



RECO FINANCIAL SERVICES LIMITED
ABN 86 073 153 223

ANNUAL FINANCIAL REPORT 30 JUNE 2009

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CORPORATE INFORMATION

DIRECTORS

Mr R Kestel (Chairman)
Mr G Cornelsen
Mr D Bolling

COMPANY SECRETARY

Mr R Marusco

REGISTERED OFFICE

Level 2, Spectrum
100 Railway Road
Subiaco WA 6008

PRINCIPAL PLACE OF BUSINESS

Level 2, Spectrum
100 Railway Road
Subiaco WA 6008

POSTAL ADDRESS

PO Box 8281
SUBIACO WA 6008

AUDITORS

RSM Bird Cameron Partners
Level 12
60 Castlereagh Street
Sydney NSW 2000

SOLICITORS

Steinepreis Paganin
Level 4 The Read Buildings
16 Milligan Street
Perth WA 6000

SHARE REGISTRY

Link Market Services Limited
Level 19
324 Queen Street
Brisbane QLD 4000

INTERNET ADDRESS

www.reco.net.au

ASX CODES

Shares REO

COUNTRY OF INCORPORATION AND DOMICILE

Australia

DIRECTORS' REPORT

Your directors submit the annual financial report together with the consolidated financial statements of Reco Financial Services Limited ("the Company") and of the Group, being the Company and its controlled entities for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

R Kestel, B.Bus, ACA, FCPA, AICD (Non-Executive Director) Aged 54

Mr 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 following ASX listed companies:

- VDM Group Limited – August 2005 to current
- Jabiru Metals Limited – August 2003 to current
- Dioro Exploration NL – April 2008 to current
- Resource Star Limited – August 2006 to current
- Jatoil Limited – September 2007 to current
- Xstate Resources Limited – 6 September 2006 to current
- Regis Resources Limited – 29 June 2009 to current

During the past three years he has also served as a non executive director of the following ASX listed companies:

- Equigold NL - April 2005 to June 2008
- Northern Mining Ltd – April 2005 to June 2007
- DVM International Limited – April 2005 to November 2007

Mr Kestel is a Registered Company Auditor and a member of the Institute of Company Directors.

G Cornelsen, BEc (Non-Executive Director) Aged 56

Mr Cornelsen was appointed director on 20 June 2007. For the past 18 years, Mr Cornelsen has been involved in small businesses in South East Queensland. From a rural background Mr Cornelsen 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. During the past three years he has also served as a director of the following ASX listed company:

- Bluglass Limited – March 2007 - current

D Bolling, BBus MBA FCPA FCIS (Non-Executive Director) Aged 54

Mr Bolling was appointed director on 14 May 2008. He has over 20 years experience as a financial controller, chief financial officer and accountant in a wide range of ASX-listed, public unlisted and private companies, spanning genetic engineering, medical diagnostics and devices, pharmaceuticals, healthcare and information technology. He has experience in the implementation and operation of large scale financial systems, financial management of resource projects, contract negotiation and change management of the finance function. He is currently a consultant in accounting and financial management to start-up companies in the biomedical and renewable energy fields, and is company secretary of two private equity-backed medical technology companies. During the past three years he has not served as a director of any other ASX listed companies.

DIRECTORS' REPORT (continued)

Company Secretary

S Headon, B.Bus, CPA

Mr Headon was appointed company secretary on 15 June 2006. He resigned from the position on 1 August 2008. He has been a Certified Practising Accountant for over 15 years.

Mr Headon was not an executive of the Company.

R Marusco, B.Bus, CPA, SA Fin

Mr Marusco was appointed company secretary on 1 August 2008. He has been a Certified Practising Accountant for over 20 years.

Mr Marusco is not an executive of the Company.

Interest in the Shares and Options of the Company

As at the date of this report, the interests of the directors in the shares and options of the Company were:

| | | Number of Ordinary Shares | Number of Unlisted Options over Ordinary Shares |
|-------------|---------------------|------------------------------|--|
| R Kestel | (appointed 15/6/06) | Nil | Nil |
| G Cornelsen | (appointed 20/6/07) | 1,000,000 | Nil |
| D Bolling | (appointed 14/5/08) | Nil | Nil |

Share Options

Unissued shares

As at the date of this report, there were Nil unissued ordinary shares under options (Nil at the reporting date).

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

Shares issued as a result of the exercise of options

During the financial year no options have been exercised.

Dividends

No dividends were paid or recommended during the year.

Principal Activities

The Group's principal activity in the course of the financial period was to identify business opportunities that will assist in adding shareholder value.

Review of Operations

The principal activity during the course of the financial period was to identify business opportunities that will assist in adding shareholder value.

In anticipation of a change of direction for the economic entity a change in Officeholders occurred. Mr Tony Crimmins and Mr Steve Nicols resigned as Non-Executive Directors on 14 May 2008 and Mr Derek Bolling was appointed. It was considered that his experience in the implementation and operation of large scale financial systems, contract negotiation and change management would be practical as the entity embarked on a potential change of business activity.

In June 2008 the Company completed a capital raising. The total number of shares allotted was 33,500,000 at an issue price of 1.5 cents per Shares. The Shares were issued to various sophisticated and professional investors of several Brokers. The total funds raised of \$502,500 were used to pursue investment opportunities and to meet working capital requirements.

In October 2008 the Company entered into a Consultancy Agreement and Loan Facility with Blackcrest Resources (Singapore) Pte Ltd.

Blackcrest Resources Pte Ltd was engaged as a Consultant to assist with the introduction to the Company of coal projects in the region of Indonesia.

DIRECTORS' REPORT (continued)

Review of Operations (continued)

The Company agreed to make an unsecured facility available to Blackcrest Resources Pte Ltd of up to \$500,000; with the sole use of the funds to be applied towards securing resource projects in Indonesia.

As at June 2009 the total of the loan was \$710,706 and by mutual agreement the Company and Blackcrest Resources Pte Ltd have extended the facility on the following terms:

- Transfer of the facility to Blackcairn Resources (Singapore) Pte Ltd;
- Increase the amount of funds available under the facility to \$900,000; and
- Repayment to be the earlier:
 - ❖ 31 December 2009; or
 - ❖ Successful completion of the acquisition of Blackcairn Resources (Singapore) Pte Ltd.

On the 31 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 Ltd.

This acquisition is subject to satisfactory completion of due diligence and approval by the Shareholder of the Company.

Blackcairn Resources (Singapore) Pte Ltd is a Singapore-based company that has been developing Indonesian Coal projects throughout 2008 and 2009. It operates in Indonesia through a Foreign Investment Company (Indonesian PMA company) called PT Indonesia Mega Energy.

Operating Results for the Year

The loss for the year was \$975,121 (2008: loss of \$530,413).

Financial Position

Net assets have decreased by \$975,121 (2008: \$27,913) the movement was largely the result of recognising a provision for doubtful debts during the year of \$710,706 (2008: Nil).

Significant changes in the state of affairs

Total equity decreased to \$706,075 (2008: \$1,681,196), a decrease of \$975,121. The movement was largely the result of operating activities and due diligence expenses on potential business opportunities conducted by the Company during the year.

Significant Events after Balance Date

As announced on 31 August 2009 the Company has entered into a Share Sale Agreement to acquire 100% of the shares in the capital of Blackcairn Resources (Singapore) Pte Ltd. This acquisition is subject to satisfactory completion of due diligence and approval by shareholders of the Company.

Blackcairn Resources (Singapore) Pte Ltd is a Singapore-based company that has been developing Indonesian Coal projects throughout 2008 and 2009. It operates in Indonesia through a Foreign Investment Company (Indonesian PMA company) called PT Indonesia Mega Energy.

Other than the above, there has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

Likely developments and future results

The Directors will continue to review and identify business opportunities that will assist in adding shareholder value.

