

# **BKM MANAGEMENT LTD**

**ACN 009 146 543**

## **NOTICE OF GENERAL MEETING**

**TIME:** 2.30pm (AEST) (registration commencing 2.15pm)

**DATE:** 5 September 2013

**PLACE:** THE CFO SOLUTION  
Suite 1, 1233 High Street  
Armadale, Victoria 3143

**This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.**

**Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 3) 9824 5254**

## BKM MANAGEMENT LIMITED

### NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the Shareholders of BKM Management ACN 009 146 543 will be held at Suite 1, 1233 High Street, Armadale, Victoria 3143 on 5 September 2013 at 2.30pm AEST.

The attached Explanatory Memorandum is provided to supply Shareholders with information to enable Shareholders to make an informed decision regarding the Resolutions set out in this Notice.

The Explanatory Memorandum is to be read in conjunction with this Notice.

#### **A. Business – Ordinary Resolutions**

##### **Resolution 1 – Approval of change in nature and scale of activities:**

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

*“That subject to and conditional upon the passing of all of the Resolutions, for the purposes of Listing Rule 11.1 and for all other purposes, approval is given for the Company to make a significant change in the nature and scale of its activities as explained in the Explanatory Memorandum.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this resolution by any person who may participate in the issue or might obtain a benefit and any of their associates. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

##### **Resolution 2 – Approval of issue of Initial Consideration Shares to Lymex Shareholders as consideration for the acquisition of Lymex Tenements Pty Ltd**

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

*“That, subject to the passing of all of the Resolutions, for the purposes of ASX Listing Rule 7.1 and all other purposes, approval is given for the Company to allot and issue 25,000,000 Shares to the Lymex Shareholders (on a post Consolidation basis) for the purposes and on the terms set out in the Explanatory Memorandum.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this resolution by any person who may participate in the issue or might obtain a benefit and any of their associates. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

**Resolution 3 – Approval of issue of Initial Consideration Options to Lymex Shareholders as consideration for the acquisition of Lymex Tenements Pty Ltd**

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

*“That, subject to the passing of all of the Resolutions, for the purposes of ASX Listing Rule 7.1 and all other purposes, approval is given for the Company to allot and issue 12,500,000 Options to the Lymex Shareholders (on a post Consolidation basis) for the purposes and on the terms set out in the Explanatory Memorandum.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this resolution by any person who may participate in the issue or might obtain a benefit and any of their associates. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

**Resolution 4 – Approval of issue of Deferred Consideration Tranche 1 Shares to Lymex Shareholders as consideration for the acquisition of Lymex Tenements Pty Ltd**

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

*“That, subject to the passing of all of the Resolutions, for the purposes of ASX Listing Rules 7.1 and all other purposes, approval is given for the Directors to allot and issue 7,500,000 Shares to the Lymex Shareholders (on a post Consolidation basis) for the purposes and on the terms set out in the Explanatory Memorandum.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this resolution by any person who may participate in the issue or might obtain a benefit and any of their associates. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

**Resolution 5 – Approval of issue of Deferred Consideration Tranche 2 Shares to Lymex Shareholders as consideration for the acquisition of Lymex Tenements Pty Ltd**

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

*“That, subject to the passing of all of the Resolutions, for the purposes of ASX Listing Rule 7.1 and all other purposes, approval is given for the Directors to allot and issue 7,500,000 Shares to Lymex Shareholders (on a post Consolidation basis) for the purposes and on the terms set out in the Explanatory Memorandum.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this resolution by any person who may participate in the issue or might obtain a benefit and any of their associates. However, the Company need not disregard a vote if:

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

- 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.

#### **Resolution 6 – Approval for Matamin Pty Ltd to acquire relevant interest in excess of 20%**

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

*“That, subject to and conditional upon the passing of all of the Resolutions, for the purpose of item 7 Section 611 of the Corporations Act and for all other purposes, approval is given for Matamin Pty Ltd to acquire 21,085,187 Consideration Shares, increasing the voting power of Matamin Pty Ltd in the Company from 0% to up to 55% and resulting in the acquisition of a relevant interest in the issued voting shares of the Company by Matamin Pty Ltd in excess of the threshold prescribed by Section 606(1) of the Corporations Act on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Expert’s Report:** Shareholders should carefully consider the Independent Expert’s Report prepared by the Independent Expert for the purposes of Shareholder approval required under Section 611 (item 7) of the Corporations Act for this Resolution. The Independent Expert’s Report assesses the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company. The Independent Expert has determined that the transaction is fair and reasonable to the non-associated Shareholders of the Company.

**Voting Exclusion Statement:** The Company will disregard any votes cast on this resolution by any person who may participate in the issue or might obtain a benefit and any of their associates. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

#### **Resolution 7 – Consolidation of Capital**

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

*“That, pursuant to Section 254H of the Corporations Act, Listing Rule 2.1 Condition 2, clause 9.1(b) of the Company’s constitution and for all other purposes, the issued capital of the Company be consolidated on the basis that every sixty seven (67) Shares be consolidated into one (1) Share, with the Consolidation taking effect on a date to be announced to the ASX in accordance with the requirements of the Listing Rules, and where this Consolidation results in a fraction of a Share being held by a Shareholder, the Directors be authorised to round that fraction up to the nearest whole Share.”*

#### **Resolution 8 – Approval of Capital Raising**

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

*“That, subject to and conditional upon the passing of all of the Resolutions, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue up to 30,000,000 Shares (on a post Consolidation basis) at an issue price of not less than \$0.20 per Share,*

*and 15,000,000 free attaching Options, on the terms and conditions set out in the Explanatory Memorandum.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this resolution by any person who may participate in the issue or might obtain a benefit and any of their associates. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

#### **Resolution 9 – Appointment of John Lynch as a Director**

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

*“That, subject to and conditional upon the passing of all of the Resolutions, for the purposes of clause 12.3 of the Company’s constitution and for all other purposes, John Lynch, being eligible, be appointed as a Director of the Company.”*

#### **Resolution 10 – Appointment of Rob Clifton-Steele as a Director**

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

*“That, subject to and conditional upon the passing of all of the Resolutions, for the purposes of clause 12.3 of the Company’s constitution and for all other purposes, Rob Clifton-Steele, being eligible, be appointed as a Director of the Company.”*

#### **Resolution 11 – Appointment of Graham White as a Director**

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

*“That, subject to and conditional upon the passing of all of the Resolutions, for the purposes of clause 12.3 of the Company’s constitution and for all other purposes, Graham White, being eligible, be appointed as a Director of the Company.”*

#### **Resolution 12 – Issue of Options**

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

*“That, subject to the passing of all of the Resolutions, for the purposes of ASX Listing Rule 7.1 and all other purposes, approval is given for the Company to allot and issue 518,657 Options on a post Consolidation basis on the terms set out in the Explanatory Memorandum.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this resolution by any person who may participate in the issue or might obtain a benefit and any of their associates. However, the Company need not disregard a vote if:

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

- 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.

## **B. Business – Special Resolutions**

### **Resolution 13 – Change of Company name**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a special resolution:

*“That, subject to and conditional upon the passing of all of the Resolutions, for the purposes of Section 157(1)(a) of the Corporations Act and for all other purposes, approval is given for the name of the Company to be changed to Oakdale Resources Limited.”*

## **C. Determination of voting entitlement**

For the purpose of determining a person’s entitlement to vote at the General Meeting, a person will be recognized as a shareholder and the holder of Shares if that person is registered as a holder of those Shares at 7:00 p.m. AEST on 3 September 2013.

## **D. Votes**

Unless a poll is demanded in advance of voting on a resolution, voting on each resolution will initially be by way of a show of hands. On a show of hands, each member present in person or by proxy or, in the case of a body corporate, by a representative, shall have one vote.

On a poll, every member present in person or by attorney or by proxy or, in the case of a body corporate, by a representative, shall have one vote for each share held by him, her or it.

## **E. Proxies**

A Shareholder entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of the Shareholder.

Where the Shareholder is entitled to cast two or more votes, the Shareholder may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

If the Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Shareholder’s votes each proxy may exercise, each proxy may exercise half of the votes.

A proxy need not be a Shareholder.

An instrument of proxy deposited or received at the registered office of the Company in which the name of the appointee is not filled in will be deemed to be given in the favour of the Chairman of the General Meeting.

To be effective, the instrument of appointment of a proxy (and power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority) must be received by the Company at Suite 1, 1233 High Street, Armadale, Victoria 3143 or by facsimile on (03) 9822 7735 by not less than two days prior to the General Meeting, that is, by 2.30pm AEST on 3 September 2013.

***Voting by Proxy if appointment specifies way to vote:***

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution, and if that appointment does specify the way the proxy is to vote, then the following applies:

- (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote as directed; and
- (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution then the proxy must not vote on a show of hands; and
- (c) if the proxy is the chair of the meeting at which the resolution is voted on then the proxy must vote on a poll and must vote as directed; and
- (d) if the proxy is not the chair then the proxy need not vote on the poll, but if the proxy does so, the proxy must vote as directed.

***Transfer of non – chair proxy to chair in certain circumstances:***

Section 250BC of the Corporations Act provides that if:

- (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- (b) the appointed proxy is not the chair of the meeting; and
- (c) at the meeting, a poll is duly demanded on the resolution; and
- (d) either of the following applies:
  - (i) if a record of attendance is made for the meeting – the proxy is not recorded as attending the meeting;
  - (ii) the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

***Undirected Proxies:***

The Chairperson of the Company will vote all undirected proxies in favour of the Resolutions. The Company encourages all Shareholders who submit proxies to direct their proxy how to vote on the Resolutions.

A form of proxy accompanies this Notice of Meeting.

**F. Questions and Comments by Shareholders at the Meeting**

A reasonable opportunity will be given to Shareholders to ask questions and/or make comments on the management of the Company at the Meeting.

Phillip Hains

***Company Secretary***

On behalf of the Board of Directors

BKM Management Limited

5 August 2013

## EXPLANATORY MEMORANDUM

### Summary

This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in this Notice.

In summary, the purpose of the General Meeting is for the Company's Shareholders to approve:

- the Company making a significant change to the nature and scale of its activities by acquiring Lymex Tenements pursuant to a Share Sale Agreement with Lymex Ltd. Lymex Tenements holds the 9 exploration licences comprised in the Tenements. The acquisition of Lymex Tenements will see the Company focus its activities on the exploration of graphite and base metals on the Tenements, which has not been the focus of the Company's activities to date;
- the Consolidation of the Company's existing share capital on a 67:1 basis in connection with the transaction to acquire Lymex Tenements;
- the issue and allotment of 25,000,000 Shares and 12,500,000 Options to Lymex Shareholders as consideration for the acquisition of Lymex Tenements from the Lymex Shareholders;
- the issue and allotment of up to an additional 15,000,000 Shares to Lymex Shareholders on the achievement of certain milestones as set out in this Explanatory Memorandum as consideration for the acquisition of Lymex Tenements from the Lymex Shareholders;
- the proposed issue and allotment of up to 30,000,000 Shares at an issue price of \$0.20 per Share to raise up to \$6 million under a Prospectus to be issued for the Company's application for readmission in accordance with Listing Rules Chapters 1 and 2. As part of this capital raising, the Company's existing shareholders will be granted a priority right to subscribe for 5,000,000 Shares to raise up to \$1,000,000
- the proposed issue and allotment of 518,657 Options to certain existing Company Shareholders;
- the appointment of three (3) new directors to the Board of the Company; and
- the Company changing its name to 'Oakdale Resources Limited'.

### Increase in voting power for Matamin Pty Ltd

Under the terms of the Acquisition, the major shareholder of Lymex Tenements, Matamin Pty Ltd, will be entitled to be issued approximately 84.34% of the total Consideration Securities to be issued to Lymex Shareholders.

If all of the Resolutions are passed, and the Company proceeds with the acquisition contemplated under the Share Sale Agreement, then the relevant interest and voting power of Matamin Pty Ltd will increase to up to 55% from 0%. This potential increase in voting power for Matamin Pty Ltd is based on the following assumptions:

- (a) \$3,000,000 is raised in the Capital Raising;

- (b) the Deferred Consideration Tranche 1 Shares and Deferred Consideration Tranche 2 Shares are issued and allotted to the Lymex Shareholders;
- (c) all Options held by Matamin Pty Ltd are exercised (but no other Options are exercised); and
- (d) assuming Matamin Pty Ltd will not subscribe for Shares in the Capital Raising.

The Directors recommend that Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

## 1. OVERVIEW OF CHANGE OF ACTIVITIES

---

### 1.1. Background

BKM Management Ltd (**BKM** or the **Company**) is a public company listed on the official list of the ASX (ASX code: BKM) which currently holds an 85% shareholding interest in Scene Model Management Pty Ltd which conducts a modeling agency business, and holds a 26.5% shareholding interest in Singaporean oil trading company IGC Asia Pte Ltd (**Existing Assets**).

In addition to its Existing Assets, the Company has actively been seeking to identify and evaluate potential investment opportunities for the Company.

Subject to completion of the acquisition of Lymex Tenements and readmission of the Company to the ASX, the Company intends to divest its holding of the Existing Assets.

### 1.2. Background to change in nature and scale of activities

As announced on ASX on 28 June 2013, the Company has entered into a Share Sale Agreement with Lymex Ltd (ACN 145 384 961) (**Lymex Ltd**), pursuant to which the Company will acquire all of the issued capital in Lymex Tenements Pty Ltd (ACN 146 438 431) (**Lymex Tenements**), a private Australian company, which holds the mining tenements noted below (**Acquisition**). Under the terms of the Share Sale Agreement, Lymex Ltd shall procure that the Lymex Shareholders transfer their shares in Lymex Tenements to BKM. On completion of the Acquisition, the Company will own 100% of Lymex Tenements.

Lymex Tenements is the holder of the following nine exploration licences over tenements located in South Australia (**Tenements**), which are considered prospective for graphite and base metals:

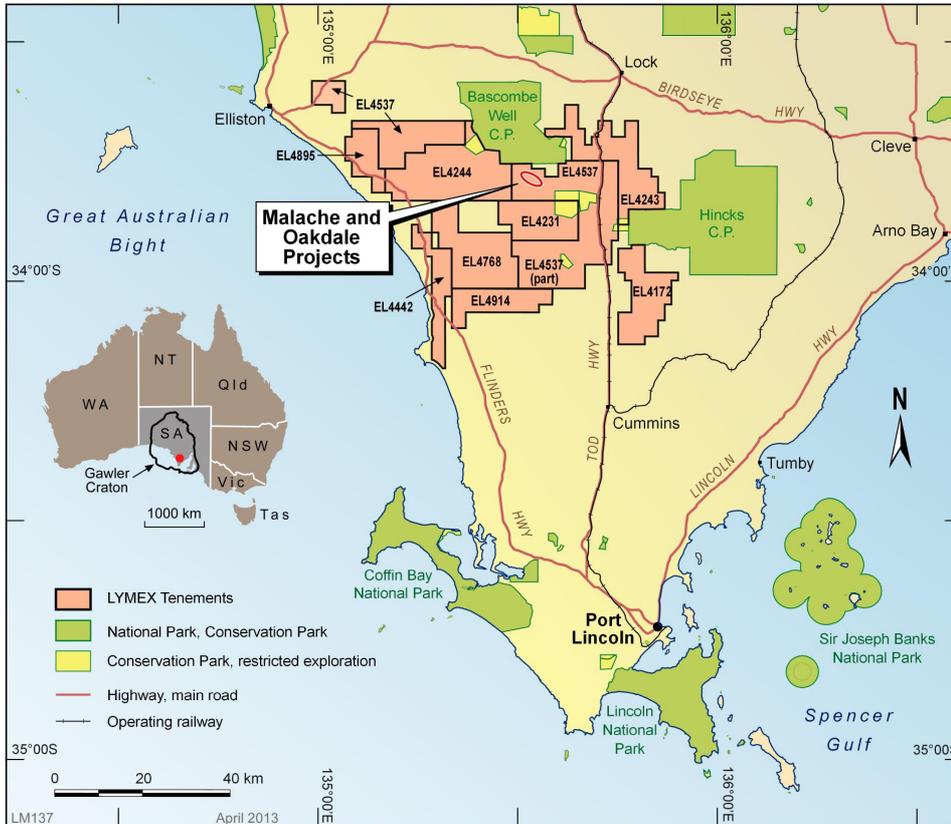
Tenements	Exploration Licence particulars
Sheringa	EL 4244
Kapinnie	EL 4231
Lock Project	EL 4243
Brimpton Lake	EL 4537
Tungketta Hill	EL 4895
Mt Hope	EL 4442
Brooker	EL 4172
Hillside	EL 4768
Lake Malata	EL 4914

As the Company does not have a history of resources exploration, Resolution 1 seeks approval from Shareholders for a change in the nature and scale of activities of the Company to include graphite and base metal exploration and development.

### 1.3. Overview of the Tenements

Lymex Tenements holds title to nine exploration licences in the Eyre Peninsula, South Australia. Following completion of the Acquisition, the Company will be entitled to the graphite mineralization

plus the base metals of zinc, lead, copper and nickel and any minor or trace metals associated with the base metals and graphite mineralization. The Company will not be entitled to other minerals, of which iron, manganese, coal and uranium are known to be present. Lymex Ltd will retain such rights.



Lymex Tenements has established an Archean (2540 Ma) age for this area and that the geology is favourable for hosting deposits of Archean age: VHMS (volcanogenic massive sulphide) deposits similar to those of the Canadian Shield and the Yilgarn and Pilbara cratons of Western Australia. Widespread anomalism in base metals within the tenements constitutes the target for massive sulphur deposits containing zinc-copper (+ lead) and nickel-copper sulphide deposits.

During the prospecting for those exploration targets, high grade graphitic horizons have been drilled. This graphite project (known as the Oakdale Graphite Project) has become an evaluation project rather than an exploration project, which, if it succeeds, potentially presents the Company with an opportunity to become a graphite producer in a relatively short time.

The Oakdale Graphite Project has been scheduled for a program of exploration and evaluation drilling. The graphite beds will first be defined with electromagnetic surveying, because they are extremely conductive, containing both graphite and pyrrhotite. Concurrent with the field work, metallurgical test work, preliminary scoping studies and market research will be carried out.

The oxidized, weathered graphite units are ~40m thick, under ~20m of cover and lie within a graphite bearing zone which is greater than 200m wide. This graphite bearing zone with its oxidised graphite-rich units can be traced for many kilometres. The Company will focus on the oxide zone at this stage. A nominal exploration target of 10 million oxide tonnes grading 7% graphitic carbon has been selected.

It has been demonstrated in preliminary metallurgical tests that the weathered oxidized graphite zone does not need to be heavily crushed and ground to liberate the graphite, as weathering has altered the feldspar, pyrrhotite and other gangue minerals to soft clay minerals and oxides. Graphite, being pure carbon, does not break down in the oxidized zone so it can be readily recovered with minimum crushing and subsequent flotation. Preservation of coarse crystalline graphite is desirable as this product commands a higher price in the market. Metallurgical test work on the oxidized zone recovered both coarse flake and flake graphite in excess of 37 microns and up to 1000 microns.

AMMTEC's Metallurgical Report on the Oakdale Graphite Project states that the recoveries and the carbon grade can be improved to 90% or better by removing the carried over silica by gravity techniques and washing the recovered graphite to recover the clays contained in the concentrate. If necessary, recoveries and carbon grade could further be improved by chemical treatment of the recovered graphite concentrates.

At the Malache and Tooligie prospects, an interpreted shear zone contains at least 30km of base-metal anomalous target area, which includes wide intersections even though drill testing has been widely spaced. Drill zone BLDD04, the Malache Prospect discovery diamond drill hole, averages 0.45% zinc over 144.80m, which includes 92.27 m grading 0.67% zinc from 83.4 m to 175.67 m. There are parallel zones with similar geology and anomalism which have been tested with even fewer drill holes.

Lymex Ltd, on the basis of its work to date, is confident that the existing and planned infrastructure in this part of the Eyre Peninsula is favourable and environmental conditions are satisfactory for the potential development of a graphite project at the Tenements.

