

# Victory West Metals Limited

ABN 66 009 144 503

## Notice of General Meeting and Explanatory Statement

---

General Meeting to be held at:

Time: 10.00 am (Perth time)

Date: Tuesday, 25 September 2012

Place: Subiaco Arts Centre  
180 Hamersley Road  
SUBIACO WA 6008

---

**This is an important document and should be read in its entirety. Please read it carefully.**

A Proxy Form is enclosed within this Notice of Meeting and Explanatory Statement

If you are unable to attend the Meeting, please complete the proxy form enclosed and return it in accordance with the instructions set out on that form. If Shareholders are in doubt as to how to vote, they should seek advice from their accountant, solicitor and/or other professional adviser without delay.

---

## **CONTENTS**

---

Section 1	Notice of Meeting (setting out the agenda and proposed resolutions)
Section 2	Explanatory Statement (explaining the proposed resolutions)
Section 3	Voting, Proxy Appointment and Meeting Instructions
Section 4	Glossary
Schedule 1	Independent Solicitors' Report
Schedule 2	Independent Geologist's Report
Schedule 3	Proposed Class B Performance Shares terms and conditions
Schedule 4	Proposed Options terms and conditions
Schedule 5	Risks
Schedule 6	Unaudited Pro-forma Balance Sheet
Schedule 7	SEAE Material Contracts
Attachment	Proxy Form

---

## NOTICE OF GENERAL MEETING

---

Notice is hereby given that a general meeting of Shareholders of Victory West Metals Limited (“**Company**” or “**VWM**”) will be held at the Subiaco Arts Centre, 180 Hamersley Road, Subiaco, Western Australia on Tuesday, 25 September 2012 commencing at 10.00 am (Perth time) (**Meeting**).

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Meeting.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

---

## AGENDA

---

### 1. RESOLUTION 1 – Approval of proposed SEAE Acquisition

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

*"That, subject to Resolution 2 being passed, for the purposes of Listing Rule 11.1.2 and for all other purposes, approval is given for the Company to change the nature and scale of its activities by acquiring 100% of the issue capital of South East Asia Energy Resources Pte Ltd (**SEAE**), on the terms and conditions set out in the Explanatory Statement accompanying this Notice."*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 1 by any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed, and any associates of those persons. However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

---

### 2. RESOLUTION 2 – Approval of issue of Consideration Securities

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

*"That, subject to and conditional upon the passing of Resolution 1, for the purposes of ASX Listing Rule 7.1 and for all other purposes, the Company approves the allotment and issue of:*

- (a) *110,000,000 Class B Performance Shares having the terms set out in Schedule 3 of this Notice of Meeting; and*
- (b) *33,000,000 Options having a 30c exercise price and exercise period of 3 years from their date of issue and having the terms set out in Schedule 4 of this Notice of Meeting,*

*(together the “**Consideration Securities**”),*

*to the Vendor or its nominee or nominees as consideration for the Company acquiring 100% of the issue capital of SEAE, on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 2 by any person who may participate in the proposed issue and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed, and any associates of those persons. However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

---

### 3. RESOLUTION 3 – Approval of proposed issue of Placement Shares

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 7.1 and all other purposes, approval is given for the Directors to allot and issue Shares to raise a total of up to \$3,000,000 (**Placement Shares**) on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 3 by any person who may participate in the proposed issue of securities and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed, and any associates of those persons. However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

---

### 4. RESOLUTION 4 – Approval of proposed Convertible Notes

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 7.1 and all other purposes, approval is given to the Company to allot and issue Convertible Notes to raise a total of up to \$3,000,000 on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 4 by any person who may participate in the proposed issue of securities and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed, and any associates of those persons. However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or



- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.
- 

#### 5. **RESOLUTION 5 – Ratification of prior issue of Shares**

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of one million three hundred thousand (1,300,000) Ordinary Shares on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 5 by any person who participated in the issue of securities and an associate of that person. However the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.
- 

#### 6. **RESOLUTION 6 – Ratification of prior issue of Shares**

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of five million (5,000,000) Ordinary Shares on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 6 by any person who participated in the issue of securities and an associate of that person. However the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.
- 

#### 7. **RESOLUTION 7 – Ratification of prior issue of Shares**

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of two million, nine hundred and ninety nine thousand and six hundred (2,999,600) Ordinary Shares on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 7 by any person who participated in the issue of securities and an associate of that person. However the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
  - (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.
- 

## **Explanatory Statement**

The accompanying Explanatory Statement forms part of this Notice of Meeting and should be read in conjunction with it. Shareholders are specifically referred to the Glossary in the Explanatory Statement which contains definitions of capitalised terms used in this Notice of Meeting and the Explanatory Statement.

---

## **Voting Entitlements**

Regulations 7.11.37 and 7.11.38 of the Corporations Regulations permits the Company to specify a time, not more than 48 hours before the Meeting, at which a “snap shot” of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the Meeting.

The Directors have determined, pursuant to Regulations 7.11.37 and 7.11.38 of the Corporations Regulations, that the persons eligible to vote at the Meeting are those who are Shareholders as at 10.00 am (Perth time) on 23 September 2012.

## **By Order of the Board of Directors**



**Steven Pynt**  
Chairman  
Victory West Metals Limited  
22 August 2012

---

## **EXPLANATORY STATEMENT**

---

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the General Meeting to be held at the Subiaco Arts Centre, 180 Hamersley Road, Subiaco, Western Australia on Tuesday, 25 September 2012 at 10.00 am (Perth time).

The purpose of this Explanatory Statement is to provide Shareholders with all information which is known to the Company which is material to a decision on how to vote on the Resolutions in the accompanying Notice of Meeting.

This Explanatory Statement should be read in conjunction with the Notice of Meeting. Capitalised terms and abbreviations in this Explanatory Statement are defined in the Glossary.

### **Overview of business to be conducted at the Meeting**

The business to be conducted at the General Meeting relates primarily to the Company's proposed acquisition of South East Asia Energy Resources Pte Ltd as announced on 18 June 2012 (the "**SEAE Acquisition**"). The Company is seeking Shareholder approval pursuant to the ASX Listing Rules for the acquisition and issue of Consideration Securities as consideration for the SEAE Acquisition, and for the proposed issue of securities to raise \$6m.

The Company is also seeking Shareholder approval to ratify previous Share issues.

Shareholders should read the Notice of Meeting and this Explanatory Statement carefully before deciding how to vote on Resolutions.

Information on how to vote is set out below.

---

## **1. Acquisition of South East Asia Energy Resources Pte Ltd**

### **1.1 General overview**

On 18 June 2012 the Company announced the proposed acquisition of SEAE, a company with a management team experienced in coal exploration and mining in Indonesia, and which holds rights over the Penajam East Project.

ASX considers the proposed acquisition a change in nature and scale of SEAE's activities so that Shareholder approval is required.

Full details of the terms of the SEAE Acquisition and SEAE's rights in the Penajam East Project are set out in this Notice of Meeting and Explanatory Statement. Further details of the Penajam East Project are detailed in the Independent Solicitors' Report and Independent Geologist Report included as Schedule 1 and Schedule 2, respectively.

### **1.2 Overview and information on South East Asian Energy Resources Pte Ltd**

SEAE was incorporated in Singapore on 7 June 2011 to acquire Indonesian resource projects. Its directors are Robert Wall, Dr. Nicolas Francken and Dr. Irina Francken (also the Company Secretary), and it is beneficially owned by a number of mining and resource parties.

The assets of SEAE are the rights under contracts with Indonesian parties in respect of the Penajam East Project, including the right to carry out exploration and mining, and to purchase all coal mined from the Penajam East Project. In addition to this asset, SEAE has also spent considerable resources in identifying and evaluating further coal opportunities which may or may not be acquired in the future.

SEAE is also party to certain service contracts which will provide the necessary skills to acquire, explore, develop and mine Indonesian coal assets.

As part of the SEAE Acquisition, VWM will:

- (a) combine the SEAE team with the existing VWM management team for the purpose of advancing the Penajam East Project, identifying and assessing new mining concession opportunities, certifying projects to JORC, mine planning, management and production, and coal marketing and sales;
- (b) allocate key targets and accountabilities to these executives in order to ensure successful set up, management and business direction of the coal business within VWM; and
- (c) assume SEAE's liabilities of approximately \$1.7 million (excluding monies lent by VWM to SEAE of \$814,000) at the date of this Notice.

Funding for SEAE to acquire and further develop the Penajam East Project is expected to be through one or a combination of debt, equity and offtake financing, including the issue of the Placement Shares and the Convertible Notes.

### **1.3 SEAE's management**

SEAE has an experienced management team with international mining, engineering, infrastructure and equipment experience which is capable of undertaking solutions from exploration, development and production with processing, open cut, high wall and underground mining projects. They are highly experienced in identifying high quality resource assets in both Indonesia and Australia, and have a well-connected team of local based and expatriate engineers and geologists who work with local and regional mine concession owners on a regular basis.

The team has been working together for the last seven years with a focus in Indonesia, Australia and Mongolia. For the past three years they have focused on identifying projects in Indonesia.

Upon completion of the SEAE Acquisition, SEAE's team will combine with VWM's management team to advance the Penajam East Project and identify and undertake due diligence on potential mineral, thermal and coking coal assets, with an aim of securing significant JORC Code compliant resources for VWM.

There will be no change to the Company's board as a result of the SEAE Acquisition.



Highlights of the Penajam East Project include the following:

- (a) Substantial concession areas of 185.13ha, with mining approval over the entire concession areas with granted operation production IUP's.
- (b) 5 mining pits already open with overburden removed, and available for re-commissioning leading to reduced start-up costs and time.
- (c) Coal outcrop/exposed coal found in ex mining activities and other non-mined areas. Coal thickness ranges between 0.45m and 1.1m.
- (d) Additional opportunities for further exploration.
- (e) Both concessions share the same haul road and jetty infrastructure.
- (f) Rights to use haul road and jetty/port services granted to PT1, or a party nominated by PT1.
- (g) Short transportation with distance to the jetty only 8 – 10 kilometers.
- (h) Low progressive entry for entry in existing operation production IUPs.
- (i) Availability of third party coal in the immediate region identified for blending.
- (j) Significant growth opportunities with minimal future investment.
- (k) Future growth potential to acquire surrounding concessions.

**Geological information**

Coal samples taken from the Penajam East Project is of sub-bituminous rank and has the following qualities:

<b>Certified Sample Analysis (PT Geosciences Laboratory)</b>	
	Range
Calorific Value (abd)	5,825 – 5,971 Kcal/kg
Calorific Value (gar)	5,535 - 5,755 Kcal/kg
Ash (adb)	1.8% - 4.5%
Total Sulphur (adb)	1.79% - 2.65%
Inherent Moisture (ar)	16% – 17%
Total Moisture (ar)	20% - 21.5%

Figure 2: Technical Analysis of Coal Samples undertake from 3 locations with previous pits

A technical evaluation of the Penajam East Project is included in the Independent Geologist's Report prepared by PT New Resource Mine (NRM), and which is attached as Schedule 2 to this Explanatory Statement. In addition, SEAE has undertaken field geological due diligence.

The current interpretation remains preliminary and is based on a review conducted by NRM. SEAE has not been successful in obtaining any geological data from Concession owners.

**No geological data has been obtained in respect to the Penajam East Project, and neither the Company nor NRM are able to estimate any potential mineralization of the concessions.**

The data in this Explanatory Statement that relates to exploration results is based on information compiled, review and evaluated by Mr. William Park, BSc (Geology), BEcon, MAIG, who is a member of the Australian Institute of Geoscientists. Mr. Park is a full time employee of PT New Resource Mine (NRM), and has sufficient experience which is relevant to the style and type of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a "Competent Person" as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Park consents to the inclusion in the Explanatory Statement of the matters based on his information in the form and content as they appear.

### ***Development strategy***

The development/production strategy is to begin operations on Concession 1 in the most recently mined open pit, where the coal seam is exposed. Coal produced from Concession 1 is expected to have medium to high sulphur. The Company proposes to blend this coal with appropriate medium grade, low sulphur coal to reduce the project's sulphur content to produce medium grade coal with less than >1% sulphur suitable for exporting.

Following initial production, stage 2 of exploration/development will involve further exploration of Concessions, in particular Concession 2. Further drilling and exploration will continue throughout both Concessions to look for additional mining opportunities.

The haul road and jetty to service both Concessions is owned by one of the Concession holders. PT1 has rights to use the haul road and jetty services, or nominate a third party to use such services. PT1 has nominated PT UMES.

### ***Ownership structure***

The Penajam East Project concessions are currently owned by cooperatives of local landowners, who have entered into exclusive coal sales contracts with a local special purpose Indonesian PT company (**PT1**), with rights to reject coal of less than agreed specifications.

PT1 has entered into an exclusive coal sales contract (**Coal Sales Contract**) with SEAE under which SEAE has the right to purchase all coal mined from the Concessions.

Management committees, consisting of representatives of SEAE, PT1 and the respective concession holders, will give directions to the Concession holders for exploring and mining coal on the Concessions, including the persons to be appointed to undertake mining activities.

A summary of the material terms which collectively give SEAE rights to all coal from, and exploration and mining control over, the Penajam East Project are set out in the Independent Solicitors' Report at Schedule 1.

## 1.5 About the coal market

### (a) Indonesian coal industry overview

Indonesia's coal industry continues to prosper and grow. In 2010, Indonesia's coal production rose by 7.4% year-on-year to 275.2 million tons, mainly due to higher coal prices which encouraged mine operators to expand output for export. More than 75% of the country's coal production is exported, with most going to Japan, China, India, South Korea, and Taiwan.

China and India, as they electrify are the key demand drivers, and these drive the view on the long term outlook for Indonesian coal producers: It is expected that volume will double by 2020 as producers continue to embark on large-scale coal development and expansion projects.

### (b) Benefits of Mining in Indonesia

- Lower capital requirements required to develop and operate mines in shorter time than Australia.
- Indonesia's close proximity to two major coal markets, India and China, as well as Thailand and Vietnam with infrastructure to deliver at low demurrage.
- Value Add – adopting Australian mining and quality standards and control practice to provide certainty and confidence to customers.
- Indonesia is the largest net coal exporter in the world surpassing Australia by 15% in 2010.
- A 2011 statistical energy survey, estimated Indonesia to have coal reserves of 18.7.3 billion tonnes (EIA 2011).

### (c) Indonesia's Thermal Coal Production, Export and Domestic Sales

- Coal production increased by 14.8 %, from 283 million tons in 2009 to be around 325 million tons by 2010, and in 2011 was predicted to be around 335 to 350 million tons.
- Export increased by 15.22 %, i.e. from 230 million tons to be around 265 million tons by 2010; and in 2011 was predicted to be around 270 to 285 million tons.
- Domestic sales increased about 13.21 %, i.e. from 53 million ton to be around 60 million tons by 2010. In 2011 the domestic sales was predicted to be around 63 to 69 million tons.
- China, India, Japan, South Korea, and Taiwan are the main countries of destination of Indonesian coal export. Almost 72 % of the coal production are exported, while the rest are sold domestically.

## 1.6 Risks

As a resource exploration company with a focus on South East Asia through its Malala Molybdenum Project, the Company is already exposed to a number of risks associated with exploration and mining in that region. Although, the Company is already exposed a number of these risks, Shareholders should be aware that there are specific risk associated with the SEAE Acquisition.



Investing in a company involves risks of various kinds, some of which are within the realms of influence of the Company and some, arising from external factors, which are beyond the control of the Company. A summary of the risks associated with the SEAE Acquisition and ongoing exploration and development of the Penajam East Project are set out in the Schedule 5 and in the Independent Solicitors' Report set out in Schedule 1.

Shareholders are encouraged to review and consider these risk factors when considering whether to approve Resolutions 1 and 2.

## 1.7 Material Terms of SEAE Acquisition

As announced to the ASX on 18 June 2012, the Company has entered into a Share Purchase Agreement with the Vendor to acquire 100% of all the fully paid ordinary shares on issue in SEAE.