It is not possible to estimate the future results at this stage.

Environmental Regulation and Performance

The Group is not subject to any environmental regulations or licences.

DIRECTORS' REPORT (continued)

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Remuneration Report

This report outlines the remuneration arrangements in place for the directors of the Company.

Remuneration Philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

Remuneration Committee

The Company does not have a formal Remuneration Committee. The full Board attends to the matters normally attended to by a Remuneration Committee.

Director Remuneration

Shareholder approval is obtained in relation to the overall limit set for directors' fees. The directors must set individual Board fees within the limit approved by shareholders.

The level of fees is not linked to the directors' or the Company's performance.

Shareholders approve the maximum aggregate remuneration for non-executive directors. The maximum aggregate remuneration approved for directors is currently \$210,000.

Further, shareholders must approve the framework for any equity schemes and if a director is recommended for being able to participate in an equity scheme, this participation must be approved by the shareholders.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Remuneration of Directors and Named Executives

Table 1: Directors' remuneration for the year ended 30 June:

| | | Salary & Fees | Primary Benefits Cash STI | LTI | Non Monetary Benefits | Post Employment Super-annuation | Retirement | Equity Options | Other | Total | % Performance Related |
|---------------------------|-------------|----------------|------------------------------|----------|-----------------------|---------------------------------|------------|----------------|----------|----------------|-----------------------|
| R Kestel Director | 2008 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| | 2009 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| G Cornelsen Director | 2008 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| | 2009 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| D Bolling** Director | 2008 | 3,750 | - | - | - | - | - | - | - | 3,750 | - |
| | 2009 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| S Nicols† Director | 2008 | 26,250 | - | - | - | - | - | - | - | 26,250 | - |
| | 2009 | - | - | - | - | - | - | - | - | - | - |
| A S Crimmins† Director | 2008 | 26,250 | - | - | - | - | - | - | - | 26,250 | - |
| | 2009 | - | - | - | - | - | - | - | - | - | - |
| Total | 2008 | 116,250 | - | - | - | - | - | - | - | 116,250 | - |
| | 2009 | 90,000 | - | - | - | - | - | - | - | 90,000 | - |

** Appointed 14 May 2008

† Resigned 14 May 2008

There were no Company executives employed during the 30 June 2009 year.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Senior Management and Executives

The Company does not have any senior management or executives, and does not have any employment contracts in place. It is envisaged that if the acquisition of Blackcairn Resources (Singapore) Pte Ltd is completed successfully an executive management team including executive directors will be employed.

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

| | Directors' Meetings |
|-------------------------------------|----------------------------|
| Number of meetings held | 4 |
| Number of meetings attended: | |
| Mr R Kestel | 4 |
| Mr G Cornelsen | 4 |
| Mr D Bolling | 3 |

Committee Membership

As at the date of this report, the Company has no other committees.

The Company is not at a size that justifies having separate committees. However, matters typically dealt with by various committees are dealt with by the Board.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Reco Financial Services Ltd support the principles of corporate governance. The Company's corporate governance statement is contained after the directors' report on page 9.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Auditor's Independence Declaration and Non-Audit Services

The directors received the auditor's independence declaration on page 8 from the auditor of the Company.

No non-audit services were provided by the entity's auditor.

This declaration forms part of the directors' report.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Ross Kestel

Director

15 September 2009

DIRECTORS' REPORT (continued)

[Insert AUDITOR'S INDEPENDENCE on Auditor letterhead here]

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Reco Financial Services Limited is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines and accountability as the basis for the administration of corporate governance.

CORPORATE GOVERNANCE DISCLOSURES

The Board and management are committed to corporate governance and to the extent that they are applicable to the Company have followed the "Principles of Good Corporate Governance and Best Practice Recommendations" issued by the Australian Securities Exchange ("ASX") Corporate Governance Council.

In summary, the Company departs from the Guidelines in three (3) key areas:

- First the Company does not have a separate Nomination Committee. This is a departure from Recommendation 2.4. The full Board attends to the matters normally attended to by a Nomination Committee.
- Second the Company does not have a separate Remuneration Committee. This is a departure from Recommendation 8.1. The full Board attends to the matters normally attended to by a Remuneration Committee. Remuneration levels are set by the Company in accordance with industry standards to attract suitable qualified and experienced Directors and senior executives.
- Finally, the Company currently does not have a separate Audit Committee. This is a departure from Recommendation 4.1. The Company is of a size and a level of current activity that enables the full Board to be able to attend to the matters normally attended to by the Audit Committee.

Also the Company does not have a Managing Director/Chief Executive Officer and/or Chief Financial Officer but all assurances as to the integrity of the Financial Accounts are provided by the externally appointed Chairman and Senior Accountant.

ROLE OF THE BOARD

The key responsibilities of the Board include:

- Appointing, evaluating, rewarding and if necessary the removal of the Chief Executive Officer ("CEO") and senior management;
- Development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- Monitoring actual performance against defined performance expectations and reviewing operating information to understand at all times the state of the health of the company;
- Overseeing the management of business risks, safety and occupational health, environmental issues and community development;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control process are in place and functioning appropriately. Further, approving and monitoring financial and other reporting;
- Assuring itself that appropriate audit arrangements are in place;
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the company has adopted, and that the Company's practice is consistent with, a number of guidelines, being:
 - Directors and Executive Officers Code of Conduct;
 - Dealings in Securities; and
 - Reporting and Dealing with Unethical Practices.
- Reporting to and advising shareholders.

CORPORATE GOVERNANCE STATEMENT (continued)

STRUCTURE OF THE BOARD

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.

An independent director is a non-executive director (i.e. is not a member of management) and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or its subsidiaries, or been a director after ceasing to hold any such employment;
- is not a principal or employee of a professional adviser to the Company or its subsidiaries whose billings are a material amount of the adviser's total revenue;
- is not a significant supplier or customer of the Company or its subsidiaries, or an officer of or otherwise associated directly or indirectly with a significant supplier or customer. A significant supplier is defined as one whose revenues from the Company are a material amount of the supplier's total revenue. A significant customer is one whose amounts payable to the Company are a material amount of the customer's total operating costs;
- has no material contractual relationship with the Company or its subsidiaries other than as a director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

In accordance with the definition of independence above, the following directors of the Company are considered to be independent:

| Name | Position |
|-------------|------------------------|
| R Kestel | Non-Executive Director |
| G Cornelsen | Non-Executive Director |
| D Bolling | Non-Executive Director |

There are procedures in place, agreed by the Board, to enable the Directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each director is as follows:

| Name | Term |
|-------------|-------------|
| R Kestel | No contract |
| G Cornelsen | No contract |
| D Bolling | No contract |

When a Board vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new director with particular skills, the Remuneration and Nomination Committee will recommend to the Board a candidate or panel of candidates with the appropriate expertise.

The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Remuneration and Nomination Committee

The Board has not established a formal Remuneration or Nomination Committee. The full Board attends to the matters normally attended to by a Remuneration or Nomination Committee. Remuneration levels are set by the Company in accordance with industry standards to attract suitable qualified and experienced Directors and senior executives.

For full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits to Non-Executive Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves.

CORPORATE GOVERNANCE STATEMENT (continued)

Audit and Risk Management Committee

The Board has not established an Audit and Risk Management Committee. The full Board attends to the matters normally attended to by such a Committee.

The Board acknowledges that when the size and nature of the Company warrants an Audit and Risk Management Committee that the Committee will operate under a Charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of key performance indicators.

The Board will delegate responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Management Committee.

The Company's Policy is to appoint external auditors who clearly demonstrate independence. The performance of the external auditor is reviewed annually by the Audit and Risk Management Committee. The auditors have a policy of rotating the audit partner at least every 5 years.