#### **1.4. Material terms of the Acquisition**

The material terms of the Acquisition are as follows:

- (a) the Acquisition is conditional upon (amongst other things):
  - i. the Company obtaining all necessary regulatory and Shareholder approvals required to complete the Acquisition, including approval of its Shareholders for:
    - 1. a change to the nature and scale of the Company's activities in accordance with ASX Listing Rule 11.1.2; and
    - 2. issuance and allotment of the Consideration Securities to Lymex Shareholders;
- (b) the consideration to be provided by the Company for the Acquisition comprises the Consideration Securities, being:
  - i. **(Initial Consideration Shares)** 25,000,000 ordinary fully paid Shares (on a post Consolidation basis);
  - ii. **(Initial Consideration Options)** 12,500,000 unlisted Options to acquire Shares in the Company, exercisable at \$0.25 within 18 months of allotment. Each Option entitles the holder to subscribe for 1 Share (on a post Consolidation basis);

- iii. **(Deferred Consideration Tranche 1 Shares)** 7,500,000 ordinary fully paid shares in the Company to be issued upon the Company announcing to the ASX that at least 10 million tonnes in total of JORC Code compliant inferred graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content and
  - iv. **(Deferred Consideration Tranche 2 Shares)** 7,500,000 ordinary fully paid shares in the Company to be issued upon the Company announcing to the ASX that at least 10 million tonnes in total of JORC Code compliant indicated graphite resources plus JORC Code compliant measured graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content.
- (c) Following the Acquisition, the Company will have the exclusive right to explore for graphite and base metal deposits within the Tenements and will have the right to mine and extract the graphite and the base metals and to keep the proceeds of extraction. Lymex Ltd will have the exclusive right to explore for all mineral deposits other than graphite and base metals and will have the right to mine and extract those minerals and to keep the proceeds of extraction.
- (d) Lymex Ltd will have the right to appoint 3 directors to the board of the Company, with the remaining 2 positions to be filled by current members of the Company's board, being Mr. Alvin Tan and Mr. Evan McGregor.

#### 1.5. Impact of the Resolutions on the Company's Capital Structure

The capital structure of the Company following completion of the Acquisition (on a post Consolidation basis) is set out below:

##### Shares

<b>Shares on Issue (Pre Consolidation)</b>	<b>989,619,882</b>
<b>Shares on Issue (Post Consolidation on a 67:1 basis)</b>	<b>14,770,446</b>
Shares to be issued – Resolution 2	25,000,000
<b>Total Shares on issue if Resolution 2 is passed</b>	<b>39,770,446</b>
Shares to be issued – Resolution 4	7,500,000
Shares to be issued – Resolution 5	7,500,000
Shares to be issued – Resolution 8	30,000,000
<b>Total Shares on issue if Resolutions 2, 4, 5 and 8 are passed*</b>	<b>84,770,446</b>

*\*Note – the Shares to be allotted and issued pursuant to Resolutions 4 and 5 will only be allotted and issued on the achievement of the milestones required to be satisfied in order for the Deferred Consideration Tranche 1 Shares and Deferred Consideration Tranche 2 Shares to be issued.*

Options

	<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>Options on issue at the date of this Notice</b>	Nil	-	-
<b>Options - Resolution 3</b>	<b>12,500,000</b>	\$0.25	18 months from issue
<b>Options - Resolution 8</b>	<b>15,000,000</b>	\$0.25	18 months from issue
<b>Options – Resolution 12</b>	<b>518,657</b>	\$0.25	18 months from issue
<b>Total Options issued if Resolutions 3, 8 and 12 are passed</b>	<b>28,018,657</b>		

**1.6. Indicative timetable**

The anticipated timetable for completion of the Acquisition is set out below. However, the Directors reserve the right to change any of the below dates without notice but subject to relevant laws:

<b>Item</b>	<b>Est. Date</b>
Execution of Share Sale Agreement and Announcement of Acquisition	28 June 2013
Dispatch Notice of Meeting seeking approval of Resolutions	5 August 2013
Lodgment of re-compliance prospectus with ASIC and ASX	15 August 2013
Offer Period	23 August 2013 to 20 September 2013
Suspension of Company securities from trading on ASX	5 September 2013
General Meeting to approve Resolutions	5 September 2013
Company informs ASX that security holders have approved Consolidation	5 September 2013
Last day for Company to register transfer of securities on a pre-Consolidation basis	13 September 2013
Dispatch of notice to each Shareholder informing them of number of securities held before and after Consolidation.	14 September 2013

Company begins to register securities on a post-Consolidation basis	
Post-Consolidation holdings entered into Shareholder's security holdings	20 September 2013
Dispatch of holding statements following Capital Raising	27 September 2013
Anticipated date of the suspension of trading lifted and the Company's securities recommence trading on the ASX	4 October 2013

### **1.7. Impact of the Acquisition on the Company**

The Acquisition will result in the Company owning Lymex Tenements, which will give the Company the right to explore for graphite and base metals within the Tenements. The Acquisition will result in various advantages and disadvantages to the Company which Shareholders should consider prior to exercising their vote.

### **1.8. Advantages of the Acquisition**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision as to how they may vote on the Resolutions:

- (a) The Company's Existing Assets are not generating significant value for the Company's Shareholders;
- (b) The new Directors being appointed to the Board of the Company in connection with the Acquisition (as per Resolutions 9 to 11) will add valuable experience and skills which can help the Company to grow and develop;
- (c) the Acquisition represents a significant investment opportunity for the Company to transition the focus of its activities to graphite and base metal exploration;
- (d) the Acquisition of potentially valuable mineral projects provides the Company with an opportunity, upon a successful exploration program being achieved, to substantially increase the value of the Company; and
- (e) the Company may be able to raise further funds at higher prices by way of share equity as a result of the Acquisition.

### **1.9. Disadvantages of the Acquisition**

The following is a non – exhaustive list of potential disadvantages of the Acquisition that may be relevant to a Shareholder's decision as to how they may vote on the Resolutions:

- (a) The Company's change of activities to become an exploration company may not be consistent with the objectives of all Shareholders;
- (b) The issue of the Consideration Securities and the Consolidation will have the effect of diluting an existing Shareholder's holding in the Company;

(c) The Company will be required to invest a significant amount of funds toward the exploration activities on the Tenements and to meet the relevant holding costs for the Tenements including rents and expenditure requirements;

(d) There are risks associated with the Acquisition (as set out in item 1.10 below)

#### **1.10. Risks of the Acquisition**

Shareholders should be aware that if the Acquisition is approved, the Company will be changing the scale and the nature of its activities to a graphite and base metals exploration company, which is subject to various risk factors. Based on available information, a non-exhaustive list of risk factors are as follows.

##### **Re – quotation of shares on ASX**

The Acquisition constitutes a significant change in the nature and scale of the Company's activities. Accordingly, the Company needs to comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking admission to the official list of the ASX.

There is a risk that the Company may not be able to meet the requirements of the ASX for re – quotation of its shares. Should this occur, the Shares will not be able to be traded on the ASX until such time as those requirements can be met, if at all.

This is a risk for existing Shareholders who may be prevented from trading their shares should the Company be suspended until such time as the Company does re – comply with the ASX Listing Rules.

##### **Contractual Risks**

The ability of the Company to complete the Acquisition and achieve its objectives is dependent on the performance of Lymex Ltd of its obligations under the Share Sale Agreement. If Lymex Ltd defaults its performance of its obligations, the Share Sale Agreement may be terminated and it may be necessary for the Company to undertake legal proceedings to seek a legal remedy. Legal proceedings can be costly and there can be no guarantee that a legal remedy will ultimately be granted (and enforced) on appropriate terms.

##### **Dilution Risk**

On a post Consolidation basis, the Company would have 14,770,446 Shares on issue (based on holdings of current Shareholders).

On completion of the Acquisition, the Company shall issue a further 25,000,000 Shares to Lymex Shareholders, with the potential for the issue of further Shares to Lymex Shareholders as follows:

- 7,500,000 ordinary fully paid shares in the Company to be issued to Lymex Shareholders in the Lymex Shareholders Proportions at a deemed issue price of \$0.20 per share (on a post Consolidation basis) to be issued upon the Company announcing to the ASX that at least 10 million tonnes in total of JORC Code compliant inferred graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content and

- 7,500,000 ordinary fully paid shares in the Company to be issued to the Lymex Shareholders in the Lymex Shareholder's Proportions at a deemed issue price of \$0.20 per share (on a post Consolidation basis) to be issued upon the Company announcing to the ASX that at least 10 million tonnes in total of JORC Code compliant indicated graphite resources plus JORC Code compliant measured graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content.

The Company will also issue 12,500,000 Options to Lymex Shareholders. Each of the Options entitles the holder to subscribe for 1 Share in the Company at the exercise price of \$0.25.

If all of these Shares are issued, the Lymex Shareholders exercise all of their Options and the 15,000,000 Shares are issued under the Capital Raising to raise \$3 million (and provided no other Shares or Options are issued), then the holdings of current Shareholders in the Company will dilute to approximately 18% of the issued capital of the Company.

In addition, the holdings of existing Shareholders may be further diluted as a result of any future equity capital raisings required in order to fund future exploration.

#### **General Investment Risks**

Some of the general risks of investment which are considered beyond the control of the Company are as follows:

(a) **The state of Australian and international economies:**

A downturn in the Australian and/or the International economy may negatively impact the performance of the Company which in turn may negatively impact the value of securities in the Company.

(b) **Changes to Government Policies and Legislative changes:**

Government policy and legislative changes which are outside the control of the Company may also have a negative impact on the financial performance of the Company.

(c) **Economic Risk and Price of Commodities**

The Company's share price will be influenced by the prevailing market prices from time to time of the resources that the Company is targeting in its exploration programs.

The price of minerals is influenced by physical and investment demand for, and supply of, those resources. Fluctuations in these prices may influence individual projects in which the Company has an interest and the price of the Company's shares.

Further, commodities are principally sold throughout the world in US dollars so any fluctuations in the exchange rate between Australian and US dollars could adversely affect the Company's financial position, performance and prospects.

These factors may have an adverse effect on the Company's activities as well as its ability to finance future projects and activities.

(d) **The Company's on-going funding requirements:**

Further funding may be required by the Company to undertake its exploration activities. If commercial quantities of minerals are discovered and the Company commences mining activities then further funding may be required. There is no guarantee that the Company will be able to raise the additional required funding on a timely basis, on favourable terms or that such further funding will be sufficient to enable the Company to implement its planned commercial strategy. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or scale back its exploration programs as the case may be, which may adversely affect the business and financial condition of the Company and its performance.

(e) **Resource estimates and targets**

There are no JORC Code compliant resources currently defined on the Tenements.

If a resource is defined in the future, that resource estimate will be an expression of judgment based on knowledge, experience and industry practice. Often these estimates were appropriate when made but may change significantly when new information becomes available. Resource estimates are necessarily imprecise and depend to some extent on interpretations, which may ultimately prove to be inaccurate and require adjustment.

(f) **Investment Speculative**

Mining exploration and an investment in companies that are focused on mining exploration and evaluation, is inherently risky and constitutes a speculative investment.

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

**Exploration and Development Risk Factors**

The business of mineral exploration, project development and production involves inherent risks. Success depends on successful exploration appraisal, design and construction of efficient recovery and processing facilities, competent operational and managerial performance, and efficient distribution and marketing services. Exploration is a speculative endeavor and production operations can be hampered by engineering difficulties, cost overruns, inconsistent recovery rates and other unforeseen events. The outcome of Company's exploration, project development and production programs will affect the future performance of the Company and the price of its Shares.

If and when the Company commences production, the production may be curtailed or shut down for considerable periods of time owing to a range of factors such as disruptions to transport infrastructure, lack of market demand, government regulation, production allocations or force majeure events. These curtailments may continue for a considerable period of time resulting in a materially adverse effect on the operations and/or financial condition of the Company.

The exploration for and production of minerals involves certain operating hazards, such as:

- (a) failure and/or breakdown of equipment;
- (b) adverse geological, seismic and geotechnical conditions;
- (c) industrial accidents;
- (d) labour disputes;
- (e) pollution; and
- (f) other environmental hazards and risks.

The Company may also be liable for environmental damage caused as a result of its exploration and/or mining activities. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could reduce or eliminate funds available for acquisitions, exploration and development or cause the Company to suffer losses.

Exploration, development and environmental factors which may affect the Company's financial position, prospects and the price of its listed securities are set out below.

(a) **Exploration Risks**

There are a number of risks associated with the mineral exploration activities to be carried out by the Company, including:

- The discovery and/or acquisition of economically recoverable reserves;
- Access to adequate capital for project development;
- Design and construction of efficient development and production infrastructure within capital expenditure budgets;
- Securing and maintaining title to interests;
- Obtaining consents and approvals necessary for the conduct of mineral exploration, development and production; and
- Access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants.

(b) **Development Risks**

If the Company does locate commercial reserves of minerals, then the future development of a mining operation at any of the Company's projects will be subject to a number of risks, including:

- Geological and weather conditions causing delays and interference to operations;
- Obtaining all necessary and requisite approvals from relevant authorities and third parties;
- Technical and operational difficulties associated with mining of minerals and production activities;
- Access to necessary funding;
- Mechanical failure of plant and equipment;
- Shortages or increases in price of consumables, and plant and equipment;
- Environmental hazards, fires, explosions and other accidents;
- Transportation facilities;
- Costs overruns;
- The costs of extraction being higher than expected.

There is no guarantee that the Company will achieve commercial viability through the development of its projects.

(c) **Environmental Risks**

The activities being undertaken by the Company are subject to environmental laws and regulations. The Company will endeavour to comply at all times with all applicable laws and intends to conduct its activities in an environmentally responsible manner.

However, the existence of environmental legislation means that the Company may potentially face a liability risk relating to its activities and/or be restricted from engaging certain exploration activity due to environmental legislation.

**1.11. Plans for the Company if the Resolutions are not passed**

If the Resolutions are not passed and the Acquisition is not completed, the Company will continue to develop its Existing Assets and will look for potential projects to take the Company forward.

**1.12. Directors' Recommendation**

The Directors of the Company unanimously recommend the Acquisition (and change in nature and scale of the Company's activities) and that Shareholders vote in favour of the proposed Resolutions. It is the view of the Directors that the Acquisition will give the Company's Shareholders the opportunity to participate in a potentially significant exploration, evaluation

and development program in respect of the prospective graphite and base metal projects at the Tenements.

### **1.13. Competent Person**

The information in this Notice that relates to the Tenements was compiled by John Lynch who is a Fellow of the Australasian Institute of Mining and Metallurgy and Member of the Australia Institute of Geoscientists. John Lynch has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity to which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Please note that John Lynch is also the Managing Director of Lymex Ltd and the beneficial owner of 100% of the shares in Matamin Pty Ltd. By the Acquisition contemplated by this Notice of Meeting, Matamin Pty Ltd will acquire up to 55% of the issued share capital of the Company. Pursuant to the terms of the Share Sale Agreement, Matamin Pty Ltd will be entitled to receive 21,085,187 Initial Consideration Shares, 10,542,593 Initial Consideration Options, 6,325,556 Deferred Consideration Tranche 1 Shares and 6,325,556 Deferred Consideration Tranche 2 Shares. Following completion of the Acquisition, John Lynch is to become the Managing Director of the Company.

John Lynch consents to the inclusion in this notice of the matters based on the information in the form and context in which it appears.

## **2. RESOLUTION 1 – APPROVAL OF CHANGE IN NATURE AND SCALE OF ACTIVITIES**

---

Resolution 1 seeks approval from Shareholders for a change in the nature and scale of the activities of the Company. The proposed Acquisition constitutes a significant change in the nature and scale of the Company's activities, from managing the Existing Assets (comprising of an interest in a model management business and interest in an oil trading business) to graphite and base metals exploration, and consequently requires Shareholder approval pursuant to ASX Listing Rule 11.1.

Assuming Shareholders approve Resolution 1, the Company must comply with Chapters 1 and 2 of the ASX Listing Rules.

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.

For this reason, the Company is seeking Shareholder approval to make a significant change to the nature and scale of its activities under ASX Listing Rule 11.1. Assuming Shareholders approve Resolution 1, ASX also requires the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules in accordance with ASX Listing Rule 11.1.3.

The Company is preparing a prospectus, as required by the ASX Listing Rules, to provide information about the Company, Acquisition and the Tenements, and this will be lodged at ASIC before the Meeting as set out in the indicative timetable set out at the front of the Notice.

If Resolution 1 is passed, the Company will have obtained, in compliance with Listing Rule 11.1.2, Shareholder approval to the change in the nature and scale of its activities to the extent described in this Explanatory Memorandum.

If Resolution 1 is not passed, the Company will not be permitted to change the nature and scale of its activities and the Acquisition will not proceed.

The passing of Resolution 1 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 1, you should also vote in favour of all Resolutions.

### **3. RESOLUTION 2 – APPROVAL OF ISSUE OF INITIAL CONSIDERATION SHARES TO LYMEX SHAREHOLDERS IN CONSIDERATION FOR THE ACQUISITION OF LYMEX TENEMENTS PTY LTD**

---

#### **Background**

In consideration for the acquisition of 100% of the issued capital of Lymex Tenements from the Lymex Shareholders, the Company has agreed to issue to the Lymex Shareholders the Consideration Securities which includes the Initial Consideration Shares of 25,000,000 ordinary shares in the Company (on a post Consolidation basis).

#### **(A) ASX Listing Rules Approval: ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that an ASX – listed Company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of shareholders.

By obtaining the prior approval of the Shareholders to the issue of the Initial Consideration Shares, the issue of those Shares will not count within the 15% limit under Listing Rule 7.1.

For the purposes of ASX Listing Rule 7.1, Resolution 2 seeks Shareholder approval for the issue of 25,000,000 Shares on the terms and conditions set out below.

#### **ASX Listing Rule 7.3**

Listing Rule 7.3 contains certain requirements as to the contents of a notice sent to Shareholders for the purposes of Listing Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

##### **The number of securities to be issued**

The maximum number of securities to be issued is 25,000,000 Shares.

##### **The date by which the Company will issue the securities**

The Shares will be issued no later than 3 months after the date of this Meeting.

##### **The issue price of the securities**

The Shares will be issued as part consideration for the acquisition of 100% of the issued capital of Lymex Tenements pursuant to the Share Sale Agreement entered into between the Company and Lymex Ltd. The Shares will be issued at a deemed issue price of \$0.20 per Share.

### **The names of the allottees of the securities**

The Shares will be issued to Lymex Shareholders in the proportions noted in Annexure A annexed to this Notice of Meeting

### **The terms of the securities**

The Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing ordinary shares.

### **The intended use of funds raised**

No funds will be raised from the issue as shares will be issued as consideration for the acquisition of 100% of the issued share capital of Lymex Tenements.

### **Dates of allotment**

Allotment of the shares is subject to completion of the Acquisition of Lymex Tenements, and issue and allotment of the Shares will occur contemporaneously with the Acquisition.

It is intended that the Shares will be issued no later than 3 months after the date of this Meeting.

### **(B) ASX Listing Rule 10.11**

ASX Listing Rule 10.11 also requires Shareholder approval to be obtained where a company issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

Certain Lymex Shareholders are entities controlled by persons nominated by Lymex Ltd to be appointed to the Board of the Company on completion of the Acquisition, namely John Lynch, Graham White and Robert Clifton – Steele.

Pursuant to section 228(6) of the Corporations Act, an entity is a related party of a public company at a particular time if the entity believes or has reasonable grounds to believe that it is likely to become a related party at any time in the future.

As the entities associated with John Lynch, Graham White and Robert Clifton – Steele are related parties by reason only of the Acquisition transaction which is the reason for the issue of securities to them, separate Shareholder approval under ASX Listing Rule 10.11 for the issue of the securities is not required as ASX Listing Rule 10.12 exception 6 applies.

### **(C) ASX Listing Rule 10.1**

ASX Listing Rule 10.1 also requires Shareholder approval to be obtained where a company acquires a substantial asset from a related party. However, ASX Listing Rule 10.3 provides that ASX Listing Rule 10.1 does not apply in circumstances of a transaction between a company and a person who is a related party by reason only of the transaction and the application of section 228(6) of the Corporations Act.

As Matamin Pty Ltd, who is selling shares equal to approximately 84% of Lymex Tenements to the Company, is only a related party by virtue of this Acquisition transaction and the impending future appointment of John Lynch as a director of the Company, the exception under ASX Listing Rule 10.3 to the application of ASX Listing Rule 10.1 applies.

**(D) Section 208 of the Corporations Act**

Pursuant to Section 208 of the Corporations Act, if a public company gives a financial benefit to a related party, the company must obtain shareholder approval.

The issue of securities in a company can constitute a financial benefit for the purposes of section 208 of the Corporations Act.

However, the Board considers that the proposed issue of shares to entities associated with John Lynch, Graham White and Robert Clifton – Steele falls within the exception in Section 210 of the Corporations Act because the Share Sale Agreement under which the Consideration Securities were agreed to be issued was negotiated on arm's length terms. Furthermore, the terms of the issue are on the same terms as Consideration Securities have been agreed to be issued to unrelated Lymex Shareholders.

**Voting exclusion statement**

A voting exclusion statement is included in the Notice of Meeting.

The passing of Resolution 2 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 2, you should also vote in favour of all Resolutions.

**Directors Recommendations**

The Directors do not have any material interest in the outcome of Resolution 2 other than as a result of their interest arising solely in the capacity of Shareholders and Option holders of the Company. Each of the Directors intends to vote their Shares in favour of Resolution 2.

Based on the information available, all of the Directors consider that the proposed acquisition of 100% of the issued shares in Lymex Tenements, and the resulting share issue to the Lymex Shareholders is in the best interests of the Company and recommend that Shareholders vote in favour of Resolution 2. The Directors have unanimously approved the proposal to put Resolution 2 to Shareholders.

