

Fairstar Resource's Joint Venture Partner

Knight Industries Pty Ltd

The Company:

Knight Industries Pty. Ltd. is a family-owned Australian company registered in June 1966 and is listed as an oil explorer in the Australian Oil Directory. Its founder was Lindsay Knight and the present CEO and Chairman of the Board is his son, Robert Knight.

The company had its origins as an electronics and electro-mechanical research and development company with its technical facilities and marketing office located at Albury, a provincial city of New South Wales, Australia.

Lindsay Knight and the Knight family were the driving force and founders of Australasian Training Aids Pty Ltd (ATA). ATA invented, developed and manufactured instrumentation in the field of high technology military marksmanship training. The company developed the Super-Dart Basic Marksmanship Training Range, which included the Super-Dart Projectile Location System (utilizing supersonic energy detection) and the Lindsay Knight Rifle Trainer System. At the height of its activities, ATA was employing 350 engineers, technicians and support staff in its Albury facilities and had subsidiary companies in the UK and USA and offices in the Middle East. The company designed and supervised the construction of Military Small Arms and Tank Ranges in 17 countries worldwide.

Exploration Activities:

Beginning in 1990, Knight Industries increasingly directed its skills and energies to the field of geophysical surveying. Using in-house developed proprietary techniques, Knight Industries surveyed many hydrocarbon and mineral prospects in Australia and overseas throughout at 15 year period and retains interests in the following hydrocarbon and mineral leases:

- Petroleum Exploration Permit (PEP-165) in Victoria, Australia.
- A petroleum permit in Western Australia.
- Prospective petroleum and mineral permit acreage in Queensland, Australia.
- A mineral Exploration Lease in Victoria, Australia [controlling interest].
- Hydrocarbon properties in New Mexico, USA [55,000 acres encompassing 80 leases], along with a number of mapped but yet unregistered mineral and hydrocarbon prospects in USA.

Knight Industries has built up a trusted network of contacts with other Australian Oil Companies with the ability to tap into prospective acreage and Joint Venture deals.



Drilling Rig being setup on dusk at Kelly1 well site.



Kelly1 well site proving hydrocarbon shows in the Murray basin.

The Knight proprietary system was extensively calibrated on

- in excess of 120 oil wells drilled in Australia, both on-shore and off-shore, including the North West Shelf and Bass Strait,
- in excess of 140 oil wells in the following states of USA - Texas, Oklahoma, Kansas, Nevada, Wyoming and Louisiana and California.
- on-shore and off-shore wells located in the UK, New Zealand, Papua New Guinea and the Seychelles.

The system has been developed to a point where it will indicate depth and pay zone, whether the oil is live or dead, degree of depletion, tight oil or gas, gas residue or residual oil.

A ground survey can,

Map the perimeter of a hydrocarbon accumulation

Ascertain the sub-surface depth and thickness of each hydrocarbon accumulation

Identify the lithology within a prospect or at a specific site

Identify the number of reservoirs and the type of hydrocarbons present in each reservoir

Determine the composition of reservoirs to enable preparation of permeability estimates

Determine the type and thickness of seal(s) and basement

Determine the approximate gas/oil, water/oil and CO₂/methane ratios

Determine the relative salinity of any water in or beneath a reservoir

Map faults and determine if they are sealing or non sealing

The Knight System is based on a direct survey not an indirect survey. It targets the substance not the makeup of what holds the substance. Therefore in hydrocarbon exploration it indicates the presence of oil or gas or fractions combining to its makeup and then puts the geological picture together to determine commercial quantities.



Solid cores laying in core trays taken from Kelly1 well site at approx 611m. Taking solid cores from the core barrel.

Once system calibration was largely completed, the Knight system was tested for its ability to assess new fields. It was applied to more than 80 well sites prior to drilling. It was used to assess in advance of drilling whether the well would be dry or producing and was found to be correct in 11 out of 12 development wells and 66 out of 76 wildcat wells.

Amongst the correct assessments were the Hovea wells in WA, first drilled in 2002 and which all have been producing wells.

The York 1 well in Kansas, USA which KI was part of as a joint venture.

Pictures of some correct assessments and projects.

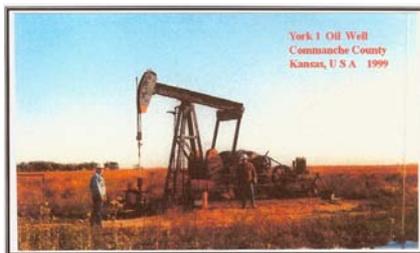
Hovea2 – Gas production well. 2475m to top of gas.



Hovea1 – Oil production well. Approx 1930m to top of oil. Flowed 2000 bpd.

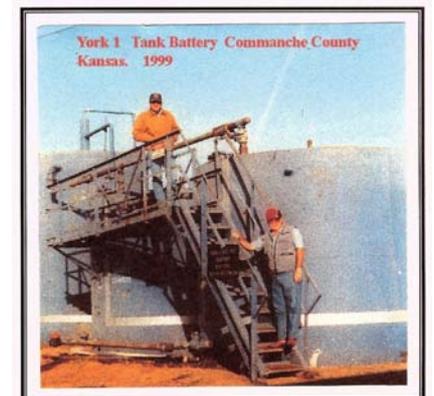


Sage1 Prospect oil and gas. Flowed 1180 bpd and 328 mcf/d



York1 Oil Well Kansas USA - pumping nodding donkey

York1 Oil Well Kansas USA - Production tanks



New Mexico Exploratory Hole

In July, 2005, using limited private funds, Knight and their lease co-owners, drilled an exploratory hole on one of their New Mexico prospects. The intention was to drill to a depth of 3000 feet, however, at this stage drilling has ceased at 2000 feet. The hole has been capped and will be re-entered as the first hole in a properly-funded exploration program.

At around 1400 feet, the drill passed through pockets of coal bed with methane gas bubbling up through the drilling fluid. Around 1500 to 1600 feet, the lithology changed from primary sandstone to a limestone environment but the shows of methane continued.



Rig setup in New Mexico, USA.

It was most unusual to find hydrocarbon shows continuous across a lithologic boundary such as that between sandstone and limestone. The only geologic explanation would appear to be that the primary deposit is below drill depth and that methane is coming up through cracks and fissures and spilling into whatever pocket will hold it – the drill having passed through a series of gaseous methane “over-bubbles”. It is not uncommon for the rock formations above oil and gas accumulations to contain pockets of trapped oil and gas that have moved up-wards in the rock column via fractures.

Rig setup in New Mexico, USA.



The gas found was thermogenic methane; definitely burnable gas. Exploration geologists agree that this is very encouraging news. As the vast majority of the planet surface contains no hydrocarbon shows at all, the presence of hydrocarbons within the column of the first hole [and that only partially-drilled] in a totally unexplored area is a matter of great excitement.

The long term outcome of the New Mexico exploration is that it could be the first defining discovery of a long term play. If so, it would not be the first time that a chain of big oil fields have been discovered in the western interior of USA once geologists discovered what specific criteria they should be looking for.

PEP 165 has the potential to duplicate this success with a strong joint venture partner.



Picture from PEP 165, Australia