that these risk factors continue to affect the mining sector, they can be expected to have an adverse impact on mining exploration and coal production and exports in Indonesia.

The risk of terrorism, war or social upheaval activities in Indonesia, Australia, the Asia Pacific Region or other areas in which the Company operates, and the resulting impact upon the projects, is also a relevant risk factor.

The legal system operating in Indonesia may be less developed than in more stable and developed countries, which may result in risks such as:

(a) political difficulties in obtaining effective legal redress in the courts whether in respect of a breach of law or regulation, or in an ownership dispute;

(b) a higher degree of discretion on the part of governmental agencies; or

(c) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions.

There can be no assurance joint ventures, licences, license applications or other legal arrangements will not be adversely effected by the actions of the government authorities or others and the effectiveness of and enforcement of such arrangements cannot be assured.

10.21 Landowner risk

The Company may be required to pay compensation to land owners, local authorities, traditional land users and others who may have an interest in the area covered by a mining tenement. The Company's ability to resolve compensation issues and compensation costs involved will have an impact on the future success and financial performance of the Company's mining operations. If the Company is unable to resolve such compensation claims on economic terms, this could have a material adverse effect on the business, results, operations or financial condition of the Company.

10.22 Investment speculative

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the securities offered under this Prospectus.

Therefore, the securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Shares.

11 Summary of material contracts

Set out below is a summary of the material contracts to which the Company is a party.

11.1 Share Sale Agreement

In August 2009, Blackcrest entered into a Share Sale Agreement (**Agreement**) with Blackcairn Resources (Singapore) Pte Limited (**Blackcairn**) and each of the shareholders in Blackcairn (each, a **Vendor**) to acquire 100% of the issued share capital in Blackcairn (**Vendor Shares**) pursuant to the following terms and conditions:

(a) (Transaction): as consideration for the Vendor Shares, Blackcrest shall allot and issue to the Vendor the following number of Shares at an issue price of $0.20 each and that number of Performance Shares (post Consolidation) as set out in the table below (**Consideration**):

Name	Vendor Shares	Blackcrest Shares	Class A Performance Shares	Class B Performance Shares	Class C Performance Shares
Iceland Nominees Limited	40	23,112,960	11,260,160	11,260,160	11,260,160
Anthony Stephen Crimmins in his personal capacity and as trustee for certain beneficiaries	30	17,334,720	8,445,120	8,445,120	8,445,120
George Calder Sim as trustee for the ELM Superannuation fund and as trustee for certain beneficiaries	30	17,334,720	8,445,120	8,445,120	8,445,120
Fourthplan Investments Limited as trustee for certain beneficiaries	35	20,217,600	9,849,600	9,849,600	9,849,600
Total	**135**	**78,000,000**	**38,000,000**	**38,000,000**	**38,000,000**

Note

1 The beneficiaries referred to above are largely seed investors in Blackcairn Resources (Singapore) Pte Limited. Full details of the beneficiaries and their entitlement to Shares and Performance Shares are set out in Section 13.

(b) (Capital Raising): Blackcrest shall make a general offer to the public under a prospectus to issue a minimum of 50,000,000 Shares at an issue price of $0.20 each to raise a minimum of $10,000,000 (**Capital Raising**);

(c) (Conditions precedent): the obligations of the parties are subject to and conditional upon the following outstanding conditions precedent:

(i) Blackcrest complying with any requirements of ASX including, if necessary, the requirements of Chapters 1 and 2 of the ASX Listing Rules, including issuing a prospectus, as if the Purchaser were applying for admission to the official list of ASX (as required by ASX Listing Rule 11.1.3); and

(ii) Blackcrest preparing a prospectus for the Capital Raising, lodging the prospectus with the ASIC and receiving sufficient applications to meet the minimum subscription under the prospectus; and

(iii) Mr Derek Bolling agreeing to resign from his current position with Blackcrest and also agreeing not to make any claim against Blackcrest for loss of office or otherwise;

(d) (Settlement): settlement shall take place at a date that is five business days after satisfaction of the conditions precedent or such other date as agreed between the parties;

(e) (Blackcairn material contracts): the Blackcairn material contracts are summarised in the Solicitors' report in Section 7 of this Prospectus;

(f) (Representations and warranties—Vendor): the representations and warranties of each Vendor are outlined in clause 6 of the Agreement. Each Vendor represents and warrants that all of the statements as set out in Schedule 2 of the Agreement are to the best of the Vendor's knowledge, information and belief, true, complete and accurate in all material respects;

(g) (Representations and warranties—Blackcrest): the representations and warranties of Blackcrest are outlined in clause 7 of the Agreement. Blackcrest represents and warrants that all of the statements as set out in Schedule 7 of the Agreement are to the best of the Vendor's knowledge, information and belief, true, complete and accurate in all material respects;

(h) (Project area): the Vendor and each associate of the Vendor who obtains an interest in a Mining Project or a right to obtain an interest in a Mining Project that is wholly or partially within Indonesia (Project Area) must offer such interest to Blackcrest at the cost incurred by the party acquiring the interest;

(i) (Indemnity): both Blackcrest and the Vendor agree to keep each other indemnified from any Claim arising from or connected with a breach of any warranty as outlined in Schedules 2 and 7 of the Agreement respectively;

(j) (Confidentiality): each party is to keep the terms of the Agreement confidential except with the consent of the other party, for the purposes of the Agreement or as required by law; and

(k) (Governing law): the Agreement is governed by the laws of Western Australia.