## **RESOLUTION 3 - APPROVAL OF ISSUE OF INITIAL CONSIDERATION OPTIONS TO LYMEX SHAREHOLDERS IN CONSIDERATION OF THE ACQUISITION OF LYMEX TENEMENTS PTY LTD**

---

### **Background**

In consideration for the acquisition of 100% of the issued capital of Lymex Tenements from the Lymex Shareholders, the Company has agreed to issue to the Lymex Shareholders consideration which includes 12,500,000 Options in the Company (on a post Consolidation basis).

### **(A) ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a listed Company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of Shareholders.

For the purpose of ASX Listing Rule 7.1, the issue of Options is treated as an issue of the capital of the Company on a fully converted basis.

By obtaining the prior approval of the Shareholders to the issue of Options, the issue of those Options will not count within the 15% limit under Listing Rule 7.1.

For the purposes of ASX Listing Rule 7.1, Resolution 3 seeks Shareholder approval for the issue of 12,500,000 Options on the terms and conditions set out below.

### **ASX Listing Rule 7.3**

Listing Rule 7.3 contains certain requirements as to the contents of a notice sent to Shareholders for the purposes of Listing Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

#### **The number of securities to be issued**

The number of securities to be issued is 12,500,000 Options.

#### **The date by which the Company will issue the securities**

The Options will be issued no later than 3 months after the date of this Meeting.

#### **The issue price of the securities**

The Options will be issued for nil issue price, and are issued as part consideration for the acquisition of 100% of the issued capital of Lymex Tenements pursuant to the Share Sale Agreement entered into between the Company and Lymex Ltd.

#### **The names of the allottees of the Options**

The Options will be issued to Lymex Shareholders in the proportions set out in Annexure A annexed to this Notice of Meeting.

#### **Terms & Conditions of Options**

General terms and conditions of the Options are:

1. **Entitlement:** Each Option shall entitle the holder (optionholder), when exercised, to one (1) Share.
2. **Exercise date:** The Options are exercisable wholly or in part at any time prior to 5.00 pm (AEST) on the date being 18 months after their date of issue. Options not exercised by that date shall automatically lapse.
3. **Exercise price:** The Option exercise price is \$0.25.
4. **Listed:** The options are to be listed on the ASX.
5. **Notice of exercise:** Each Option may be exercised by notice in writing to the Company, together with the payment for the number of Shares in respect of which the Options are exercised, at any time before the relevant expiry date. Any notice of exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt. An exercise is only effective when the Company has received the full amount of the exercise price in cleared funds.
6. **Quotation of Shares on exercise:** The Company will apply for quotation of the Shares issued upon exercise of the Options within ten (10) Business Days after the date of allotment. Subject to the Corporations Act, the constitution of the Company and the Listing Rules, the Options are freely transferable.
7. **Participation rights or entitlements:** There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of securities offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced so as to give holders the opportunity to exercise their Options before the date for determining entitlements to participate in any issue.
8. **Shares allotted on exercise:** Shares issued upon exercise of the Options will be issued following receipt of all the relevant documents and payments and will rank equally in all respect with the then issued Shares.
9. **Reconstruction of share capital:** If at any time the issued capital of the Company is reorganised, the rights of an Option holder are to be changed to the extent necessary to comply with the Corporations Act and the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

#### **The use of funds raised**

No funds will be raised from the issue of Options.

**Dates of allotment**

Allotment of the Options is subject to completion of the Acquisition of Lymex Tenements.

It is intended that the Shares will be issued no later than 3 months after the date of this Meeting.

**(B) ASX Listing Rule 10.11**

For the reasons noted above in Section 3 of this Notice of Meeting, Shareholder approval under ASX Listing Rule 10.11 is not required for the issue of the Options to the Lymex Shareholders.

**(C) ASX Listing Rule 10.1**

For the reasons noted above in Section 3 of this Notice of Meeting, Shareholder approval under ASX Listing Rule 10.1 is not required for the issue of the Options to the Lymex Shareholders.

**(D) Section 208 of the Corporations Act**

For the reasons noted above in Section 3 of this Notice of Meeting, the Board considers that Shareholder approval under section 208 of the Corporations Act is not required for the issue of the Options to the Lymex Shareholders.

**Voting exclusion statement**

A voting exclusion statement is included in the Notice of Meeting.

The passing of Resolution 3 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 3, you should also vote in favour of all Resolutions.

**Directors Recommendations**

The Directors do not have any material interest in the outcome of Resolution 3 other than as a result of their interest arising solely in the capacity of Shareholders and Option holders of the Company. Each of the Directors intends to vote their Shares in favour of Resolution 3.

## **RESOLUTION 4 - APPROVAL OF ISSUE OF DEFERRED CONSIDERATION TRANCHE 1 SHARES TO LYMEX SHAREHOLDERS IN CONSIDERATION OF THE ACQUISITION OF LYMEX TENEMENTS PTY LTD**

---

### **Background**

In consideration for the acquisition of 100% of the issued capital of Lymex Tenements from Lymex Ltd, the Company has agreed to issue 7,500,000 ordinary fully paid shares in the Company to be issued upon the Company announcing to the ASX that at least 10 million tonnes in total of JORC Code compliant inferred graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content

### **(A) ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a listed Company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of shareholders.

By obtaining the prior approval of the Shareholders to the issue of the Deferred Consideration Tranche 1 Shares, the issue of those Shares will not count within the 15% limit under Listing Rule 7.1.

For the purposes of ASX Listing Rule 7.1, Resolution 4 seeks Shareholder approval for the issue of 7,500,000 Shares on the terms and conditions set out below.

### **ASX Listing Rule 7.3**

Listing Rule 7.3 contains certain requirements as to the contents of a notice sent to Shareholders for the purposes of Listing Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

#### **The number of securities to be issued**

The number of securities to be issued is 7,500,000 Shares.

#### **The date by which the Company will issue the securities**

The Shares will be issued within 7 days following the Company releasing an ASX Announcement to confirm that JORC Code compliant inferred graphite resources of at least 10 million tonnes have been defined at the Tenements at no less than 7% graphite content.

Pursuant to ASX Listing Rule 7.3.2, the Deferred Consideration Tranche 1 Shares the subject of Resolution 4 must be issued within three (3) months from the date of the Shareholder approval. However, the Company applied to ASX for a waiver from this requirement so that the Deferred Consideration Tranche 1 Shares can be issued in accordance with their terms, and the passing of this Resolution 4 constitute an approval for the proposed issue of such securities for the purposes of ASX Listing Rule 7.1.

ASX granted the Company a waiver from ASX Listing Rule 7.3.2 on 27 June 2013. The Waiver has been issued by ASX subject to certain conditions, including the following:

- (a) the Company's annual, half year reports, and the interim and quarterly activities reports set out the Deferred Consideration Securities issued during the relevant reporting period and the number of

- the Deferred Consideration Securities that remain to be issued (and the basis on which those securities may be issued;
- (b) the Deferred Consideration Securities being issued no later than 60 months from the date of the General Meeting; and
  - (c) no variation of the milestones required to be satisfied for the issue of the Deferred Consideration Securities.

**The issue price of the securities**

The Shares will be issued for nil issue price, and are issued as part consideration for the acquisition of 100% of the issued capital of Lymex Tenements pursuant to the Share Sale Agreement entered into between the Company and Lymex Ltd.

**The names of the allottees of the securities**

The Shares will be issued to Lymex Shareholders in the proportions set out in Annexure A annexed to this Notice of Meeting.

**The use of funds raised**

No funds will be raised from the issue of the Shares.

**(B) ASX Listing Rule 10.11**

For the reasons noted above in Section 3 of this Notice of Meeting, Shareholder approval under ASX Listing Rule 10.11 is not required for the issue of the Deferred Consideration Tranche 1 Shares to the Lymex Shareholders.

**(C) ASX Listing Rule 10.1**

For the reasons noted above in Section 3 of this Notice of Meeting, Shareholder approval under ASX Listing Rule 10.1 is not required for the issue of the Deferred Consideration Tranche 1 Shares to the Lymex Shareholders.

**(D) Section 208 of the Corporations Act**

For the reasons noted above in Section 3 of this Notice of Meeting, the Board considers that Shareholder approval under section 208 of the Corporations Act is not required for the issue of the Deferred Consideration Tranche 1 Shares to the Lymex Shareholders.

**Voting exclusion statement**

A voting exclusion statement is included in the Notice of Meeting.

The passing of Resolution 4 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 4, you should also vote in favour of all Resolutions.

**Directors Recommendations**

The Directors do not have any material interest in the outcome of Resolution 4 other than as a result of their interest arising solely in the capacity of Shareholders and Option holders of the Company. Each of the Directors intends to vote their Shares in favour of Resolution 4.

## **RESOLUTION 5 - APPROVAL OF ISSUE OF DEFERRED CONSIDERATION TRANCHE 2 SHARES TO LYMEX SHAREHOLDERS IN CONSIDERATION OF THE ACQUISITION OF LYMEX TENEMENTS PTY LTD**

---

### **Background**

In consideration for the acquisition of 100% of the issued capital of Lymex Tenements from the Lymex Shareholders, the Company has agreed to issue 7,500,000 ordinary fully paid shares in the Company to be issued to the Lymex Shareholders at a deemed issue price of \$0.20 per share (on a post Consolidation basis) to be issued upon the Company announcing to the ASX that at least 10 million tonnes in total of JORC Code compliant indicated graphite resources plus JORC Code compliant measured graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content.

### **ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a listed Company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of Shareholders.

By obtaining the prior approval of the Shareholders to the issue of the Deferred Consideration Tranche 2 Shares, the issue of those Shares will not count within the 15% limit under Listing Rule 7.1.

For the purposes of ASX Listing Rule 7.1, Resolution 5 seeks Shareholder approval for the issue of 7,500,000 Shares on the terms and conditions set out below.

### **ASX Listing Rule 7.3**

Listing Rule 7.3 contains certain requirements as to the contents of a notice sent to Shareholders for the purposes of Listing Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

#### **The number of securities to be issued**

The number of securities to be issued is 7,500,000 Shares.

#### **The date by which the Company will issue the securities**

The Shares will be issued within 7 days after the Company makes an ASX announcement to confirm that at least 10 million tonnes in total of JORC Code compliant indicated graphite resources plus JORC Code compliant measured graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content.

Pursuant to ASX Listing Rule 7.3.2, the Deferred Consideration Tranche 2 Shares the subject of Resolution 5 must be issued within three (3) months from the date of the Shareholder approval. However, the Company applied to ASX for a waiver from this requirement so that the Deferred Consideration Tranche 2 Shares can be issued in accordance with their terms, and the passing of this Resolution 5 constitute an approval for the proposed issue of such securities for the purposes of ASX Listing Rule 7.1.

ASX granted the Company a waiver from ASX Listing Rule 7.3.2 on 27 June 2013. The Waiver has been issued by ASX subject to certain conditions, including the following:

- (a) the Company's annual, half year reports, and the interim and quarterly activities reports set out the Deferred Consideration Securities issued during the relevant reporting period and the number of the Deferred Consideration Securities that remain to be issued (and the basis on which those securities may be issued;
- (b) the Deferred Consideration Securities being issued no later than 60 months from the date of the General Meeting; and
- (c) no variation of the milestones required to be satisfied for the issue of the Deferred Consideration Securities.

#### **The issue price of the securities**

The Shares will be issued for nil issue price, and are issued as part consideration for the acquisition of 100% of the issued capital of Lymex Tenements pursuant to the Share Sale Agreement entered into between the Company and Lymex Ltd.

#### **The names of the allottees of the securities**

The Shares will be issued to Lymex Shareholders in the proportions set out in Annexure A annexed to this Notice of Meeting.

#### **The use of funds raised**

No funds will be raised from the issue of the Shares.

#### **Voting exclusion statement**

A voting exclusion statement is included in the Notice of Meeting.

The passing of Resolution 5 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 5, you should also vote in favour of all Resolutions.

#### **Directors Recommendations**

The Directors do not have any material interest in the outcome of Resolution 5 other than as a result of their interest arising solely in the capacity of Shareholders and Option holders of the Company. Each of the Directors intends to vote their Shares in favour of Resolution 5.

## **RESOLUTION 6 – APPROVAL FOR MATAMIN PTY LTD TO ACQUIRE RELEVANT INTEREST IN EXCESS OF 20%**

Resolution 6 seeks Shareholder approval pursuant to item 7 of Section 611 of the Corporations Act in order for Matamin Pty Ltd's voting power in the Company to increase from below 20% to more than 20% as a result of the issue of Consideration Securities to Matamin Pty Ltd in connection with the Acquisition.

### **Corporations Act Approval**

Ordinarily, section 606 of the Corporations Act prohibits acquisitions of relevant interests in listed companies if the transaction increases the person's holding in the company from below 20% to more than 20%.

Item 7 of section 611 of the Act however, provides that the prohibition under section 606 will not apply if the acquisition of the relevant interest is previously approved by a resolution at a general meeting of the company whose shares are being acquired.

Pursuant to s. 608(1) of the Corporations Act, a person has a 'relevant interest' in securities if they:

- (a) are the holder of the securities; or
- (b) have power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is, or how it arises. If 2 or more people can jointly exercise one of these powers, each of them is taken to have that power.

### **Prescribed information:**

The Act further requires that the following information material to the decision on how to vote be provided to the shareholders:

- (i) the identity of the person proposing to make the acquisition and their associates;
- (ii) the maximum extent of the increase in that person's voting power in the company that would result from the acquisition;
- (iii) the voting power that person would have as a result of the acquisition;
- (iv) the maximum extent of the increase in voting power of each of that person's associates that would result from the acquisition; and
- (v) the voting power that each of that person's associates would have as a result of the acquisition.

The information contained herein and in the accompanying Independent Expert's Report is provided to Shareholders to enable them to assess the merits of the Resolution.

### **Identity of person to whom shares will be issued**

Matamin Pty Ltd is a private company owned and controlled by John Lynch, who is the managing director of Lymex Ltd and a who will become managing director of the Company on completion of the Acquisition.

### **Matamin Pty Ltd's Intentions**

If the Acquisition outlined herein is agreed to and completes, the Company understands that Matamin Pty Ltd:

- (a) has no intention to change the business of the Company (following completion of the Acquisition and implementation of the Company's change of activities to become an exploration company);
- (b) has no intention to inject further capital into the Company;
- (c) has no intention of making changes regarding the future employment of present employees of the Company;
- (d) does not intend to transfer any property between the Company or Matamin Pty Ltd or their associates;
- (e) do not intend to otherwise redeploy the fixed assets of the Company as a consequence of the Acquisition; and
- (f) has no intention of significantly changing the financial or dividend distribution policies of the Company.

The above statement of Matamin Pty Ltd's intentions are based on the Company's understanding of Matamin Pty Ltd's intentions as at the date of this Notice of Meeting and on information concerning the Company which is known to Matamin Pty Ltd as at the date of this document.

### **Increase in Voting Power of Matamin Pty Ltd**

Currently Matamin Pty Ltd has no relevant interest or voting power in the Company.

Further, Matamin Pty Ltd has no associates (within the meaning of the Act) with any voting power in the Company.

Upon the issue of the Consideration Securities the relevant interest and voting power of Matamin Pty Ltd in the Company will increase to up to 55%, from 0%.

This is based on the following assumptions:

- (a) \$3,000,000 is raised in the Capital Raising;
- (b) the Deferred Consideration Tranche 1 Shares and Deferred Consideration Tranche 2 Shares are issued and allotted to the Lymex Shareholders;
- (c) all Options held by Matamin Pty Ltd are exercised (but no other Options are exercised); and

(d) assuming Matamin Pty Ltd will not subscribe for Shares in the Capital Raising.

The above outline of the voting power that Matamin Pty Ltd will acquire in the Company is based upon the post-consolidation share structure of the Company. Further, it is noted that if other Option holders exercise their Options this this would have the effect of further diluting the shareholding which Matamin Pty Ltd will acquire in the Company.

#### **Increase in Voting Power of Matamin Pty Ltd's Associates**

The Company and Matamin Pty Ltd do not consider that Matamin Pty Ltd and the Lymex Shareholders constitute associates for the purposes of the Corporations Act as they do not act in concert in relation to the affairs of a body, nor have they entered into a relevant agreement or constitute associates of a body corporate.

#### **Independent Expert determination**

In accordance with *ASIC Regulatory Guide 74: Acquisitions approved by members*, the Company commissioned the Independent Expert to prepare the Independent Expert Report accompanying this Notice of Meeting which assesses whether the proposed issue of Consideration Securities to Matamin Pty Ltd is fair and reasonable to the non – associated Shareholders of the Company.

The Independent Expert Report confirms the determination of the Independent Expert that the proposed issue of Consideration Securities to Matamin Pty Ltd pursuant to Resolutions 2 to 5 is fair and reasonable to the non – associated Shareholders of the Company.

Please refer to the accompanying Independent Expert Report for further information.

#### **Voting exclusion statement**

A voting exclusion statement is included in the Notice of Meeting.

The passing of Resolution 6 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 6, you should also vote in favour of all Resolutions.

#### **Directors Recommendations**

The Directors do not have any material interest in the outcome of Resolution 6 other than as a result of their interest arising solely in the capacity of Shareholders and Option holders of the Company, and intend to vote their shares in favour of Resolution 6. Each of the Directors intends to vote their Shares in favour of Resolution 6.

Based on the information available, all of the Directors consider that the proposed share issue to Matamin Pty Ltd is in the best interests of the Company and recommend that Shareholders vote in favour of Resolution 6. The Directors have unanimously approved the proposal to put Resolution 6 to Shareholders.

## **RESOLUTION 7 - CONSOLIDATION OF CAPITAL**

---

The Directors are seeking Shareholder approval to consolidate the number of Shares on issue on a 1:67 basis.

The Consolidation represents the capital structure of the Company required to ensure it is appropriate for the Company to be able to re-comply with the admission requirements of the ASX.

Section 254H of the Corporations Act provides that a company may, by a resolution passed in general meeting of shareholders, convert all or any of its shares into a larger or smaller number of shares.

As from the effective date of this Resolution (being the date advised to the ASX), all holding statements for Shares will cease to have effect, except as evidence of entitlement to a certain number of post Consolidation Shares.

After the Consolidation becomes effective, the Company will arrange for new holding statements to be issued to Shareholders.

The effect of the Acquisition and all other Resolutions contained within this Notice will have on the capital structure of the Company is as set out in Section 1.5 above.

### **Fractional entitlements and taxation**

Not all Shareholders will hold that number of Shares which can evenly be divided by 67. Where a fractional entitlement occurs, the Directors will round that fraction up to the nearest whole Share.

It is not considered that any taxation consequences will exist for Shareholders arising from the Consolidation. However, Shareholders are advised to seek their own tax advice on the Consolidation and neither the Company nor the Directors (nor the Company's advisors) accept any responsibility for the individual taxation consequences arising from the Consolidation.

The passing of Resolution 7 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 7, you should also vote in favour of all Resolutions.

### **Directors Recommendations**

The Directors do not have any material interest in the outcome of Resolution 7 other than as a result of their interest arising solely in the capacity of Shareholders and Option holders of the Company. Each of the Directors intends to vote their Shares in favour of Resolution 7.

## **RESOLUTION 8 – APPROVAL OF CAPITAL RAISING**

---

Resolution 8 seeks Shareholder approval for the allotment and issue of up to 30,000,000 Shares under a prospectus to be issued by the Company to raise up to \$6,000,000 in connection with the Company's application for re – admission to the ASX following grant of Shareholder approval for a change in nature and scale of the Company's activities.

Furthermore, for every two (2) Shares issued under the Capital Raising, one (1) free attaching Option will be issued to the investor, and so Resolution 8 also seeks approval for the issue of up to 15,000,000 Options under the Capital Raising.

The effect of Resolution 8 will be to allow the Directors to issue the Shares and Options pursuant to the Capital Raising during the 3 month period after the Meeting (or a longer period, if allowed by the ASX), without the Company using any of the annual 15% placement capacity imposed under Listing Rule 7.1.

### **(A) ASX Listing Rule 7.1: Shares issued under Capital Raising**

ASX Listing Rule 7.1 provides that an ASX – listed Company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of shareholders.

By obtaining the prior approval of the Shareholders to the issue of the Shares under the Capital Raising, the issue of those Shares will not count within the 15% limit under Listing Rule 7.1.

### **ASX Listing Rule 7.3**

Listing Rule 7.3 contains certain requirements as to the contents of a notice sent to Shareholders for the purposes of Listing Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

#### **The number of securities to be issued**

The number of securities to be issued is up to 30,000,000 Shares.

#### **The date by which the Company will issue the securities**

Within 3 months after the date of the Meeting (or such later date if permitted by the ASX)

#### **The issue price of the securities**

\$0.20 per Share

**The names of the allottees of the securities**

The Shares will be issued to members of the public under prospectus, and as such the name of the allottees are unknown at this time.