### **Consideration**

The Company will:

- (a) pay \$750,000 to the Vendor (or its nominees) by no later than 12 months from completion;
- (b) issue to the Vendor (or its nominees) 110,000,000 Class B Performance Shares, which convert to Shares (on a 1 for 1 basis) upon the commercial shipment of 100,000 tonnes of coal from any of SEAE's current coal projects (**Milestone 1**) within 3 years from completion; and
- (c) issue to the Vendor (or its nominees) 33,000,000 Options (30c exercise price, expiry date 3 years from issue) of which, one-third (1/3rd) will vest respectively upon the achievement of the following three milestones:
  - i. the commercial shipment of 100,000 tonnes of coal from any of SEAE's current coal projects (**Milestone 1**).
  - ii. SEAE having one or more projects with mines that collectively have:
    - total annualised production  $\geq$  1.2 Mt (satisfied by 2 consecutive months of production at an annualised rate of 100,000 tonnes per month); and
    - total aggregate JORC inferred resource  $\geq$  25 Mt (**Milestone 2**).
  - iii. SEAE having one or more projects with mines that collectively have:
    - total annualised production  $\geq$  2.4 Mt (satisfied by 2 consecutive months of production at an annualised rate of 200,000 tonnes per month); and
    - total aggregate JORC inferred resource  $\geq$  50 Mt (**Milestone 3**).

Pursuant to the Share Purchase Agreement, VWM will issue the Vendor (or its nominees) the following Shares upon the satisfaction of the following milestones:

- (a) 110 million Shares upon Milestone 2 being achieved within 3 years of completion; and

- (b) 110 million Shares upon Milestone 3 being achieved within 3 years of completion.

Each of the above Share issues are subject to Shareholder approval to be sought at the time Milestones 2 and 3 are reached. In the event VWM's Shareholders do not approve an issue, VWM will issue the maximum number of Shares it can in accordance with the Listing Rules and pay the Vendor (and its nominees) the value of the Shares in cash equal to the difference between what VWM was obligated to issue and the number that it was able to issue.

The full terms and conditions of the Class B Performance Shares and Options are set out in Schedule 3 and Schedule 4, respectively.

***Conditions for completion***

Completion of the SEAE Acquisition is subject to the following conditions being satisfied by 31 October 2012 (or such other date as mutually agreed by the parties):

- (a) All consents necessary or relevant for the transactions contemplated by the Share Sale Agreement are granted and received, including the consent of the ASX and Shareholders of the Company, and to occur without breaching any statute or agreement either:
  - i. without conditions or requirements; or
  - ii. with conditions and requirements that are acceptable to the Vendor and (to the extent they affect the Buyer) to the Company; and
- (b) Completion of due diligence on SEAE to the satisfaction of the Company.
- (c) Mining operation, production, sales and transportation licences are issued to each Concession holder.
- (d) The Company raises \$3,000,000.

If the conditions listed above are not satisfied within the required timeframe, then either party may terminate the Share Purchase Agreement by giving written notice to the other party.

The Company has completed its legal and technical due diligence review and this condition has been satisfied.

***Other terms***

The Company will assume SEAE's financial obligations to fund exploration and development of the Penajam East Project.

## 1.8 Effect on issued capital of the Company

The capital structure of the Company following the SEAE Acquisition and issue of the Consideration Securities will be as follows:

### Current Position

Shares	176,577,277
Unlisted Incentive Options Milestone A	1,000,000
Unlisted Incentive Options Milestone B	1,000,000
Class A Performance Shares	10,000,000

### Following the SEAE Acquisition and issue of the Placement Shares

Shares	176,577,277
Unlisted Incentive Options Milestone A	1,000,000
Unlisted Incentive Options Milestone B	1,000,000
Options (30c expiry 3 years from completion)	33,000,000
Class A Performance Shares	10,000,000
Class B Performance Shares	110,000,000

The Company will also have an obligation to seek Shareholder approval for the issue of up to a further 220 million Shares upon the occurrence of Milestone 2 and 3.

In addition to the above, the Company is also proposing to issue the Placement Shares and Convertible Notes. The number of Shares which may be issued as a result will be determined by the prevailing market conditions at the time the Placement Shares are issued.

## 1.9 Unaudited Pro forma Statement of Financial Position

Attached as Schedule 6 is an unaudited pro-forma statement of financial position showing the financial effect of the SEAE Acquisition and raising \$6,000,000 as at 30 April 2012.

## 1.10 Estimated expenditure budget

The Company is proposing to raise up to \$6,000,000 through the issue of the Placement Shares and Convertible Notes. Depending upon the amount raised and whether certain creditors of the Company and SEAE elect to satisfy their debts through the issue of Shares, is intended that funds raised will be applied as follows:

Expenditure	\$
Exploration and development of the Penajam East Project	2,000,000
Exploration of the Malala Molybdenum project	1,000,000
Working capital and due diligence and acquisition costs on potential projects	3,000,000

The actual use of funds may vary from the above estimates. Amongst other things, expenditure will depend upon revenues from the Penajam East Project and any future capital raisings.

The Board reserves the right to vary the use of funds dependent on circumstances and other opportunities.

## **1.11 Material contracts**

SEAE is a party to certain contracts under which it will receive services for the exploration for, and development and operation of, coal mines in Indonesia. The services will be provided by entities associated with SEAE's management team.

A summary of the material terms of the contracts, including fees to be paid to the service providers, is set out in Schedule 7.

## **1.12 Advantages and disadvantages of the SEAE Acquisition**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholders' decision on how to vote on Resolutions 1 and 2:

- (a) The SEAE Acquisition will provide the Company with an existing and experienced management team with extensive contacts in Indonesia, and a near term production project, the Penajam East Project.
- (b) The Consideration Securities have value only as and when certain milestones are achieved. These milestones are likely to result in an appreciation of the Company's share price, and as a result mitigate certain risks of the SEAE Acquisition.
- (c) The SEAE is likely to encourage new investors to the Company and may result in existing creditors under convertible loan facilities converting their loans to equity.
- (d) The Company will be exposed to further acquisition opportunities that it otherwise may not have.

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholders' decision on how to vote on Resolutions 1 and 2:

- (a) The SEAE Acquisition will expose the Company to additional risks, the details of which are set out in schedule 5.
- (b) The SEAE Acquisition will expose the Company to additional expenditure and liabilities.
- (c) Shareholders voting power will be diluted if the Consideration Securities are converted to Shares.
- (d) The company will be diversifying into other coal resources and investors may not want to invest in this commodity.

### **1.13 Proposed transaction timetable**

Shareholders Meeting	25 September 2012
Completion of the SEAE Acquisition and issue of Consideration Securities to the Vendor	5 October 2012

These dates are indicative only and may change without notice.

### **1.14 Plans for the Company if resolutions 1 and 2 are not passed**

If Resolutions 1 and 2 are not passed and the SEAE Acquisition is not completed, the Company will continue to focus on its existing projects and may look to acquire other projects with the ability to create shareholder value.

---

## **2. Resolution 1 - Approval of proposed SEAE Acquisition**

Resolution 1 seeks Shareholder approval for a change in the nature and scale of the Company's activities as a result of the SEAE Acquisition.

ASX Listing Rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to ASX as soon as practicable.

ASX Listing Rule 11.1.2 provides that, if ASX requires, the entity must get the approval of Shareholders and must comply with any requirements of ASX in relation to the Notice of Meeting.

ASX has determined that completion of the SEAE Acquisition will constitute a significant change in the nature and scale of the Company's activities, and that Shareholder approval is required under Listing Rule 11.1.2. For that reason, completion of the SEAE Acquisition is conditional upon Shareholder approval.

Shareholders should refer to sections 1.1 to 1.13 above for information about the SEAE Acquisition and its likely impact on the Company.

---

## **3. Resolution 2 – Issue of Consideration Securities**

### **3.1 Background**

Under Chapter 7 of the ASX Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of equity securities without shareholder approval.

ASX Listing Rule 7.1 provides that a company must not, without shareholder approval and subject to certain exceptions, during any 12 month period, issue or agree to issue any equity securities (including securities with rights of conversion to equity, such as an option), if the number of those securities when aggregated with securities issued by the Company during the previous 12 months exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

The Consideration Securities are equity securities, and the proposed issue pursuant to Resolution 2 will exceed the 15% threshold referred to in ASX Listing Rule 7.1. Accordingly, the Company is seeking Shareholder approval to issue the Consideration Securities under Resolution 2. If passed, the Company can issue the Consideration Securities and will preserve its capacity to issue further securities in the next 12 months under ASX Listing Rule 7.1.

The Vendor (and its nominees) are not related parties of the Company and no person's voting power (when added to the voting power of its Associates (as defined in the Corporations Act)) in the Company will increase from 20% or below to more than 20% as a result of the issue or conversion of the Consideration Securities. Accordingly, Shareholder approval is not required for the purposes of item 7 of section 611 of the Corporations Act.

The issue of the Consideration Securities remains subject to approval by ASX.

### **3.2 Information required by ASX Listing Rule 7.3**

For the purposes of ASX Listing Rule 7.3, the following information is provided to Shareholders in relation to the Consideration Securities to be issued pursuant to Resolution 2:

#### **(a) Maximum Number of Securities**

The maximum number of securities to be issued is:

- i. 110,000,000 Class B Performance Shares; and
- ii. 33,000,000 Options.

#### **(b) Date of issue and allotment of the Consideration Securities**

The Consideration Securities will be issued at completion of the SEAE Acquisition and in any event no later than 3 months after the date of the General Meeting (unless otherwise extended by way of the ASX granting a waiver to the ASX Listing Rules).

It is intended that the Consideration Securities will be allotted on the same date.

#### **(c) The Issue Price of the securities**

The Consideration Securities will be issued in consideration for the acquisition of 100% of the issued capital of SEAE, and for nil cash consideration.

#### **(d) The names of the allottees**

The Consideration Securities will be allotted and issued to Coalindo Pte Ltd or its nominee(s), who are not related parties of the Company.

#### **(e) The Terms of the Securities**

The terms of the Class B Performance Shares are set out in Schedule 3 and the terms of the Options are set out in Schedule 4. The Shares issued upon conversion of the Performance Shares and/or Options upon achievement of the performance milestones will be fully paid ordinary

shares in the capital of the Company and will rank equally with the Company's existing Shares.

**(f) The intended use of the funds raised**

The Consideration Securities are being issued in consideration for the acquisition of 100% of the issued share capital of SEAE, and no funds will be raised from the issue.

**3.3 Recommendation**

The Directors recommend that Shareholders vote in favor of Resolutions 1 and 2 as SEAE and the Penajam East Project has the potential to deliver value and is in accordance with the Company's strategy of a diversified resource mining focused Company.

---

**4. Resolution 3 – Approval of proposed issue of Placement Shares**

**4.1 Background**

Resolution 3 is seeking Shareholder approval under ASX Listing Rule 7.1 for the allotment and issue of Shares which, when multiplied by the issue price, will raise up to \$3 million from institutional and sophisticated investors.

None of the allottees pursuant to this proposed issue will be related parties of the Company.

As noted above (section 3.1), ASX Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of equity securities by a listed company, where the securities proposed issue represent more than 15% of the company's securities then on issue.

Obtaining Shareholder approval for the proposed issue will mean that the issue will not reduce the Company's 15% placement capacity under Listing Rule 7.1 should the Company undertake the proposed issue.

**4.2 Information required for ASX Listing Rule 7.3**

For the purposes of ASX Listing Rule 7.3, the following information is provided to Shareholders in relation to the proposed issue of Shares pursuant to Resolution 3:

**(a) Maximum Number of Securities**

The maximum number of securities to be issued is up to that number of Shares which, when multiplied by the issue price, equals up to \$3,000,000.

The following table shows the number of Shares to be issued based upon the various issue prices:

Issue price	Maximum number of Shares to be issued	Dilution <sup>1</sup>
\$0.08	37,500,000	10.3%
\$0.05	60,000,000	15.0%
\$0.035	85,714,286	19.6%
\$0.028	107,142,857	23.0%

<sup>1</sup> Assuming the maximum number of securities under all Resolutions are issued, excluding options.

**(b) Date of Allotment and Issue of the Securities**

The Placement Shares will be issued as soon as practical, and in any event no later than 3 months, after the date of the Meeting, unless otherwise extended by way of ASX granting a waiver to the ASX Listing Rules.

Allotment of the Placement Shares will either occur on the day the Placement Shares are issued or may occur progressively as and when the allottees are identified.

**(c) The Issue Price of the Securities**

The Placement Shares will be issued at a minimum issue price of no less than 80% of the average market price (as defined in the Listing Rules) of Shares calculated over the five (5) days of which sales of Shares are recorded for the allotment date.

**(d) Names of the Allottees**

The Placement Shares will be issued and allotted to applicants to be determined by the Directors. No decision has, as yet, been made by the Directors in respect of determining the identity of the allottees, save that the allottees will be institutional or sophisticated investors and will not be related parties of the Company.

**(e) The Terms of the Securities**

The Placement Shares will be fully paid ordinary shares in the Company and will rank equally in all respects with Company's existing Shares on issue.

**(f) The Intended Use of the Funds Raised**

Funds raised from the issue of Placement Shares will be used for the purposes set out in section 1.10.

**4.3 Recommendation**

The Directors recommend that Shareholders vote in favor of Resolution 3.

---

**5. Resolution 4 – Approval of Proposed Convertible Notes**

**5.1 Background**

Resolution 4 is seeking Shareholder approval under ASX Listing Rule 7.1 for the issue of Convertible Notes to raise up to \$3,000,000.

As noted above (section 3.1), ASX Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholders approval is required to issue any equity securities (including securities convertible into shares) by a listed company, where the securities proposed to be issued represent more than 15% of the company's securities then on issue.



Obtaining Shareholder approval for the proposed issue will mean that the issue will not reduce the Company's 15% placement capacity under Listing Rule 7.1 should the Company issue the Convertible Notes.

## 5.2 Information Required by ASX Listing Rule 7.3

For the purposes of ASX Listing Rules 7.3, the following information is provided to Shareholders in relation to the proposed issue of Convertible Notes pursuant Resolution 4:

### (a) Maximum number of Securities

The maximum number of securities to be issued if all of the Convertible Notes are converted will be that number of Shares, when multiplied by the conversion price, equals up to \$3,000,000.

The following table shows the number of Shares to be issued based upon the various issue prices:

Conversion price	Maximum number of Shares to be issued	Dilution <sup>1</sup>
\$0.10	30,000,000	8.2%
\$0.07	42,857,143	10.7%
\$0.055	54,545,455	12.5%
\$0.048	62,500,000	13.4%

<sup>1</sup> Assuming the maximum number of securities under all Resolutions are issued, excluding options.

### (b) Date of issue and allotment of the Convertible Notes

The Convertible Notes to be issued under Resolution 4 will be issued as soon practical after the Meeting and any event no later than 3 months after the date of the Meeting, unless otherwise extended by a way of ASX granting a waiver to the ASX Listing Rule.

The issue of Convertible Notes under Resolution 4 will either occur on the day the Convertible Notes are issued or may occur progressively as on when the allottees are identified.

### (c) The issue price of the Convertible Notes

The issue price of the Convertible Notes will be up to \$3,000,000.

The conversion price will be equal to the issue price of the Placement Shares (Resolution 3), plus 2 cents. If no Placement Shares are issued, the conversion price will be at a minimum price of no less than:

- i. 80% of the average market price (as defined in the Listing Rules) of Shares calculated over the five (5) days of which sales of Shares are recorded for the issue allotment date; and
- ii. the issue price under any pro rata issue (as defined in the Listing Rules) undertaken by the Company,

plus 2 cents.

**(d) The names of the Allottees**

The identity of all the allottees is not known at the date of this Notice of Meeting. The Convertible Notes will be issued and allotted to applicants to be determined by the Directors. No decision has, as yet, been made by the Directors in respect of the determining the identity of the allottees, save that the allottees will be institutional or sophisticated investors and will not be related parties of the Company.