The Agreement contains other terms and conditions which are usual for an agreement of this nature.

11.2 Option Agreement

On 19 August 2009, Blackcairn and TAG Mining Services Pte Limited (**TAG**) entered into an Option Agreement (**Agreement**) to acquire mining information and rights to KPs/IUPs in relation to various blocks in Indonesia.

TAG is controlled by the more significant shareholders in Blackcairn Resources (Singapore) Pte Limited and is the holder of the blocks and all information relating to the blocks (**Mining Information**). Pursuant to the Agreement, TAG has agreed to grant to Blackcairn the option to acquire the blocks (**Mining Information Option**).

Blackcairn may exercise the Mining Information Option by providing an exercise notice to TAG. Upon receipt of such notice, TAG shall transfer and assign a 50% interest in the Mining Information to Blackcairn. Following the transfer of the Mining Information, Blackcairn shall make a payment to TAG of A$250,000 for each block.

Following completion of the transfer, TAG and Blackcairn agree to incorporate a PMA Company. The shares in the PMA Company will be subscribed for by TAG and Blackcairn in 50/50 shares. After completion of the incorporation process, TAG agrees to grant to Blackcairn the TAG PMA Shares Call Option, where if exercised, will require TAG to sell to Blackcairn its 50% interest in the issued capital of the PMA Company.

The shareholders of TAG are also shareholders in Blackcairn and completion of the arrangements under this Option Agreement may require approval from the Company's shareholders in the future, depending on the shareholdings of the parties in the Company at the time.

This Agreement is governed by the laws of Singapore.

11.3 Royalty Agreement

As outlined in the Solicitors' report in Section 7 of this Prospectus, PT Coal Soil Brik (**CSB**) and IME entered into the Cooperation Agreement, pursuant to which IME is granted the right to mine and sell all coal from the concession area that is the subject of KP No. 323/2008 (currently held by CSB) (**KP Concession Area**).

On 19 August 2009, IME and TAG entered into a Royalty Agreement (**Agreement**), pursuant to which IME has agreed to pay a fee to TAG in the form of a royalty, as consideration for TAG introducing IME to CSB. Under the Royalty Agreement, IME agrees to pay to TAG US$4.00 per metric tonne of coal mined and sold from the KP.

The royalty shall be paid on an annual basis by 31 January of each year, on the basis of total sales of coal mined and sold from the KP Concession Area for the previous year into the bank account nominated in writing by TAG.

The Agreement shall be valid for the term of the Cooperation Agreement and is governed by the laws of Singapore.

11.4 Mandate with Lodge Corporate Pty Limited

On 12 November 2009, the Company entered into an agreement with Lodge Corporate Pty Limited (**Lodge**) for Lodge to provide the Company with various strategic and corporate initiatives, including advising the Company on possible reverse-takeover transactions and any associated capital raising program (**Agreement**). The terms and conditions of the Agreement are as follows:

(a) (**Scope of work**): Lodge will be specifically engaged to make suitably qualified personnel available to the Company to provide assistance and guidance in its formulation of corporate finance strategies.

(b) (**Board meetings**): Lodge will make suitably qualified personnel available to attend the Company Board meetings or to otherwise brief the Board on corporate finance, market or shareholder-related issues.

(c) (**Market announcements and penetration**): Lodge will assist the Directors of the Company with general advice pertaining to the preparation of market announcements. It will also assist in the building of relationships with retail investors to develop greater investor space through introduction to retail advisers.

(d) (**Fees**): The fees relating to the engagement of Lodge are as follows:

   (i) (**Professional fees**): The general retainer relationship that would be entered into between Lodge and the Company will attract a monthly work fee of $20,000 (plus GST) payable monthly in advance.

   (ii) (**Success fees—capital raising**): In the event that Lodge raises capital for the transaction, Lodge will be entitled to success fees of 5% (plus GST) of the total capital raised. The success fee will be payable in conjunction with settlement of any transaction.

   (iii) (**Success fees—mergers and acquisitions**): In the event there is a successful transaction, which will be evidenced by the signing of binding legal documents, then Lodge will be entitled to a success fee of 4% (plus GST) of the enterprise value of the business or assets acquired.

   (iv) (**Success fees—debt facilities**): In the event that Lodge facilitates debt funding for the Company, Lodge will be entitled to a success fee of 2.5% (plus GST) of the total debt secured. The success fee will be payable in conjunction with settlement of any transaction.

   (v) (**Break fees**): In the event that the Company elects to terminate the engagement of Lodge, break fees shall be payable to Lodge. The break fee will not be payable if:

      (A) Lodge terminates the Agreement other than by reason of breach by the Company;

      (B) the transaction is otherwise cancelled by mutual agreement; or

      (C) the Agreement is terminated due to breach by Lodge.

Providing that a transaction proceeds with Lodge, or is otherwise cancelled by mutual agreement, no break fee will be payable.

(e) (**Personnel**): Troy Graham, Head of Corporate Finance, will have primary responsibility for this engagement. From time to time, other professionals might be additionally involved in the provision of services under this engagement.