RISK MANAGEMENT

The Board recognises that the identification and management of risk, including calculated risk taking, is an essential part of creating long term shareholder value. The identification and management of risk by the Board will continue to be monitored. However, until such time as a business or project is acquired by the Company, specific risks related to that business or project are currently unknown.

The Company will undertake a comprehensive due diligence process, in consultation with its external legal and other advisors prior to making any acquisitions. The preparation of a comprehensive risk management matrix will be prepared once a suitable acquisition has been identified.

The equivalent of the CEO and CFO provide written assurance to the Board on an annual basis that to the best of their knowledge and belief, the declaration provided by them in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

The assurances from the equivalent of the CEO and CFO can only be reasonable rather than absolute due to factors such as the need for judgement and possible weaknesses in control procedures.

Any material changes in the Company's circumstances are released to the ASX and included on the Company's website.

BEST PRACTICE RECOMMENDATION

Outlined below are the 8 Essential Corporate Governance Principles as outlined by the ASX and the Corporate Governance Council. The Company has complied with the Corporate Governance Best Practice Recommendations except as identified below.

| Corporate Governance Policy | action taken and reasons if not adopted |
|---|---|
| <i>Lay solid foundation for management and oversight</i> | Adopted |
| <i>Principle 1: Recognise and publish the respective roles and responsibilities of the board and management</i> | |
| 1.1 Formalise and disclose the functions reserved to the Board and those delegated to management. | The Company's Corporate Governance Policies includes a Board Charter, which discloses the specific responsibilities of the Board. |
| 1.2 Disclose the process for evaluating the performance of senior executives. | The Board monitors the performance of senior management including measuring actual performance against planned performance. |
| 1.3 Provide the information indicated in 'Guide to reporting on Principle 1'. | The Company will provide details of any departures from Principle 1 in its Annual Report. |

CORPORATE GOVERNANCE STATEMENT (continued)

| Corporate Governance Policy | action taken and reasons if not adopted |
|---|---|
| <p>Structure the board to add value</p> <p><i>Principle 2: Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties</i></p> <p>2.1 A majority of the Board should be independent.</p> <p>2.2 The chairperson should be an independent director.</p> <p>2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.</p> <p>2.4 The board should establish a nomination committee.</p> <p>2.5 Disclose the process for evaluating the performance of the board, its committees and the individual directors.</p> <p>2.6 Provide the information indicated in 'Guide to reporting on Principle 2'.</p> | <p>Adopted except as follows:</p> <p>Majority of the Board are independent Directors.</p> <p>2.2 The chairman is an officer of a company which is a substantial shareholder.</p> <p>The roles of the Chair and the CEO are not exercised by the same individual.</p> <p>2.4 The Company is not of a size to justify having a Nomination Committee. Matters typically dealt with by such a Committee are dealt with by the full Board.</p> <p>The Board has adopted a policy to assist of evaluating Board performance.</p> <p>The Company will provide details of any departures from Principle 2 in its Annual Report.</p> |
| <p>Actively promote ethical and responsible decision-making</p> <p><i>Principle 3: Promote ethical and responsible decision-making</i></p> <p>3.1 Establish a code of conduct and disclose the code or a summary of the code as to:</p> <p>3.1.1 the practices necessary to maintain confidence in the Company's integrity</p> <p>3.1.2 the practices necessary to take into account their legal obligations and reasonable expectations of their stakeholders</p> <p>3.1.3 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices.</p> <p>3.2 Establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.</p> <p>3.3 Provide the information indicated in 'Guide to Reporting on Principle 3'.</p> | <p>Adopted</p> <p>The Company's Corporate Governance Policies include a Directors and Executive officers' Code of Conduct Policy, which provides a framework for decisions and actions in relation to ethical conduct in employment.</p> <p>The Company's Corporate Governance Policies includes a Dealing in Securities Policy which provides comprehensive guidelines on trading in the Company's securities.</p> <p>The Company will provide details of any departures from Principle 3 in its Annual Report.</p> |
| <p>Safeguard integrity in financial reporting</p> <p><i>Principle 4: Establish a structure to independently verify and safeguard integrity in financial reporting</i></p> <p>4.1 The Board should establish an audit committee.</p> <p>4.2 Structure the audit committee so that it consists of:</p> <ul style="list-style-type: none"> ▪ Only non-executive directors ▪ A majority of independent directors ▪ An independent chairperson who is not the chairperson of the Board ▪ At least three members. | <p>Adopted except as follows</p> <p>4.1 The Company is not of a size to justify having a separate Audit Committee. However, matters typically dealt with by such a Committee are dealt with by the full Board.</p> |

CORPORATE GOVERNANCE STATEMENT (continued)

| Corporate Governance Policy | action taken and reasons if not adopted |
|---|---|
| 4.3 The audit committee should have a formal operating charter. | The Audit and Risk Committee will adopt a formal Charter when established. |
| 4.4 Provide the information indicated in the 'Guide to reporting on Principle 4'. | The Company will provide details of any departures from Principle 4 in its Annual Report. |
| Promote timely and balanced disclosure | Adopted |
| <i>Principle 5: Make timely and balanced disclosure of all material matters concerning the company</i> | |
| 5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. | The Company has a Continuous Disclosure Policy which is designed to ensure compliance with the ASX Listing Rules requirements on disclosure and to ensure accountability at a board level for compliance and factual presentation of the Company's financial position. |
| 5.2 Provide the information indicated in the 'Guide to reporting on Principle 5'. | The Company will provide details of any departures from Principle 5 in its Annual Report. |
| Respect the rights of shareholders | Adopted |
| <i>Principle 6: Respect the rights of shareholders and facilitate the effective exercise of those rights</i> | |
| 6.1 Design and disclose a communications policy to promote effective communication with shareholders and encourage effective participation at general meetings and disclose the policy or a summary of the policy | The Company's Corporate Governance Policies includes a Shareholder Communications Policy which aims to ensure that the shareholders are informed of all material developments affecting the Company's state of affairs. |
| 6.2 Provide the information indicated in the 'Guide to reporting on Principle 6'. | The Company will provide details of any departures from Principle 6 in its Annual Report. |
| Recognise and manage risk | Adopted |
| <i>Principle 7: Establish a sound system of risk oversight and management and internal control</i> | |
| 7.1 The Board or appropriate Board committee should establish policies on risk oversight and management. | The Company's Corporate Governance Policies includes a Risk Management Policy which aims to ensure that all material business risks are identified and mitigated. The Board identifies the Company's "risk profile" and is responsible for overseeing and approving risk management strategies and policies, internal compliance and internal controls. |
| 7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. | The board requires that the CEO designs and implements continuous risk management and internal control systems and provides reports at relevant times. |
| 7.3 The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound risk management and internal control and that the system is operating effectively in all material respects in relation to the financial reporting risks. | The board seeks, at the appropriate times, these relevant assurances from the individuals appointed to perform the role of Chief Executive Officer and the Chief Financial Officer. |
| 7.3 Provide the information indicated in the 'Guide to reporting on Principle 7'. | The Company will provide details of any departures from Principle 7 in its Annual Report. |

CORPORATE GOVERNANCE STATEMENT (continued)

| Corporate Governance Policy | action taken and reasons if not adopted |
|--|---|
| <p>Remunerate fairly and responsibly</p> <p><i>Principle 8: Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined</i></p> <p>The Board should establish a remuneration committee</p> <p>Clearly distinguish the structure of non-executive directors' remuneration from that of executives</p> <p>Provide the information indicated in the 'Guide to reporting on Principle 8'.</p> | <p>Adopted</p> <p>The Company is not of a size to justify having a separate Remuneration Committee. However, matters typically dealt with by such committee are dealt with by the full Board.</p> |

Further information on the Corporate Governance Policies that have been adopted by the Company can be referenced at the Company's website: www.reco.net.au

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

| | <i>Note</i> | <i>CONSOLIDATED</i> | | <i>PARENT ENTITY</i> | |
|---|-------------|---------------------|------------------|----------------------|------------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| Revenue | 3(a) | 43,300 | 82,987 | 43,300 | 82,987 |
| Other expenses | 3(b) | (1,018,421) | (613,400) | (1,018,421) | (613,400) |
| Profit/(loss) before income tax | | (975,121) | (530,413) | (975,121) | (530,413) |
| Income tax expense | 4 | - | - | - | - |
| Profit/(loss) attributable to members of the parent entity | | (975,121) | (530,413) | (975,121) | (530,413) |
| Earnings per share (cents per share) | 6 | | | | |
| Basic for profit/(loss) for the year | | (0.38) | (0.24) | | |
| Diluted for profit/(loss) for the year | | (0.38) | (0.24) | | |

The income statement should be read in conjunction with the accompanying notes.