**(e) Material terms of the Convertible Notes**

The material terms of the Convertible Notes are as follows:

- i. interest will accrue daily on the Convertible Notes at the rate of 10% per annum, compounding annually and be payable by the Company to the Convertible Note holder (quarterly in arrears);
- ii. the Convertible Notes will mature in 30 months from their issue date. On this date the Company must redeem the face value to the Convertible Note holder or the Convertible Note holder may elect to convert the amount due into Shares of the Company;
- iii. the holder of the Convertible Notes may convert some or all of the Convertible Notes held by them into Shares at any time prior to the maturity date;
- iv. the holder of Convertible Notes may redeem the Convertible Note if:
  - (A) an Event of Default (broadly defined) is committed by, or occurs in relation to the Company; or
  - (B) there is a takeover, change of control or sale of the main undertaking of the Company;
- v. Shares issued upon the conversion of the Convertible Notes will be fully paid ordinary shares in the Company and will rank equally with all existing Shares on issue;
- vi. the number of Shares to be issued to the note holders on conversion of the Convertible Notes is calculated by dividing the principal sum of the Convertible Notes plus any capitalised interest, by the conversion price;
- vii. the conversion price will be equal to the price at which the Placement Shares are issued, plus 2 cents. If no Placement Shares are issued, the conversion price will be at a minimum price of no less than:
  - a. 80% of the average market price (as defined in the Listing Rules) of Shares calculated over the five (5) days of which sales of Shares are recorded for the issue allotment date; and
  - b. the issue price under any pro rata issue (as defined in the Listing Rules) undertaken by the Company,plus 2 cents;

- viii. the Company will apply to ASX for official quotation of all Shares issued upon conversion of the Convertible Notes; and
- ix. the Convertible Notes are unsecured and each holder of the Convertible Notes shall rank as an unsecured general creditor by the Company;
- x. If there is a reorganisation of the capital of the Company (including a consolidation, subdivision, reduction or return), the Convertible Notes and the conversion price will, subject to the Listing Rules, be reorganised in the same manner and way as the Shares, so that the value of the Convertible Notes is not adversely affected by the reconstruction and the Noteholders are not conferred with any additional benefits which are not also conferred on the holders of Shares (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of holders of Shares approving the reconstruction of capital).

**(f) The intended use of the funds raised**

Funds raised from the issue of Convertible Notes will be used for the purposes set out in section 1.10.

**5.3 Recommendation**

The Directors recommend that Shareholders vote in favor of Resolution 4.

---

**6. Resolution 5 – Ratification of prior issue of Shares**

**6.1 General**

Resolution 5 is seeking ratification under Listing Rule 7.4 for the prior issue of 1,300,000 Shares. These securities were issued to unrelated parties of the Company and within the 15% annual limit permitted by Listing Rule 7.1; and therefore without the need for Shareholder approval. The effect of Shareholders passing Resolution 5 and ratifying the issue will be to restore the Company's ability to issue further capital to the maximum 15% limit during the next 12 months.

The Share issue to be ratified under Resolution 5 represent, in total and on a fully diluted basis, approximately 0.7% of the Company's current capital structure as at the date of this Notice.

**6.2 Ratification under Listing Rule 7.4**

Under Chapter 7 of the Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of equity securities without shareholder approval.

As noted above (section 3.1), ASX Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a listed company, where the securities proposed issue represent more than 15% of the company's securities then on issue. Listing Rule 7.4 permits ratification of securities issued without prior shareholder approval under Listing Rule 7.1, provided the issue did not exceed the 15% threshold.

Accordingly, the Company is seeking ratification by Shareholders for the past issue of 1,300,000 Shares in order to restore the Company's capacity to issue further securities in the next 12 months under Chapter 7 of the Listing Rule within the 15% limit.

Notwithstanding an approval by Shareholders of Resolutions 5 to 7, any future equity raisings would remain subject to the 15% limited set out Listing Rule 7.1 (unless an exception under Listing Rule 7.2 applies).

### **6.3 Information required for Listing Rule 7.5**

Listing Rule 7.5 requires that the following information be provided to Shareholders when seeking ratification pursuant to Listing Rule 7.4:

**(a) Number of Securities**

The number of securities issued was 1,300,000 Shares.

**(b) The Price at which the Securities were Issued**

The Shares were issued in consideration for services provided and were issued with a deemed issue price of \$0.047 each.

**(c) The Names of the Allottees and the Dates of Allotment**

The Shares were allotted on 22 December 2011 and were issued to Skye Nominees Pty Ltd, who is not a related party.

**(d) The terms of the Securities**

The Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing Shares on issue.

**(e) Use of the Funds Raised**

The Shares were issued in consideration for services provided to the Company and no funds were raised from the issue.

### **6.4 Recommendation**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 5. This, together with Resolutions 6 and 7, will restore the 15% annual limit permitted by Listing Rule 7.1 and allow the Company to issue further securities without Shareholder approval.

---

## **7. Resolution 6 – Ratification of prior issue of Shares**

### **7.1 General**

Resolution 6 is seeking ratification under Listing Rule 7.4 for the prior issue of 5,000,000 Shares. These securities were issued to unrelated parties of the Company and within the 15% annual limit permitted by Listing Rule 7.1; and therefore without the need for Shareholder approval. The effect of Shareholders passing Resolution 6 and ratifying the issue will be to restore the Company's ability to issue further capital to the maximum 15% limit during the next 12 months.

The Shares issued represent, in total and on a fully diluted basis, approximately 2.6% of the Company's current capital structure as at the date of this Notice.

## **7.2 Ratification under Listing Rule 7.4**

Under Chapter 7 of the Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of equity securities without shareholder approval.

As noted above (section 3.1), ASX Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a listed company, where the securities proposed issue represent more than 15% of the company's securities then on issue. Listing Rule 7.4 permits ratification of securities issued without prior shareholder approval under Listing Rule 7.1, provided the issue did not exceed the 15% threshold.

Notwithstanding an approval by Shareholders of Resolutions 5 to 7, any future equity raisings would remain subject to the 15% limited set out Listing Rule 7.1 (unless an exception under Listing Rule 7.2 applies).

## **7.3 Information required for Listing Rule 7.5**

Listing Rule 7.5 requires that the following information be provided to Shareholders when seeking ratification pursuant to Listing Rule 7.4:

### **(a) Number of Securities**

The number of securities issued was 5,000,000 Ordinary Shares.

### **(b) The Price at which the Securities were Issued**

The Shares were issued in satisfaction of debts owed by the Company, and were issued with a deemed issue price of \$0.05 each.

### **(c) The Names of the Allottees and the Dates of Allotment**

The Shares were allotted on 16 April 2012 and were issued to Jomima Pty Ltd, Kobia Holdings Pty Ltd and Blu Bone Pty Ltd, who are not related parties.

### **(d) The Terms of the Securities**

The Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing Shares on issue.

### **(e) Use of the Funds Raised**

The Shares were issued in satisfaction of debts of \$250,000 owned by the Company and no funds were raised from the issue.

## **7.4 Recommendation**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 6. This, together with Resolutions 5 and 7, will restore the 15% annual limit permitted by Listing Rule 7.1 and allow the Company to issue further securities without Shareholder approval.

---

## **8. Resolution 7 – Ratification of prior issue of Shares**

### **8.1 General**

Resolution 7 is seeking ratification under Listing Rule 7.4 for the prior issue of 2,999,600 Shares. These securities were issued to unrelated parties of the Company and within the 15% annual limit permitted by Listing Rule 7.1; and therefore without the need for Shareholder approval. The effect of Shareholders passing Resolution 7 and ratifying the issue will be to restore the Company's ability to issue further capital to the maximum 15% limit during the next 12 months.

The shares issued represent, in total and on a fully diluted basis, approximately 1.6% of the Company's current capital structure as at the date of this Notice.

### **8.2 Ratification under Listing Rule 7.4**

Under Chapter 7 of the Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of equity securities without shareholder approval.

As noted above (section 3.1), ASX Listing Rule 7.1 broadly provides, subject to certain exceptions, that shareholder approval is required for any issue of securities by a listed company, where the securities proposed issue represent more than 15% of the company's securities then on issue. Listing Rule 7.4 permits ratification of securities issued without prior shareholder approval under Listing Rule 7.1, provided the issue did not exceed the 15% threshold.

Notwithstanding an approval by Shareholders of Resolutions 5, 6 and 7, any future equity raisings would remain subject to the 15% limited set out Listing Rule 7.1 (unless an exception under Listing Rule 7.2 applies).

### **8.3 Information required for Listing Rule 7.5**

Listing Rule 7.5 requires that the following information be provided to Shareholders when seeking ratification pursuant to Listing Rule 7.4:

**(a) Number of Securities**

The number of securities issued was 2,999,600 Ordinary Shares.

**(b) The Price at which the Securities were issued**

Under the terms of the convertible loan, the holder had the right to convert the loan into ordinary shares in the Company at the lower of \$0.05 or 80% of the five day VWAP. The Shares were issued at a deemed issue price of \$0.035 per Share.

**(f) The names of the Allottees and the Dates of Allotment**

The Shares were allotted upon receipt of a conversion request from Nutsville Pty Limited (an unrelated party) ("Lender"), the holder of a convertible loan, which took place on 17 July 2012.

The convertible loan is an agreement between the Company and the Lender, under which the Lender advanced funds to the Company for working capital. Funds advanced attract interest of 10% per annum and may be repayable through the issue of Shares by agreement between the Company and the Lender.

**(g) The Terms of the Securities**

The Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's currently issued Shares. The Company has sought quotation of the Shares on ASX.

**(h) Use of the Funds Raised**

The Shares were issued upon conversion of convertible loans issued to raise \$104,986. Funds raised from the convertible loan went towards the working capital of the Company.

**8.4 Recommendation**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 7. This, together with Resolutions 5 and 6, will restore the 15% annual limit permitted by Listing Rule 7.1 and allow the Company to issue further securities without Shareholder approval

---

**9. Enquiries**

Shareholders are encouraged to contact the Company Secretary on +61 8 9381 5819 if they have any queries in respect of the matters set out in these documents.

---

## **Voting, Proxy Appointment and Meeting Instructions**

---

### **HOW TO VOTE**

Shareholders can vote by either:

- (a) attending the Meeting and voting in person or by attorney or, in the case of corporate Shareholders, by appointing a corporate representative to attend and vote; or
- (b) appointing a proxy to attend and vote on their behalf using the proxy form accompanying this Notice and by submitting their proxy appointment and voting instructions in person, by post, or by facsimile.

### **VOTING IN PERSON (OR BY ATTORNEY)**

Shareholders, or their attorneys, who plan to attend the Meeting are asked to arrive at the venue 15 minutes prior to the time designated for the Meeting, if possible, so that their holding may be checked against the Company's share register and attendance recorded. Attorneys should bring with them an original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Meeting.

### **PROXY FORM**

To be effective, the Proxy Form (and any power of attorney or other authority, if any, under which it is signed) or a copy of facsimile which appears on its face to be an authentic copy of the Proxy Form (and the power of attorney or other authority) must be validly completed and returned by

- (a) **Person:** Computershare Investor Services Pty Ltd, Level 2, 45 St George's Terrace, PERTH WA 6000;
- (b) **Post:** Computershare Investor Services Pty Ltd, GPO Box 242, MELBOURNE VIC 3001; or
- (c) **Facsimile:** 1800 783 447 (within Australia) or (+61 3) 9473 2555 (outside Australia);

so that it is received not later than 10.00am (AWST) on Sunday, 23 September 2012.

**Proxy Forms received later than this time will be invalid.**

### **VOTING BY PROXY**

Please note that a Shareholder entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies. The proxy may, but need not be, a member of the Company and may be an individual person or a body corporate. A body corporate appointed as a Shareholder's proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the Shareholder's proxy. Each proxy will have the right to vote on a poll and also to speak at the Meeting.

The appointment of a proxy may specify the proportion or the number of votes that the proxy is appointed to exercise, but where more than one proxy is appointed and the appointment does not specify the proportion or number of the Shareholder's votes that each proxy may exercise, each proxy may exercise half of the votes.



If a proxy is not directed how to vote on an item of business, the proxy may generally vote, or abstain from voting, as they think fit. However, where a Restricted Voter is appointed as a proxy, the proxy may only vote on Resolution 1, if the proxy is specifically instructed to do so. Accordingly, if you intend to appoint the Chairman or a member of the KMP as your proxy, please ensure that you direct them how to vote in relation to Resolution 1.

Should any resolution, other than those specified in the Notice, be proposed at the Meeting, a proxy may vote on that resolution as they think fit.

If a proxy is instructed to abstain from voting on an item of business, they are directed not to vote on the Shareholder's behalf on the poll and the Shares that are the subject of the proxy appointment will not be counted in calculating the required majority.

Shareholders who return their Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairman of the meeting as their proxy to vote on their behalf. If a Proxy Form is returned but the nominated proxy does not attend the meeting, the Chairman of the meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the Chairman of the meeting, the secretary or any Director that do not contain a direction how to vote will be used where possible to support each of the Resolutions proposed in the Notice, provided they are entitled to cast votes as a proxy under the voting exclusion rules which apply to some of the proposed Resolutions.

## **VOTING BY A CORPORATION**

A Shareholder that is a corporation may appoint an individual to act as its representative and vote in person at the Meeting. Any such appointment must comply with the execution and appointment requirements set out on the Proxy Form and otherwise with the provisions of sections 127 and 250D of the Corporations Act or with the legal requirements of the country in which that corporate Shareholder was incorporated. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed. Shareholders can download and fill out the 'Appointment of Corporate Representation' form from Computershare's website at [www.investorcentre.com](http://www.investorcentre.com) under the information tab, "Downloadable Forms".

## **VOTING ENTITLEMENTS**

In accordance with Regulations 7.11.37 and 7.11.38 of the *Corporations Regulations 2001* (Cth), the Board has determined that a person's entitlement to vote at the Meeting will be the entitlement of that person set out in the register of Shareholders as at 10.00 am (AWST) on Sunday, 23 September 2012. Accordingly, transactions registered after that time will be disregarded in determining a Shareholder's entitlement to attend and vote at the Meeting.

---

## GLOSSARY

---

In this Explanatory Statement, the following terms have the following meaning unless the context otherwise requires:

<b>ASIC</b>	Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited (ABN 98 008 624 691) and, where the context permits, the Australian Securities Exchange as operated by ASX Limited.
<b>ASX Listing Rules or Listing Rules</b>	the Listing Rules of the ASX.
<b>Board</b>	Board of Directors.
<b>Business Day</b>	a day (not being a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney.
<b>Chairman</b>	the Company's Chairman.
<b>Class A Performance Shares</b>	the 10,000,000 performance shares issued by the Company on 24 February 2011.
<b>Class B Performance Share</b>	a performance share in the capital of the Company, having the terms and conditions set out in Schedule 3.
<b>Company</b>	Victory West Metals Limited (ABN 66 009 144 503).
<b>Consideration Securities</b>	110,000,000 Class B Performance Shares and 33,000,000 Options in the Company to be issued to the Vendor (or its nominees) as consideration for the SEAE Acquisition.
<b>Concession</b>	means operation production mining business permits 545/23_IUP-OP/EKONOMI/VIII/2010 and 545/24-IUP-op/EKONOMI/VIII/2010 more fully described in the Independent Solicitors' Report.
<b>Concession Holder</b>	the holder of a Concession.
<b>Convertible Notes</b>	the convertible notes to be issued pursuant to Resolution 4 and on the terms in section 4.2.
<b>Corporations Act</b>	Corporations Act 2001 (Cth).
<b>Corporations Regulation</b>	Corporations Regulation 2001 (Cth).
<b>Director</b>	a director of the Company.
<b>Explanatory Statement</b>	the explanatory statement accompanying the Notice of Meeting.
<b>Meeting or General Meeting</b>	the general meeting of Shareholders convened for the purposes of considering the Resolutions.
<b>Independent Geologist's Report</b>	the report prepared by PT New Resource Mine (NRM) as attached as Schedule 2 to this Explanatory Statement.
<b>Independent Solicitors' Report</b>	the report of Susandarini and Partners dated 14 August 2012 in relation to SEAE's interest in the Penajam East Project as attached as Schedule 1 to this Explanatory Statement.