(f) (**Financial models**): Lodge may prepare or assist in the preparation of one or more financial models (**Models**) in the course of this engagement. Lodge shall retain all of its intellectual property rights in relation to these Models, including copyright and rights to confidential information (but excluding any Company or other third party intellectual property rights).

(g) (**Confidentiality**): Lodge shall take all reasonable steps to preserve and protect the confidentiality of any non-public confidential information obtained from the Company in connection with any opportunity, and will only use that information for the purposes of carrying out the engagement, or as the Company may otherwise authorise.

(h) (**Indemnity**): The Company will indemnify Lodge, its officers, employees, agents and advisors (**Indemnified Party**) and must keep each Indemnified Party indemnified against all liability and loss arising from, and all costs, charges, and expenses incurred in connection with, the services and any conduct by the Company, its officers, employees, agents and advisors in connection with the services, except to the extent that such liability and loss was the result of Lodge's acts or omissions, negligence or wilful misconduct.

(i) (**Termination**): This Agreement may be terminated by the Company or Lodge at any time, with or without cause, by giving notice in writing to the other party. In the event of the following:

  (i) (**Termination by the Company**): Lodge will be entitled to its full fee under this engagement if at any time within the following 12 months a transaction or opportunity is consummated.

  (ii) (**Intention not to proceed**): If at any time the engagement is terminated or the Company informs Lodge that it does not intend to proceed with any transaction or opportunity, nothing in this Agreement will restrict Lodge from acting for any persons on any matter or transaction involving one or more of the parties to the proposed opportunity or transaction in a manner consistent with Lodge's policies and procedures relating to conflicts of interest provided that:

    (A) if this engagement is terminated by Lodge, then Lodge may only act for another person or party in relation to the Company after three months after that termination; and

    (B) in any case, Lodge must take all reasonable steps to prevent any confidential information obtained by the Company in connection with any opportunity which may still be in Lodge's possession from becoming available to the project team assigned to the other engagement.

(j) (**Governing law**): this Agreement is governed by the laws of Victoria.

11.5 Executive Services Agreement with Richard Cohen

The Company entered into an executive services agreement with Executive Director and CEO, Richard Cohen (**Service Agreement**) on the following material terms and conditions:

(a) (**Term**): the initial term of the Service Agreement is three years;

(b) (**Salary**): the Company shall pay Mr Cohen a salary of $360,000 per year (inclusive of superannuation). The Company may also pay Mr Cohen additional remuneration as approved by the Board for introducing new projects to the Company for acquisition or participation;

(c) (**Issue of Shares and Options**): The Company has agreed to put in place an equity-based incentive plan for Mr Cohen whereby, subject to shareholder approval, the Company will make a non-recourse loan available to Mr Cohen to subscribe for 2,000,000 Shares. He will also be issued 3,000,000 Performance Shares (subject to shareholder approval) with the same milestones as outlined in the terms of the Performance Shares as set out in section 12.1.2 of this Prospectus;

(d) (**Termination by Executive**): Mr Cohen may terminate the Service Agreement without cause upon three months' notice to the Company;

(e) (**Termination by Company**): the Company may terminate the Service Agreement:

(i) without cause upon three months' notice to Mr Cohen together with the payment of nine months' salary;

(ii) by giving one month's written notice if at any time Mr Cohen:

(A) commits any serious or persistent breach of the Service Agreement and the breach is not remedied within 14 days of notice to do so;

(B) fails to satisfactorily perform his duties under the Service Agreement, provided that Mr Cohen:

(i) has been counselled on at least three separate occasions of the specific matters complained of by the Board; and

(ii) after each such occasion has been provided with a reasonable opportunity of at least a month to remedy the specific matters complained of by the Board; or

(C) commits any gross misconduct;

(iii) summarily without notice if at any time Mr Cohen:

(A) is convicted with any major criminal offence which brings the Company into lasting disrepute; or

(B) breaches any of the Company's policies relating to email, internet or insider trading.

11.6 Consultancy and Facility Agreement

By a letter of agreement from the Company to Blackcrest Resources (Singapore) Pte Limited (**Blackcrest Singapore**) dated on or about 22 October 2008, Blackcrest Singapore agreed to provide various consulting services to the Company (**Consultancy Agreement**), namely providing assistance with the introduction to the Company of various coal projects in Indonesia (**Services**).

As consideration for the Services, the Company agreed to make a loan facility of up to $500,000 available to Blackcrest Singapore (**Loan Facility**).

By mutual agreement on or about 11 September 2009, the Company, Blackcairn and Blackcrest Singapore assigned the Loan Facility and the Consultancy Agreement to Blackcairn (**Agreement**).

Pursuant to this Agreement, the Company, Blackcrest Singapore and Blackcairn agree to the terms of the Loan Facility as follows:

(a) (**Amount**): the Company agree to increase the loan facility amount (**Facility**) from $500,000 to $900,000;

(b) (**Draw down**): Blackcairn may draw down funds under the Facility by giving at least two business days' written notice to the Company together with details of the manner in which the funds are to be applied;

(c) (**Advance**): after receipt of a draw down notice (and provided that the Company is satisfied with the proposed application of the funds), the Company must advance funds to Blackcairn in response to the draw down notice up to the Facility limit of $900,000;

(d) (**Use of Funds**): the funds must be applied towards securing resource projects (either for Blackcairn or directly by the Company) in Indonesia;

(e) (**Interest**): in the event that Blackcairn is successful in securing a resource project for the Company (either through a direct investment by the Company or through the Company acquiring Blackcairn) by 31 December 2009, there will be no interest payable on the advanced amount. If a resource project has not been secured for the Company within this time period, interest will accrue from the date of each advance until the loan is repaid in full at a rate of 10% per annum;

(f) (**Security**): the loan is unsecured.