**The use of funds raised**

The funds will be used to fund costs and expenses associated with exploration of the Tenements , the costs and expenses of the Company's application for re-admission and for general working capital purposes.

**Dates of allotment**

It is intended that the Shares will be allotted on the same date as their issue.

**(B) ASX Listing Rule 7.1: Options to be issued under Capital Raising**

ASX Listing Rule 7.1 provides that a listed Company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of shareholders.

For the purpose of ASX Listing Rule 7.1, the issue of Options is treated as an issue of the capital of the Company on a fully converted basis.

By obtaining the prior approval of the Shareholders to the issue of Options, the issue of those Options will not count within the 15% limit under Listing Rule 7.1.

For the purposes of ASX Listing Rule 7.1, Resolution 8 seeks Shareholder approval for the issue of up to 15,000,000 Options on the terms and conditions set out below.

**ASX Listing Rule 7.3**

Listing Rule 7.3 contains certain requirements as to the contents of a notice sent to Shareholders for the purposes of Listing Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

**The number of securities to be issued**

The number of securities to be issued is 15,000,000 Options.

**The date by which the Company will issue the securities**

The Options will be issued no later than 3 months after the date of this Meeting.

**The issue price of the securities**

The Options will be issued for nil issue price, and are issued as free attaching Options to investors who subscribe for Shares in the Capital Raising.

### **The names of the allottees of the securities**

The Options will be issued to members of the public under prospectus, and as such the name of the allottees are unknown at this time.

### **The use of funds raised**

The funds will be used to fund costs and expenses associated with exploration of the Tenements, the costs and expenses of the Company's application for re-admission and for general working capital purposes.

### **Dates of allotment**

It is intended that the Options will be allotted on the same date as their issue.

### **Terms & Conditions of Options**

General terms and conditions of the Options are:

1. **Entitlement:** Each Option shall entitle the holder (optionholder), when exercised, to one (1) Share.
2. **Exercise date:** The Options are exercisable wholly or in part at any time prior to 5.00 pm (AEST) on the date being 18 months after their date of issue. Options not exercised by that date shall automatically lapse.
3. **Exercise price:** The Option exercise price is \$0.25.
4. **Listed:** The options are to be listed on the ASX.
5. **Notice of exercise:** Each Option may be exercised by notice in writing to the Company, together with the payment for the number of Shares in respect of which the Options are exercised, at any time before the relevant expiry date. Any notice of exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt. An exercise is only effective when the Company has received the full amount of the exercise price in cleared funds.
6. **Quotation of Shares on exercise:** The Company will apply for quotation of the Shares issued upon exercise of the Options within ten (10) Business Days after the date of allotment. Subject to the Corporations Act, the constitution of the Company and the Listing Rules, the Options are freely transferable.
7. **Participation rights or entitlements:** There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of securities offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced so as to give holders the opportunity to exercise their Options before the date for determining entitlements to participate in any issue.

8. **Shares allotted on exercise:** Shares issued upon exercise of the Options will be issued following receipt of all the relevant documents and payments and will rank equally in all respect with the then issued Shares.
9. **Reconstruction of share capital:** If at any time the issued capital of the Company is reorganised, the rights of an Option holder are to be changed to the extent necessary to comply with the Corporations Act and the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

#### **The use of funds raised**

No funds will be raised from the issue of Options.

#### **Dates of allotment**

Allotment of the Options is subject to completion of the acquisition of Lymex Tenements.

It is intended that the Options will be issued no later than 3 months after the date of this Meeting.

#### **Voting exclusion statement**

A voting exclusion statement is included in the Notice of Meeting.

The passing of Resolution 8 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 8, you should also vote in favour of all Resolutions.

#### **Directors Recommendations**

The Directors do not have any material interest in the outcome of Resolution 8 other than as a result of their interest arising solely in the capacity of Shareholders and Option holders of the Company. Each of the Directors intends to vote their Shares in favour of Resolutions 8.

## **RESOLUTION 9, 10 & 11 – ELECTION OF DIRECTORS TO THE BOARD**

Resolutions 9 to 11 seek Shareholder approval for the election of Directors associated with Lymex, with such appointments to take effect from the date of completion of the acquisition of Lymex Tenements.

Information regarding the persons nominated for election as Directors is set out below:

### **Resolution 9 – Appointment of John Lynch**

John Lynch is to be appointed Managing Director of the Company following completion of the acquisition of Lymex Tenements.

John has significant exploration and development experience including the recognition and development of the Mt Leyshon, Camel Creek and Big Rush gold mines in North Queensland and the recognition and development of the Weda Bay nickel cobalt deposit in Indonesia. He has successfully delivered a number of mining projects into production.

John has previously held the following positions:

- (a) founding Director, President and CEO of Weda Bay Minerals Inc;
- (b) founder and Managing Director of Werrie Gold Limited;
- (c) General Manager, Director and Co-founder of Pan Australian Mining Limited;
- (d) Exploration Manager of Marathon Petroleum Australia Ltd;
- (e) Exploration Manager and Chief Geologist of Metals Exploration Limited; and
- (f) Assistant Exploration Manager of North Broken Hill Limited.

### **Resolution 10 – Appointment of Rob Clifton – Steele**

Rob is to be appointed as a Non – Executive Director of the Company.

Rob has more than 35 years' board or management consulting experience in a wide range of industries and organisations in Australia South East Asia. These industries and sectors have included information technology, agriculture, government services, education, manufacturing, tourism, legal services, professional associations, and Indigenous business and employment development.

A company director since 1976, Rob is currently a director and CEO of Bizcaps Software, a non-executive Director of Lymex Limited and Lymex Tenements Pty Ltd, a director of the Acteum Group and a board member of a number of non-profit organisations.

### **Resolution 11 – Appointment of Graham White**

Graham is to be appointed as a Non – Executive Director of the Company.

Graham has extensive experience in investor and media relations with companies and organisations in the mining sector over more than 25 years.

He has consulted to industry groups including the Minerals Council, the AusIMM and AMIRA International on communications issues, handled investor and media relations for a range of minerals companies and developed and managed community relations programs for mining projects and for other sensitive industries.

## **RESOLUTION 12 – ISSUE OF OPTIONS**

### **Background**

The Company has agreed to issue Options to several Shareholders of the Company who participated in a private placement of Shares in the Company in or around February 2013 to provide funding for the transaction costs and expenses to be incurred by the Company in connection with the transaction to acquire Lymex Tenements and undertake the capital raising and re – admission of the Company.

The number of Options to be issued to such Shareholders will be calculated based on one (1) Option for every (2) Shares held by them post – Consolidation. This equates to 518,657 Options.

### **ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a listed Company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of shareholders.

For the purpose of ASX Listing Rule 7.1, the issue of a convertible security is treated as an issue of the capital of the Company on a fully converted basis.

By obtaining the prior approval of the Shareholders to the issue of Options, the issue of those Options will not count within the 15% limit under Listing Rule 7.1.

For the purposes of ASX Listing Rule 7.1, Resolution 3 seeks Shareholder approval for the issue of 518,657 Options on the terms and conditions set out below.

### **ASX Listing Rule 7.3**

Listing Rule 7.3 contains certain requirements as to the contents of a notice sent to Shareholders for the purposes of Listing Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

#### **The number of securities to be issued**

The number of securities to be issued is 518,657 Options.

#### **The date by which the Company will issue the securities**

The Options will be issued no later than 3 months after the date of this Meeting.

#### **The issue price of the securities**

The Options will be issued for nil issue price.

#### **The names of the allottees of the securities**

The Options will be issued to the following Shareholders and in the following proportions:

Shareholder	Number of Options
Cudgen Superannuation Services Pty Ltd	149,254
Kazek Wlodarczyk	59,701
Zero Nominees Pty Ltd	160,448
Calina Pty Ltd, the Bartosiewicz Family A/C	22,388
Straight Investments SA	52,239
Slade Technologies Pty Ltd	74,627

### Terms & Conditions of Options

General terms and conditions of the Options are:

1. **Entitlement:** Each Option shall entitle the holder (optionholder), when exercised, to one (1) Share.
2. **Exercise date:** The Options are exercisable wholly or in part at any time prior to 5.00 pm (AEST) on the date being 18 months after their date of issue. Options not exercised by that date shall automatically lapse.
3. **Exercise price:** The Option exercise price is \$0.25.
4. **Listed:** The options are to be listed on the ASX.
5. **Notice of exercise:** Each Option may be exercised by notice in writing to the Company, together with the payment for the number of Shares in respect of which the Options are exercised, at any time before the relevant expiry date. Any notice of exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt. An exercise is only effective when the Company has received the full amount of the exercise price in cleared funds.
6. **Quotation of Shares on exercise:** The Company will apply for quotation of the Shares issued upon exercise of the Options within ten (10) Business Days after the date of allotment. Subject to the Corporations Act, the constitution of the Company and the Listing Rules, the Options are freely transferable.
7. **Participation rights or entitlements:** There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of securities offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced so as to give holders the opportunity to exercise their Options before the date for determining entitlements to participate in any issue.
8. **Shares allotted on exercise:** Shares issued upon exercise of the Options will be issued following receipt of all the relevant documents and payments and will rank equally in all respect with the then issued Shares.

9. **Reconstruction of share capital:** If at any time the issued capital of the Company is reorganised, the rights of an Option holder are to be changed to the extent necessary to comply with the Corporations Act and the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

**The use of funds raised**

No funds will be raised from the issue of Options.

**Dates of allotment**

Allotment of the Options is subject to completion of the acquisition of Lymex Tenements and the Consolidation.

It is intended that the Shares will be issued no later than 3 months after the date of this Meeting.

**Voting exclusion statement**

A voting exclusion statement is included in the Notice of Meeting.

The passing of Resolution 12 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 12, you should also vote in favour of all Resolutions.

**Directors Recommendations**

The Directors do not have any material interest in the outcome of Resolution 12 other than as a result of their interest arising solely in the capacity of Shareholders and Option holders of the Company. Each of the Directors intends to vote their Shares in favour of Resolution 12.

## **RESOLUTION 13 – CHANGE OF NAME**

---

Resolution 13 seeks Shareholder approval for the Company to change the Company's name.

### **Resolution 13 – Change of Company Name to Oakdale Resources Ltd**

The Board has decided to change the name of the Company from BKM Management Ltd' to 'Oakdale Resources Ltd' to better reflect the activities of the Company following completion of the acquisition of Lymex Tenements Pty Ltd.

As the Corporations Act requires that any change to the name of the Company be approved by a special resolution of the Company's Shareholders, such approval is being sought for the new name.

If Resolution 13 is passed the change of Company name will take effect when ASIC alters the details of the Company's registration.

The passing of Resolution 13 is conditional upon, and subject to, all Resolutions being passed by Shareholders. Therefore, if you wish to vote in favour of Resolution 13, you should also vote in favour of all Resolutions.

### **Directors Recommendations**

Each of the Directors intends to vote their Shares in favour of Resolution 13.

## **GLOSSARY**

**\$** means Australian dollars

**AEST** means Australian Eastern Standard Time;

**Acquisition** means the acquisition by the Company of 100% of the issued share capital of Lymex Tenements Pty Ltd (ACN 146 438 431);

**ASIC** means the Australian Securities and Investment Commission;

**ASX** means ASX Limited;

**Company** means BKM Management Ltd (ACN 009 146 543);

**Consideration Securities** means the consideration securities in the Company to be issued to the Lymex Shareholders under the terms of the Share Sale Agreement, being the Initial Consideration Shares, Initial Consideration Options, Deferred Consideration Tranche 1 Shares and Deferred Consideration Tranche 2 Shares;

**Consolidation** means the proposed consolidation of the Company's existing Share capital as set out in Resolution 7;

**Constitution** means the Company's Constitution;

**Corporations Act** means the Corporations Act 2001 (Cth);

**Deferred Consideration Securities** means the Deferred Consideration Tranche 1 Shares and the Deferred Consideration Tranche 2 Shares;

**Deferred Consideration Tranche 1 Shares** means the Shares to be issued to the Lymex Shareholders on the achievement of certain milestones with respect to the Tenements on the terms and as set out in the Explanatory Memorandum;

**Deferred Consideration Tranche 2 Shares** means the Shares to be issued to the Lymex Shareholders on the achievement of certain milestones with respect to the Tenements on the terms and as set out in the Explanatory Memorandum;

**Directors** means the current directors of the Company;

**Explanatory Memorandum** means the explanatory memorandum accompanying the Notice of Meeting;

**Independent Expert** means Hall Chadwick Corporate (NSW) Limited;

**Initial Consideration Shares** means 25,000,000 shares to be issued to the Lymex Shareholders as part consideration for the Acquisition;

**Initial Consideration Options** means 12,500,000 Options to subscribe for Shares in the Company to be issued to the Lymex Shareholders as part consideration for the Acquisition on the terms and as set out in the Explanatory Memorandum;

**JORC Code** means the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as amended from time to time;

**General Meeting** means the meeting convened by the Notice;

**Listing Rules** means the Listing Rules of the ASX;

**Lymex Tenements** means Lymex Tenements Pty Ltd (ACN 146 438 431);

**Lymex Shareholders** means the shareholders of Lymex Tenements Pty Ltd (ACN 146 438 431) who are to sell their shares in Lymex Tenements Pty Ltd (ACN 146 438 431) in accordance with the terms of the Share Sale Agreement;

**Notice of Meeting** means this Notice of Meeting issued by the Company;

**Option** means an option to acquire a Share;

**Proxy Form** means the proxy form accompanying the Notice;

**Resolutions** means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires;

**Share** means a fully paid ordinary share in the capital of the Company

**Shareholder** means a holder of a Share

**Share Sale Agreement** means the Share Sale Agreement as detailed in section 1.4;

**Tenements** means the exploration licence tenements held by Lymex Tenements.

**Annexure A:**

<b>Shareholder</b>	<b>Initial Consideration Shares</b>	<b>Initial Consideration Options</b>	<b>Deferred Consideration Tranche 1 Shares</b>	<b>Deferred Consideration Tranche 2 Shares</b>
Matamin Pty Ltd	21,085,187	10,542,593	6,325,556	6,325,556
Graham Shirley White	38,656	19,328	11,597	11,597
MCPW Pty Ltd	35,142	17,571	10,543	10,543
Gregor David Brownlee	17,571	8,785	5,271	5,271
Teasdale Superannuation Nominees Pty Ltd	17,571	8,785	5,271	5,271
Mary Papaleo	73,798	36,899	22,139	22,139
Heffernan Property Group Pty Ltd	43,927	21,964	13,178	13,178
Canary Pty Ltd	175,710	87,855	52,713	52,713
Meredith Pincus	35,142	17,571	10,543	10,543
Umberto Stenta	35,142	17,571	10,543	10,543
Farndos Pty Ltd	35,142	17,571	10,543	10,543
Briggite Pty Ltd	87,855	43,927	26,356	26,356
Ecomm. Unity Pty Ltd	122,997	92,248	36,899	36,899
David John Brown	316,278	158,139	94,883	94,883
Dakota Rose Asset Management Pty Ltd	42,170	21,085	12,651	12,651
Small Enterprises (Aust.) Pty Ltd	175,710	87,855	52,713	52,713
Namoi Capital Pty Ltd	87,855	43,927	26,356	26,356
Gerard James Masters & Sharyn Masters	439,274	219,637	131,782	131,782
Prilo Pty Ltd	175,710	87,855	52,713	52,713
Philby Trust	43,927	-	13,178	13,178
Bogani Pty Ltd	17,571	-	5,271	5,271

BLB Corporation Pty Ltd	1,897,665	948,834	569,301	569,301
TOTAL	25,000,000	12,500,000	7,500,000	7,500,000



11 July 2013

The Directors  
BKM Management Limited  
PO Box 8694  
ARMADALE VIC 3143

Dear Sirs,

**Independent Expert's Report on the Proposal to acquire 100% of the Issued Share Capital of Lymex Tenements Pty Ltd**

**1. INTRODUCTION**

*Background*

- 1.1 BKM Management Limited (“BKM” or “the Company”) is an Australian public listed company with diversified investments in Australia and Asia, particularly focussed on the energy and resource sectors. BKM currently holds an 85% shareholding interest in Scene Model Management Pty Ltd which conducts a modelling agency business, and holds a 26.5% shareholding interest in Singaporean oil trading company IGC Asia Pte Ltd.
- 1.2 As announced to the market on 6 March 2013, BKM has signed a Heads of Agreement (“HOA”) to acquire 100% of the issued capital of Lymex Tenements Pty Ltd (“Lymex”), a wholly owned subsidiary of Lymex Limited. Lymex is the owner of 9 exploration licences or “tenements” for highly prospective flake graphite, located on the Eyre Peninsula in South Australia. The tenements of Lymex are referred to as the “Oakdale Graphite Project”. The share sale agreement was entered into between BKM, Lymex Limited and Lymex on 28 June 2013.
- 1.3 The acquisition of Lymex by BKM and related resolutions detailed in section 2, is referred to in this report as the “Transaction”. The Transaction involves the issue of shares and options in the Company to Lymex Shareholders, and constitutes a significant change in the nature and scale of the Company’s activities.
- 1.4 If the Transaction is approved, Lymex Shareholders will be entitled to a possible 47.2% voting interest in BKM’s issued ordinary shares and a Lymex Shareholders, Matamin Pty Ltd, will acquire a relevant interest in the issued voting shares of BKM in excess of 20%.

*Opinion*

- 1.5 In our opinion, the Transaction, including the issue of BKM shares and options to Matamin Pty Limited, is fair and reasonable to the Non-Associated Shareholders of BKM.

HALL CHADWICK  
CORPORATE (NSW) LIMITED

ACN 080 462 488

SYDNEY

Level 29, St Martin's Tower 31  
Market Street Sydney NSW  
2000 Australia

GPO Box 3555 Sydney NSW  
2001

Ph: (612) 9263 2600

Fx: (612) 9263 2800

E: [hcsydinfo@hallchadwick.com.au](mailto:hcsydinfo@hallchadwick.com.au)

com.au

[www.hallchadwick.com.au](http://www.hallchadwick.com.au)

A member of AGN  
International Ltd, a  
worldwide association of  
separate and independent  
accounting and consulting  
firms

- 1.6 The ultimate decision however on whether to accept the Transaction should be based on shareholders own assessment of their circumstances.

***Purpose of Report***

- 1.7 You have requested Hall Chadwick Corporate (NSW) Limited (“HCC”) to prepare an Independent Expert’s Report to advise the shareholders of BKM, other than those associated with the proposed issue of BKM shares and options to Lymex Shareholders (“Non-Associated Shareholders”), whether the proposed Transaction is fair and reasonable when considered in the context of the interests of Non-Associated Shareholders and to set out the reasons for our conclusions.
- 1.8 HCC understands and has agreed that this report will be included in or accompany the notice to convene a meeting of BKM shareholders, to assist the Non-Associated Shareholders in their consideration of the proposed Transaction.

## 2. OUTLINE OF THE PROPOSED TRANSACTION

2.1 The Transaction involves the Company's acquisition of 100% of the issued capital of Lymex through the issue of shares and options in BKM (on a post consolidation basis) as follows:

1. Initial Consideration

- a) 25.0 million ordinary fully paid BKM shares at a deemed price of \$0.20 per share; and
- b) 12.5 million options exercisable at \$0.25 (on a post consolidation basis) within 18 months following re-listing of BKM.

2. Deferred Consideration:

- a) 7.5 million ordinary fully paid BKM shares at a deemed issue price of \$0.20 per share (post consolidation) to be issued upon BKM announcing to the ASX that at least 10 million tonnes in total of JORC Code compliant inferred graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content ("Deferred Consideration Tranche 1"); and
- b) 7.5 million ordinary fully paid BKM shares at a deemed issue price of \$0.20 per share (post consolidation) that are to be issued upon BKM announcing to the ASX at least 10 million tonnes in total of JORC Code compliant indicated graphite resources plus JORC Code compliant measured graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content ("Deferred Consideration Tranche 2").

2.2 Lymex is the owner of 9 exploration licences ("Tenements") for highly prospective flake graphite, located on the Eyre Peninsula in South Australia. In acquiring Lymex, BKM shall have the right to explore for graphite and base metal deposits from the Tenements and shall be entitled to mine and extract the graphite and base metals and to keep the proceeds from these minerals extracted (including any minor or trace metals (by-products) associated with the deposits).

2.3 The Company will also seek shareholder approval for the consolidation of its securities on the basis of 1 share for every 67 shares currently held.

2.4 BKM will also issue a prospectus for a capital raising to enable the Company to complete the Transaction and support its intended development strategy. The intended prospectus will be for the issue of up to 30 million shares to raise up to \$6 million ("Capital Raising") and is to include a priority offer to BKM shareholders of not less than \$1 million. The Capital Raising will also include one attaching option for every two shares issued exercisable at \$0.25 (on a post consolidation basis) within 18 months of issue. The proceeds of the Capital Raising will be used to undertake drilling at the Oakdale Graphite Project with the objective of delineating a JORC compliant resource, to meet the costs of the Transaction and for general working capital purposes.