<b>Notice of Meeting or Notice</b>	the notice of general meeting dated 22 August 2012.
<b>PT New Resource Mine (NRM) or NRM</b>	the independent geologist who prepared the Independent Geologist's Report.
<b>Penajam East Project</b>	the two Concessions located in the Penajam district, Penajam Paser Utara Regency of East Kalimantan, Indonesia.
<b>Performance Shares</b>	the Class B Performance Shares.
<b>Placement Shares</b>	has the meaning given in Resolution 3.
<b>PT1</b>	has the meaning given in section 1.4.
<b>PT1 Coal Sales Contract</b>	has the meaning given in section 1.4.
<b>Option</b>	an option to acquire a Share on the terms set out in Schedule 4.
<b>Resolution</b>	a resolution to be considered at the Meeting as contained in the Notice.
<b>Schedule</b>	an schedule to the Explanatory Statement.
<b>SEAE</b>	South East Asia Energy Resources Pte Ltd.
<b>SEAE Acquisition</b>	the acquisition by the Company of all the issued capital in SEAE which is the subject of Resolutions 1 and 2.
<b>Section</b>	a section in this section in this Explanatory Statement.
<b>Share or Ordinary Share</b>	a fully paid ordinary share in the capital of the Company.
<b>Share Purchase Agreement</b>	the share purchase agreement between the Company and the Vendor dated 18 June 2012.
<b>Shareholder</b>	a registered holder of a Share.
<b>Vendor</b>	Coalindo Pte Ltd as trustee for the beneficial shareholders of all of the issued share capital of SEAE.
<b>VWM</b>	the Company.

---

**SCHEDULE 1**

---

14 August 2012

Our ref: 9000758

Victory West Metals Limited  
311-313 Hay Street  
Subiaco 6008  
Western Australia  
Australia

Attention: The Board of Directors

Dear Sirs

**LEGAL DUE DILIGENCE REPORT REGARDING KSU SERIMPUN MITRA TAKA JAYA  
AND KSU BOLUM BUEN MAKMUR**

This legal due diligence report ("**Report**") with respect to KSU Serimpun Mitra Taka Jaya ("**SMTJ**") and KSU Bolum Buen Makmur ("**BBM**") has been prepared at the request of Victory West Metals Limited.

**1. Summary of Transaction Structure**

The transaction which is the subject of this Report is summarised as follows:

- (1) SMTJ holds a production mining permit for coal in a concession area of 99.28ha in Penajam Paser Utara Regency, East Kalimantan Province;
- (2) BBM holds a production mining permit for coal in a concession area of 88.85ha in Penajam Paser Utara Regency, East Kalimantan Province;
- (3) SMTJ and BBM are cooperatives under Indonesian law;
- (4) the Indonesian entity, PT Indah Bumi Nusantara ("**IBN**"), has entered into the following contracts:
  - (a) an exclusive coal sale and purchase agreement with SMTJ, dated 24 July 2012 ("**SMTJ Head Coal Sales Contract**"); and
  - (b) an exclusive coal sale and purchase agreement with BBM, dated 24 July 2012 ("**BBM Head Coal Sales Contract**"),

(the SMTJ Head Coal Sales Contract and the BBM Head Coal Sales Contract are collectively "**Head Coal Sales Contracts**"); and

- (5) South East Asia Resources Pte Limited (“**SEAR**”) has entered into a coal sale and purchase agreement with IBN, dated 17 July 2012 (“**Coal Sales Contract**”), pursuant to which SEAR has the right to acquire all of the coal acquired by IBN under the Head Coal Sales Contracts,  
  
(collectively, “**Project**”).

## 2. **Scope of Report**

We have reviewed the following matters for the purpose of this Report:

- (1) **Licensing** – in particular, to confirm:
- (a) the validity of the mining permits;
  - (b) any issues which arise with respect to the concession areas the subject of the mining permits; and
  - (c) that IBN has the legal ability to engage in coal trading activities under the Head Coal Sales Contracts; and
- (2) **Corporate** – to confirm due existence and the authority to enter into contracts.

This Report sets out a summary of our investigations.

## 3. **Summary**

- (1) The SMTJ IUP has been validly issued.
- (2) The BBM IUP has been validly issued.
- (3) The SMTJ Head Coal Sales Contract has been validly executed. Subject to IBN obtaining a Sales and Transportation Licence (as referred to in Section 5.2(2)), the SMTJ Head Sales Contract is a legal and binding agreement.
- (4) The BBM Head Coal Sales Contract has been validly executed. Subject to IBN obtaining a Sales and Transportation Licence, the BBM Head Sales Contract is a legal and binding agreement.
- (5) The Coal Sales Contract has been validly executed by IBN. Subject to IBN obtaining a Sales and Transportation Licence, the Coal Sales Contract is a legal and binding agreement.

## 4. Licenses and Approvals Issued by Mining Authorities

### 4.1 Legal Background

#### (1) Previous Mining Rights

Traditionally, mining rights in Indonesia were issued under *Law No. 11 of 1967 on Basic Regulation on Mining* in the form of:

- (a) Contracts of Work (*Kontrak Karya*) (“**COW**”) between the Government of Indonesia (“**GOI**”) and Indonesian-incorporated companies which have foreign shareholders, known as Foreign Investment Companies (*Penanaman Modal Asing*) (“**PMA**”);
- (b) *Coal Contracts of Work* (*Perjanjian Karya Perusahaan Pertambangan Batubara*) (“**CCOW**”) between the GOI and any of:
  - (i) PMA Companies;
  - (ii) 100% Indonesian-owned companies (*Perseroan Terbatas Biasa* or *Penanaman Modal Dalam Negeri*) (“**General Indonesian Companies**”); and
- (c) Mining Permits (*Kuasa Pertambangan*) (“**KPs**”), which were issued to General Indonesian Companies, General Indonesian Companies, Limited Partnerships (*Commanditaire Vennootschap*), Cooperatives (*Koperasi*) and Indonesian nationals.

A COW and CCOW required the approval of the Parliament, the President, the Minister of Energy and Mineral Resources (“**MEMR**”) and the Capital Investment Coordinating Board (*Badan Kordinasi Penanaman Modal*) (“**BKPM**”), which was an extremely protracted process.

KPs were originally granted and regulated pursuant to centrally enacted mining laws and regulations and, increasingly, regional regulations. Provincial and regional governments had started to also exercise their perceived authority conferred under the policy of regional autonomy since 1999, by attaching conditions to grants of mining rights and imposing additional obligations and taxes on their holders. These conditions, and regional regulations, often conflicted with central laws.

#### (2) New Mining Law

In January 2009, *Law No. 4 of 2009 on Mineral and Coal Mining* (“**New Mining Law**”) came into effect in Indonesia. The *New Mining Law* abolished the distinction between COWs, CCOWs and KPs and introduced a single form of mining right known as a Mining Business Permit (*Ijin Usaha Pertambangan*) (“**IUP**”).

Significantly, the *New Mining Law* allows for IUPs to be held by PMA Companies resulting in the ability of foreigners to hold shares in a company which holds an IUP.

The *New Mining Law* and its implementing regulations required all KPs to be converted into IUPs by May 2010.

(3) ***Types of IUPs***

An IUP consists of the following two stages:

- (a) *Exploration IUP* which permits activities of general investigation, exploration and feasibility study; and
- (b) *Operation Production IUP* which permit activities of construction, mining, utilisation and purification, and also transportation and sales.

(4) ***Coal Reference Price***

The Indonesian Government sets a coal reference price (“**CRP**”) on a monthly basis. While not explicitly stated under the CRP regulation, it is generally accepted that:

- (a) the primary sale of coal from a concession holder to a coal purchaser must take place at, or above, the CRP; and
- (b) any secondary sale of coal is not required to be conducted in accordance with the CRP.

(5) ***“Clean-and-Clear” List***

The MEMR issued the results of a survey of more than 8,000 IUPs in May 2011.

IUPs which were considered to not be subject to overlap with other mining concessions are included on the so-called Clean-and-Clear List.

(6) ***Overlapping Concessions***

While the Clean-and-Clear List is focused on identifying overlapping mining concessions, the concession areas the subject of IUPs may be subject to other forms of competing rights, including:

- (a) overlap with plantation concessions;
- (b) overlap with timber concessions; and
- (c) overlap with government rights.

(7) ***Proposed ban on low calorific value coal exports***

The Government of Indonesia has indicated its intention to ban low-calorific coal exports from 2014. MEMR circulated a draft regulation regarding “value added upgrading of minerals and coal through processing and refining activities” (the “**Draft Regulation**”). Under the Draft Regulation, coal with a calorific value of 5700 kcal/kg or below on an air-dried basis will be banned



from being exported from January 2014. This threshold has oscillated in subsequent drafts between 5100 and 5700 kcal/kg.

As at the date of this Report, it is unclear whether this regulation will ultimately be issued.

#### 4.2 **Mining Rights issued to SMTJ**

- (1) SMTJ was originally granted a KP pursuant to the *Decree of the Head of Penajam Paser Utara Regency No. 545/07-Eksplorasi/EKONOMI/XII/2008*, issued on 5 December 2008 ("**SMTJ KP**").
- (2) The SMTJ KP was granted under the Indonesian mining regime prior to enactment of *New Mining Law*. The *New Mining Law* and its implementing regulations required all KPs to be converted into the status of IUPs by May 2010.
- (3) The SMTJ KP was converted into an Exploration IUP under *Decree of the Regent of Penajam Paser Utara No. 545/03-IUP-EXPLORASI/EKONOMI/III/2010*, issued on 31 March 2010 ("**SMTJ Exploration IUP**").
- (4) The SMTJ Exploration IUP was upgraded into a Production Operation IUP under the *Decree of the Regent of Penajam Paser Utara No. 545/23\_IUP-OP/EKONOMI/VIII/2010*, issued on 31 August 2010 ("**SMTJ Production Operation IUP**").
- (5) The details of the SMTJ Production Operation IUP are as follows:

<i>IUP No.:</i>	<i>545/23_IUP-OP/EKONOMI/VIII/2010</i>
<i>Date:</i>	<i>31 August 2010</i>
<i>Issuing Authority:</i>	<i>Regent of Penajam Paser Utara</i>
<i>Location:</i>	<i>East Kalimantan Province, Penajam Paser Utara Regency, Sub-District of Penajam, Buluminung Village</i>
<i>Activities</i>	<i>Production Operation</i>
<i>Validity:</i>	<i>3 years</i>
<i>Commodity:</i>	<i>Coal</i>
<i>Total Area:</i>	<i>99.28 ha</i>

Pursuant to the terms of the SMTJ Production Operation IUP, an application for extension must be submitted at least two years prior to expiry. We understand that no application for extension has been submitted and are informed by SEAR that this may not be necessary, as mining activities may have been completed by the time of expiry of the SMTJ Production Operation IUP.

- (6) We confirm that the SMTJ IUP appears on the Clean-and-Clear List. Accordingly, from the perspective of MEMR, the SMTJ IUP is not subject to overlap with other mining concessions.
- (7) We conducted a search at MEMR on 15 March 2012, and were issued with an overlay map. Our review of the overlay map indicates that the concession area the subject of the SMTJ IUP does not overlap with other mining concessions, which is consistent with the Clean-and-Clear List result referred to in paragraph (6) above.
- (8) We conducted a search at the Ministry of Forestry ("**MOF**") on 15 March 2012, and were issued with an overlay map. Our review of the overlay map indicates that:
  - (a) the concession area the subject of the SMTJ IUP is not located within a protected forest or production forest; but
  - (b) the concession area the subject of the SMTJ IUP overlaps with a plantation area which is held by PT Majapahit Agro Industrie ("**MAI**").

We are informed by SEAR that compensation payments will be provided to MAI, to enable SMTJ to conduct mining activities in the relevant area.

#### 4.3 **Mining rights issued to BBM**

- (1) BBM was originally granted a KP pursuant to the *Decree of the Head of Penajam Paser Utara No. 545/007/PPM/EKBANG/III/2004*, issued on 31 March 2004 ("**BBM Exploration KP**").
- (2) The BBM Exploration KP was upgraded into an Exploitation KP under *Decree of the Regent of Penajam Utara No. 545/02-EKSPLOITASI/EKONOMI/IX/2005*, issued on 5 September 2005 ("**BBM Exploitation KP**").
- (3) The BBM Exploitation KP was granted under the Indonesian mining regime prior to enactment of *New Mining Law*. The *New Mining Law* and its implementing regulations required all KPs to be converted into the status of IUPs by May 2010
- (4) The BBM Exploitation KP was converted into a Production Operation IUP under the *Decree of the Regent of Penajam Paser Utara No. 545/24-IUP-op/EKONOMI/VIII/2010*, issued on 31 August 2010 ("**BBM Production Operation IUP**"). While the conversion did not occur within the required timeframe, we consider it is unlikely that this will now result in any legal issues with respect to the BBM Production Operation IUP.
- (5) The details of the BBM Production Operation IUP are as follows:

*IUP No:* 545/24-IUP-op/EKONOMI/VIII/2010

*Date:* 31 August 2010

<i>Issuing authority:</i>	<i>Regent of Penajam Paser Utara</i>
<i>Location:</i>	<i>East Kalimantan Province, Penajam Paser Utara Regency, Sub-District of Buluminung, District of Penajam</i>
<i>Activities:</i>	<i>Production Operation</i>
<i>Validity:</i>	<i>3 years</i>
<i>Commodity:</i>	<i>Coal</i>
<i>Total area:</i>	<i>85.85ha</i>

Pursuant to the terms of the BBM Production Operation IUP, an application for extension must be submitted at least two years prior to expiry. Assuming no application has been submitted at this point, BBM will be out-of-time for submitting the extension application. Again, we understand that no application for extension has been submitted and are informed by SEAR that this may not be necessary, as mining activities may have been completed by the time of expiration of the BBM IUP.

- (6) We confirm that the BBM IUP appears on the Clean-and-Clear List. Accordingly, from the perspective of MEMR, the BBM IUP is not subject to overlap with other mining concessions.
- (7) We conducted a search at MEMR on 15 March 2012, and were issued with an overlay map. Our review of the overlay map indicates that the concession area the subject of the BBM IUP does not overlap with other mining concessions, which is consistent with the Clean-and-Clear List result referred to in paragraph (6) above.
- (8) We conducted a search at MOF on 15 March 2012, and were issued with an overlay map. Our review of the overlay map indicates that:
  - (a) the concession area the subject of the BBM IUP is not located within a protected forest or production forest; but
  - (b) the concession area the subject of the BBM IUP overlaps with a plantation which is held by MAI.

Again, we are informed by SEAR that compensation payments will be provided to MAI, to enable BBM to conduct mining activities in the relevant area.

## 5. Corporate

### 5.1 Formation

#### (1) **Company Formation**

The following is a summary of steps required under *Law No.40 of 2007 re Limited Liability Companies* (“**Company Law**”) and the practice of the Ministry of Law and Human Rights (“**MOLHR**”) for incorporation of a company:

Item	Action Required
Deed of Establishment	Execute Deed of Establishment containing Articles of Association of the company before a Notary.
Letter of Domicile	Obtain Letter of Domicile ( <i>Surat Domisili</i> ) from Local Government in relation to office space to be leased by the company.
Tax File Number	Obtain Tax File Number ( <i>Nomor Pokok Wajib Pajak</i> ) from the Regional Tax Office.
Transfer of Capital	Open bank account and transfer amount representing entire paid-up capital of the company.
MOLHR	Submit Deed of Establishment to MOLHR for approval together with Letter of Domicile, NPWP and bank slip as evidence of transfer of funds to the company.
Certificate of Company Registration	Register the company at the Register of Enterprises at Ministry of Trade (“ <b>MOT</b> ”) and obtain a Certificate of Company Registration ( <i>Tanda Daftar Perusahaan</i> ) (“ <b>TDP</b> ”)
State Gazette	Announcement of the Deed of Establishment in the Supplement to the State Gazette ( <i>Berita Negara</i> )

#### (2) **Cooperative formation**

The following is a summary of the steps required under *Law No. 25 of 1992 re Cooperatives* (“**Cooperatives Law**”) to establish a cooperative:

Item	Action Required
Minutes of Meeting of the Establishment of the Cooperative	The member of cooperative agree: <ol style="list-style-type: none"> <li>1. the Article of Association of the cooperative;</li> <li>2. composition of Executive Board (<i>pengurus</i>) and Supervisory Board of the cooperative (<i>pengawas</i>);</li> <li>3. initial balance of the cooperative, containing</li> </ol>

	the initial financial assets ( <i>aktiva</i> ) and liabilities ( <i>pasiva</i> ); and  4. Initial plan of the cooperative.
Deed of Establishment	Execute Deed of Establishment containing Articles of Association before a notary.
Letter of Domicile	Obtaining Letter of Domicile ( <i>Surat Domisili</i> ) from the Local Government in relation to the office space to be leased by the company.
Tax File Number	Obtaining Tax File Number ( <i>Nomor Pokok Wajib Pajak</i> or <b>NPWP</b> ) from the Regional Tax Office.
Evidence of Deposit	Open bank account and deposit amount representing at least equivalent to the principal deposits.
Ministry of State of Cooperatives and Small and Medium-Scale Enterprises	Submit Deed of Establishment to Ministry for approval.
Certificate of Company Registration	Registering the cooperative at the Register of Enterprises at MOT and obtain a TDP.
Business Licence	Obtain a SIUP from local government.
State Gazette	Announcement of the Deed of Establishment in the Supplement to the State Gazette ( <i>Berita Negara</i> )

## 5.2 **Business Licences**

### (1) **General business licences**

In addition to the incorporation steps outlined in Section 3.1 above, companies which are 100% Indonesian-owned, and are classified as General Indonesian Companies (*Perseroan Terbatas Biasa*), such as IBN are required to obtain a Business Licence (*Surat Ijin Usaha Perdagangan*) (“**SIUP**”) from the Ministry of Trade.