(g) (**Repayment**): the loan (including interest) must be repaid the earlier of:

(i) 31 December 2009; or

(ii) upon successful completion of the acquisition of Blackcairn; or

failing the achievement of either of the above:

(iii) within 20 business days of receipt by Blackcairn of a notice of demand from the Company;

(h) (**Term**): the term of this Agreement will be up to 31 December 2009 and may be extended by mutual agreement in writing between the parties; and

(i) (**Governing Law**): this Agreement is governed by the laws of Western Australia.

11.7 Directors' Deeds of Indemnity

The Company has entered into, or will enter into, a Deed of Indemnity, Insurance and Access with each of its Directors.

Under these deeds, the Company agrees to indemnify each Director to the extent permitted by the Corporations Act against any liability arising as a result of the Director acting as an officer of the Company. The Company is also required to maintain insurance policies for the benefit of the relevant Director and must also allow the Directors to inspect board papers in certain circumstances.

12 Additional information

12.1 Rights attaching to Securities

12.1.1 Ordinary Shares

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

General meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative, to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

Voting rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

(a) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;

(b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and

(c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully-paid share held by them, or in respect of which they are appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such shares registered in the shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

Dividend rights

Subject to the rights of persons (if any) entitled to shares with special rights as to dividend, the Directors may declare a final dividend out of profits in accordance with the Corporations Act and may authorise the payment or crediting by the Company to the shareholders of such a dividend. The Directors may authorise the payment or crediting by the Company to the shareholders of such interim dividends as appear to the Directors to be justified by the profits of the Company. Subject to the rights of persons (if any) entitled to shares with special rights as to dividend, all dividends are to be declared and paid according to the amounts paid or credited as paid on the shares in respect of which the dividend is paid. Interest may not be paid by the Company in respect of any dividend, whether final or interim.

Winding up

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as they consider fair on any property to be so divided, and may determine how the division is to be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, shares classified by ASX as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares.

Transfer of Shares

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia, and the transfer not being in breach of the Corporations Act or the Listing Rules.

Variation of rights

Pursuant to Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of shareholders, vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

12.1.2 Performance Shares

Class A Performance Shares

Definitions

Class A Performance Share means the Performance Shares the terms of which are described below.

Coal means thermal or coking coal.

Corporations Act means the *Corporations Act 2001*.

Milestone means a minimum of 1,000,000 tonnes of Coal being produced and sold from the Project Area.

Listing Rules means the official listing rules of ASX, as amended, added to or replaced from time to time.

Performance Shareholder means the holder of a Class A Performance Share.

Project Area means the area covered by the permits covered by the agreements referred to in the Solicitors' report in Section 7 of this Prospectus.

Terms of Class A Performance Shares

(a) (Class A Performance Shares): Each Class A Performance Share is a share in the capital of the Company.

(b) (General meetings): The Class A Performance Shares shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of the Company.

(c) (No voting rights): The Class A Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of the Company.

(d) (No dividend rights): The Class A Performance Shares do not entitle the Holder to any dividends.

(e) (Rights on winding up): The Class A Performance Shares participate in the surplus profits or assets of the Company upon winding up of the Company only to the extent of $0.00001 per Class A Performance Share.

(f) (Not transferable): The Class A Performance Shares are not transferable.

(g) (Reorganisation of capital): If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the ASX Listing Rules at the time of reorganisation.

(h) (Application to recognised securities exchange): The Class A Performance Shares will not be quoted on the ASX. However, upon conversion of the Class A Performance Shares into fully paid ordinary shares (**Shares**) in accordance with the Milestone, if the Company's Shares are quoted on the ASX at the time of conversion, the Company must within seven days after the conversion, apply for the official quotation of the Shares arising from the conversion on the ASX.

(i) (No participation in entitlements and bonus issues): Holders of Class A Performance Shares will not be entitled to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues until the Class A Performance Shares are converted into Shares.

(j) (No other rights): The Class A Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Conversion of the Class A Performance Shares

(a) (Conversion on achievement of the Milestone): Each Class A Performance Share will convert into one Share on the achievement of the Milestone.

(b) (Redemption if a Milestone not achieved): If the Milestone is not achieved within 24 months from Settlement, then all of the Class A Performance Shares held by a Holder will be redeemed by the Company for the sum of $0.00001 per Class A Performance Share within 10 Business Days of non-satisfaction of a Milestone.

(c) (Conversion procedure): The Company will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Class A Performance Shares into Shares in accordance with condition 1.3(a).

(d) (Ranking of Shares): The Shares into which the Class A Performance Shares will convert will rank *pari passu* in all respects with existing Shares.

Class B Performance Shares

Definitions

Class B Performance Share means the Performance Shares the terms of which are described below.