2.5 Other interdependent resolutions to be put to shareholders include:

- Change to the nature and scale of the Company's activities;
- The name of the Company to be changed to Oakdale Resources Limited;

- The appointment of John Lynch, Rob Clifton-Steele and Graham White as Directors of the Company;
- The issue of 518,657 options exercisable at \$0.25 (on a post consolidation basis) within 18 months of issue. The Company has agreed to issue options to several Shareholders of the Company who participated in a private placement of Shares in the Company in or around February 2013. The number of options to be issued to such Shareholders will be calculated based on one option for every two shares held by them post-consolidation.

2.6 The following tables show the effect on the share capital of BKM after the Transaction and Capital Raising:

Effect on Ordinary Shares	Number of Shares	Lymex Shareholders
Ordinary shares currently on issue <sup>1</sup>	989,619,878	
1:67 Share Consolidation	14,770,446	
Shares issued to acquire Lymex – Initial Consideration	25,000,000	
Maximum shares issued pursuant to Capital Raising	30,000,000	
Maximum ordinary shares on issue upon listing	<b>69,770,446</b>	<b>35.8%</b>
Shares issued to acquire Lymex - Deferred Consideration Tranche 1	7,500,000	
Shares issued to acquire Lymex - Deferred Consideration Tranche 2	7,500,000	
Maximum ordinary shares on issue on completion of Transaction	<b>84,770,446</b>	<b>47.2%</b>
Options to be issued as part of Transaction (see table below)	28,018,657	
Fully diluted share capital following completion of the Transaction	<b>112,789,103</b>	<b>46.5%</b>

<sup>1</sup> Includes 69,500,000 shares issued on 15 March 2013 at \$0.003 per share to sophisticated investors

Effect on Options	Number of Options
Options currently on issue	-
Options issued to acquire Lymex	12,500,000
Options issued as part of Capital Raising	15,000,000
Options issued to existing shareholders	518,657
Total options on issue after Transaction	28,018,657

2.7 When the Transaction is approved and completed, Lymex Shareholders will be entitled to a combined relevant interest of up to 47.2% of BKM's issued ordinary shares, or 46.5% on a fully-diluted basis, assuming the maximum amount of shares are issued under the Capital Raising, all options are exercised and the Deferred Consideration Tranche 1 Shares and Deferred Consideration Tranche 2 Shares are issued and allotted to the Lymex Shareholders.

2.8 BKM's existing shareholders voting interest will decrease from 100% to 23.3%, or 20.2% on a fully-diluted basis assuming the maximum amount of shares are issued under the Capital Raising, all options are exercised and the Deferred Consideration Tranche 1

Shares and Deferred Consideration Tranche 2 Shares are issued and allotted to the Lymex Shareholders.

- 2.9 If all of the Resolutions are passed, and the Company proceeds with the Transaction, then the relevant interest and voting power of Matamin Pty Ltd, a shareholder of Lymex, will increase to up to 55% from 0%. This potential maximum increase in voting power for Matamin Pty Ltd is based on the following assumptions:
- (a) \$3,000,000 is raised in the Capital Raising (the minimum amount of the Capital Raising);
  - (b) the Deferred Consideration Tranche 1 Shares and Deferred Consideration Tranche 2 Shares are issued and allotted to the Lymex Shareholders;
  - (c) all Options held by Matamin Pty Ltd are exercised (but no other Options are exercised); and
  - (d) Matamin Pty Ltd will not subscribe for Shares in the Capital Raising.

## **STRUCTURE OF REPORT**

Our report is set out under the following headings:

3	PURPOSE OF REPORT
4	OPINION
5	BASIS OF EVALUATION
6	BACKGROUND
7	OVERVIEW OF LYMEX
8	OVERVIEW OF BKM
9	VALUATION METHODOLOGIES
10	VALUE OF LYMEX
11	VALUE OF BKM
12	ADVANTAGES AND DISADVANTAGES OF THE TRANSACTION
13	CONCLUSION AS TO FAIRNESS AND REASONABLENESS

## **APPENDICES**

I	SOURCES OF INFORMATION
II	EXTRACTS FROM INDEPENDENT GEOLOGIST'S REPORT ON THE MINERAL PROPERTIES OF LYMEX
III	STATEMENT OF DECLARATION & QUALIFICATIONS
IV	FINANCIAL SERVICES GUIDE

### **3 PURPOSE OF REPORT**

- 3.1 The purpose of this report is to advise the Non-Associated Shareholders of BKM of the fairness and reasonableness of the Transaction.
- 3.2 This report provides an opinion on whether or not the terms and conditions in relation to the transaction are fair and reasonable to the BKM shareholders whose votes are not to be disregarded in respect of the transaction (that is, the Non-Associated Shareholders).
- 3.3 The ultimate decision whether to accept the terms of the Transaction should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Transaction or matters dealt with in this report, shareholders should seek independent professional advice.
- 3.4 For the Transaction to be fair, the value of the Lymex shares being acquired must be equal to or greater than the value of the consideration, being BKM shares and options. To be reasonable the shareholders must obtain an overall benefit if the transaction proceeds. In forming an opinion as to whether the Transaction is fair and reasonable, the following factors have been considered:
- the underlying value of BKM shares and options to be issued as consideration to Lymex Shareholders;
  - the underlying value of Lymex shares to be acquired by BKM;
  - the likely market price and liquidity of BKM shares if the Transaction is not implemented;
  - the likelihood of an alternative proposal that could realise better value for BKM Shareholders.
- 3.5 This report has been prepared to satisfy the requirements of the Corporations Act 2001 (Cth) ("Corporations Act") and the Australian Stock Exchange ("ASX") Listing Rules.

#### **Corporations Act Requirements**

- 3.6 If the Transaction is approved, Lymex Shareholders will be entitled to a possible 47.2% voting interest in BKM's issued ordinary shares. One of the Lymex Shareholders, Matamin Pty Ltd, will receive 21,085,187 of the Consideration Shares, resulting in the acquisition of a relevant interest in the issued voting shares of BKM by Matamin Pty Ltd in excess of 20%.
- 3.7 Section 606(1) of the Corporations Act states that a person must not acquire an interest in issued voting shares in a listed company if that person's or any other person's voting power increases to above 20%. Section 606(1) prohibits Matamin Pty Ltd from acquiring the issued ordinary shares in BKM under the Transaction, unless one of the exemptions set out in Section 611 of the Corporations Act applies.
- 3.8 Item 7 of Section 611 of the Corporations Act exempts an acquisition that is approved by a resolution of shareholders of BKM passed at a general meeting as per Section 611. This is the exception which is being relied upon by the BKM shareholders. At the general

meeting of BKM no votes will be allowed to be cast by those persons (or their associates) acquiring shares under the Transaction (that is, the existing shareholders of Lymex).

- 3.9 Australian Securities and Investments Commission (“ASIC”) Regulatory Guide 111 “Content of Experts Reports” requires, amongst other things, that directors of a company need to provide shareholders with an analysis of whether a proposed transaction is fair and reasonable, when considered in the context of the interests of the non-associated shareholders. Regulatory Guide 111 recommends that this analysis should include an independent expert’s report. The independent expert is required to state whether, in their opinion, the proposal is fair and reasonable having regard to the interests of non-associated shareholders and state the reasons for forming that opinion. This report provides such an opinion.

### **ASX Listing Rules**

- 3.10 ASX Listing Rule 7.1 states that without the approval of holders of ordinary shares, an entity must not issue or agree to issue more equity securities than the number calculated according to the following formula:

$$(A \times B) - C$$

Where:

A = The number of fully paid ordinary securities on issue 12 months prior to the date of agreement;

- Plus the number of fully paid ordinary securities issued under an exception in ASX Listing Rule 7.2,
- Plus the number of partly paid ordinary securities that became fully paid in the 12 months,
- Plus the number of fully paid ordinary securities that become fully paid in the 12 months with approval of ordinary security holders under ASX Listing Rule 7.1,
- Less the number of fully paid ordinary securities cancelled in the 12 months.

B = 15%

C = The number of equity securities issued or agreed to be issued in the 12 months before the date of the issue or agreement to issue but under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.

- 3.11 The issue of ordinary securities under the Transaction will result in an issue of BKM ordinary securities greater than allowed under the above formula. Accordingly, under ASX Listing Rule 7.1 BKM must obtain approval from the holders of the ordinary shares.

- 3.12 The Transaction constitutes a significant change in the nature and scale of the Company’s activities. ASX Listing Rule 11.1 sets out the requirements an entity must adhere to when undergoing a change to the nature or scale of their activities. The entity must provide the ASX with information regarding the change and its effect on future potential earnings and must ensure approval is obtained from the shareholders to effect the change of activities. The Transaction is such a proposed change. ASX Listing Rule 11 does not specifically require the notice to include or be accompanied by a copy of an independent expert’s report commenting on the issue.

#### 4. OPINION

4.1 In our opinion, the proposed Transaction to acquire all of the issued shares of Lymex through the issues of BKM shares and options is fair and reasonable to the Non-Associated Shareholders of BKM.

4.2 Our opinion is based solely on information available as at the date of this report.

4.3 The principal factors that we have considered in forming our opinion are summarised below.

##### *Fair*

4.4 According to RG 111, for the Transaction to be fair, the value of the Lymex shares being acquired must be equal to or greater than the value of the consideration, being BKM shares and options.

4.4.1 Based on the analysis contained in section 10 of this report, the indicative value of 100% of Lymex is **\$6,200,000**.

4.4.2 The value of the shares and options being issued by BKM for 100% of Lymex is based on the values determined in section 11, as shown in the tables below:

	Low	High	Midpoint
<i>Pre Transaction, Post Consolidation</i>			
BKM share value - controlling basis	0.111	0.221	0.166
BKM options value	0.016	0.073	0.040
Deferred Consideration Tranche 1	0.056	0.111	0.083
Deferred Consideration Tranche 2	0.033	0.066	0.050

<i>Valuation of Consideration</i>	Shares	Low	High	Midpoint
BKM Shares (Initial Consideration)	25,000,000	2,775,000	5,525,000	4,150,000
BKM Options	12,500,000	198,244	908,017	503,320
Deferred Consideration Tranche 1	7,500,000	416,250	828,750	622,500
Deferred Consideration Tranche 2	7,500,000	249,750	497,250	373,500
		<b>3,639,244</b>	<b>7,759,017</b>	<b>5,649,320</b>

<sup>1</sup> The Transaction includes the Prospectus Capital Raising of up to \$6,000,000 through the issue of up to 30,000,000 Post-Consolidation Shares at \$0.20 each. As the offer price is between the BKM share value range determined above, the Capital Raising will not have a negative effect on the Non-associated Shareholders.

4.4.3 Our valuation of BKM shares and options is based on a value prior to the Transaction on a controlling interest basis. In order to assess whether the Transaction is fair, we also need to compare the pre-transaction values on a control basis with the post-transaction values on a minority basis, as the existing Non-Associated Shareholders of BKM will lose control of the Company to the Lymex Shareholders after the Transaction. This is shown in the table below:

<b>BKM Value and Opinion</b>	<b>Low</b>	<b>High</b>	<b>Midpoint</b>	<b>Diluted</b>
<b>Control value per share</b>	<b>\$ 0.111</b>	<b>\$ 0.221</b>	<b>\$ 0.166</b>	<b>\$ 0.166</b>
Post Consolidation shares on issue	14,770,446	14,770,446	14,770,446	14,770,446
Control valuation of BKM, pre-Transaction	1,639,519	3,264,268	2,451,894	2,451,894
Valuation of Lymex	6,200,000	6,200,000	6,200,000	6,200,000
Proceeds from exercise of Lymex options *				3,125,000
Proceeds from Capital Raising – shares	6,000,000	6,000,000	6,000,000	6,000,000
Proceeds from exercise of new options *				3,879,664
<b>Post-Transaction Value</b>	<b>13,839,519</b>	<b>15,464,268</b>	<b>14,651,894</b>	<b>21,656,558</b>
Post-Transaction shares on issue	84,770,446	84,770,446	84,770,446	112,789,103
<b>Value per share</b>	<b>0.163</b>	<b>0.182</b>	<b>0.173</b>	<b>0.192</b>
Minority discount <sup>refer section 9.4</sup>	10%	10%	10%	10%
<b>Post-Transaction Valuation per share</b>	<b>\$ 0.147</b>	<b>\$ 0.164</b>	<b>\$ 0.156</b>	<b>\$ 0.173</b>

\* based on an exercise price of \$0.25 per option

- 4.5 In our opinion the Transaction is **fair** based on the following:
- the value attributed to Lymex is within the value range for the consideration being paid by BKM;
  - the valuation range of the BKM shares held by Non-Associated Shareholders post-Transaction is within the pre-Transaction valuation range; and
  - the valuation of the BKM shares held by Non-Associated Shareholders on a fully diluted basis increases as a result of the Transaction.

#### ***Reasonable***

- 4.6 ASIC Regulatory Guide 111 states that a transaction is reasonable if:
- The Transaction is fair; or
  - Despite not being fair the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.
- 4.6.1 We have concluded that the Transaction is reasonable. In forming our opinion we have considered the following relevant factors:
- Given the Company's limited capital and lack of income producing assets it will have difficulty in creating significant long-term value for shareholders in its current state. The Directors of BKM have determined that Lymex has the potential to increase BKM shareholder value and provide the Company with a future business direction. Based on currently available information, the Directors are of the view that the Lymex assets have significant potential to host commercially-valuable mineral deposits.
  - The Directors consider that the current board and management team of Lymex possess the experience and skills required to successfully transition the Company into its proposed new business, which includes exploration and potential development of Lymex's mineral resource projects.

- The Transaction will increase the market capitalisation of the Company and should increase the liquidity of the Company's Shares, subject to the Company meeting the requirements of Chapters 1 and 2 of the ASX Listing Rules.
- The Capital Raising is a condition of the Transaction and will provide the necessary working capital to facilitate the ongoing development of the Lymex assets.
- The BKM Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders and in the absence of a superior alternative proposal is a strategic opportunity for the Company to continue as a going concern.
- The BKM share price is likely to fall in the event the Transaction is not approved and in the absence of an alternative and superior offer emerging.
- We are unaware of any alternative proposal at the date of this report that could realise better value for BKM shareholders.

Having considered that the Transaction is fair, the potential of the Lymex assets, and the alternatives of not proceeding with the Transaction, in our opinion the Shareholders of BKM should benefit if the Transaction proceeds and therefore, in our opinion the Transaction is reasonable.

4.7 *Accordingly, in our opinion, the Transaction is fair and reasonable to the Non-Associated Shareholders of BKM.*

## 5 BASIS OF EVALUATION

- 5.1 In our assessment of whether the Transaction is fair and reasonable to BKM Non-Associated Shareholders, we have given due consideration to the Regulatory Guides issued by the ASIC, in particular, Regulatory Guide 74 “Acquisitions Agreed to by Shareholders”, Regulatory Guide 111 “Content of Experts Reports” and Regulatory Guide 112 “Independence of Experts Reports”.
- 5.2 ASIC Regulatory Guide 74 requires, amongst other things, that shareholders are provided with sufficient information to make an effective, informed decision on whether the proposed Transaction is fair and reasonable. Under Regulatory Guide 111, a transaction is “fair” if the value of the asset being acquired (in this case 100% of the equity in Lymex) is equal to or greater than the value of the consideration being offered (in this case, BKM shares and options). Additionally, under Regulatory Guide 111 an offer is “reasonable” if it is fair. It is possible for an offer to be reasonable despite being unfair. This would be after the expert considers that, based on non-financial factors, the shareholders should still approve the Transaction in the absence of any alternative proposals.
- 5.3 Our report has compared the likely advantages and disadvantages to non-associated shareholders if the Transaction is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the value of the shares to be acquired under the Transaction and the value of the consideration to be paid is only one element of this assessment.
- 5.4 We have considered whether any shareholder will obtain a level of control in BKM as a result of the proposed Transaction. In the event that a change in control arises from the proposed transaction, proportionately greater benefits to non-associated shareholders must be demonstrated. In this case Lymex Shareholders will obtain control of BKM and this issue needs to be considered in comparing the value received by Non-Associated Shareholders in comparison to the value being paid.
- 5.5 Normal valuation practice is to determine the fair market value of an asset assuming a counter party transaction between a willing and not anxious buyer and a willing but not anxious seller, clearly at arm’s length. We have adopted this approach in determining the market value of 100% of the equity of Lymex and BKM.
- 5.6 In evaluating the Transaction, we have considered the value of the Lymex shares being acquired and compared this to the amount of consideration to be paid through the issue of BKM shares and options for this acquisition. We consider that the Transaction will be fair and reasonable if, on balance, the Non-Associated Shareholders in BKM will be better off if the Transaction is approved. We will also consider the Non-Associated Shareholder’s interests should the Transaction not proceed.
- 5.7 In our assessment of the Transaction we have considered, in particular the following:
- The operational and financial position of Lymex and BKM;
  - The value of Lymex shares, under various methodologies;
  - The value of BKM shares and options, under various methodologies;

- Any control premium associated with the Transaction;
  - The advantages and disadvantages associated with approving the Transaction;
  - Share trading history of BKM shares;
  - The likely value and liquidity of BKM shares in the absence of the acquisition;
  - Other qualitative and strategic issues associated with the Transaction.
- 5.8 The documents and information relied on for the purpose of this valuation are set out in Appendix I. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Transaction is fair and reasonable. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit or extensive examination might disclose. None of these additional tasks have been undertaken.
- 5.9 We understand the accounting and other financial information provided to us has been prepared in accordance with generally accepted accounting principles.
- 5.10 An important part of the information used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 5.11 HCC are not the auditors of BKM or Lymex. We have analysed and reviewed information provided by the Directors and management of BKM and made further enquiries where appropriate.
- 5.12 This report has been prepared after taking into consideration the current economic and market climate. We take no responsibility for events occurring after the date of this report which may impact upon this report or which may impact upon the assumptions referred to in the report. To the extent we become aware of a material change in circumstances since the date of our report, we will issue a supplementary report at the request of BKM if so required.

## 6 BACKGROUND

- 6.1 On 6 March 2013 The Directors of BKM announced the signing of a binding HOA to acquire the Oakdale Graphite Project from Lymex Limited, a public unlisted Australian exploration company whose Managing Director John Lynch will, subject to shareholder approval of the Transaction, become Managing Director of BKM, to be renamed Oakdale Resources Limited. Due diligence of Lymex was completed by BKM on 18 April 2013.
- 6.2 The Oakdale Graphite Project is located on the Eyre Peninsula in South Australia. The tenement package being acquired comprises 9 exploration tenements covering a large area of approximately 2,480 km<sup>2</sup>. In acquiring Lymex, BKM will have the right to explore for graphite and base metal deposits and shall be entitled to mine and extract the graphite and base metals and to keep the proceeds for these minerals extracted (including any minor or trace metals (by-products) associated with the deposits). Further information on Lymex's business operations can be found at Section 7 of this report.
- 6.3 The proposed acquisition of Lymex constitutes a significant change in the nature and scale of the Company's activities of the type contemplated by Chapter 11 of the ASX Listing Rules. As a result of changing the nature of its activities, various aspects of the transaction will need to be approved by Shareholders and the requirements of Chapters 1 and 2 of the ASX Listing Rules will need to be complied with.
- 6.4 The BKM board believes these acquisitions represent an attractive opportunity to acquire a large scale tenement of a highly prospective flake graphite project with the potential to generate significant shareholder value in the future.
- 6.5 Commenting on the Transaction, BKM Director Evan McGregor stated: "The Oakdale Graphite Project and associated tenements represent an exciting opportunity for the Company to acquire an evaluation and development flake graphite project located in a favourable mining jurisdiction with potential to deliver significant shareholder value. In addition to the outstanding asset, the Company has obtained a very experienced and successful management and technical team. The Company has negotiated a strong, constructive and performance based agreement tied to the continued evaluation success and ultimately delivery of a JORC resource at the Oakdale Graphite Project. The Project has already produced highly encouraging graphite intersections at this relatively early stage, and the nature of the graphite along with the location of the intersection zones provides an excellent base upon which to commence the extensive drilling programme. So far only some 400m of a potential extensive graphitic bearing horizon has been drilled."
- 6.6 The Company has finalised a share placement to raise approximately \$208,500 (before costs) through the issue of 69.5 million new BKM shares at a price of \$0.003 per share ("Placement"). This equates to a post-Consolidation share price of \$0.20. The Placement was undertaken without requiring disclosure or shareholder approval. The shares were placed to sophisticated and professional investors who qualify under s708 of the Corporations Act.