### (2) **Coal trading companies**

A coal trading company is required to obtain a Mining Operation Production Sales and Transportation Licence from MEMR in order to acquire, and sell, coal.

The application requires, among others:

- (1) legalised copies of the contracts between the coal producer and the coal trading company;

- (2) copies of the contract between the coal trading company and its customers;
- (3) evidence of the required licenses being held by the IUP holder to be able to conduct mining activities; and
- (4) a statement of willingness from the coal trading company to provide monthly sales reports to MEMR.

### 5.3 ***PT Indah Bumi Nusantara***

#### (1) *Background*

We have sighted the following incorporation documents for IBN. Deed of Establishment of IBN, which includes the Articles of Association of IBN, as in Deed No. 2 dated 16 February 2012, drawn up before Mr Al Faraby Angkat, Sarjana Hukum, Magister Kenotariatan, Notary in the Regency of Tangerang.

We have sighted a letter from IBN's Notary which confirms that the Deed of Establishment is currently in the process of registration at MOLHR.

#### (2) *Corporate Structure*

IBN was incorporated on 16 February 2012. IBN will obtain the status of a separate legal entity on receipt of MOLHR approval of its Deed of Establishment.

#### (3) *Business licence*

##### (a) *SIUP*

Based on the Coal Sales Agreement and a Letter of Statement from IBN's Notary, IBN is in the process of obtaining SIUP.

##### (b) *IUP Sales and Transportation*

Based on the Coal Sales Agreement, IBN is in the process of obtaining a IUP Sales and Transportation.

### 5.4 ***KSU Serimpun Mitra Taka Jaya***

#### (1) *Background*

We have sighted the following establishment documents of SMTJ:

- (a) the Deed of Establishment of SMTJ, dated 23 September 2008; and
- (b) the approval of the Deed of Establishment by Regent of Penajam Paser Utara on behalf of the Ministry of State of Cooperatives and Small and Medium Scale Enterprises No. 81/BH/XX.9/kppk/X/2008, dated 14 October 2008.

(2) *Structure*

SMTJ was formed on 23 September 2008. The Deed of Establishment was approved by the Ministry of State of Cooperatives on 14 October 2008.

(3) *Business Licences*

(a) SIUP

SMTJ holds a medium-scale SIUP, No. 563/12.13/PM/2008 dated 28 October 2008.

(b) Mining Permit

The details of SMTJ's mining permit are discussed in Section 4.2 above.

5.5 ***KSU Bolum Buen Makmur***

(1) *Background*

We have sighted the following establishment documents of BBM:

(a) the Deed of Establishment of BBM, dated 18 September 2003; and

(b) the approval of the Deed of Establishment by the Regent of Penajam Paser Utara on behalf of the Ministry of State of Cooperatives and Small and Medium Scale Enterprises, affairs of the Republic of Indonesia, No. 96/BH/KEP-2/XII/2003 dated 18 December 2003.

(2) *Structure*

BBM was formed on 18 September 2003. The Deed of Establishment was approved by the Ministry of State of Cooperatives on 18 December 2003

(3) *BBM Business Licences*

(a) SIUP

BBM Medium Scale SIUP No. 096/SIUP-PM/EkBANG/V/2004, dated 10 May 2004.

(b) Mining Permit

The details of BBM's mining permit are discussed in Section 4.3 above.

## 6. Contractual arrangements

### 6.1 Summary

In summary, the contractual arrangements operate as follows:

- (1) the coal mined from the concession areas the subject of the SMTJ IUP and BBM IUP is acquired by IBN on an exclusive basis, under the Head Coal Sales Contracts. As the sale from SMTK and BBM, on the one part, and IBN, on the other part, is the primary sale of coal, the sale must be at least the CRP; and
- (2) the coal acquired by IBN under the Head Coal Sales Contract is acquired by SEAR on an exclusive basis. As the sale from IBN to SEAR is a secondary sale of coal, the sale is not required to comply with the CRP requirements.

### 6.2 Specific Contracts

#### (1) Head Coal Sales Contracts

##### (a) SMTJ Head Sales Contract

##### (i) Description

- A. SMTJ is required at all times to maintain the SMTJ Production Operation IUP in good standing.
- B. IBN has exclusive rights to acquire all coal which is mined from the concession area the subject of the SMTJ Production Operation IUP.
- C. IBN has the right to reject coal which is not within the following specifications:

Proximate analysis	Guaranteed	Rejection Limit
Total Moisture	20%	above 24%
Inherent Moisture	17%	above 19%
Ash Content	1.8%	above 4%
Total Sulphur	1.94 %	above 2.2%
GCV (Kcal/Kg) (ADB)	5900Kcal/Kg	below 5700 Kcal/Kg
Size 0mm-50mm	-	below 90% minimum



(ii) *Confirmation*

We confirm that:

- A. the SMTJ Head Sales Contract has been validly executed by SMTJ and IBN.
- B. Subject to IBN obtaining an IUP Sales and Transportation, the SMTJ Head Sales Contract constitutes a legal and binding contract under the laws of the Republic of Indonesia.

(b) *BBM Head Sales Contract*

(i) *Description*

- A. BBM is required at all times to maintain the BBM Production Operation IUP in good standing;
- B. IBN has exclusive rights to acquire coal which is mined from the concession area the subject of the BBM Production Operation IUP.
- C. IBN has the right to reject coal which is not within the following specifications:

Proximate analysis	Guaranteed	Rejection Limit
Total Moisture	20%	above 24%
Inherent Moisture	17%	above 19%
Ash Content	1.8%	above 4%
Total Sulphur	1.94 %	above 2.2%
GCV (Kcal/Kg) (ADB)	5900Kcal/Kg	below 5700 Kcal/Kg
Size 0mm-50mm	-	below 90% minimum

(ii) *Confirmation*

We confirm that:

- A. the BBM Head Sales Contract has been validly executed by IBN and BBM.
- B. Subject to IBN obtaining an IUP Sales and Transportation, the BBM Head Sales Contract constitutes a legal and binding contract under the laws of the Republic of Indonesia.

(2) **Coal Sales Contract**

(i) *Description*

- A. SEAR has exclusive rights to acquire all coal which is acquired by IBN which is mined from the concession areas the subject of the SMTJ Production IUP and the BBM Production Operation IUP.
- B. SEAR has the right to reject coal which is not within the following specifications:

Proximate analysis	Guaranteed	Rejection Limit
<b>Total Moisture</b>	<b>20%</b>	<b>above 24%</b>
<b>Inherent Moisture</b>	<b>17%</b>	<b>above 19%</b>
<b>Ash Content</b>	<b>1.8%</b>	<b>above 4%</b>
<b>Total Sulphur</b>	<b>1.94%</b>	<b>Above 2.2%</b>
<b>GCV(Kcal/Kg(ADB)</b>	<b>5900 Kcal/kg</b>	<b>below 5700 Kcal/kg</b>
<b>Size 0mm – 50mm</b>	<b>-</b>	<b>below 90% minimum</b>

- D. A Management Committee is formed, consisting of:
- (1) a representative of SEAR;
  - (2) a representative of IBN; and
  - (3) a representative of SMTJ/BBM.

The Management Committee shall advise SMTJ and BBN with respect to mining activities, based on majority decision. IBN must procure that SMTJ/BBN at all times act in accordance with the Management Committee decisions. The Management Committee has authority to decide as to the mining services contractor to be appointed.

- E. IBN must procure that all infrastructure owned or controlled by SMTJ and BBM, including hauling roads and jetties, is available for use by SEAR, IBN and any parties nominated by the Management Committee.

(ii) *Confirmation*

We confirm that:

- A. The Coal Sales Contract has been validly executed by SEAR.
- B. Subject to due execution by SEAR, in relation to which we make no comment, and IBN obtaining an IUP Sales and Transportation, the Sales Contract constitutes a legal and binding contract under the laws of the Republic of Indonesia.

## 7. Foreign investment in Indonesia

There are numerous widespread risks associated with investing in any form of business in Indonesia. There are also a range of specific risks associated with investing in the Indonesian mining industry.

These risks are outlined below:

- (1) Indonesia experiences economic, social and political volatility. The projects described in this Report may be impacted by currency fluctuations, political reforms, changes in government policies and procedures, civil unrest, social and religious conflict, labour unrest and fluctuating economic conditions;
- (2) Indonesia's mining laws and regulations have been subject to considerable change in recent years, and further changes are anticipated (including, for example, the proposed ban on export of low calorific value coal, as mentioned in Section 4.1(6)). These changes may impact upon the viability, and the profitability, of the projects described in this Report;
- (3) the SMTJ Production Operation IUP and the BBM Production Operation IUP are for terms of three years only, expiring in August 2013. Under the terms of the IUPs, the period for extension has expired. If SMTJ and BBM were to apply for extensions, there can be no assurance that the extensions will ultimately be granted;
- (4) SMTJ and BBM are required to negotiate suitable access or compensation arrangements with the local community, for the conduct of mining activities. In addition, SMTJ and BBM may be required to negotiate with holders of competing rights in the relevant concession areas, including the plantation rights of MAP referred to in Section 4.2(8) and Section 4.3(8) above;
- (5) it is not uncommon in Indonesia for land title claims to be made by local people with respect to land in the relevant concession area, or outside of the concession area, regardless of the actual merits of the claim;
- (6) the rights of SEAR with respect to the projects are contractual in nature only. In practical terms, the enforcement of contractual rights in Indonesia can be very difficult. If any party to the relevant contracts breaches its obligations, it may be difficult for either SEAR to obtain an order for specific performance or satisfactory compensation. The Coal Sales Contract provide for dispute resolution before the Central Jakarta District Court. A judgement based on the merits of a case may not necessarily be assured. SEAR may have

difficulties in preserving its rights in the event of the winding up of IBN, SMTJ or BBN;

- (7) the continued viability of the project described in this Report depends on the continued validity of the Head Sales Contracts, which is beyond the control of SEAR;
- (8) a Management Committee will be formed under the Coals Sales Contract and consist representatives of SEAR, IBN and SMTJ/BBM, to advise SMTJ/BBM with respect to mining activities in the concession areas of the IUPs. Neither SMTJ nor BBM are parties to the Coal Sales Contract and as a matter of law are not required to follow directions from the Management Committee. There is a risk that they SMTJ and BBM will not act in accordance with the decisions of the Management Committee. This may adversely impact any mining activities on the IUPs;
- (9) IBN may not receive a Sales and Transportation Licence from MEMR in which case it would not be able to buy and sell coal, as contemplated by the agreements;
- (10) terrorist attacks remain a risk in Indonesia; and
- (11) SMTJ and BBM may be required to obtain approval from the relevant authorities before they can undertake mining activities which are likely to impact on the environment.

## 8. Assumptions and limitations

This Report has been prepared on the following assumptions:

- (1) that where we have been provided with copies of documents, that copy is an exact and complete reproduction of, and conforms with, the original of the document and the original of the document still exists;
- (2) that no document provided to us, or arrangement described to us, has been varied, cancelled or superseded by some other document or agreement or action of which we are not aware;
- (3) that all signatories, dates of and any stamp duty or other marking on all documents provided to us (whether copies or originals) are authentic and are not subject to penalty or fine arising out of late or inadequate stamping;
- (4) the details revealed by searches of public registers maintained by governmental or other regulatory authorities are up to date at the date of search and have been properly and accurately recorded in those registers by those authorities. However, any searches made of public registers or court registers are not wholly reliable and are subject to the same disclaimer as made by the authorities that provide the relevant information;
- (5) for the purpose of this Report, we have conducted searches at the central MEMR and MOF only. We have not conducted searches in the Regency of Penajam Paser Utara, where records with respect to matters concerning

IBN, SMTJ and/BBM may be more up-to-date, or reflect different results, to those revealed by the central records held by MEMR and MOF;

- (6) we have not conducted litigation searches with respect to IBN, SMTJ or BBM;
- (7) that the information provided to us are complete, accurate and correct;
- (8) except as specifically stated in this Report, all documents provided to us are within the capacity and power of, and have been or will be validly authorized, executed and delivered by each party to them, and constitute valid and binding obligations of those parties under all applicable laws and that each party was solvent when it did so;
- (9) except as specifically stated in this Report, each document provided to us, which is a contract or agreement, is enforceable in accordance with its terms;
- (10) this opinion is in respect of the laws of the Republic of Indonesia. Any matters which may be subject to or governed by the laws of any other jurisdiction should be addressed by lawyers competent to advise in the relevant jurisdictions. Without limiting the foregoing, we make no comment with respect to the due incorporation of SEAR or the capacity of SEAR to enter into contracts;
- (11) all material information and documentation has been provided to us and is true and complete not misleading in any way; and
- (12) there have been no material changes in the affairs of since the date of our investigations.

Yours faithfully  
**SUSANDARINI & PARTNERS**

Rick Beckmann  
Senior Foreign Legal Counsel

Susandarini  
Managing Partner

---

**SCHEDULE 2**

---



# **Victory West Metals Limited**

**Concession 1**

**Concession 2**

**Independent Geologist's Report on Penajam Coal  
Project, East Kalimantan, Indonesia**

**August 2012**

**Dated : 10 August 2012**

**Reference : NRM\_1214\_VWM\_Penajam\_Final\_**



## Table of Contents

Page No.

PREAMBLE.....	1
EXECUTIVE SUMMARY .....	3
LOCATION AND ACCESS.....	5
PHYSIOGRAPHY .....	6
TENURE.....	6
PREVIOUS EXPLORATION .....	7
REGIONAL GEOLOGY .....	7
DISCUSSION .....	9
REFERENCES.....	12



### List of Tables

<b>Table No.</b>	<b>Description</b>	<b>Page No</b>
Table 1	Mining Concessions	6

### List of Figures

<b>Figure No.</b>	<b>Description</b>	
Figure 1	General Location Map	3
Figure 2	Transportation Routes	5
Figure 3	Transportation Route: Balikpapan – Projects Location	5
Figure 4	Regional Tectonic Map of Kutai Basin	7
Figure 5	Regional Geology	9
Figure 6	Site Visit Track	10

### List of Appendices

Appendix A	Site Visit Photos – Concession 1 and Concession 2
Appendix B	Coal Quality Certificate



Jakarta, 10 August 2012

The Directors

**Victory West Metals Limited**

311-313 Hay Street

Subiaco 6008

Western Australia

Dear Sirs,

## **INDEPENDENT REPORT ON PENAJAM COAL PROJECT**

### **PREAMBLE**

PT New Resource Mine ("NRM") was commissioned by Victory West Metals Limited ("VWM") to prepare a technical review, (the "Review"), of the Penajam Coal Project consisting of Concession 1 and Concession 2 coal projects (collectively referred to as the "Projects"), located in the Penajam district, Penajam Paser Utara Regency, East Kalimantan, Indonesia approximately 50 km west of the city of Balikpapan (**Figure 1**).

The Projects are owned by Concession 1 and Concession 2. Concession 1 is located 0.25 km east of Concession 2. It is understood that this report will be used by VWM for the purpose of considering a potential investment in the Projects.