Coal means thermal or coking coal.

Corporations Act means the *Corporations Act 2001*.

Mineral Resource has the meaning given in the JORC Code**.**

Milestone means a JORC inferred Mineral Resource of greater than 25,000,000 tonnes of Coal being determined within the Project Area or 2,500,000 tonnes of Coal being produced and sold from the Project Area (whichever occurs first).

JORC Code means the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004) as amended from time to time.

Listing Rules means the official listing rules of ASX, as amended, added to or replaced from time to time.

Performance Shareholder means the holder of a Class B Performance Share.

Project Area means the area covered by the permits covered by the agreements referred to in the Solicitors' report in Section 7 of this Prospectus.

Terms of Class B Performance Shares

(a) (Class B Performance Shares): Each Class B Performance Share is a share in the capital of the Company.

(b) (General meetings): The Class B Performance Shares shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of the Company.

(c) (No voting rights): The Class B Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of the Company.

(d) (No dividend rights): The Class B Performance Shares do not entitle the Holder to any dividends.

(e) (Rights on winding up): The Class B Performance Shares participate in the surplus profits or assets of the Company upon winding up of the Company only to the extent of $0.00001 per Class B Performance Share.

(f) (Not transferable): The Class B Performance Shares are not transferable.

(g) (Reorganisation of capital): If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the ASX Listing Rules at the time of reorganisation.

(h) (Application to recognised securities exchange): The Class B Performance Shares will not be quoted on the ASX. However, upon conversion of the Class B Performance Shares into fully paid ordinary shares (**Shares**) in accordance with the Milestone, if the Company's Shares are quoted on the ASX at the time of conversion, the Company must within seven days after the conversion, apply for the official quotation of the Shares arising from the conversion on the ASX.

(i) (No participation in entitlements and bonus issues): Holders of Class B Performance Shares will not be entitled to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues until the Class B Performance Shares are converted into Shares.

(j) (No other rights): The Class B Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Conversion of the Class B Performance Shares

(a) (Conversion on achievement of the Milestone): Each Class B Performance Share will convert into one Share on the achievement of the Milestone.

(b) (Redemption if a Milestone not achieved): If the Milestone is not achieved within 36 months from Settlement, then all of the Class B Performance Shares held by a Holder will be redeemed by the Company for the sum of $0.00001 per Class B Performance Share within 10 Business Days of non-satisfaction of a Milestone.

(c) (Conversion procedure): The Company will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Class B Performance Shares into Shares in accordance with condition 1.3(a).

(d) (Ranking of Shares): The Shares into which the Class B Performance Shares will convert will rank *pari passu* in all respects with existing Shares.

Class C Performance Shares

Definitions

Class C Performance Share means the Performance Shares the terms of which are described below.

Coal means thermal or coking coal.

Corporations Act means the *Corporations Act 2001*.

Mineral Resource has the meanings given in the JORC Code.

Milestone means a JORC inferred Mineral Resource of greater than 50,000,000 tonnes of Coal being determined within the Project Area or 5,000,000 tonnes of Coal being produced and sold from the Project Area (whichever occurs first).

JORC Code means the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004) as amended from time to time.

Listing Rules means the official listing rules of ASX, as amended, added to or replaced from time to time.

Performance Shareholder means the holder of a Class C Performance Share.

Project Area means the area covered by the permits covered by the agreements referred to in the Solicitors' report in Section 7 of this Prospectus.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of Shares.

Terms of Class C Performance Shares

(a) (Class C Performance Shares): Each Class C Performance Share is a share in the capital of the Company.

(b) (General meetings): The Class C Performance Shares shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of the Company.

(c) (No voting rights): The Class C Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of the Company.

(d) (No dividend rights): The Class C Performance Shares do not entitle the Holder to any dividends.

(e) (Rights on winding up): The Class C Performance Shares participate in the surplus profits or assets of the Company upon winding up of the Company only to the extent of $0.00001 per Class C Performance Share.

(f) (Not transferable): The Class C Performance Shares are not transferable.

(g) (Reorganisation of capital): If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the ASX Listing Rules at the time of reorganisation.

(h) (Application to recognised securities exchange): The Class C Performance Shares will not be quoted on the ASX. However, upon conversion of the Class C Performance Shares into fully paid ordinary shares (**Shares**) in accordance with the Milestone, if the Company's Shares are quoted on the ASX at the time of conversion, the Company must within seven days after the conversion, apply for the official quotation of the Shares arising from the conversion on the ASX.

(i) (No participation in entitlements and bonus issues): Holders of Class C Performance Shares will not be entitled to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues until the Class C Performance Shares are converted into Shares.

(j) (No other rights): The Class C Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Conversion of the Class C Performance Shares

(a) (Conversion on achievement of the Milestone): Each Class C Performance Share will convert into one Share on the achievement of the Milestone.

(b) (Redemption if a Milestone not achieved): If the Milestone is not achieved within 48 months from Settlement, then all of the Class C Performance Shares held by a Holder will be redeemed by the Company for the sum of $0.00001 per Class C Performance Share within 10 Business Days of non-satisfaction of a Milestone.

(c) (Conversion procedure): The Company will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Class C Performance Shares into Shares in accordance with condition 1.3(a).

