

**COMPANY ANNOUNCEMENT  
(ASX: BKM)****OIL & GAS PROSPECT****INTRODUCTION**

The Board of Directors of BKM Management Ltd (BKM) is pleased to announce that it has signed a Heads of Agreement to purchase 100% of SMG Oil & Gas Company, a company incorporated in Mongolia.

**SMG OIL & GAS COMPANY, MONGOLIA**

SMG Oil & Gas Company, Mongolia is a currently owned by SOD Mongol Group LLC, a company incorporated in Mongolia, and CBS Ventures Pte Ltd, (CBS) a Singapore registered company. CBS is an existing substantial shareholder in BKM. SMG Oil & Gas Company, Mongolia has been awarded a contract by the Mineral Resources and Petroleum Authority of Mongolia (Government of Mongolia) to carry out an oil exploration geological survey of the Baitag region (also known as Block XXX (thirty)) in Mongolia with the exclusive right to proceed to exploration and production thereafter.

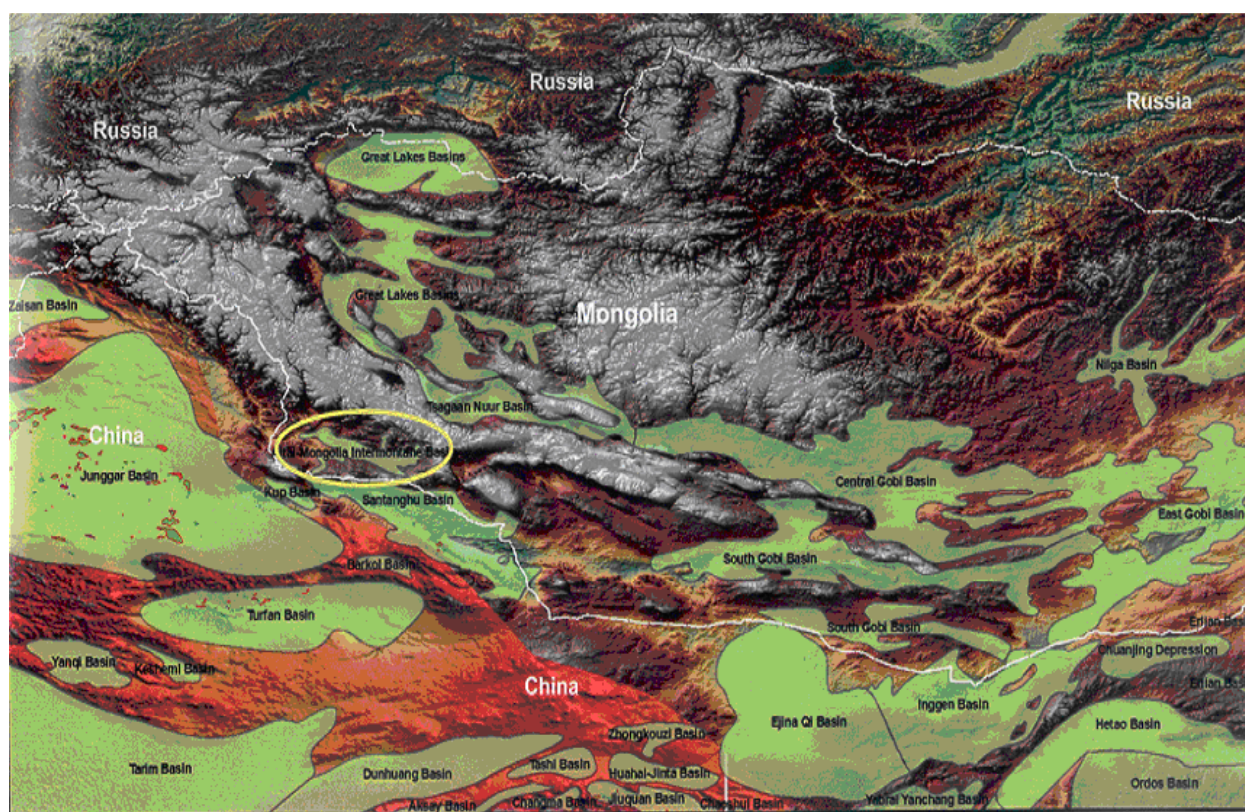
**THE BAITAG OIL EXPLORATION REGION, BLOCK XXX**

The Baitag region is located in the southwest region of Mongolia, south of the Altai Mountains and bordering China. Sitting in the Gobi Desert area, Block XXX is also directly adjacent to the Xinjiang state in China, an oil rich region, holding over 20% of China's petroleum and gas reserves. The Xinjiang state produced about 28 million tons of crude oil in 2008 while reserves are estimated at 20.9 billion barrels of oil and 10.8 trillion cubic metres of gas. The East-West gas pipeline linking Xinjiang to Shanghai and the oil pipeline from Kazakhstan to Dalian runs through this region. The major refineries in the nearby Urumqi, Karamay and Dushanzi will eventually form the natural markets for the oil produced in Baitag.