## 7. OVERVIEW OF LYMEX

### 7.1 Company and Industry Overview

- 7.1.1 Lymex is a registered Australian proprietary company and the owner of 9 tenements or exploration licences (“EL”) for highly prospective flake graphite, located on the Eyre Peninsula in South Australia, known as the Oakdale Graphite Project.
- 7.1.2 Graphite is mainly used in the steel and automotive industries. The industrialisation of China, India and other major emerging economies has seen demand for graphite continue to rise. New applications have the potential to significantly increase demand for graphite. The lithium ion battery market is seen as one of the most important growth markets for natural flake graphite. Graphite is a significant component of the battery's anode and there is up to 10 times more graphite than lithium in a lithium ion battery. Other new applications for graphite include fuel cells and nuclear power.
- 7.1.3 Sales contracts for graphite are by private treaty. Industry prices are surveyed and published by Industrial Minerals Magazine. Prices of high quality graphite have risen from approximately US\$600 per tonne to US\$3,000 per tonne between 2004 and 2011. As a general rule the larger the graphite flake the higher the price received. (Source: Patersons Research 23 August 2012)
- 7.1.4 The Lymex Tenements are located between 120km and 160km north of Port Lincoln in the Gawler Craton on the Eyre Peninsula in South Australia. The tenement package comprises:
- EL4895(Tungketta Hill);
  - EL4537 (Brimpton Lake);
  - EL4244 (She ringa)
  - EL4442 (Mt Hope);
  - EL4243 (Lock);
  - EL4231 (Kapinnie);
  - EL4172 (Brooker);
  - EL4768 (Hillside); and
  - EL4914 (Lake Malata)
- 7.1.5 In acquiring the Tenements BKM shall have the right to explore for graphite and base metals (copper, nickel, lead, zinc) with Lymex Limited to retain the rights to explore for all other mineral deposits.
- 7.1.6 Anglo American Exploration (Australia) Pty Limited (“Anglo”) in a previous Joint Venture with Lymex negotiated a 1.5% net-smelter-return royalty, applicable to ELs 4172, 4231 and 4537. Under the terms of the HOA, BKM shall assume the royalty obligations to Anglo in so far as they relate to the graphite and base metal resources on the EL’s. Lymex Limited shall assume the royalty obligations to Anglo in so far as they relate to any other potential resources on the EL’s.

## 7.2 Project Highlights

- 7.2.1 Following is a summary of the Lymex tenements and exploration results based on information compiled and/or reviewed by Mr John Lynch, managing director of Lymex and a member of the Australian Institute of Geoscientists and Fellow of the Australian Institute of Mining and Metallurgy. We are advised that Mr Lynch has sufficient experience which is relevant to the activity being undertaken to qualify as a "Competent Person"; as defined in the 2004 edition of the Australasia" Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.
- a) Acquisition of a highly prospective flake graphite project located on the Central Eyre Peninsula in South Australia comprising 9 tenements and covering approximately 2,480km<sup>2</sup>.
  - b) Oxidised, weathered graphitic units approximately 40 metres thick sitting within a graphite-bearing zone greater than 200m wide. Initial metallurgical results show graphite to be coarsely crystallised with a high component of flake graphite.
  - c) Metallurgical test work on the oxide zone has recovered high grades up to 48.5% Graphitic carbon ("Cg") with large flake graphite up to 1000 micron.
  - d) Diamond drilling into the primary zone has shown the graphitic schist to be in excess of 200m thick (down hole) with significant results including 33.9m at 8.39% Cg.
  - e) Excellent accessible infrastructure - 120 km from active port, available source of electricity (grid) and good network of near project sealed roads.
  - f) The Oakdale Graphite project and associated exploration tenements are readily accessible all year round via a network of sealed and weatherproofed roads, are close to excellent accessible infrastructure with a port only 120km from the project and have available sources of grid electricity. The projects are all located on freehold land.
  - g) Extensive work carried out by Lymex has shown that the average cover thickness is only approximately 36m and that the geological age is around 2,540 million years which is a highly prospective geological age worldwide.
  - h) Significant exploration work has already been undertaken on the tenements and specifically the Oakdale Graphite Project (EL 4537). This includes magnetic surveys, airborne EM, aircore drilling, RC drilling, and diamond drilling. Petrographical work, assaying and metallurgical studies have been integrated into this exploration.
  - i) Results received to date indicate that the graphite mineralisation occurs in the hanging wall of a potential volcanogenic hosted massive sulphide system. The graphite mineralisation has been identified in numerous wide spaced diamond drill holes over 1500m apart. Where drilled the graphite occurs interbedded with schists and basic volcanics over a thickness in excess of 200 metres. Initial metallurgical testing of the oxidised graphite material shows carbon assays of up to 48.5% and good recoveries of coarse flake and flake graphite. The area is underexplored and represents an opportunity for the discovery of significant high value mineral deposits.
  - j) Exploration has also identified base metal mineralisation at Malache where wide low grade, low iron zinc mineralisation along with associated lead, copper, silver trace germanium, gallium and indium has been identified associated with a major shear system.
  - k) Exploration Drilling Results: A diamond drilling programme was carried out between 2003 and 2005 with Anglo American Pty. Ltd. to explore and test an electromagnetic anomaly associated with anomalous copper and zinc which identified extensive graphite-rich units within the tenements.

Work focused on the area surrounding diamond drill holes BLDD02 and BLDD03 which are approximately 400 metres apart. Lymex re-assayed these holes in 2012 and assays of the primary zone included:

- BLDD02: Intersected 39.3 metres at 3.87% Cg from 166 metres including 30.6 metres of graphitic schist averaging 4.75% Cg; and 19 metres at 5.38% including 16.4 metres at 6.2% Cg;
  - BLDD03: Intersected 57 metres at 4.9% Cg from 63 metres including 33.9 metres at 8.39% Cg
- l) The Company's intention is to undertake an electromagnetic survey followed by near surface drilling in the oxide zone identified in BLD0002 and BL0003 with the objective to identify and delineate significant near surface oxidized graphite with a high percentage of coarse flake graphite.

### **7.3 Geological Report**

7.3.1 BKM commissioned Veronica Webster Pty. Limited ("VWPL") to provide an Independent Geologist's Report ("IGR") on the Mineral Properties of Lymex in the Eyre Peninsula, South Australia. Extracts from the IGR are included at Appendix II.

7.3.2 Mr. L W Davis, who is a duly authorised representative and director of VWPL, has supervised the preparation of the IGR. Mr Davis has had over 40 years' experience in the minerals industry, is a registered Chartered Professional (Geology) and is affiliated with The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. He specialises in mineral resource/reserve estimations, advanced project assessment and exploration management.

7.3.3 The IGR did not include a valuation of Lymex assets due to their early stage of exploration and development.

7.3.4 The IGR includes the following summary comments from VWPL:

"In VWPL's opinion Lymex has a satisfactory and clearly defined exploration and expenditure program, which is reasonable having regard to its stated objectives. Allowance has been made for successful first-year programs and high expenditures on follow-up activity in the second year.

The proposed programs carry fundamental risks for this style of speculative activity. In the view of VWPL the programs are fully justified."

### **7.4 Directors**

7.4.1 Following is a summary of the experience and skills of Lymex's directors to be appointed to the board of BKM, as provided by Lymex:

*John Lynch, Managing Director*

Currently a director of Lynch Mining Pty Ltd, John has previously held numerous directorships and general manager positions with mineral exploration and mining companies, and has held exploration management positions at Marathon Petroleum Australia Ltd, Metals Exploration Limited and North Broken Hill Limited. John is a

member of the Australian Institute of Geoscientists and Fellow of the Australian Institute of Mining and Metallurgy.

*Robert Clifton-Steele, Non-Executive director*

Rob has extensive administration and management consulting experience, with more than 35 years' board or management consulting experience in a wide range of industries and organisations in Australia and South East Asia. These have included information technology, agriculture, government services, education, manufacturing, tourism, legal services, professional associations, retail, export, indigenous business and employment development, and management consulting.

*Graham S White, Non-Executive Director*

Graham has extensive experience in investor and media relations with companies and organisations in the mining sector over more than 25 years. He has consulted to industry groups including the Minerals Council of Australia, The AUSIMM and AMIRA International on communications issues, handled investor and media relations for a range of minerals companies and developed and managed community relations programs for mining projects and other sensitive industries.

## **7.5 Financial Information**

- 7.5.1 Lymex is being acquired by BKM. Directors advised that Lymex will have no assets or liabilities other than the 9 exploration tenements detailed above.

## **8. OVERVIEW OF BKM**

### **8.1 Corporate Overview**

- 8.1.1 BKM was officially listed on the ASX on 18 September 1986 and has operated various businesses over its operating history.
- 8.1.2 Although the Company's strategy is to rationalise current operations and concentrate on new investment opportunities, BKM has maintained its interest in Scene Model Management Pty Ltd ("Scene") and IGC Asia Pte Ltd ("IGC").
- 8.1.3 Scene operates in the modelling and fashion industry in Australia. It offers modelling classes on posture, catwalk, photography and make-up. Scene also offers acting classes. Scene is based in Perth, Australia, and has additional offices in Sydney and Melbourne.
- 8.1.4 The majority of the Company's revenue is earned from Scene's operations. Revenues for FY2012 increased to \$2,052,202 compared with \$1,653,136 in FY2011. Scene was able to earn a profit of \$29,296 for FY2012, compared to the loss of \$53,941 for FY2011. The better performance was because of steadily improving trading conditions over the course of the year, particularly the last six months of FY2012.
- 8.1.5 IGC is involved in evaluating energy projects in Mongolia, mainly oil, gas and coal developments. IGC's parent company, CBS Ventures Inc., a substantial shareholder in BKM, has a joint venture in Block XXX in the south-west of Mongolia. In addition, the Company is actively seeking other attractive projects in Mongolia, with the intention to position itself as a key participant in the development of energy projects in the country.
- 8.1.6 IGC's performance for FY2012 was well below budget, resulting in a large loss. IGC has been working with its major shareholder and parent company, CBS Ventures Plc., and BKM to revise its operating model to better suit the current economic climate. As a result, IGC has reduced its turnover while maintaining margins. The fair value of the investment in IGC declined by \$630,711 in FY2012 resulting in a current carry value of \$417,756.
- 8.1.7 Prior to Completion, BKM has agreed to use all reasonable endeavours to enter into legally binding agreements to effect the divestment of the BKM Non-Core Assets (IGC and Scene), with the terms of such agreements to be approved by Lymex.
- 8.1.8 Directors advise that it is most likely that IGC and Scene will be sold for no less than \$250,000 with a possible entitlement of BKM shareholders to participate in a new spin-off company acquiring the Scene and IGC assets.

## 8.2 Financial Information

8.2.1 Set out below is the Audited Consolidated Profit and Loss Statements of BKM for the financial year ended 30 June 2011 (“FY 2011”), 30 June 2012 (“FY 2012”) and the Reviewed Consolidated Profit and Loss Statements of BKM for the Half Year ended 31 December 2012 (“HY Dec 2012”).

CONSOLIDATED PROFIT AND LOSS STATEMENT			
	<b>HY Dec 2012</b>	<b>FY 2012</b>	<b>FY 2011</b>
	<b>Reviewed</b>	<b>Audited</b>	<b>Audited</b>
Revenue	710,513	2,051,024	1,644,813
Other Income	-	6,072	15,272
	710,513	2,057,096	1,660,085
Corporate administration expenses	(102,791)	(258,277)	(285,802)
Employment and consulting fees	(218,751)	(271,307)	(464,761)
Finance costs	(7,788)	(80,571)	(128,218)
Impairment expenses	-	(630,711)	(788,904)
Loss on sale of assets	-	(231)	(5,313)
Model and talent costs	(532,593)	(1,437,008)	(1,192,380)
Occupancy costs	(36,257)	(70,645)	(82,564)
Loss before income tax	(187,667)	(691,654)	(1,287,857)
Income tax expense	-	-	-
<b>Net loss after income tax expense</b>	<b>(187,667)</b>	<b>(691,654)</b>	<b>(1,287,857)</b>

8.2.2 Set out below is the Reviewed Consolidated Balance Sheet of BKM as at 31 December 2012.

<b>CONSOLIDATED BALANCE SHEET</b>	
	<b>As at 31 December 2012 Reviewed</b>
<b><u>CURRENT ASSETS</u></b>	
Cash and cash equivalents	317,191
Trade and other receivables	104,671
Other current assets	6,120
	427,982
<b><u>NON-CURRENT ASSETS</u></b>	
Investment - IGC	417,756
Property, plant & equipment	3,733
Intangibles	49,878
	471,367
	471,367
<b>TOTAL ASSETS</b>	<b>899,349</b>
<b><u>CURRENT LIABILITIES</u></b>	
Trade and other payables	697,705
Borrowings	153,970
Employee benefits	24,019
	875,694
<b><u>NON-CURRENT LIABILITIES</u></b>	
Employee benefits	36,258
	36,258
	36,258
<b>TOTAL LIABILITIES</b>	<b>911,952</b>
<b>NET ASSETS</b>	<b>(12,603)</b>
<b><u>EQUITY</u></b>	
Issued capital	26,461,405
Accumulated losses	(26,460,599)
Non-controlling interest	(13,409)
<b>TOTAL EQUITY</b>	<b>(12,603)</b>
<b>Segmentation of assets between investments and parent:</b>	
Scene (Modelling)	(89,397)
IGC (Investment)	196,916
Parent (BKM)	(120,122)

8.2.3 The auditor's December 2012 review report for BKM contained a qualification in relation to the investment in IGC, which had a carrying value of \$417,756 as at 31 December 2012. No revenue is being earned from this investment and as at the date of the December 2012 review report (27 February 2013) no assurance had been issued on the financial reports of IGC. Accordingly the auditor was unable to obtain sufficient appropriate audit evidence to support the carrying amount of BKM's investment in IGC. The audit report also contained an emphasis of matter regarding the existence of a material uncertainty about the Company's ability to continue as a going concern due to the losses incurred and its negative net asset position.

## 9 VALUATION METHODOLOGIES

### 9.1 Selection of Methodology

9.1.1 In order to assess the fairness of the Transaction a value needs to be attributed to BKM shares and options and Lymex shares.

9.1.2 In assessing the value of BKM and Lymex we have considered a range of valuation methods. ASIC Regulatory Guide 111 *Content of Expert Reports* states that in valuing a company the expert should consider the following commonly used valuation methodologies:

- Market Value of Shares: the quoted price for listed securities in a liquid and active market;
- Realisation of Assets: the amount that would be available for distribution to security holders on an orderly realisation of assets;
- Capitalisation of Future Maintainable Earnings: the value of trading operations based on the capitalisation of future maintainable earnings;
- Discounted Cash Flow: the net present value of future cash flows;
- Comparable Market Transactions: the identification of comparable sale transactions.

We consider each of these valuation methodologies below.

#### 9.1.3 *Market Value of Shares as Quoted on the ASX*

This method involves the valuation of an entity based on its actively traded equities, which represent the market capitalisation of the share capital of the entity, in a liquid and knowledgeable market.

Any assessment of the market value of the quoted equities needs to consider the following:

- The liquidity of the quoted equity based on the volume and frequency of trading;
- The number of 'unusual' and/or 'abnormal' trades that occur; and
- The timing and level of dissemination of information to the market.

If a quoted ordinary equity is traded in an active, liquid and knowledgeable market, then the market price of the quoted ordinary equity should represent the 'fair' market value of the quoted ordinary equity.

A premium may also need to be applied to the value of the quoted ordinary equity to determine the value of the equity holding in the circumstances where a party is acquiring or increasing a controlling equity position.

We consider that adopting a market value of shares methodology to determine an indicative value of BKM is appropriate as it reflects all publicly available information on the company and therefore we believe it is a reliable reflection of the current value of BKM shares. Although the liquidity of the market for BKM shares is less than ideal for the use of the market value of the quoted equity as a basis for the valuation, some of the alternative methods are less appropriate due to the lack of historical earnings and the uncertainty regarding future earnings and cash flows.

This method is not appropriate for Lymex as its shares are not listed or publicly traded.

#### *9.1.4 Realisation of Assets*

The net assets or cost based approach to value is based on the assumption that the value of all assets (tangible and intangible) less the value of all liabilities should equal the value of the entity. The net asset value is determined by marking every asset and liability on and off the company's balance sheet to current market values.

This approach is generally not appropriate where assets are employed productively and are earning more than the cost of capital. It is often used as a cross check to assess the relative riskiness of the business.

Although BKM has an income producing asset, being its interest in Scene, it is not generating any significant profits. Directors advise that, prior to completion of the Transaction, IGC and Scene will be sold for no less than \$250,000 with a possible entitlement of BKM shareholders to participate in a new spin-off company acquiring the Scene and IGC assets. The notional realisation of assets has been adopted to assess the minimum net realisable value of BKM, inclusive of a control premium for the value of its public listing.

Lymex comprises assets that are in their early stages of exploration and development with no historical earnings. Their value may change significantly as exploration and evaluation activities progress. Lymex has no other assets or liabilities. The Company has determined that it is not necessary to conduct a valuation of the tenements for the purposes of this report and accordingly have not engaged a geological expert to conduct such a valuation. As Lymex's assets are still at an exploration phase an independent valuation would be subject to many varying assumptions. A realisation of assets approach is therefore not appropriate.

#### *9.1.5 Capitalisation of Future Maintainable Earnings*

Under the earnings based valuation method, the value of the business is determined by capitalising the estimated future maintainable earnings of the business at an appropriate capitalisation rate or multiple of earnings. The multiple is a coefficient, representing the risk that the business may not achieve forecast earnings. This method is appropriate in valuing a business when there is a history of earnings, the business is established and it is assumed the earnings are sufficiently stable to be indicative of ongoing earnings potential.

This method is not considered appropriate for the valuation of BKM as:

- BKM does not have any recent historical earnings on which to base a valuation;
- The company has previously been involved in services which do not relate to the proposed business activity.

This method is not considered appropriate for the valuation of Lymex as the exploration assets it holds are not currently contributing to earnings. It therefore does not have any historical earnings on which to base a valuation.

#### 9.1.6 *Discounted Cash Flow – Net Present Value*

Discounted cash flow valuations involve calculating the value of a business on the basis of the net cash flows that will be earned from the business over its life. The cash flows are discounted to reflect the risk involved with achieving the forecast cash flows.

Management of Lymex are unable to forecast future cash flows from its exploration assets with sufficient confidence and verification without the use of an industry expert.

Neither Lymex nor BKM have prepared forecast cash flows, therefore a value cannot be placed on BKM or Lymex using the discounted cash flow method.

The future profits of Lymex are dependent on the successful exploration and development of its tenements. Directors have advised that at this stage they are unable to provide reliable cash flow forecasts on which to base a valuation and a cash flow valuation approach is not appropriate.

#### 9.1.7 *Comparable Market Transactions*

This methodology involves the identification of comparable transactions to a similar business or asset to that being valued.

We have considered the capital raising recently conducted by BKM and the proposed Capital Raising in assessing the current market value of BKM shares.

The Capital Raising to raise up to \$6,000,000 at \$0.20 per shares is an interdependent resolution being put to Shareholders as part of the Transaction. We consider that this provides a basis for the valuation of the shares to be issued as consideration for the purchase of Lymex as the issue of shares from the Capital Raising reflects the market value of the shares, being the price at which independent parties are willing to invest in Lymex.

BKM has also recently raised \$208,500 (before costs) through the issue of 69.5 million BKM shares at a price of \$0.003 per share ("Placement"). The Placement provides a basis for the current valuation of BKM shares.

We are not aware of any alternative offers or transactions for the acquisition of the shares in either Lymex or BKM.

#### 9.1.8 In forming an opinion on the valuations of BKM and Lymex, HCC has considered the following:

- The historical operations of the businesses;
- The industries in which the businesses operate;
- Information provided and discussions undertaken with management regarding future operations.

### 9.1.9 Financial information relied upon in applying selected valuation methods

We have reviewed financial accounts for the last three years and unaudited management accounts of BKM and Lymex. Ultimately, the management of the respective companies are responsible for the preparation and presentation of the financial information provided. The purpose of our review is to establish that the financial information used is not materially misstated. This review does not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

## 9.2 Valuation of Options

The Black-Scholes formula is commonly used for assessing the value of options over shares. Other valuation methodologies include computing the difference between the share price and the option exercise price and taking into consideration the benefit to the option holder of having the use of the funds required to exercise the option less the present value of the foregone dividends on the shares.

The Black-Scholes formula is a recognised and accepted model for the valuation of options and HCC has selected this as the preferred method as it takes into account the key parameters effecting the option valuation.

The Black-Scholes formula is as follows:

$$P_o = P_s N(d_1) - \frac{EN(d_2)}{(1+r)^t}$$

$$d_1 = \frac{\log(P_s / (E/(1+r)^t)) + (q\sqrt{t})/2}{q\sqrt{t}}$$

$$d_2 = d_1 - q\sqrt{t}$$

where:

$P_o$	=	the current value of the option
$P_s$	=	the current price of the share
$E$	=	the exercise price of the option
$t$	=	the time remaining before expiration (in years)
$r$	=	the continuously compounded risk free rate of interest
$q$	=	an estimate of the standard deviation of the continuously compounded annual rate of return on the shares
$N(d_1) \& N(d_2)$	=	the probability that a deviation less than $d$ will occur in a normal distribution with a mean of zero and a standard deviation of one.