BALANCE SHEET

AS AT 30 JUNE 2009

| | <i>Note</i> | <i>CONSOLIDATED</i> | | <i>PARENT ENTITY</i> | |
|----------------------------------|-------------|---------------------|------------------|----------------------|------------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | 7 | 728,416 | 1,686,572 | 728,416 | 1,686,572 |
| Trade and other receivables | 8 | 5,342 | 17,834 | 5,342 | 17,834 |
| Loan receivables | 9 | - | - | - | - |
| Other current assets | 10 | 7,732 | 7,664 | 7,732 | 7,664 |
| Total Current Assets | | 741,490 | 1,712,070 | 741,490 | 1,712,070 |
| Non-Current Assets | | | | | |
| Intangible assets | 11 | - | 10,000 | - | 10,000 |
| Total Non-Current Assets | | - | 10,000 | - | 10,000 |
| TOTAL ASSETS | | 741,490 | 1,722,070 | 741,490 | 1,722,070 |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Trade and other payables | 12 | 35,415 | 40,874 | 35,415 | 40,874 |
| Total Current Liabilities | | 35,415 | 40,874 | 35,415 | 40,874 |
| TOTAL LIABILITIES | | 35,415 | 40,874 | 35,415 | 40,874 |
| NET ASSETS | | 706,075 | 1,681,196 | 706,075 | 1,681,196 |
| EQUITY | | | | | |
| Issued capital | 13(a) | 13,505,283 | 13,505,283 | 13,505,283 | 13,505,283 |
| Reserves | 13(b) | 922,217 | 922,217 | 922,217 | 922,217 |
| Retained losses | | (13,721,425) | (12,746,304) | (13,721,425) | (12,746,304) |
| TOTAL EQUITY | | 706,075 | 1,681,196 | 706,075 | 1,681,196 |

The balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

| | Note | Attributable to equity holders of the parent | | | |
|-------------------------------------|------|--|---------------------------|----------------------------|-----------------------|
| | | Issued capital \$ | Options reserves \$ | Retained earnings \$ | Total equity \$ |
| CONSOLIDATED | | | | | |
| Balance at 1 July 2007 | | 13,002,783 | 922,217 | (12,215,891) | 1,709,109 |
| Loss for the year | | - | - | (530,413) | (530,413) |
| Total income/expense for the period | | - | - | (530,413) | (530,413) |
| Shares issued in the period | | 502,500 | - | - | 502,500 |
| At 30 June 2008 | | 13,505,283 | 922,217 | (12,746,304) | 1,681,196 |
| Balance at 1 July 2008 | | | | | |
| Balance at 1 July 2008 | | 13,505,283 | 922,217 | (12,746,304) | 1,681,196 |
| Loss for the year | | - | - | (975,121) | (975,121) |
| Total income/expense for the year | | - | - | (975,121) | (975,121) |
| Shares issued in the year | | - | - | - | - |
| At 30 June 2009 | | 13,505,283 | 922,217 | (13,721,425) | 706,075 |
| PARENT | | | | | |
| Balance at 1 July 2007 | | 13,002,783 | 922,217 | (12,215,891) | 1,709,109 |
| Loss for the year | | - | - | (530,413) | (530,413) |
| Total income/expense for the period | | - | - | (530,413) | (530,413) |
| Shares issued in the period | | 502,500 | - | - | 502,500 |
| At 30 June 2008 | | 13,505,283 | 922,217 | (12,746,304) | 1,681,196 |
| Balance at 1 July 2008 | | 13,505,283 | 922,217 | (12,746,304) | 1,681,196 |
| Loss for the year | | - | - | (975,121) | (975,121) |
| Total income/expense for the year | | - | - | (975,121) | (975,121) |
| Shares issued in the year | | - | - | - | - |
| At 30 June 2009 | | 13,505,283 | 922,217 | (13,721,425) | 706,075 |

The statement of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

| | Note | CONSOLIDATED | | PARENT ENTITY | |
|---|------|--------------|------------|---------------|------------|
| | | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Cash flows from operating activities | | | | | |
| Interest income | | 45,672 | 82,939 | 45,672 | 82,939 |
| Payments to suppliers and employees | | (293,122) | (569,898) | (293,122) | (569,898) |
| Net cash flows from/(used in) operating activities | 7 | (247,450) | (486,959) | (247,450) | (486,959) |
| Cash flows from investing activities | | | | | |
| Sale of subsidiaries | 16 | - | 100 | - | 100 |
| Loans | | (710,706) | | (710,706) | |
| Net cash from investing activities | | (710,706) | 100 | (710,706) | 100 |
| Cash flows from financing activities | | | | | |
| Proceeds from issue of shares | | - | 502,500 | - | 502,500 |
| Share issue costs | | - | - | - | - |
| Net cash flows from/(used in) financing activities | | - | 502,500 | - | 502,500 |
| Net increase in cash and cash equivalents | | (958,156) | 15,641 | (958,156) | 15,641 |
| Cash and cash equivalents at beginning of period | | 1,686,572 | 1,670,931 | 1,686,572 | 1,670,931 |
| Cash and cash equivalents at end of period | | 728,416 | 1,686,572 | 728,416 | 1,686,572 |

The cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

1. CORPORATE INFORMATION

This financial report includes the consolidated financial statements and notes of Reco Financial Services Limited and controlled entities ("Group"), and the separate financial statements and notes of Reco Financial Services Limited as an individual parent entity ("Parent Entity").

The Company is limited by shares, incorporated and domiciled in Australia and its shares are publicly traded on the Australian Securities Exchange.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The annual report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The financial report is presented in Australian dollars.

(b) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 15 September 2009.

(c) Basis of consolidation

The annual consolidated financial statements comprise the financial statements of the Group as at 30 June 2009.

A controlled entity is any entity controlled by Reco Financial Services Limited. Control exists where Reco Financial Services Ltd has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Reco Financial Services Ltd to achieve the objectives of Reco Financial Services Ltd. A list of controlled entities is contained in Note 16 to the financial statements.

The operating results of controlled entities are included from the date control commenced until the date control ceased.

Unrealised gains and losses and inter-entity transactions and balances resulting from transactions with or between entities within the Group are eliminated in full on consolidation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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.

(e) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive GST.

The net amount of GST receivable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(f) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Business combinations

The purchase method of accounting is used to account for all 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 as the fair value of the assets given, shares 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. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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 consolidated entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the consolidated 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.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank and call deposits for the purposes of the statement of cash flows. Net cash includes cash on hand, at bank and short-term deposits at call, net of bank overdrafts.

(i) Impairment of assets

The carrying amounts of the consolidated entity's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit on a pro-rate basis.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset is greater than its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. The decrement in the carrying amount is recognised as an expense in the reporting period in which the impairment loss occurs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Instruments

Recognition and Initial Measurement

Financial Instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. *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 subsequently measured at amortised cost using the effective interest rate method.

ii. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(k) Interest Bearing Liabilities

Bank loans and commercial bills are carried on the balance sheet at their principal amount. The carrying amounts of loans approximate their net fair value. Interest expense is accrued at the contracted rate and included in "other creditors and accruals".