(d) (Ranking of Shares): The Shares into which the Class C Performance Shares will convert will rank *pari passu* in all respects with existing Shares.

12.2 Disclosure of interests

Directors are not required under the Company's Constitution to hold any Shares. As at the date of this Prospectus, the Directors have relevant interests in Shares (post the 1:10 consolidation) as set out in the following table:

Director	Shares
Ross Kestel	Nil
Richard Cohen	Nil
Alan Broome	Nil
Greg Cornelsen	100,000

The Options referred to in the above table may not have been issued as at the date of this Prospectus. They will all be issued prior to the Company being admitted to the Official List.

12.3 Remuneration

The Company's Constitution provides that the remuneration of non-executive Directors will be not more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration for non-executive Directors has been set at an amount not to exceed $300,000 per annum.

The only executive Director of the Company is Richard Cohen. A summary of the Executive Services Agreement between the Company and Richard Cohen is set out in Section 11 of this Prospectus.

The cash fees paid to the Directors in the last two years and the fees that are currently proposed to be paid to the Directors (excluding superannuation) in relation to holding the position of a Director are set out below:

Director	Past fees	Future fees
	($)	($ pa)
Ross Kestel	60,000	50,000
Richard Cohen	Nil	360,000[1]
Alan Broome	Nil	120,000
Greg Cornelsen	60,000	50,000

[1] Please refer to Section 11.5 for further details of Mr Cohen's remuneration package.

In addition to the above, Nissen Kestel Harford has been paid approximately $164,383 in general accounting and secretarial fees by the Company in the last 24 months up to the date of this Prospectus. Ross Kestel is a Director and shareholder of Nissen Kestel Harford.

12.4 Fees and benefits

Other than as set out below or elsewhere in this Prospectus, no:

(a) Director of the Company;

(b) person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus;

(c) promoter of the Company; or

(d) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in the Prospectus as a financial services licensee involved in the issue,

has, or had within two years before lodgement of this Prospectus with ASIC, any interest in:

(i) the formation or promotion of the Company;

(ii) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the offer of Shares under this Prospectus; or

(iii) the offer of Shares under this Prospectus,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons as an inducement to become, or to qualify as, a Director of the Company or for services rendered in connection with the formation or promotion of the Company or the offer of Shares under this Prospectus.

Lodge Corporate Pty Limited acts as corporate adviser to the Company and Lodge Partners Pty Limited is the Broker to the Offer. These entities, combined, will receive fees equal to 5% of the total capital raised in relation to the Offer.

Al Maynard & Associates Pty Limited has prepared the Independent Geologist's Report, which has been included in Section 6 of this Prospectus. The Company estimates it will pay Al Maynard & Associates Pty Limited a total of approximately $55,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates.

WHK Horwath has acted as Investigating Accountant and has prepared an Investigating Accountant's Report, which has been included in Section 8 of this Prospectus. The Company estimates it will pay WHK Horwath a total of $40,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates.

Brigitta I. Rahayoe & Syamsuddin has acted as the Indonesian legal adviser to the Company and has prepared the Solicitors' report, which has been included in Section 7 of this Prospectus. The Company estimates it will pay Brigitta I. Rahayoe & Syamsuddin a total of approximately $US35,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates.

Steinepreis Paganin has acted as the solicitors to the Company in relation to the Offer and has been involved in due diligence enquiries on legal matters. The Company estimates it will pay Steinepreis Paganin $50,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates.

12.5 Consents

Each of the parties referred to in this section:

(a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this section; and

(b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

Lodge Corporate Pty Limited has given its written consent to being named as corporate adviser to the Company in this Prospectus. Lodge Corporate Pty Limited has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Lodge Partners Pty Limited has given its written consent to being named as Broker to the Offer in this Prospectus. Lodge Partners Pty Limited has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

WHK Horwath has given its written consent to being named as Investigating Accountant to the Company in this Prospectus and to the inclusion of the Investigating Accountant's Report in Section 8 in the form and context in which the report is included. WHK Horwath has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Al Maynard & Associates Pty Limited has given its written consent to being named as Independent Geologist to the Company in this Prospectus and to the inclusion of the Independent Geologist's Report in Section 6 in the form and context in which the report is included. Al Maynard & Associates Pty Limited has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Brigitta I. Rahayoe & Syamsuddin has given its written consent to being named as the Indonesian legal adviser to the Company in this Prospectus and to the inclusion of the Solicitors' report in Section 7 in the form and context in which the report is included. Brigitta I. Rahayoe & Syamsuddin has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Steinepreis Paganin has given its written consent to being named as the solicitor to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Link Market Services has given its written consent to being named the Company's Share Registry in this Prospectus and has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

12.6 Restricted Shares

ASX has indicated that certain existing security holders may be required to enter into agreements that restrict dealings in Shares held by them. These agreements will be entered into in accordance with the Listing Rules.

12.7 Expenses of the Offer

The total expenses of the Offer (assuming $10,000,000 is raised) are estimated to be approximately $350,000 (excluding broker commissions) and are expected to be applied towards the items set out in the following table:

Item of expenditure	Amount ($)
ASIC fees	2,010
ASX fees	65,000
Advisers' fees and other expenses	262,990
Design, printing and promotion	20,000
Total	**350,000**

In addition to the above, the Company may pay commissions of up to 5% (exclusive of goods and services tax) of amounts subscribed to any Australian Financial Services licensee in respect of valid applications lodged and accepted by the Company and bearing the stamp of the Australian Financial Services licensee. On the basis of raising $15,000,000, these fees could total $750,000.