The status of concessions listed in this report is based on information provided by VWM and the report has been prepared on the assumption that the concessions will prove lawfully accessible for evaluation and development. NRM has been provided with hard copies of legal tenure of the concessions, and conducted site visits to the project locations.

There were no geological data provided by the VWM, therefore NRM was unable to estimate potential resources of the concessions.

NRM does not make any representation that the conclusions or opinions set out in this report will prove to be correct or are based on reasonable assumptions. NRM has prepared this Report using data and information provided by or on behalf of the Client and based on observations during site visit to the Projects. Unless specifically stated otherwise, NRM has not

independently verified that data and information. NRM therefore accepts no liability for the accuracy or completeness of that data and information. The conclusions and opinions contained in this report apply as at the date of the report. Additional data and information may have become available since that date which may impact on the conclusions and opinions.

This Report may only be presented in its entirety. Parties wishing to publish or edit selected parts of the text, or use the review for public reporting, must obtain prior written approval from NRM and the signatory of this Report. This Report has been prepared for the sole use of VWM. Any other party is subject to the third party disclaimer clauses contained in the body of this report.

This report was prepared by Mr. William Park, BSc (Geology), BEcon, MAIG (Member of the Australian Institute of Geoscientists) who is a full time employee of NRM. Mr. Park is a qualified Geologist who has more than 35 years of relevant mining and geological experience in coal, working for major mining companies and as a consultant. During this time he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, the Philippines and Indonesia. He has sufficient experience which is relevant to the style and type of deposit under consideration and to the activity he is undertaking to qualify him as a "Competent Person" as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

A handwritten signature in black ink, appearing to be 'W Park', with a horizontal line extending to the right.

.....

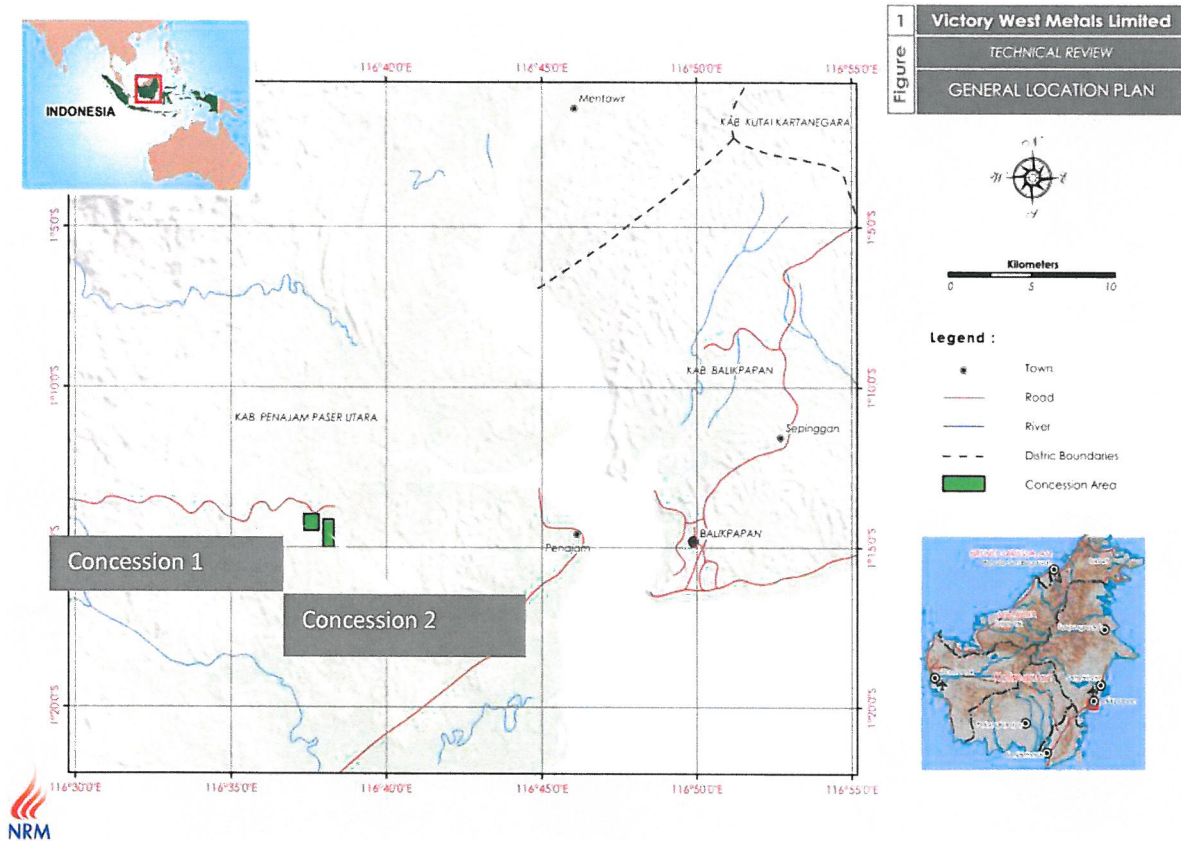
**William Park**

**Technical Manager**

**PT New Resources Mine Consulting**

## EXECUTIVE SUMMARY

PT New Resource Mine ("NRM") was commissioned by Victory West Metals Limited ("VWM") to prepare a technical review of the Penajam Coal Project. The project consists of 2 separate concessions, Concession 1 and Concession 2, (collectively referred to as the "Projects"), located in the Penajam district, Penajam Paser Utara Regency, East Kalimantan, Indonesia approximately 50 km west of the city of Balikpapan (Figure 1).



**Figure 1. General Location Map**

The Projects are located within Kutai Basin. Two coal bearing formations have been identified, the Middle Miocene age Pulaubalang Formation and Late Miocene age Balikpapan Formation.

The Projects were previously in production stages but both were recently suspended due to funding issue. It is understood that previous mining in Concession 1 were conducted in 5 separate pits with single seam in each pit. The product was hauled 8 km to a Jetty owned by Concession 1 at Muan River. Concession 2 operated a single pit and coal was hauled 10 km to the Concession 1 Jetty.

The coal is of Sub-Bituminous rank with average Total Moisture (TM) of 21.5% (ar), Inherent Moisture (IM) of 16.9% (ar), Caloric Value 5901 kcal/kg (adb), Caloric Value 5,574 kcal/kg (gar) and Ash is low (4.5 % air dried basis, adb). Limited seam outcrop suggests a relatively high Total



Sulphur (TS) ranging from 1.9 to 2.6%, however more test work for cored samples is required to confirm the actual TS to be expected

As of the date of reporting there were no mining data related to the mining activities provided to NRM and also no any previous drilling data or exploration report provided by client for evaluation purpose.

A Site visit was undertaken by senior NRM personnel from 3-4 April 2012. The outcomes of this Report are based on observations during the site visit.

### **Key Issues**

1. Land access in relation to the village and road to port.
2. Palm oil plantation owned by local people which cover most of the concession area.
3. No geological and mining data were available, therefore geological complexity, seam variability and economic viability of the Projects cannot properly determined.
4. Coal seams are typically thin with significant inter burden thickness.

## LOCATION AND ACCESS

The Project is located at latitude 1°15'N and Longitude 116°38' approximately 50 km west of Balikpapan city, East Kalimantan (Figure 1).



Figure 2. Transportation Rutes

Transportation from Jakarta to Balikpapan is by air with daily flights from Jakarta to Balikpapan. Access to the Projects via ferry to Penajam, and major provincial roads (Figure 2 and Figure 3).

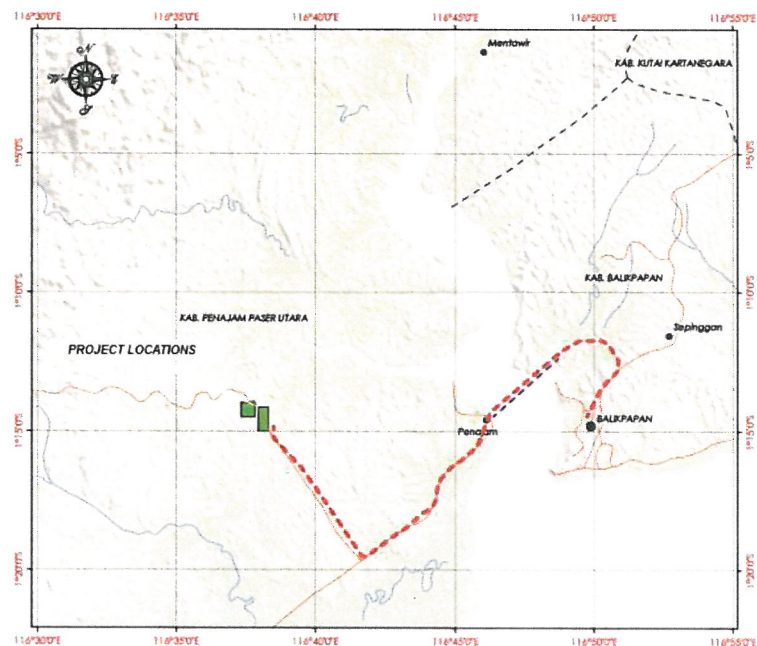


Figure 3. Transportation Route: Balikpapan – Projects Location

## PHYSIOGRAPHY

The Projects have undulating topography with low sub-parallel ridges trending to the northeast. A number of small creeks traverse the Projects with no major rivers. The Projects are predominantly covered by oil palm plantation owned by local people with average age of 9 years old.



**Photo-1. Topography of Project Location showing palm oil plantation**

## TENURE

The Projects are held under Izin Usaha Pertambangan (“IUP” or mining concessions) issued by the Regional Government. The status of the concessions is shown in **Table 1-1** below.

**Table 1.1 Mining Concessions**

Concession	Area (Ha)	IUP No	Date Issued	Term (yrs)	Status
Concession 1	85.85	545/24-IUP-OP/DISTAM/XII/2010	31 August 2010	3	Production
Concession 2	99.28	545/23-IUP-OP/DISTAM/XII/2010	9 Dec 2011	3	Production



## PREVIOUS EXPLORATION

The Client has not provided any previous exploration data or reports to NRM for both of Concession 1 and Concession 2.

## REGIONAL GEOLOGY

The Projects are within the Kutai Basin, the major sedimentary basin in Kalimantan with transitional deltaic to shallow marine sedimentation. The basin is bounded to the north by the Mangkalihat High; to the south the basin hinges on the Adang – Flexure (Adang-Paternoster Fault); to the west it is terminated by the Kuching High – part of the Kalimantan Central Ranges; and to the east is the Strait of Makassar (Figure 4).

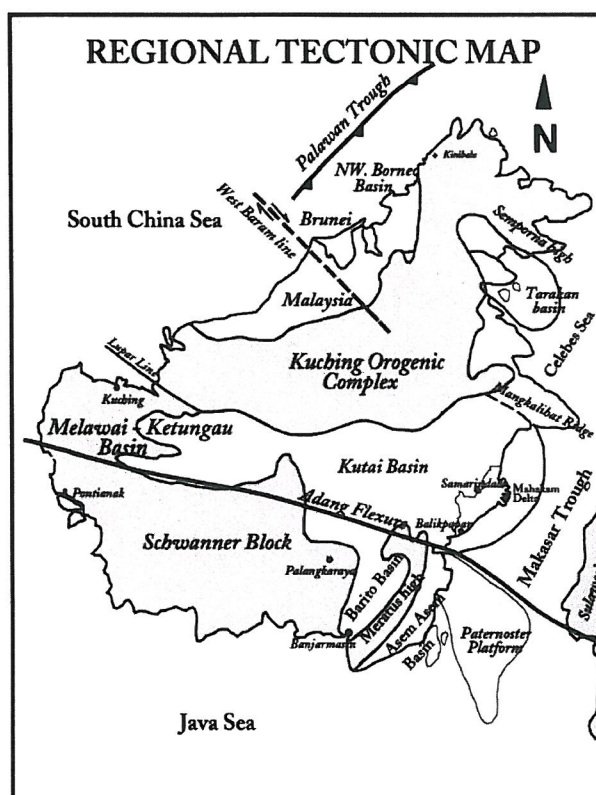


Figure 4. Regional Tectonic Map of Kutai Basin

The general stratigraphy of the basin is as described as follows:

**Alluvium (Qa)** consists of gravel, sand and mud, deposited in a fluvial, paludal, deltaic and coastal environment. The alluvium is generally uncompacted with thickness estimated between 1 to 25 meters.

**Kampungbaru Formation (Tpkb):** Quartz sandstone intercalation with clay, silt, and lignite, commonly soft and easily broken. Quartz sandstone is white, locally reddish or yellowish imbedded, easily broken, contains thin layers of iron oxide or concretionary, tuffaceous or silty,



and intercalation of conglomeratic sandstone or conglomerate containing fragments of quartz, chalcedony, red shale, and clay, diameter of 0,5 – 1 cm, commonly loose. Clay is dark grey to blackish which contains plant remains, coal fragments, and corals. The Silt is dark grey, slaty, and laminated. The thickness of the Lignite is 1-2 meters thick. Supposed to be of Late Miocene to Plio-Pleistocene age, deltaic to shallow-marine depositional environment, thickness estimated at more than 500 m. This formation overlies the Balikpapan Formation.

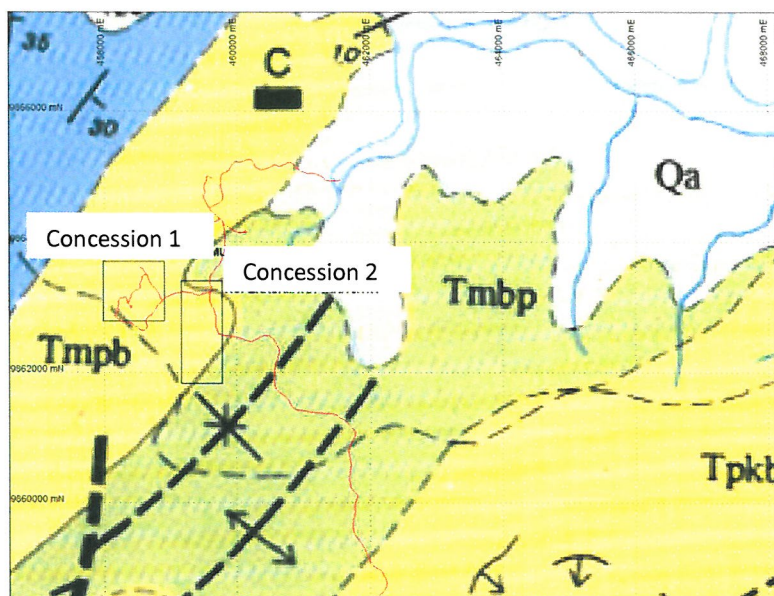
**Balikpapan Formation (Tmbp):** alternation of sandstone and clay intercalations with silt, shale, limestone and coal. Quartz sandstone, white to yellowish, bedding thickness is about 1-3 m, contains coal layers (5-10 cm). Calcareous sandstone, brown, shows graded bedding and cross bedding, thickness of bed 20 – 40 cm, contains small foraminifera, intercalated by thin layer of carbonaceous material. Clay, grey-blackish, locally contains plant remains, iron oxide, which have filled up the cracks of layers, locally contains calcareous sandstone lenses. Sandy limestone contains larger foraminifera, mollusks, which point to lower Late Miocene to upper Middle Miocene age. The depositional environment is regression stage of a delta front to delta plain with thickness between 1000-1500 m.

**Pulau Balang Formation (Tmpb):** Alternating greywacke and quartz sandstone intercalations with limestone, claystone, coal and dacitic tuff. Greywacke is greenish grey, compact with beds of 50-100 cm thick. Quartz sandstone is reddish grey, locally tuffaceous and calcareous, thickness of layers between 15-60 cm. Limestone is yellowish to light brown, contains large foraminifera, either as intercalation or as lenses in quartz sandstone, thickness of beds between 10-40 cm. Limestone exposed in Loa Haur River contains abundant large foraminifera, such as *Austrotrilina howchini*, *Borelis* sp, *Lepidocyclina* sp, *Miogypsina* sp, which indicates a Middle Miocene age and terrestrial to shallow marine depositional environment. The claystone is blackish grey with thickness of beds between 1-2 cm. If locally intercalating with coal, the beds could be as thick as 4 meters. Dacitic tuff is the white part which represents intercalations in the quartz sandstone.