(l) Intangibles

Database

An intangible asset exists comprising costs capitalised to create a client contact database for the Company to source future work. The database was originally purchased from the Knights Insolvency Partnerships. Future costs incurred in maintaining the database will be expensed as incurred. The balance is reviewed annually by the Directors' and any balance representing future benefits for which realisation is considered to be no longer probable will be written off.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortised but is tested annually for impairment or more frequently if indicators or impairment exist.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interests associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(n) Segment reporting

The group operated in one geographical segment, being Australia, during the year ended 30 June 2009. The group only operates in the review of opportunities in the areas of insolvency administration and turnaround solutions and does not have a secondary business segment.

(o) Critical accounting estimates and judgements

The directors evaluate estimates and judgments 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 group.

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group 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.

\$10,000 impairment has been recognised in respect of intangible assets for the year ended 30 June 2009.

(p) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which 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 financial report.

- Revised AASB 3 Business Combinations (2008) incorporates the following significant changes that are likely to be relevant to the Group's operations:
 - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations
 - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss
 - Transaction costs, other than share and debt issue costs, will be expensed as incurred
 - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss
 - 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 prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New standards and interpretations not yet adopted (continued)

- 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 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.
- 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.
- 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.
- 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.
- 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.
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process and 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.
- 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New standards and interpretations not yet adopted (continued)

- AI 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. AI 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.

| | CONSOLIDATED | | PARENT ENTITY | |
|---|------------------|----------------|------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| 3. REVENUES AND EXPENSES | | | | |
| <i>Revenue and Expenses from Continuing Operations</i> | | | | |
| (a) Revenue | | | | |
| Finance revenue – Bank interest | 43,300 | 82,887 | 43,300 | 82,887 |
| Sale of subsidiaries (refer to note 16) | - | 100 | - | 100 |
| | <u>43,300</u> | <u>82,987</u> | <u>43,300</u> | <u>82,987</u> |
| (b) Other expenses | | | | |
| Auditors remuneration | 22,532 | 19,252 | 22,532 | 19,252 |
| Directors' fees | 90,000 | 116,250 | 90,000 | 116,250 |
| Doubtful Debts | 710,706 | - | 710,706 | - |
| Due diligence costs | 26,911 | 338,522 | 26,911 | 338,522 |
| Impairment | 10,000 | - | 10,000 | - |
| Other administration expenses | 158,272 | 139,376 | 158,272 | 139,376 |
| | <u>1,018,421</u> | <u>613,400</u> | <u>1,018,421</u> | <u>613,400</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

| | CONSOLIDATED | | PARENT ENTITY | |
|---|--------------|------------|---------------|------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| 4. INCOME TAX EXPENSE | | | | |
| The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense as follows: | | | | |
| Prima facie (benefit)/expense on profit/(loss) from ordinary activities (30%) | (292,536) | (159,124) | (292,536) | (159,124) |
| Add tax effect of non-allowable items | 3,000 | 166 | 3,000 | 166 |
| | (289,536) | (158,958) | (289,536) | (158,958) |
| Deferred Tax Asset (DTA) on temporary differences and tax losses not brought to account | 289,536 | 158,958 | 289,536 | 158,958 |
| Income tax expense for the year | - | - | - | - |
| <i>Deferred tax assets not brought to account at balance date</i> | | | | |
| Tax losses not brought to account | 289,536 | 158,958 | 289,536 | 158,958 |
| Other temporary differences: | | | | |
| Business capital costs | 38,542 | 36,927 | 38,542 | 36,927 |
| Doubtful debts | (213,212) | - | (213,212) | - |
| Due diligence costs | (8,073) | (101,557) | (8,073) | (101,557) |
| Sundry differences | (2,310) | (362) | (2,310) | (362) |
| | 104,483 | 93,966 | 104,483 | 93,966 |

The DTA not brought to account will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- the company and consolidated entity is able to meet the continuity of business tests and or continuity of ownership.

5. DIVIDENDS PAID AND PROPOSED

No dividends were paid or recommended during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Share options with an exercise price above the average market price during the period have been excluded from the calculation of the diluted EPS. Diluted earnings per share are not reflected as the result is anti-dilutive in nature.

| <i>CONSOLIDATED</i> | |
|---------------------|------|
| 2009 | 2008 |
| \$ | \$ |

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | | |
|---|-------------|-------------|
| Net profit/(loss) attributable to ordinary equity holders of the parent | (975,121) | (530,413) |
| Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share | 258,977,396 | 225,660,958 |
| Effect of dilution: | | |
| Share options | - | - |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 258,977,396 | 225,660,958 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

| | CONSOLIDATED | | PARENT ENTITY | |
|-------------------------------------|----------------|------------------|----------------|------------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| 7. CASH AND CASH EQUIVALENTS | | | | |
| Cash at bank and cash in hand | 728,416 | 1,686,572 | 728,416 | 1,686,572 |
| | <u>728,416</u> | <u>1,686,572</u> | <u>728,416</u> | <u>1,686,572</u> |

Cash at bank earns interest at floating rates based on daily bank deposit rates. The entity has no credit standby arrangements, loan or overdraft facilities for the periods ended 30 June 2008 and 30 June 2009.

The fair value of cash and cash equivalents is \$728,416 (2008: \$1,686,572).

Reconciliation of loss from ordinary activities after income tax to net cash provided by operating activities

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Profit/(loss) from ordinary activities after income tax | (975,121) | (530,413) | (975,121) | (530,413) |
| Adjustments for: | | | | |
| Sale of subsidiaries | - | (100) | - | (100) |
| Add/(less) non-cash flows in profit from ordinary activities: | | | | |
| (Increase)/decrease in prepayments | (68) | 34 | (68) | 34 |
| (Increase)/decrease in receivables | 12,492 | 34,409 | 12,492 | 34,409 |
| (Decrease)/increase in payables | (5,459) | 9,111 | (5,459) | 9,111 |
| (Decreased)/increase in provisions | 720,706 | - | 720,706 | - |
| Net cash flows (used in)/from operating activities | <u>(247,450)</u> | <u>(486,959)</u> | <u>(247,450)</u> | <u>(486,959)</u> |

8. TRADE & OTHER RECEIVABLES

Current

| | | | | |
|-----------------------|--------------|---------------|--------------|---------------|
| Accrued income | 1,764 | 4,136 | 1,764 | 4,136 |
| Other receivables (i) | 3,578 | 13,698 | 3,578 | 13,698 |
| | <u>5,342</u> | <u>17,834</u> | <u>5,342</u> | <u>17,834</u> |

(i) Other receivables are non-interest bearing and expected to be received in 30 days.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

| | <i>CONSOLIDATED</i> | | <i>PARENT ENTITY</i> | |
|-----------------------------|---------------------|------|----------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| 9. LOAN RECEIVABLES | \$ | \$ | \$ | \$ |
| Loan facility utilised | 710,706 | - | 710,706 | - |
| Provision for doubtful debt | (710,706) | - | (710,706) | - |
| | - | - | - | - |

The Company engaged a Consultant to identify and procure the introduction to Reco to resource projects located in the region of Indonesia (primarily focussed on coal).