12.8 Litigation

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

12.9 Current Shareholders

The Company currently has a number of shareholders, with only one shareholder being a substantial holder (Suburban Holdings Pty Limited, holding approximately 6.14% of the issued Shares).

12.10 Electronic Prospectus

Pursuant to Class Order 00/044, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the relevant application forms. If you have not, please email the Company at enquiries@blackcrestresources.com.au and the Company will send you, free of charge, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain a copy of the Prospectus from the Company's website at www.blackcrestresources.com.au.

The Company reserves the right not to accept an application form from a person if it has reason to believe that when that person was given access to the electronic application form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

12.11 Taxation

The acquisition and disposal of Shares in the Company will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

13 Blackcairn Shareholders (including the beneficiaries under various trusts)

The table below shows the parties that are entitled to be issued Shares and Performance Shares by the Company on acquisition of Blackcairn Resources (Singapore) Pte Limited.

	Ordinary	Performance Shares		
Shareholder	Shares	Class A	Class B	Class C
Iceland Nominees Ltd	23,112,960	11,260,160	11,260,160	11,260,160
Anthony Crimmins	11,794,720	5,746,586	5,746,586	5,746,586
George Calder Sim atf ELM Superannuation Fund	15,834,720	7,708,020	7,708,020	7,708,020
George Calder Sim atf ELM Unit Account	416,666	203,000	203,000	203,000
Joseph Camuglia <JCC Investment A/C>	875,000	426,300	426,300	426,300
Joseph Camuglia Super Fund	1,700,000	828,240	828,240	828,240
Kich Pty Ltd	540,000	263,088	263,088	263,088
John Camuglia Super Fund	2,530,000	1,232,616	1,232,616	1,232,616
Anthony Camuglia Super Fund	2,530,000	1,232,616	1,232,616	1,232,616
Susan Margaret Peel	325,000	158,340	158,340	158,340
Solafiat Holdings P/L <GJ Taifalos Family A/C>	175,000	85,260	85,260	85,260
Donna Vecchio	250,000	121,800	121,800	121,800
Joanne Huxham	175,000	85,260	85,260	85,260
Anthony Stephen Crimmins	416,667	203,000	203,000	203,000
Anthony Stephen Crimmins <The Crimmins Trust>	416,666	203,000	203,000	203,000
Michael J Egan Pty Ltd <Michael J Egan Retirement Plan>	166,667	81,200	81,200	81,200
Michael J Egan Pty Ltd	166,666	81,199	81,199	81,199
Mr Steven Nicols	742,000	361,502	361,502	361,502
The Kennedy Superannuation Fund	354,000	172,469	172,469	172,469
Michael Robert Taverner atf <Taverner Super Fund Account>	333,333	162,400	162,400	162,400
Crawford Falls Pty Ltd	400,000	194,880	194,880	194,880
Nubey Trading Pty Ltd	833,333	406,000	406,000	406,000
Liam Patrick Jones	833,334	406,000	406,000	406,000
Barbaro & Co Pty Ltd	100,000	48,720	48,720	48,720
Mr Keith and Mrs Carol Creed	416,667	203,000	203,000	203,000
Miss Emma Creed	416,667	203,000	203,000	203,000
Robert Andrew Bloore atf Bloore Superannuation Fund	1,250,000	609,000	609,000	609,000
David Matthew Roche & Kathryn Louise Phillips	83,333	40,600	40,600	40,600
Pital Pty Ltd atf Hancock Superannuation Fund	83,333	40,600	40,600	40,600
Giles Bourne	83,500	40,681	40,681	40,681
Kevin Scott Alexander Butcher	83,334	40,600	40,600	40,600
Mr Adam Leslie Hajek	83,333	40,600	40,600	40,600
Mr John William McGregor	83,333	40,600	40,600	40,600
Philip Hodgson	83,333	40,600	40,600	40,600
Yates Beaggi Lawyers Pty Ltd	83,333	40,600	40,600	40,600
Justin Albert Tremain	400,000	194,880	194,880	194,880
Pheakes Py Ltd <Senate Account>	400,000	194,880	194,880	194,880
Mr John William Thorne	83,333	40,600	40,600	40,600
Mr Gregory Paul Allen	500,000	243,600	243,600	243,600
Oh Boss Pty Ltd atf <Oh Boss Trust>	500,000	243,600	243,600	243,600
Clarke Kent Super Pty Ltd	450,000	219,240	219,240	219,240
Mrs Krista Wawszkowicz	50,000	24,360	24,360	24,360
Landpath Pty Ltd	500,000	243,600	243,600	243,600
Winning Corporate Services Pty Ltd	304,769	148,069	148,069	148,069
David Gibbs	500,000	243,550	243,550	243,550

Shane Reid	420,000	204,582	204,582	204,582
Amantor Pty Ltd	4,200,000	2,045,820	2,045,820	2,045,820
Dean Gallegos	420,000	204,582	204,582	204,582
Liam Jones	500,000	245,700	245,700	245,700
Winning Corporate Services Pty Ltd	800,000	393,120	393,120	393,120
Marketech Pty Ltd	200,000	98,280	98,280	98,280
Total	**78,000,000**	**38,000,000**	**38,000,000**	**38,000,000**

14 Directors' authorisation

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented in writing to the lodgement of this Prospectus with ASIC.