**Bebuluh Formation (Tmb):** Reef limestone with intercalations of sandy limestone and shale. It is grey colored, compact, contains larger foraminifera, and medium grained. Crystalline limestone: irregularly jointed; Shale, brownish grey with intercalations of blackish dark grey fine-grained sandstone. Large foraminifera which can be found are: *Lepidocyclina Sumatraensis* BRADY, *Miogypsina* sp, *Miogypsinoidea* sp, *Operculina* sp, which point to Early Miocene to Middle Miocene, depositional environment is shallow marine and thickness estimated about 300 m. Bebuluh Formation is conformably overlain Pulau Balang Formation.

**Pamaluan Formation (Tomp):** Quartz sandstone intercalation with claystone, shale, limestone and siltstone; well bedded. Quartz sandstone is the major constituent of rock, blackish grey to brownish in color, fine to medium grained, well sorted, sub rounded, compact, carbonaceous and calcareous. Locally contains cross bedded and parallel laminated. The Thickness of layers is between 1-2 m. In average, the thickness of Claystone is 45 cm. It is shale, brownish grey to dark grey colored, compact, and thickness of layers about 10-20 cm. Grey limestone is massive, medium to coarse grained, locally bedded, contains large foraminifera. Siltstone is blackish to dark grey. Pamaluan Formation is the Lower- most exposed unit, and its upper part interfingers with Bebuluh Formation. Its thickness is estimated around 2000 m.

The geological structures that developed in the Kutai Basin, was namely folding and fault. The folding structure forms the klinorium on the axis direction of Northeast - Southwest. The Fault structure that develops is a reverse fault with the direction of the Northeast - Southwest and shear fault with a northwest - southeast.



**Figure 5. Regional Geology**

Based on regional geology map, Concession 1 lied on Pulubalang Formation, and Concession 2 mostly lied on Pulubalang Formation and small portion in Balikpapan Formation. Pulubalang Formation and Balikpapan Formation were identified as coal bearing formations in Kutai Basin.

## DISCUSSION

It is understood that as the date of reporting there were no mining data related to the mining activities and also no previous drilling data or exploration reports provided by the Client for evaluation purpose. The outcomes of this Report are based on literature study and observations during the site visit.





locations within previous pit and outcrops. Samples were submitted to PT Geoservices laboratory located in Balikpapan (see Appendix B).

- Approximately 8 km to the Jetty at the Muan River. The Jetty was owned by Concession 1.

### **Key Risks**

There are a number of key risks with the project.

- Land access in relation to the village and road to port.
- Palm oil plantation owned by local people covering most of the concession area.
- No geological and mining data were available, therefore geological complexity, seam variability and economic viability of the concession cannot properly determined.
- Multiple thin seams with significant inter burden thickness will likely result in potential narrow along strike pits.

### **Concession 2**

- Hilly morphology, mostly the concession area were covered by oil palm plantation owned by local people.
- Previous mining activity was recently stopped by the lease owner in the last few months.
- Outcrop exposures were not found in the concession and also in the ex pit due to flooding. Therefore coal quality could not be determined on this concession.
- Approximately 10 km to the Jetty at the Muan River. The Jetty was owned by Concession 1.

### **Key Risks**

There are a number of key risks with the project.

- Land access in relation to the village and road to port.
- Provincial road crossing the concessions.
- Palm oil plantation owned by local people covering most of the concession area.
- No geological and mining data were available, therefore geological complexity, seam variability and economic viability of the concession cannot properly determined.

## REFERENCES

The following were used as reference material in the preparation of the Report.

1. Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves, 2003.
2. Australasian Code for Reporting of Mineral Resources and Ore Reserves, (The JORC Code), 2004.
3. PusatPenelitiandanPengembanganGeologi, Bandung,PetaGeologiLembar Balikpapan, Kalimantan, 1994.

---

# **APPENDIX A**

## **Site Photos**

### **Concession 1 And Concession 2**



---

Photo 01 - Looking North, from Pit 1 Concession 1



Photo 02 - Coal outcrop ATN-1



Photo 03 – Pit 1 Concession 1



---

Photo 04 – Pit 2 Concession 1



Photo 05 – Pit 3 Concession 1



Photo 06 – Pit 4 Concession 1





---

Photo 07 – Pit 5 Concession 1

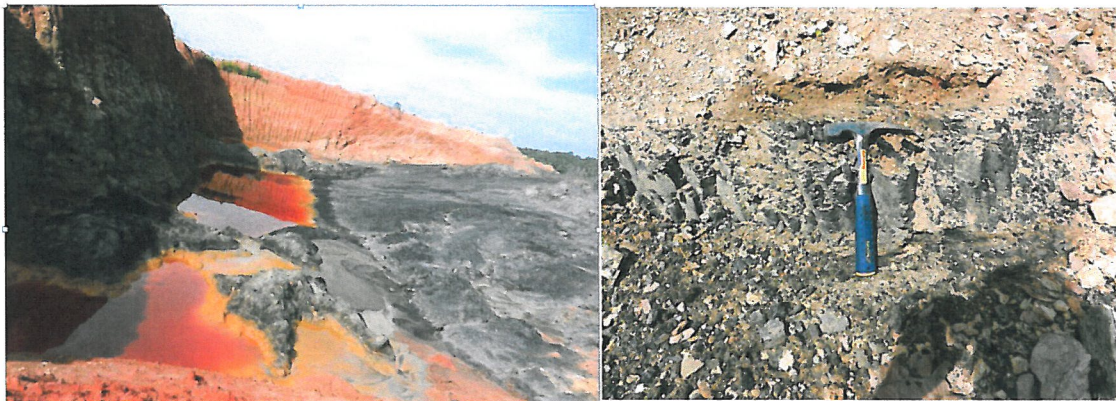


Photo 08 – Ex Pit Concession 2



Photo 09 – Limestone Crushing Plant inside Concession 2



---

Photo 10 – Provincial road crossing Concession 2



Photo 11 – Road to Port



Photo 11 – Port at Muan River



---

# **APPENDIX B**

## **Coal Quality Certificate**





# PT. GEOSERVICES

## BALIKPAPAN COAL LABORATORY DIVISION

Jl. Jend. MT. Haryono No. 161, Ring Road, Balikpapan, Kalimantan Timur, Indonesia  
Telp : (0542) 872155 Fax : (0542) 872034, 872151 www.geoservices.co.id



**PT. KAN**  
Kantor Akreditasi Nasional  
Laboratorium Pengujian  
LP-072-IDN

PT. UNITED MINING ENGINEERING SERVICES

Report No : 01.12.00628

Date : 02/03/12

Page 3 of 3

No.	Lab sample No.	Customer Sample ID	Date Sample Received	Mass Received	Total Moisture % at	Moisture in the analysis sample % adb	Ash % adb	Volatile Matter % adb	Fixed Carbon % adb	Total Sulphur % adb	Calorific Value cal/g adb	Calorific Value cal/g at	Relative Density
1	KT.12.02504	UMES 24	17/02/2012	3838.9	20.3	16.1	3.2	40.4	40.3	1.79	5825	5535	1.33
2	KT.12.02505	UMES 25	17/02/2012	3431.2	20.0	17.0	1.8	42.1	39.1	1.94	5971	5755	1.29
3	KT.12.02506	UMES 26	17/02/2012	8072.6	21.5	16.9	4.5	41.3	37.3	2.65	5901	5574	1.31

For and on behalf of  
PT. GEOSERVICES

Subyanto

Laboratory Manager

This report shall not reproduced except in full without the written approval of the testing laboratory  
( Laporan ini tidak boleh di reproduksi sebagian tanpa izin tertulis dari laboratorium pengujian )

---

## SCHEDULE 3

---

### PROPOSED CLASS B PERFORMANCE SHARES TERMS AND CONDITIONS

In this Schedule a reference to a "Performance Share" is a reference to a "Class B Performance Share" unless otherwise specified.

#### 1.1 Terms of Performance Shares

- (a) **(Performance Shares):** Each Performance Share is a share in the capital of Victory West Metals Limited (**Company**).
- (b) **(General Meetings):** Performance Shares shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of the Company.
- (c) **(No Voting Rights):** Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of the Company.
- (d) **(No Dividend Rights):** Performance Shares do not entitle the Holder to any dividends.
- (e) **(Rights on Winding up):** Performance Shares participate in the surplus profits or assets of the Company upon winding up of the Company only to the extent of \$0.000001 per Performance Share.
- (f) **(Reorganisation of Capital):** If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the ASX Listing Rules at the time of reorganisation.
- (g) **(Application to Recognised Securities Exchange):** Performance Shares will not be quoted on the ASX. However, upon conversion of the Performance shares into fully paid ordinary shares (**Ordinary Shares**) in accordance with the First Milestone, if the Company's Shares are quoted on the ASX at the time of conversion, the Company must within the time period required by the Listing Rules, apply for the official quotation of the Ordinary Shares arising from the conversion on the ASX.
- (h) **(Cleansing Statement)** If the Company's Shares are quoted on the ASX at the time of conversion, the Company will, within 5 Business Days of the issue of Ordinary Shares under, or otherwise connected with, the Performance Shares give a written notice to the ASX in accordance with section 708A(6) of the Corporations Act. If the Company cannot give a written notice under section 708A(6) of the Corporations Act, the Company will, as soon as practical, cause a prospectus to be lodged with ASIC for the purposes of section 708A(11) of the Corporations Act. Prior to either notice or prospectus being lodged, the Holder may only offer for sale the Ordinary Shares issued under, or otherwise connected with, the Performance Shares in circumstances that do not require disclosure in accordance with the Corporations Act or Listing Rules.
- (h) **(No Participation in Entitlements and Bonus Issues):** Holders of Performance Shares will not be entitled to participate in new issues of capital offered to holders of Ordinary Shares, such as bonus issues and entitlement issues, until the Performance Shares are converted into Ordinary Shares.
- (i) **(No Other Rights):** The Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these items.
- (j) **(Not Transferable):** The Performance Shares are not transferable.

#### 1.2 Conversion of the Performance Shares

- (a) **(Conversion on achievement of the First Milestone):** Each Performance Share will convert into one (1) Ordinary Share within 10 Business Days of the First Milestone being achieved.
- (b) **(Takeovers threshold):** The Performance Shares will not convert into Ordinary Shares to the extent that such conversion would, at the date of conversion, result in the Holder (or

any other person) breaching the 20% prohibition set out in section 606 of the Corporations Act.

- (c) **(Conversion if First Milestone not Achieved)**: If the First Milestone is not achieved within 3 years from the date of issue of the Performance Shares, then all of the Performance Shares held by the Holder will be converted to Ordinary Shares on the basis of 1 Ordinary Share for every 1 million Class B Performance Shares within 10 Business Days thereafter, with any fraction being rounded down.
- (d) **(Conversion Procedure)**: The Buyer will issue the Holder with a new holding statement for the Ordinary Shares as soon as practicable following the conversion of the Performance Shares into Ordinary Shares in accordance with condition 1.2(a) or condition 1.2(c).
- (e) **(Ranking of Shares)**: The Ordinary Shares into which the Performance Shares will convert will rank pari passu in all respects with existing Ordinary Shares.
- (f) **(First Milestone)**: The commercial shipment of at least 100,000 tonnes of coal (in a single or a number of shipments) from any of the Company's current coal projects.

---

## SCHEDULE 4

---

### PROPOSED OPTIONS TERMS AND CONDITIONS

#### 1.1 Nature of Options:

- (a) Each Option shall grant the holder of that Option the right but not the obligation to be issued by the Company one Share at \$0.30 (**Option Exercise Price**).
- (b) Subject to the vesting conditions (as set out in clause 1.2 below) (**Vesting Conditions**), each Option shall be exercisable, by the Option holder at any time after the time of its grant and on or prior to the date which is 3 years after the date of issue (**Option Expiration Date**), after which time it will lapse.
- (c) If the applicable Vesting Conditions are not satisfied prior to the Option Expiration Date, the Options will lapse.

#### 1.2 Vesting Conditions

- (a) An initial 11 million Options will vest upon the achievement of the First Milestone.
- (b) A further 11 million Options will vest upon the achievement of the Second Milestone.
- (c) A further 11 million Options will vest upon the achievement of the Third Milestone.

#### 1.3 Exercise of Options

An Option holder may exercise any of its Options at any time prior to their expiration, by delivery of:

- (a) an Option Exercise Form to the Company during normal business hours on any Business Day at the Company's principal executive offices on or prior to the Option Expiration Date; and
- (b) payment of an amount equal to the Option Exercise Price multiplied by the number of Shares in respect of which the Options are being exercised at the time.

Within the period required by ASX Listing Rules after the issue of Shares upon exercise of the Options, the Company shall apply to ASX for those Shares to be admitted to quotation. The Company will use reasonable endeavours to issue a notice in compliance of section 708A(5) of the Corporations Act within 5 Business Days of the issue of such Shares.

**1.4 Bonus Issues:** If prior to an exercise of an Option, the Company makes an issue of Shares by way of capitalisation of profits or out of its reserves (other than pursuant to a dividend reinvestment plan), pursuant to an offer of such Shares to at least all the holders of Shares resident in Australia, then on exercise of the Option, the number of Shares over which an Option is exercisable shall be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the date on which entitlements to the issue were calculated.

**1.5 Rights Issues:** There will be no change to the exercise price of an Option or the number of shares over which an Option is exercisable in the event of the Company making a pro rata issue of shares or other securities to holders of ordinary shares in the Company.

**1.6 Reconstruction of Capital:** If, prior to the expiry of the Options, there is a reorganisation of the issued capital of the Company, the rights of the holder of the Options will be changed to the extent necessary to comply with the ASX Listing Rules applying to reorganisations at that time.

**1.7 Rights Prior to Exercise:** Prior to its exercise, an Option does not confer a right on the Option holder to participate in a new issue of securities by the Company. The Company must give the holder at least 5 Business Days' notice of the record date for determining entitlements to that new issue in accordance with the ASX Listing Rules.

**1.8 Assignability and Transferability:** The Options shall not be assignable or transferable until such time as the relevant tranche vests in accordance with their terms. Thereafter the relevant tranche of Options may be assigned or transferred to another person, such as a trustee of a family superannuation fund, who is Controlled (within the meaning of the Corporations Act) and remains Controlled by the assignor or transferor, subject to any

restrictions imposed by the Corporations Act or by the Company for the purpose of complying with the ASX Listing Rules.

**1.9 No Quotation:** The Company will not apply to have the Options quoted on ASX.

**1.10 Milestones:**

**First Milestone** means the commercial shipment of at least 100,000 tonnes of coal (in a single or a number of shipments) from any of the Company's current coal projects.

**Second Milestone** means the Company having one or more projects with mines in production by no later than 3 years after of the Completion Date that collectively:

- (a) have an annualised Production of 1.2 million tonnes of coal per annum (this will be satisfied by two consecutive months of production at an annualised rate of 100,000 tonnes per month) from the Mines; and
- (b) have at least an aggregate 25 million tonne JORC Code compliant resource at a classification of at least Inferred status.

**Third Milestone** means the Company having two or more Projects by no later than 3 years after of the Completion Date that collectively:

- (a) have an annualised Production of 2.4 million tonnes of coal per annum (this will be satisfied by two consecutive months of production at an annualised rate of 200,000 tonnes per month) from the Mines; and
- (b) have at least an aggregate 50 million tonne JORC Code compliant resource at a classification of at least Inferred status.



---

## **SCHEDULE 5**

---

### **RISKS**

#### **Introduction**

There are a number of risks associated with the SEAE Acquisition that may have an impact on the financial returns received by Shareholders. These risks are important for Shareholders to understand.

Shareholders are already exposed to a number of risks through their shareholding in the Company and because the Company already holds the Malala Molybdenum project, an exploration project in Indonesia. A number of these risks are inherent in investing in securities generally and also inherent in any exploration company such as that of the Company.

The Directors believe that the advantages of the SEAE Acquisition outweigh the associated risks.

#### **Technical and other risks specific to the Penajam East Project**

Following are certain geological and other risks specific to the SEAE Acquisition and the Penajam East Project:

##### **1. Sulphur content**

The sulphur content of coal from the Penajam East Project is above market norms, and the Company anticipates blending the coal with low sulphur coal to produce a saleable product. Blending coal has risks, including increased costs, which may make production uneconomic.