As part of the arrangement, Reco has agreed to increase the loan facility available to the Consultant from \$500,000 to \$900,000, the material terms of which are as follows:

- the funds advanced to the Consultant must be used to secure one or more resource projects in the region of Indonesia;
- interest will only be payable on the loan if the Consultant fails to secure a resource project for Reco within three months of the date of entering into the arrangement. Otherwise, interest will accrue at a rate of 10% per annum;
- the loan will be unsecured; and
- the loan facility will be extended from the 30 September 2009 to the earlier of 31 December 2009 or successful completion of the acquisition by the Company of Blackcairn Resources (Singapore) Pte Ltd..

| | <i>CONSOLIDATED</i> | | <i>PARENT ENTITY</i> | |
|---------------------------------|---------------------|-------|----------------------|-------|
| | 2009 | 2008 | 2009 | 2008 |
| 10. OTHER CURRENT ASSETS | \$ | \$ | \$ | \$ |
| Current | | | | |
| Prepayments | 7,732 | 7,664 | 7,732 | 7,664 |
| | 7,732 | 7,664 | 7,732 | 7,664 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

| | CONSOLIDATED | | PARENT ENTITY | |
|---|--------------|-----------|---------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| 11. INTANGIBLE ASSETS | | | | |
| Client Database at cost (refer note 2(l)) | 485,025 | 485,025 | 485,025 | 485,025 |
| Client Database accumulated amortisation and impairment | (485,025) | (475,025) | (485,025) | (475,025) |
| Internet Site at cost | 35,220 | 35,220 | 35,220 | 35,220 |
| Accumulated amortisation and impairment | (35,220) | (35,220) | (35,220) | (35,220) |
| | - | 10,000 | - | 10,000 |

12. TRADE & OTHER PAYABLES

Current

Unsecured Liabilities

| | | | | |
|--------------------|--------|--------|--------|--------|
| Trade payables (i) | 162 | 10,947 | 162 | 10,947 |
| Other payables | 35,253 | 29,927 | 35,253 | 29,927 |
| | 35,415 | 40,874 | 35,415 | 40,874 |

(i) Trade payables are non-interest bearing and are normally settled on 60 day terms.

| | CONSOLIDATED | | PARENT ENTITY | |
|--|--------------|------------|---------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| 13. ISSUED CAPITAL AND RESERVES | | | | |
| (a) Issued capital | | | | |
| Ordinary shares (i) | 13,505,283 | 13,505,283 | 13,505,283 | 13,505,283 |
| | 13,505,283 | 13,505,283 | 13,505,283 | 13,505,283 |
| <i>(i) Ordinary shares</i> | | | | |
| Issued and fully paid | 13,738,765 | 13,738,765 | 13,738,765 | 13,738,765 |
| Less: equity raising costs | (233,482) | (233,482) | (233,482) | (233,482) |
| | 13,505,283 | 13,505,283 | 13,505,283 | 13,505,283 |

Fully paid ordinary shares have the right to receive dividends as declared and entitle their holder to vote either in person or by proxy at a meeting of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

| | CONSOLIDATED | | PARENT ENTITY | |
|--|--------------|------------|---------------|------------|
| 13. ISSUED CAPITAL AND RESERVES (continued) | | | | |
| (a) Issued capital (continued) | | | | |
| <i>Movement in ordinary shares on issue</i> | Number | \$ | Number | \$ |
| At 1 July 2007 | 225,477,396 | 13,002,783 | 225,477,396 | 13,002,783 |
| Ordinary shares issued on 27 June 2008 | 33,500,000 | 502,500 | 33,500,000 | 502,500 |
| At 1 July 2008 | 258,977,396 | 13,505,283 | 258,977,396 | 13,505,283 |
| At 30 June 2009 | 258,977,396 | 13,505,283 | 258,977,396 | 13,505,283 |
| | | | | |
| <i>Movement in options expiring 31 December 2008 exercisable at \$0.10</i> | Number | \$ | Number | \$ |
| At 1 July 2008 | 63,074,109 | - | 63,074,109 | - |
| Options Expired on 31 December 2008 | (63,074,109) | - | (63,074,109) | - |
| At 30 June 2009 | - | - | - | - |
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| (b) Options Reserve | | | | |
| Options reserve | 922,217 | 922,217 | 922,217 | 922,217 |
| | 922,217 | 922,217 | 922,217 | 922,217 |

(c) Nature and purpose of reserves

The options reserve records items recognised as expenses on valuation of employee and director share options.

(d) Capital management

Management controls the capital of the group in order to provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of cash and short-term deposits.

The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and short-term deposits. Since the Group does not have any long-term debt obligations, the Group's exposure to this risk is nominal.

Credit risk

The Group's policy is to trade only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms will be subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and capital raising.

15. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

The fair values of financial assets have been calculated using market interest rates.

| | <i>Carrying amount</i> | | <i>Fair value</i> | |
|---|------------------------|-----------|-------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| CONSOLIDATED | | | | |
| <i>Financial assets</i> | | | | |
| Cash | 728,416 | 1,686,572 | 728,416 | 1,686,572 |
| Trade and other receivables | 5,342 | 17,834 | 5,342 | 17,834 |
| <hr/> | | | | |
| <i>Financial liabilities on balance sheet</i> | | | | |
| Trade and other payables | 35,415 | 40,874 | 35,415 | 40,874 |
| <hr/> | | | | |
| PARENT | | | | |
| <i>Financial assets</i> | | | | |
| Cash | 728,416 | 1,686,572 | 728,416 | 1,686,572 |
| Trade and other receivables | 5,342 | 17,834 | 5,342 | 17,834 |
| <hr/> | | | | |
| <i>Financial liabilities on balance sheet</i> | | | | |
| Trade and other payables | 35,415 | 40,874 | 35,415 | 40,874 |
| <hr/> | | | | |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

15. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments:

| Year ended 30/6/2009 | <1 year \$ | >1-<2 years \$ | >2-<3 years \$ | >3-<4 years \$ | >4-<5 years \$ | >5 years \$ | Total \$ | Weighted average effective interest rate % |
|--|---------------|-------------------|-------------------|-------------------|-------------------|----------------|-------------|--|
| CONSOLIDATED | | | | | | | | |
| FINANCIAL ASSETS | | | | | | | | |
| <i>Floating rate</i> | | | | | | | | |
| Cash assets | 728,416 | - | - | - | - | - | 728,416 | 2.46% |
| Weighted average effective interest rate | 2.46% | - | - | - | - | - | | |
| <i>Fixed rate</i> | | | | | | | | |
| Trade & other receivables | 5,342 | - | - | - | - | - | 5,342 | 0.00% |
| Weighted average effective interest rate | 0.00% | - | - | - | - | - | 0.00% | |
| FINANCIAL LIABILITIES | | | | | | | | |
| <i>Fixed rate</i> | | | | | | | | |
| Trade & other payables | 35,415 | - | - | - | - | - | 35,415 | 0.00% |
| Weighted average effective interest rate | 0.00% | - | - | - | - | - | | |
| <hr/> | | | | | | | | |
| Year ended 30/6/2009 | <1 year \$ | >1-<2 years \$ | >2-<3 years \$ | >3-<4 years \$ | >4-<5 years \$ | >5 years \$ | Total \$ | Weighted average effective interest rate % |
| PARENT | | | | | | | | |
| FINANCIAL ASSETS | | | | | | | | |
| <i>Floating rate</i> | | | | | | | | |
| Cash assets | 728,416 | - | - | - | - | - | 728,416 | 2.46% |
| Weighted average effective interest rate | 2.46% | - | - | - | - | - | 2.46% | |
| <i>Fixed rate</i> | | | | | | | | |
| Trade & other receivables | 5,342 | - | - | - | - | - | 5,342 | 0.00 |
| Weighted average effective interest rate | 0.00% | - | - | - | - | - | | |
| FINANCIAL LIABILITIES | | | | | | | | |
| <i>Fixed rate</i> | | | | | | | | |
| Trade & other payables | 35,415 | - | - | - | - | - | 35,415 | 0.00 |
| Weighted average effective interest rate | 0.00% | - | - | - | - | - | | |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