ROSS KESTEL
CHAIRMAN
FOR AND ON BEHALF OF BLACKCREST RESOURCES LIMITED

15 Glossary

A$ or $ means an Australian dollar.

AEST means Australian Eastern Standard Time, Sydney, New South Wales.

Application Form means the application form accompanying this Prospectus relating to the Offer.

ASIC means the Australian Securities and Investments Commission.

ASTC means ASX Settlement and Transfer Corporation Pty Limited.

ASX means ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange (as the context requires).

AWST means Australian Western Standard Time, Perth, Western Australia.

Blackcairn Shareholders means the shareholders in Blackcairn Resources (Singapore) Pte Limited.

Board means the board of Directors as constituted from time to time.

Business Day means a week day when trading banks are ordinarily open for business in Perth, Western Australia.

Capital Raising means the proposed raising of a minimum of $10,000,000 under this Prospectus.

CHESS means Clearing House Electronic Sub-register System, which is operated by ASTC, a wholly owned subsidiary of ASX.

Company means Blackcrest Resources Limited (ABN 86 073 153 223) (formerly Reco Financial Services Limited).

Closing Date means the closing date of the Offer as set out in Section 2.3.

Constitution means the constitution of the Company.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the directors of the Company at the date of this Prospectus.

Exploration Target means an exploration target in terms of paragraph 18 of the JORC Code.

Exposure Period means the period of seven days after the date of lodgement of this Prospectus, which period may be extended by ASIC by not more than seven days pursuant to Section 727(3) of the Corporations Act.

GAAP means Generally Accepted Accounting Principles, a common set of accounting principles, standards and procedures.

IUP means *Izin Usaha Pertambangan*, which roughly translates as 'mining permission'.

JORC Code means the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves.

KP means *Kuasa Pertambangan*, which roughly translates as 'mining authority'.

Listing Date means the date on which the Company is admitted to the Official List.

Listing Rules means the official listing rules of ASX.

Offer means the offer of Shares pursuant to this Prospectus as outlined in Section 3.1 of this Prospectus.

Official List means the Official List of ASX.

Official Quotation means official quotation by ASX in accordance with the Listing Rules.

Option means an option to subscribe for a Share.

Original Prospectus means the original prospectus prepared by the Company, dated and lodged with ASIC on 25 November 2009.

PKP2B means *Perjanjian Karya Pengusahaan Pertambangan Batubara*, which translates as 'coal contract of work agreement'.

Performance Share means a performance share issued on the terms and conditions set out in Section 12.1.2 of this Prospectus.

Project Area means the area covered by the permits covered by the agreements referred to in the Solicitors' report in Section 7 of this Prospectus.

Prospectus means this replacement prospectus.

Blackcrest means Blackcrest Resources Limited (ABN 86 073 153 223).

Settlement means settlement of the acquisition by the Company of Blackcairn Resources (Singapore) Pte Limited.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of Shares.

Share Registry means Link Market Services Limited (ABN 54 083 214 537).

US$ means a United States dollar.

16 Corporate directory

Directors

Mr Ross Kestel (Chairman and non-executive Director)
Mr Richard Cohen (CEO/Managing Director)
Mr Alan Broome (non-executive Director)
Mr Gregory (Greg) Cornelsen (non-executive Director)

Company Secretary (part-time)

Mr Justin Clyne

Australian Business Number

86 073 153 223

Registered and Principal Office

Level 2, Spectrum
100 Railway Road
SUBIACO WA 6008

Telephone: (08) 9367 8133
Facsimile: (08) 9367 8812

Email: enquiries@blackcrestresources.com.au
Web: www.blackcrestresources.com.au

Investigating Accountant

WHK Horwath Sydney
Level 15
309 Kent Street
SYDNEY NSW 2000

Share Registry*

Link Market Services
Locked Bag A14
SYDNEY SOUTH NSW 1235

Telephone: 1300 554 474 or (02) 8280 7111
Facsimile: (02) 9287 0303

* This entity is included for information purposes. It was not involved in the preparation of this Prospectus.

Corporate Adviser

Lodge Corporate Pty Limited
Level 30, 9 Castlereagh Street
SYDNEY NSW 6000

Broker to the Offer

Lodge Partners Pty Limited
Level 30, 9 Castlereagh Street
SYDNEY NSW 6000

Australian Solicitors to the Company

Steinepreis Paganin
Lawyers & Consultants
Level 4, Next Building
16 Milligan Street
PERTH WA 6000

Indonesian Legal Advisers to the Company

Brigitta I. Rahayoe & Syamsuddin
Suite 701, 7th Floor Indofood Tower
Sudirman Plaza
Jl. Jend. Sudirman Kav. 76–78
Jakarta 12910, Indonesia

Independent Geologist

Al Maynard & Associates Pty Limited
Consulting Geologists
9/280 Hay Street
SUBIACO WA 6008