The assumptions underlying the Black-Scholes formula are as follows:

- the underlying share pays no dividends during the life of the option;
- the option can only be exercised on the expiration date;
- there are no margin requirements, taxes or transaction costs;
- the risk-free interest rate is constant over time and the market operates continuously;

- the volatility of the share is constant and is defined as the standard deviation of the share's price movement;
- short selling is permitted.

### 9.3 Premium for Control

- 9.3.1 When considering transactions involving a substantial equity holding of a company, it is appropriate to address whether a premium for control should attach to the Transaction. A premium for control is the difference between the price for each share that a buyer would be prepared to pay to obtain a controlling interest in a company and the price per share that would be required to purchase a share that does not carry with it a controlling interest. In most cases, the value of a controlling interest in the shares in a company significantly exceeds the listed market value of the shares. This reflects the fact that:
- a) the owner of a controlling interest in the shares in a company obtains access to all free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder;
  - b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds;
  - c) the controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company;
  - d) the entity taking over the company is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.
- 9.3.2 Empirical evidence indicates that the average premium for control (over and above the market price of the company's shares) in successful takeovers in Australia generally range between 20% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). However, the appropriate premium for control depends on the specific circumstances and, in particular, the level of synergy benefits able to be extracted by potential acquirers and the degree of confidence about the level and achievability of potential synergies and their timing.
- 9.3.3 Caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply a premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through a capital raising.
- 9.3.4 A shareholder or group of associated shareholders are deemed to influence a company when they have control of more than 20% of the issued shares in a company. At this time a premium for control should normally be considered.
- 9.3.5 A premium for control is relevant to the Transaction, as it will result in Lymex Shareholders being entitled to a voting interest of up to 47.2% of BKM's issued ordinary shares.

- 9.3.6 Our experience suggests the value of a listed company is between \$600,000 and \$800,000 depending on the subsequent regulatory requirements, including necessary compliance with ASX listing requirements. We have included a premium for control in valuing the Company's listing at \$700,000 when applying the net realisation of assets method, as a proxy for the value of a public listed shell company.
- 9.3.7 We have applied a premium for control of 10% to the value of BKM shares in our assessment of the value of BKM under the market value of shares approach, based on the following:
- a) BKM has no current profitable business operation and has incurred losses in prior years;
  - b) BKM has no material surplus assets;
  - c) No free cash flows are available to be extracted by Lymex Shareholders from obtaining control of BKM; and
  - d) The liquidity of BKM shares has been extremely low, with only 3.5% of shares on issue traded in the last 12 months. Considering the effect low liquidity may have on the BKM share value, we believe that a premium for control above 10% may overstate the value that a potential investor is willing to pay to obtain a controlling interest in the Company.

#### **9.4 Minority Interest Discount**

- 9.4.1 The value of a minority shareholding is subject to a discount factor as the minority shareholder is not in a position to direct, and often not in a position to influence, the distribution of dividends, the investment of retained profits or the strategy or tactics of the company's operations.
- 9.4.2 The Transaction will result in the dilution of current Non-Associated Shareholders' ownership percentages from 100% to 23.3%, or 20.2% on a fully-diluted basis. We have discounted the post-Transaction value per share on a control basis by 10% to arrive at a post-Transaction value on a minority basis. We believe this discount is reasonable after considering the following factors:
- a) BKM is a listed public company where the shares held by Non-Associated shareholders are still able to be traded in an open market;
  - b) BKM will have no other business activity immediately prior to completion of the Transaction, following the intended rollout of its existing investments. There are no profitable operations in which Non-Associated shareholders are losing control of;
  - c) The assessment of advantages and disadvantages associated with BKM entering into the Transaction detailed at section 12.

## 10 VALUE OF LYMEX

### 10.1 General

- 10.1.1 This section sets out of assessment of the underlying value of Lymex.
- 10.1.2 We have selected the market value of shares as the primary valuation methodology for Lymex as detailed in section 9.
- 10.1.3 We are of the opinion that a secondary valuation methodology for Lymex is not required as none of the alternate methodologies are appropriate due to the fact that the assets held by Lymex are not currently contributing to earnings. Lymex has also not commissioned any industry expert to value the assets of Lymex.

### 10.2 Market Valuation

- 10.2.1 The Capital Raising by BKM, being a condition precedent of the Transaction, is being conducted at an issue price of \$0.20 per share to raise up to \$6,000,000. We consider the Capital Raising provides a basis for the valuation of Lymex as the issue of shares from these capital raisings reflects a market value of the shares to be issued to Lymex Shareholders, being the price at which independent parties are willing to invest in a merged entity comprising BKM and Lymex. As a significant part of BKM post-Transaction is the value of Lymex, it acts as a proxy to calculate a value for Lymex.
- 10.2.2 The Transaction includes the issue of 25,000,000 Initial Consideration shares, 7,500,000 Deferred Consideration Tranche 1 shares and 7,500,000 Deferred Consideration Tranche 2 shares.
- 10.2.3 Applying a value of \$0.20 per share to the maximum number of BKM shares being issued for the acquisition of Lymex would value Lymex under the market value approach at \$8,000,000. However, the Deferred Consideration effectively represents an option or right for Lymex Shareholders to receive further shares in BKM should certain events occur. The value of these shares should therefore be discounted for the probability of these events occurring.
- 10.2.4 Based on information provided by BKM, Lymex and their advisers, the likelihood of the relevant milestones being achieved is 50% probability for Tranche 1 and 30% for Tranche 2. Refer to section 11.6 for information underlying the determination of these probabilities.
- 10.2.5 The market value of Lymex, based on the shares being issued to acquire Lymex totals **\$6,200,000** as shown in the table below:

Valuation of Asset being acquired	Total Shares	Value per share	Total Value
Initial Consideration shares	25,000,000	0.20	5,000,000
Deferred Consideration Tranche 1 shares	7,500,000	0.10 <sup>1</sup>	750,000
Deferred Consideration Tranche 2 shares	7,500,000	0.06 <sup>2</sup>	450,000
			<b>6,200,000</b>

<sup>1</sup> \$0.20 at 50% probability

<sup>2</sup> \$0.20 at 30% probability

10.2.6 We are of the opinion that the market valuation of Lymex provides a reasonable value of the company as it reflects the current value at which potential investors are willing to invest in the company's shares.

## 11 VALUE OF BKM

### 11.1 General

11.1.1 This section sets out of assessment of the underlying value of BKM shares and options.

11.1.2 We have selected the market value of shares and realisation of net assets as the primary and secondary valuation methodologies for BKM as detailed in section 9.

### 11.2 Market Value of Shares

11.2.1 In our opinion the value of BKM for the purpose of the Transaction should be examined on the basis of the current market value of the shares listed on the ASX. The market value of the shares listed on the ASX reflects all publicly available information on the company and therefore we believe it is a reliable reflection of the current value of the Company.

11.2.2 Following is a graph of the trading of BKM shares over the last twelve months:



11.2.3 The table below sets out the movement of BKM share prices and trading up to and including 5 March 2013, the trading day prior to the announcement of the Transaction. Note there were no shares traded from 27 February to 5 March 2013:

	<b>Low \$</b>	<b>High \$</b>	<b>VWAP <sup>1</sup></b>	<b>Total Shares Traded</b>	<b>% of shares on issue</b>
Feb-13	0.0040	0.0040	0.0040	3,003,000	0.3%
2 months	0.0030	0.0050	0.0040	6,911,081	0.8%
3 months	0.0020	0.0050	0.0037	9,620,778	1.0%
6 months	0.0020	0.0050	0.0032	18,406,053	2.0%
12 months	0.0020	0.0060	0.0033	32,116,352	3.5%

(1) The VWAP was calculated using the total value of all transactions divided by the total trading volume in the time period considered.

- 11.2.4 BKM has also recently raised \$208,500 (before costs) through the issue of 69.5 million BKM shares at a price of \$0.003 per share.
- 11.2.5 We conclude that the value of the BKM shares under the market value approach for the purpose of this report is **\$0.003 per share**. Being the price at which the recent Placement was undertaken. This is also consistent with the VWAP of BKM shares for the month of April 2013. On a post-consolidation basis, this equates to a value of **\$0.201** per share.
- 11.2.6 We have not relied on the full range of BKM share prices traded due to the following:
- a) The liquidity of BKM shares has been extremely low, with only 3.5% of shares on issue traded in the 12 months to 5 March 2013, and only 1% traded in the last three months;
  - b) The Placement provides a basis for the current valuation of BKM shares as it represents a significantly greater number of shares than those traded in the last twelve months (7.6%). It does not differ materially to the six month VWAP of BKM shares;
  - c) The ‘high’ price traded in the last six months was only on one trading day in January 2013 for only 100 shares.
- 11.2.7 We have chosen a premium for control of 10%, as determined at section 9.3, to reflect the value that a potential investor is willing to pay to obtain a controlling interest in the Company. Inclusive of a 10% premium for control, the value of the BKM shares under the market value approach is \$0.0033 per share before consolidation or **\$0.221 per share** after the 1-for-67 consolidation.

### 11.3 Realisation of Assets

- 11.3.1 Following the proposed sale of Scene and IGC, BKM has no other business activity immediately prior to completion of the Transaction. The notional realisation of assets is therefore an appropriate valuation method for the assets of BKM.
- 11.3.2 Directors advise that it is most likely that IGC and Scene will be sold for no less than \$250,000 with a possible entitlement of BKM shareholders to participate in a new spin-off company acquiring the Scene and IGC assets. As at 31 December 2012 the Company’s net assets totalled negative \$12,603, as shown in the reviewed balance sheet at section 8.2.2, including net assets attributed to Scene and IGC totaling \$107,519. The net assets of BKM following the sale of its Scene and IGC investments for an assumed amount of \$250,000 is therefore \$129,878, as shown in the table below:

Net asset as at 31 December 2012	(12,603)
Less net assets of Scene and IGC	(107,519)
Plus proceeds from sale of Scene and IGC	<u>250,000</u>
Net assets post sale of investments	129,878

- 11.3.3 Our experience suggests the value of a listed company is between \$600,000 and \$800,000 depending on the subsequent regulatory requirements, including necessary compliance with ASX listing requirements. Allocating a value for the listed company shell of

\$700,000, which effectively represents a premium for control, would increase the current net asset backing of BKM on a controlling interest basis as follows:

Net assets	129,878
Value of listing	<u>700,000</u>
<b>Net realisation of assets</b>	<b>829,878</b>

11.3.4 BKM currently has 989,619,878 ordinary shares on issue. Prior to the Transaction, the net asset backing per share is therefore \$0.0008 on a controlling interest basis before consolidation, or **\$0.054 per share** after the 1-for-67 consolidation.

#### 11.4 Conclusion on the Value of BKM Shares

11.4.1 The value of the BKM share on a controlling basis and options prior to the Transaction and post consolidation under the methods considered are shown below:

Value of Shares			
Market value of shares			0.221
Realisation of assets			0.054
	Low	High	Midpoint
<b>Range selected (11.4.2)</b>	0.111	0.221	0.166

11.4.2 For the purpose of this report we have chosen the range of \$0.111 to \$0.221 per share, and a midpoint of **\$0.166 per share**, post-consolidation, due to the following:

- The market value of shares listed on the ASX typically reflects all publicly available information on the company and usually a reliable reflection of the current value of the Company. However the liquidity of the BKM shares has been far too limited to rely on the market value of shares method alone and we have used the value from this method as the high point in our valuation range;
- The net asset approach provides a reasonable estimate of the minimum value of BKM shares as it reflects the value of its listing as a public company, adjusted for the sale of its existing investments at their book values. However a valuation range using both valuation methods would provide a range too wide for the purpose of this report. The highest value is calculated by the market value of shares. The lowest value represents a 50% discount on the market value to bring the midpoint closer to the net asset value.

#### 11.5 Market Value of Options

11.5.1 A total of up to 12,500,000 Options will be issued to Lymex Shareholders as part of the Transaction, exercisable at \$0.25 (on a post consolidation basis) within 18 months following re-listing of BKM.

11.5.2 The assumptions underlying the Black-Scholes formula outlined in Section 9.2 above for the options to be issued to Lymex Shareholders are as follows:

Ps	=	low \$0.111, high \$0.221, midpoint \$0.166 BKM market share value, post-consolidation (prior to control premium)
E	=	\$0.25
t	=	18 months
r	=	3%, Australian government bond rate for exercise period

$$q = 75\% ^1$$

1. The estimated future volatility of the BKM shares. An analysis of mineral exploration companies listed on the ASX shows that the volatility of many of these companies, some more established than others, averages 67%, as shown below:

Atlas Iron Limited	41%
Amex Resources Limited	59%
BC Iron Limited	34%
Brumby Resources Limited	87%
Northern Iron Limited	48%
Shaw River Manganese Limited	101%
Southern Hemisphere Mining Limited	101%

The business of Lymex will be that of BKM following completion of the Transaction. As Lymex is in its early stages of exploration, the greater expected movement in the BKM share value post Transaction would have a higher expected share return volatility.

- 11.5.3 Based on our analysis of BKM shares and the application of the Black Scholes formula above, we are of the opinion that the indicative valuation of the BKM options being issued pursuant to the Transaction is between \$0.016 and \$0.073 per option, with a midpoint value of **\$0.040 per option**.

## 11.6 Value of Deferred Consideration

- 11.6.1 The Transaction includes the issue of 7,500,000 Deferred Consideration Tranche 1 shares and 7,500,000 Deferred Consideration Tranche 2 on the following basis:

- a) 7.5 million ordinary fully paid BKM shares at a deemed issue price of \$0.20 per share that are to be issued upon BKM announcing to the ASX that at least 10 million tonnes in total of JORC Code compliant inferred graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content ("Deferred Consideration Tranche 1"); and
- b) 7.5 million ordinary fully paid BKM shares at a deemed issue price of \$0.20 per share that are to be issued upon BKM announcing to the ASX at least 10 million tonnes in total of JORC Code compliant indicated graphite resources plus JORC Code compliant measured graphite resources have been delineated and defined at the Tenements grading at no less than 7% total graphitic content ("Deferred Consideration Tranche 2").

- 11.6.2 Deferred Consideration effectively represents an option or right for Lymex Shareholders to receive further shares in BKM should the above events occur. The value of this right is the value of the BKM share, adjusted for the probability of the above events occurring.

- 11.6.3 Based on information provided by BKM, Lymex and their advisers, the likelihood of each of the above milestones being achieved is a 50% probability for Tranche 1 and 30% for Tranche 2. The following information has been provided by Lymex management in relation to the milestones:

The milestones are achievable, however the ability to achieve them is dependent on technical success due to the exploration stage of the assets. Particular hurdles to overcome include the following:

- There are currently no assayed or drill holes in the area where Lymex has interpreted the oxide resource to exist.
- Lymex has two deep holes within the primary zone, below the interpreted oxide resource, that indicate that graphite should exist in the potential oxide resource area.
- Metallurgical testing of this primary graphitic material did not recover any economic saleable graphite.
- Metallurgically Lymex has recovered flake graphite in three shallow holes drilled specifically to obtain metallurgical samples in the oxidised zone. The metallurgical results, while encouraging, are well short of the +90% recovery and well short of the +95% carbon required for economic exploitation, thus much more detailed extensive metallurgical studies will have to be undertaken to establish if +90% recovery and +95% carbon can be achieved.
- The average grade of the graphite in the primary ore is less than 7% carbon. Lymex are relying on a geological interpretation that this percentage grade of carbon will be upgraded to 7% carbon in the oxidised zone.
- Government regulations and Environmental Impact Studies may also impact on the achievement of the milestones.

11.6.4 Therefore, applying the relevant discounts to the BKM share value determined above would result in a valuation range for the Deferred Consolidation shares as follows:

		<b>Low</b>	<b>High</b>	<b>Midpoint</b>
BKM shares value - controlling basis		0.111	0.221	0.166
BKM Shares (Deferred Consideration Tranche 1)	50%	0.056	0.111	0.083
BKM Shares (Deferred Consideration Tranche 2)	30%	0.033	0.066	0.050

## **12 ADVANTAGES & DISADVANTAGES OF THE TRANSACTION**

### **12.1 Approach to assessing Fairness and Reasonableness**

HCC has followed the guidelines of ASIC Regulatory Guide 111 in assessing the fairness and reasonableness of the Transaction. In forming its conclusions in this report, HCC compared the advantages and disadvantages for Non-Associated Shareholders if the Transaction proceeds.

### **12.2 Advantages of the Transaction**

12.2.1 Given the Company's limited capital and lack of income producing assets it will have difficulty in creating significant long-term value for shareholders in its current state. The Directors of BKM have determined that Lymex has the potential to increase BKM shareholder value and provide the Company with a future business direction. Based on currently available information, the Directors are of the view that the Lymex assets have significant potential to host commercially-valuable mineral deposits.

12.2.2 The Directors consider that the current board and management team of Lymex possess the experience and skills required to successfully transition the Company into its proposed new business, which includes exploration and potential development of Lymex's mineral resource projects.

12.2.3 The Transaction will increase the market capitalisation of the Company and should increase the liquidity of the Company's Shares, subject to the Company meeting the requirements of Chapters 1 and 2 of the ASX Listing Rules.

12.2.4 The Capital Raising is a condition of the Transaction and will provide the necessary working capital to facilitate the ongoing development of the Lymex assets.

12.2.5 The BKM Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders and in the absence of a superior alternative proposal is a strategic opportunity for the Company to continue as a going concern.

### **12.3 Disadvantages of the Transaction**

12.3.1 There may be other opportunities BKM will not be able to undertake to realise the value of its listing if it accepts this Transaction due to the controlling interest being obtained by Lymex.

12.3.2 An opportunity may be lost to obtain a takeover premium for the company's shares unless Lymex sell their interest in BKM or subscribe for a 100% interest.

12.3.3 The Company will be changing the nature of its activities to become a company specialising in the exploration and mining of graphite, which may not be consistent with the objectives of Shareholders and will reduce the possibility of alternative opportunities for the Company.

12.3.4 The transaction will result in the dilution of current shareholders ownership percentages from 100% to 23.3%, or 20.2% on a fully-diluted basis.

## 13 CONCLUSION AS TO FAIRNESS AND REASONABLENESS

### 13.1 Fairness

13.1.1 According to RG 111, for the Transaction to be fair, the value of the Lymex shares being acquired must be equal to or greater than the value of the consideration, being BKM shares and options.

13.1.2 Based on the analysis contained in section 10 of this report, the indicative value of 100% of Lymex is **\$6,200,000**.

13.1.3 The value of the shares and options being issued by BKM for 100% of Lymex is based on the values determined in section 11, as shown in the tables below:

	Low	High	Midpoint
<b><i>Pre Transaction, Post Consolidation</i></b>			
BKM share value - controlling basis	0.111	0.221	0.166
BKM options value	0.016	0.073	0.040
Deferred Consideration Tranche 1	0.056	0.111	0.083
Deferred Consideration Tranche 2	0.033	0.066	0.050

<b><i>Valuation of Consideration</i></b>	<b>Shares</b>	<b>Low</b>	<b>High</b>	<b>Midpoint</b>
BKM Shares (Initial Consideration)	25,000,000	2,775,000	5,525,000	4,150,000
BKM Options	12,500,000	198,244	908,017	503,320
Deferred Consideration Tranche 1	7,500,000	416,250	828,750	622,500
Deferred Consideration Tranche 2	7,500,000	249,750	497,250	373,500
		<b>3,639,244</b>	<b>7,759,017</b>	<b>5,649,320</b>

<sup>1</sup> The Transaction includes the Prospectus Capital Raising of up to \$6,000,000 through the issue of up to 30,000,000 Post-Consolidation Shares at \$0.20 each. As the offer price is between the BKM share value range determined above, the Capital Raising will not have a negative effect on the Non-associated Shareholders.

