

BKM MANAGEMENT LIMITED

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20 September 2011

Conversion of Notes

The Company has recently received appreciated support from the majority of existing Note holders by way of agreement to convert to fully paid ordinary shares (subject to shareholder and any regulatory approval). This support has enabled the Company to take steps in its capital restructuring program and reduce Note liabilities. The conversion of the Notes is important to the company at this stage as it addresses the negative net asset position, reduces short term finance costs, and converts at a premium to recent low market prices. The conversion is subject to appropriate regulatory and shareholder approval and will be included as business at the upcoming AGM.

Upon conversion the company will be in a clean financial position with minimal debt. The table attached shows the proforma 30 June 2011 Unaudited Statement of Financial Position as it would appear if the notes had been converted at 30 June 2011.

Yours sincerely,

BKM MANAGEMENT LIMITED



Phillip Hains
Company Secretary

Statement of Financial Position			
	Pre conversion 30 June 2011	Convert Convertible Notes	Post conversion 30 June 2011
<u>Current Assets</u>			
Cash and cash equivalents	\$367,811	\$0	\$367,811
Trade and other receivables	\$200,192	\$0	\$200,192
Other	\$10,547	\$0	\$10,547
Total Current Assets	\$578,550	\$0	\$578,550
<u>Non-Current Assets</u>			
Other financial assets	\$1,048,467	\$0	\$1,048,467
Plant and equipment	\$3,260	\$0	\$3,260
Goodwill	\$49,878	\$0	\$49,878
Total Non-Current Assets	\$1,101,605	\$0	\$1,101,605
TOTAL ASSETS	\$1,680,155	\$0	\$1,680,155
<u>Current Liabilities</u>			
Trade and other payables	\$777,568	(\$110,387)	\$667,181
Borrowings	\$1,060,970	(\$764,000)	\$296,970
Provisions	\$18,555	\$0	\$18,555
Total Current Liabilities	\$1,857,093	(\$874,387)	\$982,706
<u>Non-Current Liabilities</u>			
Borrowings	\$273,000	(\$153,000)	\$120,000
Provisions	\$30,800	\$0	\$30,800
Total Non-Current Liabilities	\$303,800	(\$153,000)	\$150,800
TOTAL LIABILITIES	\$2,160,893	(\$1,027,387)	\$1,133,506
NET ASSETS	(\$480,738)	\$1,027,387	\$546,649
<u>EQUITY</u>			
Issued capital	\$25,113,947	\$1,027,387	\$26,141,334
Prior year accumulated loss	(\$24,305,530)	\$0	(\$24,305,530)
Current year accumulated loss	(\$1,279,765)	\$0	(\$1,279,765)
Parent Entity Interest	(\$471,348)	\$1,027,387	\$556,039
Minority equity interest	(\$9,390)	\$0	(\$9,390)
TOTAL EQUITY	(\$480,738)	\$1,027,387	\$546,649