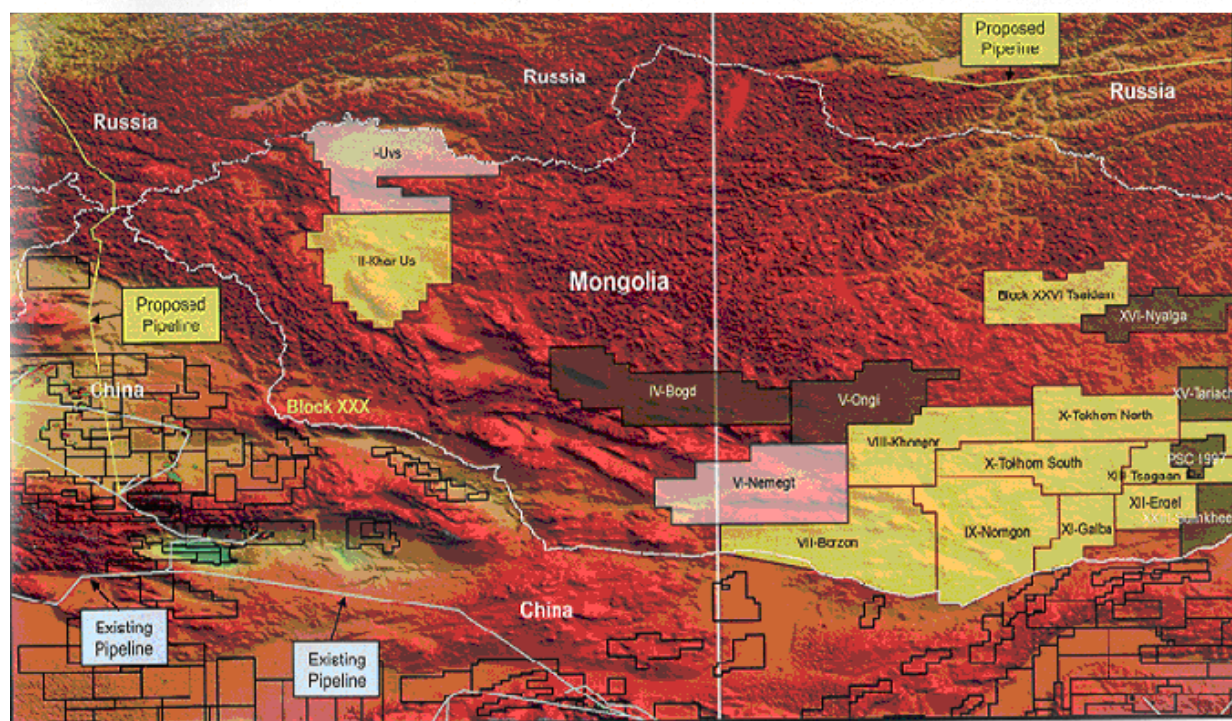
Prospects for hydrocarbon discovery in Block XXX are good. It is alongside 3 major oil producing basins across the border in China, namely the Junggar Basin, Kup Basin and Santanghu Basin. These basins are currently operated by the two major Chinese State Oil Companies.

The images below show the areas of interest and these adjoining fields.

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Regional setting of Block XXX, with defined sedimentary basins (light green) superimposed on the regional shaded relief image of the SRTM (elevation data).



Area of focus – Block XXX – in western Mongolia, showing existing pipelines (light blue) in China, and proposed in both China and Russia (yellow).

## THE EXPLORATION SURVEY WORKS

Block XXX is a very large plot, covering a total area of 14,737 sq km. The survey will cover collection of geological and geophysical data, geological mapping for exploration, geochemistry testing and seismic survey. Works will be planned in phases and site work will commence when weather permits.

Upon completion of the survey, due June 2011, SMG Oil & Gas Company, Mongolia will be given exclusive right for a production sharing contract with the Mineral Resources and Petroleum Authority of Mongolia, which is the authority responsible for the supervision, regulation and control of upstream oil and gas activities in Mongolia.

## TERMS OF THE PROPOSED TRANSACTION

The transaction was arrived at on an arm's length basis.

In consideration of BKM's stake in SMG Energy Pte Ltd, BKM shall issue 25,000,000 fully paid ordinary shares at an issue price of A\$0.01 per share. Following the proposed acquisition CBS is expected to own approximately 19.3% of BKM.

Completion of the transaction will be subject to the relevant due diligences on the legal entities involved and the verification of the relevant contracts. Approval of the sale is also subject to the approval of the Mineral Resources and Petroleum Authority of Mongolia.

## REASONS FOR THE ACQUISITION

BKM has a presence in the oil industry through its investment in the IGC oil trading business and the SMG Energy acquisition represents an upstream expansion by BKM within that industry. The acquisition will provide access to a green field in a currently relatively untapped but potentially rich hydrocarbon basin in North Asia. By entering into a green field project, the Company will gain access at a relatively lower cost base with good upside. The proximity to the major oil importing market of China increases the attraction of the acquisition. The acquisition fits well with the company's strategy to broaden its current business base, into the energy sector. With IGC Asia in oil trading, SMG Oil & Gas will provide BKM the path for expansion in the oil business. The business can offer increased shareholder value by gaining potential access to hydrocarbon deposits and production for export.

## APPROVALS

The acquisition is subject to BKM obtaining all regulatory and other required approvals for it to fulfill its obligations under this Agreement.

On Behalf of the Board



Michael Sim  
Managing Director  
BKM Management Limited