

BKM MANAGEMENT LIMITED

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09 September 2010

Mr Cameron Bill
Adviser, Issuers (Perth)
ASX Compliance Pty Limited
GPO Box D187
Perth WA 6840

By facsimile: 08 9221 2020

Dear Mr Bill,

RESPONSE TO BKM MANAGEMENT LTD QUERY

I refer to your letter dated 3 September 2010, and provide the following responses to your questions, using the same order:

1. *"Is it possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the financial year indicated by the Annual Report, the Company may not have sufficient cash to fund its activities in the near term? Is this the case, or are there other factors that should be taken into account in assessing the Company's position?"*

Answer: The Company has, and does, tightly manage its cash resources. The Annual Report shows a loss for the group of \$544k and included within this is a Net Fair Value Loss of \$174k and Finance Costs capitalized of \$113k, resulting in a cash loss of \$257k. This is also reflected in the Statement of Cashflows showing Net Cash Used in Operating Activities of \$201k for the year (difference of \$56k being working capital movements).

From the June quarterly Appendix 4C report it can be noted that the June quarter was cashflow positive by \$4k (year to date negative \$215k).

The Company is evaluating opportunities to increase its working capital and funds available to increase operating activities in the near future.

2. *"Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Annual Report for the 2010 financial year and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?"*

Answer: As stated above, the Company does expect to continue to maintain tight cash control going forward. The Company is evaluating opportunities to increase its working capital and funds available to increase operating activities in the near future. Further, the Company also has a successful history of financing its activities through the issue of equity and debt securities and is confident it will continue to do so as appropriate.

3. *"To what extent have the Company's actual revenues and expenses in the financial year, as reported in the Annual Report, matched the Company's anticipated revenues and expenses for that reporting period?"*

Answer: The Company's actual revenues and expenses in the financial year, as reported in the Annual Report, are in line with the anticipated revenues and expenses for that reporting period.

4. *"If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses."*

Answer: Not applicable.

5. *"What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?"*

Answer: The Company continues to meet its business objectives through both direct operations and strategic investments. As previously announced in March 2010 and disclosed in the Annual Report, the Company is currently assessing a number of new projects which will have a positive effect on the Net Assets of the Company. Further announcements in relation to these new projects will be made in due course.

6. *"Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?"*

Answer: The Company confirms that it is in compliance with the Listing Rules and in particular its continuous disclosure obligations under Listing Rule 3.1.

7. *"Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule."*

Answer: The Company considers that it complies with Listing Rule 12.2. The Company's current liabilities include an amount of \$1,191,000 which relates to convertible notes which have a due date which is the earliest of:

- a. such date as the Note Holders may request in writing, in the prescribed format, to the Company at the Note Holders sole and absolute discretion; and
- b. the expiry dates as stated below:
 - i. \$333,000 on 30 Sep 2010;
 - ii. \$100,000 on 31 Oct 2010;
 - iii. \$506,000 on 8 Nov 2010; and
 - iv. \$252,000 on 31 March 2011.

As stated in the Annual Report, the Directors have been in discussion with the Note Holders and are satisfied that the notes can be extended for a further period of 12 months or converted to equity.

In addition, we note the decline in Total Assets of \$170k is in line with the Net Fair Value Loss recorded in Statement of Comprehensive Income, and the increase in Total Liabilities of \$80k is in line with the capitalised / accrued Finance Costs recorded in Statement of Comprehensive Income.

Yours sincerely,
BKM MANAGEMENT LIMITED



Phillip Hains
Company Secretary



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3 September 2010

Mr Phillip Hains
Company Secretary
BKM Management Limited
Suite 1, 1233 High Street
ARMADALE VIC 3143

By e-mail: phillip@thecfo.com.au

Dear Phillip,

BKM Management Limited (the "Company")

I refer to the Company's audited Appendix 4E and Annual Report for the year ended 30 June 2010, released to ASX Limited ("ASX") on 31 August 2010 (the "Annual Report").

ASX notes that the Company has reported the following as at 30 June 2010:

1. Net profit (loss) for the period attributable to members of -\$552,436.
2. Total current assets of \$388,448.
3. Total current liabilities of \$1,855,923.
4. Net assets of \$436,570.

ASX listing rule 12.2 provides, that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

The note to the listing rule states the composition of the balance sheet, relative size of liabilities to assets and access to funds are some of the indicators of an entity's financial condition.

ASX notes the comments in the Annual Report regarding continuation of the Company as a going concern (including those from the auditor).

In light of the information contained in the Annual Report, please respond to each of the following questions.

1. Is it possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the financial year indicated by the Annual Report, the Company may not have

sufficient cash to fund its activities in the near term? Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Annual Report for the 2010 financial year and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. To what extent have the Company's actual revenues and expenses in the financial year, as reported in the Annual Report, matched the Company's anticipated revenues and expenses for that reporting period?
4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.
5. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
6. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
7. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response will be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me on **facsimile number (08) 9221 2020**. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, **not later 5:00pm WST on Friday 10 September 2010**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities. If you have any queries, please contact me on (08) 9224 0054.

Yours sincerely,



Cameron Bill
Adviser, Issuers (Perth)