15. FINANCIAL INSTRUMENTS (continued)

| Year ended 30/6/2008 | <1 year \$ | >1-<2 years \$ | >2-<3 years \$ | >3-<4 years \$ | >4-<5 years \$ | >5 years \$ | Total \$ | Weighted average effective interest rate % |
|--|---------------|-------------------|-------------------|-------------------|-------------------|----------------|-------------|---|
| <i>CONSOLIDATED</i> | | | | | | | | |
| FINANCIAL ASSETS | | | | | | | | |
| <i>Floating rate</i> | | | | | | | | |
| Cash assets | 1,686,572 | - | - | - | - | - | 1,686,572 | 6.82% |
| Weighted average effective interest rate | 6.82% | - | - | - | - | - | | |
| <i>Fixed rate</i> | | | | | | | | |
| Trade & other receivables | 17,834 | - | - | - | - | - | 17,834 | 0.00% |
| Weighted average effective interest rate | 0.00% | - | - | - | - | - | | |
| FINANCIAL LIABILITIES | | | | | | | | |
| <i>Fixed rate</i> | | | | | | | | |
| Trade & other payables | 40,874 | - | - | - | - | - | 40,874 | 0.00% |
| Weighted average effective interest rate | 0.00% | - | - | - | - | - | | |
| | | | | | | | | |
| Year ended 30/6/2008 | <1 year \$ | >1-<2 years \$ | >2-<3 years \$ | >3-<4 years \$ | >4-<5 years \$ | >5 years \$ | Total \$ | Weighted average effective interest rate % |
| <i>PARENT</i> | | | | | | | | |
| FINANCIAL ASSETS | | | | | | | | |
| <i>Floating rate</i> | | | | | | | | |
| Cash assets | 1,686,572 | - | - | - | - | - | 1,686,572 | 6.82% |
| Weighted average effective interest rate | 6.82% | - | - | - | - | - | | |
| <i>Fixed rate</i> | | | | | | | | |
| Trade & other receivables | 17,834 | - | - | - | - | - | 17,834 | 0.00% |
| Weighted average effective interest rate | 0.00% | - | - | - | - | - | | |
| FINANCIAL LIABILITIES | | | | | | | | |
| <i>Fixed rate</i> | | | | | | | | |
| Trade & other payables | 40,874 | - | - | - | - | - | 40,874 | 0.00% |
| Weighted average effective interest rate | 0.00% | - | - | - | - | - | | |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

16. CONTROLLED ENTITIES

The consolidated financial statements include the financial statements of Reco Financial Services Limited and the controlled subsidiaries listed in the following table.

| | <i>Country of incorporation</i> | <i>% Equity interest 30 June 2009</i> | <i>% Equity interest 30 June 2008</i> |
|------------------------------------|-------------------------------------|---|---|
| Reco North Queensland Pty Limited* | Australia | Nil | Nil |
| Reco NSW Pty Limited* | Australia | Nil | Nil |

All subsidiary company shares are ordinary shares.

*Entities sold during the year

On 28 May 2008, the company's subsidiaries, Reco North Queensland Pty Ltd and Reco NSW Pty Ltd, for the consideration of \$50 each, totalling \$100. The net fair value of the assets held by the subsidiaries were \$50 each. There was no business activities conducted on the subsidiaries prior to the sale.

17. RELATED PARTY DISCLOSURE

Other transactions with the Company or its controlled entities

The terms and conditions of transactions with Directors and Executives and their related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to Non-Director related entities on an arms length basis.

The aggregate amount recognised during the year to Specified Directors and Specified Executives and their related entities were as follows:

Mr R Kestel

Fees for accounting services of \$58,283 (2008: \$45,714) and corporate secretarial fees of \$40,709 (2008: \$19,677) were paid to Mr Kestel's related company, Nissen Kestel Harford, during the year. Amounts outstanding at the year end were \$4,883 (2008: \$1,676). Mr Kestel owns 12% of Nissen Kestel Harford.

Mr G Cornelsen

Amounts outstanding at the year end for directors fees were \$2,500 (2008: Nil).

18. EVENTS AFTER THE BALANCE DATE

As announced on 31 August 2009 the Company has entered into a share sale agreement to acquire 100% of the shares in the capital of Blackcairn Resources (Singapore) Pte Ltd. This acquisition is subject to satisfactory completion of due diligence and approval by shareholders of the Company.

Blackcairn Resources (Singapore) Pte Ltd is a Singapore-based company that has been developing Indonesian Coal projects throughout 2008 and 2009. It operates in Indonesia through a Foreign Investment Company (Indonesian PMA company) called PT Indonesia Mega Energy.

Other than the above, there has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

19. AUDITORS' REMUNERATION

The auditor of Reco Financial Services Ltd is RSM Bird Cameron Partners.

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---------------|---------------|---------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| <i>Amounts received or due and receivable by RSM Bird Cameron Partners for:</i> | | | | |
| ▪ An audit or review of the financial report of the entity and any other entity in the consolidated group | 22,532 | 19,252 | 22,532 | 19,252 |
| | <u>22,532</u> | <u>19,252</u> | <u>22,532</u> | <u>19,252</u> |

20. SEGMENT INFORMATION

The entity is involved predominately in one industry being to identify business opportunities that will assist in adding shareholder value in one geographical area being Australia.

21. COMMITMENTS AND CONTINGENCIES

There are no capital or lease commitments and no contingent assets or liabilities since the last annual reporting date.

22. KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

(i) Directors

| | | | |
|-------------|----------|--------------------------|------------------------|
| R Kestel | Chairman | (Non Executive Director) | Appointed 15 June 2006 |
| G Cornelsen | | (Non Executive Director) | Appointed 20 June 2007 |
| D Bolling | | (Non Executive Director) | Appointed 14 May 2008 |

(ii) Company Executives

There were no company executives employed during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

22. KEY MANAGEMENT PERSONNEL (continued)

Remuneration of Directors and Named Executives

Table 1: Directors' remuneration for the year ended 30 June:

| | | Salary & Fees | Primary Benefits | | Non Monetary Benefits | Post Employment | | Equity Options | Other | Total | % Performance Related |
|---------------------------|-------------|----------------|------------------|----------|-----------------------|-----------------|------------|----------------|----------|----------------|-----------------------|
| | | | Cash STI | LTI | | Super-annuation | Retirement | | | | |
| R Kestel Director | 2008 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| | 2009 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| G Cornelsen Director | 2008 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| | 2009 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| D Bolling** Director | 2008 | 3,750 | - | - | - | - | - | - | - | 3,750 | - |
| | 2009 | 30,000 | - | - | - | - | - | - | - | 30,000 | - |
| S Nicolst Director | 2008 | 26,250 | - | - | - | - | - | - | - | 26,250 | - |
| | 2009 | - | - | - | - | - | - | - | - | - | - |
| A S Crimminst Director | 2008 | 26,250 | - | - | - | - | - | - | - | 26,250 | - |
| | 2009 | - | - | - | - | - | - | - | - | - | - |
| Total | 2008 | 116,250 | - | - | - | - | - | - | - | 116,250 | - |
| | 2009 | 90,000 | - | - | - | - | - | - | - | 90,000 | - |

** Appointed 14 May 2008

† Resigned 14 May 2008

There were no Company executives employed during the 30 June 2009 year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

22. KEY MANAGEMENT PERSONNEL (continued)

(b) Compensation of directors

Remuneration Philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

Remuneration Committee

The Company does not have a formal Remuneration Committees. The full Board attends to the matters normally attended to by a Remuneration Committee.

Director Remuneration

Shareholder approval is obtained in relation to the overall limit set for directors' fees. The directors must set individual Board fees within the limit approved by shareholders.

The level of fees is not linked to directors' performance. Shareholders approve the maximum aggregate remuneration for non-executive directors. The maximum aggregate remuneration approved for directors is currently \$210,000.