13.1.4 Our valuation of BKM shares and options is based on a value prior to the Transaction on a controlling interest basis. In order to assess whether the Transaction is fair, we also need to compare the pre-transaction values on a control basis with the post-transaction values on a minority basis, as the existing Non-Associated Shareholders of BKM will lose control of the Company to the Lymex Shareholders after the Transaction. This is shown in the table below:

<b>BKM Value and Opinion</b>	<b>Low</b>	<b>High</b>	<b>Midpoint</b>	<b>Diluted</b>
<b>Control value per share</b>	<b>\$ 0.111</b>	<b>\$ 0.221</b>	<b>\$ 0.166</b>	<b>\$ 0.166</b>
Post Consolidation shares on issue	14,770,446	14,770,446	14,770,446	14,770,446
Control valuation of BKM, pre-Transaction	1,639,519	3,264,268	2,451,894	2,451,894
Valuation of Lymex	6,200,000	6,200,000	6,200,000	6,200,000
Proceeds from exercise of Lymex options *				3,125,000
Proceeds from Capital Raising - shares	6,000,000	6,000,000	6,000,000	6,000,000
Proceeds from exercise of new options *				3,879,664
<b>Post-Transaction Value</b>	<b>13,839,519</b>	<b>15,464,268</b>	<b>14,651,894</b>	<b>21,656,558</b>

Post-Transaction shares on issue	84,770,446	84,770,446	84,770,446	112,789,103
<b>Value per share</b>	<b>0.163</b>	<b>0.182</b>	<b>0.173</b>	<b>0.192</b>
Minority discount <sup>refer section 9.4</sup>	10%	10%	10%	10%
<b>Post-Transaction Valuation per share</b>	<b>\$ 0.147</b>	<b>\$ 0.164</b>	<b>\$ 0.156</b>	<b>\$ 0.173</b>

\* based on an exercise price of \$0.25 per option

- 4.8 In our opinion the Transaction is **fair** based on the following:
- the value attributed to Lymex is within the value range for the consideration being paid by BKM;
  - the valuation range of the BKM shares held by Non-Associated Shareholders post-Transaction is within the pre-Transaction valuation range; and
  - the valuation of the BKM shares held by Non-Associated Shareholders on a fully diluted basis increases as a result of the Transaction.

## 13.2 Reasonableness

ASIC Regulatory Guide 111 states that a transaction is reasonable if:

- The Transaction is fair; or
- Despite not being fair the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

We have concluded that the Transaction is fair and therefore also reasonable. In forming our opinion we have also considered the following relevant factors.

- Given the Company's limited capital and lack of income producing assets it will have difficulty in creating significant long-term value for shareholders in its current state. The Directors of BKM have determined that Lymex has the potential to increase BKM shareholder value and provide the Company with a future business direction. Based on currently available information, the Directors are of the view that the Lymex assets have significant potential to host commercially-valuable mineral deposits.
- The Directors consider that the current board and management team of Lymex possess the experience and skills required to successfully transition the Company into its proposed new business, which includes exploration and potential development of Lymex's mineral resource projects.
- The Transaction will increase the market capitalisation of the Company and should increase the liquidity of the Company's Shares, subject to the Company meeting the requirements of Chapters 1 and 2 of the ASX Listing Rules.
- The Capital Raising is a condition of the Transaction and will provide the necessary working capital to facilitate the ongoing development of the Lymex assets.
- The BKM Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders and in the absence of a superior alternative proposal is a strategic opportunity for the Company to continue as a going concern.

- The BKM share price is likely to fall in the event the Transaction is not approved and in the absence of an alternative and superior offer emerging.
- We are unaware of any alternative proposal at the date of this report that could realise better value for BKM shareholders.

Having considered that the Transaction is fair, the potential of the Lymex business and the alternatives of not proceeding with the Transaction, in our opinion the Non-Associated Shareholders of BKM should benefit if the Transaction proceeds and therefore, in our opinion the Transaction is reasonable.

Yours faithfully  
Hall Chadwick Corporate (NSW) Limited



DAVID KENNEY



DREW TOWNSEND

## **APPENDIX I - SOURCES OF INFORMATION**

- BKM Management Limited Audited Financial Reports for the financial years ended 30 June 2011 and 30 June 2012;
- BKM Management Limited Reviewed Financial Report for the half year ended 31 December 2012;
- Independent Geologist's Report on the mineral properties of Lymex, issued by Veronica Webster Pty Limited in March 2013;
- BKM Management Limited Notice of General Meeting and Explanatory Memorandum;
- Heads of Agreement between BKM and Lymex for the acquisition of the Oakdale Graphite Project;
- BKM registry details;
- BKM share trading history;
- Publicly available information on BKM, Lymex and comparable companies, including media releases, ASX announcements and websites;
- Geological information of Lymex assets as provided by Lymex management.
- ASIC Regulatory Guide 74 'Acquisitions Agreed to by Shareholders';
- ASIC Regulatory Guide 111 'Content of Expert Reports';
- ASIC Regulatory Guide 112 'Independence of Expert's Reports';
- APES 225 'Valuation Services'.

## **APPENDIX II - EXTRACTS FROM INDEPENDENT GEOLOGIST'S REPORT ON THE MINERAL PROPERTIES OF LYMEX**

BKM commissioned Veronica Webster Pty Limited ("VWPL") to provide an Independent Geologist's Report ("IGR") on the Mineral Properties of Lymex to be acquired by BKM.

Following are extracts from the IGR:

### **Summary**

The exploration projects of Lymex are situated in the Eyre Peninsula, South Australia and are principally for base-metals of zinc, lead, copper and nickel, graphite, iron, manganese, uranium and lignite. BKM will be entitled to the base-metals of zinc, lead, copper and nickel, plus any minor or trace minerals associated with the base metals and graphite mineralisation within the Lymex ELs. BKM will not be entitled to other minerals, of which iron, manganese, coal and uranium are known to be present.

Lymex holds title to nine exploration licences in the Eyre Peninsula. The Eyre Peninsula contains a basement of the Gawler Craton, which in the tenement holding is completely overlain by extensive surficial and sedimentary basin cover that is on average 35m thick.

Lymex has established an Archaean age for this area and the geology is favourable for hosting deposits of Archaean age: VHMS ("volcanogenic massive sulphide") deposits similar to those of the Canadian Shield and the Yilgarn and Pilbara cratons of Western Australia. Drilling has intersected a volcanic terrane ranging from basaltic to felsic in composition with fine grained meta-sediments. Widespread anomalism in base metals now constitutes the target for VHMS containing zinc-copper ( $\pm$  lead) and nickel-copper sulphide deposits.

During the prospecting for these exploration targets, high-grade graphitic horizons have been drilled. This graphite (the Oakdale Graphite Project) has become an evaluation project rather than an exploration project, which presents BKM with an opportunity to become a graphite producer in a relatively short time frame.

At the Malache and Tooligie prospects, an interpreted shear zone contains at least 30 km of base-metal anomalous target area, which includes wide intersections, but has received drill testing at only wide spacing. Drill hole BLDD04 at the Malache Prospect discovery averages 0.45% zinc over 144.80 m, which includes 92.27 m grading 0.67% zinc from 83.4 m to 175.67 m.

There are parallel zones with similar geology and anomalism which have been tested with even fewer drill holes. The usefulness of electromagnetic and electrical geophysical methods will be crucial in generating targets.

At the Oakdale graphite project, early drilling has intersected several zones of graphitic carbon, such as:

- 39.3 m of 3.87% graphitic carbon
- 33.9 m of 8.39% graphitic carbon.

The Oakdale Graphite Project has been scheduled for a program of evaluation drilling. The graphite beds will first be defined with electromagnetic surveying, because they are extremely

conductive, containing both graphite and pyrrhotite. Concurrent with the field work, metallurgical testing, preliminary scoping studies and market research will be carried out.

The oxidised, weathered graphitic units are 40 m thick, under 20 m of cover and lie within a graphite-bearing zone which is greater than 200 m wide. This graphite-bearing zone with its contained graphite-rich units can be traced for many kilometres.

Although the graphite beds may be quite extensive, especially if the primary rocks are considered and might constitute a large resource from which considerable amorphous graphite might be produced, Lymex will focus only on the oxide zone at this stage. A nominal exploration target of between 10 and 15 million oxide tonnes grading between 5% and 10% graphitic carbon has been selected.

It has been demonstrated in preliminary metallurgical tests that the weathered oxidised graphite zone does not need to be heavily crushed and ground to liberate the graphite, as weathering has altered the feldspar, pyrrhotite and other gangue minerals to soft clay minerals and oxides. Graphite, being pure carbon, does not break down in the oxidised zone so it can be readily recovered with minimum crushing and subsequent flotation. Preservation of coarse crystalline graphite is desirable as this product commands a higher price in the market. However, there is no set producer price as this is subject to negotiation between the supplier and the consumer. Metallurgical test work on the oxidised zone recovered both coarse flake and flake graphite in excess of 75 microns and up to 1000 microns.

### **Programs and budgets**

Lymex has a clearly defined exploration and expenditure program, which is reasonable having regard to its stated objectives. Allowance has been made for a successful first-year program with expenditures on follow-up activity in the second year.

Lymex have planned for an optimal budget of \$5.2 million in the next two years. In the first year, \$2.4 million has been allocated to drilling around 30,000 m of air core, all of which will be undertaken at Oakdale Graphite Project. Following the drill campaign metallurgical, environmental and scoping studies will be carried out mainly in the second year of operations.

Graphite intersections and highly anomalous base-metal intersections form targets for further exploration. Even though encouraging intersections and some continuity of mineralised zones have been established, the proposed programs carry risks consistent with this style of speculative activity. In the view of VWPL the programs are justified.

### **Tenements, Location and Infrastructure**

Lymex holds nine ELs in the Eyre Peninsula as shown in the table below:

<b>TENURE ID</b>	<b>EL</b>	<b>Date</b>	<b>Renewal</b>	
<b>EL No</b>	<b>Name</b>	<b>Granted</b>	<b>Due</b>	<b>km<sup>2</sup></b>
4172	Brooker	25-Aug-08	24-Jul-13 4-Mar-13	190
4231	Kapinnie	05-Mar-09	Renewal lodged 31-Mar-13	160
4244	Sheringa	01-Apr-09	Renewal lodged	325

4243	Lock	01-Apr-09	31-Mar-13 Renewal lodged 14-Feb-14	247
4442	Mt Hope	15-Mar-10	Renewal lodged	121
4537	Brimpton Lake	09-Aug-10	8-Jul-13	717
4895	Tungketta Hill	07-Mar-12	6-Feb-14	91
4768	Hillside	26-Jul-11	25-Jun-13	248
4914	Lake Malata	18-Jun-12	17-May-14	381
<b>TOTAL</b>				<b>2480</b>

The tenements are situated from 120 km to 160 km north-west of Port Lincoln (population 14,500) via the Flinders or Todd Highways, which are all weather bitumen roads. Numerous all weather minor roads and farm tracks provide further access.

Port Lincoln has an all weather airstrip and is serviced by four to six flights a day from Adelaide. Adelaide is 45 minutes by air and six hours by road from Port Lincoln.

Export ports exist at Port Lincoln and Whyalla. Whyalla is operated by Arrium Limited (previously One Steel Limited) and may not be available to other organisations. A new port is proposed at Port Spencer (Sheep Hill) on the eastern Eyre Peninsula to export iron ore.

The Lymex current prospects are mainly on farming and grazing land that is mostly freehold. Current prospects are on poor quality grazing land.

### **Discovery and Geology**

Lymex has extensive graphite-rich units within its tenements, discovered serendipitously during the course of base-metal exploration.

The Oakdale Graphite Project is part of the original Malache base-metal exploration area and is a product of Anglo American Exploration (Australia) Pty Limited (“AAEA”) work. The company spent approximately \$300,000 looking for copper zinc VHMS (volcanic hosted massive sulphide) using, EM (electromagnetic survey) and RC (reverse circulation) drilling. When testing an EM method called SQUID EM, a very strong conductor was discovered, which was subsequently drilled by Lynch Mining and found to be massive pyrrhotite-graphite mineralisation containing anomalous copper and zinc values.

Diamond drill-holes BLDD02 and BLDD03 which are approximately 400 metres apart, are the discovery holes and they proved the strong SQUID EM conductor to be caused by strong graphite mineralisation. Graphite is an extremely conductive mineral, more so than sulphide. The units hosting the graphite also occur in BLDD15 and BLDD16 which are approximately 900 metres and 1,500 metres respectively from BLDD02 (see Figure 5).

Assaying and preliminary metallurgy has been undertaken on the fresh, primary unoxidised graphitic diamond drill core from BLDD02 and BLDD03. The oxidised graphitic material was not cored in the original drill holes which were drill testing for copper/zinc rich VHMS deposits. Three holes were drilled specifically to sample graphite within the oxidised zone in a second program. The oxidised graphite is 42 m thick (down hole) and the cover rocks are about 20 m thick, vertically.

Assays of the primary zone are as follows:

- BLDD02 intersected 39.3 m of 3.87% graphitic carbon (“Cg”) between 166.4 and 205.9 m. Within this zone there exists 30.6 m of graphitic schist averaging 4.75% Cg after eliminating internal waste in excess of 2 m and using a cut-off of a nominal 2%Cg.  
A further zone from 222.6 m to 241.5 m assayed 5.38% Cg and within this zone, after eliminating internal waste in excess of 2.0 m and using a nominal cut-off of 2% Cg, there exists 16.4 m of graphitic schists averaging 6.2% Cg within this zone. (The zone from 205.9 m to 222.6 m was not assayed).
- BLDD03 - Within the zone assayed between 63 m and 122.7 m, there is 57 m of 4.9% Cg and after eliminating internal waste greater than 2 m using a nominal cut-off grade of 2% carbon, there exists 33.9 m of graphitic schists averaging 8.39% Cg within this zone.

These graphitic schist units can be projected into the oxidised zone.

### **Future Programs and Budget**

Lymex intend to further test the oxide graphitic zone and build a resource inventory, undertaking definition and correlation of high-grade graphite zones within the 200 m-wide graphitic zone and collecting many samples for assay and metallurgy.

The overburden depth will be measured accurately and the non-conformity between the cover rocks and the graphitic zone and the oxide/primary transition contact will be carefully assessed.

Concurrent with this field activity, Lymex intend to investigate thoroughly the global graphite market, end-user requirements, competition and costs of extraction and processing in this part of the Eyre Peninsula.

A nominal exploration target of between 10 and 15 million tonnes grading between 5% and 10% graphitic carbon has been selected but this will be refined as resource studies and market research progress.

The Oakdale Graphite Project has become an evaluation project rather than an exploration project, which presents BKM with an opportunity to become a graphite producer in a relatively short time frame.

The units hosting the graphite are folded and can be readily traced by an EM survey. There is graphite in other parts of the Malache prospect area but Lymex will concentrate on those identified at Oakdale Prospect at this stage. Drilling will be undertaken to evaluate the Oakdale prospect prior to bulk testing the graphite.

VWPL considers that the exploration program is well planned and that there are sufficient funds to achieve the objectives. Early discussions with consumers about quantities and product types of graphite required are considered a vital component of the planning and exploration process.

In VWPL's opinion Lymex has a satisfactory and clearly defined exploration and expenditure program, which is reasonable having regard to its stated objectives. Allowance has been made for successful first-year programs and high expenditures on follow-up activity in the second year.

The proposed programs carry the risks for this style of speculative activity.

## **APPENDIX III - STATEMENT OF DECLARATION & QUALIFICATIONS**

### **Confirmation of Independence**

Prior to accepting this engagement HCC determined its independence with respect to BKM and Lymex with reference to ASIC Regulatory Guide 112 (RG 112) titled “Independence of Expert’s Reports”. HCC considers that it meets the requirements of RG 112 and that it is independent of BKM and Lymex.

Also, in accordance with s648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with BKM, its related parties or associates that would compromise our impartiality.

Mr Drew Townsend and Mr David Kenney, directors of Hall Chadwick Corporate (NSW) Limited, have prepared this report. Neither they nor any related entities of Hall Chadwick Corporate (NSW) Limited have any interest in the promotion of the Transaction nor will Hall Chadwick Corporate (NSW) Limited receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this report. Our fee is not contingent upon the success or failure of the proposed transaction, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. Accordingly, HCC does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement.

HCC provided a draft copy of this report to the Directors and management of BKM for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of HCC alone. Changes made to this report, as a result of the review by the Directors and management of BKM have not changed the methodology or conclusions reached by HCC.

### **Reliance on Information**

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this report HCC has relied upon information provided on the basis it was reliable and accurate. HCC has no reason to believe that any information supplied to it was false or that any material information (that a reasonable person would expect to be disclosed) has been withheld from it. HCC evaluated the information provided to it by BKM and Lymex as well as other parties, through enquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Accordingly, we have taken no further steps to verify the accuracy, completeness or fairness of the data provided.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards (AUS). HCC does not imply and it should not be construed that it has audited or in anyway verified any of the information provided to it, or that its enquiries could have verified any matter which a more extensive examination might disclose.

The sources of information that we relied upon are outlined in Appendix I of this report.

BKM has provided an indemnity to HCC for any claims arising out of any mis-statement or omission in any material or information provided by BKM to HCC in preparation of this report.

## **Qualifications**

Hall Chadwick Corporate (NSW) Limited (“HCC”) carries on business at Level 29, St Martin’s Tower, 31 Market Street, Sydney NSW 2000. HCC holds Australian Financial Services Licence No. 227902 authorising it to provide financial product advice on securities to retail clients. HCC’s representatives are therefore qualified to provide this report.

## **Consent and Disclaimers**

The preparation of this report has been undertaken at the request of the Directors of BKM. It also has regard to relevant ASIC Regulatory Guides. It is not intended that the report should be used for any other purpose than to accompany the Notice of General Meeting to be sent to BKM shareholders. In particular, it is not intended that this report should be used for any purpose other than as an expression of HCC’s opinion as to whether or not the proposed Transaction is fair and reasonable.

HCC consent to the issue of this report in the form and context in which it is included in the Notice of General Meeting to be sent to BKM shareholders.

Shareholders should read all documents issued by BKM that consider the proposed Transaction in its entirety, prior to proceeding with a decision. HCC had no involvement in the preparation of these additional documents, with the exception of our report.

This report has been prepared specifically for the Non-associated shareholders of BKM. Neither HCC, nor any member or employee thereof undertakes responsibility to any person, other than a Non-associated shareholder of BKM, in respect of this report, including any errors or omissions howsoever caused. This report is "General Advice" and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice, you should consider, with or without the assistance of a securities advisor, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards (AUS).

Our opinions are based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. Furthermore, financial markets have been particularly volatile in recent times. Accordingly, if circumstances change significantly, subsequent to the issue of the report, our conclusions and opinions may differ from those stated herein. There is no requirement for HCC to update this report for information that may become available subsequent to this date.

## **APPENDIX IV - FINANCIAL SERVICES GUIDE**

Dated 11 July 2013

### **What is a Financial Services Guide (FSG)?**

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by Hall Chadwick Corporate (NSW) Limited ABN 28 080 462 488, Australian Financial Services Licence Number 227902 (HCC).

This FSG includes information about:

- HCC and how they can be contacted
- the services HCC is authorised to provide
- how HCC are paid
- any relevant associations or relationships of HCC
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that HCC has in place.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

### **Financial services that HCC is authorised to provide**

HCC holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for securities and interests in managed investment schemes, including investor directed portfolio services, to retail clients.

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of finance products.

### **HCC's responsibility to you**

HCC has been engaged by the independent directors of BKM Management Limited ("BKM" or the "Client") to provide general financial product advice in the form of a Report to be included in the Notice of Meeting (Document) prepared by BKM in relation to the proposed transaction to acquire all of the issued shares in Lymex Tenements Pty Ltd ("Lymex") (the "Transaction").

You have not engaged HCC directly but have received a copy of the Report because you have been provided with a copy of the Document. HCC nor the employees of HCC are acting for any person other than the Client.

HCC is responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

### **General Advice**

As HCC has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

### **Fees HCC may receive**

HCC charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay HCC \$17,500 (excluding GST and out of pocket expenses) for preparing the Report. HCC and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of this Report.

HCC officers and representatives receive a salary or a partnership distribution from Hall Chadwick Sydney professional advisory and accounting practice (the Hall Chadwick Sydney Partnership). Remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

### **Referrals**

HCC does not pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

### **Associations and relationships**

Through a variety of corporate and trust structures HCC is controlled by and operates as part of the Hall Chadwick Sydney Partnership. HCC's directors may be partners in the Hall Chadwick Sydney Partnership. Mr Drew Townsend and Mr David Kenney, directors of HCC and partners in the Hall Chadwick Sydney Partnership, have prepared this report. The financial product advice in the Report is provided by HCC and not by the Hall Chadwick Sydney Partnership.

From time to time HCC, the Hall Chadwick Sydney Partnership and related entities (HC entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

Over the past two years no professional fees have been received from the Client.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Transaction.

### **Complaints resolution**

If you have a complaint, please let HCC know. Formal complaints should be sent in writing to:  
The Complaints Officer  
Hall Chadwick Corporate (NSW) Limited  
GPO Box 3555  
Sydney NSW 2001

If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer, Drew Townsend, on 02 9263 2600 and he will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

### **External complaints resolution process**

If HCC cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly at:

Financial Ombudsman Service Limited  
GPO Box 3, Melbourne Victoria 3001  
Telephone: 1300 78 08 06  
Facsimile (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

The Australian Securities and Investments Commission also has a free call infoline on 1300 300 630 which you may use to obtain information about your rights.

### **Compensation arrangements**

HCC has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

### **Contact Details**

You may contact HCC at:  
Hall Chadwick Corporate (NSW) Limited  
GPO Box 3555  
Sydney NSW 2001  
Telephone: 02 9263 2600  
Facsimile: 02 9263 2800