Response to ASX letter of 1 November 2002

In reply to your letter dated 1 November 2002 regarding our quarterly report in the form of Appendix 4C for the period ended 30th September 2002 released to Australian Stock Exchange Ltd on 31 October 2002, the Company advises as follows:

1. The Company advises that its present cash position is temporary; in addition to cash, the company has working capital of stock and debtors of $800,000. The negative operating cash flow for the quarter reported was due to a delay on shipment of a substantial order to USA and consequent delay on payment of approximately $300,000. The Company is also in the process to recover some $150,000 from debtors outstanding since June 2002. In addition, the Company is undertaking a placement to raise additional working capital in order to pursue fulfilment of domestic and export orders for wet brake technology. These activities will ensure that the Company has sufficient funds to finance its operations into the foreseeable future.

2. The Company expects that budgeting cash flows for the following four quarters are as follows:

2002/2003: Q2: $100,000; Q3: -$100,000; Q4: $100,000

2003/2004: Q1: $200,000

Attached is a detailed budget for the next four quarters.

The reason for the negative amount in the third quarter is the timing of delivery of an order and thus receivable payment.

The Board is aware of the Company's current funding position. Fund raising activities are being undertaken to expand our activities and fund larger production runs. In addition, the Company is pursuing possibilities of licensing of its technology – in Australia and overseas. In summary, the Company will have sufficient funds to continue its operations.

3. The debtors of $300,000 remaining to be collected were planned as receivable before 30 September 2002. The actual delay is related to wet brakes exported to USA and a delay between distributor and end-client. We have since received a confirmation that our brakes have been delivered to the client and payment is expected immediately. The expenses in the quarter were in line with budgets.

4. The Company's expenses and revenue were in line with expectations. The difference occurred due to delay on receipt of payment for a shipment to USA as described in point 3.

5. The Company is working on further production of wet brakes and sales into domestic and overseas markets. Substantial effort has been dedicated towards sales of offshore licensing to supplement the Company's revenue stream. The Company also expects to fund expansion of its product range via a placement during the next quarter.

6. The Company is in compliance with the listing rules and in particular with listing rule 3.1.

7. The Company is aware of the requirements of listing rule 12.2 and is in compliance with that rule. The Company's financial conditions are adequate for continued listing.

6 November 2002

Safe Effect Technologies Ltd

Quarterly Cash Flow Budget
for 12 months
Oct 2002 - Sep 2003

Consolidated statement of cash flows

	Cash flows related to operating activities	Q2 $A'000	Q3 $A'000	Q4 $A'000	Q1 $A'000
1.1	Receipts from customers	400	350	750	1,000
1.2	Payments for				
	(a) staff costs (includes wages paid for R&D)	(135)	(180)	(190)	(190)
	(b) advertising and marketing	(15)	(40)	(30)	(30)
	(c) research and development	(140)	(170)	(170)	(150)
	(d) leased assets				
	(e) other working capital				
1.3	Dividends received				
1.4	Interest and other items of a similar nature received	5	0	5	8
1.5	Interest and other costs of finance paid			0	
1.6	Income taxes paid	(1)	(1)	0	0
1.7	Other (provide details if material)	(300)	(320)	(390)	(350)
	Net operating cash flows	(188)	(361)	(25)	288

		Q2 $A'000	Q3 $A'000	Q4 $A'000	Q1 $A'000
1.8	Net operating cash flows (carried forward)	(186)	(361)	(25)	288
	Cash flows related to investing activities				
1.9	Payment for acquisition of:				
	(a) businesses (item 5)				
	(b) equity investments				
	(c) intellectual property	(100)	(80)	(80)	(80)
	(d) physical non-current assets	(10)	(10)	(15)	(10)
	(e) other non-current assets				
1.10	Proceeds from disposal of:				
	(a) businesses (item 5)				
	(b) equity investments				
	(c) intellectual property				
	(d) physical non-current assets				
	(e) other non-current assets				
1.11	Loans to other entities	(50)			
1.12	Loans repaid by other entities				
1.13	Other (provide details if material)				
	Net investing cash flows	(160)	(90)	(95)	(90)
1.14	**Total operating and investing cash flows**	(346)	(451)	(120)	198
	Cash flows related to financing activities				
1.15	Proceeds from issues of shares, options, etc.	500	400	250	
1.16	Proceeds from sale of forfeited shares				
1.17	Proceeds from borrowings				
1.18	Repayment of borrowings				
1.19	Dividends paid				
1.2	Other (provide details if material)	(50)	(40)	(25)	
	Net financing cash flows	450	360	225	0
	Net increase (decrease) in cash held	104	(91)	105	198
1.21	Cash at beginning of quarter/year to date	500	604	513	618
1.22	Exchange rate adjustments to item 1.20				
1.23	**Cash at end of quarter**	604	513	618	816

ASX
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FAXED
1 November 2002

Dr Dorota Kieronska
Director
Safe Effect Technologies Limited
Unit 3/75 Erindale Rd
BALCATTA WA 6021

By facsimile: (08) 9240 1244

Dear Madam

Safe Effect Technologies Limited (the "Company")

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 30 September 2002, released to Australian Stock Exchange Limited ("ASX") on 31 October 2002, (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of $78,000.

2. Net negative operating cash flows for the quarter of $561,000.

3. Cash at end of quarter of $500,000.

In light of the information contained in the Appendix 4C, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company may only have sufficient cash to fund its activities for less than one quarter. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate? Please provide quarterly budgeted cash flows for the next 12 months, up to 30 September 2003.

3. To what extent have the Company's actual revenues and expenses in the quarter, as reported in the Appendix 4C, matched the Company's anticipated revenues and expenses for that reporting period?

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

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

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

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

Listing rule 3.1

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

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

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

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

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

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than the close of business (ie **before 5.00 p.m. W.S.T.) on Wednesday, 6 November 2002.**

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries regarding any of the above, please let me know.

Yours faithfully

C Panetta

Christine Panetta
Senior Companies Advisor

Direct Line: (08) 9224 0014