Further, shareholders must approve the framework for any equity schemes and if a director is recommended for being able to participate in an equity scheme, this participation must be approved by the shareholders.

Senior Management and Executives

The Company does not have any senior management or executives, and does not have any employment contracts in place.

(c) Shareholdings of directors

Shares held in the Company (number)

| | <i>Balance at beginning of period 01-Jul-08</i> | <i>Exercised options</i> | <i>Net change Other</i> | <i>Balance at 30-Jun-09</i> |
|---------------------|---|------------------------------|-----------------------------|---------------------------------|
| 30 June 2009 | | | | |
| R Kestel | - | - | - | - |
| G Cornelsen | 1,000,000 | - | - | 1,000,000 |
| D Bolling** | - | - | - | - |
| Total | 1,000,000 | - | - | 1,000,000 |
| | <i>Balance at beginning of period 01-Jul-07</i> | <i>Exercised options</i> | <i>Net change Other</i> | <i>Balance at 30-Jun-08</i> |
| 30 June 2008 | | | | |
| R Kestel | - | - | - | - |
| S Nicols† | 9,500,000 | - | - | 9,500,000 |
| A S Crimmins† | 4,800,000 | - | - | 4,800,000 |
| G Cornelsen* | 1,000,000 | - | - | 1,000,000 |
| D Bolling** | - | - | - | - |
| Total | 15,300,000 | - | - | 15,300,000 |

* Appointed 20 June 2007

** Appointed 14 May 2008

† Resigned 14 May 2008

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2009

22. KEY MANAGEMENT PERSONNEL (continued)

(d) Option holdings of directors

Options held in the Company (number)

| | <i>Balance at beginning of period 01-Jul-08</i> | <i>Exercised options</i> | <i>Granted as remuneration</i> | <i>Net change Other</i> | <i>Balance at 30-Jun-09</i> |
|---------------------|---|--------------------------|--------------------------------|-------------------------|-----------------------------|
| 30 June 2009 | | | | | |
| R Kestel | - | - | - | - | - |
| G Cornelsen | 500,000 | - | - | (500,000) | - |
| D Bolling** | - | - | - | - | - |
| Total | 500,000 | - | - | (500,000) | - |

(d) Option holdings of directors (continued)

| | <i>Balance at beginning of period 01-Jul-07</i> | <i>Exercised options</i> | <i>Granted as remuneration</i> | <i>Net change Other</i> | <i>Balance at 30-Jun-08</i> |
|---------------------|---|--------------------------|--------------------------------|-------------------------|-----------------------------|
| 30 June 2008 | | | | | |
| R Kestel | - | - | - | - | - |
| S Nicols† | 3,750,000 | - | - | - | 3,750,000 |
| A S Crimmins† | 1,000,000 | - | - | - | 1,000,000 |
| G Cornelsen* | 500,000 | - | - | - | 500,000 |
| D Bolling** | - | - | - | - | - |
| Total | 5,250,000 | - | - | - | 5,250,000 |

* Appointed 20 June 2007

† Resigned 14 May 2008

** Appointed 14 May 2008

The options held by the directors were exercisable at 10 cents each, on or before 31 December 2008. The options were not exercised.

(e) Other transactions with directors

Other transactions with the Company or its controlled entities

The terms and conditions of transactions with Directors and Executives and their related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arms length basis.

The aggregate amount recognised during the year to Specified Directors and Specified Executives and their related entities were as follows:

Mr R Kestel

Fees for accounting services of \$58,283 (2008: \$45,714) and corporate secretarial fees of \$40,709 (2008: \$19,677) were paid to Mr Kestel's related company, Nissen Kestel Harford, during the year. Amounts outstanding at the year end were \$4,883 (2008: \$1,676). Mr Kestel owns 12% of Nissen Kestel Harford.

Mr A Crimmins

Fees for website costs of \$Nil (2008: \$1,114) were paid to Mr Crimmins' related company, TCCS Pty Ltd, during the year. Amounts outstanding at the year end were \$Nil (2008: \$Nil).

Mr G Cornelsen

Amounts outstanding at the year end for directors fees were \$2,500 (2008: \$Nil).

Mr S Nicols

Fees for consultancy services of \$Nil (2008: \$40,889) were paid to Mr Nicols' related entity, Nicols & O'Brien, during the year. Amounts outstanding at the year end were \$Nil (2008: \$Nil).

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 15 to 39, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards; and
 - (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board

Ross Kestel
Director

15 September 2009

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AUDITOR'S REPORT

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ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

Additional information required by the Australian Securities Exchange Ltd, and not shown elsewhere in this report is as follows. The information is complete up to 8 September 2009.

(a) DISTRIBUTION OF EQUITY SECURITIES

(i) Ordinary share capital

- 258,957,396 fully paid shares held by 1,034 shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holding, in each class are:

| | Fully Paid Ordinary Shares |
|------------------|---|
| 1 – 1,000 | 122,483 |
| 1,001 – 5,000 | 666,225 |
| 5,001 – 10,000 | 430,111 |
| 10,001 – 100,000 | 14,795,393 |
| 100,001 and over | 242,943,184 |
| | <u>258,957,396</u> |

There were 585 holders of less than a marketable parcel of ordinary shares.

(b) Substantial Shareholders (fully paid shares)

| | Fully Paid Number | Percentage % |
|--|------------------------------|-------------------------|
| Suburban Holdings Pty Ltd | 15,905,000 | 6.14 |
| Merrill Lynch (Australia) Nominees Pty Ltd | 10,300,000 | 3.98 |
| | <u>26,205,000</u> | <u>10.12</u> |

(c) Twenty largest holders of quoted equity securities (fully paid shares)

| | Fully Paid Number | Percentage % |
|---|------------------------------|-------------------------|
| Suburban Holdings Pty Ltd <The Suburban Super Fund A/c> | 15,905,000 | 6.14 |
| Merrill Lynch (Australia) Nominees Pty Ltd | 10,300,000 | 3.98 |
| Sinbad Pty Ltd <Rock City Unit A/c> | 8,500,000 | 3.28 |
| Mr Joseph Charles Camuglia <J C C Investment Account> | 7,500,000 | 2.90 |
| Armelek Pty Ltd | 7,300,000 | 2.82 |
| Canemoon Investments Pty Ltd | 7,300,000 | 2.82 |
| Mr G Sim <Elm Unit A/c> | 7,295,902 | 2.82 |
| Nubey Trading Pty Ltd | 6,161,857 | 2.38 |
| Mr Gregory Glenn Worth <Worth S/F A/c> | 5,500,000 | 2.12 |
| Station Capital Pty Limited | 5,000,000 | 1.93 |
| Mr Anthony Stephen Crimmins <The Crimmins A/c> | 4,800,000 | 1.85 |
| Fortis Clearing Nominees P/L <Settlement A/c> | 4,067,432 | 1.57 |
| Run It Pty Ltd <Super It A/c>Mr B W Statham | 3,750,240 | 1.45 |
| Flypane Pty Ltd <Tognola Super Fund A/c> | 3,500,000 | 1.35 |
| Mr Benjamin West Statham | 3,333,333 | 1.29 |
| Mr Graham Robert Pouard & Mrs Barbara Elizabeth Sims | 3,223,055 | 1.24 |
| W A Halpin Investments Pty Ltd | 3,100,000 | 1.20 |
| Hannes Investments Pty Ltd <Double D Investment A/c> | 3,000,000 | 1.16 |
| W A Halpin Investments Pty Ltd | 3,000,000 | 1.16 |
| Mr Lev Mizikovsky & Mrs Emily Dorothy Mizikovsky <Superfin Superfund A/c> | 2,921,645 | 1.13 |
| | <u>115,458,464</u> | <u>44.58</u> |