##### **2. Lower quantities of coal**

Whilst exposed coal outcrops and seams confirm coal is located on the Concessions, there is no geological or mining data available for the Concessions and no JORC Code compliant resources or reserves have been established for the Penajam East Project. There is a risk that the quantity and quality of coal on the Concessions is less than believed, making production uneconomic.

##### **3. Payments to the Concession Holders and PT1**

Under the PT1 Coal Sales Contract, the price SEAE will pay PT1 for coal from the Penajam East Project is the cost of mining plus a certain margin. In turn, PT1 must pay a fixed price per tonne to the Concession Holders. There is a risk that the prevailing market price for coal and the payments to be made to either the Concession Holders or PT1 may make production uneconomic.

##### **4. High levels of rainfall**

Higher than expected levels of rainfall could make it difficult to continue production.

##### **5. Cost of production is higher than expected**

NRM has observed that the coal seams are typically thin with significant inter burden thickness. If the coal seams are too thin, too deep, or separated by hard material, the cost of production could be higher than expected.

##### **6. Acquisition of surrounding areas**

SEAE is proposing to acquire areas surrounding the Concessions. There are risks associated with any such acquisitions, including unknown environmental issues and risks ordinarily associated with acquiring additional assets.

## **Legal risks specific to the SEAE Acquisition and the Penajam East Project**

Following are certain legal risks specific to the SEAE Acquisition and the Penajam East Project:

### **7. Expiry of Concessions**

The Production Operation Concessions are for terms of three years only, expiring in August 2013. Under the terms of the Concessions, the period to apply for an extension of the Concessions has expired. If the Concession Holders are able to apply for extensions, there can be no assurance that the extensions will ultimately be granted.

### **8. Access and compensation arrangements**

Palm oil plantations owned by local people cover most of the Concessions.

The Concession Holders are required to negotiate suitable access or compensation arrangements with the local community, including the owners of the plantations, for the conduct of mining activities. In addition, the Concession Holders may be required to negotiate with holders of competing rights in the relevant concession areas, including the plantation rights referred to in section 4.2(8) and section 4.3(8) of the Independent Solicitors' Report and on page 4 of the Independent Geologist's Report. There is a risk that such agreement may not be agreed or agreed on terms disadvantageous to the Company.

### **9. Land claims by locals**

It is not uncommon in Indonesia for land title claims to be made by local people with respect to land in the relevant concession area, or outside of the concession area, regardless of the actual merits of the claim.

### **10. SEAE's rights are contractual**

The rights of SEAE with respect to the Concessions are contractual in nature only. In practical terms, the enforcement of contractual rights in Indonesia can be very difficult. If any party to the relevant contracts breaches its obligations, it may be difficult for either SEAE to obtain an order for specific performance or satisfactory compensation. The Coal Sales Contract provide for dispute resolution before the Central Jakarta District Court. A judgement based on the merits of a case may not necessarily be assured.

A management committee formed under the PT1 Coal Sales Contract and consisting of representatives of SEAE, each of the Concession Holders and PT1 advises the Concession Holders with respect to mining activities on the Concessions. Neither Concession Holder is a party to the Coal Sales Contract between SEAE and PT1 and as a matter of law are not obligated to follow directions from the management committee and as such, there is a risk that they may not follow the committee's requests. This may adversely impact any mining activities on the Concessions.

### **11. Validity of the head coal sales contracts**

The continued viability of the Company's interest in the Penajam East Project depends on the continued validity of the coal sale contracts between the Concession holder and PT1, which is beyond the control of SEAE.

### **12. Environmental approvals**

The Concession Holders may be required to obtain approval from the relevant authorities before they can undertake mining activities which are likely to impact on the environment.

### **13. Proposed ban on exporting low calorific coal**

The Government of Indonesia has indicated its intention to ban low-calorific coal exports from 2014. The Indonesian Minister of Energy and Mineral Resources circulated a draft regulation regarding "value added upgrading of minerals and coal through processing and refining activities" (the "Draft Regulation"). Under the Draft Regulation, coal with a calorific value of

5700 kcal/kg or below on an air-dried basis will be banned from being exported from January 2014. This threshold has oscillated in subsequent drafts between 5100 and 5700 kcal/kg.

As at the date of this Explanatory Statement, it is unclear whether this regulation will ultimately be issued. However and if the Draft Regulation is issued, there is a risk that coal from the Penajam East Project may not be exported. This will limit the markets in which such coal can be sold.

Further information on the legal regime in Indonesia and associated risks are set out in the Independent Legal Report.

## **Country risks**

Following are certain risks specific to investments in Indonesia:

### **14. Country risk**

Indonesia experiences economic, social and political volatility. The Company's activities, including development of the Penajam East Project and acquiring further projects, may be impacted by currency fluctuations, political reforms, changes in government policies and procedures, civil unrest, social and religious conflict, labour unrest and fluctuating economic conditions.

### **15. Changes to Indonesia's mining laws and regulations**

Indonesia's mining laws and regulations have been subject to considerable change in recent years, and further changes are anticipated (including, for example, the proposed ban on export of low calorific value coal, as mentioned in section 4.1(6) of the Independent Legal Report). These changes may impact upon the viability, and the profitability, of the Penajam East Project.

### **16. Terrorist attacks**

Terrorist attacks remains a risk in Indonesia.

### **17. Exchange rate risk**

The Company's current and proposed operations are in Indonesia. Movements in Indonesia's currency, the rupiah, may adversely affect the Company's operations.

## **Other risks specific to the Company, the SEAE Acquisition and the Penajam East Project**

In addition to the above risks, the Company is also subject to certain risks as a result of the SEAE Acquisition, including the following:

### **18. Funding risks**

The SEAE Acquisition is not conditional on the Company raising funds, although the Company is proposing to raise \$6 million. The Directors believe that the funds will be raised, although there is no certainty of this.

Without funds the Company will not be able to develop the Penajam East Project, fund activities to acquire or develop further projects or pay \$750,000 to the Vendor within 12 months of completion, as required under the Share Purchase Agreement. Furthermore, following completion of the SEAE Acquisition, the Company will have total current liabilities of approximately \$6.8m at 30 April 2012. The Company expects that some of this debt will be converted to Shares or deferred payment terms agreed. However there is a risk that they may not.

There is a risk that additional funding may not be available on advantageous terms or at all. Any inability to obtain additional finance will have a material adverse effect on the Company's business and financial condition and performance.

## **19. Development costs**

As at the date of this Explanatory Statement the Company is unable to reliably estimate the likely costs of developing the Penajam East Project to production. There is a risk that these costs, including unforeseen costs, may adversely affect the viability of the project.

## **20. Liquidity risk**

Due to the size and nature of the Company, the liquidity of its Shares traded on ASX can be low. This could impact on Shareholders' ability to sell their Shares.

## **Mineral industry risks**

### **21. Exploration, development and mining risks**

Mineral exploration, project development and mining by their nature contain elements of significant risk. Ultimate and continuous success of these activities is dependent upon many factors outside the Company's control, such as:

- (a) the discovery and/or acquisition of economically recoverable ore resources;
- (b) successful studies for the mining and production of saleable product;
- (c) design and construction of efficient mining and processing/blending facilities within capital expenditure budgets;
- (d) securing and maintaining all necessary title and approvals for exploration and mining activities;
- (e) access to competent operational management and prudent financial and technical administration, including the availability of appropriately skilled and experienced employees, contractors and consultants; and
- (f) adverse weather conditions and natural disasters (such as earthquakes).

### **22. Resource and reserve estimates**

Resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and mining plans which may in turn adversely affect the Company's operations and the value of its securities.

### **23. Commodity prices**

The demand for, and pricing of coal and other commodities, is highly dependent on a variety of factors, including international supply and demand, the price and availability of alternative fuels, actions taken by governments, and global economic and political developments.

## **General risks**

### **24. Economic conditions**

The Company's performance may be significantly affected by changes in both domestic and international market conditions. Relevant factors include growth, interest, inflation and exchange rates, and changes in fiscal, monetary and regulatory policies, and sovereign or political risk both in Indonesia, Australia and globally.

**25. Share market conditions**

The Company is listed on ASX, and the price of its Shares are subject to numerous influences that may affect both the broad trend in the share market and the prices of individual companies and sectors.

**26. Capital availability**

Current economic conditions can impact on the availability of equity and debt finance available to exploration companies, including the Company.

**Investment Speculative**

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

## SCHEDULE 6

Set out below is a notional unaudited pro-forma statement of financial position as at 30 April 2012 adopting the assumptions set out in the notes.

	<b>Pro forma - Unaudited Financial Position</b>		
	<b>Notional Consolidated pre SEAE Acquisition 30-Apr-12 \$</b>	<b>Notional Consolidated post SEAE Acquisition and \$3m fund raising 30-Apr-12 \$</b>	<b>Notional Consolidated post SEAE Acquisition and \$6m fund raising 30-Apr-12 \$</b>
<b>Current Assets</b>			
Cash and cash equivalents	471,997	3,293,802	6,113,802
Trade and other receivables	511,019	511,019	511,019
Prepayments	91,016	91,016	91,016
<b>Total Current Assets</b>	<b>1,074,031</b>	<b>3,895,837</b>	<b>6,715,837</b>
<b>Non-Current Assets</b>			
Receivables	686,737	7,737	7,737
Property, plant and equipment	7,223	7,223	7,223
Exploration and evaluation expenditure	15,867,664	24,906,651	24,906,651
Other financial assets	4,848	4,848	4,848
<b>Total Non-Current Assets</b>	<b>16,566,472</b>	<b>24,926,459</b>	<b>24,926,459</b>
<b>Total Assets</b>	<b>17,640,504</b>	<b>28,822,296</b>	<b>31,642,296</b>
<b>Current Liabilities</b>			
Trade and other Payables	1,265,098	1,792,053	1,792,053
Borrowings	2,655,000	2,655,000	2,655,000
Other current liabilities	547,935	547,935	547,935
SEAE Acquisition Consideration	-	750,000	750,000
<b>Total Current Liabilities</b>	<b>4,468,032</b>	<b>5,744,987</b>	<b>5,744,987</b>
<b>Non-Current Liabilities</b>			
Trade and other Payables	-	221,777	221,777
SEAE Deferred Acquisition Shares Consideration	-	1,925,000	1,925,000
Borrowings	-	840,560	3,840,560
<b>Total Non-Current Liabilities</b>	<b>-</b>	<b>2,987,337</b>	<b>5,987,337</b>
<b>Total Liabilities</b>	<b>4,468,032</b>	<b>8,732,324</b>	<b>11,732,324</b>
<b>Net Assets</b>	<b>13,172,471</b>	<b>20,089,971</b>	<b>19,909,971</b>
<b>Equity</b>			
Issued Capital	21,502,323	28,172,323	27,992,323
Reserves	(4,177,749)	(3,930,249)	(3,930,249)
Accumulated losses	(4,119,577)	(4,119,577)	(4,119,577)
Parent entity interest	13,204,996	20,122,496	19,942,496
Minority equity interest	(32,525)	(32,525)	(32,525)
<b>Total Equity</b>	<b>13,172,471</b>	<b>20,089,971</b>	<b>19,909,971</b>

**Assumptions:**

1. The above pro-forma notional statement of financial positions has been prepared based on management accounts and has not been audited. Fair values are reported at historical values and the statement has been prepared on a going concern basis.
2. Completion of the SEAE Acquisition as at 30 April 2012.
3. Completion of the proposed \$6 million fund raising as at 30 April 2012 as proposed by Resolutions 3 and 4.
4. Elimination of intercompany loans of \$699,000 owed by SEAE to the Company at 30 April 2012.
5. Issue of 110 million Class B Performance Shares to the vendors at an issue price of \$0.035 each. The issue of 33 million Options to the vendors at an issue price of \$0.015 each. Estimated contingent deferred consideration issue of 220 million Shares at an issue price of \$0.035 per share adjusted for a probability percentage with regards to Milestones 1 and 2 being achieved of 35% and 15%, respectively. The total estimated costs of the acquisition are estimated to be \$6,772,500. This includes an estimate for the contingent consideration component of acquisition (i.e. 220 million shares upon achievement of milestones 2 and 3).

The actual Consideration Securities will be based on the market price of the company's securities at the date of shareholder approval.

6. The acquisition of SEAE has been based on SEAE's book values. The recoupment of the investment in SEAE and the Group is dependent on the successful development and commercial exploitation or sale of the SEAE's Penajam East project in Indonesia.

## SCHEDULE 7

### MATERIAL CONTRACTS

Following are material terms of each material contract entered into by SEAE and under which certain services for exploration, development and mining of coal projects in Indonesia will be undertaken:

Counterparty	Title	Date	Term	Fee	Termination rights
United Asia Energy Pte Ltd	Mine operations services agreement	1 July 2011	5 years	From 1 May 2012 <ul style="list-style-type: none"> <li>• Monthly fee of \$100,000 plus \$50,000 for each additional project</li> <li>• \$1-2 per tonne of coal sold</li> <li>• Cost plus 20% for all services provided</li> <li>• Coal sale fee of \$1 to 3<sup>rd</sup> parties</li> </ul>	Exclusive right to sell coal on behalf of the Company.  Right to terminate without cause on 30 days' notice
Coalequip Pty Ltd	Engineering and processing operating services agreement	30 May 2011	3 years	<ul style="list-style-type: none"> <li>• Monthly fee of \$30,000</li> <li>• Cost plus 25% for all services provided</li> </ul> Paid from the commencement of the first project	Right to terminate without cause on 30 days' notice
United Pastoral Pty Ltd	Mine operations consultancy agreement	30 May 2011	3 years	<ul style="list-style-type: none"> <li>• Monthly fee of \$33,200</li> <li>• Cost plus 15% for all services provided, to be deducted from the monthly fee</li> </ul> Paid from the commencement of the first project	Right to terminate without cause on 30 days' notice
Continental Mining and Materials Handling Pty Ltd	Materials handling consultancy services agreement	1 June 2011	3 years	<ul style="list-style-type: none"> <li>• Monthly fee of \$25,000, to be deducted from monthly invoices</li> <li>• Cost plus 20% for all services provided</li> </ul> Paid from the commencement of the first project	Right to terminate without cause on 30 days' notice

The contracts are otherwise on the same terms and which are customary for service agreements of this nature.



# Victory West Metals Limited

ABN 66 009 144 503

## Lodge your vote:



### By Mail:

Computershare Investor Services Pty Limited  
GPO Box 242 Melbourne  
Victoria 3001 Australia

Alternatively you can fax your form to  
(within Australia) 1800 783 447  
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only  
(custodians) [www.intermediaryonline.com](http://www.intermediaryonline.com)

### For all enquiries call:

(within Australia) 1300 850 505  
(outside Australia) +61 3 9415 4000

000001 000  
MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

## Proxy Form

For your vote to be effective it must be received by 10:00am (Perth time) Sunday, 23 September 2012

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**Turn over to complete the form** →



View your securityholder information, 24 hours a day, 7 days a week:

**[www.investorcentre.com](http://www.investorcentre.com)**

- Review your securityholding
- Update your securityholding

**Your secure access information is:**

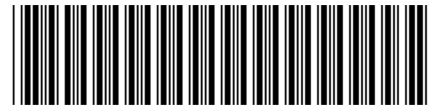
**SRN/HIN: I999999999**



**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE  
 FLAT 123  
 123 SAMPLE STREET  
 THE SAMPLE HILL  
 SAMPLE ESTATE  
 SAMPLEVILLE VIC 3030

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

# Proxy Form

Please mark  to indicate your directions

## STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Victory West Metals Limited hereby appoint

the Chairman of the meeting OR

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Victory West Metals Limited to be held at Subiaco Arts Centre, 180 Hamersley Road, Subiaco, Western Australia, on Tuesday, 25 September 2012 at 10:00am (Perth time) and at any adjournment of that meeting.

## STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Resolution 1 Approval of Proposed SEAE Acquisition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Approval of Issue of Consideration Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Approval of Proposed Issue of Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 Approval of Proposed Issue of Convertible Notes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 Ratification of Prior Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 Ratification of Prior Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 Ratification of Prior Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

## SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date / /